

K-12 EDUCATION

Items 610 and 635

*Analysis
Page*

Budget Bill Appropriations	
Budget Bill Items.....	1114
Summary of Major Issues and Recommendations.....	1114
Total K-12 Expenditures and Revenues	1119
Significant Program Changes	1122
I. Local Assistance	
A. General Education	
1. General Education Support Issues	1127
2. Other General Education Programs	1134
B. Categorical Education Programs	
1. Consolidated Categoricals	
School Improvement Program	1140
Economic Impact Aid and Title I	1143
Bilingual Education	1143
Miller-Unruh Reading Program	1147
State Preschool Program	1148
Consolidated Programs Division	1150
2. Nonconsolidated Categoricals	
Migrant Education	1153
Demonstration Programs in Reading and Mathematics.....	1156
Driver Training	1157
Instructional Materials	1159
Staff Development	1160
Indian Education.....	1162
Vocational Education.....	1163
Career Guidance Centers.....	1167
Adult Education	1167
Gifted and Talented Education.....	1170

3. State, Court, and Federal Mandates	
State Mandates.....	1171
Court and Federal Mandates.....	1174
4. Special Education	
Master Plan for Special Education.....	1181
Public Law 94-142.....	1182
State Administration.....	1185
Education for State Hospital Residents.....	1188
State Special Schools	1189
5. Child Care	1191
6. Child Nutrition and Surplus Property	
Child Nutrition	1198
Surplus Property	1200
II. State Operations	
A. Department of Education	
Budget Development	1204
Program Evaluation	1206
Private Postsecondary Education	1210
Curriculum Services	1212
B. State Library Services	
State Library	1216
Sutro Library.....	1220
California Library Services Act	1221

DEPARTMENT OF EDUCATION

Items 610 and 635 from the
General Fund and various
funds

Budget p. E 1

Requested 1981-82	\$7,773,097,692
Estimated 1980-81	8,166,220,126
Actual 1979-80	7,699,999,106
Requested decrease (excluding amount for salary increases) — \$393,122,434, (—4.8 percent)	
Total recommended reduction	\$33,725,184

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
610-001-001—Department of Education, Main Support		General	\$68,678,123
610-001-178—School Bus Driver Training		Driver Training Penalty Assessment	335,377
610-001-344—School Facilities Planning		State School Building Lease-Purchase	456,671
610-001-680—Agency for Surplus Property		Surplus Property Revolving	14,459,182
610-001-890—General Activities		Federal Trust	33,226,519
610-101-001—Local Assistance		General	6,662,032,409
610-101-140—Environmental Education		California Environmental License Plate	500,000
610-101-890—Federal Local Assistance		Federal Trust	829,169,411
610-101-960—Agency for Surplus Property		Surplus Property Revolving	22,000,000
635-101-001—Deferred Maintenance		General	142,240,000
Total			\$7,773,097,692

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Governor's Budget. Recommend the Legislature ask the Department of Finance to explain the budget's impact on local education agencies and how the agencies should adjust their budgets for a loss in real income, so that the Legislature can evaluate the adequacy of the Governor's Budget. 1125
2. School Finance. Recommend marginal revenue funding for average daily attendance (ADA) growth because costs in the first year of ADA growth are less than average cost per ADA. Further recommend that \$24 million savings be used to provide a new declining ADA adjustment because school districts are not always able to reduce expenditures in two years equal to the reduction in ADA. 1130
3. *Child Development Double Funding. Reduce Item 610-101-001 by \$15.2 million.* Recommend Legislature correct a technical error in the Governor's Budget which allows double funding for child development programs. In addition recommend corrective legis- 1132

- lation.
4. School Finance Equalization. Recommend legislation to implement an intermediate school district size range for school finance equalization because current size ranges penalize some small school districts. 1134
 5. Capital Outlay. Recommend report by the Office of Local Assistance on the feasibility of converting current school facility leases to grants to avoid potential state liability from injuries or accidents. Further recommend plan for allocation of funds and increased use of portable school facilities because planning is needed to ensure more efficient use of available funds. 1138
 6. Bilingual Education. Recommend department, by March 15, 1981, develop and present its procedures for verifying the accuracy of school district census of LES/NES children, as required by current law. 1146
 7. Bilingual Teacher Training. Recommend an interagency agreement between department and the Commission for Teacher Preparation and Licensing (CTPL) for the review of postsecondary institutions' applications for federal Title VII grants because CTPL has oversight and credentialing authority for the teacher training programs conducted by these institutions. 1147
 8. Preschool. Recommend that transportation costs be factored out prior to calculating the equalization of preschool program costs because transportation is not a direct program cost. 1149
 9. Consolidated Program Monitor and Review. Recommend elimination of Program Quality Review Instrument in school-site visitations so that resources available for providing technical assistance to schools can be used more efficiently. 1151
 10. Consolidated Program Monitor and Review. Recommend department merge District Support Services Unit with Program Reviews Unit to form a single unit responsible for monitoring district and school compliance in order to reduce the number of regularly scheduled school-site visitations and allow efforts to be concentrated on those schools which need more frequent reviews or technical assistance. 1152
 11. *Resources Center Unit. Reduce Item 610-001-001 by \$110,990.* 1152
Recommend elimination of two positions. Further recommend elimination of Resources Center Unit with reassignment of three positions because workload data does not justify an independent unit.
 12. Migrant Education for Los Angeles County. Recommend the Legislature direct the department to ensure identification of all pupils in Los Angeles County eligible for migrant education programs by September 1, 1981, because a significant number of migrant pupils are not being served and because California may receive a major increase in federal Title I-Migrant funds. Further recommend implementation of educational programs for these pupils by September 1, 1982. 1155
 13. Demonstration Programs in Reading and Mathematics. Recommend phase-out of state support for individual projects which have received funding for more than three years because innovations will have been demonstrated by then. Further recommend 1156

K-12 EDUCATION—Continued

- redirection of savings to fund new programs.
14. **Driver Training.** Recommend legislation to eliminate (1) the state mandate for a driver training program and (2) the requirement for a laboratory phase of the program for persons between the ages of 16 and 18 who wish to obtain a driver's license due to lack of evidence that the completion of a driver training program reduces the number of traffic accidents. 1158
 15. **Staff Development. Reduce Item 610-001-001 by \$103,818.** Recommend phase-out of New Careers Program because it does not meet high priority state needs and duplicates other student aid programs. 1161
 16. **Vocational Education. Reduce Item 610-001-001 by \$62,500 and Item 610-001-890 by \$62,500.** Recommend elimination of proposed new positions for implementation of federal guidelines relating to civil rights because the workload can be accommodated with existing resources. 1164
 17. **Vocational Education. Reduce Item 610-001-001 by \$596,585 and Item 610-001-890 by \$96,585.** Recommend reduction in state support for vocational education student organizations because other, more appropriate funding sources are available. 1165
 18. **Vocational Education. Reduce Item 610-001-001 by \$19,671 and Item 610-001-890 by \$19,671.** Recommend elimination of two clerical positions in departmental field offices because of efficiencies projected from staff reorganization. 1166
 19. **Vocational Education.** Recommend transfer of \$99,382 in federal funds from the Department of Education to the California Advisory Council on Vocational Education, with a corresponding reduction in state support of the council, in order to support federally mandated duties with federal funds. 1166
 20. **Adult Education. Reduce Item 610-101-001 by \$3,200,000.** Recommend allocating federal funds for (1) budgeted inflation adjustments for adult basic education courses, in lieu of using state funds, in order to equalize the funding of basic education courses and other adult education courses, and (2) enrollment growth in adult basic education courses in order to address high priority needs within adult education. 1168
 21. **Gifted and Talented Consultant. Reduce Item 610-001-001 by \$31,802.** Recommend deletion of proposed consultant position due to insufficient workload justification. 1170
 22. **Gifted and Talented. Reduce Item 610-001-001 by \$30,000.** Recommend deletion of one-time funding improperly included in 1981-82 budget. 1171
 23. **Regional Adult and Vocational Education Councils (RAVECs). Reduce Item 610-001-001 by \$1,000,000.** Recommend urgency legislation to make RAVECs permissive. Further recommend that reimbursement of 1981-82 state-mandated costs be deleted because the Legislature determined that state funding for RAVECs was a low priority for General Fund support before costs were incurred. 1172

24. Reimbursement for Collective Bargaining. Recommend the Board of Control develop formulas, by November 1, 1981, for reimbursing local districts for state-mandated collective bargaining costs because current actual cost reimbursement for these claims results in (1) high administrative costs for the state and local school districts, and (2) incentives for school districts to use high cost collective bargaining procedures. Further recommend the Controller pay school district claims based on the formula. 1173
25. Federal/Court Mandate Funding Mechanism. Recommend control language and legislation be enacted to require school districts to use the Board of Control claims process to seek reimbursement of new federal and court mandated costs so as to increase opportunities for legislative review. 1179
26. Federal/Court Mandate Legislation. Recommend enactment of legislation to repeal the Education Code section providing a revenue limit adjustment for funding federal and court mandates if reimbursement for these mandates is provided through the Board of Control process. 1180
27. Special Education. Recommend department prepare an analysis of the fiscal and program impact of discontinuing participation in PL 94-142 in favor of a Section 504 compliance program, in order to determine whether the additional flexibility in providing a free appropriate education under Section 504 would offset the potential loss of federal funds resulting from nonparticipation in PL 94-142. 1180
28. Special Education Consultants. Recommend department prepare management plan for the organization and assignment of consultants to improve the delivery of technical assistance to local education agencies. 1185
29. Special Education Program Review. Recommend department develop plan for limiting program reviews to compliance matters and performing reviews at less cost. Further recommend plan identify savings and propose redirection for most efficient use of technical assistance staff. 1186
30. *Special Education Consultant. Reduce Item 610-001-001 by \$64,004.* Recommend not approve limited-term consultant position prior to completion of management plan. 1187
31. *Special Education Legal Services. Reduce Item 610-001-001 by \$64,004.* Recommend (1) deletion of proposed staff counsel position and (2) establishment of this position through reclassification of special education consultant position, because the consultant is currently performing legal office duties. 1187
32. *Special Education Fiscal Administration. Reduce Item 610-001-001 by \$230,000.* Recommend reduction of funds budgeted for fiscal administration in excess of need. 1188

K-12 EDUCATION—Continued

33. *Special School Funding. Reduce Item 610-001-001 by \$9,069,815.* 1190
Recommend that local education agencies pay 30 percent of the excess cost of special school placement and assessment in order to (1) make fiscal consequences of these placements consistent with fiscal consequences of private school placement and (2) eliminate the fiscal incentive to overenroll students in state schools.
34. *Child Care Inflation Adjustment.* Recommend the unexpended funds for 1980-81 program expansion and any existing program carry-over balances be used to partially fund any inflation adjustment approved for existing programs because further expansion at this time is not warranted. 1194
35. *Child Care Staff Increase.* Withhold recommendation, pending submission of workload justification. 1196
36. *Child Care Management Plan.* Recommend the Department of Education submit to the Legislature by November 1, 1981, a management plan for the Division of Child Development and Nutrition Services to address the coordination of the offices' functions. 1196
37. *Child Care Contract Process.* Recommend the contract process for allocating local assistance funds be changed to a letter of agreement in order to reduce the funding delay to local child care agencies. 1196
38. *Handicapped Children Centers.* Recommend (1) legislation be enacted to remove the seven Bay Area child care programs for special education students from the provisions of Chapter 798, Statutes of 1980 (SB 863), and (2) transfer of the administrative responsibility for these programs from the Office of Child Development to the Office of Special Education, to ensure that appropriate services are provided for these children. 1196
39. *Child Nutrition. Reduce Item 610-001-001 by \$42,494.* Recommend reduction in state funding for local assistance projects in the Nutrition Education Program because of the increase in federal funding for the program. 1200
40. *Surplus Property.* Recommend the 1982-83 Governor's Budget reflect the Surplus Property Revolving Fund as a State Operations Program to appropriately reflect this fund's use. 1201
41. *Budget Format.* Recommend the Department of Finance provide program detail in the Reconciliation with Appropriations to allow legislative review of program changes in expenditures and appropriations. 1204
42. *Position Upgrades. Reduce Item 610-001-001 by \$47,384.* Recommend position upgrades be funded by position downgrades because there is no analytical reason why the costs for position upgrades should exceed the savings from downgrades. 1204
43. *Salary Savings. Reduce Item 610-001-001 by \$551,563.* Recommend increase in salary savings based on previous salary savings ratios. 1205

44. ***Operating Expenses and Equipment. Reduce Item 610-001-001 by \$308,324.*** Recommend reduction in operating expenses and equipment associated with excess salary savings. 1206
45. ***Evaluations of Limited Value.*** Recommend control language to eliminate evaluations for: (1) Professional Development and Program Improvement Centers, (2) Indian Education Centers, (3) Alternative Schools, (4) Bilingual Teacher Corps, and (5) Demonstration Programs in Reading and Mathematics. Further recommend legislation to permanently eliminate the requirement for these evaluations because they are of limited general value. 1207
46. ***Master Plan Independent Evaluation. Reduce Item 610-001-001 by \$100,000.*** Recommend funding the Master Plan for Special Education independent evaluation with federal funds because federal funds are available for this purpose and the General Fund savings can be redirected for other higher priority programs. 1207
47. ***Test Equivalency Study. Reduce Item 610-001-001 by \$85,000.*** Recommend existing Economic Impact Aid and federal funds support the language proficiency tests equivalency study because additional funds are not needed for this purpose. 1208
48. ***Language Proficiency Test.*** Recommend department report, by October 1, 1981, on the cost and feasibility of developing or adopting a single English language proficiency test because a single language proficiency test would avoid future costs for additional equivalency studies. 1209
49. ***California High School Proficiency Exam (CHSPE).*** Recommend enactment of legislation for a fee increase of \$10 (from \$10 to \$20) to comply with legislative intent that the exam be funded fully from fee revenues. Further recommend that the legislation allow additional increases in future years to offset inflation. 1209
50. ***California Assessment Program.*** Recommend department report by April 1, 1981, on the cost of implementing an eighth grade test and subject area skills test because no statewide information is available on eighth grade in basic skills and subject area skills. Further recommend that the department propose alternative means for funding the tests' costs. 1210
51. ***Veterans' Administration Contract.*** Recommend termination of the state approving agency contract with the Veterans' Administration to eliminate duplication in state and federal reviews of private postsecondary schools and reallocate staff to initial state school reviews, complaints, and closures. 1212
52. ***Office of Private Postsecondary Education (OPPE) Staff Reduction. Reduce Item 610-001-001 by \$150,990 and Item 610-001-890 by \$911,985.*** Recommend staff reduction of eight field consultants that would not be needed if the contract with the Veterans' Administration is terminated. 1212
53. ***OPPE Work Plan.*** Recommend Department of Education develop a field and office work plan to reflect the recommended staff levels and functions and submit the plan by January 1, 1982, to the legislative budget committees. 1212

K-12 EDUCATION—Continued

54. New Fee Structure. Recommend legislation be enacted to provide for a graduated fee schedule that will (1) support fully OPPE costs (2) make the fees charged private schools consistent with OPPE's costs of regulating these schools. Further recommend legislation to establish a Private Postsecondary Education fund for the fee revenues. 1212
55. *Curriculum Services. Reduce Item 610-001-001 by \$143,721.* Recommend deletion of funds budgeted for Genetic Diseases program, because authorization for the program has terminated. 1213
56. *Curriculum Services. Reduce Item 610-001-001 by \$159,130.* Recommend reduction of funds for health education by amount of historical overbudgeting. 1214
57. Curriculum Services. Withhold recommendation on funds for Career Education Incentive Act, pending receipt of department's evaluation. 1214
58. *Instructional Television. Reduce Item 610-001-001 by \$240,270 and Item 610-101-001 by \$821,364.* Recommend deletion of funds for Instructional Television pursuant to legislative direction because any additional funding which is warranted should be included in proposed legislation to restructure the program. 1215
59. Curriculum Services. Recommend department prepare zero-base budget for curriculum services to clarify programs, functions, and positions within the unit. 1216
60. *State Library. Reduce Item 610-001-001 by \$1,190,154.* Recommend reduction of General Fund support by amount of available excess federal funds because such reduction would not cause a drop in State Library service levels and would allow General Fund savings to be used for other high priority programs. 1217
61. *State Library.* Recommend department pursue legal action to divest the state of the Sutro Library by June 30, 1982 in order to avoid a substantial new commitment of General Funds for an activity that is not central to the State Library's mission. Further recommend relocation of the Sutro Library to Hastings School of Law if legal action is not completed by June 1, 1982. 1219
62. *State Library. Reduce Item 610-001-001 by \$17,905.* Recommend deletion of funds for new acquisitions for Sutro Library because of uncertain future of the library. 1220
63. *State Library. Reduce Item 610-001-001 by \$83,696.* Recommend deletion of funds for library system workload increases because of the need to develop a new basis for the allocation of such funds. 1222

Summary of Legislative Analyst's Recommended Fiscal Changes

<i>Activity</i>	<i>General Fund</i>	<i>Other Funds</i>
Marginal average daily attendance	-\$24,300,000	—
Declining average daily attendance	+24,300,000	—
Child Care double funding	-15,200,000	—
Resources center unit	-110,990	—
New Careers program	-103,818	—
Vocational education new positions	-62,500	-\$62,500
Vocational education student organizations	-596,585	-96,585
Vocational education field offices	-19,671	-19,671
Adult education	-3,200,000	—
Gifted and Talented new position	-31,802	—
Gifted and Talented overbudgeting	-30,000	—
Regional adult and vocational education councils	-1,000,000	—
Special education consultant	-64,004	—
Special education legal services	-64,004	—
Special education fiscal administration	-230,000	—
Special schools	-9,069,815	—
Child nutrition	-42,494	—
Position upgrades	-47,384	—
Salary savings	-551,563	—
Operating expenses and equipment	-308,324	—
Special education independent evaluation	-100,000	—
Test equivalency study	-85,000	—
Office of Private Postsecondary Education	-150,990	-911,985
Genetic diseases program	-143,721	—
Health education overbudgeting	-159,130	—
Instructional television	-1,061,634	—
State Library	-1,190,154	—
Sutro library acquisitions	-17,905	—
Library systems	-83,696	—
Totals	-\$33,725,184	-\$1,090,741

These recommended changes reflect our analysis of where the budget contains funds that are in excess of individual program needs. Any funds released by these recommendations would be available for redirection by the Legislature to other high priority education or noneducation programs.

K-12 EDUCATION**GENERAL PROGRAM STATEMENT****K-12 Attendance**

In 1981-82 approximately 4.2 million students will attend public elementary and secondary schools in 1,042 elementary, high, and unified school districts. This attendance level represents an increase of 0.1 percent over the 1980-81 level and 0.3 percent over the 1979-80 level. Table 1 shows attendance figures for the past, current, and budget years. The Department of Finance reports that the projected increase in ADA is primarily due to the increased migration of school-aged children to California.

K-12 EDUCATION—Continued

Table 1
Annual Average Daily Attendance (ADA) in California Public Schools

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Percent Change</i>
Elementary:				
Kindergarten	278,423	291,400	306,300	5.1%
Grades 1-8 and Special Classes	2,428,033	2,423,400	2,433,500	0.4
Summer School	0	7,000	7,100	1.4
Opportunity School	1,214	1,200	1,200	—
County School	16,150	16,600	16,600	—
Subtotals	2,723,820	2,739,600	2,764,700	0.9%
High School:				
Grades 9-12 and Special Classes	1,201,423	1,165,100	1,138,700	-2.3%
Regular in Adult Classes	5,495	5,600	5,700	1.8
Summer School	849	21,100	20,500	-2.8
Opportunity School	3,465	3,500	3,500	—
Continuation School	38,635	39,000	39,700	1.8
ROC/P	45,182	47,500	49,600	4.4
County	13,778	13,800	14,300	3.6
Subtotals	1,308,827	1,295,600	1,272,000	-1.8%
Adult:				
Adult Classes	151,430	154,200	156,800	1.7%
ROC/P	17,930	18,500	19,400	4.9
Subtotals	169,360	172,700	176,200	2.0%
Nonpublic School Special Education	<u>4,143</u>	<u>4,200</u>	<u>4,200</u>	<u>—</u>
Totals	<u>4,206,150</u>	<u>4,212,100</u>	<u>4,217,100</u>	<u>0.1%</u>

Source: Department of Finance mid-range projection of October 6, 1980.

K-12 Expenditures and Revenues

Table 2 presents a summary of K-12 education expenditures. State, federal, and local expenditures for K-12 education are expected to increase by \$421.6 million, or 3.5 percent in 1981-82. Most of this amount is budgeted for revenue limit cost-of-living increases; categorical aid programs are proposed to increase \$14 million, or 0.6 percent.

Table 2
Expenditures for K-12 Education
(in millions)

	<i>Estimated 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
A. Local Assistance					
1. General Education					
A. Revenue Limit					
State Apportionments	\$5,290.2	\$5,397.7	\$4,876.4	-\$521.3	-9.7%
Local Support	1,753.0	2,030.0	2,888.0	858.0	42.3
Subtotals	\$7,043.2	\$7,427.7	\$7,764.4	\$336.7	4.5%
B. Other Apportionments	1,487.0	1,830.4	1,919.4	89.0	4.9
Subtotals, General Education (See Table 7)	\$8,530.2	\$9,258.1	\$9,683.8	\$425.7	4.6%
2. Categorical Education Programs (See Table 16)	2,207.2	2,513.6	2,527.6	14.0	0.6
Totals, Local Assistance	\$10,737.4	\$11,771.7	\$12,211.4	\$439.7	3.7%
B. State Operations (See Table 54)	102.3	136.5	118.4	-18.1	-13.3
Grand Totals	\$10,839.7	\$11,908.2	\$12,329.8	\$421.6	3.5%

Total revenue for K-12 education is shown in Table 3. The Governor's Budget proposes a major shift in revenue sources for K-12 education, with a decrease of \$385.0 million (4.9 percent) in state funding and an increase of \$858.0 million (28.1 percent) in local funding. (This shift is discussed as part of our review of the General Education Program, elsewhere in this analysis). The \$51.4 million (5.0 percent) reduction in federal funds is caused primarily by the shift of federally funded child care programs to the General Fund. This shift is discussed as part of our analysis of child development programs.

K-12 EDUCATION—Continued

Table 3
Total Revenue for K-12 Education
(in millions)

	<i>Estimated 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-81</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State:					
General Fund	\$6,980.5	\$7,672.0	\$7,199.9	-\$472.1	-6.2%
Other state funds	32.6	151.3	238.4	87.1	57.6
Subtotals - State.....	<u>\$7,013.1</u>	<u>\$7,823.3</u>	<u>\$7,438.3</u>	<u>-\$385.0</u>	<u>-4.9%</u>
Federal	\$1,047.7	\$1,029.0	\$977.6	-\$51.4	-5.0
Local:					
Property tax levies	\$1,753.0	\$2,030.0	\$2,888.0	\$858.0	42.3%
Debt service.....	452.8	452.8	452.8	-	-
Miscellaneous.....	573.1	573.1	573.1	-	-
Subtotals - Local	<u>\$2,778.9</u>	<u>\$3,055.9</u>	<u>\$3,913.9</u>	<u>\$858.0</u>	<u>28.1%</u>
Totals	<u>\$10,839.7</u>	<u>\$11,908.2</u>	<u>\$12,329.8</u>	<u>\$421.6</u>	<u>3.5%</u>

ANALYSIS AND RECOMMENDATIONS**Significant Program Changes in 1981-82**

The Governor's Budget proposes a total net expenditure increase of \$421.6 million (3.5 percent) in the amount of K-12 education support. This results from \$439.7 increase proposed for local assistance, partially offset by a proposed reduction of \$18.1 million in state operations.

Table 4 shows the components of the \$439.7 million net change in local assistance. The most significant changes are (1) the apportionment cost-of-living increase (\$336.7 million), (2) deferred maintenance increase (\$142.2 million), (3) inflation on categorical aids (\$43.6 million), and (4) the transfer of surplus property funds from state operations to local assistance.

Table 4
Proposed 1981-82 Budget Changes
Local Assistance
 (in millions)

	<i>Cost</i>	<i>Total</i>
1980-81 Local Assistance, Adjusted		\$11,771.7
1. Base line changes:		
Apportionments	\$336.7	
Legislation	-6.8	
Inflation ^a (Categorical Aid)	43.6	
State Mandates	-26.9	
Transfer of surplus property funds	<u>22.0</u>	
Subtotal		\$368.6
2. Program change proposals:		
Child Development, search and serve	\$0.1	
Driver training reduction	-17.3	
Child nutrition reduction ^a	-12.5	
Deferred Maintenance	<u>142.2</u>	
Subtotal		\$112.5
3. All other		-41.4
1980-81 Local Assistance		<u>\$12,211.4</u>
Total Change		\$439.7
General Fund		-\$474.2
Federal funds		-50.4
Other state funds		106.3
Local funds		<u>858.0</u>

^a Reflected in the Governor's Budget "A" pages.

Table 5 shows the components of the \$18.1 million reduction in state operations between the current and budget years. This amount will change by the amount of any salary or staff benefit increase approved for the budget year. The most significant changes result from the (1) proposed reduction in driver training and (2) transfer of surplus property funding from state administration to local assistance.

Table 5
Proposed 1981-82 Budget Changes
State Operations

	<i>Cost</i>	<i>Total</i>
1980-81 State Operations, Adjusted		\$136,462,331
1. General Fund base line changes:		
Population and price increases	\$2,306,707	
Workload changes	408,915	
Legislation	<u>-540,893</u>	
Subtotal		\$2,174,729
2. General Fund program change proposals:		

K-12 EDUCATION—Continued

Miller-Unruh reading program	\$32,823	
Vocational education	62,500	
Gifted and talented	31,802	
Personnel career development	45,752	
Language proficiency equivalency study	85,000	
Driver training ^a	-205,703	
State Library	47,922	
School bus driver training	-141,556	
Subtotal		-\$41,460
3. Other fund changes:		
Change in federal funds	-\$1,002,479	
Change in reimbursements	1,428,708	
Change in support from local assistance appropriations	447,912	
Change in educational subgrants	-1,876,620	
Change in Surplus Property Fund	-19,797,867	
Change in State School Building Lease-Purchase Fund	228,904	
Change in Driver Training Penalty Assessment Fund	335,377	
Subtotal		\$-20,236,065
Net total		\$118,359,535
Total Change		-\$18,102,796
General Fund		\$2,133,269
Federal funds		-\$1,002,479
Other state funds		-\$19,233,586

^a Proposed in Governor's Budget "A" pages.

Budget Presentation

Our analysis of the K-12 Education budget is organized along the lines of the two major functions: local assistance and state operations. The major divisions within these functions are as follows:

- I. Local Assistance
 - A. General Education Program
 - 1. General Education
 - 2. Other General Education Programs
 - B. Categorical Education Programs
 - 1. Consolidated Categoricals
 - 2. Nonconsolidated Categoricals
 - 3. State, Court, and Federal Mandates
 - 4. Special Education
 - 5. Child Care
 - 6. Child Nutrition and Surplus Property
- II. State Operations
 - A. Department of Education
 - B. State Library

I. LOCAL ASSISTANCE

The Governor's Budget provides (1) a general aid apportionments (base revenue limit) cost-of-living increase of 5.0 percent per average daily attendance, (2) a special education cost-of-living increase of 5.0 percent, (3) a cost-of-living increase of 4.75 percent to all other programs with statutory cost-of-living adjustments, and (4) no specific cost-of-living increase for those local assistance

programs (except state mandates) that do not have statutory cost-of-living adjustments (discretionary).

Statutory Cost of Living

We recommend that the Legislature direct the Department of Finance to (1) explain what the likely program consequences will be of limiting the growth in school funds to an amount which is below the growth in inflationary costs and (2) give the administration's recommendations on how school districts should prioritize these funds which in constant dollars per ADA represent an actual decline from this year's program levels.

Table 6 shows (1) the cost-of-living increases for education programs required by existing law, (2) the increases proposed in the Governor's Budget, and (3) the difference between statutory levels and the Governor's Budget.

Table 6
Education Cost-of-Living Increases 1981-82
(in thousands)

Program	Governor's Budget		Statute		Difference Governor's Budget to Statute
	Percent	Amount	Percent	Amount	
Apportionments	5.00'	\$350,913	7.2'	\$506,359	-\$155,446
Transportation	4.75	3,563	10.7	8,000	-4,437
Adult education	4.75	7,933	6.0	10,022	-2,089
County office of education	4.75	6,807	7.2	10,025	-3,218
Child nutrition	4.75	1,142	9.6	2,246	-1,104
Textbooks	4.75	2,009	12.7	5,371	-3,362
Special education	5.00	32,467	7.2	46,181	-13,714
Totals		\$404,834		\$588,204	\$-183,370

A prominent national economic forecasting firm has estimated that state and local governments generally will experience price increases of 8.6 percent during fiscal year 1981-82. School district ADA is projected to increase by 0.1 percent in the Governor's Budget. Therefore, total funding increases of 8.7 percent would be needed in 1981-82 to purchase the same level of services as purchased during the current year, assuming no increases in productivity.

Table 6 shows that the Governor's Budget proposes cost-of-living increases of either 4.75 percent or 5.00 percent for those local assistance programs with statutory inflation provisions, and those increases total \$404.8 million. This is \$183.4 million below the amounts required by existing law, but even these amounts are lower than the projected rates of inflation. The budget's *limited* cost-of-living increases and the absence of any price adjustments for nonstatutory programs will require school districts to absorb between 40 and 45 percent of inflationary costs during 1981-82.

This will have a direct impact on program levels, but the budget contains no discussion of the possible impact such reductions will have on program categories such as class size, employee salaries, curriculum, operating expenses, etc. Consequently, the administration has given the Legislature no basis on which it can assess the adequacy or consequences of the proposed funding level.

For this reason, the Department of Finance should explain the likely effect that the Governor's Budget funding levels will have on service levels, and what actions the administration believes should be taken by local school districts to prioritize their reduced (in real terms) funding levels.

K-12 EDUCATION—Continued**A. GENERAL EDUCATION PROGRAM**

We define general education support funds as those funds which can be used at the local district's discretion, and which are not associated with any specific program. These funds generally will be used to provide services for all students, and include capital outlay funding, local debt service, federal PL 874 revenues, and school finance apportionments.

Funding

As shown in Table 7 the Governor's Budget proposes a combined increase in state and local funding of 336.7 million for general education support. This is a 4.5 percent increase in total funding and an \$82 increase in funding per ADA (4.5 percent). State General Fund apportionments for general education would decrease by \$521.3 million (–9.7 percent) to a total of \$4,876.4 million, while local property tax support would increase by \$858 million (42.3 percent) to a total of \$2,888 million. To provide this level of property tax support, the administration is proposing that a portion of the revenue from the property tax be shifted from local governments to schools.

Table 7
General Education Expenditures

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
A. General Education Apportionments^a					
State—General Fund	\$5,290.2 ^b	\$5,397.7	\$4,876.4	–\$521.3	–9.7%
Local—Property Tax	1,753.0	2,030.0 ^c	2,888.0	858.0	42.3
Subtotals, General Education Apportionments	\$7,043.2	\$7,427.7	\$7,764.4	\$336.7	4.5%
Per ADA	(\$1,745)	(\$1,839)	(\$1,921)	(\$82)	(4.5%)
B. Other General Education					
Federal PL 874	\$130.0	\$110.0	\$110.0	—	—
Urban Impact	62.1	63.4	63.4	—	—
Transportation	60.4	75.0	78.0	\$3.0	4.1%
Direct state transfer to the State Teachers' Retirement Fund	144.3	171.6	221.2	49.6	28.9
Debt Service on Public School Building Fund	–34.7	—	—	—	—
Support of other district deferred maintenance and capital outlay	98.0	385.3	421.4	36.1	9.4
State school building safety	1.0	–8	–5	.3	60.0
Local debt service	452.8	452.8	452.8	—	—
Miscellaneous ^d	573.1	573.1	573.1	—	—
Subtotals, Other General Education	\$1,487.0	\$1,830.4	\$1,919.4	\$389.0	4.9%
Totals, General Education	\$8,530.2	\$9,258.1	\$9,683.8	\$425.7	4.6%
General Fund	\$5,621.3	\$5,976.5	\$5,459.9	–\$516.6	–8.7%
Other state funds	—	115.7	200.0	84.3	72.9
Federal funds	130.0	110.0	110.0	—	—
Local funds	2,778.9	3,055.9	3,913.9	858.0	28.1

^a Excludes adult funding and all categorical program aid.

^b Prior-year expenditure total includes a potential \$36 million that will be transferred to school capital outlay pursuant to Chapter 899, Statutes of 1980 (AB 2973).

^c Includes \$66 million in 1980–81 and \$74 million in 1981–82 transferred to Master Plan for Special Education from county offices and \$21 million in timber tax and miscellaneous revenues.

^d Includes food sales, sale of bonds and property, interest income, fee income, and other miscellaneous revenues.

The Governor's Budget discusses a 5.0 percent cost-of-living allowance on school districts' base apportionments per ADA. Several factors, however, cause the actual per-ADA apportionment to increase by only 4.5 percent:

- in the 1981-82 year, school districts will not be guaranteed at least 102 percent of the amount they received in the prior year, as they were in 1980-81,
- the declining enrollment adjustment will decrease in the 1981-82 year, and
- the special small school transportation allowance ends in 1981-82.

In other general education programs, state support for school district deferred maintenance and capital outlay is expected to increase by \$36.1 million (9.4 percent) for a total of \$421.4 million. Direct state support for the State Teachers' Retirement Fund is projected to increase by \$49.6 million (28.9 percent for a total of \$221.2 million).

1. GENERAL EDUCATION SUPPORT ISSUES

Overview

The primary revenue for K-12 school districts and county offices of education is determined by the general aid provisions of Chapter 282, Statutes of 1979 (AB 8). These provisions establish school finance appropriation and allocation formulas which seek to equalize school expenditures per ADA statewide.

The general education state apportionment amounts proposed in the Governor's Budget for 1981-82 would allow high-expenditure districts additional revenues of \$35 per average daily attendance (ADA), while low-expenditure districts would be allowed an increase of \$100 per ADA. Most schools would receive a per-ADA increase that is near \$80. The budget also provides for a special \$25 per-ADA increase to certain very low-expenditure school districts, as provided for in AB 8.

General School Finance Issues Warranting Legislative Attention

Our analysis of general funding for schools identified the following matters that warrant legislative attention:

A. Savings from Unexpected Increase in Assessed Values Offset by Costs of Additional ADA.

The level of general state aid provided to school districts in the 1980 Budget Act assumed that assessed values would increase by an average of 13.2 percent. In August, the Board of Equalization reported that assessed value growth for the 1980-81 year would be 17.8 percent, 4.6 percent more than was estimated.

Under the provisions of AB 8, school districts automatically lose an amount of state aid equal to any unexpected growth in property tax revenue resulting from increased assessed value. Thus, the higher-than-estimated growth in assessed value will result in a state General Fund savings of \$56 million in 1980-81.

The Department of Finance, however, has indicated that ADA will be approximately 43,000 higher than what they project in the May 1980 revision to the Governor's 1980-81 Budget. This will automatically increase K-12 school apportionments. Consequently, we expect that the entire savings from increased property tax revenues (\$56 million) will be used to fund additional ADA in 1980-81.

B. Potential Impoundments.

The Department of Education has indicated that certain property tax revenues that local school districts expected to receive in 1980-81 may be impounded because of pending litigation. Certain oil companies have challenged a Board of

K-12 EDUCATION—Continued

Equalization rule concerning the assessed valuation of recoverable oil, and if their challenge is upheld, they will pay less in property taxes. The effect of any impoundment would be to reduce the amount of local property tax revenues available to offset state General Fund school apportionments. According to preliminary estimates made by the department, up to \$62 million in property tax revenue may be impounded by the school districts in just one county (Kern). No estimate is available for all counties that may be affected by this litigation. The impoundment of these funds, however, would not increase state costs because the total appropriation for school apportionments is fixed by the 1980 Budget Act.

C. Proposed Use of Property Taxes.

The Governor's Budget proposes to (1) redistribute property tax revenues from cities, counties, and special districts to schools and (2) allow the court ordered allocation of \$247.4 million of the 1978-79 unsecured property taxes to schools. This increase in property taxes does not provide additional *total* revenue to schools. Rather, under the current school finance laws, the increase in property taxes reduces an equal amount of General Fund support for schools. Table 8 shows that these actions will result in K-12 schools and county offices of education receiving more property tax revenues than they would under current law. For illustration purposes, the effect of these actions are shown for three different rates of growth in assessed valuation.

Table 8
Property Tax Revenues
K-12 and County Offices
Assuming Different Growth Rates for Assessed Value
1981-82
(millions)

	<i>Growth in Assessed Value</i>		
	<i>12 Percent</i>	<i>13.2 Percent</i>	<i>14 Percent</i>
Current Law ^a	\$2,248.0	\$2,270.0	\$2,282
Tax shift from local agencies ^{b d}	361.2	361.2	361.2
1978-79 unsecured levies ^{c d}	247.4	247.4	247.4
Totals	\$2,856.6	\$2,878.6	\$2890.6

^a Includes reimbursement for Homeowner's and Business Inventory Exemptions under current law; excludes debt service.

^b Assumes distribution of tax shift between K-12 and Community Colleges in proportion to existing property tax revenues.

^c Actual collections in 22 counties based on Controller's data and potential collections in 36 counties based on Board of Equalization data.

^d These property taxes do not provide additional revenue to schools. The property tax revenues represent a savings to the General Fund.

1. Property Tax Shifts

AB 8 enacted a fiscal relief program for local government to replace a portion of the property tax revenues lost by local agencies as a result of the passage of Proposition 13. One of the major provisions in AB 8 shifted a portion of property tax revenues from schools to cities, counties, and special districts, and replaced these revenues with state aid from the General Fund.

For 1981-82, the Governor's Budget proposes that \$420 million in property taxes be shifted from local governments back to K-14 schools. The additional funds shifted back to schools would be from cities, counties, and special districts in the same proportions that these agencies received property taxes from schools under

the property tax shift provisions of AB 8. For K-12 districts and county offices of education, this shift would provide an additional \$361 million in property tax revenues. The administration's proposal would require legislative action.

2. Unsecured Property Tax Revenues

In August 1980, the state Supreme Court determined that the property tax limitations specified in Article XIII A (Proposition 13) of the State Constitution did not apply to the unsecured property tax roll for the 1978-79 year. Instead, the court ruled that the Constitution requires the use of the *prior year's* (in this case, 1977-78) secured property tax rate to compute tax levies on property listed on the unsecured roll.

In response to this decision, the Legislature enacted Chapter 1354, Statutes of 1980 (AB 2196), which, in essence, imposed a freeze on the collection and expenditure of the revenues affected by the decision until the 1981-82 fiscal year. Specifically, the act (1) prevents counties which had levied and collected the tax using the 1977-78 secured tax rates from allocating these funds for expenditures during the 1980-81 year and (2) prevents counties which taxed property on the unsecured roll using the lower tax rate specified in Article XIII A from making any further tax collections based on the 1977-78 secured tax rate until June 30, 1981.

Amounts Available. Twenty-two of the 58 counties have already levied and collected the 1978-79 tax on unsecured property using the higher prior-year tax rate. Table 9 presents estimates of how the extra funds that would be collected in all 58 counties as a result of applying the 1977-78 secured tax rate to the 1978-79 roll would be distributed.

Table 9
1978-79 Revenues
Resulting from Applying the Higher Tax Rate to the Unsecured Roll
(in millions) *

	<i>Actual Collections^b (22 Counties)</i>	<i>Estimated Additional Levies^c (36 Counties)</i>	<i>Total Collections (58 Counties)</i>
School Districts	\$176.6	\$70.8	\$247.4
Community Colleges ^d	27.6	11.0	38.6
Cities.....	38.5	15.4	54.0
Counties.....	115.6	46.3	161.9
Special Districts	27.0	10.8	37.8
Totals	\$385.2	\$154.4	\$539.6 ^e

* Details may not add to totals, due to rounding; excludes reimbursement for business inventory exemption.

^b Based on State Controller's information.

^c Based on Board of Equalization estimates.

^d Assumes allocation of revenues among K-12 schools and community colleges on the same basis as 1978-79.

^e The Governor's Budget assumes that the court decision will only result in an additional \$500 million in unsecured property tax revenues. Our estimates are based on *actual* collections provided by the Controller and the Board of Equalization's estimates of additional uncollected levies.

Impact of Current Law on K-12 Schools. If the freeze currently imposed by AB 2196 expires and the remaining 36 counties collect the additional amounts shown in Table 9,

- there will be a savings to the state General Fund in 1981-82 of up to \$247.4 million (based on the State Controller's estimate). This is because, under

K-12 EDUCATION—Continued

existing law, an unanticipated increase in property tax revenues to school districts leads to a dollar-for-dollar reduction in state apportionment aid to school districts.

- cities, counties, and special districts will realize unanticipated revenues of up to \$253.6 million. From the state's standpoint, this money represents a wind-fall, in the sense that no allowance for the additional revenues was made in establishing the post-Proposition 13 level of fiscal relief to these local governments.

Issues and Options. The Supreme Court decision, and the resulting increase in revenues available to local agencies and the state, raises at least two issues for the Legislature to consider: (1) Should the state in effect, recapture all or part of the \$253.6 million in anticipated revenues that will accrue to local governments other than schools? and (2) What should be done with the \$247.4 million in savings that the state will realize under the school apportionment program?

The Administration Proposal. The Governor's Budget proposes to allocate the school's portion of the unsecured roll to the K-12 school districts, county offices of education, and community college districts. This will provide an additional \$247.4 million in property tax revenues to K-12 school districts and county offices of education.

D. Average Daily Attendance.

The Population Research Unit at the Department of Finance has estimated that average daily attendance (ADA) will show a net increase of 5,000, or 0.1 percent, in the budget year. If this increase occurs, ADA will have increased statewide for the second consecutive year. The current year is the first year in which ADA has increased since 1974-75. The unit also expects statewide ADA to increase annually through 1984-85.

Because the state funds school districts on the basis of ADA, this turnaround in ADA will have important effects on the state budgets for future years. In past years, the percentage increase in the state budget to fund school-related inflation was less than the designated percentage inflation adjustment because ADA was declining each year. All other things being equal, net increases in ADA will cause the percentage increase in state support for schools to be greater than the designated percentage inflation adjustment.

Funding Reallocation

We recommend that the Legislature adopt Budget Bill language to specify that revenue limit increases for ADA growth be set at 67 percent of the district's revenue limit per ADA in the first year, and that the resulting General Fund savings of \$24.3 million be used to provide a new declining ADA adjustment.

Marginal revenue. Currently, districts are funded at 100 percent of their revenue limit per ADA for increases in ADA. Our analysis indicates that instead of the current system, growth in ADA should be funded at less than 100 percent in the first year of growth. The basis for this conclusion is as follows:

- Such a policy would be consistent with the current policy of funding districts that lose ADA. Under current law, a district can temporarily increase its revenue limit by a specified proportion because of the decline in ADA.
- The cost of providing services to additional ADA is less than the average cost of providing services to *all* ADA. This is because some components of school costs do not increase or decrease with modest changes in ADA. Districts experiencing modest increases in ADA generally are not required to build additional classrooms, hire additional teachers, or increase their other fixed

costs commensurate with the increase.

- This policy would be consistent with the community college finance mechanism, which recognizes that decline and increases in ADA should be funded on an incremental basis.

We recommend that districts receive 67 percent of their revenue limit per ADA for each additional ADA the first year and 100 percent in the second year. While there is no strict analytical basis for a 67 percent marginal cost for K-12 schools, we recommend comparable funding to the community college incremental ADA funding of 67 percent.

Our analysis as well as discussions with local school district staff indicate that funding ADA growth on this basis would not have an adverse impact on growing school districts. Table 10 shows that 95 percent of the districts experiencing growth in ADA would lose less than 2 percent of the revenue limit funds that they would be entitled to under current law. While our recommendation would result in these districts receiving less than they would under current law, they still would receive an increase in revenues as a result of the increase in ADA.

We estimate that funding ADA growth at 67 percent of the revenue limit per ADA would provide a General Fund savings of approximately \$24.3 million in 1981-82.

Table 10
Districts Affected by Sixty-Seven Percent
Marginal Revenue Funding, 1981-82

<i>Base Revenue Limit Decrease Compared to Current Law</i>	<i>Number</i>	<i>Percent</i>
Less than 1 percent	514	72.9%
1 percent to 1.99 percent	156	22.1
2 percent to 2.99 percent	25	3.5
More than 3 percent	10	1.4
Totals	705	100.0
Percent of total districts	—	67.3%

Declining ADA. Based on field reviews, our analysis suggests that the current declining ADA adjustment does not adequately consider school districts' ability to reduce expenditures. Under the current formula, a district may increase its revenue limit by 75 percent of the decline in ADA in the first year and by 50 percent in the second year, but no adjustment is allowed in the third year. School district officials maintain that declines in ADA can be spread throughout the district, making it difficult for the district to reduce costs by the full revenue limit amount in just two years. Where ADA declines are concentrated, the number of classes and teachers may be reduced or schools may be closed. If, however, the decline in ADA is spread out, individual schools may not be affected to the point where they can reduce the number of classes and teachers. While ultimately, proportional cost reductions should be possible, it may take longer to achieve the reduction than the two years grace period provided under current law.

In the case of community colleges, a declining ADA formula is used to address this concern. Community colleges reduce their revenue by two-thirds of the revenue per ADA for each ADA decline. The remaining one-third is built into the districts ongoing revenue base. Conversely, when there is an increase in ADA, the district can increase its revenues by only two-thirds of the statewide average revenue per ADA.

In order to ameliorate the K-12 school district concern, we recommend that the Legislature modify the current K-12 declining ADA formula. Table 11 shows the additional costs in 1981-82 of various alternatives for modifying the formula.

K-12 EDUCATION—Continued

Table 11
Additional 1981-82 Costs to Fund
Declining ADA Adjustment in the Third Year
(in millions) *

<i>Third-Year Rate Per Declining ADA</i>	<i>Estimated State Cost</i>
Current Law (no adjustment)	0
12.5 percent adjustment	\$22.3
25 percent adjustment	\$46.5
33 percent adjustment	\$61.4

* Assumes 5 percent inflation increase in the base revenue limits. For the purpose of this estimate, we assume the \$9 one-time inflation adjustment provided in the Budget Act of 1980 is built into the base revenue limit.

The table shows that savings which would result from our recommendation regarding increased ADA could be utilized to fund a 12.5 percent third-year declining ADA factor. While K-12 schools would prefer to have in the third year the same 33 percent adjustment provided community colleges, it should be noted that K-12 schools are treated more generously than community colleges in the first two years of declining enrollment. Community colleges do not receive the 75 percent/50 percent step down in the first two years, but instead are immediately reduced to 33 percent.

E. Apportionment Changes.**1. Continuation of One-Time Adjustments**

The 1980 Budget Act added \$40.9 million in state aid to schools to:

- provide an additional \$9 per ADA inflation allowance to school districts (\$35.6 million),
- increase the small school district state aid apportionment by 1 percent per ADA (\$3.8 million), and
- increase the county offices of education inflation adjustment to 9 percent (\$1.5 million).

Although these funds were intended to be a one-time adjustment to the K-12 apportionments, the Governor's Budget assumes that these funds will be included in the K-12 apportionments for the 1981-82 year.

2. Termination of the 102 Percent Revenue Guarantee

For 1979-80 and 1980-81, AB 8 provides that all districts shall receive at least a 2 percent increase in total revenues over the prior year. The Department of Finance computer simulation of school finance apportionments indicates that the state cost of this guarantee was \$18.5 million in 1979-80 and \$20.4 million in 1980-81. Because the statutory authority for the guarantee terminates on June 30, 1981, the Governor's Budget does not include funding to continue it in 1981-82.

3. Child Development Double Funding

We recommend that \$15.2 million be deleted from the school finance appropriation because the Department of Finance inadvertently provided general aid for child development double-funding; we further recommend that legislation be enacted to correct a technical drafting error in AB 8 which inadvertently provided additional general aid to districts by double-funding child development programs.

AB 8 and the 1979 Budget Act intended that the entire child development permissive tax revenues would be removed from the school finance funding mech-

anism and replaced by a separate General Fund Budget Act appropriation for 1979-80. Because of a technical drafting error in AB 8, however, only \$18.8 million of the \$34.0 million child development appropriation was actually removed from the state aid apportionments. This error caused (1) school districts to receive \$15.2 million more in state aid than the Legislature intended and (2) essentially provided double funding for child development costs. These additional funds, however, could be used for general education purposes because they did not have to be spent specifically for child development programs.

The Budget Act of 1980 corrected this error by reducing the 1980-81 apportionments by \$30.4 million to (1) adjust for the double funding of child development costs which had occurred in 1979-80 and (2) prevent the double funding from occurring in 1980-81.

The Governor's Budget inadvertently includes \$15.2 million in the 1981-82 apportionments for "phantom" child development costs. To continue the legislative policy established in the 1980 Budget Act that this phantom child development cost be discontinued we recommend that these funds be deleted. In addition, legislation is needed to permanently correct the double-funding problem.

F. Deflator.

AB 8 contains a provision, commonly referred to as the deflator, which would reduce the amount of General Fund support provided to local governments and school districts in 1981-82 if the sum of 1981-82 General Fund revenues and the carry-over General Fund surplus is at least \$100 million less than the target level established in the bill. Our analysis indicates that unless current law is changed, the deflator will be activated in the 1981-82 year. The "A" pages of this Analysis provides a detailed explanation of the deflator's impact on local governments.

G. Serrano.

The California Supreme Court's decision in the *Serrano v. Priest* case requires wealth-related per-pupil expenditure differences to be considerably less than \$100 by August 1980. The Department of Education estimates that, if base revenue limit income is the measure of wealth-related expenditures, the Serrano equity goal will be achieved for over 65 percent of the unified school district ADA in 1981-82. The goal will be met for over 94 percent of the unified school district ADA by 1983-84.

The plaintiffs in the Serrano case have filed suit challenging the AB 8 provisions on the grounds that they are not adequate to meet the court's mandate. A court decision may be forthcoming by Spring 1981.

H. Small School Districts.

Based on our field visits to small school districts, it appears that small school districts experience unique problems which limit their financial flexibility. The cost of operating small districts are more rigid, and unlike many large districts, they have fewer nonmandated programs they can cut back or eliminate in order to generate savings for use in their regular program.

1. Higher Costs

In many of the small districts, expenditures per pupil are relatively high because their size does not allow them to realize the economies available to large districts. Although some of these districts could realize these economies through school district reorganization, our analysis indicates that even after consolidations many small districts would still incur higher-than-average costs in personnel, transportation, and energy. Because of the unique costs that small districts experience, the Legislature should include a small district factor in future school finance legislation.

K-12 EDUCATION—Continued**2. School Finance Equalization**

We recommend legislation be enacted to implement a new intermediate size range for school district equalization.

The current state aid allocation system seeks to achieve equalization of school district revenues through minimum and maximum inflation adjustments, based on their ADA. This system creates funding problems for certain small districts experiencing ADA growth. For example, an elementary district with less than 100 ADA and a revenue limit of less than \$1,700 is entitled to the prescribed maximum inflation adjustment per ADA. If the district's ADA increases above 100, however, it would receive close to the minimum inflation adjustment. This occurs because the district would then be considered a "large" district and would have its revenue equalized on the basis that it could achieve the same economies of scale as other large elementary districts. Consequently, an increase in ADA from 99 to 101 could cause the district to lose as much as \$65 per ADA in state aid. This would more than offset revenues received for the additional ADA. Using a computer simulation model, we estimate that 10 school districts (eight elementary and two high) in 1980-81 and four districts (two elementary, two unified) in 1981-82 will experience increases in ADA that will bring them above the statutorily specified "break points".

Because small districts should not be punished for modest increases in ADA, we recommend that the size classification of schools for purposes of determining minimum and maximum inflation adjustments be revised to include an intermediate size range, in order to prevent volatile variations in district revenues from year to year. We suggest an intermediate size range of 101 to 300 for elementary districts, and 301 to 900 for high school districts.

2. OTHER GENERAL EDUCATION PROGRAMS**HOME-TO-SCHOOL TRANSPORTATION****Transportation Report**

Last year, the Legislature directed the Department of Education to review and recommend alternative allocation formulas for reimbursement of approved home-to-school transportation costs, by December 15, 1980. The report was not available at the time this analysis was prepared. We will be prepared to comment on the report during budget hearings.

Special Small District Transportation Reimbursement

AB 8 provides that small school districts with approved transportation costs exceeding 3 percent of their education costs are eligible to receive state reimbursement for these excess costs. A modified formula was contained in AB 2196 to provide additional funding and to allow more small districts to receive funding through the special reimbursement. Because the AB 8 and AB 2196 program statutory authority terminates on June 30, 1981, the Governor's Budget proposes no funding for the special small school district transportation reimbursement.

URBAN IMPACT AID AND CHAPTER 323 GENERAL AID**Overview**

The Legislature provided additional general aid to certain urban districts through Chapter 323, Statutes of 1976 (SB 1641), and Chapter 894, Statutes of 1977 (AB 65). The basis for providing this aid was the Legislature's belief that certain

districts, because of their setting, experience higher costs in educating students.

Two separate sections of the Education Code prescribe funding mechanisms.

(1) Chapter 323 General Aid. Over 250 districts will receive general aid funds totaling \$8.7 million in 1980-81 and thereafter.

(2) Urban Impact Aid. Chapter 282, Statutes of 1979 (AB 8), and Chapter 1354, Statutes of 1980 (AB 2196), increased the original AB 65 appropriation for Urban Impact Aid to \$54.7 million for the four fiscal years beginning in 1980-81.

Table 12 displays the funding levels for these two programs for the past, current, and budget year.

Table 12
AB 65 Urban Impact Aid and Chapter 323 General Aid

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Urban Impact Aid	\$54,720,800	\$54,720,000	\$54,720,000	—	—
Chapter 323 General Aid	7,345,000	8,652,000	8,652,000	—	—
Totals	\$62,065,800	\$63,372,000	\$63,372,000	—	—

The budget proposes no specific funding increase for Urban Impact and Chapter 323 General Aid for 1981-82. If the legislature wishes to provide a cost-of-living allocation for these programs, the funds will have to come out of the \$509 million set aside for discretionary cost-of-living adjustments and state salary increases proposed by the Governor.

Variable Cost Study

As required by the Budget Act of 1979, the Department of Education contracted for an independent study to explore the feasibility of using a variable cost index for school apportionment purposes. The study has developed a cost of education index (CEI) for California's school districts.

By applying the CEI to a sampling of metropolitan and nonmetropolitan school districts, the study found that there is a variance of 16 percent between the highest and lowest cost districts. The study concludes that personnel costs tend to dominate the overall variations in the CEI for California school districts because these costs account for over 80 percent of the average school district budget. Other significant cost factors that contribute to the variance in the CEI are energy and transportation. The study has determined that school districts located in metropolitan areas are more likely to experience higher costs.

The Department of Education, as the contractor of this study, will be prepared to comment during the budget hearings on the potential uses of the results of the study.

STATE SCHOOL BUILDING AID

Overview

The State School Building Aid Program provides financial assistance to school districts for acquisition and development of school sites, construction or reconstruction of school buildings, and purchase of school furniture and equipment. The current State School Building Aid Program was enacted in 1952 and is administered by the State Allocation Board's Office of Local Assistance.

AB 8 enacted the Emergency School Classroom Law of 1979 which (1) authorized the acquisition of portable classrooms, (2) provided funds for deferred maintenance, and (3) provided funds for the State School Building Lease-Purchase Fund. Subsequent legislation enacted in 1980 appropriated additional funds to the State School Building Lease-Purchase Fund, as shown in Table 13.

K-12 EDUCATION—Continued

Table 13
Revenue Source for School Facilities

<i>Revenue Source</i>	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>
Budget Act Appropriation	—	—	\$142,240,000
Chapter 282, Statutes of 1979 (AB 8)	\$98,000,000	\$61,544,316	79,176,552
Chapter 1354, Statutes of 1980 (AB 2196)	—	15,000,000	—
Chapter 1191, Statutes of 1980 (AB 1202)	—	750,000	—
Chapter 288, Statutes of 1980 (SB 1426)	208,000,000	208,000,000	—
Less transfer to 1980-81	-208,000,000	—	—
Chapter 899, Statutes of 1980 (AB 2973)	—	100,000,000 ^a	200,000,000
Total Revenues	\$98,000,000	\$385,294,316 ^a	\$421,416,552

^a Could increase by \$36,000,000 due to a potential apportionment from prior year tax collections pursuant to AB 2973.

Table 14 details the resource allocation for school facilities.

Table 14
Resource Allocation for School Facilities

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>
Portables	\$13,000,000	\$15,750,000	—
New facilities	293,000,000	308,000,000	\$200,000,000
Deferred maintenance	—	61,544,316	221,416,552
Less transfer to 1980-81	-208,000,000	—	—
Totals	\$98,000,000	\$385,294,316	\$421,416,552

School Facilities

In accordance with the Supplemental Report to the 1980 Budget Act, the Department of Education has submitted a report which projects facilities construction and maintenance needs on the basis of minimum essential requirements. The report (1) includes aggregate costs for deferred maintenance and facility construction in 1981-82 through 1983-84, and (2) indicates the amount of state funds available to meet the identified costs.

Our review of the department's report indicates that it did not (1) establish priorities for state funding of school facilities construction and maintenance needs, (2) adequately consider the possibility of using local funding resources to meet the identified needs, nor (3) utilize the best ADA projections.

Priorities. Table 15 summarizes the stated construction and maintenance needs, the amount of state funding available, and the difference between the two. There are certain areas that have insufficient funds, such as the deficiency needs, and others that have more than sufficient funds such as new facilities. This situation occurs because of the priorities established in legislation regarding the allocation of available funds. To achieve a more efficient allocation of funds, the allocation priorities in legislation would have to be changed to allow reallocation to those areas having insufficient funds.

Overstatement of Need: The Department's estimate of the funding needs fails to consider the potential availability of local funding (other than the local match requirement for deferred maintenance). For example, the statewide cost estimate for handicapped access does not reflect the availability of local funding for these

Table 15
Summary of School Facilities Needs

	<i>1980-81</i>			<i>1981-82</i>			<i>Totals</i>		
	<i>Estimated Need</i>	<i>Funds Available</i>	<i>Difference</i>	<i>Estimated Need</i>	<i>Funds Available</i>	<i>Difference</i>	<i>Estimated Needs</i>	<i>Funds Available</i>	<i>Difference</i>
1. Deficiency Needs									
Handicapped access	\$197,067,000	—	—\$197,067,000	—	—	—	\$197,067,000	—	—\$197,067,000
Asbestos removal	4,175,160	—	—4,175,160	\$8,476,840	—	—\$8,476,840	12,652,000	—	—12,652,000
2. Emergency classrooms	12,250,000	\$15,750,000	3,500,000	8,015,000	—	—8,015,000	20,265,000	\$15,750,000	—4,515,000
3. Construction of new facilities	104,655,455	308,000,000	203,344,545	51,239,528	\$200,000,000	148,760,472	155,894,983	508,000,000	352,105,017
4. Deferred maintenance	124,978,335	61,544,316	—63,434,019	114,165,804	221,416,552	107,250,748	239,144,139	282,960,868	43,816,729
5. Rehabilitation of old buildings	1,936,497,660	—	—1,936,497,660	365,063,019	—	—365,063,019	2,301,560,679	—	—2,301,560,679
Totals	\$2,379,623,610	\$385,294,316	—\$1,994,329,294	\$546,960,191	\$421,416,552	—\$125,543,639	\$2,926,583,801	\$806,710,868	—\$2,119,872,933

K-12 EDUCATION—Continued

projects in some districts (other than Los Angeles Unified).

ADA Projections. Some of the projections used in the study did not go beyond 1981-82. Given population shifts and declining enrollments, the use of *long-term* projections would have provided a more accurate assessment of school facilities needs statewide.

Study Proposed

We recommend that the Legislature direct the Office of Local Assistance to (1) report on the feasibility of converting current lease arrangements into grants and (2) submit a plan for (a) allocating funds in 1981-82 through 1983-84 and (b) increasing the use of portable facilities.

Grant vs. Lease. The state is the legal owner of any school facilities which are constructed under the State School Building Lease-Purchase Program and leased to school districts. The terms of the lease require a school district to make lease payments of one dollar per year for 40 years, at which time ownership of the facility will be transferred to the district. Because the state is the legal owner of these facilities during the 40-year lease period, it could be held liable for damages in the event of a serious injury on the property. This could impose a significant burden on the budgets for future years. Converting the lease arrangement to a grant would have the double benefit of eliminating the liability without having an appreciable fiscal effect.

Allocation Plan. The amount available for school facilities during the next two years will be a minimum of \$806.7 million. Given the magnitude of this program, we believe the state should have a plan for allocating these funds to meet planning, site acquisition, and construction needs. The Office of Local Assistance, however, has not developed such a plan.

The current allocation process consists of three phases. Phase I covers the initial planning and design. Phase II site acquisition, and phase III covers construction. School districts may receive partial reimbursement for the first two phases. At the time districts are reimbursed for phases I or II, funds are "tentatively earmarked" for completion of the project. Funding for the construction phase is based on a priority ranking. When a district is ready to proceed to construction, funds are allocated on the basis of greatest need.

Under the current system, too many phase I and phase II grants might be awarded, leaving some projects unfunded in phase III. We believe the Office of Local Assistance should adopt a policy to assure that enough funds are available to complete construction of the projects approved for phases I and II.

Portable Facilities. K-12 enrollments have been fluctuating with population changes. These shifts have been occurring within and between districts statewide. The greater use of portable facilities would provide the necessary flexibility to accommodate such fluctuations with a minimum of lead time required. Our analysis suggests that the state should examine the cost/benefit of the increased use of portable facilities relative to the construction of permanent facilities.

Department of Education—School Facilities Planning (Item 610-001-344)

We recommend approval as budgeted.

The Governor's Budget contains \$456,671 from the State School Building Lease-Purchase Fund for the operation of the school facilities planning unit. Partial funding for this unit has come from the State School Building Aid Fund which is becoming inactive. Our analysis indicates that it is appropriate for the State School Building Lease-Purchase Fund to be a source of funding for this unit.

Deferred Maintenance Augmentation (Item 635-101-001)

The Governor's Budget proposes a \$142.2 million augmentation for deferred maintenance. The funding for this augmentation would come from state savings caused by increased local property tax revenues resulting from the court decision on the unsecured tax roll. The increased local revenues would automatically reduce state aid to schools by a corresponding amount. In addition, the Governor proposes to reduce state subventions to local governments for property tax relief on a one-time basis, to offset the additional revenues they receive as a result of the court's decision.

The state's ability to reduce the property tax relief subventions for the homeowner's exemption, however, is doubtful because the state Constitution requires the homeowner's exemption reimbursement be paid to local governments each year. Consequently, the proposed savings may not be available for other expenditures such as this deferred maintenance augmentation. The Department of Finance should be prepared to discuss this during budget hearings.

In addition, the need for this augmentation is not clear. As shown previously in Table 15, the department estimates that more than enough funds are available to meet estimated deferred maintenance needs. The Legislature may wish to allocate these funds, if available, to a different facility need category.

B. CATEGORICAL EDUCATION PROGRAMS (Items 610 and 635)**Budget Presentation—Categorical Education Programs**

For the purposes of this analysis, we have divided categorical education programs into six groups:

- Consolidated categoricals.
- Nonconsolidated categoricals.
- State, court, and federal mandates.
- Special education.
- Child development.
- Child nutrition and surplus property.

Table 16 shows the actual, estimated, and proposed expenditures and funding for these categorical aid programs.

Table 16
Categorical Education Programs Local Assistance
(in thousands)

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Consolidated categoricals (See Table 17)	\$623,885	\$648,221	\$648,221	—	—
Nonconsolidated categoricals (See Table 25)	352,380	379,873	379,634	\$-239	-0.1%
State, court, and federal mandates (See Table 137)	145,045	194,123	167,191	-26,932	-13.9
Special education (See Table 144)	554,507	747,808	777,324	29,516	3.9
Child care (See Table 150)	176,506	212,734	211,394	-1,340	-0.6
Child nutrition and Surplus Property (See Table 151)	354,857	330,819	343,796	12,977	3.9
Totals	\$2,207,180	\$2,513,578	\$2,527,560	\$13,982	0.6%
<i>General Fund</i>	<i>\$1,304,143</i>	<i>\$1,627,758</i>	<i>\$1,670,144</i>	<i>\$42,386</i>	<i>2.6%</i>
<i>Federal funds</i>	<i>885,749</i>	<i>884,751</i>	<i>834,347</i>	<i>-50,404</i>	<i>-5.7</i>
<i>Other state funds</i>	<i>17,288</i>	<i>1,069</i>	<i>23,069</i>	<i>22,000</i>	<i>NA</i>

K-12 EDUCATION—Continued**1. CONSOLIDATED CATEGORICALS**

This section analyzes the amounts requested for those state and federal categorical aid programs, other than Native American Indian Education Programs, administered through the Consolidated Program Division of the Department of Education. These programs and their related expenditures are shown in Table 17. Native American Indian Education Programs are discussed with the Indian Education Centers in the nonconsolidated programs section.

Table 17
Consolidated Categorical Aid Programs

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Administration	\$7,299,113	\$8,936,489	\$9,127,511	\$191,022	2.1%
Local Assistance:					
School Improvement Program ^C	\$135,307,543	\$150,021,342	\$150,021,342	—	—
Economic Impact Aid ^G	141,506,446	162,015,803	162,015,803	—	—
ESEA-Title I ^F	277,165,853	275,892,650	275,892,650	—	—
Miller-Unruh Reading Program ^C	14,005,317	15,265,796	15,265,796	—	—
Native American Indian Education ^{aG}	275,611	300,416	300,416	—	—
ESEA-Title IV-B ^F	16,126,432	16,102,165	16,102,165	—	—
Mentally Gifted and Talented ^{bG}	13,730,077	—	—	—	—
Preschool ^{cG}	25,767,950	28,623,386	28,623,386	—	—
Subtotals	\$623,885,229	\$648,221,558	\$648,221,558	—	—
Totals	\$631,184,342	\$657,158,047	\$657,349,069	\$191,022	0.1%
General Fund	\$334,799,356	\$360,324,249	\$360,415,221	\$90,972	0.1%
Federal funds	296,379,580	296,833,798	296,933,848	100,050	0.1%
Reimbursements	5,406	—	—	—	—

^a Discussed in nonconsolidated programs with Indian Education Centers.

^b Funding through Consolidated Application discontinued in 1980-81.

^c Includes preschool funds administered by the Office of Child Development.

^G Program support from the General Fund.

^F Program support from federal funds.

SCHOOL IMPROVEMENT PROGRAM**Overview**

The School Improvement Program (SIP) was authorized by Chapter 894, Statutes of 1977 (AB 65), a revised and expanded version of the Early Childhood Education (ECE) program. SIP is authorized for grades K-12, whereas the ECE program served only grades K-3.

Funding

As shown in Table 18, the Governor's Budget requests \$150,021,342 for the School Improvement Program in 1981-82. Of this amount, \$147,623,342 would be appropriated for ongoing implementation grants and \$2,398,000 would be reappropriated for planning grant funds. The proposed reappropriation, which is equal to half of the appropriation provided for planning grants by the Budget Act of 1980, reflects the fact that the annual planning phase extends from January 1981 to December 1981 (including the first half of 1981-82). One hundred and fifty-three schools will receive funds for planning in calendar year 1981. Program implemen-

tation funding for these schools would begin in January 1982.

Table 18
School Improvement Program Expenditures^a

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i> Amount Percent	
Local Assistance	\$135,434,259	\$150,021,342	\$150,021,342	—	—

^a Expenditures for state operations are combined with other programs in the Consolidated Application Cost Pool.

The budget does not request additional funds to provide planning grants to schools that have not received them in the past. Moreover, no additional funds are requested to provide implementation grants to the 153 schools currently in the planning cycle. The Governor's Budget states that half-year funding for SIP im-

Table 19
School Improvement Program Participation and Local Assistance Expenditures by Grade Level

	1977-78 ^a	1978-79 ^a	1979-80 ^a	<i>Estimated</i> 1980-81 ^a	<i>Proposed</i> 1981-82
Grades K-3					
Planning	\$800,000	\$2,205,479	—	—	—
Implementation	113,280,000	105,893,994	\$104,395,849	\$113,428,636	\$113,428,636
Totals	\$114,080,000	\$108,099,473	\$104,395,849	\$113,428,636	\$113,428,636
Pupils served (ADA)	747,000 ^b	822,370 ^b	785,355	764,241	764,241
Percent of statewide ADA	62%	72%	71%	69%	69%
Grades 4-6					
Planning	\$1,200,000	\$3,853,400	—	—	—
Implementation	—	2,840,468	\$15,695,846	\$17,453,774	\$17,453,774
Totals	\$1,200,000	\$6,693,868	\$15,695,846	\$17,453,774	\$17,453,774
Pupils served (ADA)	61,000 ^c	184,942 ^b	193,945	194,840	194,840
Percent of statewide ADA	7%	21%	22%	21%	21%
Grades 7-8					
Planning	\$600,000	\$1,829,481	—	\$1,598,667	\$1,598,667
Implementation	—	1,271,041	\$6,012,276	6,704,621	6,704,621
Totals	\$600,000	\$3,100,522	\$6,012,276	\$8,303,288	\$8,303,288
Pupils served (ADA)	10,000 ^c	88,564 ^b	74,400	128,134 ^b	128,134 ^b
Percent of statewide ADA	2%	15%	13%	21%	21%
Grades 9-12					
Planning	\$900,000	\$2,861,705	—	\$3,197,333	\$3,197,333
Implementation	—	2,155,632	\$9,330,288	10,036,311	10,036,311
Totals	\$900,000	\$5,017,337	\$9,330,288	\$13,233,644	\$13,233,644
Pupils served (ADA)	38,000 ^c	159,977 ^b	159,821	261,699 ^b	261,699 ^b
Percent of statewide ADA	3%	13%	13%	21%	21%
Combined K-12					
Planning	\$3,500,000	\$10,750,065	—	\$2,398,000	\$2,398,000
Implementation	113,280,000	112,161,135	\$135,434,259	147,623,342	147,623,342
Grand Totals	\$116,780,000	\$122,911,200	\$135,434,259	\$150,021,342	\$150,021,342
Pupils Served (ADA)	856,000	1,255,853	1,213,521	1,348,914	1,348,914
Percent of statewide ADA	21%	31%	31%	35%	35%

^a Chapter 894, Statutes of 1977 (AB 65), revised and expanded the ECE program to grades K-12 and appropriated funds for 1977-78 and annually thereafter. The 1979-80 and 1980-81 appropriations were reduced in the Budget Acts.

^b Includes both planning and implementation ADA.

^c Planning only.

K-12 EDUCATION—Continued

plementation in these 153 schools, beginning January 1982, could be achieved by redirecting approximately \$5.9 million from other schools currently in the *implementation* phase. This would require a reduction averaging 4 percent in the implementation grants to current SIP schools during 1981-82. Finally, the budget makes no provision for inflation adjustments to current SIP amounts.

The Department of Finance should be prepared to explain its proposed authorization for the 4 percent reduction in implementation grants and to discuss its impact during the budget hearings. In addition, the Department of Education should discuss what actions it will take if the Legislature approves the budget proposal.

Elsewhere in this analysis (in the A-Pages), we discuss the general issue of inflation adjustments. Whatever decision is made by the Legislature on this issue should be applied consistently to all categorical education programs such as SIP which warrant an inflation adjustment. For the SIP program, each 1 percent increase in funding would cost \$1.5 million.

Participation

Table 19 shows participation and local assistance funding under SIP, by grade level. Table 20 summarizes allowances per average daily attendance (ADA) since the inception of the program.

Table 20
School Improvement Program Allowances
Per ADA

	<i>Implementation</i>				<i>Planning All Grades</i>
	<i>K-3</i>		<i>4-6</i>	<i>7-8</i>	<i>9-12</i>
	<i>All</i>	<i>EDY^a</i>			
1973-74 ^b	\$130	\$65	—	—	—
1974-75 ^b	130	65	—	—	—
1975-76 ^b	140	70	—	—	—
1976-77 ^b	140	70	—	—	—
1977-78 ^c	148	74	\$90	\$90	\$65
1978-79 ^d	136	68	83	83	60
1979-80 ^e	132	—	80	80	58
1980-81	147	—	89	89	65

^a Additional allowance for educationally disadvantaged K-3 pupils. This allowance was not authorized after 1978-79.

^b Early Childhood Education program.

^c Chapter 894, Statutes of 1977 (AB 65), authorized the School Improvement Program (SIP) and increased the K-3 allowances per ADA by 6 percent.

^d Chapter 292, Statutes of 1978 (SB 154), reduced the AB 65 SIP appropriation by 10 percent. Statutory allowances per ADA were reduced proportionately.

^e 1979-80 rates are lower than 1978-79 rates primarily because of elimination of Miller-Unruh offset.

Independent Evaluation

As required by AB 65, the Department of Education contracted for a \$771,241 independent evaluation of SIP. An interim report is due October 1981, and the final report is due October 1982.

The evaluators have designed their research plan in order to answer two fundamental questions: (1) How sound is the SIP process? (2) How can the state and the schools implement the program most successfully?

The evaluation will include a description of the patterns of program implementation, an analysis of the extent to which SIP programs can improve the quality

of instruction, and a specification of the conditions under which state program components and implementation strategies are effective in creating well-implemented programs. To accomplish these tasks, the evaluators will conduct a comprehensive survey of SIP participants in approximately 200 schools and intensive fieldwork in approximately 35 schools.

ECONOMIC IMPACT AID AND ESEA, TITLE I

Overview

Two major education programs provide compensatory education services to educationally disadvantaged students: the federal Elementary and Secondary Education Act (ESEA), Title I, and the state Economic Impact Aid (EIA) program. The Economic Impact Aid program includes (1) the state compensatory education program (EIA-SCE) and (2) bilingual education programs for limited English proficient students (EIA-LEP).

Both the federal and the state programs provide funding for supplemental services, particularly in basic skills, to children who (1) have difficulty in reading, language development, and mathematics and (2) attend schools which (a) are located in high-poverty areas and/or (b) have an excessive number of children with poor academic skills.

Children Served

The Governor's Budget reports that in 1979-80, approximately 311,000 pupils were served by Title I programs, 87,000 were served by EIA-SCE programs, and an additional 430,000 were served by a combination of both programs. Of those pupils served by Title I and/or EIA-SCE, approximately 200,000 were LEP. An additional 94,000 LEP pupils were served by EIA-LEP.

Funding

Table 17 displays the local assistance expenditures for these programs. The budget proposes to continue the 1980-81 level of local assistance funding from Title I (\$275.9 million) and for EIA (\$162.0 million) in 1981-82.

Elsewhere in this Analysis (in the A-Pages), we discuss the general issue of providing inflation adjustments. Whatever decision is made by the Legislature on this issue should be applied consistently to all categorical education programs such as EIA which warrant an inflation adjustment. For the EIA program, each 1 percent increase in funding would cost \$1.6 million.

BILINGUAL EDUCATION

Overview

As indicated earlier, state funding for bilingual programs is provided under the Economic Impact Aid program. This section presents information regarding (1) programs for limited English proficient (LEP) children and (2) bilingual teacher training.

Number of LEP Pupils

The Education Code requires that each school district conduct an annual census of LEP pupils to determine the primary language of each pupil enrolled in the district, and to assess the language skills of all pupils whose primary language is other than English. Table 21 indicates the actual number of LEP pupils as reported by each district to the State Department of Education.

K-12 EDUCATION—Continued

Table 21
Actual Number of Limited English Proficient Pupils, K-12

	<i>Number of Children</i>
1977 (Fall)	233,444 ^a
1979 (Spring)	288,400 ^a
1980 (Spring)	325,748 ^{a, b}

^a Does not include preschool, continuation school, adult classroom, juvenile hall, private school, and Bureau of Indian Affairs schools.

^b Includes some "ungraded" pupils who were not counted previously.

Of the 325,748 LEP pupils identified in 1980, Spanish-speaking pupils constituted 257,033 (78.9 percent) of the total. Other major language groups include Vietnamese with 14,018 pupils (4.3 percent) and Cantonese with 10,174 pupils (3.1 percent).

Funding for Limited English Proficient Children

Existing law imposes program mandates regarding services to LEP children, and each school district is required to comply with these mandates regardless of whether it receives state or federal funding for this purpose. The Governor's Budget proposes \$136.8 million, primarily from ESEA, Title I, and EIA, for services to LEP students in 1981-82. This amount excludes (1) ESEA, Title VII programs, (2) Indochinese Refugee Act funding, (3) ESEA Title I, Migrant Programs, (4) Staff Development and Resource Centers, (5) Demonstration Programs in Reading and Mathematics, (6) ESEA Title IV-C programs, and (7) Native American Indian Education programs.

Changes in the Bilingual-Bicultural Act of 1976

Chapter 1339, Statutes of 1980 (AB 507), substantially changes various requirements for bilingual education programs. The law authorizes four types of bilingual classes and stipulates new procedures for district censuses of limited English proficient (LEP) students. In recognition of the shortage of qualified teachers, Chapter 1339 also provides for waivers of required bilingual-bicultural teacher certification. The law also modifies the "triggering mechanism" which determines what type of bilingual program must be offered to a LEP pupil. Schools with one or more LEP pupil(s) are required to prepare a learning plan to meet the needs of those students.

Districts must submit an annual evaluation of LEP pupil progress according to plans developed by the Superintendent of Public Instruction (SPI). Additional responsibilities assigned to the SPI include (1) ensuring that districts are making appropriate use of local and state funds to provide required services to LEP pupils and (2) reporting annually to the Legislature on bilingual education programs. The Department of Education is required to implement a coordinated plan of technical assistance to districts with LEP pupils and to monitor and review such districts at least every three years. Additionally, the department is required to conduct equivalency studies of all language proficiency tests.

Independent Evaluation of Bilingual Programs

Chapter 894, Statutes of 1977 (AB 65), required our office to contract for an independent evaluation of bilingual education programs, and provided \$300,000 over a three-year period to fund the required evaluation. AB 65 directed that the evaluation examine:

- the nature and extent of bilingual instructional services provided to limited and non-English speaking (LES/NES) children, including an estimate of financial resources available for bilingual instruction,
- the nature, extent, and quality of census procedures for identifying LES/NES

- children,
- the extent and quality of in-service training programs for bilingual teachers and aides,
- district efforts to recruit, hire, and retain certificated bilingual personnel, and
- the effectiveness of alternative bilingual education approaches.

Based on an open-bid process, Development Associates, Inc., of San Francisco was selected to perform the evaluation. Although our office monitored the contractor's compliance with the contract, the conclusions contained in the final report are those of Development Associates. The significant conclusions reached by Development Associates are summarized below:

Student Identification. Identification of LES/NES pupils continues to be problematic. Many inaccuracies were found in data obtained through locally administered tests. No *single* test demonstrated the necessary accuracy. The report recommends a procedure for assessing language skills which incorporates several measures of a child's language abilities.

Competency of Instructors. Some teachers did not exhibit an appropriate level of oral fluency and/or literacy in English or in the second language. A substantially larger number of aides were deficient in English fluency and/or literacy, and some were seriously deficient in their second language literacy. Increased in-service training in teaching English as a Second Language (ESL), as well as in teaching reading in the pupil's primary language, is recommended in the report.

Survey of Satisfaction. Pupils, parents, community members, teachers, and administrators indicated general approval of California's bilingual legislation.

Proportion of Instruction in English. The consensus of the survey respondents was that LES/NES pupils should receive 75 percent of their daily instruction in English. The report notes, however, that unilateral specifications about enrollment, proportion of instruction in English, or program components would not apply absolutely to every school or area.

Student Achievement. LES/NES pupils with low socioeconomic status scored significantly lower on achievement tests than pupils with a higher economic status. The contractor also found that students whose first language was Japanese, Korean, or a language of China or India/Pakistan scored significantly higher than pupils with other primary languages. The report recommends that this phenomenon be studied further.

Another important variable linked with student achievement was the degree to which a teacher mixed two languages. Where a teacher instructed students in both English and their primary language by switching back and forth, the student's achievement was adversely affected.

Fiscal Data. Development Associates was limited in its ability to study the financial resources available for bilingual instruction because districts generally lacked data on expenditures for services provided to LES/NES students. If the Legislature is interested in determining the allocation of funds utilized in LES/NES programs, the study recommends that a statewide policy on district record-keeping procedures be established.

The study also found that some districts faced funding problems because of a large influx of LES/NES pupils during the academic year, after state and federal funds for bilingual programs had been allocated. The report recommends that provision be made for mid year funding adjustments for schools and districts that receive large numbers of LES/NES pupils.

Interagency Task Force on Bilingual Teacher Preparation

The Supplemental Report of the 1980 Budget Act required that the department maintain a task force to coordinate the various program responsibilities pertaining to the development of bilingual-crosscultural teachers. The department was to

K-12 EDUCATION—Continued

receive assistance from the Student Aid Commission, the Commission for Teacher Preparation and Licensing (CTPL), the California Community Colleges, CSUC, UC, CPEC, and the Association of Independent Colleges and Universities. The task force was required to submit an updated report on the status of bilingual-crosscultural teacher preparation projects by November 1, 1980. The task force was also required to place particular emphasis on reviewing CTPL's updated estimates of the supply of and the demand for bilingual teachers. The task force was also to study the possibility of standardizing some or all parts of the assessment for the Certificate of Bilingual-Crosscultural Competence.

The Interagency Task Force has submitted a preliminary report and plans to submit a final report on March 15, 1981. Issues to be discussed in the final report include teacher supply and demand and standardization of the certificate of competence for bilingual teachers.

Supply and Demand for Bilingual-Crosscultural Teachers. Due to errors in school district reporting, the Department of Education was delayed in processing the spring 1980 census of LEP pupils, preventing CTPL from updating its supply and demand estimates. The final census data was recently submitted to CTPL and the commission's estimates are forthcoming. The Interagency Task Force will review those estimates in its March 15, 1981 final report.

Standardization of the Certificate of Competence. The twenty-eight agencies which assess bilingual-crosscultural competence use a variety of examinations for determining the language, crosscultural, and methodology skills of teachers. While there is a standard list of required competencies, CTPL reports that the actual assessment instruments and procedures vary greatly among agencies.

Existing law requires the CTPL to develop uniform standards and procedures for assessing language, crosscultural, and methodology skills by July 1, 1981. To the maximum extent feasible, CTPL is also required to adopt standardized assessment instruments for Spanish and Cantonese.

We anticipate that the task force will make recommendations on these matters in its March report.

Annual Census of LEP Pupils

We recommend that the Department of Education develop procedures for verifying the accuracy of district censuses of limited proficient English pupils, as required by the Education Code. We further recommend that the department present its review procedures to the legislative budget committees by March 15, 1981.

Since 1978, the department has been required to annually review the results of censuses of LEP pupils conducted by school districts. These censuses, required by state law, serve to (1) identify the total number of pupils of limited-English proficiency within a district and (2) classify them according to their primary language, age, and grade level. The Education Code stipulates that where information provided by a school district appears to be inaccurate, the department shall audit the district census.

An accurate identification of LEP pupils is necessary to ensure that (1) all eligible students are receiving bilingual education resources, (2) funds provided under the Economic Impact Aid (EIA) program are accurately allocated to school districts, (3) migrant pupils are identified and recruited, and (4) the need for bilingual teachers is accurately estimated.

Our analysis indicates that the department has no established procedures to review district censuses, and is therefore out of compliance with the Education Code. Our analysis also indicates that the SDE has never conducted an audit of a census.

Because accurate census data is essential to the planning, implementation, and allocation of funds for bilingual education programs, we recommend that SDE

develop procedures for reviewing the LEP pupil census and present these procedures to the legislative budget committees by March 15, 1981.

ESEA Title VII Bilingual Funds for Institutions of Higher Education

We recommend that the Legislature direct the Department of Education to establish an interagency agreement with the Commission for Teacher Preparation and Licensing for a joint review of Title VII applications for bilingual teacher training programs submitted by institutions of higher education. We further recommend that the interagency agreement (1) provide one half-time professional position for the Commission for Teacher Preparation and Licensing and (2) provide for the commission's equal involvement in all special projects related to teacher training programs funded by Title VII.

ESEA Title VII provides grants to local educational agencies (LEAs), institutions of higher education (IHEs), and nonprofit private organizations (NPOs). These grants are used to establish, operate, and improve bilingual education training programs for school personnel who are participating in, or preparing to participate in, bilingual education programs. In 1980-81, California LEAs, IHEs, and NPOs received a total of \$38 million in federal grants.

In 1979-80, the department received a \$1.2 million grant to review and coordinate the Title VII programs at LEAs, IHEs, and NPOs. In 1980-81, the department will receive a grant of \$1.3 million for the same purpose. The federal government requires that, in performing its review and coordination function, the state educational agency review the Title VII applications of IHEs for teacher training programs. Of the \$1.3 million in 1980-81, approximately one professional position and \$10,000 in operating expenses was allocated by SDE to review the IHE applications and programs for bilingual teacher training.

In the Supplemental Report to the 1980 Budget Act, the Legislature directed SDE to consult with the Commission for Teacher Preparation and Licensing (CTPL) and the California Postsecondary Education Commission in the process of securing and distributing that portion of Federal Title VII funds which is directed to IHEs. SDE contends that it does not secure and distribute Title VII funds, but that it has met with the commissions to discuss how the three agencies can cooperate in the review of IHE Title VII applications and programs. The meeting was inconclusive, and SDE has made no change in its procedures for such reviews. We believe an interagency agreement is needed.

The State Department of Education and CTPL should have a shared responsibility in reviewing the Title VII program applications of IHEs for the following reasons:

- CTPL has oversight and approval authority for credentialing programs (including bilingual programs) while the Department of Education has limited contact with teacher training programs.
- A CTPL role in the review of IHE applications *before* the applications are submitted to the federal Department of Education would assure that these institutions' programs meet state requirements for bilingual certification or credentialing.

Consequently, we recommend that the State Department of Education and CTPL enter into an interagency agreement for the review of the Title VII applications of IHEs.

MILLER-UNRUH READING PROGRAM

Overview

The Miller-Unruh Reading Program is designed to upgrade the reading achievement of low-performing K-6 pupils by providing school districts with reading specialists. Pursuant to the provisions of Chapter 282, Statutes of 1979 (AB 8), the

K-12 EDUCATION—Continued

program will be terminated on June 30, 1982, unless it is reauthorized by the Legislature.

Funding

Table 22 shows Miller-Unruh program participation and funding.

Table 22
Miller-Unruh Reading Program
Participation and Local Assistance Funding

	<i>Actual</i> 1978-79	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
					<i>Amount</i>	<i>Percent</i>
Appropriation (General Fund)	\$14,005,317	\$14,005,317	\$15,265,796	\$15,265,796	—	—
Number of districts	169	165	167	167	—	—
Number of teachers	986	1,009	1,015	1,015	—	—
Estimated statewide average elementary teachers' salary	\$16,350	\$17,370	\$19,054	\$20,007 ^a	\$953	5.0%
Average amount paid per full-year position	\$15,419	\$13,500	\$15,000	\$15,000	—	—
Percent of statewide average elementary teachers' salary paid	94%	78%	79%	75%		

^a Assumes 5 percent statewide average elementary teacher's salary increase.

As Table 22 shows, the Governor's Budget proposes an appropriation of \$15,265,796 for local assistance in 1981-82, the same amount appropriated in the current year. Elsewhere in this analysis (in the A Pages), we discuss the general issue of providing inflation adjustments. Whatever decision is made by the Legislature on this issue should be applied consistently to all categorical education programs such as Miller-Unruh which warrant an inflation adjustment. For the Miller-Unruh program, each 1 percent increase in funding would cost approximately \$152,000. Failure to provide an inflation adjustment would result in the reduced availability and use of these reading specialists.

The Governor's Budget also proposes 0.5 new positions (half-time consultant) to administer the Miller-Unruh Reading Program, at a General Fund cost of \$32,823. Our review indicates that departmental workload justifies the new position.

STATE PRESCHOOL PROGRAM**Overview**

The objective of the State Preschool Program is to provide a child-centered, family-oriented, educational preschool experience for children from low-income, disadvantaged families. More than 19,000 children are enrolled in programs administered by 115 school districts and 75 private, nonprofit agencies.

In addition, a preschool scholarship incentive program provides scholarships to assist approximately 1,000 preschool permit teachers and aides to continue their professional development.

Table 23 shows the expenditures for this program.

Table 23
State Preschool Expenditures

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Instruction Programs ^a					
Local assistance	\$12,898,225	\$15,342,812	\$15,342,812	—	—
Special Programs					
State operations	\$1,235,717	\$533,944	\$541,637	\$7,693	1.4%
Local assistance	12,869,725	13,280,574	13,280,574	—	—
Subtotals	\$14,105,442	\$13,814,518	\$13,822,211 ^b	\$7,693	—
Combined Totals					
State operations	\$1,235,717	\$533,944	\$541,637	\$7,693	1.4%
Local assistance	25,767,950	28,623,386	28,623,386	—	—
Totals	\$27,003,667	\$29,157,330	29,165,023	\$7,693	—

^a Does not include state administrative costs reflected in consolidated programs cost pool.

^b Includes \$225,434 for the Preschool Scholarship Incentive Program authorized by Chapter 795, Statutes of 1975.

As Table 23 indicates, the Governor's Budget requests \$28,623,386 for local preschool assistance in 1981-82, the same level of support provided in 1980-81. Elsewhere in this analysis (in the A Pages) we discuss the general issue of providing inflation adjustments. Whatever decision is made by the Legislature on this issue should be applied consistently to all categorical education programs such as the state preschool program which warrant an inflation adjustment. For the preschool program each 1 percent increase in funding would cost \$286,000.

Per-Capita Allowance

The 1980-81 Budget Act specified that the department allocate any inflation increase in such a way as to bring low-cost preschool programs up to a per-capita allowance of \$1,461 per child. Programs with per-capita allowances above \$1,461 were required to reduce program costs to that level, and these programs received no inflation increase for 1980-81.

Additionally, 1980 supplemental language directs the Department of Education to report by March 1, 1981, on "(a) the allocation of preschool funds above the \$1,450 per-child level and (b) the most appropriate funding process and level for preschool programs operated jointly with federal head start programs." We will be prepared to comment on the report's conclusions during budget hearings.

Transportation Costs

We recommend that transportation costs be factored out prior to calculating the equalization of preschool program costs.

Some state preschool programs located in rural areas operate at a higher per-capita expenditure level because many children must be transported great distances in order to participate in the program. Due to this factor, rural program costs appear to be more expensive than urban program costs, even though basic program costs are the same.

Our analysis indicates that the current equalization system is not sensitive to these unique nonprogram costs and unintentionally reduces funding for some rural programs. Consequently, we recommend that transportation and program costs be adjusted separately for inflation.

Federal Headstart Program

The State Preschool Program is very similar to the federal Headstart Program administered directly by the federal government. California has requested approximately \$79 million in federal funds in 1981-82 to serve 26,000 preschool-age children under the Headstart Program. This is a 14 percent increase over the 1980-81 funding level of \$69 million.

K-12 EDUCATION—Continued**CONSOLIDATED PROGRAMS DIVISION**

Beginning January 1, 1980, the department organized its elementary and secondary field services units into the Consolidated Programs Division. The division is responsible for administrative support of elementary and secondary categorical programs.

Funding

As shown in Table 24, the Governor's Budget proposes \$8,549,427 to support the nine units which administer the Consolidated Application within the Consolidated Programs Division. This is an increase of \$173,179, or 2.0 percent, above the current-year level.

Table 24
Consolidated Programs Division
Allocations by Consolidated Application Units

	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
Office of School Support Services				
Elementary School Support Services/Small Districts	\$980,496	\$987,429	\$6,933	0.7%
Elementary School Support Services/Large Districts	926,002	937,978	11,976	1.3
Secondary School Support Services	602,520	609,263	6,743	1.1
Consortia Support Services	632,118	643,661	11,543	1.8
Office of District and Centralized Services				
Centralized Services	498,443	519,179	20,736	4.1
District Support Services	1,264,430	1,280,680	16,250	1.3
Office of Consolidated Management Services				
Resources Center	281,381	286,041	4,660	1.7
Program Reviews	1,998,637	2,035,753	37,116	1.9
Management Development and Compliance Monitoring	1,192,221	1,249,443	57,222	4.7
Totals	\$8,376,248	\$8,549,427	\$173,179	2.0%

Monitor and Review

Within the Consolidated Programs Division, the District Support Services Unit and Program Reviews Unit are directly responsible for conducting district and school-site visitations to monitor and review categorical education programs. Other units within the division coordinate activities that are directly related to the reviews.

District Support Services teams visit every *district* receiving federal Title I funds at least once every three years. Approximately 290 such visits are made each year. District reviews are primarily designed to verify compliance with the federal Title I statute and regulations. The department justifies these visits on the basis that Title I requires "a program of regular visits by state educational agency personnel"

Through the Program Reviews Unit, the department endeavors to visit all *schools* receiving SIP or EIA funds every three years. School-site review teams measure both program compliance as well as program quality. Approximately 1,100 schools are visited by such review teams yearly. The department justifies these review visits on the basis of requirements set forth in the Education Code and Title 5.

Review of Program Quality

School-site review visitations conducted by the Program Reviews Unit serve to: (1) verify federal and state law compliance and (2) evaluate school program quality. To evaluate program quality, the department, in cooperation with school district personnel, has developed a seven-point checklist (arranged on a "low"—"on target"—"high" continuum) called the Program Quality Review Instrument (PQRI). Program reviewers are trained in the use of (1) the PQRI and (2) a separate compliance instrument, during a three-day training session conducted by the department.

Elimination of the Program Quality Review

We recommend that the Department of Education limit the scope of school program review visitations to monitoring the school's compliance with state and federal law. We further recommend that by April 1, 1981, the Department of Education identify costs associated with the Program Quality Review Instrument and make recommendations for redistributing the funds used to pay for these costs to other current or proposed programs.

We recommend elimination of the PQRI as a function of the school-site visitation team because:

- The evaluation of a school's program quality is the formal responsibility of the school's administration, the school district, the local board of education, and school site councils and the informal responsibility of pupils, parents, and the community.
- There is no basis in current law for the department's program to *systematically* monitor program *quality*.
- It is doubtful that a single quality standard is appropriate for the approximately 5,000 schools that receive consolidated program funding.
- Conformance with the PQRI has not been empirically correlated with pupil achievement, and there is no evidence that identification of "low" program quality through the PQRI leads to change.
- There is no indication that use of the PQRI provides information that is not already known to the school administration.
- The elimination of the PQRI would significantly reduce the functions of school-site visitation teams and would make resources available for other program needs.

Redistribution of Resources

In considering the redistribution of those resources now used to support the PQRI, the department may wish to evaluate the "120 percent" options presented in the Consolidated Programs Division 1980-81 zero-base budget report. The suggested options included:

- initiating compensatory education programs at districts and schools that are currently without such programs,
- strengthening the information dissemination network related to school program practices,
- increasing direct assistance to schools with special needs,
- increasing the number and effectiveness of consortia, and
- increasing the effectiveness of the review and improvement process conducted by schools.

These options would provide resources to those schools and districts which specifically request assistance, instead of using these resources to perform program quality reviews regardless of need.

K-12 EDUCATION—Continued**Merger of District Support Services Unit and Program Reviews Unit**

We recommend that the Department of Education merge its District Support Services and Program Reviews Units. We further recommend that this single unit be responsible for monitoring district and school compliance with state and federal law.

To ensure that school districts are operating their programs in compliance with Title I and other federal and state laws, the District Support Services Unit utilizes a compliance review instrument. The unit conducts and/or coordinates the visit of review teams to districts and selected schools within the district.

The Program Reviews Unit also conducts and/or coordinates the visit of review teams to monitor program compliance and program quality at school sites. If the quality component (PQRI) of school-site reviews is eliminated as recommended above, the functions of the two units will be comparable.

We recommend the merger of the two units because:

- By merging the two units, there would be a reduction in the number of school-site visitations because some schools are visited by teams from both the District Support Services Unit and the Program Reviews Unit.
- The compliance issues and the compliance review instruments of the two units are similar.
- Reducing the number of school-site visits will result in savings. Such savings could be reallocated to increase the number of visits to those districts and schools which have demonstrated a need for more frequent reviews. These savings could also be reallocated to providing additional direct technical assistance.

Elimination of Resources Center Unit

We recommend the elimination of the Administrator II and Office Services Supervisor I positions assigned to the Resources Center Unit, for a General Fund savings of \$110,990. We further recommend the elimination of the Resources Center Unit and transfer of the unit's remaining personnel and workload to other administrative units.

The Budget Act of 1980 stipulated that all positions assigned to the Resources Center Unit were to be limited to a one-year term. Continuation of these positions was made contingent upon the Department of Education justifying appropriate and sufficient workload for the unit. The Governor's Budget includes \$286,041 within the appropriation for the Consolidated Programs Division to continue the Resources Center in 1981-82.

We have reviewed the department's workload justification and a Resources Center Management Plan Progress Report. Our analysis indicates that, although some Resources Center staff functions are necessary, there is no justification for (1) an independent Resources Center Unit and (2) two of the five positions within the unit.

Our review of the workload data indicates that tasks performed by a consultant, stenographer, and librarian in the Resources Center Unit are necessary functions of the Consolidated Programs Division. The positions, however, need not operate from an independent unit. Their functions directly relate to several other units within the division, and the positions should be reassigned to one of these units.

We recommend the elimination of the Administrator II position because the tasks performed by the Resources Center are primarily clerical and do not justify supervision by a senior administrator. The Office Services Supervisor I position is also unnecessary for a unit which has only one clerical position. Elimination of these positions would result in a General Fund savings of \$110,990.

2. NONCONSOLIDATED CATEGORICALS

This section discusses the categorical aid programs that are not covered by the consolidated application process and are not part of other major programs.

Table 25 shows the local assistance expenditures and funding for these categorical aid programs.

Table 25
Nonconsolidated Categoricals Local Assistance Expenditures and Funding

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
ESEA, Title I—Migrant ^F	\$42,309,251	\$54,023,314	\$54,023,314	—	—
Demonstration programs in reading and mathematics ^G	2,983,844	3,356,668	3,356,668	—	—
Driver training ^{a, G}	17,127,909	18,199,532	902,000	—\$17,297,532	95.0%
Instructional materials ^{G, S}	54,906,173	41,896,555	43,964,074	2,067,519	4.9
School personnel staff develop- ment ^G	494,449	894,018	894,018	—	—
Resource centers ^G	950,000	1,480,750	1,480,750	—	—
Professional development cen- ters ^G	657,306	716,464	716,464	—	—
New careers ^G	324,067	324,076	324,076	—	—
Indian education centers ^G	649,225	707,656	707,656	—	—
Native American Indian educa- tion program ^G	275,611	300,416	300,416	—	—
Vocational education ^{G, F}	66,857,280	66,114,161	65,659,161	—455,000	—0.7
Adult education apportionments ^G	142,597,038	150,049,000	165,495,000	15,446,000	10.3
Adult basic education ^{F, S}	7,516,742	9,872,886	9,872,886	—	—
Innovative programs ^F	13,301,422	14,524,397	14,524,397	—	—
Career guidance centers ^G	250,000	222,500	222,500	—	—
Environmental education ^S	358,000	483,928	483,928	—	—
Gifted and talented ^{b, G}	—	15,885,170	15,885,170	—	—
Instructional television ^G	821,364	821,364	821,364	—	—
Totals	\$352,379,681	\$379,872,855	\$379,633,842	\$—239,013	—
General Fund	\$205,481,893	\$235,309,169	\$235,070,156	\$239,013	—0.1%
Federal funds	129,609,583	143,494,109	143,494,109	—	—
Other state funds	17,288,205	1,069,577	1,069,577	—	—

^a Reflects Governor's Budget "A" page reductions.

^b Shown in consolidated categoricals for 1979-80.

^G Indicates General Fund support.

^F Indicates federal funds support.

^S Indicates support from other state funds.

ESEA TITLE I-MIGRANT

Overview

The federal ESEA Title I-Migrant Program was established in 1965 to provide supplementary services to children of migrant parents. California has nine regional offices which are responsible for program administration. In addition, five school districts receive funds directly. In 1979-80, 1,587 schools participated in migrant education programs. These schools represented 301 school districts and enrolled approximately 103,000 pupils.

Federal migrant funds are allocated to California on a per-pupil basis. The amount is determined by (1) the size of the federal Title I-Migrant appropriation for the entire nation, (2) the number of full-time equivalent (FTE) migrant pupils

K-12 EDUCATION—Continued

identified nationally in the prior year, (3) the number of eligible FTE migrant pupils identified in the state in the prior year, and (4) the state's overall per-pupil expenditure. Regional offices and direct-funded districts apply to the state for their share of the funds. This share is determined by a variety of factors, none of which are specified in federal regulations.

Federal funding has increased as California has identified more eligible children. In 1980-81, California received approximately \$695 for each of its 80,839 FTE migrant pupils or \$56.2 million. California's \$56.2 million allocation was 23 percent of the \$239 million federal appropriation.

The state's per-pupil allocation of federal funds in 1981-82 could not be determined at the time the Analysis was written because the federal allocation for ESEA Title I-Migrant has not yet been approved and the number of eligible pupils in other states is unknown.

As shown in Table 26 the budget proposes to maintain the current-year appropriation for local assistance at \$54 million, and requests an increase in the appropriation for state operations of \$48,927, bringing the total to \$2.2 million.

Table 26
Federal ESEA Title I-Migrant Funds

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations	\$1,551,171	\$2,156,663	\$2,205,590	\$48,927	2.3%
Local Assistance	<u>42,309,251</u>	<u>54,023,314</u>	<u>54,023,314</u>	—	—
Totals	\$43,860,422	\$56,179,977 ^a	\$56,228,904	\$48,927	—

^a Does not include \$1.4 million in funds carried over from 1979-80.

The proposed budget would provide a total of \$56,228,904 for the program in 1981-82. This amount assumes all funds will be spent in the current year and that no funds will carry over into 1981-82, which is unlikely based on past experience.

Task Forces

Supplemental Language to the Budget Act of 1980 directed that individual task forces appointed by the department address at least 13 specific areas of concern regarding migrant education. These areas include instructional services, budget planning and application procedures, the role of migrant parents, and migrant student records.

The department has responded to this directive by creating the following task forces and committees:

- Task Force on Service Delivery Structure and Fiscal Allocation Systems.
- Task Force on Interagency Agreements.
- Task Force on Drop-Out Prevention, Graduation, and Proficiency.
- Committee on Title 5 Regulations.
- Committee on Internal Reorganization.
- Committee on Parental Involvement.

The Task Force on Service Delivery Structure and Fiscal Allocation Systems submitted recommendations which call for:

- continued administration with some modifications of the state's migrant education program through regions and directly funded districts,
- use of standard formulas for allocating migrant education funds to regions and districts to prevent funding inequities,
- allowing regions and districts to expend funds for programs and services on the basis of an annual needs assessment, rather than on the basis of fixed percentages for specified services, and

- continued exclusion of migrant education from the consolidated application process.

During budget hearings, the Department of Education will be prepared to comment on the task force recommendations. The department will also be prepared to comment on the efforts of the other committees.

Interim Guidelines

Supplemental language also required the Superintendent of Public Instruction to adopt interim guidelines governing: (1) the distribution and utilization of federal migrant education funds, (2) participation of migrant parents, and (3) other aspects of migrant education, as appropriate. Interim guidelines have been adopted by the superintendent and will remain in effect until the adoption of migrant education Title 5 regulations by the State Board of Education in April 1981, as required by the supplemental language.

Exclusion of Migrant Pupils in Los Angeles County

We recommend that the Legislature direct the Department of Education to actively attempt to create a new migrant education regional office and/or directly fund districts in Los Angeles County to ensure that (1) by September 1, 1981, all children eligible to participate in migrant education programs have been identified and (2) by September 1, 1982, migrant education programs have been implemented for all eligible children.

The number of children served by the migrant education program has increased markedly since the program began in 1966. The regional framework developed by the department, however, excludes Los Angeles County and, with the exception of a directly-funded project in South Whittier Elementary School District, no migrant pupils in the county are participating in migrant education programs.

A proposal by the Los Angeles County Superintendent of Schools and approved by the State Department of Education asserts that there is a "conservative potential of 41,000 migrant students . . ." in Los Angeles County exclusive of the Los Angeles Unified School District. This figure is not easily verified, but it clearly indicates that a large percentage of California's migrant population is in the Los Angeles urban area. A pilot project conducted by the Los Angeles County Superintendent has identified approximately 450 eligible migrant pupils in the El Rancho Unified, Los Nietos Elementary, and Garvey Elementary school districts.

Additional Federal Funds. Because California's share of migrant education funds is a function of both the total federal appropriation and the number of full-time equivalent (FTE) migrant pupils identified nationally, as well as of the number of FTE migrant pupils in California, we are not able to determine how much additional federal money the state would receive if additional migrant pupils are identified. If we assume, however, (1) a per-pupil allocation of \$695 and (2) the increase in FTE would equal 77 percent of the increase in the number of identified pupils, identification of 41,000 new migrant pupils would result in up to \$22 million in additional Title I-Migrant funding in 1981-82.

Because (1) a significant number of eligible pupils are being excluded from the benefits of the migrant education program and (2) California is receiving less than its potential share of federal Title I-Migrant funds, we recommend the creation of administrative unit(s) to further undertake identification, recruitment, and program operation.

K-12 EDUCATION—Continued**DEMONSTRATION PROGRAMS IN READING AND MATHEMATICS****Overview**

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

In 1979-80, the program served 8,112 students in 28 schools. Currently, 23 schools in 15 districts are operating full demonstration projects, and four schools are operating "partial" projects. Evaluations show this program to be successful.

The budget proposes a 1981-82 program level of \$3.4 million, an increase of \$6,576 over the current year for state operations.

Table 27 shows the expenditures for this program.

Table 27
Demonstration Programs in Reading and Mathematics

	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change</i>	
	<i>1979-80</i>	<i>1980-81</i>	<i>1981-82</i>	<i>Amount</i>	<i>Percent</i>
State Operations	\$78,277	\$93,293	\$99,869	\$6,576	7.0%
Local Assistance	2,983,844	3,356,668	3,356,668	—	—
Totals	\$3,062,121	\$3,499,961	\$3,456,537	\$6,576	0.2%

Institutionalized Innovation

Table 28 shows the year in which the current 23 full projects first received state funding. No new full projects have been funded since 1977, and only two new full projects have been funded in the past five years.

Table 28
Year Current Projects
Were First Funded

<i>Year</i>	<i>Number</i>
1970	5
1972	5
1973	6
1975	5 ^a
1977	2 ^a
Total	23

^a Includes "partial" projects which have become full projects.

Table 28 indicates that five demonstration projects have been funded for more than 10 years. This raises the question of how long an *innovative* program should continue to receive direct state funding without being adopted as part of a district's regular instructional program.

Phase-Out of Long-Term Projects

We recommend that the Legislature direct the State Department of Education to (1) begin a phase-out of state support for projects which have been funded for more than three years and (2) complete the phase-out by the beginning of the 1984-85 fiscal year.

We can find no analytical justification for allowing some districts to receive demonstration program funding for a prolonged period. Providing ongoing, continued support for these programs lessens the opportunity to fund other district's innovative programs.

Consequently, we recommend that the Legislature direct the department to (1)

begin a phase-out of state support for projects which have been funded for more than three years and (2) complete the phase-out by the beginning of the 1984-85 fiscal year. Setting a limit on the number of years a project can receive state funding would make the funding process for this program comparable to that used by the department in awarding federal Title VI-C grants for innovative programs.

Once this phase-out is completed, the department should ensure that no new project receives state support for operations for more than three years, although such a project could receive dissemination funds in its fourth year. If the department were to phase out one-third of the older projects in 1981-82, as we recommend, we estimate that approximately \$1.1 million would be released to support new demonstration projects.

DRIVER TRAINING/TRAFFIC SAFETY EDUCATION

Overview

The driver training program consists of behind-the-wheel driver training (laboratory phase) and classroom driver education. In addition to this program, the department administers various state and federal traffic safety programs.

Program Sunset

Chapter 282, Statutes of 1979 (AB 8), listed driver training as one of the programs to be sunsetted on June 30, 1981, unless legislation was enacted to continue it. AB 1265 of 1980 would have extended authorization for the driver training program, but it was vetoed by the Governor.

Chapter 282 also required an evaluation of this program. This study had not been completed at the time this analysis was written.

Federal Study

A federal study of driver education and training, funded by the National Highway Traffic Safety Administration, is in progress in DeKalb County, Georgia. It is analyzing the effectiveness of a particular type of program delivery system—the "Safe Performance Curriculum". This program combines the use of a multiple-car driving range, electromechanical simulator, and behind-the-wheel training in traffic. The curriculum consists of considerably more hours of training than have been required in the various types of programs offered in California. Completion of the study is not expected until 1982.

Proposed Reduction

The budget proposes a \$17 million reduction in the regular driver training program. It proposes to continue only the handicapped student portion of the program by providing support for 1.6 positions and related local expenses, at a total cost of \$999,960 to the Driver Training Penalty Assessment Fund (DTPAF). Reimbursements to school districts for handicapped driver training are limited to \$200 per ADA and are paid from the DTPAF.

In 1979-80, there were 253,560 regular students and 6,266 handicapped students enrolled in the program.

Table 29
Allocations for Driver Training*

	<i>Actual</i> <i>1979-80</i>	<i>Actual</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Regular	\$16,269,323	\$17,046,268	—	—\$17,046,268	—100%
Handicapped.....	858,586	1,153,264	\$902,000	—251,264	—21.8
Totals.....	\$17,127,909	\$18,199,532	\$902,000	—\$17,297,532	—95.0%

* Does not include state operations.

K-12 EDUCATION—Continued

Table 29 shows the local assistance allocation made to school districts for driver training in the past, current, and budget years.

Surplus Transfer

The Budget Bill contains Control Section 19.17 which requires that the savings to the Driver Training Penalty Assessment Fund resulting from elimination of regular driver training be transferred to the General Fund. The budget projects this savings to be approximately \$17 million in 1981-82. We concur with this estimate and recommend approval.

Change in Legislation Proposed

We recommend that legislation be enacted to (1) eliminate the mandate that local school districts provide a driver training program and (2) eliminate the requirement for the laboratory phase of driver training for persons between the ages of 16 and 18 who wish to obtain a driver's license.

Program Mandate. The mandated driver training program requires participants to spend a minimum number of hours behind the wheel and in the classroom. A Legislative Counsel opinion states that driver training would remain a mandated program even after the program is "sunsetting" under the provisions of AB 8. The specific number of hours behind the wheel and in the classroom to be offered, however, could be designed locally and would not be mandated. Even if the program remains a mandate and if no funding is provided, the state is not obligated to reimburse program costs as local mandated costs under the SB 90 process because the mandate was enacted prior to 1973.

If funding for the program is eliminated, school districts would still have to comply with the mandate to offer a driver training program. If no state funding is available, the districts would have to use revenues from their general program support in order to fund driver training.

On the other hand, if the mandate to offer driver training is eliminated, and school districts chose not to offer a program, then those persons between the ages of 16 and 18 who need a driver's license for work would be forced to obtain the required training from a commercial driver training school.

Motor Vehicle Code. The Motor Vehicle Code (Section 12507) requires persons under the age of 18 wishing to obtain a driver's license to complete a driver training program. No empirical evidence exists, however, that the completion of a driver training program reduces the number of traffic accidents. Consequently, the law should be amended.

School Bus Driver Instructor Training Project (Item 610-001-178)

The Budget requests \$335,377 from the Driver Training Penalty Assessment Fund to provide nine months' funding (October 1, 1981-June 30, 1982) for the Driver Instructor Project.

School bus driver training must be given by or at the direction of an instructor trained and certified by the Department of Education. Currently, school bus driver instructors receive training under a program that has been funded through a federal grant since 1975. This grant, however, is scheduled to terminate September 30, 1981. *We recommend approval as budgeted to fulfill current statewide needs for school bus driver instructors.*

INSTRUCTIONAL MATERIALS (TEXTBOOKS)

Overview

Article IX, Section 7.5 of the California Constitution requires the state to adopt textbooks for use in grades K-8 and supply them to the schools without charge. To meet this mandate, the Department of Education oversees a 25-month textbook adoption and distribution process which includes (1) the submission of materials by publishers, (2) public display of materials, (3) legal compliance review by panels appointed by the state Board of Education, (4) content evaluation performed by panels which include school district and county office of education personnel, (5) formal adoption by the Board of Education, (6) review of materials at the local level, (7) placement of district orders with the department, (8) division of orders between private publishers and the State Printer, and (9) distribution of materials to the schools.

Pursuant to the provisions of Chapter 282, Statutes of 1979 (AB 8), the Instructional Materials Program will be "sunsetting" on June 30, 1982, unless reauthorized by the Legislature.

Funding

We recommend approval.

Table 30 shows the expenditures and funding for instructional materials.

Table 30
Instructional Materials Expenditures and Funding *

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
Curriculum Frameworks	\$1,031,043	\$867,179	\$1,078,799	\$211,620	24.4%
Textbook Distribution	54,084	169,864	190,940	21,076	12.4
Warehousing and Shipping.....	409,784	618,333	268,114	-350,219	-56.6
Frameworks Production	79,629	28,117	29,115	998	3.5
Recovery Project.....	—	—	70,580	70,580	NA
Curriculum Commission	49,381	69,131	70,686	1,555	2.2
Subtotals	\$1,623,921	\$1,752,624	\$1,708,234	\$-44,390	-2.5%
Local Assistance	\$54,906,173	\$41,896,555	\$43,964,074	\$2,067,519	4.9%
Totals	\$56,530,094	\$43,649,179	\$45,672,308	\$2,023,129	4.6%
State Operations:					
General Fund.....	\$1,528,206	\$1,724,507	\$1,679,119	\$-45,388	-2.6%
Federal funds.....	65,054	—	—	—	—
Reimbursements	30,661	28,117	29,115	998	3.5
Local Assistance:					
General Fund.....	\$38,351,080	\$42,684,752	\$44,302,768	\$1,618,016	3.8%
Less:					
Transfer to state operations	-463,868	-788,197	-338,694	449,503	57.0
Instructional Materials Fund.....	16,555,093	—	—	—	—

* Includes Governor's Budget "A" page proposals for inflation.

The Budget proposes a General Fund transfer to the Instructional Materials Fund of \$44,302,768, or approximately \$14.70 per K-8 average daily attendance (ADA), in 1981-82. This is a \$1.6 million increase (3.8 percent) from the 1980-81 level. This increase reflects a 4.75 percent inflation allowance and an adjustment

in the amount transferred to the department for administrative support. Based on our review of textbook funding, we recommend approval as budgeted.

The Governor's Budget also proposes three new clerical positions on a one-year, limited-term basis, to process claims against publishers for breach of contract. The cost of these positions, \$70,580, would be funded by reimbursements obtained through recovery of funds from the publishing houses. We have reviewed the basis for the department's projection of reimbursements, and we estimate that the reimbursements would be sufficient to support the cost of the new positions.

Private School Subsidy

The Education Code authorized the department to "loan" state-adopted instructional materials to students attending nonpublic elementary schools. In effect, this allows private schools to receive the same instructional materials credits for which public schools are eligible. At a rate of \$13.84 per pupil, approximately \$3.6 million will be allocated from the Instructional Materials fund to private schools in 1980-81. The legality of the authorizing statute is currently being tested in the courts. We will be prepared to comment on the status of the court case during the budget hearings. Given the pressing demands on General Fund resources, and the reductions in aid to public K-12 schools proposed in the budget, the Legislature may wish to reconsider, from a policy standpoint, the merits of continuing to provide this type of state support to private schools.

STAFF DEVELOPMENT

Overview

The Office of Staff Development administers four state-funded programs:

- (1) The School Personnel Staff Development Program, which provides funds to districts at the rate of \$4.36 per ADA for local staff development activities.
- (2) The School Resource Centers, which assist school administrators and teachers in developing and implementing staff development programs.
- (3) The Professional Development and Program Improvement Centers (PDPIC), which provide in-service training in the instruction of reading and mathematics.

Table 3
Staff Development Programs

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations ^a	\$391,514	\$524,797	\$567,195	\$42,398	8.1%
Local Assistance					
School Personnel Staff Develop-					
ment	494,499	894,018	894,018	—	—
Resource Centers	950,000	1,480,750	1,480,750	—	—
Professional Development Cen-					
ters (PDPIC)	657,306	716,464	716,464	—	—
New Careers ^b	324,076	324,076	324,076	—	—
Totals	\$2,817,395	\$3,940,105	\$3,982,503	\$42,398	1.1%
General Fund	2,733,273	3,808,118	3,830,037	21,919	0.6
Federal funds	84,122	131,987	152,466	20,479	15.5
Positions	6.5	9.4	9.4	—	—

^a Includes administrative allowances for federal teacher centers.

^b This is a local assistance program, but is shown as State Operations in the Governor's Budget.

(4) The New Careers Program, which provides grants and training for individuals intending to become elementary school teachers.

Funding

Table 3 shows expenditures and funding for the staff development programs.

The \$3.8 million in General Fund support proposed for this program in 1981-82 is composed of \$414,729 for state operations, an increase of 5.6 percent over the current year, and \$3,415,308 for local assistance programs, the same amount appropriated in the current year. This assumes continuation of all staff development programs with no provision for inflation or expansion.

Elsewhere in this analysis (in the A pages), we discuss the general issue of providing inflation adjustments. Whatever final decision is made by the Legislature on this issue should be applied consistently to all categorical education programs which warrant an inflation adjustment.

Eliminate New Careers Program

We recommend that no additional students be admitted to the New Careers Program in 1981-82, and that the program be terminated on June 30, 1982, for a General Fund savings of \$103,818. (Reduce Item 610-001-001 by \$103,818).

The New Careers Program, initiated in 1969, is designed to recruit and train low-income persons to become elementary school teachers. Interns selected for the program must qualify for upper-division status in a college or university, and must enroll in a program leading to a teaching credential. Student interns receive grants of \$75 per week, plus \$15 a week for each dependent, for up to two years, and are required to spend up to 20 hours a week in "guided practice" (coursework, student teaching, and community service).

The budget proposes \$324,076 in General Fund support for the program in 1981-82. Local districts must contribute an additional amount equal to at least 10 percent of total program expenditures. Currently, the state allocates approximately \$54,000 to each of the six participating districts. Grants are provided to 44 student interns.

Based on our analysis of the program, we recommend that it be eliminated. The basis for this recommendation is as follows:

1. *The program is not targeted to overcome an existing shortage.* The state does not need additional general teaching credential holders. State-funded programs should be targeted to current needs.
2. *The program duplicates larger student aid programs.* Regular state-funded student aid programs provide grants to students who intend to become teachers. Student teaching, moreover, is required for all pupils enrolled in college and university teacher preparation programs.
3. *The program complicates the state's financial aid program.* Proliferation of student programs such as this makes it more difficult to coordinate the state's efforts in providing financial assistance. This is especially true in the case of this program, which is not administered by the Student Aid Commission.
4. *The program involves heavy administrative costs.* Administrative costs in the New Careers Program range up to 30 percent of the state allocation, with additional administrative costs incurred by the district. This is significantly higher than other state-funded local assistance programs.

Our recommended reduction would provide sufficient funds in the budget year (\$220,258) to support those interns already admitted to the program who are eligible to remain in it during 1981-82.

Staff Development System

Language included in the Supplemental Report to the 1980 Budget Act requires the Department of Education to design a comprehensive system of staff development. The department is in the process of developing a plan and intends to submit a legislative proposal to revise the state's staff development system.

Independent Evaluation

The state has contracted for a five-year evaluation of staff development programs in California, at a cost of \$435,860 in state and federal funds. The first annual report on this effort is due on January 31, 1981.

All staff development initiatives (federal, state, and local) in California public schools will be included in the scope of the study. The two major purposes of the study, as summarized by the evaluator, are: "(1) to provide periodic status reports on the implementation and impact of the various federal, state, and local staff development initiatives which provide opportunities for educational personnel to learn and apply new skills; and (2) to provide on an ongoing basis feedback of study results to a variety of individuals with an interest or stake in staff development, from the Legislature to school faculty members and administrators."

The study will include the following components: analysis of legislative initiatives, annual surveys, interviews, case studies, and special policy studies. The department will be prepared to report on the study during the budget hearings.

INDIAN EDUCATION**Overview**

The Indian Education unit in the department administers two separate programs intended to improve the academic performance and self-concept of Native American students. The unit consists of four positions (three professional and one clerical).

Indian Education Centers

Chapter 1425, Statutes of 1974, authorized the establishment of up to 10 Indian Education Centers to provide a variety of services to K-12 pupils and adults. Because of joint funding arrangements among some centers, 12 separate projects are now funded at an average cost of \$59,000 per project. The centers are administered by boards of directors and encompass many school districts. Over 3,000 students and adults are served by the centers.

State funds typically finance tutorial services to Indian school children. Other fund sources, such as Comprehensive Employment and Training Act programs, the Bureau of Indian Affairs, and federal Indian Education Act programs, are used to finance an array of educational, employment, and cultural services at the centers.

Native American Indian Education Program

Chapter 903, Statutes of 1977, continued the Indian Early Childhood Education program under the new title of Native American Indian Education program. The program provides supplemental educational services in basic skills to about 800 children in grades kindergarten through four. Funds are allotted to 10 rural districts, which implement the program at 23 schools. The average grant to a district is approximately \$30,000. Table 32 shows state administration and local assistance expenditures for the two programs.

The Governor's Budget proposes an increase of 1.4 percent for state operations. As with other categorical programs, no increase is proposed for local assistance funding.

Table 32
Expenditures for Indian Education

	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change</i>	
	<i>1979-80</i>	<i>1980-81</i>	<i>1981-82</i>	<i>Amount</i>	<i>Percent</i>
State Operations	\$152,385	\$182,834	\$185,373	\$2,539	1.4%
Local Assistance					
Indian Education Centers	\$649,225	\$707,656	\$707,656	—	—
Native American Indian Education Program	275,611	300,416	300,416	—	—
Subtotals	\$924,836	\$1,008,072	\$1,008,072	—	—
Totals	\$1,007,221	\$1,190,906	\$1,193,445	\$2,539	0.2%

Report Pending

Last year we identified some problems with maintaining a separate delivery system for Indian Education. We suggested that the educational needs of Indian students might be better met by improving the existing school programs that should be serving Indian students.

The 1980 Budget Act directed the State Board of Education to provide for a study of the Indian Education Centers and the Native American Indian Education Program. The purpose of the study is to assess (1) the adequacy of the current appropriation for the Indian centers and programs, (2) the need to expand the number of centers and programs, and (3) whether Indians would be better served by incorporating the Indian Education Centers and Program within the consolidated application. The study is scheduled to be submitted to the legislative budget committees by March 1, 1981. We will comment on the study during budget hearings.

VOCATIONAL EDUCATION

Overview

The vocational education office in the Department of Education assists local education agencies in providing vocational training and guidance to approximate-

Table 33
Vocational Education Funding

	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change</i>	
	<i>1979-80</i>	<i>1980-81</i>	<i>1981-82</i>	<i>Amount</i>	<i>Percent</i>
State Operations					
General Fund	\$3,024,525	\$3,479,869	\$3,578,483	\$98,614	2.8%
Federal funds ^a	3,387,816	4,735,335	5,097,978	362,643	7.7
Reimbursements ^b	1,121,729	1,532,159	1,508,340	-23,819	-1.6
Subtotals	\$7,534,070	\$9,747,363	\$10,184,801	\$437,438	4.5%
Local Assistance					
General Fund	—	\$455,000	—	-\$455,000	-100.0%
Federal funds ^a	\$54,781,377	52,334,389	\$52,334,389	—	—
Reimbursements ^b	12,075,903	13,324,772	13,324,772	—	—
Subtotals	\$66,857,280	\$66,114,161	\$65,659,161	-\$455,000	-0.7%
Totals	\$74,391,310	\$75,861,524	\$75,843,962	-\$17,562	-0.1%

^a Includes amounts transferred to the Chancellor's Office of the California Community Colleges for postsecondary vocational education programs.

^b Includes reimbursements from Employment Development Department for CETA programs.

ly 1.2 million secondary students. Vocational education programs are provided through the regular secondary school curriculum and by regional occupational centers and programs (ROC/P).

Funding

As shown in Table 33, federal funds support all local assistance programs administered by the vocational education unit. General Fund support is required only to match federal funds reserved for administration of the Vocational Education Act (VEA) of 1976.

The Governor's Budget proposes a General Fund appropriation of \$3,578,483 for state administration of the vocational education programs in 1981-82, an increase of \$98,614 (2.8 percent) over the current year. This includes funding for three new positions and for continuation of three positions established in 1980-81 on a one-year, limited-term basis.

Unnecessary Augmentation

We recommend that three positions requested to implement Office of Civil Rights guidelines be eliminated, for a General Fund savings of \$62,500 and a Federal Trust Fund savings of \$62,500. (Reduce Item 610-001-001 by \$62,500 and Item 610-001-890 by \$62,500.)

The Budget proposes three new positions (one consultant, one staff services analyst, and one clerical) to implement the department's "Methods of Administration" of the Office of Civil Rights guidelines for eliminating discrimination based on race, color, national origin, sex, or handicap in vocational education programs. The positions are also requested for the purpose of implementing regulations pursuant to Chapter 972, Statutes of 1977, which prohibits unlawful discrimination under any state-funded program.

We recommend elimination of the positions for the following reasons:

- The department's proposed "Methods of Administration" identifies the need for only one additional position, rather than the three requested in the Budget, to implement the compliance program.
- State agency activities identified in the federal guidelines can be accomplished with existing resources. The guidelines, in fact, point out that state responsibilities "are not new requirements" and derive from regulations issued pursuant to federal statutes such as Title VI of the Civil Rights Act of 1964. Specifically, the guidelines require the state to provide the following:
 - (1) *Data collection and analysis.* The federal guidelines specify that this relates to data already compiled under current law. The department's "Methods of Administration" acknowledges that existing vocational education reports and evaluations can be used for this purpose.
 - (2) *Compliance reviews.* The guidelines require "periodic compliance reviews of selected subrecipients." These reviews can be incorporated into the department's annual vocational education program evaluations and desk audits.
 - (3) *Technical assistance.* The guidelines require the provision of technical assistance "on request." This should be an ongoing responsibility of the department's vocational education field office consultants and sex equity coordinators, in coordination with consultants in the Offices of Special Education and Affirmative Action.
- The State Board of Education has not adopted regulations to implement Chapter 972, Statutes of 1977. Positions to implement this statute should not be approved until the regulations are adopted.

Student Organizations

We recommend that the annual appropriation for state support of the vocational education student organizations be eliminated, for a General Fund savings of \$500,000. (Reduce Item 610-001-001 by \$500,000.) We further recommend that departmental staff support for student organizations be reduced by eliminating three consultant positions and one clerical position, for a General Fund savings of \$96,585 and a Federal Trust Fund savings of \$96,585. (Reduce Item 610-001-001 by \$96,585 and Item 610-001-890 by \$96,585.)

There are five vocational education student organizations in California, organized at the local, regional, state, and national levels. They are the Future Farmers of America (FFA), the Future Business Leaders of America (FBLA), the Distributive Education Clubs of America (DECA), the Future Homemakers of America—Home Economics and Related Occupations (FHA-HERO), and the Vocational Industrial Clubs of America (VICA). The activities of these organizations include student projects, workshops, contests, field trips, and conferences.

Chapter 282, Statutes of 1979 (AB 8), appropriates \$500,000 annually to the department for state support of the student organizations. The department uses these funds for numerous activities, including statewide conferences for student officers; in-service training for vocational teachers who act as local chapter advisors; preservice training for students to become vocational education teachers; and the development of instructional materials and handbooks.

Our analysis indicates that:

- State funds are not necessary for the support of the student organizations. Vocational education student organizations have been in existence for decades—since 1917 in the case of the largest organization, the FFA. Participation in these organizations is a natural outgrowth of secondary school enrollment in vocational education programs, and separate state funding is not needed to support them.
- Projects supported by the \$500,000 appropriation can be funded from other sources. Membership dues, a portion of which is allocated to the state association, and local district contributions historically have been the principal sources of support for the student organizations. In addition, federal law permits local school districts to allocate vocational education basic grant funds to support the activities of local chapters. Finally, the Department of Education can allocate funds from Subpart 3 of the Vocational Education Act (VEA) to in-service training for teachers serving as advisors to the student organizations. It is estimated that the department will spend \$1.6 million for in-service training in 1980–81.
- Beginning in 1980–81, the department has allocated federal funds (VEA Subpart 2) specifically for the student organizations. A total of \$375,000 was allocated in 1980–81, and the department is proposing to increase this amount to \$450,000 in 1981–82.
- Categorical state funding is not provided to vocational education courses nor to other student organizations such as debate clubs, bands, and foreign language clubs.
- Given the likelihood that many instructional programs will receive less than the full cost-of-living adjustment needed to maintain existing service levels, state support of *noninstructional* activities would appear to be a low priority. One of the principal uses of the \$500,000 appropriation is financing the cost of transportation, meals, and lodging expenses incurred by students attending conferences. This is considered a noninstructional activity by federal law and is ineligible for federal basic grant support. Moreover, in enacting the Budget Act of 1980, the Legislature deleted from the Governor's Budget state funding for similar expenses incurred by local school personnel attending conferences on compensatory education and bilingual education.

For these reasons, we recommend elimination of the \$500,000 appropriation for support of the student organizations.

We further recommend that three consultant positions and one clerical position responsible for state administration of the student organizations be eliminated, for the following reasons:

- Elimination of the AB 8 appropriation will result in a significant reduction in the department's workload.
- Technical assistance to the student organizations can be provided by field office consultants in the vocational education unit.

Our recommendation would retain one departmental consultant for statewide coordination of, and liaison with, the student organizations.

Field Office Support Staff

We recommend that two clerical positions from the vocational education field offices be eliminated because of efficiencies achieved through staff reorganization, for a General Fund savings of \$19,671 and a Federal Trust Fund savings of \$19,671. (Reduce Item 610-001-001 by \$19,671 and Item 610-001-890 by \$19,671.)

Pursuant to recommendations contained in a June 1980 study prepared by the Department of General Services, the vocational education unit is reorganizing its staff to centralize the processing of fiscal and statistical data submitted by local agencies to the field offices. The reorganization will be completed by the beginning of 1981-82.

We recommend elimination of two clerical positions in the vocational education unit's field offices for the following reasons:

- The General Services report concluded that centralized processing would reduce the need for field office support staff by 1.5 to 2 positions. This reduction in workload is not reflected in the budget.
- the vocational education field offices are characterized by a higher ratio of clerical to professional positions (1:2) than are similar units in the Department of Education (1:2.5 to 1:3).

Transfer of Federal Funds

We recommend that the Department of Education transfer \$99,382 of federal funds to the California Advisory Council on Vocational Education for a General Fund savings of \$99,382. This should be done as part of an interagency agreement requiring the council to conduct research and program improvement activities pursuant to Subpart 3 of the federal Vocational Education Act (see Item 632-001-001).

The vocational education office contains a research unit that is supported entirely by federal funds. This unit conducts specified activities such as research on vocational education, curriculum development, and exemplary and innovative programs. The department estimates that \$670,846 will be allocated from Vocational Education Act (VEA) Subpart 3 funds for support of the research unit in 1981-82.

We recommend that the department transfer \$99,382 of the research unit's federal funds to the California Advisory Council on Vocational Education (CACVE), and develop an interagency agreement requiring the council to conduct research and program improvement activities pursuant to Subpart 3 of the VEA. These funds would be used to support CACVE in lieu of an appropriation from the General Fund. (Our analysis of the budget request for CACVE (Item 632-001-001) provides background on this issue.)

Our analysis indicates that such a transfer is warranted for the following reasons:

- Because CACVE's activities are mandated by the VEA, federal law authorizes use of federal funds in this manner and there is no need for the General Fund

to provide one-third of the council's support.

- Reallocation of these funds would not have a significant impact on the activities of the department's research unit. The unit's budget for 1981-82 proposes \$168,534 for contract services and \$76,330 for in-state travel expenses—amounts that are 4-to-5 times the level of actual expenditures (\$40,060 and \$13,167, respectively) in 1979-80. Proposed expenditures for the current and budget years are primarily for expansion of a project which funds consultant services for local education agencies. Our review indicates that the research unit's budgeted resources are sufficient to support an expansion of the consultant services project as well as the proposed interagency agreement.
- This transfer would free-up \$99,382 in the General Fund which could be utilized for other high-priority state needs.

The proposed transfer of funds would not violate federal requirements because a significant portion of council staff activities is devoted to research and evaluation directed at vocational education, and is therefore within the scope of Subpart 3 of the VEA.

CAREER GUIDANCE CENTERS

Overview

The state supports two career guidance centers, which are located in San Diego and Los Angeles counties. These centers, authorized in 1973 and 1977, respectively, develop various career guidance materials and conduct in-service training workshops for teachers, counselors, and administrators. The Governor's Budget proposes \$222,500 to support the centers at the current-year funding level. Pursuant to the provisions of AB 8, the centers will be terminated on June 30, 1982, unless reauthorized by the Legislature.

Required Report

Last year, we recommended elimination of the career guidance centers. The Legislature continued state support of the centers, but reduced the funding level by \$50,000 and directed the Department of Education to submit, by January 1, 1981, a report evaluating possible alternative sources of funding.

At the time this analysis was prepared, the report had not been reviewed. We will comment on the department's evaluation of the centers during the budget hearings.

ADULT EDUCATION

Overview

The Adult Education Unit is responsible for management of state and federally funded programs for adults and general education development (GED) testing. There are 25.1 positions budgeted for these functions in 1981-82.

The Department of Finance estimates that adult ADA will total 189,581 in 1981-82, of which 172,686 will be in adult programs mandated by Chapter 282, Statutes of 1979 (AB 8), as amended by Chapter 1354, Statutes of 1980 (AB 2196). General Fund apportionments for 1981-82 are budgeted at \$165.5 million, which is a \$15.4 million (10.3 percent) increase over 1980-81. This increase reflects (1) an inflation adjustment of 4.75 percent and (2) conversion to a new method of calculating adult education apportionments.

Current law authorizes state funding for increases in adult education ADA of up to 2 percent annually. Although adult education ADA may grow by more than 2 percent in the budget year, the Governor's Budget does not request funds to provide the increase allowable under existing law. The statutory increase would

require an additional \$3,386,000 from the General Fund. The budget, however, provides a 4.75 percent inflation adjustment for the total adult education base program amount in 1981-82.

Table 34 shows the state operations and local assistance funding for adult education.

Table 34
K-12 Adult Education Funding^a

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations					
General Fund.....	\$281,464	\$367,933	\$369,616	\$1,683	0.5%
Federal funds.....	679,221	700,665	710,250	9,585	1.4
Reimbursements.....	67,811	177,257	184,761	7,504	4.2
Subtotals.....	\$1,028,496	\$1,245,885	\$1,264,627	\$18,742	1.5%
Local Assistance					
General Fund.....	\$142,597,038	\$150,049,000	\$165,495,000	\$15,446,000	10.3%
Federal funds.....	7,141,630	9,287,237	9,287,237	—	—
Reimbursements.....	375,112	585,649	585,649	—	—
Subtotals.....	\$150,113,780	\$159,921,886	\$175,367,886	\$15,446,000	9.6%
Totals.....	\$151,142,276	\$161,167,741	\$176,632,513	\$15,464,742	9.2%
Positions.....	22.1	25.1	25.1	—	—

^a Includes Governor's Budget "A" page proposals and funding for adults in correctional facilities.

Adult Basic Education Act

We recommend that (1) federal Adult Basic Education Act funds allocated for K-12 adult schools be used to fund inflation allowances in all adult basic education courses, for an estimated General Fund savings of \$3.2 million, and (2) any additional federal funds available to K-12 adult schools be used to fund growth in basic education, with a priority on English as a Second Language courses. (Reduce Item 610-101-001 by \$3,200,000.)

Adult *basic* education is a program providing adult classes with instruction in basic skills—reading, writing, mathematics. These classes are below the ninth grade academic level. Adult basic education is part of the total adult education program.

Although the Governor's Budget indicates that federal funds allocated to California under the Adult Basic Education (ABE) Act will amount to \$9.3 million in 1980-81, the department reports that it has received only \$7,373,624. Table 35 shows that K-12 adult schools received \$3,800,000 of this amount, allocated on the basis of \$65 per ADA. Federal ABE funds allocated to K-12 districts are awarded as flat grants which supplement state adult ADA apportionments. This results in

Table 35
Allocation of Federal Adult Basic Education Act Funds
1980-81

Department of Education—Administration.....	\$602,811
Special Grants (Sec. 310 projects)	1,102,000
K-12 Adult Schools	3,800,000
Community Colleges	781,820
State Hospitals	905,000
Private Nonprofit Organizations.....	254,275
Department of Corrections	47,450
Total	\$7,493,356 ^a

^a Includes \$119,732 in funds carried over from 1979-80.

a higher level of funding per ADA for adult basic education courses than for other adult education courses in the same district, even though there is no evidence of higher cost.

The department estimates that the federal allocation is likely to remain the same in 1981-82.

1. **Inflation.** The Governor's Budget proposes \$7.9 million from the General Fund to provide a 4.75 percent inflation adjustment to all adult education programs. Of this amount, an estimated \$3.2 million would be allocated for adult basic education courses.

The disparity in funding levels between adult basic education courses and all other adult courses, noted above, could be eliminated by using the \$3.8 million in federal funds expected during the budget year in lieu of, rather than in addition to, state apportionment aid for adult basic education courses. Federal ABE funds, however, can be used only for inflation or expansion—not to supplant state funds. Consequently, we recommend that \$3.2 million in federal ABE funds be used to provide inflation adjustments for adult basic education, instead of the \$3.2 million General Fund inflation adjustment proposed in the Governor's Budget. This would result in a savings to the General Fund of \$3.2 million.

2 **Growth.** If \$3.2 million of the federal ABE funds are allocated for inflation, an estimated \$0.6 million would remain available to fund growth in adult basic education courses in 1981-82.

Data provided by the department and discussions with local school district administrators indicate a need for more basic education courses, particularly English as a Second Language (ESL) courses. The Governor's Budget, however, does not provide for growth in K-12 adult basic education courses, although it does provide for growth in community college adult basic education courses. Consequently, we recommend that any federal monies allocated to K-12 adult schools and not utilized for inflation (the \$0.6 million noted above plus any increase in the federal allocation for 1981-82) be used to fund growth in adult basic education courses, with a priority on ESL courses.

The Legislature may wish to use the General Fund savings from this recommendation to provide (1) cost-of-living increases for education programs (2) funding for other higher priority programs, or (3) funding for expansion of other adult education programs.

Adult Education Policy Commission

In Supplemental Language to the Budget Act of 1980, the Legislature established a special commission on adult education and directed it to submit, by March 1, 1981, a report on the delineation of functions and the equalization of revenues and expenditures in adult education.

Delineation of functions. In sharing responsibility for providing adult education, the K-12 and community college segments have not established a clear delineation of functions. Administrative structures vary according to local arrangements. In some regions, one segment assumes sole responsibility for adult education. Elsewhere, responsibility is shared by overlapping jurisdictions, resulting in a possible duplication of effort.

Intersegmental funding equity. State funding for K-12 adult schools supports only those programs allowed by Chapter 282, Statutes of 1979 (AB 8), as amended by Chapter 1354, Statutes of 1980 (AB 2196), whereas funding for community colleges may be used for all adult programs. Adult education, moreover, is funded at a lower level per ADA in the K-12 adult schools than in the community colleges.

A related issue involves the distinction between revenues and expenditures for adult education. The cost of offering noncredit courses in community colleges is generally less than the amount of state revenue received for that purpose. Excess

revenue from this source is allocated to the support of credit courses. This creates a fiscal incentive for districts to maintain the growth of noncredit courses relative to credit courses. State funds apportioned for K-12 adult ADA, in contrast, cannot be transferred to the regular education program.

We will review the report of the Adult Education Policy Commission when it becomes available, and will be prepared to discuss the report's findings and recommendations during the budget hearings.

GIFTED AND TALENTED EDUCATION

Overview

Chapter 774, Statutes of 1979, established the Gifted and Talented Pupil program to supersede the Mentally Gifted Minor program. The act broadened the pupil eligibility criteria and established a funding model to reduce the disparity in funding among districts. The program, which became effective during the current year, serves approximately 350 districts and 150,000 students.

Table 36 shows expenditures and funding for the program.

Table 36
Gifted and Talented Pupil Program Funding

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
General fund.....	\$238,811	\$215,219	\$251,739	\$36,520	17.0%
Federal Funds	212,281	269,923	64,208	-205,715	-76.2
Subtotals.....	\$451,092	\$485,142	\$315,947	-\$169,195	-34.9%
Local Assistance:					
General Fund	\$13,730,077	\$15,885,170	\$15,885,170	—	—
Totals.....	\$14,181,169	\$16,370,312	\$16,201,117	-\$169,195	-1.0%

The Governor's Budget proposes \$16,201,117 for the Gifted and Talented Pupil program. This is a decrease of 1 percent from the 1980-81 funding level, due primarily to the termination of the federally funded Western Network Program. As with other categorical programs, the budget requests no increase for local assistance. General Fund support for state operations, however, is proposed to increase by 17 percent in order to support one new consultant position.

Elsewhere in this analysis (in the A pages) we discuss the general issue of providing inflation adjustments. The final decision made on this issue should be applied consistently to all categorical education programs such as this which warrant an inflation adjustment.

Deletion of Augmentation Recommended

We recommend that the proposed consultant position be deleted, for a General Fund savings of \$31,802 (reduce Item 610-001-001 by \$31,802).

The Governor's Budget proposes a General Fund increase of \$31,802 to establish a fourth consultant position in the Gifted and Talented Education unit. The purpose of the position is to (1) provide technical assistance to school districts and (2) submit district applications for State Board of Education approval. The department maintains that workload has increased as a result of Chapter 774 mandates.

Our analysis indicates that the augmentation is not justified for the following reasons:

- No workload justification has been submitted to indicate that administration of the new law requires more staff than the number required to administer the prior law.

- The department maintains that its workload has been increased by the mandate in Chapter 774 that it give priority in technical assistance to districts receiving the greatest increase in funds. The need to set priorities, however, is commonplace and does not in itself require additional resources. In addition, contrary to the department's claim, Chapter 774 did not *mandate*, but simply *authorized*, changes in district programs. Consequently, the department is overstating the demand for technical assistance.
- One of the functions proposed for the position is to train a network of people to provide technical assistance to school districts. This has already been done. Under a federal project completed during the current year, the department trained a network of resource persons to assist school districts. The department has not justified the need to train more people.
- The department maintains that the augmentation is justified by the decline in federal funds during the budget year. The federal funds, however, were provided for one-time, not ongoing, activities. Since the project has been completed, workload has declined along with federal funding.
- Two new federal grants are supporting selected districts in adapting their gifted programs to the new law. Because these districts will serve as models for other districts, an additional state consultant is not needed.
- The department maintains that 44 person-days are required to obtain formal board approval of district applications pursuant to Chapter 774. Under prior law, however, district applications were reviewed and approved by the department. The only new workload resulting from Chapter 774 merely involves obtaining formal board approval of the department's recommendations. This is not sufficient to justify a new position.

For these reasons, we recommend deletion of the new consultant position, for a savings of \$31,802 to the General Fund.

Overbudgeting—Technical Recommendation

We recommend that \$30,000 be deleted from the 1981-82 proposed budget to correct overbudgeting (reduce Item 610-001-001 by \$30,000).

In 1980-81, \$30,000 was added for state administration of the Gifted and Talented Pupil program on a one-time basis. These funds were incorrectly included in the base and would be continued by the 1981-82 budget. These funds are not needed, and we recommend that they be deleted.

3. STATE, COURT, AND FEDERAL MANDATES

Under the provisions of current law, the state General Fund reimburses school districts for the cost of local programs which are mandated by the state, the federal government, or the courts.

Table 37 shows the expenditures and funding for such mandates.

Table 37
Expenditures and Funding for State, Court, and Federal Mandates

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State mandates	\$3,349,126	\$43,196,678	\$16,265,100	-\$26,931,578	-62.3%
Court and federal mandates	141,696,304	150,926,000	150,926,000	—	—
Totals	\$145,045,430	\$194,122,678	\$167,191,100	-\$26,931,578	-13.9%
General Fund	\$145,045,430	\$194,122,678	\$167,191,100	-\$26,931,578	-13.9%

STATE MANDATES

Table 38 shows the programs for which the \$16.3 million in state mandate funding is proposed.

Table 38
State Mandates

Activity	Actual 1979-80	Estimated 1980-81	Proposed 1981-82	Change	
				Amount	Percent
School attendance review records	-	-	\$4,500,000	\$4,500,000	NA
Teacher jury duty	(\$1,000,000) ^a	\$1,093,991	1,100,000	6,009	0.5%
Collective bargaining	(10,000,000) ^a	8,161,899	7,000,000	-1,161,899	-14.2
Employee dismissal evaluation	17,041	17,041	8,250	-8,791	-51.6
Pupil disciplinary procedures	(15,000) ^a	-	-	-	-
Regional adult and vocational education councils	-	-	1,000,000	1,000,000	NA
Pupil basic skills—notification	270,000	477,607	300,000	-177,607	-37.2
Pupil disciplinary procedures	61,690	326,805	325,000	-1,805	-0.6
Administrators transferred to teaching	500	500	1,850	1,350	270.0
Immunization records	-	-	600,000	600,000	NA
Pupil basic skills—conferences	-	1,000,000	1,000,000	-	-
Scoliosis screening	-	347,474	430,000	82,526	23.8
Subtotals	\$349,231	\$11,425,317	\$16,265,100	\$4,839,783	42.4%
Prior year deficiencies appropriated in the Budget Act of 1980	-	\$24,760,983 ^a	-	-\$24,760,983	-100.0%
Prior claims bills	\$2,999,895	7,010,378	-	-7,010,378	-100.0
Totals	\$3,349,126	\$43,196,678	\$16,265,100	-\$26,931,578	-62.3%

^a Included in Item 355 Budget Act of 1980 as prior year funding.

The proposed appropriation of \$16.3 million for state mandates in 1981-82 is an increase of \$4,839,783 (42.4 percent) over estimated current-year expenditures exclusive of amounts provided for prior-year deficiencies or contained in claims bills. Additional funds may be needed in the budget year after the Board of Control completes its review of Chapter 936, Statutes of 1977, which modified the annual audit requirements for school districts.

Regional Adult and Vocational Education Councils (RAVECs)

We recommend that urgency legislation be enacted to make RAVECs permissive rather than mandatory. We further recommend that pending enactment of legislation, no funds be appropriated for reimbursement of 1981-82 RAVEC claims, for a General Fund savings of \$1.0 million (Reduce Item 610-101-001 by \$1.0 million).

Chapter 1269, Statutes of 1975, established a network of 72 consolidated regional adult and vocational education councils (RAVECs). The primary responsibility of the councils is to review adult and vocational education courses and programs to eliminate unnecessary duplication of effort.

In acting on the 1978-79 Budget Bill, the Legislature deleted funding for RAVECs on the basis that these councils did not have a sufficiently high priority to warrant state support. This action, however, did not remove the mandate to

participate in RAVECs.

As a rule, this office recommends that local governments be reimbursed for costs incurred in complying with state mandates so long as the mandate is in effect. The Legislature's action in deleting funds for RAVECs, however, makes this mandate unique. We believe legislative intent was clear that RAVECs need not be continued.

Notwithstanding the Legislature's action, some districts voluntarily chose to continue RAVEC's. Subsequently, they submitted claims for reimbursement of certain RAVEC-related expenses to the Board of Control which were approved by the board. The budget proposes \$1.0 million in 1981-82 for reimbursement of RAVEC claims.

We believe that those school districts which choose to continue RAVECs did so because they were useful, not because they were mandated. For the state to now reimburse them for their 1981-82 cost of doing so, through the mandate reimbursement process would result in General Fund support for a program that the *Legislature* decided has a low priority at the same time *high* priority programs are being cut back. Consequently, we recommend that no appropriation be made for reimbursement of RAVEC claims in 1981-82. We also recommend that urgency legislation be enacted to make RAVECs permissive.

Allocation of Collective Bargaining Reimbursements

We recommend that the Legislature direct the Board of Control to develop uniform formulas for reimbursement of mandated costs associated with Chapter 961, Statutes of 1975 (collective bargaining), by November 1, 1981. We further recommend Budget Act language be adopted requiring the Controller to allocate funds appropriated for Chapter 961 claims based only on the formulas developed by the Board of Control.

Chapter 961, Statutes of 1975 (SB 160), established new collective bargaining procedures for public school employees and their employers.

Specifically, Chapter 961 established procedures for the selection of organizations to represent school employees, required public school employers to "negotiate in good faith" with employee organizations, and authorized the resolution of contract administration disputes through arbitration.

Our analysis indicates that Chapter 961 has dramatically changed the responsibility of public school employers. Prior to the passage of Chapter 961, public school employers, after discussion with employees, could unilaterally prescribe contract terms and conditions of employment. Under Chapter 961, public school employers no longer have this authority. Instead they must engage in an often long and complicated process of collective negotiations in order to arrive at acceptable levels of wages, salaries, and other terms and conditions of employment.

The Board of Control has found that Chapter 961 mandated certain actions on local school districts, and has adopted guidelines for reimbursing these districts for certain specified costs. The Department of Finance has estimated that reimbursement for the activities mandated by Chapter 961 will cost the state \$7 million in 1981-82.

Studies of Funding Mechanisms

Chapter 1137, Statutes of 1979, appropriated \$24,810 to pay eight claims for reimbursement of such costs. Chapter 1137 also directed the Department of Finance to study alternatives for reimbursing districts for their collective bargaining costs. These alternatives were to include the establishment of a uniform bargaining allowance (that is, a fixed amount per unit of ADA) for reimbursement of costs to be incurred in future years, in lieu of reimbursement for actual costs as presently provided through the claims process.

The Department of Finance report, submitted pursuant to Chapter 1137, did not

recommend the adoption of a uniform bargaining allowance because it was unable to identify any uniform relationship between levels of ADA and amounts expended for collective bargaining.

Supplemental Language to the Budget Act of 1980 directed the Department of Finance to convene a task force to (1) study alternatives to the current actual cost reimbursement and (2) recommend the most appropriate alternative. The task force was unable to reach a consensus on the most appropriate alternative; consequently, the department's report did not include a recommendation.

Uniform Allowances

Our analysis suggests that a uniform *formula* allowance would be the most appropriate and cost-effective method for reimbursing districts for their collective bargaining costs. Specifically, it would result in:

- significant administrative savings for both school districts and the state. This is because the districts would no longer need to prepare, and the state would no longer need to process and audit, claims for actual costs incurred; and
- greater incentives for controlling the costs of complying with Chapter 961.

Savings. A large amount of paperwork and verification is required by a cost reimbursement process that is based on actual cost. This places a heavy administrative burden on both the state and local governments. Our discussions with school district representatives, the State Controller's Office, and the Board of Control indicate that the cost of preparing and processing these claims may exceed 10 percent of the amount claimed. These processing costs, thus, could require the expenditure of \$700,000 (10 percent of the \$7 million in claims projected for 1981-82). These funds would not provide support for educational services, and can be used more effectively for other, higher priority purposes.

Incentives. The actual cost reimbursement approach provides no incentive for districts to minimize costs. If the state provides full funding for such costs, school districts may be inclined to spend more resources in the collective bargaining process than they would if a lump sum was made available to them by the state for this purpose.

Accordingly, we believe reimbursement for collective bargaining-related costs should be provided to local school districts through a uniform formula allowance.

Because the Board of Control is responsible for developing parameters and guidelines for mandated cost reimbursement, we recommend that the Legislature direct the Board of Control to develop uniform formulas for providing collective bargaining reimbursements by November 1, 1981. We further recommend that control language be added to the budget instructing the Controller to disburse funds to each district based on the uniform formula developed by the Board of Control.

FEDERAL AND COURT MANDATES

Funding Overview

Under Chapter 1406, Statutes of 1972, cities, counties, and special districts were permitted to levy property taxes within a maximum authorized tax rate. These units of local government were, however, allowed to increase the maximum tax rate for the cost of new federal and court mandates, thus allowing the use of local funds to cover these costs.

School districts, however, were subject to a revenue limit which did not permit an increase in the tax rate for this purpose. In 1977, Chapter 1135 was enacted to allow school districts to fund final court orders and federal mandates through the local property tax by increasing their revenue limits. The possibility of funding new federal and court mandates from the property tax, however, was effectively

eliminated by the passage of Proposition 13 in 1978 which set a constitutional limit on the property tax rate.

Pursuant to Chapter 292, Statutes of 1978 (SB 154)—the first post-Proposition 13 fiscal relief bill—federal and court mandates affecting school districts were funded by the *state* through a revenue limit adjustment in district claims for apportionment aid. Cities, counties, and special districts, however, did not receive a direct adjustment in their state assistance funds.

The school district funding was continued in Chapter 282, Statutes of 1979 (AB 8). Consequently, through 1979–80, the state was automatically liable for all costs imposed on school districts by new federal and court mandates.

Table 39 shows the increase in state funding for these claims since 1978–79. In 1980–81, these costs totaled \$150.9 million.

The 1981–82 Governor's Budget requests the same level of funding for federal and court mandates provided in the 1980 Budget Act. Control Section 19.08 of the Budget Bill, however, provides that any new or additional level of claim be processed through the Board of Control. We recommend that this approach be approved, for reasons which we discuss below.

Table 39
Funding for Federal and Court Mandates
(in millions)

	<i>Funding Level</i>	<i>Dollar Change Over Prior Year</i>	<i>Percent Change Over Prior Year</i>
1978–79	\$60.0	—	—
1979–80	141.7	\$81.7	136.2%
1980–81 (estimated)	150.9	9.2	6.4
1981–82 (Proposed)	150.9	—	—

Current Law

During 1980, Chapter 1354 (AB 2196) and Chapter 288 (SB 1426) made several revisions in the funding of federal and court mandates.

AB 2196:

- removes funding for the mandates from the general revenue limit;
- prorates the reimbursement among the claiming districts, if the amounts claimed exceed the budget act appropriation; and
- provides that the amounts claimed in excess of the appropriation may be referred to the Board of Control for review and possible inclusion in a subsequent claims bill.

SB 1426:

- requires the controller to review each federal and court mandated claim to determine if the costs claimed are reasonable and
- requires the school district to reduce its claim for state aid.

The state currently funds two types of claims: (1) court-ordered desegregation and (2) employee maternity leave benefits established under federal PL 95-555. Only four districts have submitted claims for court-ordered desegregation. These claims, however, account for approximately 98 percent (\$138.9 million) of the \$141.7 million in federal/court mandate reimbursement during 1979–80. The remaining \$2.7 million was provided for the maternity leave benefits.

Table 40 shows the actual 1979–80 reimbursements and the 1980–81 claims submitted by school districts. In 1980–81, \$236.7 million in claims have been submitted for reimbursement. Of this amount, \$233.7 million in claims were submitted by just the four districts subject to court-mandated desegregation (Los Angeles's claim alone is for \$199.2 million). If the Controller determines the 1980–81 claims submit-

ted for reimbursement are reasonable, approximately \$85.7 million in excess claims above the budgeted level of \$150.9 million will be submitted to the Board of Control for review and possible inclusion in a claims bill.

Table 40
State Reimbursement for Federal and Court Mandates

	<i>Actual 1979-80 Reimbursement^a</i>	<i>Submitted 1980-81 Claims^a</i>	<i>Change</i>	
			<i>Dollar</i>	<i>Percent</i>
<i>Final Court Desegregation Orders:</i>				
Los Angeles Unified.....	\$120,000,000	\$199,200,000	\$79,200,000	66.0%
San Bernardino Unified	2,162,213	2,687,732	525,519	24.3
San Diego Unified	15,308,986	22,087,919	6,778,933	44.3
Stockton	1,433,091	9,703,595	8,270,504	577.1
<i>Federal Maternity Leave Mandates:</i>				
PL 95-555 (333 districts)	2,792,014	3,004,208 ^b	212,194	7.6
Totals	\$141,696,304	\$236,683,454	\$94,987,150	67.0%
Available Funds	\$141,696,304	\$150,926,000	\$9,229,692	6.5%
Excess Claimed	—	\$85,757,454	\$85,757,454	—

^a Represents (1) second reporting period (P2) claims and (2) those amounts submitted to the State Department of Education for reimbursement prior to any review by the State Controller.

^b Legislative Analyst's Office estimate.

District Desegregation Budgets

State reimbursement for court mandates finances a major portion of the four districts' total desegregation budgets. The amounts provided for desegregation from state, local, and federal sources is shown in Table 41.

Table 41
1979-80 Desegregation Budgets
of Districts Receiving Court Mandate
Reimbursement Funding (unaudited)

	<i>District Support^a</i>	<i>State Reimbursement^b</i>	<i>Federal ESAA Funds^c</i>	<i>Total</i>
Los Angeles Unified	\$33,992,814 (20.4%)	\$120,000,000 (72.1%)	\$12,379,355 (7.4%)	\$166,372,169 ^d
San Bernardino U- nified	733,455 (20.8%)	2,162,213 (61.2%)	634,327 (18.0%)	3,529,995
San Diego Unified..	379,374 (1.9%)	15,308,986 (75.6%)	4,561,613 (22.5%)	20,249,973
Stockton Unified	Not Reported	1,433,091	2,355,396	3,788,487
Totals	\$35,105,643	\$138,904,290	\$19,930,691	\$193,940,624

^a Source: Adopted budgets and financial data submitted by school districts to the Legislative Analyst's Office.

^b Source: State Department of Education.

^c Source: U.S. Department of Education, Office of Civil Rights.

^d Includes \$3,520,644 in funds transferred to the district's Compensatory Education Program.

Use of Funds. How a district uses its desegregation funds depends on how the district chooses to implement in order. Table 42 shows, for example, the proportion of funds dedicated to desegregation transportation expenses among the four claiming districts. In each district, transportation represents between 20 and 35 percent of the total desegregation budget.

Table 42
Desegregation Budgets Receiving
Court Mandate Reimbursements
(unaudited) ^a

	<i>1979-80 Desegregation Funds^b</i>	<i>Transportation</i>	<i>Nontransportation</i>
Los Angeles Unified.....	\$166,372,169	\$45,312,762 (27.2%)	\$121,059,407 (72.8%)
San Bernardino Unified	3,529,995	803,882 (22.8%)	2,726,113 (77.2%)
San Diego Unified	20,249,973	4,112,629 (20.3%)	16,137,344 (79.7%)
Stockton Unified ^c	3,788,487	1,328,114 (35.1%)	2,460,373 (64.9%)

^a Based on data reported by districts in budgets adopted by their respective school boards.

^b Includes district support, the state reimbursement for federal/court mandated claims, and federal ESAA funds.

^c Does not include district support.

The remaining funds are used primarily to provide salary supplements and educational program enhancements. In effect, state reimbursement for court mandates has become a unique state categorical aid program which benefits only those districts found to be in violation of the State or Federal Constitution. Districts that are voluntarily complying with constitutional requirements are not eligible for this special state assistance.

Los Angeles Unified provides a number of supplemental programs pursuant to a court desegregation order. For example, the Racially Isolated Minority Schools (RIMs) program provides additional programs to students in schools that remain racially isolated (that is, are not desegregated) because of the size and demography of the district. The district's projected cost of the RIMs program in 1980-81 is \$70.2 million, and includes the following components:

- the Urban Classroom Teacher Program, wherein 5,668 teachers receive an additional 11 percent salary adjustment for teaching at a segregated school site (\$17.7 million);
- the Class Size Reduction Program, wherein pupil/teacher ratios are reduced in classrooms of segregated schools to establish greater contact between the teacher and students (\$11.7 million);
- the Schoolwide Project Program, wherein all RIMs schools receive supplemental funds to qualify for increased flexibility in the utilization of Federal Title I funds (\$10.5 million); and
- the Bilingual Teacher Program, wherein 944 teachers who hold a bilingual credential receive an 11 percent salary adjustment (\$3.1 million).

San Diego Unified uses its desegregation funds to establish:

- district-wide magnet schools, where certain instructional programs explain are enhanced to attract students to segregated schools;
- learning centers where students are provided weekly individualized instruction in an integrated school setting stressing learning activities such as science, mathematics, health, and physical education;
- career awareness programs for elementary students; and
- instructional aides providing recreational and instructional activities on daily school bus trips.

San Bernardino Unified provides magnet schools, including an academic kindergarten, a high-intensity language training program, and special programs for high-

achieving students.

Stockton Unified provides additional in-service training for its staff, additional curriculum material development, and an intensified counseling program.

The state reimbursement funds are *in addition* to revenues the districts receive from the state Economic Impact Aid and federal Title I programs which are compensatory education programs similar to RIMs.

Federal ESAA Funds. In addition to state support, the four claiming districts receive federal Emergency School Aid Act (ESAA) funds (PL 95-561) designed to reduce or eliminate minority group segregation and discrimination among students and faculty in schools.

Because ESAA has a maintenance of effort provision which requires districts and the state to maintain existing support levels for these activities, ESAA funds are used to supplement district desegregation efforts including staff development, additional staff (including teacher aides), the development and use of new curriculum and instructional materials, and the establishment of community and public relations activities.

Table 43 shows the four districts' ESAA funding for 1979-80 and 1980-81.

Table 43
Federal ESAA Funding Awards^a

	1979-80	1980-81	Change	
			Dollar	Percent
Los Angeles Unified	\$12,379,355	\$11,472,423	-\$906,932	-7.3%
San Bernardino Unified	634,327	740,111	105,784	16.7
San Diego Unified	4,561,613	4,633,793	72,180	1.6
Stockton Unified	2,355,396	1,668,625	-686,771	-29.2
Other Districts	33,361,106	30,066,589	-3,294,517	-9.9
Totals.....	\$53,291,797	\$48,581,541	-\$4,710,256	-8.8%

^a Reported by U.S. Department of Education, Office of Civil Rights

Potential Court Orders and Federal Regulations

A unique feature of the current reimbursement process is that it is difficult to determine in advance, with any degree of certainty, the costs associated with potential court and federal mandates. Currently only four districts receive state reimbursement for court mandates. The following actions, however, may increase the number and amounts of school district claims:

- possible litigation in the San Francisco Unified School District regarding its desegregation plan;
- potential court orders which may result from disputes in interpreting and defining the level of services required to implement federal PL 94-142, the Education for All Handicapped Children Act;
- a Federal Executive Order which requires the reconditioning of school facilities containing certain types of asbestos fibers; and
- preliminary regulations requiring districts to maintain disciplinary action records for each student.

There is no estimate of what the potential costs may be for activities resulting from these or other mandates. This makes it more difficult to project and budget expenditures for the budget year.

Federal and Court Mandate Task Force

Supplemental Language to the Budget Act of 1980 directed the Department of Education to establish a Task Force to review and report on the issue of funding for federal and court mandates. The task force was directed to (1) examine alternative mechanisms for funding federal and court mandates and (2) address the issue of funding districts which undertake the same requirements voluntarily. In addition to our office, the task force was comprised of representatives from school districts, the legislative fiscal committees, and the Department of Finance.

Consistent Funding Mechanism Needed

We recommend that control language be included in the budget, and that legislation be enacted, to require school districts and county offices of education to use the Board of Control claims process for seeking reimbursement of all new federal and court mandate claims and for all current claims which exceed the amounts appropriated in the Budget Act.

The Task Force report was issued on January 1, 1981. It concluded that the current reimbursement mechanism was inadequate, and recommended the following claims be referred and funded through the Board of Control:

- (1) all *new* federal and court mandate claims and
- (2) claims in excess of the budget appropriation.

Our analysis indicates the Task Force recommendations are appropriate and should be implemented for the following reasons:

- the Legislature would have the opportunity to (1) review claims submitted for reimbursement, (2) determine the appropriate amount of reimbursement, and (3) if appropriate, deny reimbursement for all or part of particular claims. Under current law, the Legislature does not have the opportunity to review these claims;
- processing claims through the Board of Control is consistent with the "SB 90 concept" of providing state review and reimbursement of local government costs mandated by another governmental entity. The SB 90 process currently provides reimbursement of local government costs mandated by state legislation and executive orders; and
- under the Board of Control claims process, parameters and guidelines would be established informing districts what types of costs can be reimbursed. Although the Controller currently reviews the claims, there are no established standards as to what are reimbursable costs.

Accordingly, we recommend that control language be adopted to establish that all new claims in excess of the budget bill be reviewed and funded through the Board of Control.

Voluntary Efforts

For some time, we have been concerned that the state's policy of reimbursing local school districts court-mandated costs creates a moral hazard by tending to reward those who obstruct, rather than comply with, the law. For example, if a school district (1) chooses to violate the law, (2) is brought to court and found guilty of noncompliance, and (3) is then mandated by the court to comply, the district is eligible for additional state aid. The school district that voluntarily complies would not receive additional aid.

While the Task Force recognized and discussed this issue during its deliberations, it was unable to provide a recommendation for legislative action.

K-12 EDUCATION—Continued**Revenue Limit Adjustments—Technical Legislation**

We recommend that legislation be enacted to repeal the Education Code sections which provide a revenue limit adjustment for funding federal and court mandates.

As noted earlier, AB 2196 removed funding for federal and court mandates from the general revenue limit and provides reimbursement through the annual Budget Act. This process is similar to the method by which districts are reimbursed for the cost of legislative mandates.

The Task Force noted that the Education Code continues to refer to funding reimbursement as a revenue limit adjustment. If claims are funded through the Budget Act and any unfunded claims are submitted to the Board of Control, the Task Force concluded that these code sections would no longer be necessary, and recommended that they be repealed.

Consequently, as a technical matter, we recommend that legislation be enacted to repeal code sections referencing the revenue limit adjustment. This would be consistent with the other provisions contained in AB 2196.

Status of Proposition 1

In 1978, the voters approved Proposition 1, a constitutional amendment which limits the power of California courts to require transportation for desegregation purposes. Specifically, Proposition 1 provided that state courts could require transportation for desegregation purposes only in cases where the U.S. Constitution would require it.

In December 1980, the state Courts of Appeals ruled that Proposition 1 is constitutional. If the ruling is upheld by the state Supreme Court, Proposition 1 *may* have the effect of reducing the state reimbursement to districts for court-mandated transportation desegregation programs.

4. SPECIAL EDUCATION

Special Education includes (1) local assistance to support Master Plan for Special Education programs, (2) state administration, (3) support for six state special schools, and (4) support for the Clearinghouse Depository and the Southwest Deaf-Blind Center. Approximately 390,000 students will be enrolled in special education programs in 1981-82.

Table 44
Special Education Program
Expenditures and Funding

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
1. State Operations					
State administration.....	4,548,426	\$5,610,054	\$5,444,190	-\$165,864	-3.0%
Clearinghouse Depository	434,060	367,075	374,931	7,856	2.1
Southwest Deaf-Blind Center	1,116,271	1,356,244	742,702	-613,542	-45.2
Special Schools	27,170,986	32,641,443	32,051,709	-589,734	-1.8
Subtotals	\$33,269,743	\$39,974,816	\$38,613,532	-\$1,361,284	-3.4%
2. Local Assistance					
General Fund	\$460,243,464	\$645,000,000	\$673,866,500	\$28,866,500	4.5%
Federal funds ^a	94,263,169	102,808,330	103,457,800	649,470	0.6
Subtotals	\$554,506,633	\$747,808,330	\$777,324,300	\$29,515,970	3.9
Totals	\$587,776,376	\$787,783,146	\$815,937,832	\$28,154,686	3.6%
General Fund	\$486,940,176	\$677,354,762	\$705,956,013	\$28,601,251	4.2%
Federal funds ^a	98,190,623	107,624,056	107,457,446	-166,610	-0.2
Reimbursements	2,645,577	2,804,328	2,524,373	-279,955	-10.0

^a Budget shows expenditure authority which is higher than funds received. The 1980-81 PL 94-142 grant was \$79,687,992. The 1981-82 grant is estimated to be \$83.6 million.

Table 44 shows expenditures and funding for special education.

The Governor's Budget provides a total of \$815.9 million for special education, 87 percent of which is from the General Fund. Total expenditures for special education are budgeted to increase by approximately \$28 million, or 3.6 percent in 1981-82. The increase is the net result of (1) price letter increases, (2) elimination of a \$10.3 million one-time appropriation for local assistance, (3) elimination of one-time relocation expenses for the state special schools, (4) the transfer of \$6.7 million from county school finance apportionments to special education local assistance, and (5) a 5 percent inflation allowance for General Fund local assistance.

MASTER PLAN FOR SPECIAL EDUCATION

Overview

Chapter 797, Statutes of 1980 (SB 1870), which became effective July 28, 1980, revises the Master Plan for Special Education and provides for full statewide implementation of the plan by the end of the 1981-82. The law eliminates the dual structure for special education—Master Plan and non-Master Plan programs.

The local program governing unit is the Special Education Services Region (SESR), which may be a single district, a group of districts, or the county office of education in combination with districts. Each SESR must submit a plan to the state which includes joint powers or contractual agreements ensuring that all eligible students receive appropriate special education services.

Other major program changes include the following:

- the authorization to replace the two-level system of pupil assessment with one "individualized education program" (IEP) team and
- replacement of the local fair hearing by a state-level mediation conference to provide a forum for resolving disputes before they reach a formal state administrative hearing.

Students Served

Special education programs serve learning, communicatively, physically, and severely handicapped pupils. Students with temporary disabilities are excluded from the program. Service is provided to students through one of four instructional modes: special classes, resource specialist programs, designated instruction and services, and nonpublic schools. Table 45 displays the educational placement of the 356,426 special education pupils, by general disability, as of December 1979.

Table 45
Special Education Enrollments
December 1, 1979^a

Placement	Disability				Totals
	Communicatively	Learning	Physically	Severely	
Special class	17,383	55,000	14,264	21,427	108,074
Resource specialist	1,049	96,000	473	135	97,657
Designated instruction and services	100,578	6,372	38,389	970	146,309
Nonpublic school.....	400	2,593	44	1,349	4,386
Totals	119,410	159,965	53,170	23,881	356,426

^a December 1980 data not available until February 1981. Placements for non-Master Plan enrollments are converted to Master Plan placement categories.

K-12 EDUCATION—Continued**Fiscal Provisions**

Chapter 797 provides a new statewide funding mechanism for special education based on the cost of providing services to handicapped students, as determined by each local education agency on the basis of actual 1979–80 costs. Reimbursement for actual costs is limited, however, by the following constraints:

- State aid will be provided for a maximum of 10 percent of statewide K-12 enrollment.
- Each region will be funded for a maximum of 10 percent of regional K-12 enrollment.
- Within each region, state aid is limited to specified percentages of total enrollment for each instructional setting.
- Class size standards of 10 pupils per special class, 24 pupils per resource specialist, and 24 pupils per Designated Instruction and Services specialist are imposed.

Within these constraints, the mechanism provides a measure of state fiscal relief to local education agencies (LEAs). In recent years, LEAs have been forced to fund special education by drawing upon their local general funds in increasing amounts. When calculating state aid, Chapter 797 holds the local contribution to the 1979–80 level. This means that, within the calculated limits, the state funds the growth in cost-of-living and handicapped enrollments after 1979–80.

1981–82 Local Assistance Funding

As shown in Table 44, the Governor's Budget proposes \$673.9 million to fund local special education programs and services pursuant to Chapter 797. This is an increase of \$28.9 million (4.5 percent) over the amount appropriated for 1980–81. The increase is due to (1) the deletion of the one-time \$10.3 million appropriation for Master Plan regions whose 1979–80 *actual* enrollments exceeded their authorized enrollments, (2) the addition of \$5.7 million transferred from county school finance apportionments, and (3) a 5 percent inflation allowance.

We cannot judge at this time whether the \$673.9 million provided in the Governor's Budget will be sufficient to permit full funding of the local assistance provisions of the Master Plan. Because Chapter 797 instituted a new funding system, many assumptions and estimates had to be made in calculating the local assistance appropriation. The actual program costs will not be known until local cost data is reported and analyzed in the spring of 1981. We will discuss the adequacy of the appropriation request for local assistance during budget hearings.

The legislative intent expressed in Chapter 797 is to fund all reimbursable costs. Chapter 797, however, also contains a deficit funding provisions under which any shortfall in state funding will be applied to all LEAs. The state is therefore not necessarily required to increase the budget appropriation if data indicate a deficit.

FEDERAL PUBLIC LAW 94-142**Funding Pressures**

Even though the state has increased considerably its funding of special education, LEAs feel increasing pressures to divert funds from their regular education programs to support special education. During our field visits, LEA personnel uniformly expressed concern about the escalating costs of special education and the increasing competition for funds between special education and regular education programs.

Our analysis indicates that the escalation of special education costs is due largely to the open-ended nature of the federal program and the inability of the state to place its own limits on special education. Two problems result from the implementation of current federal law. First, free special education programs create a high

demand for these services. Second, there is a tendency to overuse special education funds and to underuse other available sources of funds. As long as these problems persist, special education costs will be virtually uncontrollable.

Demand for Special Education

PL 94-142 authorizes a broad array of services and requires that all "appropriate" services be provided free to all handicapped pupils. These provisions tend to drive up the cost of special education because PL 94-142 does not clearly define (1) who is eligible for special education services and (2) what types of services are appropriate under what circumstances.

Eligibility. Over 64 percent of the pupils served by special education programs as of December 1, 1979, were classified as "speech impaired" or "specific learning disabled." Clear standards for identifying pupils with these disabilities or impairments, however, are not provided in federal law. Local special education administrators acknowledge that procedures for identifying and referring students for services in these two classifications are difficult to standardize and allow the provision of services to those who do not need them.

Although the Legislature directed the State Board of Education to develop specific criteria for these and other special education services, the board has not been able to develop criteria that will place clear limits on the eligible population without violating federal law.

Appropriate services. Federal law requires that free, appropriate special education and related services be provided. "Appropriate" is not clearly defined. Other provisions of the law, however, encourage the broadest possible interpretation of the term. In many instances, the law has been interpreted in such a way as to require more than is necessary to provide an appropriate education as specified in the law. This occurs most frequently with regard to "related services."

Related services are defined as those supportive services that are necessary in order for a handicapped pupil to benefit from special education. Failure of the federal law to clearly define "related services" poses serious fiscal consequences because:

- Interpretations to date have supported the inclusion of many services not specifically authorized, including extensive medical services.
- The existing list of authorized related services can be expanded by federal administrative determination, as has recently occurred with the addition of mental health services, including psychotherapy and psychoanalysis.

Use of Special Education Funds

The PL 94-142 mandate encompasses many services which normally are the responsibility of other agencies. For example, physical therapy, psychological services, and medical services are part of the ongoing responsibilities of the Departments of Health Services, Mental Health, and Developmental Services. When these services are included in a student's individualized education program, other agencies look to the education system to provide and fund the services.

Technically, PL 94-142 requires that state education agencies ensure the provision of free, appropriate special education, but not that they fund all services. The effect of the law, however, is to require the education system to fund all services because incentives are reduced for (1) other agencies to provide services and (2) clients to seek services from those other agencies.

Agency incentives. Other agencies have little incentive to fund services that the education system is mandated to deliver. Most of the agencies involved in the delivery of related services have laws or regulations governing which services they will fund. In general, these laws specify that an agency will not pay for any service which falls within the mandate of another agency. The broad PL 94-142 mandate

K-12 EDUCATION—Continued

thus effectively relieves noneducation agencies of certain responsibilities that would otherwise be theirs. Some agencies have changed their service patterns accordingly.

For example, Medi-Cal funds generally have not been made available to support related services for persons who are also eligible for special education services under PL 94-142. This is because related services are free under PL 94-142, and regulations forbid the use of Medi-Cal funds for services that are free to non-income eligible persons.

Client incentives. All other agencies which provide related services have the ability to charge fees for services, and most do so on an ability-to-pay basis. All services provided pursuant to PL 94-142, however, must be free to pupils and parents. This encourages clients who might otherwise receive a service through the health system, for example, to look to the public schools to provide the service under PL 94-142. Two types of fiscal consequences result:

- More special education funds are used while other agency funds are saved.
- Public expenditures increase because people who would have been willing and able to pay for certain services instead receive the services without charge.

Options Available

The state is bound by the legal and administrative determinations of the federal government regarding PL 94-142, which at this time leave the state liable for ever-increasing special education costs. The Legislature, however, has three basic options for addressing this problem, of which two are currently being investigated:

Interagency agreements. Chapters 1218 and 1276 of 1980 require various state agencies to form agreements designed to provide and fund special education and related services for handicapped pupils. This effort, however, can succeed only to the extent that federal laws are consistent with one another. These agreements, for example, cannot change the fact that most agencies are permitted to charge for services while education agencies are not.

Changes in federal law and regulations. The Legislature can encourage statutory and administrative changes at the federal level. At present, at least one organization—the Council of Chief State School Officers—is taking this approach. The State Department of Education is taking a lead role in this effort, and may wish to discuss its actions during budget hearings.

Nonparticipation in PL 94-142. The state does not have to accept federal funds under PL 94-142. Legal staff of the State Department of Education indicate that PL 94-142 is a discretionary program. If the state did not participate in PL 94-142, it would continue to be governed by the civil rights provisions of Section 504 of the Rehabilitation Act of 1973. Section 504 is designed to eliminate discrimination on the basis of handicap, and contains many of the same provisions as PL 94-142. Because Section 504 is less specific than PL 94-142, however, it appears that the state would have greater flexibility in providing a free appropriate education to handicapped pupils under Section 504 than it does now. Most importantly, the state would be able to specify which related services are medical and thus should be provided through other agencies and partially funded through income-related fees.

Analysis Recommended

We recommend that the Legislature direct the State Department of Education to prepare an analysis of the fiscal and program impact of nonparticipation in PL 94-142, in favor of a Section 504 compliance program.

The Governor's Budget shows a 1980-81 PL 94-142 funding level of \$107.6 million. This is not accurate, however. During the current year, California actually

received only \$79.7 million in federal funds under PL 94-142.

In comparison, General Fund support for special education will be \$677.4 million in 1980-81 and local education agencies will contribute about \$179 million. Consequently, federal funds will cover only about 8.5 percent of total statewide expenditures for special education. It would seem, therefore, that the conditions associated with the receipt of only \$1 out of every \$12 spent on special education are primarily responsible for the open-ended nature of special education. Consequently, a study of the costs and benefits of PL 94-142 participation would be useful in determining future state policy, and we recommend that the department be directed to undertake such a study.

STATE ADMINISTRATION

Consultant Services

Two units within the Office of Special Education—Consultant Services North and South—have 30 professional positions. Most of the positions are organized into six regional teams. Each team is designed to contain a specialist in each of the four handicapping conditions mentioned previously. Other consultants have specialized assignments. The consultants provide technical assistance to local education agencies (LEAs) and monitor local programs for compliance with state and federal laws.

Management Plan Needed

We recommend that the Legislature direct the Department of Education to prepare, by November 1, 1981, a management plan for the organization and specific assignment of personnel within Consultant Services North and South. The plan should address (1) whether and how the regional team concept should be used, (2) the priorities for technical assistance, (3) the assignment of consultants, (4) staff development for consultants, and (5) means for coordinating the consultants' activities with those of the Personnel Development Unit.

Our analysis indicates that consulting assistance provided by the consultant services units to LEAs is deficient in the following respects.

Lack of responsiveness. Organizing consultants into teams of specialists by handicapping condition is not responsive to LEA needs for technical assistance. In order to implement the new law, LEAs need assistance in areas that cut across handicapping categories, such as due process, the development of resource specialist programs, and the use of program specialists. The department has recognized this, at least tacitly, by establishing task teams on specific topics. The four-person regional teams are still used, however, in assigning consultants to the field and as a yardstick for measuring consultant workload.

Inconsistent information. The maintenance of six somewhat isolated regions results in department staff providing different and sometimes conflicting responses to information requests. This problem was consistently mentioned by LEA personnel during our field visits.

Lack of priorities. The department appears to take a "crisis management" approach to these units. Rather than assess the needs of LEAs and prepare and assign consultants accordingly, the department tends to move consultants in and out of special assignments, while expecting them to develop expertise in all of them. Internal staff development is inadequate to keep up with the demands placed on consultants.

Lack of coordination. The Personnel Development unit in the department provides assistance to LEAs through a network of regional training centers. Although these centers provide direct technical assistance to any LEA requesting it, there is no formal coordination between this training network and the field consultants who also provide technical assistance.

K-12 EDUCATION—Continued

This situation in part results from the problems that invariably arise in implementing a new state law and from the turnover in state special education directors. Nevertheless, we believe these deficiencies in consultant use should be addressed by means of a management plan.

Program Review

Under federal and state law, the department is required to monitor the special education programs of LEAs to ensure that they comply with federal and state law. Each year approximately one-third of all districts are reviewed by a team of reviewers. Department consultants serve as team leaders, and nondepartmental staff, usually LEA employees, serve as team members. Team members are reimbursed for travel and expenses. As part of each review, the team interviews administrators at the district or regional level, as well as parents, teachers, and other staff at a sample of school sites. At both the administrative and school-site levels, student records and other documents are reviewed. This year the department is beginning to review program quality as well as legal compliance.

Plan Recommended

We recommend that the Legislature direct the Department of Education to develop a plan for conducting program reviews that (1) reduces the cost of the compliance component of the program reviews and (2) eliminates the quality assessment component from the program reviews. We further recommend that the department identify the savings that would result from limiting the program review process and present proposed redirections for these savings.

Compliance. Data submitted by the department indicate that 27 consultants spend an average of 29 percent of their time on program reviews. This is the equivalent of 7.8 full-time consultants. In addition, the department estimates that \$100,000 is spent on reimbursements to other program review team members. Our analysis indicates that this is an excessive commitment of resources and that it can be reduced in two ways.

First, written data from LEAs can be better used to identify which districts should be reviewed and what compliance issues will be covered. Currently, a long questionnaire is completed at each site, regardless of whether there is cause to suspect noncompliance. The results of the compliance reviews have never been analyzed to determine if any items are no longer necessary for compliance monitoring.

Second, the number of interviews conducted at each review could be reduced. The department has established minimum guidelines for the number of interviews conducted. For an average-sized district or region, the guidelines specify that, *at a minimum*, there be 40 teacher interviews, 20 interviews with other staff, and 25 parent interviews. There is no legal or analytical basis for conducting this many interviews. Because documents and records are also reviewed, it would seem that 85 interviews would not be necessary to ensure legal compliance.

Reducing the number of interviews would have the additional advantage of allowing the department to reduce its reliance on nondepartmental staff in conducting the reviews. Consultants indicated that problems can result from the use of nondepartmental staff. These team members receive only one and one-half days of training, which focuses primarily on review procedures. There is no system for screening team members or for dismissing them if problems arise. Because LEAs must donate staff for the reviews, there is no assurance that the team members will be highly qualified to review other local programs.

Quality. It is appropriate for consultants to assist LEAs in planning and implementing quality programs. We find no justification, however, for providing this kind of assistance through the systematic compliance review process.

As noted above, a quality component is being added to the compliance review process this year. Discussions with staff indicate that this is being done because (1) consultants prefer to assist LEAs in the area of program quality rather than to assess statutory compliance and (2) compliance monitoring had become a time-consuming process with little connection to program quality.

We agree that more time needs to be spent assisting LEAs implement *quality* programs. Rather than expand the compliance review process to include a review of program quality, however, the department should compress the compliance review process, as recommended above. This would give consultants more time to provide assistance aimed at enhancing program quality. Our analysis indicates that using the compliance model for quality reviews is inappropriate because:

- The assurance of quality in a local school program is the responsibility of the local school board and administration. Assistance should be available from the department but should not be imposed unsolicited on local schools.
- It is doubtful that a single state-defined quality standard is appropriate for all schools.
- The value of a systematic review of program quality is questionable, given the tendency for each reviewer to judge quality differently.
- There is no process by which consultants can use their findings to ensure *change* (improved quality) as there is for findings of noncompliance.

By confining the program review process to the essential elements necessary to ensure compliance, the department should be able to redirect a significant amount of consultant time to the provision of more meaningful assistance aimed at enhancing program quality. Consequently, we recommend that the Legislature direct the department to develop a plan for conducting program reviews that reduces the cost of the reviews and eliminates the quality assessment component. The plan should identify the amount of savings that will result from limiting the program review process, and should include proposals for redirecting these savings.

Limited-Term Position Justification

We recommend that one special education consultant position terminate as scheduled, pending completion of a management plan for the consultant services unit, for a General Fund savings of \$64,004. (Reduce Item 610-001-001 by \$64,004.)

Last year the Legislature approved one special education consultant position on a limited term basis until June 30, 1981. The Governor's Budget proposes to continue the position on a permanent basis. The department maintains that the workload resulting from the passage of Chapter 797 justifies the position.

As we noted above, the department needs to review the organization and workload of the special education consultants, and we have recommended that a management plan be developed in order to accomplish this. Any permanent expansion of the consultant services staff should await the completion of the management plan. On this basis, we recommend that the proposed position be deleted, for a General Fund savings of \$64,004.

Special Education Legal Services

We recommend that the new staff counsel position to coordinate the fair hearings and mediation conferences be deleted because an existing legal services special education consultant position can be reclassified for this purpose, for a General Fund savings of \$64,004. (Reduce Item 610-001-001 by \$64,004.)

The Governor's Budget proposes to establish four new positions in the department's Legal Office to work on special education—two attorneys, a staff analyst, and a legal typist. These positions are to be supported with federal PL 94-142 funds reserved for state administration. One of the attorneys is proposed to assist the staff counsel for special education in all areas of special education law. The other three

K-12 EDUCATION—Continued

positions are proposed for state-level fair hearing and mediation responsibilities.

Our analysis indicates that these positions are justified. The function of one of the new positions, however, is already being performed by an existing position. Currently, a special education consultant is assigned to coordinate the fair hearings and mediation processes. The department maintains that an attorney can more effectively fulfill this function because hearing and mediation decisions must be reviewed for legal accuracy. If an attorney is provided for this purpose, however, the special education consultant would not be needed. Consequently, we recommend that the current hearing coordinator position be reclassified from a consultant to a staff counsel, and the proposed staff counsel position be deleted.

State Operations Carry-Over

We recommend that funds proposed for the fiscal administration of Chapter 797 be reduced to correct for overbudgeting, for a General Fund savings of \$230,000. (Reduce Item 610-001-001 by \$230,000.)

Chapter 797 appropriated \$500,000 to the department for the fiscal administration of the new law. The department expects to spend only \$320,000 for this purpose in 1980-81. Of the remainder, \$100,000 has been redirected to help fund the independent evaluation of the Master Plan for Special Education. The remaining \$80,000 is available to be used for fiscal administration of Chapter 797 in 1981-82.

The Governor's Budget proposes an additional \$500,000 for fiscal administration of Chapter 797 in 1981-82. In addition, \$80,000 in carry-over funds are available for 1981-82. We estimate that the department will only need \$350,000 for this purpose, \$230,000 less than the amount available. Consequently, the budgeted amount can be reduced by \$230,000, as shown in Table 46.

Table 46
State Operations Appropriation Under SB 1870

	1980-81	1981-82
Carry-over	-	\$80,000
Appropriation	\$500,000	500,000
Redirection ^a	-100,000	-
Expenditures	-320,000	-350,000
Balance	\$80,000	\$230,000

^a Used for independent evaluation of Master Plan.

EDUCATION FOR STATE HOSPITAL RESIDENTS

Prior to the enactment of Chapter 1191, Statutes of 1980 (AB 1202), education for school-age state hospital residents was provided by the state hospitals, or by local education agencies. AB 1202 places the entire responsibility for the education of state hospital residents on the state hospitals, while allowing the hospital to contract with local education agencies for education services. Funding for such education is now included in the budget for the state hospitals. Additionally, county superintendents of schools are required to ensure that appropriate services are available for provision under contract to state hospitals.

Our office is required to report annually for three years on the implementation of Chapter 1191. This report is discussed in this year's analysis of the Department of Developmental Services budget (see Item 430-101-001).

STATE SPECIAL SCHOOLS

Overview

The state operates six special schools for handicapped pupils: two schools for the deaf, one school for the blind, and three diagnostic schools for the neurologically handicapped. The schools for the deaf and blind are an alternative placement for pupils who "cannot be provided an appropriate educational program and related services in the regular public schools." Placement in these schools is made both by referral from local education agencies (LEAs) and upon direct application by parents.

The three diagnostic schools provide temporary residence for pupils who "need educational diagnostic services not available in regular school classes." All pupils assessed at the schools are referred by LEAs. A week-long assessment is provided for each pupil to determine the appropriate educational placement. Each school also maintains a residential program which pupils can attend for up to one year for further diagnosis.

The Governor's Budget proposes an expenditure of \$32.1 million for the Special Schools (see Table 44). This is a decrease of \$0.6 million (1.8 percent) below the current year. The decrease reflects the elimination of one-time costs for relocating two schools to Fremont. There are no programmatic changes proposed for 1981-82.

Table 47 summarizes the enrollment and the cost per full-time-equivalent (FTE) pupil in each of the special schools.

Table 47
Enrollment and Cost per Student in Special Schools^a

	<i>Actual 1979-80</i>		<i>Estimated 1980-81</i>		<i>Proposed 1981-82</i>	
	<i>FTE Enrollment</i>	<i>Cost Per Student</i>	<i>FTE Enrollment</i>	<i>Cost Per Student</i>	<i>FTE Enrollment</i>	<i>Cost Per Student</i>
School for the Blind	117	\$24,886	112	\$31,027	130	\$25,333
School for the Deaf—Fremont	518	14,455	549	16,188	550	17,184
School for the Deaf—Riverside	512	16,670	525	18,230	525	18,940
Diagnostic School—North						
Assessment	126	2,270	160	1,999	160	2,000
Residential Program	40	38,979	40	43,603	40	43,570
Diagnostic School—Central						
Assessment	133	2,004	160	1,905	160	1,968
Residential Program	40	36,319	40	45,545	40	42,907
Diagnostic School—South						
Assessment	146	1,959	160	1,947	160	2,045
Residential Program	40	38,981	40	42,456	40	44,615

^a Does not include federal projects.

Private and Special School Placement Costs

Chapter 797, Statutes of 1980 (SB 1870), requires local education agencies first to identify and assess all handicapped pupils and then to secure appropriate placement for such pupils. A pupil may be placed in a private school or a state special school if there is no appropriate local program available.

Table 48
Comparative Average Per-Pupil Costs, 1979-80

<i>Special Class^a</i>	<i>Private School^a</i>	<i>Special Schools^b</i>		
		<i>Deaf</i>	<i>Blind</i>	<i>Diagnostic</i>
\$5,257	\$9,644	\$15,556	\$24,886	\$40,171

^a Actual averages for 1979-80 Master Plan districts only. Source: Department of Education.

^b Actual costs as shown in 1981-82 Governor's Budget.

K-12 EDUCATION—Continued

Total costs. Private school and special school placements are more expensive than placement in a special class of a local program. Table 48 compares the 1979–80 per-pupil cost of the three types of placements.

Cost to LEAs. A local education agency must pay 30 percent of the excess cost of a private school placement. Excess costs are defined as the private school costs per pupil which are above the funding per pupil received by the local district from the revenue limit and federal funds. Placement in a state special school, however, is made at no out-of-pocket cost to the LEA. LEAs lose revenue limit and federal funding for a pupil placed in a state school, but are relieved of the obligation to provide services to the pupil. Furthermore, no LEA funds are contributed toward the cost of providing services in a state school. Unlike private school placements, therefore, the state funds all excess costs of state special school placements.

Appropriate Versus Most Appropriate

Special schools cost considerably more per pupil than do local programs, due primarily to their residential nature. For this reason some parents and pupils are likely to prefer a special school placement, even when an appropriate local program is available. Quite naturally, they prefer to have the best program available, even though an appropriate program may be available in their locality.

Under existing law, LEAs are responsible for allowing private school and special school placements *only* when an appropriate local program is not available. Because LEAs pay 30 percent of the excess cost of a private school, they have a fiscal incentive only to use them where necessary. No such incentive exists for placements in a state special school, however, because LEAs pay none of the excess cost.

Fiscal Incentive for Overenrollment

We recommend that local education agencies be required to pay 30 percent of the excess cost of state special school placement, so as to make funding for these placements comparable with that for private school placements, for a General Fund savings of \$9,069,815.

We further recommend that legislation be enacted to require permanently that local education agencies pay 30 percent of the excess cost of special school placements. (Reduce Item 610-001-001 by \$9,069,815.)

In a March 1980 report, the department recommended against full state funding of private school costs on the basis that "full state funding would create a fiscal incentive for school districts and county offices of education to seek nonpublic school placements for pupils." The department's logic is just as compelling in the case of state special school placements.

Under the current system, LEAs have nothing to lose, and may even gain, by placing students in state special schools. When a pupil is placed in a state special school, the district receives no funds for the pupil, but bears no cost. If a district tries to prevent such a placement because a local program is available, the district stands to incur the expenses of fair hearings, which can cost several thousands of dollars and significant amounts of staff time.

Examples of Overenrollment

In addition, the placing of pupils in special schools at no cost to LEAs has contributed to the following problems:

Unjustified admissions. In a 1979 study, the Department of Finance found that 31 percent of the students enrolled at the state schools for the deaf, and 20 percent of the students at the School for the Blind, had been placed there due to family or other social problems, regardless of whether appropriate local programs were available.

Overuse of residential facilities. In response to a finding that many residential students could attend as day students, the Legislature directed the Department of Education to adopt a new residential policy in 1980-81 to reduce the number of residential students. The Department of Finance was directed to reduce the residential care budget accordingly. The Department of Education adopted a new residence policy which caused some residential students to attend as day students instead. The total number of residential students did not decline as a result of the policy, however, because the schools admitted more new students who qualified for residential placement under the new policy.

Inappropriate admission to residency at diagnostic schools. Only one of the three diagnostic schools requires that all pupils return to their local district after the week-long assessment. This school accepts the pupil back for residency only if local placement proves unsuccessful. The other two schools commonly recommend admission to residency at the diagnostic school without first determining if local placement will succeed.

Excessive stays at diagnostic schools. The purpose of the assessment at diagnostic schools is to determine an appropriate placement for a pupil, not to provide a permanent placement at the school itself. Residency should be provided only until an assessment and placement recommendation can be completed. Data submitted by the department, however, show that residential pupils, once admitted, remain for an average of 11 months, and that 21 percent remain for more than one year. Given that a majority of students are assessed in one week, it is highly unlikely that assessment of the residential students requires a full year. LEAs, however, have no fiscal incentive to seek the return of a pupil from the diagnostic school if appropriate services can be provided locally.

All of these problems could be alleviated if local education agencies were required to bear some fiscal responsibility for the placement of pupils in state special schools, as they do in the case of private school placements.

Local Cost Sharing Recommended

Because LEAs bear none of the cost of a state special school placement, they have no fiscal incentive to ensure appropriate local placements as the law requires. We recommend that a special school placement be treated the same as a private school placement, with LEAs bearing 30 percent of the excess cost. By eliminating the fiscal incentive to overenroll pupils in more expensive state special schools, our recommendation would (1) permit more effective use of available state funds and (2) ensure that pupils requiring services from special schools are not denied access to these services because of inappropriate placements. There is no compelling reason why the state special schools should remain outside the locally based special education delivery system which requires LEAs to either provide appropriate programs, or pay part of the excess cost of obtaining appropriate services outside of the district.

5. CHILD CARE

Overview

The Child Care Program's major goals are to (1) provide a comprehensive, coordinated, and cost-effective system of child care and development services, (2) enhance the educational performance and cognitive development of participant children, (3) assist families in becoming self-sufficient by enabling parents to work or receive employment training, and (4) provide families with a full range of child care and development services in the areas of education, supervision, health, nutrition, social services, parent participation, and parent education.

K-12 EDUCATION—Continued**Participation**

Table 49 summarizes the scope of the Department of Education's child care services for 1980-81. The table shows that 637 agencies will serve an estimated 131,198 children.

Table 49
1980-81 Child Development Services
Estimated Number of Agencies, Sites, and Children

<i>Programs</i>	<i>Agencies</i>	<i>Sites^a</i>	<i>Children</i>
School districts and county superintendent of schools	112	552	67,065
Private community based programs.....	203	514	20,919
Campus children centers.....	47	78	5,216
County child care services	41	2	10,719
High school-age parenting	49	64	2,109
Migrant day care.....	21	50	5,158
Alternative child care.....	164	660	20,012
Totals	637	1,920	131,198

^a Includes family day care homes.

Funding

Table 50 summarizes state and federal funding for specific child care services in 1981-82.

The Governor's Budget proposes a funding level of \$215,607,014 in 1981-82, which is a net decrease of \$1,437,335 million (0.7 percent) from the current year. The major components of the net decrease are as follows:

- a decrease of \$1.5 million from Title I funds for Migrant Child Care Programs,
- an increase of \$3 million for full-year annualization of the expansion provided through SB 863, and
- a decrease of \$4 million for one-time capital outlay in 1980-81.

Federal Title XX Funds

In addition, the Governor's Budget proposes a General Fund "buy-out" of the Federal Title XX funds previously used to support child care programs. In past years, \$52 million in federal funds was received by the Department of Social Services and then transferred to the Department of Education for child care programs. The Governor's Budget proposes to (1) replace the federal funds with General Fund support and (2) reduce General Fund support for the Department of Social Services by an equal amount, resulting in no net cost to the state.

Our analysis indicates that this "buy-out" will benefit the child care and development programs by (1) reducing administrative workload, (2) eliminating detailed federal reporting requirements, and (3) expediting the allocation of local assistance funds. Accordingly, *we recommend approval.*

Chapter 798, Statutes of 1980 (SB 863)

SB 863, the Child Care and Development Services Act, revised and expanded the provisions of child development programs. The major provisions of the bill involve (1) program expansion, (2) fiscal control, (3) reimbursement rates, (4) staffing ratios, (5) special programs, and (6) reports and audits.

In program expansion, SB 863:

- appropriates \$9 million for child care and development services, with a provision for carry-over of unexpended funds into 1981-82,
- appropriates \$4 million on a one-time basis for capital outlay purposes,

Table 50
Child Care Services
Expenditures and Funding

	<i>Estimated 1980-81</i>			<i>Proposed 1981-82</i>			<i>Change</i>	
	<i>State</i>	<i>Federal</i>	<i>Total</i>	<i>State</i>	<i>Federal</i>	<i>Total</i>	<i>Amount</i>	<i>Percent</i>
Local Assistance								
General Child Care	\$88,015,660	\$51,478,889 ^a	\$139,494,549	\$158,376,165	-	\$158,376,165	\$18,881,616	13.5%
Campus Children Centers	11,970,387	—	11,970,387	12,784,513	—	12,784,513	814,126	6.8
High School Parenting and Infant Development	3,427,638	—	3,427,638	3,919,248	—	3,919,248	491,610	14.3
Migrant Day Care	4,120,541	457,000 ^b	4,577,541	5,350,465	\$457,000	5,807,465	1,229,924	26.9
Special Allowances for Rent	316,462	—	316,462	344,944	—	344,944	28,482	9.0
Special Allowances for Hand- icapped	531,505	—	531,505	579,340	—	579,340	47,835	9.0
Alternative Child Care Pro- grams	23,842,099	—	23,842,099	29,373,482	—	29,373,482	5,531,383	23.2
Intergenerational	192,000	—	192,000	209,280	—	209,280	17,280	9.0
Unallocated Expansion	8,618,500	—	8,618,500	—	—	—	-8,618,500	-100.0
Unallocated Inflation	15,762,882	—	15,762,882	—	—	—	-15,762,882	-100.0
Unallocated								
Capital Outlay	4,000,000	—	4,000,000	—	—	—	-4,000,000	-100.0
Subtotals	\$160,797,674	\$51,935,889	\$212,733,563	\$210,937,437	\$457,000	\$211,394,437	-\$1,339,126	-0.6%
State Operations	\$3,034,786	\$1,276,000	\$4,310,786	\$4,212,577	—	\$4,212,577	-\$98,209	-2.3
Totals	\$163,832,460	\$53,211,889	\$217,044,349 ^c	\$215,150,014	\$457,000	\$215,607,014	-\$1,437,335	-0.7%
Change								
Amount	—	—	—	\$51,317,554	-\$52,754,889	-\$1,437,335	—	—
Percent	—	—	—	31.3%	-99.1%	-0.7%	—	—

^a Federal Title XX Funds in 1980-81. Governor's Budget proposes buy-out in 1981-82.

^b Federal Title I funds.

^c Does not include (1) \$375,000 for the Indo-Chinese Refugee Assistance Program, (2) \$1.5 million Federal Funds for the Migrant Child Care Programs, (3) \$381,500 reappropriated per Chapter 1353, Sec. 97.5 (one-time only), or (4) \$99,000 to provide six Search and Serve programs within the Resource and Referral programs.

K-12 EDUCATION—Continued

- establishes priorities for allocation of expansion funds by county using indirect indicators of need, and
- mandates infant care for each migrant program.

In fiscal control, SB 863:

- requires a cost control plan to be submitted to the Joint Legislative Budget Committee, commencing on October 1, 1980, for agencies whose 1979-80 reimbursement rate exceeded the standard reimbursement rate and
- requires the Legislative Analyst to report by March 1, 1981, on the findings of the Department of Education's cost control plan as to the need to provide reimbursement rates above the standard.

In reimbursement rates, SB 863:

- establishes a standard reimbursement rate per average daily enrollment, in lieu of a maximum reimbursement rate,
- provides for reimbursement of start-up costs for any program and close-down costs for migrant programs, and
- establishes cost factors for special need children.

In staffing ratios, SB 863:

- establishes new requirements for adult/child, teacher/child ratios, and group size.

In special programs, SB 863:

- requires the Department of Health Services to provide for the delivery of health screening,
- requires a joint report due February 15, 1982, by the Department of Education and the Department of Health Services, addressing problems and improvements to the delivery of health services,
- merges the Governor's Alternative Child Care Programs with other child care programs, and
- makes community college district child care programs, as of July 1, 1981, subject to rules and regulations adopted by the Superintendent of Public Instruction.

In reports and audits, SB 863:

- modifies frequency of child care statistical reports by allowing submission of reports once every three years beginning with a report on December 15, 1980, and
- modifies the existing law requirement for an annual audit conducted by a certified public accountant. The Department of Education is allowed to conduct audits for periods in excess of one year as long as the audits cover all contract periods from the last audit.

Proposed Inflation Adjustment

We recommend that the unexpended funds for 1980-81 program expansion and any existing program carry-over balances be used to partially fund any inflation adjustment for existing child care programs.

The Governor's Budget requests no additional funds to offset the effects of inflation in the budget year. Our analysis indicates that failure to provide an inflation adjustment in this program could have a significant impact on the availability of state-supported child care services. In 1979-80, 20 child care agencies ceased operations. In the majority of these cases, the agency did so because its costs exceeded reimbursements. Without an inflation increase for 1981-82, it is probable that additional agencies will cease to operate.

SB 863 Expansion Funds Carry-Over. Chapter 798, Statutes of 1980 (SB 863), appropriated a total of \$9 million for a nine-month expansion of child care pro-

grams in 1980-81. The budget proposes \$12 million to continue this level in the budget year.

At the time this analysis was written, \$7 million of the \$9 million available in 1980-81 had been allocated for seven months of program expansion operation. Thus, \$2 million will carry over into 1981-82. Some programs, however, will not be in operation for the entire seven months. As a result, the carry-over may exceed \$2 million.

SB 863 provides that any carry-over funds be used for program expansion. We recommend that these funds be used to cover the cost of whatever inflation adjustments are approved by the Legislature rather than for further program expansion in 1981-82. The basis for our recommendation is as follows:

- The provisions of SB 863 were extensive, and there have been delays and difficulties in implementing the act. Our analysis concludes that another year is necessary for the Office of Child Development to examine and implement the provisions of SB 863, including modifications to existing procedures to expedite the funding process.
- The cost control plan in SB 863, which was to identify savings made possible by less stringent staffing ratios, had not been implemented at the time this analysis was written. The plan requires each high-cost child care agency to report to the Superintendent of Public Instruction by October 1, 1980, on the extent to which (1) additional children can be served at no increase in contract amount because of the revised less stringent staffing ratios or (2) the cost per average daily enrollment (ADE) can be decreased if the agency cannot increase the number of children served due to facility constraints. The 1980-81 contracts of each child care agency would be adjusted accordingly. Savings to the state from implementation of this plan were to be allocated to (a) expand child care services at a cost not to exceed the standard reimbursement rate or (b) increase, on a case-by-case basis, reimbursement rates to agencies which are below the standard reimbursement rate.

Given the problems that the department is encountering in implementing SB 863, expansion funding for 1981-82 is not warranted. Consequently, we recommend that available funds and any year-end carry-over balances from existing programs be used for an inflation adjustment, rather than for program expansion.

Base Program Reversions. SB 863 requires unexpended child care local assistance funds, other than the \$9 million in expansion funds, to revert to the General Fund at the end of each fiscal year.

The funds reverting to the General Fund from child care programs totaled \$2,717,071 in 1978-79 and \$2,033,021 in 1979-80. The same level of funds will presumably be available at the end of 1980-81. Therefore, we recommend that the Legislature allow these funds to carry-over for reallocation towards an inflation adjustment in 1981-82 rather than revert to the General Fund.

We estimate the total amount available from SB 863 carry-over and base program reversions will be \$4 million. We recommend that these funds be used to partially fund any inflation adjustment for child care programs.

Elsewhere in this analysis (in the A Pages) we discuss the general issue of providing inflation adjustments. The final decision made by the Legislature on this issue should be applied consistently to all categorical education programs such as child care which warrant an inflation adjustment. Each 1 percent increase in funding for the child care program would cost \$1.6 million.

K-12 EDUCATION—Continued**Staff Increase**

We withhold recommendation on \$272,000 for 10 new state administration positions until the department submits workload justification.

The \$52 million federal Title XX buy-out includes \$272,000 for 10 positions within the Office of Child Development. Apparently, these positions will be added to the compliance unit, which is responsible for licensing child care facilities. No justification for the 10 positions has been submitted. Although we recognize there is a need for some additional positions, we have no analytical basis for recommending a staff increase of 10 positions until we can review the requested workload justification for this staff increase.

Management Plan Needed

We recommend that the Legislature direct the Department of Education to submit to the legislative budget committees, by November 1, 1981, a management plan for the Offices of Child Development, Child Nutrition, and Surplus Property.

The operations of the Offices of Child Development, Child Nutrition, and Surplus Property are interrelated because of the types of services they offer and the agencies they serve. For example, some child care agencies receive services and/or funds from each of these three offices. There have been coordination problems among the offices such as local agencies owing funds to one office while still receiving funds from another office.

The department, in an attempt to address this coordination problem, has proposed an automated fiscal management system for the Division of Child Development and Nutrition Services. Discussions with departmental staff indicate the usefulness of such a system in coordinating the functions of this division. At the time this analysis was written, however, the feasibility study had not been approved by the State Office of Information Technology. The Department of Education will be prepared to comment on the status of this proposed system at the time of the budget hearings.

Our analysis indicates that a management plan is needed to address the coordination of the offices' functions, including the use of an automated fiscal system.

Contracts

We recommend that the contract process for allocating child care local assistance funds be changed to a letter of agreement.

In the past, a contract between the state and child care agencies was needed to satisfy federal Title XX requirements. The budget proposal to "buy-out" Title XX federal funds eliminates the need for these contracts.

Some local agencies have experienced funding delays of two to four months as a result of the contract review process in the Departments of Education, Finance, and General Services. The letters of agreement will be reviewed by the Office of Child Development to ensure that state reporting, control, and audit requirements will be met. We recommend that letters of agreement be substituted for contracts, beginning in 1981-82. This process was used prior to 1977-78, and would reduce by half, the funding delay to local child care agencies.

Handicapped Children Centers

We recommend that (1) legislation be enacted to remove the seven bay area child care programs for special education children from the provisions of Chapter 798, Statutes of 1980 (SB 863), and (2) the administrative responsibility for these programs be transferred from the Office of Child Development to the Office of Special Education.

There are seven programs serving 283 handicapped children in Alameda and San Francisco County. Between 1974-75 and 1979-80, these programs were administered by the Office of Special Education. The administrative responsibility for

these programs, however, was transferred to the Office of Child Development in 1980-81. In addition, SB 863 was enacted which made these programs subject to its provisions.

These programs are not child care centers as defined by the Office of Child Development. Nor are special provisions made within child care statutes for the type of program serving these children. If the provisions of SB 863 are applied to these centers, service to a number of currently enrolled children would have to be terminated. At the time this analysis was written, the Department of Education had not estimated the number of children that would be excluded from the programs. The Department of Education has notified the affected programs that no changes in services to currently-enrolled children should be made in 1980-81. The agencies, however, will be required to comply with SB 863 as of July 1, 1981.

Our review of the types of services being offered and the age of children being served by these centers indicates that it would be more appropriate to place these centers within the Office of Special Education. The services offered by the Office of Special Education are more appropriate for these children.

In order to ensure continued services for these children, we recommend that legislation be enacted to exempt these seven programs from the provisions of SB 863, and that the administrative responsibility for the centers be transferred to the Office of Special Education.

Migrant Child Care

The 1980 Budget Act contained a federal fund transfer of \$1.5 million from ESEA Title I funds for Migrant Child Care Programs. At the time this analysis was written, none of these funds had been allocated because the federal program office had not yet approved the state expenditure of the \$1.5 million appropriation. We have asked the Department of Education to comment on the status of this situation during budget hearings. The Governor's Budget contains no provision for a continuation of the \$1.5 million.

Migrant Child Care Facilities

The Budget Act of 1978 appropriated \$1 million to the Department of Education for allocation to migrant child care agencies for renovation of existing facilities and the purchase of portable facilities. In addition, (1) the Governor directed the Department of Finance to provide up to \$1 million in federal Public Works Employment Act (PWEA) funds for the same purpose and (2) Item 264 of the Budget Act of 1978 appropriated an additional \$428,000 to the Employment Development Department to rehabilitate migrant day care centers for the purpose of correcting problems potentially dangerous to the health and safety of children.

Of the \$2,428,000 appropriated and authorized, the Department of Education has reported expenditures of \$1,688,106. We have requested that the department provide additional information on why less than 70 percent of the authorized funds have been spent. We will be prepared to comment on the department's response during budget hearings.

Campus Children Centers

The 1980 Budget Act transferred the funding and administration for the community college district child development programs from the Chancellor's Office to the Department of Education. Subsequently, SB 863 made all community college district child care programs subject to rules and regulations adopted by the Department of Education, as of July 1, 1981.

The Governor's Budget proposes to continue the policy established in the Budget Act of 1980, of exempting campus child care programs from having to provide a local match.

K-12 EDUCATION—Continued**Cost Report Delay**

The Department of Education is working on the development of new data collection instruments for use after July 1, 1981. An extension for the cost element study has been requested by the department in order to ensure the accuracy of the new data collection instruments. The department will submit an interim report, Spring 1981, and expects to complete the final cost element study in early 1982.

6. CHILD NUTRITION AND SURPLUS PROPERTY

Table 51 shows the expenditures and funding for the child nutrition programs and the surplus property programs which primarily process and distribute food commodities to nutrition programs.

Table 51
Child Nutrition and Surplus Property Expenditures and Funding *

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations					
Food and Nutrition.....	\$10,496,258	\$6,555,352	\$6,240,052	-\$315,300	-4.8%
Surplus Property	15,152,165	34,305,159	14,507,544	-19,797,615	-57.7
Subtotals	\$25,648,423	\$40,860,511	\$20,747,596	-\$20,112,915	-49.2%
Local Assistance					
Food and Nutrition.....	\$354,856,840	\$330,818,834	\$321,796,167	-\$9,022,667	-2.7%
Surplus Property	-	-	22,000,000	22,000,000	NA
Subtotals	\$354,856,840	\$330,818,834	\$343,796,167	\$12,977,333	3.9%
Totals	\$380,505,263	\$371,679,345	\$364,543,763	-\$7,135,582	-1.9%
<i>General Fund.....</i>	<i>\$40,065,167</i>	<i>\$36,300,740</i>	<i>\$26,853,533</i>	<i>-\$9,447,207</i>	<i>-26.0%</i>
<i>Federal funds.....</i>	<i>325,287,931</i>	<i>301,073,446</i>	<i>301,182,686</i>	<i>109,240</i>	<i>0.1</i>
<i>Surplus Property Revolving Fund.....</i>	<i>15,152,165</i>	<i>34,305,159</i>	<i>36,507,544</i>	<i>2,202,385</i>	<i>6.4</i>

* Includes Governor's Budget "A" page proposals for the child nutrition program.

CHILD NUTRITION

Table 52
Participation in Child Nutrition Programs
(Meals Served)

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Projected</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Schools:					
Lunches:					
Free	166,213,623	174,856,731	185,173,278	10,316,547	5.9%
Reduced price.....	23,390,047	26,267,023	29,970,673	3,703,650	14.1
Paid	136,039,220	137,535,651	140,286,364	2,750,713	2.0
Total lunches	325,642,890	338,659,405	355,430,315	16,770,910	5.0%
Breakfasts:					
Free	54,637,228	56,822,717	59,379,739	2,557,022	4.5%
Reduced price.....	3,599,627	3,758,011	3,945,912	187,901	5.0
Paid	7,258,548	7,469,046	7,715,525	246,479	3.3
Total breakfasts.....	65,495,403	68,049,774	71,041,176	2,991,402	4.4%
Child Care Food Programs:					
Breakfast	5,343,232	6,603,069	7,567,117	964,048	14.6%
Lunch	8,350,686	9,829,633	11,097,656	1,268,023	12.9
Total CCFP	13,693,918	16,432,702	18,664,773	2,232,071	13.6%
Total Meals.....	404,832,211	423,141,881	445,136,264	21,994,383	5.2%

Overview

The department's Office of Child Nutrition Services administers the state child nutrition program. The office also supervises the federally funded National School Lunch and Breakfast Program and Child Care Food Program. These programs assist schools in providing nutritious meals to pupils, with emphasis on free or reduced-price meals to children from low-income families.

The federal school lunch and breakfast subsidies and the state basic subsidy are open-ended—that is, all eligible participants who apply are entitled to receive payments. Furthermore, the subsidies have statutory inflation factors.

Table 52 summarizes participation in the child nutrition programs, based on the number of meals served. The budget projects a 5.2 percent increase in the total number of meals served during the budget year.

Funding

Table 53 summarizes the funding of the child nutrition programs in the past, current, and budget years. It projects a net decrease of \$9.3 million, or 2.8 percent, in total funding for food and nutrition programs, due primarily to the budget proposal that the basic subsidy for paid meals be eliminated.

Table 53
Child Nutrition Programs
Expenditures and Funding

<i>Federal Funds</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change</i>	
	<i>1979-80</i>	<i>1980-81</i>	<i>1981-82</i>	<i>Amount</i>	<i>Percent</i>
State Operations	\$9,005,429	\$4,867,618	\$4,476,858	-\$390,760	-8.0%
Local Assistance:					
School Lunch					
General Assistance	\$70,455,952	\$61,492,770	\$61,492,770	—	—
Special Assistance to Needy					
Children	166,505,092	153,561,871	153,561,871	—	—
School Breakfast	40,495,259	43,551,360	43,551,360	—	—
Special Milk	14,194,914	15,144,370	15,144,370	—	—
Child Care Food	19,043,999	18,252,857	18,252,857	—	—
Food Service Equipment As-					
sistance	3,262,133	3,077,600	3,077,600	—	—
Cash for Commodities	2,063,565	—	—	—	—
Commodities Supplemental					
Food Program	261,588	125,000	125,000	—	—
Nutrition Education and					
Training Projects	—	1,000,000	1,500,000	\$500,000	50%
Subtotal	\$316,282,502	\$296,205,828	\$296,705,828	\$500,000	0.2%
Total Federal Funds	\$325,287,931	\$301,073,446	\$301,182,686	\$109,240	0.1%
<i>State Funds</i>					
State Operations					
Food and Nutrition Services ..	\$661,896	\$805,175	\$827,532	\$22,357	2.8%
State Child Nutrition Program	828,933	882,559	935,662	53,103	6.0
Subtotal	\$1,490,829	\$1,687,734	\$1,763,194	\$75,460	4.5%
Local Assistance Basic Subsidy ..	\$38,574,338	\$34,613,006	\$25,090,339 ^a	-\$9,522,667	-27.5%
Total State Funds	\$40,065,167	\$36,300,740	\$26,853,533	\$-9,447,207	-26.0%
Combined Totals					
State Operations	\$10,496,258	\$6,555,352	\$6,240,052	\$-315,300	-4.8%
Local Assistance	354,856,840	330,818,834	321,796,167	-9,022,667	-2.7
Total	\$365,353,098	\$337,374,186	\$328,036,219	\$-9,337,967	-2.8%

^a Includes Governor's Budget "A" page modifications.

K-12 EDUCATION—Continued**State Child Nutrition Program**

The state child nutrition program provides a basic subsidy from the General Fund for each nutritionally adequate meal served by public schools, private non-profit schools, and child care centers. The subsidy, estimated at 8.18 cents per meal in 1980-81, is adjusted annually for inflation. Funding for local assistance in the state child nutrition program is estimated to be \$34,613,006 in 1980-81. The Governor's Budget proposes \$25,090,339 for local assistance in 1981-82, a reduction of \$9.5 million or 27.5 percent. The net change reflects (1) an increase of \$3.0 million in the basic subsidy for lowest-income pupils and (2) a reduction of \$12.5 million in subsidies for other pupils.

The Governor's Budget proposes to eliminate the state basic subsidy for pupils who are not eligible for free or reduced-price meals. Consequently, only low-income pupils (for example, parental incomes below \$16,000 for a family of four) would be eligible for the state subsidy. Given the various demands on General Fund resources, we agree that it is appropriate to eliminate the subsidy for pupils whose family income is high enough to allow them to pay for meals without state aid.

Nutrition Education

We recommend that General Fund support for local assistance projects in nutrition education be reduced to the estimated current-year level because of the increase in federal funding for the program, for a savings of \$42,494. (Reduce Item 610-001-001 by \$42,494.)

The nutrition education program is designed to provide information about nutrition and to effect changes in eating patterns in order to improve the health of California's children. Grants are awarded to local education agencies for projects in student instruction, in-service training, curriculum development, and parent and community education.

The Governor's Budget includes \$649,555 from the General Fund for local assistance projects in 1981-82, an increase of \$42,494 (7.0 percent) above the estimated current-year level. In addition, the department estimates that it will receive \$2.5 million in federal funds for nutrition education, of which \$1.5 million would be allocated for local assistance.

Since 1979-80, the federal government has provided significant allocations for nutrition education. Consequently, total funding available for local assistance projects has increased from \$607,061 in 1978-79 to an estimated \$2,149,555 in 1981-82, or by 254 percent in a three-year period. The department reports that the state must maintain funding for local assistance projects at \$607,061 in order to satisfy federal matching requirements. Because the federal allocations have resulted in such a large increase in total funding for the program, we recommend that state funding for local assistance projects be held to the current-year level of \$607,061.

SURPLUS PROPERTY (ITEMS 610-001-680 and 610-101-680)**Overview**

Federal surplus property and food commodities are processed and distributed by the Department of Education to public and private nonprofit agencies within California. A processing and handling charge is assessed to local agencies to finance the state's cost. Funding is provided through the Surplus Property Revolving Fund. The Governor's Budget for this fund proposes \$36,507,544 million in 1981-82, an increase of 6.4 percent over the current year.

Misleading Budget Display

We recommend that the Legislature direct the Department of Finance to reflect the Surplus Property Revolving Fund as state operations in the 1982-83 Governor's Budget.

The Governor's Budget proposes \$22 million for Surplus Property as local assistance rather than state operations. This "local assistance" actually represents *charges* to local agencies for commodities services rather than *assistance*. The Governor's Budget should include the Surplus Property Revolving Fund in the state operations category of the budget.

Zero-Base Budget Review/Reorganization

The surplus property and commodities unit was one of three units within the Department of Education directed by the Legislature to develop a zero-base budget (ZBB) for 1981-82. The zero-base budget has been useful in defining the program and in allocating resources to support the activities of the office. In addition, the ZBB review assisted the unit in conducting a reorganization which was recommended by the United States Department of Agriculture.

II. STATE OPERATIONS (Items 610-001-001 and 610-001-890)

DEPARTMENT MANAGEMENT AND STATE LIBRARY

Overview

This section discusses the overall state operations (administration) budget as well as those administrative activities that are not directly tied to a particular local assistance program: (1) program evaluation, (2) curriculum services, and (3) library services. Administrative issues related to particular local assistance programs, such as the School Improvement Program, are discussed in connection with the particular program.

Table 54
State Operations Expenditures

	Actual 1979-80	Estimated 1980-81	Proposed 1981-82	Change	
				Amount	Percent
Department of Education	\$56,499,920	\$65,128,658	\$66,903,473	\$1,774,815	2.7%
Special Schools ^a	24,480,383	29,719,956	29,410,426	-309,530	-1.0
Division of Libraries	6,225,281	7,356,668	7,586,454	229,786	3.1
Surplus Property Revolving Fund	15,075,995	34,257,049	14,459,182	-19,797,867	-57.8
Local Assistance Administration	590,608	837,797	389,885	-447,912	-53.5
Reimbursements	6,799,231	8,273,601	6,844,893	-1,428,708	-17.3
Totals	\$109,671,418	\$145,573,729	\$125,594,313	-\$19,979,416	-13.7%
Less Reimbursements	-6,799,231	-8,273,601	-6,844,893	1,428,708	17.3
Less Local Assistance Administration	-590,608	-837,797	-389,885	447,912	53.5
Net Totals	\$102,281,579	\$136,462,331	\$118,359,535	-\$18,102,796	-13.3%
General Fund	\$55,093,511	\$67,748,517	\$69,881,786	\$2,133,269	3.1%
Federal funds	31,912,440	34,228,998	33,226,519	-1,002,479	-2.9
Other state funds	15,275,628	34,484,816	15,251,230	-19,233,586	-55.8

^a Discussed under Special Education in Local Assistance section.

K-12 EDUCATION—Continued**Expenditures**

Table 54 shows state operations expenditures for the Department of Education, special schools, library services, and other categories. These expenditures will total \$125.6 million in 1981-82, of which \$66.9 million is for the department.

As shown in Table 55, the proposed General Fund increases for the Department of Education and library services are 6.6 percent (\$2.1 million) and 4.7 percent (\$0.3 million), respectively, even though *total* expenditures for these programs shown in Table 54 only increase by 2.7 percent and 3.1 percent, respectively. The decline in total expenditures is caused by a decrease in federal funding. The amount requested from the General Fund for the department and library services will increase by the amount of any salary or staff benefit increase approved for the budget year. (The Department of Finance estimates that each 1 percent of salary increase will require \$560,000 in additional General Fund support.)

Table 55
State Operations Funding

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Department of Education					
Funding:					
General Fund	\$25,483,737	\$31,770,169	\$33,872,347	\$2,102,178	6.6%
Federal funds	30,816,550	33,130,722	32,239,078	-891,644	-2.7
State School Building					
Aid	199,633	227,767	—	-227,767	-100.0
State School Building					
Lease-Purchase	—	—	456,671	456,671	N/A
Driver Training Pen-					
alty Assessment	—	—	335,377	335,377	N/A
Subtotals, Depart-					
ment of Education	\$56,499,920	\$65,128,658	\$66,903,473	\$1,774,815	2.7%
Special Schools Funding:					
General Fund	\$24,343,846	\$29,673,543	\$29,410,426	-\$263,117	-0.9%
Federal funds	136,537	46,413	—	-46,413	-100.0
Subtotals, Special					
Schools	\$24,480,383	\$29,719,956	\$29,410,426	-\$309,530	-1.0%
Division of Libraries Fund-					
ing					
General Fund	\$5,265,928	\$6,304,805	\$6,599,013	\$294,208	4.7%
Federal funds	959,353	1,051,863	987,441	-64,422	-6.1
Subtotals, Division of					
Libraries	\$6,225,281	\$7,356,668	\$7,586,454	\$229,786	3.1%
Surplus Property Re-					
volving Fund	\$15,075,995	\$34,257,049	\$14,459,182	-\$19,797,867 ^c	-57.8%
Local assistance admin-					
istration	\$590,608	\$837,797	\$389,885	-\$447,912	-53.5%
Reimbursements	\$6,799,231	\$8,273,601	\$6,844,893	-\$1,428,708	-17.3%
Totals	\$109,671,418	\$145,573,729	\$125,594,313	-\$19,979,416	-13.7%
<i>General Fund</i> ^a	<i>\$55,557,379</i>	<i>\$68,536,714</i>	<i>\$70,220,480</i>	<i>\$1,683,766</i>	<i>2.4%</i>
<i>Federal funds</i>	<i>31,912,440</i>	<i>34,228,998</i>	<i>33,226,519</i>	<i>-1,002,479</i>	<i>-2.9</i>
<i>Other state funds</i> ^b	<i>22,201,599</i>	<i>42,808,017</i>	<i>22,147,314</i>	<i>-20,660,703</i>	<i>-48.3</i>

^a Includes local assistance administration for instructional materials.

^b Includes reimbursements, state school building aid, state school building lease-purchase, driver training penalty assessment, and local assistance administration for environmental education.

^c Reduction primarily caused by transfer of \$22.0 million in surplus property state operations to local assistance.

Total funding for state operations is expected to drop by approximately \$20 million between 1980-81 and 1981-82. This decrease is caused by the proposed 1981-82 transfer of \$22 million in surplus property from state operations to local assistance. Without this transfer, total expenditures for state operations show an increase of approximately \$3.9 million.

Personnel

Table 56 shows the number of authorized positions in the Department of Education, special schools, and the State Library. The Governor's Budget proposes a net increase of 4.8 positions. These increases are discussed as part of the analysis of individual programs and activities. The increase in personnel-years between 1979-80 and 1981-82 is 327.4, or 12.8 percent.

Table 56
Distribution of Personnel
Department of Education,
Special Schools, and State Library

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Department of Education	1,402.2	1,625.0	1,639.6	14.6	0.9%
Special schools	996.4	1,090.1	1,078.8	-11.3	1.0
State library	160.1	166.2	167.7	1.5	0.9
Totals	2,558.7	2,881.3	2,886.1	4.8	0.2%

Table 57
Operating Expenses and Equipment (OEE)

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
General expense	\$3,609,362	\$5,597,367	\$4,484,055	-\$1,113,312	-19.9%
Printing	1,023,892	1,174,030	1,186,098	12,068	1.0
Communications	1,154,252	1,060,204	1,250,351	190,147	17.9
Postage	517,915	618,433	531,010	-87,423	-14.1
Travel—in-state	3,041,913	4,253,764	4,374,403	120,639	2.8
Travel—out-of-state	156,622	190,777	205,930	15,153	7.9
Training	13,676	45,348	47,348	2,000	4.4
Facilities operation	3,645,963	6,203,863	6,168,548	-35,315	-0.6
Utilities	574,603	709,781	852,971	143,190	20.2
Consultant and professional services	13,742,410	11,646,180	18,509,052	6,862,872	58.9
Departmental services	-49,121	473,389	646,904	173,515	36.9
Consolidated data centers	439,791	595,355	597,355	2,000	0.3
Data processing	627,481	707,768	778,911	71,143	10.0
Fiscal pro rata	158,799	—	—	—	—
Statewide cost allocation plan	—	1,197,908	1,197,908	—	—
Equipment	825,653	1,406,489	1,409,972	3,483	0.2
Other items of expense	1,711,845	2,360,369	2,860,116	499,747	21.2
Commodities costs	11,287,162	26,371,563	— ^a	-26,371,563	-100.0
Educational subgrants	2,238,555	1,948,164	—	-1,948,164	-100.0
Totals	\$44,720,773	\$66,560,752	\$45,100,932	-\$21,459,820	-33.2%

^a Transferred to local assistance and consultant and professional services.

K-12 EDUCATION—Continued**Operating Expenses and Equipment (OEE)**

Table 57 presents the line-item display for operating expenses and equipment (OEE) for the Department of Education, special schools, and the State Library.

As shown in Table 57, OEE expenses are proposed to decrease by \$21.4 million (33.2 percent). This decrease is caused primarily by (1) the partial transfer of surplus property functions to local assistance, (2) the redistribution of educational subgrant costs and the transfer of part of these costs to local assistance, and (3) the deletion of \$1.7 million provided in 1980-81 in connection with the special schools' move from Berkeley to Fremont. These decreases are partially offset by increases in consultant and professional services (CPS) and transportation costs for the state special schools. The large CPS increase reflects the transfer of \$6.6 million from the surplus property commodity costs display to contracts in CPS. These changes are primarily technical display changes except for the transfer of \$22 million in surplus property from state operations to local assistance which was discussed in local assistance.

A. DEPARTMENT OF EDUCATION**BUDGET DEVELOPMENT****Overview**

The department had difficulty developing its 1981-82 budget because year-end statements covering fiscal year 1979-80 were not completed until December—five months after the due date. According to the department, the delay was caused by a breakdown in the project cost accounting system. This also delayed the preparation of budget analysis information and supplemental language reports.

The department anticipates that implementation of the California Fiscal Information System (CFIS) accounting procedures in 1981-82 will allow the department to avoid most of the problems it encountered during the current year. The department, however, will be prepared to comment on this matter during budget hearings.

Governor's Budget Format—Technical

We recommend that the Legislature direct the Department of Finance to provide program detail in the Department of Education's Reconciliation with Appropriations.

The format used to present budget information for the Department of Education was changed in the Governor's Budget for 1981-82 to make it consistent with CFIS guidelines. As part of this format change, the Reconciliation with Appropriations schedule has been condensed to reflect total appropriation by fund source (General Fund, federal funds, etc.), rather than appropriations by program (School Improvement, Economic Impact Aid, Special Education, etc.).

If the current format is not changed to reflect programmatic appropriations and expenditures, it will be almost impossible for the Legislature to determine annual changes in *expenditures* (as opposed to appropriations) for specific programs. Accordingly, we recommend that in future budgets, the Department of Education's Reconciliation with Appropriations schedule include program detail.

Position Reclassifications

We recommend that budget language be adopted directing the Department of Education to fund all costs for upgraded General Fund positions with savings from downgraded General Fund positions, for a General Fund savings of \$47,384. (Reduce Item 610-001-001 by \$47,384.)

The Department of Education can request, and the Department of Finance is

authorized to approve, reclassifications for existing authorized positions. Table 58 displays the number of such reclassifications, exclusive of reclassifications for training or recruitment, in their net cost, by fund source, for 1978-79 and 1979-80.

Table 58
Position Reclassifications
1978-79 and 1979-80
(annualized)

	<i>General Fund</i>	<i>Federal Funds</i>	<i>Indirect Cost</i>	<i>Other Funds</i>	<i>Total</i>
1978-79					
1. Number of reclassifications	38	25	16	10	89
2. Net cost	\$11,088	\$3,777	\$38,220	—\$595	\$52,490
1979-80					
1. Number of reclassifications	38	30	21	18	107
2. Net cost	\$47,384	\$17,832	\$27,204	—\$2,005	\$90,415

As shown in Table 58, the net effect of position reclassifications has been to increase state operations costs. This is because the cost of position upgrades has been greater than the savings from position downgrades.

No analytical reason has been given as to why the costs for position upgrades should exceed savings from position downgrades.

Although no estimate of net reclassification costs in 1981-82 is available, we estimate that these costs could equal the 1979-80 annual General Fund cost of \$47,384. In the absence of information justifying a net increase in grade levels, we recommend budget language be adopted that requires the Department of Education to fund the costs of any upgraded positions using the savings resulting from downgraded positions. We also recommend that the budget be reduced by \$47,384 to compensate for the fact that salary savings are underbudgeted by the amount of such savings used to fund the net cost of position upgrades in 1979-80, for a 1981-82 General Fund savings of \$47,384.

Excess Salary Savings

We recommend that salary savings be increased by \$551,563. (Reduce Item 610-001-001 by \$551,563.)

All state agencies have some vacancies in authorized positions during the year because of staff turnover, delay in filling new positions, or filling positions at the beginning of the salary range. Consequently, the agency or board does not receive funding for all the costs of its authorized positions. "Salary savings" are estimated and deducted from the appropriation to account for the difference between the cost of authorized positions and expected expenditures for salaries and wages.

The Governor's Budget for the Department of Education proposes a 1981-82 General Fund salary savings level of \$1,380,615 (3.8 percent of General Fund salaries and wages) which is \$25,458 less than current-year budgeted salary savings.

As shown in Table 59, the 3.8 percent of salaries and wages budgeted in 1981-82 as salary savings is lower than the historic actual percent for savings which has averaged approximately 5.7 percent (approximately 1.5 percent above the amount budgeted).

Based on the average difference in actual salary savings over budgeted savings (1.5 percent) for 1977-78 through 1979-80, the department's 1981-82 salary savings should be a 5.3 percent of salaries and wages instead of the budgeted 3.8 percent. Consequently, we recommend that salary savings be increased by \$551,563 to reflect the historic percent of salary savings.

K-12 EDUCATION—Continued

Table 59
Comparison of Budgeted to Actual
General Fund Salary Savings as a Percent of
General Fund Salaries and Wages
1977-78 through 1979-80

	<i>Budgeted</i>		<i>Actual</i>		<i>Difference</i>	
	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>
1977-78	\$852,386	3.4%	\$1,147,100	4.6%	\$294,714	1.2%
1978-79	1,125,332	4.1	1,533,822	5.5	408,490	1.4
1979-80	1,585,145	5.1	2,196,771	7.1	611,626	2.0
1980-81	1,406,073	4.1	(1,927,638) ^a	(5.6) ^a	(521,565) ^a	(1.5) ^a
1981-82	1,380,615	3.8	(1,932,178) ^a	(5.3) ^a	(551,563) ^a	(1.5) ^a

^a Estimates based on an average actual salary savings difference of 1.5 percent of General Fund salaries and wages.

Excess Operating Expenses and Equipment

We recommend that operating expenses and equipment be reduced by \$308,324 because salary savings is underestimated. (Reduce Item 610-001-001 by \$308,324.)

To the extent salary savings is underbudgeted, operating expenses and equipment (OEE) is overbudgeted. This is because the unfilled positions which create the salary savings also have budgeted OEE. Using the ratio of OEE to personal services shown in the 1981-82 Governor's Budget (55.9 percent), we estimate that \$308,324 of excess OEE has been budgeted for \$551,563 in excess salary savings previously identified. Consequently, we recommend that Item 610-001-001 be reduced by the amount of excess OEE for a General Fund savings of \$308,324.

OFFICE OF PROGRAM EVALUATION AND RESEARCH**Overview**

The Office of Program Evaluation and Research (OPER) is the Department of Education's centralized evaluation unit. OPER's authorized staff totals 67.2 positions, 65 percent of which are professional. Responsibilities of the office include (1) performing federal and state mandated evaluations, (2) operating the California Assessment Program, and (3) assisting local districts in conducting evaluations and student proficiency testing.

Expenditures and Funding

OPER's expenditures and funding are shown in Table 60.

Nearly one-third of OPER's budget for 1981-82—\$1.7 million—would be used for contract services. Of this amount, \$711,486 is requested for the statewide testing contract and \$622,441 is requested for administration and scoring of the California High School Proficiency Examination (CHSPE).

Eliminating Evaluations of Limited Value—Technical

We recommend that Budget Act language be adopted to eliminate the requirement to evaluate: (1) Professional Development and Improvement Centers, (2) Indian Education Centers, (3) Alternative Schools, (4) Bilingual Teacher Corps, and (5) Demonstration Programs in Reading and Mathematics. We further recommend that legislation be enacted to eliminate permanently the requirements for these evaluations.

In 1978, the department identified various mandated evaluations that could be discontinued because they provide information of limited general value. Based on our recommendation, the Legislature eliminated funding for three of these

Table 60
Expenditures and Funding for the Office of Program Evaluation and Research

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
Special studies	\$285,443	\$189,854	\$190,967	\$1,113	0.6%
California Assessment Program (CAP)	1,319,610	1,417,979	1,437,406	19,427	1.4
California High School Proficiency Ex- amination (CHSPE)	639,700	757,787	764,485	6,698	0.9
Student proficiency	445,412	475,409	573,249	97,840	20.6
Other mandated evaluations	1,301,120	1,553,621	1,643,794	90,173	5.8
Administration	562,384	440,230	450,443	10,213	2.3
Subtotals	\$4,553,669	\$4,834,880	\$5,060,344	\$225,464	4.7%
Local Assistance	\$256,100	\$181,250	\$181,250	-	-
Totals	\$4,809,769	\$5,016,130	\$5,241,594	\$225,464	4.5%
<i>General Fund</i>	<i>\$2,279,134</i>	<i>\$2,431,488</i>	<i>\$2,621,753</i>	<i>\$190,265</i>	<i>7.8%</i>
<i>Federal funds</i>	<i>2,090,795</i>	<i>2,026,855</i>	<i>2,055,356</i>	<i>28,501</i>	<i>1.4</i>
<i>Reimbursements</i>	<i>439,840</i>	<i>557,787</i>	<i>564,485</i>	<i>6,698</i>	<i>1.2</i>

evaluations that were required in 1979-80 (Alternative Schools, Bilingual Teacher Corps, and the Demonstration program). Last year, the Legislature eliminated funding for evaluations of the Professional Development and Improvement Centers (PDICs) and Indian Centers which were due in 1980-81.

The 1981-82 evaluation cycle again calls for evaluations of Alternative Schools, Bilingual Teacher Corps, and the Demonstration Programs in Reading and Mathematics. Because these evaluations would be of limited value, we recommend that Budget Act language be approved eliminating them. Because the Governor's Budget contains no funding for these evaluations, the recommendation would not result in savings.

Because the five evaluations mentioned above are required by law, the statutory requirement that they be undertaken can only be eliminated on a permanent basis by the enactment of legislation. Accordingly, we recommend that such legislation be enacted.

Special Education Research Funding Shift

We recommend that the 1981-82 General Fund appropriation for the independent evaluation of the Master Plan for Special Education be eliminated, for a General Fund savings of \$100,000. (Reduce Item 610-001-001 by \$100,000.)

Chapter 1247, Statutes of 1977 (AB 1250), requires the department to contract for an independent evaluation of the Master Plan for Special Education. Chapter 894, Statutes of 1977 (AB 65), provided \$1 million from the General Fund for this evaluation over a five-year period (\$200,000 per year).

For fiscal year 1980-81, the Budget Act of 1980 substituted \$100,000 in federal funds (PL 94-142) for \$100,000 from the General Fund provided by Chapter 894, for a General Fund savings of \$100,000. However, because additional funding is necessary to complete the 1980-81 work plan the department has allocated an additional \$100,000 in General Fund support to this independent evaluation. As a result, the funding level for this project in the current year is \$300,000.

The 1981-82 budget again proposes \$200,000 for the independent evaluation, with \$100,000 coming from the General Fund and \$100,000 coming from federal funds. Our analysis indicates, however, that the full amount will not be needed in budget year. This is because a portion of the original 1981-82 work plan will be funded in 1980-81. Consequently, only \$100,000 will be required in 1981-82 to

K-12 EDUCATION—Continued

complete the Master Plan independent evaluation. Given that the Department of Education plans to use \$550,000 in federal PL 94-142 funds for evaluation and special studies involving handicapped pupils during the budget year, this \$100,000 can be provided from federal funds.

Accordingly, we recommend that the amount appropriated from the General Fund be reduced by \$100,000, and that the independent evaluation of the Master Plan be funded fully with federal PL 94-142 funds in 1981-82 at a level of \$100,000. This would leave \$450,000 of PL 94-142 research grants and \$170,000 within OPER's budget for special education research.

Table 61 shows the fiscal effect of our recommendation.

Table 61
1981-82 Special Education Research Funding

	<i>Governor's Budget</i>	<i>Analyst</i>
Federal Funds		
PL 94-142	\$450,000	\$450,000
Chapter 894/77 (independent evaluation)	100,000	100,000
State General Fund		
OPER staff (special studies)	170,000	170,000
Chapter 894/77 (independent evaluation)	100,000	—
	<u>\$820,000</u>	<u>\$720,000</u>

Language Proficiency Tests

OPER's budget includes an \$85,000 General Fund augmentation to conduct the language proficiency test equivalency study required by Chapter 1339, Statutes of 1980 (AB 507). The equivalency study would analyze the six language proficiency instruments currently used by school districts. The objective of this study is to establish uniform cut-off scores on each instrument to ensure consistent identification of students with limited-English proficiency (LEP).

Redirect Funds to Cover Study Costs

We recommend that the equivalency study be funded by redirecting state operations support from Economic Impact Aid (Consolidated Programs) and ESEA Title VII, for a General Fund savings of \$85,000. (Reduce Item 610-001-001 by \$85,000.)

An augmentation is not needed for the language proficiency test equivalency study. Existing federal and state funds can be used for this study, for the following reasons:

- The state receives ESEA Title VII funding to provide technical assistance to school districts which receive federal bilingual education support. Developing consistent identification standards for LEP students would assist the districts, and is thus an appropriate use of the department's Title VII funds.
- State law requires that all identified LEP students be provided specified services. The Economic Impact Aid (EIA) program is a primary source of funding to support services for LEP students. Ensuring that students are identified for support services on a consistent basis throughout the state is an appropriate use of the state technical assistance funds available to the Consolidated Programs Division which administers the EIA program.

For these reasons, we recommend that the language proficiency test equivalency study be funded from existing state and federal funds for technical assistance, for a General Fund savings of \$85,000.

Single Test

We recommend that supplemental report language be adopted directing the Department of Education to report to the legislative budget committees by October 1, 1981, on the cost and feasibility of developing or adopting a single English language proficiency test.

Chapter 1339 requires the department to conduct "an equivalency study of all language proficiency tests designated for the identification of pupils of limited-English proficiency. . . ." As more language proficiency tests are developed or updated, this law will require the department to conduct additional equivalency studies. Rather than conduct additional equivalency studies, it may be more cost effective to develop or adopt a single language proficiency test. Consequently, we recommend that supplemental report language be adopted directing the department to report to the legislative budget committees on the cost and feasibility of developing or adopting a single English language proficiency test.

California High School Proficiency Exam (CHSPE)

Chapter 1265, Statutes of 1972, established an examination process which provides students an opportunity to obtain a certificate of proficiency before their formal graduation from high school. The examination is administered by the department, and all test questions are developed by OPER. The exam is given three times annually at approximately 100 centers statewide. A \$10 fee is charged, which is the maximum fee allowed by law. The fees are intended to cover the cost of the exam, including the OPER staff costs.

The current \$10 fee is insufficient to cover the state's costs to administer the exam. The Governor's Budget estimates that the department will receive fees of \$564,485 in the budget year, while costs will amount to \$764,485. Item 610-001-001 proposes that up to \$200,000 from the General Fund be available to fund the program in the event fees do not cover the costs of the program.

Program Deficit

A recent department report, required by the 1980 Budget Act indicates that fee revenues have been stable at approximately \$400,000 in recent years. Because the number of students eligible to take CHSPE is declining, it appears that the budget's estimate of \$564,485 in fee revenues is unrealistic. This amounts to an increase of \$164,495 or 41 percent, over current year revenues. If fee revenues do not exceed \$400,000 in 1981-82, the program would incur a \$364,485 deficit, of which \$200,000 could be covered by the contingency appropriation from the General Fund. The remaining \$164,485 would have to be covered by unspecified budget savings.

Fee Increase Needed

We recommend that legislation be enacted to increase the California High School Proficiency Exam (CHSPE) fee from \$10 to \$20 in 1981-82. We further recommend that the legislation authorize the Department of Education to increase the fee annually for inflation.

Because the fee level is set in statute, the current \$10 fee charged those taking CHSPE has not changed since 1975-76. During this time, however, the cost-of-living as measured by the GNP deflator for state and local government has increased by 64.3 percent.

Because fees are intended to fund fully the CHSPE program, additional fee increases are needed to eliminate the current General Fund support for this program. The Department of Education estimates that a fee of approximately \$20 would be necessary to make this program self-supporting. Consequently, we recommend that legislation be enacted to increase the CHSPE fee to \$20. We further recommend that the legislation allow the department to increase fees in future years to offset inflation.

K-12 EDUCATION—Continued**California Assessment Program**

The major purpose of the California Assessment Program (CAP) is to provide the public, the Legislature, and the local school districts with evaluative information regarding the level of student performance. The authorizing legislation envisioned that this information would be used to identify unusual success or failure rates, as well as the factors which appear to be responsible for these rates. With this information, local districts and the state would be in a position to take those actions necessary to improve the quality of education provided to public school pupils.

The present testing schedule provides annual information on (1) entry level skills of first graders, and (2) reading, writing and mathematics skills at the completion of grades 3, 6, and 12. No information is available on student performance in intermediate school (grade 8). In addition to the gap in statewide test results between the sixth and twelfth grades, CAP does not provide either statewide or district information on skills in such subject areas as science and social studies. Consequently, the current CAP testing does not promote all of the goals envisioned in the authorizing legislation.

Information on eighth grade performance and subject area skills is needed by the state and the school districts to assess junior high schools in order to help identify causes for the recent decline in student achievement experienced between grades six and twelve.

Closing the Information Gap

We recommend that the Department of Education report to the legislative budget committees by April 1, 1981, on the cost of implementing eighth grade CAP and subject area skill tests. We further recommend that the department propose alternative means for funding the tests' costs.

The lack of statewide information on basic skills achievement at the intermediate school level (grade 8) makes it difficult to identify when and in which skills academic achievement declines between the sixth and twelfth grades. Additionally, without statewide information on subject area skills, the state is unable to (1) identify declines or increases in achievement in these subject areas, and (2) determine if state-adopted textbooks in grades 1 through 8 emphasize skill areas where students are demonstrating inadequate knowledge.

For these reasons, we recommend that the department be directed to report to the legislative budget committees by April 1, 1981, on the cost of implementing an eighth grade CAP test and subject area skills tests. In its report, the department should consider alternate year testing and other modifications to the current CAP test process as potential means to reduce the additional cost of these tests.

OFFICE OF PRIVATE POSTSECONDARY EDUCATION (OPPE)

The Office of Private Postsecondary Education (1) approves courses for training veterans, (2) approves and authorizes private institutions not accredited by a national or regional accrediting agency, and (3) manages the Student Tuition Recovery Fund.

The Governor's Budget proposes total funding for OPPE of \$2,038,402, which is a \$145,050 (6.6 percent) decrease from 1980-81. General Fund support, however, is budgeted to increase 16.1 percent, from \$130,000 to \$150,990. Table 62 displays the funding for this office.

Table 62
Office of Private Postsecondary Education Funding

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations					
General Fund	—	\$130,000	\$150,990	\$20,990	16.1%
Federal funds	\$1,047,880	1,340,034	\$911,985	-428,049	-31.9
Reimbursements ^a	509,789	491,810	753,819	262,009	53.3
Subtotals	\$1,557,669	\$1,961,844	\$1,816,794	\$-145,050	-7.4%
Student Tuition Recovery					
Fund	—	221,608	221,608	—	—
Totals	\$1,557,669	\$2,183,452	\$2,038,402	\$-145,050	-6.6%

^a Includes state administration for the Student Tuition Recovery Fund.

Postsecondary Education Reports

The Private Postsecondary Education Act of 1977 (Chapter 1202, Statutes of 1977) provides for the regulation of private schools in California which offer education and vocational training beyond the high school level. The Private Postsecondary Act will expire on June 30, 1982, unless reenacted.

The act also stipulates that "... the Legislative Budget Committee, in cooperation with the California Postsecondary Education Commission (CPEC), shall review and evaluate the implementation of the provisions of this act by the Department of Education, and shall report to the Legislature the results of this review and evaluation." To fulfill this mandate, both CPEC and the Legislative Analyst submitted reports on OPPE in December 1980.

The CPEC Report

The CPEC report identified a variety of policy issues in the regulation of private education, and recommended that all authorized degree-granting schools be required to:

- provide instruction as part of their curriculum,
- meet the consumer protection provisions of the Private Postsecondary Act of 1977, and
- gain approved status within five years of operation.

The Legislative Analyst's Report

Our review found that the current regulatory practices of the Office of Private Postsecondary Education (OPPE) are inherently inefficient and in need of substantial revision. Specifically, we found that:

- The federally-required annual visit to all private schools enrolling veterans is largely unnecessary because it duplicates annual visits made by Veterans Administration staff.
- The annual visits do little to assess program quality because information on program quality is currently drawn almost entirely from those who administer the programs, rather than from those who are served by them.
- Over time, the federal contract is providing less support for an increasingly costly program.
- The annual site visit requires consultants to spend 50 percent of the average workday in the field traveling.
- Many of the schools visited have relatively stable curricula and do not warrant an annual site visit.

K-12 EDUCATION—Continued**State Administration**

Based on these findings, our report "Administrative Review of the Office of Private Postsecondary Education (OPPE)" (80-26), December 1980, contains the following recommendations:

1. *We recommend that the Legislature direct the Department of Education to discontinue serving as the "state approving agency" for veterans' educational programs (Title 38, U.S. Code), and to reallocate state staff to initial state school reviews, complaints, and closures.*

2. *We recommend that the field staff of the Office of Private Postsecondary Education be reduced from 16 to 8 professional positions beginning in the 1981-82 budget year, for a General Fund savings of \$150,990 and a federal funds reduction of \$911,985. (Reduce Item 610-001-001 by \$150,990 and Item 610-001-890 by \$911,985).*

3. *We recommend that the Legislature direct the Department of Education to develop a field and office work plan for OPPE staff that emphasizes initial state reviews, closures, complaints and in-depth assistance to problem schools, and submit it to the legislative budget committees by January 1, 1982.*

The elimination of the annual visit required by the federal government would reduce the number of visits performed by state staff from 3,890 to 1,540 per year. This would permit a reduction in OPPE staff from the 16 budgeted field positions to 8 field positions, and allow a redirection of staff work toward initial school reviews, closures, complaints, and in-depth assistance.

Fee Legislation

We recommend that legislation be enacted to replace the existing fee structure for private postsecondary institutions with a graduated fee schedule, based on filing costs, number of newly enrolled students, and tuition costs. This legislation should also establish a Private Postsecondary Education Fund that will (1) be administered by the Department of Education, (2) consist of all fees collected under the proposed graduated fee schedule, and (3) be subject to continuous appropriation for the support of OPPE activities.

Under current law, all schools pay the same fee whether they are modeling schools with only five students or large business schools with many students. In reviewing the implementation of the Private Postsecondary Education Act of 1977, we found that a *graduated* fee structure would more equitably distribute the fee burden among private schools. It would also be possible to structure a new fee schedule in such a way so that sufficient funds (\$1.2 million) would be collected to fully support OPPE at the staffing level we recommend (eight field consultants), without the need for a state General Fund subsidy and without requiring any school to pay a fee exceeding 2 percent of its income.

CURRICULUM SERVICES**Overview**

The Curriculum Services unit of the Department of Education administers the following programs to assist school districts and other appropriate agencies in improving the quality of educational instruction:

- state-mandated curriculum activities which provide local education agencies with curriculum assistance in physical education,
- health education which administers the school health services and comprehensive school health education programs,
- personal and career development which assists schools, school districts, county offices of education, and institutions of higher education in developing and

improving programs in guidance and counseling, school psychology, school social work, and career education, and

- special curriculum programs which include the environmental education, continuation education and instructional television programs.

Curriculum services expenditures and revenues are shown in Table 63.

Table 63
Expenditures and Revenues for Curriculum Services

Program	Actual 1979-80	Estimated 1980-81	Proposed 1981-82	Change	
				Amount	Percent
1. State-mandated curriculum activities	\$468,824	\$235,544	\$238,601	\$3,057	1.3%
2. Health education	733,478	987,416	941,597	-45,819	-4.6
3. Personal and Career Development:					
State Operations	902,600	1,055,263	1,005,612	-49,651	-4.7
Local Assistance:					
Career Guidance Centers	250,000	222,500	222,500	—	—
Career Education Incentive Act	1,515,033	1,537,838	1,537,838	—	—
4. Special Curriculum Programs:					
a. Environmental Education					
State Operations	156,465	103,792	105,148	1,356	1.3
Local Assistance	358,000	483,928	483,669	-259	-0.1
b. Instructional Television					
State Operations	209,866	238,483	240,270	1,787	0.7
Local Assistance	821,364	821,364	821,364	—	—
c. Continuation Education	59,939	68,112	68,466	354	0.5
d. Curriculum Support Services ..	232,308	305,930	309,999	4,069	1.3
5. Traffic Safety	167,592	—	—	—	—
Totals	\$5,875,469	\$6,060,170	\$5,975,064	\$-85,106	-1.4%
General Fund	\$2,759,489	\$2,839,262	\$2,950,974	\$111,712	3.9%
Environmental License Plate Fund ..	437,271	500,000	500,000	—	—
Federal funds	2,392,706	2,470,666	2,225,091	-245,575	-9.9
Reimbursements	286,003	250,242	298,999	48,757	19.5

As shown in Table 63, the 1981-82 Governor's Budget proposes a General Fund increase of \$111,712 (3.9 percent) for curriculum services. Due to an error made in preparing the budget, the General Fund request for Curriculum Services is overstated by \$50,000. (Other departmental budgets are understated by a total of \$50,000.) Adjusting for this error, the true General Fund increase is 2.2 percent. The increase reflects (1) the termination of one-year funding during the current year for the dental disease program in Health Education, (2) the transfer of a vacant Special Education position to Personal and Career Development, (3) the increase in General Fund matching required under the Career Education Incentive Act, and (4) general price increases.

A corresponding error was made in the allocation of federal funds, and as a result federal funds are underbudgeted by \$50,000. The true decline in federal funds is \$195,575 (7.9 percent), not \$245,575 as shown in the Governor's Budget. The decline is due primarily to the termination of federal support for a project funded in 1980-81 under the federal Vocational Education Act.

Genetic Diseases Program

We recommend that the \$143,721 included in the Governor's Budget for purposes of the Genetic Diseases program be deleted, on the basis that the program is not authorized to continue in 1981-82. (Reduce Item 610-001-001 by \$143,721.)

K-12 EDUCATION—Continued

Chapter 978, Statutes of 1977, authorized a three-year program to reduce the incidence of genetic diseases and disorders through preventive education. The department was directed to perform specific activities in each of the three years. The act appropriated \$140,000 to the Department of Education for 1978-79 and provided that funds for 1979-80 and 1980-81 should be appropriated in the Budget Bill. Authorization for this program terminates at the end of 1980-81. The Governor's Budget requests \$143,721 for the program in 1981-82.

Our analysis indicates that activities contemplated by Chapter 978 have generally been carried out, and consequently we are not able to identify a need to continue the program beyond the original three-year period. Moreover, the Legislature generally has followed the policy that appropriations in the budget should be based on existing statutory authority, and any costs attributable to new legislation should be included in the new legislation.

Accordingly, we recommend that funding for the program be deleted from the Budget Bill. If the Legislature enacts legislation to continue the program beyond the statutory termination date, funds for the budget year can be provided in the legislation itself.

Overbudgeting in Health Education

We recommend that the amount budgeted for Health Education be reduced to eliminate overbudgeting for a General Fund savings of \$159,130. (Reduce Item 610-001-001 by \$159,130.)

The Governor's Budget proposes \$941,597 to support health education in 1981-82.

Our analysis indicates that expenditures for the Health Education program have been consistently overbudgeted since at least 1976-77. Table 64 compares the budgeted and actual expenditures for Health Education during the last four years.

Table 64
Budgeted Versus Actual Expenditures
for Health Education

	<i>Budgeted</i>	<i>Actual</i>	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
1976-77.....	\$1,437,601	\$1,183,472	\$254,129	17.7%
1977-78.....	1,799,788	1,577,281	222,507	12.4
1978-79.....	663,834	534,266	129,568	19.5
1979-80.....	893,763	733,478	160,285	17.9

It shows that actual expenditures have been significantly lower than budgeted expenditures each year. (Budgeted expenditures include revisions for salary increases and other changes in authorized expenditures.) Because the proposed budget each year is based on the estimated amount *budgeted* for the current year, an estimate that is too high automatically results in overbudgeting for the next year.

Over the four-year period, unexpended funds as a percentage of budgeted funds averaged 16.9 percent. Consequently, we recommend that 16.9 percent, or \$159,130, be deleted from the proposed budget.

Career Education Incentive Act

We withhold recommendation on General Fund support for the Career Education Incentive Act, pending receipt of the department's evaluation of the program.

The Career Education Incentive Act, a federal five-year program, first allocated funds to California in 1979-80 to enable local education agencies to make education

more relevant to work. Beginning in 1980-81 the federal government required the state to provide a state match for administrative costs in order for the state to receive approximately \$1.5 million in annual local assistance funds. The 1980-81 first-year General Fund match was \$24,927. The proposed match for 1981-82 is \$70,678.

Last year we recommended that the department evaluate the program in order to justify increased state funding. Due to delays in federal grant awards, the program began late and no program evaluation is available. The department indicates that the evaluation will be available before budget hearings. Because we have no information on the program, we withhold recommendation on the proposed General Fund support of \$70,678.

Instructional Television (ITV)

We recommend that funds included in the Governor's Budget for ITV state administration and local assistance be deleted from the budget and provided for in new authorizing legislation. (Reduce Item 610-001-001 by \$240,270 and Item 610-101-001 by \$821,364.)

The Governor's Budget proposes \$1,061,634 to continue the instructional television program in 1981-82. Of this amount, \$821,364 is for local assistance and \$240,270 is for state administration.

Last year we recommended that (1) local assistance funding for ITV be terminated and (2) the department assume a new role in encouraging the use of ITV. Our analysis of the program revealed that the existing state role of administering a local assistance program was neither necessary nor effective.

As a result of our recommendation, the Legislature:

- required that the department assemble a task force to develop legislation redefining the role of the state in educational technology, including ITV, and
- directed the department to notify all ITV participants that no funds will be appropriated for 1981-82 unless new legislation is enacted extending or reconstituting the ITV program.

The task force has completed a draft report, but no legislation has been introduced.

In accordance with stated legislative intent, we recommend that funds requested to continue the ITV program be deleted from the Budget Bill. The appropriate level of funding for state administration and local assistance should be considered in connection with legislation extending or reconstituting the program. Until such legislation is developed, we have no basis for recommending any particular staffing or funding level.

Environmental Education (Item 610-101-140)

We recommend approval.

The environmental education program is supported by the Environmental License Plate Fund and administered by one professional in the department. The program provides approximately 20 grants to local education agencies, other governmental agencies, and nonprofit organizations to establish interdisciplinary programs in environmental education.

The 1981-82 Governor's Budget proposes to appropriate \$500,000 from the Environmental License Plate Fund and \$88,817 from the General Fund for this program. This is an increase of 0.2 percent over current-year expenditures.

Chapter 282, Statutes of 1979 (AB 8), specifies that rules and regulations pertaining to the environmental education program shall cease to be operative on June 30, 1981, unless extended by statute. If the program is not extended by statute, funds will continue to be available as budgeted in 1981-82, without the applicable rules and regulations.

The "sunset" provision would not affect the flow of funds under this program.

K-12 EDUCATION—Continued**Zero-Base Budget**

We recommend that supplemental report language be adopted directing the Department of Education to prepare a zero-base budget for the Curriculum Services Unit for 1982-83.

The Curriculum Services unit contains many programs. The Governor's Budget does not provide sufficient detail to allow the Legislature to determine funding and staffing levels for each of the programs. Moreover, the unit is frequently reorganized, with various programs added or deleted. Because the department has been unable to readily identify the positions and programs in each component of the Curriculum Services unit, we recommend that supplemental report language be adopted directing the department to prepare a zero-base budget for 1982-83 to clarify the staffing and funding for each of the programs.

B. STATE LIBRARY SERVICES

STATE LIBRARY

Overview

The primary responsibilities of the State Library are to (1) maintain reference and research materials for state government employees, (2) support the 168 California public libraries through (a) the provision of consultant, reference, and interlibrary loan services and (b) the administration of state and federal local assistance programs, and (3) provide library services to the blind and physically handicapped.

The state operations budget for the State Library supports the maintenance of the various library collections (law, reference, government publications, etc.), the provision of consultant services to public libraries, and the administration of the California Library Services Act. The local assistance component consists of state

Table 65
State Library Expenditures and Funding

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
Reference for legislature.....	\$676,652	\$723,454	\$753,839	\$30,385	4.2%
Statewide library support and development.....	2,093,911	2,294,561	2,500,979	206,418	9.0
Special clientele services.....	865,869	1,283,668	1,305,365	21,697	1.7
Support services	2,708,513	3,067,985	3,039,271	-28,714	-0.9
Subtotals	\$6,344,945	\$7,369,668	\$7,599,454	\$229,786	3.1%
Local Assistance:					
Statewide library support and development.....	\$9,912,614	\$9,894,799	\$10,001,975	\$107,176	1.1%
Totals	\$16,257,559	\$17,264,467	\$17,601,429	\$336,962	2.0%
State Operations:					
General Fund.....	\$5,299,738	\$6,304,805	\$6,599,013	\$294,208	4.7
Federal funds.....	959,353	1,051,863	987,441	-64,422	-6.1
Reimbursements	85,854	13,000	13,000	—	—
Local Assistance:					
General Funds.....	\$4,489,405	\$5,229,256	\$5,336,432	\$107,176	2.0
Federal funds.....	5,423,209	4,665,543	4,665,543	—	—

and federal grants to public libraries and library agencies, and support of local resource sharing through the creation and maintenance of a data base of California public library holdings.

The local assistance function is governed jointly by the State Librarian and the California Library Services Board. The State Librarian determines the allocation of federal funds, with advisory input from the Board. The Board, created by Chapter 1255, Statutes of 1977 (California Library Services Act), approves the division of General Fund support among the various programs authorized by Chapter 1255.

As shown in Table 65, the Governor's Budget requests an increase in total funding of \$336,962 (2.0 percent) for state library services and an increase in General Fund support of \$401,384 (3.4 percent.)

Summary of Changes

Table 66 displays the changes in the State Library budget from 1980-81 to 1981-82. All budget changes concern the California Library Services Act programs. They are (1) \$47,922 in state operations for a staff augmentation and (2) \$107,176 in local assistance including (a) \$83,696 to pay for workload increases reported by library systems and (b) \$23,480 to fund consolidations and affiliations pursuant to the act.

Table 66
State Library Budget Changes
1981-82

	<i>Cost</i>	<i>Total</i>
State Operations:		
Adjusted 1980-81		\$7,369,668
1. 1981-82 baseline adjustments		
Population and price	\$281,912	
Workload	-35,626	
2. Program change proposals		
California Library Services Act staff	\$47,922	
3. Change in federal funds	-\$64,422	
Total, state operations 1981-82		\$7,599,454
Total, state operations changes		\$229,786
General Fund		\$294,208
Federal funds		-64,422
Local Assistance:		
Adjusted 1980-81		\$9,894,799
1. Program change proposals		
California Library Services Act	\$107,176	
Total, local assistance 1981-82		\$10,001,975
Total, local assistance changes		\$107,176
General Fund		\$107,176

Excess Federal Funds

We recommend that excess federal funds be used to support library services, thereby allowing General Fund expenditures to be reduced by \$1,190,514 in 1981-82. (Reduce Item 610-001-001 by \$1,190,514.)

The State Library has consistently maintained a large carry-over of uncommitted federal Library Services and Construction Act funds. Table 67 shows the revenues, expenditures, and carry-over for the federal funds since 1975-76. The table shows that the uncommitted balance at the end of 1981-82 is projected to be \$1,190,514.

K-12 EDUCATION—Continued

Table 67
Federal Funds
Revenues, Expenditures, and Carry-Over

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Revenues:							
Prior-year carry-over	\$3,287,785 ^a	\$1,234,154	\$931,501	\$1,311,276	\$1,156,440	\$415,597	\$388,659
Federal grant ^b ..	4,031,235	5,041,137	4,865,225	4,892,151	5,641,719	5,690,468	6,454,839
Total	\$7,319,020	\$6,275,291	\$5,796,726	\$6,203,427	\$6,798,159	\$6,106,065	\$6,843,498
Expenditures:							
State operations.....	\$919,210	\$897,465	\$872,600	\$848,335	\$959,353	\$1,051,863	\$987,441
Local assistance.....	5,165,656	4,446,325	3,612,850	4,198,652	5,423,209	4,665,543	4,665,543
Totals	\$6,084,866	\$5,343,790	\$4,485,450	\$5,046,987	\$6,382,562	\$5,717,406	\$5,652,984
Carry-over	\$1,234,154	\$931,501	\$1,311,276	\$1,156,440	\$415,597	\$388,659	\$1,190,514

^a Includes funds received too late for expenditure in 1974-75.

^b State Library uses federal funds in the succeeding state fiscal year. Fiscal year shown in table is state fiscal year when funds are spent. Each federal grant shown was received in the preceding federal fiscal year.

We see no justification for holding these federal funds until 1982-83, given the demands on the state's General Fund. Federal law does not prevent the use of excess federal funds to offset state General Funds. For 1981-82, the federal law requires only that the 1979-80 expenditure level be maintained for (1) state funds and (2) state and local funds combined. State expenditures proposed for 1981-82 exceed 1979-80 levels by more than \$2 million. Local expenditures for 1981-82 are unknown, but the State Library estimates that 1980-81 public library income will increase by 11 percent over the 1979-80 level.

Accordingly, we recommend that the excess federal funds replace proposed General Fund support, thereby freeing up General Fund money for other state purposes. Because federal funds must be used to extend public library services to areas where they do not exist or to improve these services where they do exist, the State Library should determine the specific allocation of the federal funds so as to comply with the federal law.

Supplemental Language Report on Computerized Card Cataloging

Supplemental language adopted by the Legislature in 1980 directed the State Library to report by January 1, 1981, on the effect of a new computerized card-cataloging system on services and staffing. The report is to include, to the extent possible, a schedule for staff reductions made possible by the new system. This report was not completed in time for us to review for this analysis. We will, however, be prepared to respond to the staffing issue during budget hearings.

SUTRO LIBRARY

Overview

The Sutro Library was donated to the Trustees of the State Library in 1915 on the condition that the collection remain within the City of San Francisco. The library consists of many specialized collections, including genealogy and local history, Mexicana, English history and literature, Hebraica, voyages and travel, early printed books, and the history of religion. The Sutro Library is located in

leased facilities at the University of San Francisco (USF). The university, however, has indicated that it will not extend the lease beyond June 30, 1982.

The Governor's Budget proposes \$344,039 and 6.3 positions to operate the Sutro Library in 1981-82. This is a 4.1 percent increase over 1980-81.

Search for Alternatives

Given USF's unwillingness to continue housing the Sutro Library, the state must identify alternatives for locating and funding the library. Supplemental language adopted by the Legislature in 1979 directed the State Librarian to "develop alternative mechanisms for funding of the Sutro Library, including, but not limited to, identification of appropriate governmental or education agencies to assume or contribute to the support of the Sutro Library. . . ." In response to this directive, the librarian reported that no alternative sources of funding were available, and urged that state support be used to establish a permanent home for the Sutro Library as soon as possible.

The Budget Act of 1980 provided for the establishment of a task force to study alternatives for housing the Sutro Library, and directed that the study include the development and review of (1) potential alternative sites for location of the library's materials, (2) alternatives regarding future material acquisitions to augment the library's existing holdings, and (3) alternative sources of funding. The Legislature further directed that the study "focus on, and take fully into account, the practical fiscal constraints by which the state is bound."

The task force has submitted its report. The report makes recommendations in three areas—location, funding and acquisitions.

Location. The task force recommends that all of the collections of the Sutro Library be kept together and maintained in San Francisco. The task force recommends that a permanent site for the Sutro Library be acquired, and that the State Library be given funds for a study to determine the cost of constructing a new building. The cost of a new building is estimated at between \$2.5 million and \$3 million. Until new facilities are completed, the task force recommends that space be leased for the library in San Francisco. Costs of moving to new leased space are estimated at between \$175,000 and \$200,000.

Funding. The task force recommends that the state fully fund (1) building and capital outlay costs, (2) operating costs, and (3) ordinary acquisitions. The task force recommends that the State Library encourage the donation of private funds to supplement state funds.

Acquisitions. The task force recommends that materials be acquired for the Sutro Library to (1) build a collection of background and interpretive materials supporting the major subject areas in the collection and (2) maintain a collection of genealogy and local history materials. To satisfy these objectives, the task force recommends that the 1981-82 budget for Sutro Library acquisitions (\$17,095) be approved.

Legal Remedy Recommended

We recommend that supplemental report language be adopted directing the Department of Education to pursue, through the Attorney General, a legal action to divest the state of the Sutro Library by June 30, 1982.

We further recommend that, if the legal action is not completed by June 1, 1982, the Sutro Library be temporarily relocated at Hastings School of Law.

After two years of exploring alternatives for the location and funding of the Sutro Library, the State Library has concluded that the state-funded purchase or construction of a building and continued full state funding of operating costs is the only feasible option. Our analysis indicates that such a commitment of state resources is neither warranted by the nature of the Sutro collection nor necessary

K-12 EDUCATION—Continued

under the terms of the legal trust.

Nature of Sutro Collection. As mentioned, the Sutro Library contains many separate collections. The largest single collection is genealogy, a specialized collection which contains little material from the original bequest. The other collections are of interest primarily to historians and other scholars. Given that the primary purpose of the State Library is to serve the Legislature and state agencies and to promote the development of local public libraries, the collection, while highly respected, is peripheral to the State Library's mission.

The Legal Trust. The State of California, as the current trustee of the Sutro Library, is required, under the terms of the trust, to maintain the collection in San Francisco. Both the Attorney General and Legislative Counsel have indicated that the state, as trustee, (1) cannot move the Sutro Library out of San Francisco and (2) may not be able to partition the collection for housing in separate locations. In addition, the State Library has been unable to find any other library or institution to house the entire collection.

According to the Legislative Counsel, however, "the state may petition the court for its removal as a trustee and for substitution of a successor trustee to carry out the terms of the original bequest." This may be a feasible alternative to making the substantial financial commitment recommended by the State Library. The task force report indicates that there is no lack of interest in the collection among other libraries. San Francisco State University, for example, has expressed interest in the entire collection excluding genealogy, and San Francisco Public Library may be interested in the genealogy collection. The task force report lists many libraries that may be interested in specific Sutro collections.

If the state continues to maintain the collection, a significant General Fund cost would have to be incurred. Given that the Sutro Library is oriented primarily to specialized and scholarly research, rather than to the needs of the Legislature, state agencies, or public libraries, we recommend that supplemental report language be adopted directing the state to seek to divest itself of the collection.

In the event that legal action is not completed by June 1, 1982, the Sutro Library should be temporarily relocated to the Hastings School of Law until divestiture is accomplished. With the completion of Hastings' new library, there is more than sufficient space at Hastings to accommodate the entire Sutro collection. Funding for the relocation should come from budgeted funds because the lease expires on June 30, 1982, and relocation of the library should be addressed in the 1981-82 budget. The Governor's Budget, however, does not address the relocation problem. It proposes funding to continue the library at its present site with no provision for relocation. The Legislature should ask the Department of Finance to explain how relocation of the Sutro Library would be funded under the Governor's proposal.

Acquisitions

We recommend that no new materials be purchased for the Sutro Library, for a General Fund savings of \$17,095. (Reduce Item 610-001-001 by \$17,095.)

Given the uncertain future of the Sutro Library and the lack of permanent facilities to house its various collections, we recommend that no new materials be purchased for the library during the budget year.

CALIFORNIA LIBRARY SERVICES ACT

Overview

The State Library provides local assistance funding to public libraries and library systems under the California Library Services Act (CLSA). Table 68 shows the programs funded under the act, the amount budgeted for each program, and the associated state administration costs. Programs for libraries and library systems are funded either by formula, or through grant application. A staff of 4.6 professionals administers CLSA.

Table 68
California Library Services Act
Expenditures

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations					
Board	\$43,745	\$46,536	\$47,519	\$983	2.1%
Administration	47,336	56,834	59,577	2,743	4.8
Program	137,463	110,236	212,254	102,018	92.5
Subtotals	\$228,544	\$213,606	\$319,350	\$105,744	49.5%
Local Assistance					
System reference	\$1,226,134	\$1,336,486	\$1,355,586	\$19,100	1.4%
Transactions	1,953,874	2,465,527	2,465,527	—	—
Consolidations and affiliations	90,000	30,520	54,000	23,480	76.9
Statewide data base	363,000	463,250	463,250	—	—
System communication and delivery..	827,028	900,110	964,476	64,366	7.2
System advisory boards	29,369	33,363	33,593	230	0.7
Subtotals	\$4,489,405	\$5,229,256	\$5,336,432	\$107,176	2.0%
Totals	\$4,717,949	\$5,442,862	\$5,655,782	\$212,920	3.9%

The budget proposes an increase of \$212,920 (3.9 percent) for CLSA in 1981-82. The increase is requested to fund (1) a staff augmentation to the California Library Services Act program office, (2) costs associated with reported workload increases in three library systems, and (3) grants for library affiliations and consolidations.

California Library Services Act Staff Augmentation

We recommend approval.

The Governor's Budget proposes \$47,922 to add one professional and 0.5 clerical positions to the staff of the California Library Services Act office on a limited-term basis. The purpose of the positions is to develop uniform standards and performance measures to improve the efficiency of the programs funded under the act.

State Library staff maintains that a systems analysis of the total CLSA program is needed to provide an improved basis for funding the various program provisions. Library staff indicate that initial funding levels, established with no historical experience, have become the basis for subsequent funding allocations. Consequently, current funding is not based on documented need. The library claims that the current staffing level permits only the ongoing administration of the program and does not allow this kind of program analysis.

Our analysis indicates a thorough analysis of the program would be worthwhile and that additional staff is needed for one year. The effort described by the library is necessary to establish program guidelines and modify program operations. Once this effort is completed, existing staff should be sufficient to continue the administration of the program.

K-12 EDUCATION—Continued**Library Systems Workload**

We recommend deletion of \$83,696 budgeted for workload increases in local library systems. (Reduce Item 610-001-001 by \$83,696.)

The Governor's Budget requests an augmentation of \$83,696 to fund workload increases reported by three of the 15 local library systems.

Our analysis indicates that it is premature to fund these requests at this time. One of the objectives of the new position discussed above is to develop a more justifiable basis for the allocation of funds to library systems under the various programs of the act. Additional funds should not be allocated for these programs until the proposed analysis has identified some uniform standards for program operation and funding.

DEPARTMENT OF EDUCATION—REAPPROPRIATIONS

Item 610-490 from the General
Fund

Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes three reappropriations:

- School Improvement Program planning grants (\$2,398,000),
- School Improvement Program (SIP) independent evaluation (unexpended balance of 1980-81 appropriation), and
- relocation costs for the transfer of the special schools from Berkeley to Fremont (\$200,000).

We recommend approval.

SIP Planning Grants

The Budget Act of 1980 (Item 327) appropriated \$4,796,000 for SIP planning grants during 1980-81. Because of a delay in allocating the grants, the planning cycle will overlap two fiscal years from January through December 1981. Consequently, the reappropriation is necessary to fund the last half year of the planning cycle.

SIP Independent Evaluation

The SIP independent evaluation was originally funded in Chapter 894, Statutes of 1977 (AB 65). Because of contract difficulties with the original evaluator, the original contract was terminated pursuant to Budget Act language. A new evaluator has been selected, and the Budget Act of 1980 reappropriated the AB 65 support for the independent evaluation. Because (1) the 1980-81 work plan for the evaluation will not expend fully the available funds and (2) the remaining 1980-81 funds are needed to complete the 1981-82 work plan, the reappropriation for the independent evaluation is necessary.

Special Schools Relocation

In 1980-81 the schools for the deaf and blind in Berkeley were relocated to Fremont. The Governor's 1980-81 Budget provided for one-time relocation costs, including funds to reimburse employees of the schools for expenses associated with moving to the Fremont area. Because of legal problems, however, the relocation of the School for the Blind was delayed. Consequently, the deadline for submission

of employee moving expense claims has been changed to 1981-82. In order to accommodate this delay, the Governor's Budget reappropriates \$200,000 to pay employee moving expenses in 1981-82.

DEPARTMENT OF EDUCATION—REVERSIONS

Item 610-495 from the General
Fund

Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 894, Statutes of 1977 (AB 65), appropriates \$200,000 from the General Fund for the 1981-82 costs of the Master Plan for Special Education independent evaluation. The Governor's Budget proposes to (1) substitute \$100,000 in federal funds for \$100,000 from the General Fund and (2) revert the General Fund savings. This reversion is a continuation of the policy adopted by the Legislature in Section 11.13 of the Budget Act of 1980.

CONTRIBUTIONS TO TEACHERS' RETIREMENT FUND

Item 630 from the General
Fund

Budget p. E 62

Requested 1981-82	\$213,512,796 ^a
Estimated 1980-81	222,205,852
Actual 1979-80	158,833,507
Requested decrease \$8,693,056 (—3.9 percent)	
Total recommended reduction	None

^a Does not include \$7,676,760 for a cost-of-living increase in the state's contribution to the fund to offset unfunded liabilities. This amount is included in the Governor's Budget for 1981-82, but it is not included in the Budget Bill.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Appropriation amounts. Recommend the Department of Finance clarify the difference between the amount shown in the Governor's Budget and the Budget Bill. 1226

GENERAL PROGRAM STATEMENT

This item funds the long-term, actuarial cost of those benefits provided to retired members of the State Teachers' Retirement System (STRS) for which the state has funding responsibility.

Beginning in 1972, the budget included an annual General Fund appropriation of \$135 million to finance the actuarial cost of pensions for STRS members who retired prior to July 1, 1972. The need for such an appropriation was expected to continue through fiscal year 2002-03. In 1976, the Legislature increased the annual appropriation to \$144.3 million, in order to finance the amortized cost of granting a one-time pension improvement to STRS retirees in that year. Beginning in 1980-81, the Legislature further increased the annual General Fund appropriation for this purpose in accordance with the requirements of Chapter 282, Statutes of

CONTRIBUTIONS TO TEACHERS' RETIREMENT FUND—Continued

1979 (AB 8).

As required by the Supplemental Report to the 1980 Budget Act, this item also provides an appropriation to cover the annual STRS retirement program costs mandated by state law. In prior years, this appropriation was included in the budget of the Department of Education.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a combined total appropriation of \$221,189,556 from the General Fund to the State Teachers' Retirement Fund in 1981-82. (The Budget Bill, AB 250 and SB 110, proposes an appropriation of \$213,512,796 in Item 630-101-001. We discuss the difference later in this analysis.) Of this amount, \$189,292,760 is for funding unfunded STRS program liabilities for which the state has funding responsibility. The remaining balance of \$31,896,796 is for payment of state-mandated local costs for increased STRS retirement contributions. The Budget Bill appropriates an amount equal to local school districts' liability for increased contributions, directly to STRS and the State Teachers' Retirement Fund. This is in lieu of having the districts themselves provide the contributions and then seek reimbursement through the SB 90 claims process.

The proposed expenditure of \$221,189,556 is \$1,016,296, or 0.5 percent, less than estimated 1980-81 expenditures. This decrease reflects (1) a proposed \$17,676,760 (10.3 percent) increase in state funding of STRS unfunded liabilities, in partial compliance with the requirements of Chapter 282, and (2) a \$18,693,056 (36.9 percent) decline in the proposed funding of state-mandated STRS retirement program costs. This decline, however, is illusory. This is because the 1980-81 amounts include one-time expenditures for prior year's adjusted claims.

The components of these expenditures for the past, current and budget years are detailed in Table 1.

Table 1
Contributions to Teachers' Retirement Fund
Item 630-101-001

<i>Programs</i>	<i>Expenditures</i>		
	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>
1. Contributions for Past Unfunded Liabilities.....	\$144,300,000	\$171,616,000	\$189,292,760
2. State-Mandated STRS Retirement Program Costs			
a. Chapter 89, Statutes of 1974. Retirement credit for unused sick leave	7,234,328 ^a	32,074,031 ^b	11,146,796
b. Chapter 1036, Statutes of 1979. Cost-of-living increase to STRS retirees	7,299,179 ^c	15,815,821 ^c	15,350,000
c. Chapter 1286, Statutes of 1980. Increase in minimum retirement benefits	—	2,700,000	5,400,000
Subtotals, Mandated STRS retirement program costs.....	\$14,533,507	\$50,589,852	\$31,896,796
Grand Total Expenditures	\$158,833,507	\$222,205,852	\$221,189,556

^a Includes all claims paid from appropriations in Omnibus Claims Bills.

^b Contains all claims paid through Budget Act and Claims Bill appropriations.

^c An amount of \$465,821 in unspent 1979-80 appropriation has been reallocated for 1980-81. These figures reflect the transfer.

Impact of Chapter 282 on the STRS Unfunded Liability

In our *Analysis of the 1980 Budget Bill* (page 1090), we discussed the STRS unfunded liability and the Legislature's effort to address this problem through the enactment of Chapter 282, Statutes of 1979 (AB 8).

1. **The Funding Program.** Chapter 282 attempts to address the STRS unfunded liability problem by (1) increasing the annual \$144.3 million General Fund appropriation to the STR fund by the percentage increase in the California Consumer Price Index (CCPI), (2) extending authorization for General Fund contributions to the fund beyond fiscal year 2002-03, and (3) providing an additional annual General Fund appropriation, phased in over a 15-year period, beginning with \$10 million in 1980-81 and increasing in \$20 million annual increments thereafter until it reaches \$280 million in 1994-95. Beyond that date, this appropriation will also be increased in line with the increase in the CCPI.

2. **Funding Goal of Chapter 282.** Chapter 282 was expected to slow the growth of the unfunded liability, but it was not expected to stop it, or to reduce the amount of the unfunded liability. Preliminary estimates, based on the 1977 actuarial valuation, indicated that the increased funding would nearly achieve "infinite funding" of the STRF. "Infinite funding" represents the level at which the growth in the unfunded liability is limited to a constant percentage of growth in payroll. The precise funding impact of Chapter 282, however, could not be determined until after a new experience analysis and actuarial valuation had been completed.

3. **Impact of Chapter 282 Less Than Expected.** The new experience analysis and actuarial valuation were published in May 1980, and the STRS consulting actuary re-analyzed the funding impact of Chapter 282, based on these findings. The analysis estimated the funding value of Chapter 282 at 1.9 percent of payroll, substantially below the intended 5 percent of payroll.

When this 1.9 percent is added to the sum of the employer's and employee's retirement contribution rates—16.3 percent—the combined total contribution rate is equivalent to 18.2 percent of payroll. This is 3.3 percent below the new "infinite funding" requirement of 21.5 percent of payroll. As a result, the STRS unfunded liability, which is currently estimated at \$9.9 billion, will continue to grow at a rate greater than payroll.

Proposed Amounts Short of Chapter 282 Requirements

Chapter 282 requires that the \$144.3 million annual General Fund contribution to the fund be increased, beginning in 1980-81, by an amount which reflects the change in the California Consumer Price Index (CCPI) in the preceding fiscal year. Neither the Budget Act of 1980 nor the proposed 1981-82 Budget Bill, however, provides the full amount called for by Chapter 282.

1980-81. The 1980 Budget Act appropriation to the fund was based on the *estimated* increase in the CCPI shown in the Governor's Budget for 1980-81 (12 percent). The actual CCPI for 1979-80, however, was 17.1 percent. Because the 1980 Budget Act appropriation is *in lieu* of the statutory appropriation made by Chapter 282, the General Fund contribution to the STR fund was \$7.4 million less than called for by Chapter 282.

1981-82. The \$7.4 million difference between what Chapter 282 requires for 1980-81 and what was appropriated in the Budget Act of 1980 is automatically carried over into the budget year. This is because the CCPI increase is applied to the actual amount appropriated in 1980-81 (\$161.6 million) rather than the amount that should have been appropriated, \$169 million.

The budget proposes to increase the \$161.6 million base by 4.75 percent in 1981-82, rather than by the estimated 1980-81 CCPI increase of 10.4 percent. Furthermore, this will cause the gap between what Chapter 282 requires and what is actually appropriated to the fund to widen to \$17.2 million.

CONTRIBUTIONS TO TEACHERS' RETIREMENT FUND—Continued

Table 2 shows the difference between actual or proposed funding in 1980-81 and 1981-82, and what is required by Chapter 282.

Table 2
Proposed Versus Required Contributions Under
Chapter 282, Statutes of 1979
(in millions)

	<u>1980-81</u>			<u>1981-82</u>		
	<i>Required</i>			<i>Required</i>		
	<i>Budget</i>	<i>Act</i>		<i>Estimated</i>	<i>by</i>	
	<i>Appropriation</i>	<i>Chapter</i>	<i>Deficiency</i>	<i>Governor's</i>	<i>Chapter</i>	<i>Deficiency</i>
Ongoing baseline contribution	\$144.3	\$144.3	—	\$161.6 ^a	\$169.0 ^b	\$7.4
CCPI increase of baseline	17.3 ^a	24.7 ^b	\$7.4	7.7 ^c	17.5 ^d	9.8
Adjusted baseline contribution	\$161.6	\$169.0	\$7.4	\$169.3	\$186.5	\$17.2
Increment of additional \$280 million	10.0	10.0	—	20.0	20.0	—
Total Contributions to STRF	\$171.6	\$179.0	\$7.4	\$189.3	\$206.5	\$17.2

^a Based on budgeted CCPI of 12 percent, *in lieu* of the actual CCPI.

^b Based on the actual CCPI of 17.1 percent for 1979-80.

^c Based on a budgeted CCPI of 4.75 percent *in lieu* of an estimated statutory CCPI.

^d Based on an estimated statutory CCPI of 10.4 percent.

Budget Bill Appropriates Less Than Proposed in Budget

We recommend that the Department of Finance submit to the fiscal committees appropriate documentation reconciling the difference between the amounts shown in the budget document and the Budget Bill.

The budget proposes a General Fund contribution to the Teachers' Retirement Fund of \$221,189,556. The amount proposed in the Budget Bill, however, is only \$213,512,796. Prior to the budget hearings, the Department of Finance should submit to the fiscal committees appropriate documentation to reconcile the difference between the amounts shown in the budget document and in the Budget Bill.

CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION

Item 632 from the General
Fund and Federal Trust Fund

Budget p. E 62

Requested 1981-82	\$302,736
Estimated 1980-81	291,656
Actual 1979-80	240,298
Requested increase (excluding amount for salary increases) \$11,080 (+3.8 percent)	
Total recommended reduction	\$99,382

1981-82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
632-001-001—Support		General	\$99,382
632-001-887—Support		Federal Trust	203,354
Total			\$302,736

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page
1227

1. *Federal Funds Transfer. Reduce Item 632-001-001 by \$99,382.* Recommend transfer of federal Vocational Education Act funds from the Department of Education to the California Advisory Council on Vocational Education, with a corresponding reduction in General Fund support, in order to support federally mandated duties with federal funds.

GENERAL PROGRAM STATEMENT

The federal Vocational Education Act of 1976 requires the establishment of a state advisory council and specifies the council's membership and duties. The California Advisory Council on Vocational Education (CACVE), established by Chapter 1555, Statutes of 1969, acts as the federally mandated council. It consists of 25 members and is staffed by four professional and two clerical positions.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$99,382 from the General Fund for partial support of the Advisory Council on Vocational Education in 1981-82. This is a decrease of \$5,738, or 5.5 percent, below estimated current-year expenditures. This amount will increase by the amount of any salary and staff benefit increases approved for the budget year.

Total state and federal funding for the council is estimated to be \$302,736 in 1981-82, an increase of 3.8 percent over the current year. Table 1 summarizes the funding for CACVE.

Table 1
Funding for the California Advisory Council on Vocational Education

	<i>Actual</i> 1979-80	<i>Estimated</i> 1980-81	<i>Proposed</i> 1981-82	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Federal funds	\$177,085	\$186,536	\$203,354	\$16,818	9.0%
General Fund	63,213	105,120	99,382	-5,738	-5.5
Totals.....	\$240,298	\$291,656	\$302,736	\$11,080	3.8%

Transfer of Federal Funds

We recommend that (1) the Department of Education transfer \$99,382 of federal funds to the Advisory Council on Vocational Education, through an interagency agreement requiring the council to conduct research and program improvement activities pursuant to Subpart 3 of the Vocational Education Act, and (2) General Fund support of \$99,382 for the council be eliminated. (Reduce Item 632-001-001 by \$99,382.)

The General Fund supports 33 percent of CACVE's proposed budget. In the Budget Act of 1980, the Legislature directed the council to submit written justification for the continued use of General Fund monies to support its activities. The council submitted its report on October 16, 1980.

The report indicated that the loss of General Fund support would lead to the elimination of two positions and \$46,000 in operating expenses. This would result in a significant reduction in CACVE activities, particularly in the area of reports and evaluations.

CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION—Continued**Total Federal Support Recommended**

We do not believe a reduction in the level of CACVE's activities is warranted. At the same time, our analysis indicates that sufficient federal funds can be made available to support the council without the need for General Fund support. Accordingly, we recommend that the Department of Education transfer \$99,382 in federal funds to the council, and that the General Fund appropriation in this item be reduced by a corresponding amount. The transfer of funds would be governed by an interagency agreement requiring the council to conduct research and program improvement activities pursuant to Subpart 3 of the Vocational Education Act (VEA).

Our analysis indicates that such a transfer is warranted for the following reasons:

- Because CACVE's activities are mandated by the VEA, federal law authorizes use of federal funds in this manner, and there is no need for the General Fund to provide one-third of the council's support.
- Reallocation of these funds would not have a significant impact on the activities of the department's federally funded vocational education research unit. The unit's budget for 1981-82 proposes \$168,534 for contract services and \$76,330 for in-state travel expenses—amounts that are four-to-five times the level of actual expenditures (\$40,060 and \$13,167 respectively) in 1979-80. Proposed expenditures for the current and budget years are primarily for expansion of a project which funds consultant services for local education agencies. Our review indicates that the research unit's budgeted resources are sufficient to support an expansion of the consultant services project as well as the proposed interagency agreement.

The proposed transfer of funds would not violate federal requirements because a significant portion of council staff activities is devoted to research and evaluation directed at vocational education, and is therefore within the scope of Subpart 3 of the VEA.

CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 633 from the Federal Trust

Fund	Budget p. E 64
Requested 1981-82	\$299,630
Estimated 1980-81	242,945
Actual 1979-80	—
Requested increase (excluding amount for salary increases) \$56,685 (+23.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Occupational Information Coordinating Committee (COICC), established by Chapter 972, Statutes of 1978, acts as the state information coordinating committee mandated by the federal Vocational Education Act. Membership consists of representatives from the Department of Education, Employment Development Department, Chancellor's Office of the California Community Col-

leges, Department of Rehabilitation, California Employment and Training Advisory Council, and the Council for Private Postsecondary Education Institutions.

The committee is responsible for the development of the California Occupational Information System, which provides occupational planning and guidance information. Current projects include development of a supply-demand report on the labor force in California and a career information delivery system.

Funding for the committee is provided by the federal government, and is allocated annually by the National Occupational Information Coordinating Committee.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$299,630 from the Federal Trust Fund for support of the committee in 1981-82. This is \$56,685 or 23.3 percent more than the estimated current year expenditure. The 23.3 percent increase does not reflect a program change, but rather full-year funding for the committee. The amount shown for 1980-81 consists of support for the committee for nine months, beginning October 1, 1980. Prior to that date, the committee was supported with federal funds through the Department of Education.

Table 1 shows the committee's funding and staffing level.

Table 1
Funding for the California Occupational
Information Coordinating Committee

	<i>Actual</i> <i>1979-80</i>	<i>Estimated</i> <i>1980-81</i>	<i>Proposed</i> <i>1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Federal funds	—	\$242,945	\$299,630	\$56,685	23.3%
Positions	—	7.0	7.0	—	—

COMMISSION FOR TEACHER PREPARATION AND LICENSING

Item 636 from the Teacher Credentials Fund

Budget p. E 67

Requested 1981-82	\$3,402,735
Estimated 1980-81	3,343,308
Actual 1979-80	3,176,547
Requested increase (excluding amount for salary increases) \$59,427 (+1.8 percent)	
Total recommended reduction	\$12,777

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Budget Deficit. Reduce Item 636-001-407 by \$12,777.* Recommend unallocated reduction in order to avoid a deficit in the Teacher Credentials Fund in 1981-82.

1230

GENERAL PROGRAM STATEMENT

The Commission for Teacher Preparation and Licensing (CTPL) is responsible for (a) developing standards and procedures for credentialing teachers and administrators, (b) issuing and revoking credentials, (c) evaluating and approving programs of teacher training institutions, and (d) establishing policy leadership in

COMMISSION FOR TEACHER PREPARATION AND LICENSING—Continued

the field of teacher preparation. The commission estimates that it will process approximately 90,000 credentials in 1981-82.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$3,402,735 from the Teacher Credentials Fund for support of the CTPL in 1981-82. This is \$59,427, or 1.8 percent, more than estimated current-year expenditures.

The budget proposes total expenditures of \$3,425,032, including \$22,297 in federal funds, during 1981-82, which is an increase of \$17,129 (0.5 percent) over the current year. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Funding for the commission is shown in Table 1.

Table 1
Expenditures and Funding for the Commission
for Teacher Preparation and Licensing

<i>Elements</i>	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Proposed 1981-82</i>	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
Elementary and preschool professional personnel.....	\$770,017	\$673,855	\$670,240	-\$3,615	-0.5%
Secondary, adult, and vocational professional personnel.....	478,388	506,829	520,088	13,259	2.6
Instructional specialists for all grades	511,942	535,105	550,342	15,237	2.8
Professional administrative and support service personnel	282,876	300,051	308,186	8,135	2.7
Professional standards for certificated personnel.....	408,309	430,013	451,193	21,180	4.9
Administration	838,569	962,050	924,983	-37,067	-3.9
Total expenditures	\$3,290,101	\$3,407,903	\$3,425,032	\$17,129	0.5%
<i>Reimbursements</i>	<i>\$1,574</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
<i>Teacher Credentials Fund</i>	<i>3,176,547</i>	<i>\$3,343,308</i>	<i>\$3,402,735</i>	<i>\$59,427</i>	<i>1.8%</i>
<i>Federal funds</i>	<i>111,980</i>	<i>64,595</i>	<i>22,297</i>	<i>-42,298</i>	<i>-65.4</i>
Personnel-years	100.5	103.3	102.0	-1.3	-1.3%

The budget shows a decrease of 1.3 positions for 1981-82, reflecting the elimination of one limited-term consultant and 0.3 federally funded positions. The commission also eliminated 1.5 clerical positions and added 0.1 positions as workload adjustments in the current year. The budget proposes to continue these adjustments in 1981-82.

Teacher Credentials Fund Deficit Projected

We recommend that the commission's budget be reduced by \$12,777 in order to avoid a deficit in the Teacher Credentials Fund in 1981-82. (Reduce Item 636-001-407 by \$12,777.)

Table 2 shows the status of the Teacher Credentials Fund. The projections indicate that, if the level of expenditures proposed in the budget is approved, the commission would incur a deficit of \$12,777 in the fund by the end of 1981-82. The table also shows that, if the growth in expenditures from the level proposed for 1981-82 is limited to five percent annually, the fund will incur deficits of \$840,649 by the end of 1982-83, and \$1,847,165 by the end of 1983-84. The Governor's Budget assumes that adjustments in spending or revenue will be made during the budget year, either by the Legislature or by administrative action, to balance the commission's budget.

Budgeting for a deficit while assuming that a deficit can be avoided is not prudent policy. In order to achieve a budget which is balanced, we recommend

an unallocated reduction of \$12,777 to the commission's budget. The commission should be prepared, during the budget hearings, to identify the specific reductions necessary to avoid a deficit so that the Legislature may have a voice in how a balanced budget is to be achieved.

The problem will become even more serious if state salary or staff benefit increases are granted. The commission has no reserves to pay for such increases. Consequently, internal reallocations would have to be made, again without legislative input. The commission should also be prepared to discuss this at the budget hearing.

Table 2
Teacher Credentials Fund

	<i>Actual 1979-80</i>	<i>Estimated 1980-81</i>	<i>Projected 1981-82</i>	<i>Projected 1982-83</i>	<i>Projected 1983-84</i>
Accumulated surplus, July 1	\$1,707,558	\$1,052,461	\$602,825	-\$12,777	-\$840,649
Revenues:					
Credential fees	2,322,452	2,760,000	2,700,000	2,700,000	2,700,000
Teacher examination fees	76,570	60,000	45,000	45,000	45,000
Income from surplus money investments	118,490	73,672	42,133	—	—
Miscellaneous income	3,938	—	—	—	—
Total Revenue	<u>\$2,521,450</u>	<u>\$2,893,672</u>	<u>\$2,787,133</u>	<u>\$2,745,000</u>	<u>\$2,745,000</u>
Total Resources	<u>\$4,229,008</u>	<u>\$3,946,133</u>	<u>\$3,389,958</u>	<u>\$2,732,223</u>	<u>\$1,904,351</u>
Expenditures ^a	<u>\$3,176,547</u>	<u>\$3,343,308</u>	<u>\$3,402,735</u>	<u>\$3,572,872</u>	<u>\$3,751,516</u>
Accumulated surplus, June 30	\$1,052,461	\$602,825	-\$12,777	-\$840,649	-\$1,847,165

^a Expenditures in 1982-83 and 1983-84 assume a 5 percent expenditure increase over the previous year.

Credential Revocation Procedures

The Supplemental Report to the Budget Act of 1980 directed the commission to adopt specific regulations modifying its procedures for credential revocation. These regulations were adopted by the commission in December 1980.

The report also directed the commission to study the advisability of adopting an adversary hearing procedure in its credential revocation process. The commission intends to consider such procedures during its scheduled meeting in January 1981. We will comment further on this issue during the budget hearings.

Items 642-798

POSTSECONDARY EDUCATION

	<i>Page</i>
California Postsecondary Education Commission (Item 642)	1243
University of California (Item 644)	1248
Hastings College of Law (Item 660)	1336
California State University and Colleges (Item 661)	1340
California Maritime Academy (Item 686)	1416
Board of Governors of the California Community Colleges (Item 687)	1420
Student Aid Commission (Item 798)	1452

OVERVIEW OF POSTSECONDARY EDUCATION

Postsecondary education consists of formal instruction, research, public service, and other learning opportunities offered by educational institutions which are eligible for state fiscal support. Postsecondary education primarily serves persons