

projection of the index was made, for the budget year, it appeared to be reasonable. Inflation, however, has not increased as anticipated. Using the most recent indices, adjusted by the currently expected rate of inflation—about  $\frac{1}{2}$  percent per month—construction costs in the budget are overstated by approximately 3 percent. We therefore recommend that any funds approved for construction under this item be reduced by 3 percent to eliminate overbudgeting.

### Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

## DEPARTMENT OF EDUCATION

Item 6100 from the General  
Fund and various funds

Budget p. E 1

Requested 1985-86 .....	\$11,447,676,000
Estimated 1984-85 .....	10,499,398,000
Actual 1983-84 .....	9,496,071,000
Requested increase (excluding amount for salary increases) \$948,278,000 (+9.0 percent)	
Total recommended reduction .....	59,837,000
Recommendation pending .....	586,156,000

### 1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6100-001-001—Main support	General	\$30,075,000
6100-001-140—Environmental education administration	Environmental License	123,000
6100-001-178—School bus driver instruction	Driver Training Penalty Assessment	500,000
6100-001-305—Private postsecondary education	Private Postsecondary Administration	892,000
6100-001-344—School facilities planning	State School Building Lease-Purchase	647,000
6100-001-687—Donated food distribution	Donated Food Revolving	26,844,000
6100-001-890—Federal support	Federal Trust	42,584,000
6100-006-001—Special schools	General	35,097,000
6100-007-001—Special schools student transportation	General	544,000
6100-011-001—Library support	General	8,668,000
6100-011-890—Library federal support	Federal Trust	1,495,000
6100-015-001—Instructional materials warehousing and shipping	General	271,000
6100-021-001—Child nutrition administration	General	580,000
6100-101-001—School apportionments	General	6,743,111,000
6100-101-890—Federal block grant	Federal Trust	35,718,000
6100-102-001—Regional Occupational Centers/Programs	General	187,697,000

**DEPARTMENT OF EDUCATION—Continued**

6100-106-001—County schools	General	77,797,000
6100-107-001—Education Improvement Incentive Program	General	15,000,000
6100-109-001—High school pupil counseling	General	6,600,000
6100-111-001—Home-to-School Transportation	General	271,965,000
6100-114-001—Court-ordered desegregation	General	184,416,000
6100-115-001—Voluntary desegregation	General	7,000,000
6100-116-001—School Improvement Program	General	197,231,000
6100-118-001—Vocational education student organizations	General	500,000
6100-119-001—Opportunity classes/specialized secondary schools/foster youth services	General	6,908,000
6100-121-001—Economic Impact Aid	General	187,502,000
6100-124-001—Gifted and Talented Education	General	18,900,000
6100-126-001—Miller-Unruh Reading Program	General	18,166,000
6100-128-001—Intergenerational education	General	165,000
6100-131-001—Native American Indian Education	General	347,000
6100-136-890—Federal ECIA Chapter 1	Federal Trust	323,415,000
6100-141-890—Migrant education	Federal Trust	73,651,000
6100-146-001—Demonstration programs in reading and math	General	3,993,000
6100-151-001—American Indian Education Centers	General	819,000
6100-156-001—Adult education	General	184,164,000
6100-156-890—Federal adult education	Federal Trust	9,288,000
6100-158-001—Adults in correctional facilities	General	1,346,000
6100-161-001—Special education	General	775,998,000
6100-161-890—Federal special education	Federal Trust	94,879,000
6100-166-001—Vocational education	General	600,000
6100-166-890—Vocational education	Federal Trust	63,215,000
6100-167-001—Agricultural vocational education	General	3,000,000
6100-171-178—Driver training	Driver Training Penalty Assessment	(19,500,000)
6100-176-890—Refugee and immigrant programs	Federal Trust	5,565,000
6100-181-001—Educational technology	General	15,285,000
6100-181-140—Environmental education	Environmental License Plate	481,000
6100-183-001—Curriculum on birth defects	General	500,000
6100-186-001—Instructional materials, K-8	General	63,504,000
6100-187-001—Instructional materials, 9-12	General	19,832,000
6100-191-001—Staff development	General	75,404,000
6100-192-001—Mathematics, Engineering, Science Achievement	General	1,391,000
6100-196-001—Child development	General	279,751,000
6100-196-890—Federal child development	Federal Trust	1,957,000
6100-201-001—Child nutrition	General	28,384,000
6100-201-890—Federal child nutrition	Federal Trust	404,366,000
6100-203-890—Temporary Emergency Food Assistance Program	Federal Trust	3,000,000
6100-206-001—Urban Impact Aid	General	72,543,000
6100-207-001—Meade Aid	General	9,935,000
6100-209-001—Commissions on Professional Competence	General	18,000
6100-211-001—Library local assistance	General	10,710,000
6100-211-890—Federal library local assistance	Federal Trust	12,000,000
6100-221-001—Public Library Foundation Program	General	15,250,000
6100-222-001—Youth Suicide Prevention Program	General	300,000

## Item 6100

## K-12 EDUCATION / 1051

6100-226-001—Cost-of-living increases	General	731,078,000
—Prior year balances available	General	7,687,000
—Loan repayments	General	—3,281,000
—Loan repayment	Special Account for Capital Outlay	—113,000
—School apportionments	State School	26,888,000
—Driver training	State School	19,500,000
—Child nutrition	Federal Trust	500,000
—Department administration	Special Deposit	1,958,000
—Local assistance	Special Deposit	1,100,000
—Private postsecondary administration	Student Tuition Recovery	52,000
—Student tuition recovery	Student Tuition Recovery	420,000
Total		\$11,447,676,000
<b>Funding Source:</b>		
General		\$10,296,751,000
Special Account for Capital Outlay		—113,000
California Environmental License Plate		604,000
Driver Training Penalty Assessment		500,000
Private Postsecondary Administration		892,000
State School		46,388,000
State School building Lease-Purchase		647,000
Donated Food Revolving		26,844,000
Federal Trust		1,071,633,000
Special Deposit		3,058,000
Student Tuition Recovery		472,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**Analysis  
page**School Apportionments**

1. **Serrano Equalization.** Reduce Item 6100-101-001 by \$21,000,000. Recommend elimination of funds requested for equalization aid because (1) further equalization does not appear to be needed in order to comply with *Serrano*, (2) the proposed distribution mechanism would increase disparities among different types of school districts, and (3) less costly means of achieving equalization exist. 1071
2. **Basic Aid.** Reduce Item 6100-101-001 by \$1,676,000. Recommend adoption of Budget Bill language limiting the amount of "basic aid" provided to high-wealth school districts, because provision of such aid (1) is not constitutionally required and (2) is contrary to state policy of eliminating wealth-related disparities. 1074
3. **Incentives for Longer School Day.** Withhold recommendation on the proposed General Fund appropriation of \$354 million for incentives to lengthen the school day, pending receipt of additional information. 1077
4. **Incentives for Longer School Year.** Recommend adoption of Budget Bill language to clarify that school districts which do not offer 180 days of instruction in 1985-86 shall be ineligible to retain funding bonus for longer school year. 1078
5. **Computation of COLA.** Recommend adoption of Budget Bill language requiring computation of statutory COLA for revenue limits using data published as of April 30, 1985, in order to ensure that the amount of funds appropriated will be consistent with the amount apportioned. 1080

**DEPARTMENT OF EDUCATION—Continued**

6. Public Employees' Retirement System (PERS) Contributions. Recommend that the Department of Finance explain why the budget does not provide funding to increase school district revenue limits to reflect termination of the PERS reduction pursuant to SB 813 and the 1984 budget trailer bill. 1081

**Other General Education Programs**

7. Urban Impact Aid. Withhold recommendation on \$75,445,000 requested from the General Fund for Urban Impact Aid, pending completion of two legislatively-mandated reports. 1082

**Programs Relating to Classroom Instruction**

8. School Improvement Program (SIP). Recommend that the Department of Finance clarify (1) the administration's objectives for SIP expansion and equalization and (2) how the administration intends to achieve objectives of equalization and expansion established by SB 813. 1089
9. Education Improvement Incentive Program (EIIP). Recommend that the Department of Education explain why it has failed to implement the EIIP on a pilot basis, as required by SB 813. 1091
10. EIIP Administrative Costs. Recommend adoption of Budget Bill language authorizing the Department of Education to reserve up to \$225,000 for administrative costs, because the current allowance for this program is too low. 1092
11. Opportunity Classes and Programs. Withhold recommendation on \$4,291,000 requested from the General Fund for expansion of opportunity classes and programs, pending receipt of additional information. 1095
12. Opportunity Classes Reimbursements. Recommend that the Budget Bill be amended to clarify that districts operating opportunity programs are eligible to receive incentive funding. 1095
13. *Instructional Materials (Grades K-8). Reduce Item 6100-186-001 by \$226,000 and reduce Item 6100-226-001(k) by \$45,000.* Recommend reduction because the budget overestimates enrollment. 1097
14. Demonstration Programs in Reading and Mathematics. Recommend adoption of Budget Bill language restricting funding eligibility for new programs to those which would differ significantly from existing demonstration programs. 1098
15. Demonstration Programs in Reading and Mathematics. Recommend adoption of Budget Bill language limiting state support of any demonstration program beyond the first three years to costs of curriculum development and dissemination. 1099
16. High School Pupil Counseling. Recommend that the Departments of Finance and Education comment on the consequences of underfunding the high school pupil counseling program. 1099



**Programs Relating to Teaching and Administration**

17. Mentor Teacher Program. Recommend that the Departments of Finance and Education clarify the consequences of a \$15.9 million underfunding of support costs for the Mentor Teacher program. 1102
18. *Minimum Teachers' Salaries. Reduce Item 6100-101-001(g) by \$25,435,000.* Recommend reduction because funds remaining from the current-year appropriation will be sufficient to fund budget-year requirements. Further recommend reappropriation of undisbursed current-year balance in Item 6100-490. 1104
19. *Administrator Training and Evaluation. Reduce Item 6100-191-001(a) by \$1,000,000.* Recommend reduction to reflect delays in program implementation. Further recommend reappropriation of undisbursed current-year balance in Item 6100-490. 1107
20. *Pilot Project for Administrative Personnel. Reduce Item 6100-191-001(b) by \$250,000.* Recommend reduction because funds remaining from current year appropriation will not be sufficient to finance budget year requirements. Further recommend reappropriation of undisbursed current-year balance in Item 6100-490. 1107
21. Innovative Local Experiments for Personnel. Recommend reappropriation of undisbursed balance of current-year funding, because it is unlikely that projects will be implemented in 1984-85. Further recommend enactment of legislation to authorize continuation of projects in 1985-86. 1108

**Special Education**

22. Special Education Infant Programs. Withhold recommendation on \$5 million augmentation requested from the General Fund for special education infant programs, pending receipt of an allocation plan. 1112
23. Special Education Low-Incidence Equipment. Withhold recommendation on \$5 million requested from the General Fund to fund the purchase of specialized equipment for students with low-incidence disabilities, pending receipt of an allocation plan. 1112
24. *Special Education Vocational Matching Funds. Reduce Item 6100-161-001 by \$3,500,000.* Recommend reduction because there is no need for the state to replace the local money that is now being used to match federal vocational education funds. 1113
25. *Special Education—Longer School Day and Year. Reduce Item 6100-161-001 by \$1,750,000.* Recommend reduction because there is no reason to provide incentives for county offices' special education programs, at a rate that is twice that provided to school districts' special education programs. 1114
26. Special Education Awareness Program. Withhold recommendation on \$200,000 requested from the General Fund for the special education Awareness Program, pending receipt of additional information. 1115

**DEPARTMENT OF EDUCATION—Continued**

27. *Special Schools Overbudgeting. Reduce Item 6100-006-001 by \$247,000.* Recommend reduction to correct technical budgeting error. 1118

**Vocational Education Programs**

28. Regional Occupational Centers/Programs (ROC/Ps). Recommend that the Departments of Finance and Education identify the consequences of failing to fund a \$5.6 million current-year deficit in funding for ROC/Ps. 1119
29. Agricultural Vocational Education Incentive Program. Recommend that the Legislature adopt supplemental report language directing the Department of Education to report on the continued need for funding Agricultural Education Incentive Program. 1121

**Compensatory Education Programs**

30. Refugee and Immigrant Programs. Withhold recommendation on \$5,565,000 in federal funds requested for refugee and immigrant programs, pending receipt of a complete budget proposal. 1128
31. Miller-Unruh Reading Program. Recommend that the Legislature adopt supplemental report language requiring the Department of Education to reallocate excess funds to new participants meeting specified criteria. 1131

**Other Specialized Education Programs**

32. Intergenerational Education Programs. Withhold recommendation on \$165,000 requested from the General Fund for intergenerational education, pending receipt of a statutorily-required evaluation. 1135
33. Foster Youth Services. Recommend that the Legislature adopt supplemental report language directing the Department of Education to report on the Foster Youth Services program's effectiveness. 1135
34. Curriculum on Birth Defects. Withhold recommendation on \$500,000 requested from the General Fund to develop a curriculum on the prevention of birth defects, pending receipt of an expenditure plan from the Department of Education. 1138
35. Federal Block Grant. Withhold recommendation on \$41,781,000 in federal block grant (ECIA Chapter 2) funds, pending receipt of an expenditure plan from the Department of Education. 1141

**School Desegregation**

36. Court-Ordered Desegregation. Recommend that the Department of Finance explain why it does not intend to fund \$16.1 million in court-ordered desegregation reimbursement claims that are expected to be filed in 1985-86. 1144
37. Voluntary Desegregation. Recommend that the Department of Finance explain how the administration intends to address a potential \$87 million deficiency in funding for voluntary desegregation reimbursement claims. 1145

**Ancillary Support for K-12 Education**

38. School Construction Local Match Requirement. Recommend adoption of budget control language and enactment of legislation requiring school districts to finance 10 percent of school construction projects funded from State School Building Lease-Purchase Fund. 1150
39. Deferred Maintenance Hardship Apportionments. Recommend enactment of legislation (1) authorizing the use of up to 10 percent of the funds in State School Deferred Maintenance Fund for "hardship apportionments" to districts of any size and (2) specifying a mechanism for repayment of such apportionments. 1153
40. Emergency Classrooms. Recommend that the State Allocation Board and the Department of Education report during budget hearings on (1) estimated expenditures for emergency classrooms and (2) the reasons for delays in processing applications. 1156
41. Automated School Facilities Inventory. Recommend that the State Allocation Board and the Department of Education report during budget hearings on the status of a statutorily-required, automated school facilities inventory. 1157
42. Alternatives to School Construction. Withhold recommendation on Control Section 24.20, pending receipt of information on current-year expenditures for programs providing incentives for alternatives to construction of new school facilities. 1158
43. Child Nutrition. Withhold recommendation on \$29,463,000 requested from the General Fund for the state child nutrition program, pending receipt of additional information. 1160

**Non-K-12 Education Programs**

44. *State Preschool Program. Reduce Item 6100-196-001(a) by \$115,000.* Recommend reduction to reflect delays in implementing program expansions during the current year. Further recommend reappropriation of unencumbered current-year balance in Item 6100-490. 1161
45. *Child Care Services. Reduce Item 6100-196-001(b) by \$2,240,000.* Recommend reduction to reflect delays in implementing program expansions during the current year. Further recommend reappropriation of unencumbered current-year balance in Item 6100-490. 1165
46. Child Care Budget Guidelines. Recommend adoption of supplemental report language directing the Department of Education to develop guidelines for the use of state funds by child care agencies. 1166
47. Adults in Correctional Facilities. Recommend that the Department of Finance explain why the budget fails to fully fund the statutory COLA for the adults in correctional facilities program. 1168
48. Office of Food Distribution. Recommend adoption of supplemental report language directing the Department of Education to report on (1) the extent to which recom- 1170

**DEPARTMENT OF EDUCATION—Continued**

mendations contained in a recent management report are implemented and (2) the amount of savings realized from implementing these recommendations.

49. Donated Food Revolving Fund Balance. Recommend adoption of supplemental report language directing the Department of Education to (1) set a revised target level for reserves in the Donated Food Revolving Fund and (2) report quarterly on the fund balance. 1172

**State Department of Education**

50. State Operations Funding. Withhold recommendation on \$64,588,000 in state and federal funding for the Department of Education's state operations, pending receipt of an accurate budget display from the Department of Finance. 1175
51. *California Assessment Program (CAP). Reduce Item 6100-001-001 by \$1,100,000.* Recommend reduction, to (1) correct for overbudgeting and (2) reflect the availability of unused funds remaining from the current-year appropriation. Further recommend reappropriation of \$550,000, provided in current year for 10th grade test, in Item 6100-490. 1177
52. CAP Writing Skills Assessments. Recommend that the Department of Finance explain how it intends for the Department of Education to expend \$1.2 million for student writing assessments, when no positions are provided for this purpose. 1178
53. California High School Proficiency Exam (CHSPE). Recommend that the Departments of Finance and Education submit a plan describing how the CHSPE deficit will be funded. 1179
54. Golden State Examinations. Recommend that the Department of Finance explain why the budget fails to provide funding for the development of the Golden State Examination program, as required by SB 813. 1180
55. Apportionments Documentation. Withhold recommendation on the \$158,000 requested from the General Fund for contract services to document the automated school apportionments system, pending receipt of additional information. 1181
56. *Commission on School Governance and Management (COSGAM). Reduce Item 6100-001-001 by \$250,000.* Recommend reduction because statutory authority for the COSGAM expires on June 30, 1985. 1181

**State Library**

57. *Relocation of Library Development Services Bureau. Reduce Item 6100-011-001 by \$47,000.* Recommend reduction to correct technical budgeting error. 1185
58. *Extension of Sutro Library Hours. Reduce Item 6100-011-001 by \$56,000.* Recommend reduction because the library can accommodate additional patrons by rescheduling its existing hours. 1186
59. *California Literacy Campaign Expansion. Reduce Item* 1187

**6100-211-001 by \$900,000.** Recommend reduction because the program provides for orderly expansion within the existing funding level.

### OVERVIEW OF ANALYSIS

We recommend a reduction of \$59.8 million in the proposed appropriations from the General Fund for K-12 education. These recommendations are summarized in the following table.

**Table 1**  
**Summary of Legislative Analyst's**  
**Recommended Fiscal Changes**  
**1985-86**

<i>Activity</i>	<i>General Fund</i>
Serrano Equalization .....	-\$21,000,000
Basic Aid .....	-1,676,000
Instructional Materials .....	-271,000
Minimum Teachers' Salaries .....	-25,435,000
Administrator Training .....	-1,000,000
Pilot Project for Administrators .....	-250,000
Special Education—Vocational Funds .....	-3,500,000
Special Education—Longer Day and Year .....	-1,750,000
State Special Schools .....	-247,000
State Preschool Program .....	-115,000
Child Care Services .....	-2,240,000
California Assessment Program .....	-1,100,000
Commission on School Governance .....	-250,000
State Library Relocation .....	-47,000
Sutro Library Hours .....	-56,000
California Literacy Campaign .....	-900,000
Total .....	-\$59,837,000

In the analysis which follows, we have identified numerous instances where the Governor's Budget fails to take account of funding that, for various reasons, will not be fully expended in the current year and thus will be available for expenditure in the budget year. By reappropriating these unexpended funds, we estimate that the Legislature could reduce the proposed appropriations in the Governor's Budget for the affected programs by \$29 million, while continuing to provide full funding for these programs in the budget year.

The remaining \$30.8 million in recommended reductions reflects our findings that the budget contains funds which are in excess of individual program needs. Any funds released by the approval of these recommendations would be available for redirection by the Legislature to other education or noneducation programs.

We are withholding recommendation on \$586 million in proposed appropriations of state and federal funds. Of this amount, we withhold recommendation on \$388 million because more accurate data on funding needs will be available by the time of budget hearings.

In addition, we have found it necessary to withhold recommendation on proposed appropriations of \$112 million, either because accurate budget displays have not been submitted (\$70 million) or because neither the Department of Finance nor the Department of Education has provided us with plans detailing how the requested funds would be spent (\$42 million).

**DEPARTMENT OF EDUCATION—Continued**

In preparing this analysis, our efforts have been hampered by the failure of the Department of Finance to provide us with the information which we needed in order to evaluate the Governor's budget proposals. That information which we have received was often inaccurate, and was transmitted much later than has been customary in the past.

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

**OUTLINE OF THE K-12 EDUCATION ANALYSIS**

	<i>Item Number</i>	<i>Analysis Page</i>
GENERAL PROGRAM STATEMENT.....	6100-001-001	1060
OVERVIEW OF THE BUDGET REQUEST.....	6100-001-001	1061
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2. Significant Program Changes.....	6100-001-001	1062
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2. Urban Impact Aid.....	6100-206-001	1082
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d. Educational Technology Program.....	6100-181-001	1093
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f. Specialized Secondary Schools.....	6100-119-001(c)	1094
g. Opportunity Classes and Programs.....	6100-119-001(b)	1095
h. Instructional Materials.....	6100-186-001, 6100-187-001, and 6100-015-001	1096
i. Demonstration Programs in Reading and Mathematics.....	6100-146-001	1097
j. High School Pupil Counseling.....	6100-109-001	1099
2. Programs Relating to Teaching and Administration		
a. Mentor Teacher Program.....	6100-191-001(c) and (d)	1101
b. Minimum Teachers' Salaries.....	6100-101-001(g)	1104
c. Teacher Education and Computer Centers.....	6100-191-001(h)	1106
d. Administrator Training and Evaluation Program.....	6100-191-001(a)	1106
e. Pilot Project for Administrative Personnel and Management.....	6100-191-001(b)	1107
f. Innovative Experiments to Strengthen Personnel.....	—	1108
g. Other Staff Development Programs.....	6100-191-001(e) and (g)	1109
3. Special Education		
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c. State Special Schools.....	6100-006-001	1117
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4. Vocational Education Programs		

a. Regional Occupational Centers and Programs .....	6100-102-001	1118
b. Vocational Education Student Organizations .....	6100-118-001	1120
c. Peninsula Academies Model Program .....	6100-166-001	1120
d. Agricultural Vocational Education Incentive Program .....	6100-167-001	1121
e. School-Based Programs .....	6100-166-890	1122
5. Compensatory Education Programs		
a. ECIA Chapter 1 .....	6100-136-890 and 6100-141-890	1123
b. Economic Impact Aid .....	6100-121-001	1126
c. Refugee and Immigrant Programs .....	6100-176-890	1128
d. Indian Education .....	6100-131-001 and 6100-151-001	1130
e. Miller-Unruh Reading Program .....	6100-126-001	1131
6. Other Specialized Education Programs		
a. Gifted and Talented Education .....	6100-124-001	1133
b. Mathematics, Engineering, Science Achievement Program .....	6100-192-001	1134
c. Intergenerational Education .....	6100-128-001	1135
d. Foster Youth Services .....	6100-119-001 (a)	1135
e. Youth Suicide Prevention Program .....	6100-222-001	1136
f. Environmental Education .....	6100-001-140 and 6100-181-140	1138
g. Curriculum on Birth Defects .....	6100-183-001	1138
h. Commissions on Professional Competence ..	6100-209-001	1139
i. Driver Training .....	6100-171-178	1139
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C. School Desegregation		
1. Court-Ordered Desegregation .....	6100-114-001	1144
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II. Ancillary Support for K-12 Education		
A. Transportation		
1. Home-to-School Transportation .....	6100-111-001	1146
2. School Bus Driver Instructor Training Program .....	6100-001-178	1147
B. School Facilities Programs		
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2. School Facilities Planning .....	6100-001-344	1158
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C. Child Nutrition		
1. Nutrition Education and Training Projects .....		1159
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III. Non-K-12 Education Programs		
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B. Adult Education .....	6100-156-001, 6100-156-890, and 6100-158-001	1167
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**DEPARTMENT OF EDUCATION—Continued**

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B. State Library Support .....	6100-011-001 and 6100-011-890	1185
C. Support to Local Library Districts .....	6100-211-001, 6100-211-890, and 6100-221-001	1186

**GENERAL PROGRAM STATEMENT**

In 1985-86, approximately 4.4 million students will attend public elementary and secondary schools in 1,029 elementary, high, and unified school districts. Student attendance in these districts is expressed in terms of "ADA" (average daily attendance), which is defined as the average number of pupils that actually attend classes for at least the minimum school day plus the average number of pupils having a valid excuse for being absent from school.

Table 2 shows K-12, adult, and ROC/P attendance figures for the prior, current, and budget years. As the table indicates, the attendance level projected for 1985-86 is 2.0 percent *above* the 1984-85 level.

**Table 2**  
**K-12 Education**  
**Annual Average Daily Attendance (ADA) in**  
**California Public Schools**  
**1983-84 through 1985-86**

	<i>Actual</i> <i>1983-84</i>	<i>Estimated</i> <i>1984-85</i>	<i>Proposed</i> <i>1985-86</i>	<i>Change</i> <i>1984-85 to</i> <i>1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
Elementary .....	2,744,555	2,784,500	2,847,400	62,900	2.3%
High School .....	1,251,391	1,276,300	1,293,100	16,800	1.3
Adult Education .....	155,291	162,615	166,680	4,065	2.5
County .....	14,999	15,980	16,978	998	6.2
Regional Occupational Centers and Programs .....	92,618	98,292	100,749	2,457	2.5
Totals .....	4,258,854	4,337,687	4,424,907	87,220	2.0%

Source: Department of Finance midrange projections, January 8, 1985

The state provides assistance to local education agencies through approximately 50 general and categorical aid programs. The K-12 education system is administered by the State Department of Education (SDE), 58 county offices of education, and 1,029 school districts. The department has 2,700.9 authorized positions in the current year to staff departmental operations, the state special schools, and the State Library.



**OVERVIEW OF THE BUDGET REQUEST****1. K-12 Revenues**

The budget proposes that \$16.8 billion be made available to support California's K-12 schools in 1985-86. This is an increase of \$1.2 billion, or 8.0 percent, over the amount provided in the current year. Table 3 displays total revenues for K-12 education in the prior, current, and budget years.

**Table 3**  
**Total Revenues for K-12 Education**  
**1983-84 through 1985-86**  
**(dollars in millions)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State:					
General Fund <sup>a</sup> .....	\$8,983.0	\$9,876.4	\$10,795.0	\$918.6	9.3%
Special funds <sup>b</sup> .....	61.9	79.3	79.3	—	—
Subtotals, State .....	\$9,044.9	\$9,955.7	\$10,874.3	\$918.6	9.2%
Local:					
Property tax Levies <sup>c</sup> .....	\$2,541.2	\$2,950.2	\$3,127.3	\$177.1	6.0%
Subtotals, State and Local .....	\$11,586.1	\$12,905.9	\$14,001.6	\$1,095.7	8.5%
Other:					
Federal <sup>d</sup> .....	\$1,014.6	\$1,071.4	\$1,123.3	\$51.9	4.8%
State capital outlay <sup>e</sup> .....	185.0	389.4	254.5	-134.9	-34.6
Local debt service .....	443.8	437.4	431.1	-6.3	-1.4
Local miscellaneous .....	792.1	792.1	792.1	—	—
Lottery Fund .....	—	—	243.0 <sup>f</sup>	243.0	N/A
Subtotals, Other .....	\$2,435.5	\$2,690.3	\$2,844.0	\$153.7	5.7%
Totals .....	\$14,021.6	\$15,596.2	\$16,845.6	\$1,249.4	8.0%

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

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

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

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

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

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

Under the budget proposal, the General Fund will provide \$10.8 billion in support for K-12 education, while other state funds will provide \$79 million (excluding funds for capital outlay). Thus, the total amount proposed from state sources for K-12 education in 1985-86 is \$10.9 billion—an increase of \$919 million, or 9.2 percent, over the current-year level.

Local property tax levies will provide \$3.1 billion for K-12 education in 1985-86—an increase of \$177 million, or 6.0 percent, over the current-year level. Thus, state and local revenue sources, combined, will provide a total of \$14.0 billion for the state's K-12 public schools in 1985-86—an increase of \$1.1 billion, or 8.5 percent, over state and local revenue in 1984-85.

Finally, other revenue sources are expected to contribute an additional \$2.8 billion to support K-12 programs in the budget year. This amount is composed of (1) federal funds, estimated at \$1,123 million, (2) state funds for capital outlay from the sale of voter-authorized bonds and tidelands oil revenues, estimated at \$255 million, (3) local property taxes used to retire indebtedness approved by voters prior to Proposition 13 of 1978, estimated at \$431 million, (4) miscellaneous revenues of \$792 million from the sale

**DEPARTMENT OF EDUCATION—Continued**

and rental of district property, interest earned on cash deposits, cafeteria income, and other local revenue sources, and (5) \$243 million that the Governor's Budget estimates will be available from the new lottery.

**2. Significant Program Changes in 1985-86**

Table 4 shows the components of the \$1,249 million net increase in total support proposed for California's K-12 public schools in 1985-86. The most significant General Fund changes include:

• **Funding for the Growth in Average Daily Attendance.** Average daily attendance (ADA) statewide is expected to increase by 80,698 in 1985-86—62,900 ADA in grades K through 8, 16,800 ADA in the state's high schools, and 998 ADA in County Offices of Education. This increase will raise General Fund expenditures by \$167.7 million.

**Table 4**  
**K-12 Education**  
**Proposed 1985-86 Budget Changes**  
**(dollars in millions)**

	<i>Funding Sources</i>				<i>Totals</i>
	<i>General</i>	<i>Special</i>	<i>Local<sup>a</sup></i>	<i>Federal</i>	
1984-85 Expenditures (Revised) .....	\$9,876.4 <sup>b</sup>	\$468.7	\$4,179.7	\$1,071.4	\$15,596.2
1. Changes Needed to Maintain Existing Base:					
ADA increase (2.0 percent) .....	167.7	—	—	—	167.7
Statutory inflation adjustments:					
K-12 apportionments .....	579.0	—	—	—	579.0
Other programs with statutory COLAs .....	98.8	—	—	—	98.8
Incentives for longer school day (SB 813) .....	105.0	—	—	—	105.0
1984-85 deficits not funded in current year .....	39.3 <sup>c</sup>	—	—	—	44.3
Contributions to the State Teachers' Retirement Fund .....	41.8	—	—	—	41.8
One-time desegregation funding deficiency .....	-31.8 <sup>d</sup>	—	—	—	-31.8
Increase in local property taxes .....	-177.1	—	170.8	—	-6.3
Other baseline changes .....	-4.3	—	—	—	-9.3
2. Program Change Proposals:					
Discretionary programs inflation .....	53.2	—	—	—	53.2
Special education proposals .....	33.0	—	—	—	33.0
Serrano equalization .....	21.0	—	—	—	21.0
School Improvement Program expansion .....	9.3	—	—	—	9.3
Adult and ROC/P enrollment growth .....	9.0	—	—	—	9.0
Mentor Teacher program expansion .....	7.0	—	—	—	7.0
Unfunded 1984-85 COLA deficiency .....	-12.0	—	—	—	-12.0
Deferred maintenance .....	-19.6	—	—	—	-19.6
Capital outlay .....	—	-134.9	—	—	-134.9
State lottery revenues .....	—	—	243.0	—	243.0
Federal funds .....	—	—	—	51.9	51.9
Other program change proposals .....	-0.7	—	—	—	-0.7
1985-86 Expenditures (Proposed) .....	\$10,795.0	\$333.8	\$4,593.5	\$1,123.3	\$16,845.6
Changes from 1984-85:					
Amount .....	\$918.6	-\$134.9	\$413.8	\$51.9	\$1,249.4
Percent .....	9.3%	-28.8%	9.9%	4.8%	8.0%

<sup>a</sup> Includes revenues from state lottery.

<sup>b</sup> Assumes funding of \$70 million deficiency in current-year apportionments.

<sup>c</sup> Includes home-to-school transportation (\$21.7 million), ROC/Ps (\$5.6 million), and school apportionments COLA (\$12.0 million).

<sup>d</sup> Assumes enactment of Governor's proposed legislation to fund deficiency.

- **Funding for Cost-of-Living Adjustments (Item 6100-226-001).** The budget requests \$731 million to provide full funding of statutory COLAs (including increases of 5.95 percent for school apportionments and special education) and a 4.0 percent inflation adjustment for all other programs. This amount includes (1) \$579.0 million for general education apportionments to K-12 districts and county offices (revenue limits), (2) \$98.8 million for all other programs with statutory COLAs, and (3) \$53.2 million for programs with no COLA specified in statute.

- **Funding for Longer School Day Incentive—SB 813.** The budget requests \$105 million to fund the second year of a three-year program, created by SB 813, which provides school districts with fiscal incentives to increase the amount of instructional time offered.

- **Funding for Deficits Not Funded in the Current Year.** The budget assumes that \$39.3 million in current-year deficits will not be funded in 1984-85. The budget, however, proposes to fund \$27.3 million of these deficiencies in 1985-86, including: (1) \$21.7 million for home-to-school transportation and (2) \$5.6 million for Regional Occupational Centers and Programs. In addition, the budget proposes not to fund in 1985-86 a \$12 million deficit in the statutory COLA for K-12 apportionments, which also is unfunded in the current year.

- **Increase in Local Property Tax Revenues.** The budget estimates a net increase in property tax revenues excluding levies for repayment of voter-approved indebtedness of \$177.1 million. This increase, however, does not result in additional revenues to school districts. Instead, it reduces the General Fund cost of funding school apportionments on a dollar-for-dollar basis. Because debt levies are expected to decrease by \$6.3 million, total local property tax revenues show a net increase of only \$170.8 million.

- **Increases for Special Education.** The budget requests \$33 million to expand existing or establish new special education programs. This amount includes (1) \$10 million for program growth, (2) \$5.5 million for instructional aides, (3) \$5 million for infant programs, (4) \$5 million for the purchase of specialized equipment, (5) \$3.5 million for vocational education, and (6) \$3.5 million for county offices' participation in the longer school day and year programs of SB 813.

- **Increases for Serrano Equalization.** The budget requests \$21 million in additional equalization aid for large and small high school, small elementary, and small unified school districts.

- **Lottery Revenues.** The Governor's Budget estimates that an additional \$243.0 million in local revenues will be available from the new state lottery for K-12 schools in 1985-86.

- **Other Changes.** Other changes affecting the overall level of support for K-12 education include (1) a decrease of \$154.5 million for school construction and deferred maintenance, from various funds, (2) an increase of \$41.8 million in General Fund contributions to the State Teacher's Retirement Fund, and (3) an increase of \$51.9 million in federal aid.

**Table 5**  
**K-12 Total Revenues**  
**1976-77 through 1985-86**  
**(dollars in millions)**

Year	Local Property Tax Levies <sup>a</sup>	State Property Tax Subventions	State Aid	Federal Aid	Miscel- laneous <sup>b</sup>	Total Funding	ADA	Total Funding		1976-77 Dollars <sup>c</sup>	
								Per ADA	Percent Change	Per ADA	Percent Change
1976-77 .....	\$4,256.1	\$494.0	\$2,764.6	\$644.4	\$495.6	\$8,654.7	4,718,800	\$1,834	11.2%	\$1,834	—
1977-78 .....	4,728.6	516.0	2,894.9	891.5	485.6	9,516.6	4,652,486	2,045	11.5	1,904	3.8%
1978-79 .....	2,337.1	241.5	5,333.4	962.3	551.3	9,425.6	4,271,181	2,207	7.9	1,897	-0.4
1979-80 .....	2,000.0	180.0	6,998.5	1,100.4	702.7	10,981.6	4,206,150	2,611	18.3	2,046	7.9
1980-81 .....	2,166.2	243.6	7,696.0	1,102.1	909.5	12,117.4	4,214,089	2,875	10.1	2,056	0.5
1981-82 .....	2,674.1	259.5	7,567.1	1,002.1	821.9	12,324.7	4,200,678	2,934	2.1	1,946	-5.4
1982-83 .....	2,675.3	266.5	7,786.1	969.3	792.1	12,489.3	4,230,065	2,953	0.6	1,837	-5.6
1983-84 (estimated) .....	2,886.5	98.5	9,229.9	1,014.6	792.1	14,021.6	4,258,854	3,292	11.5	1,928	5.0
1984-85 (estimated) .....	3,289.1	98.5	10,345.1	1,071.4	792.1	15,596.2	4,337,687	3,596	9.2	1,990	3.2
1985-86 (budgeted) .....	3,459.9	98.5	11,128.8	1,123.3	1,035.1	16,845.6	4,424,907	3,807	5.9	1,991	0.1
<i>Cumulative Change</i>											
Amount .....	-\$796.2	-\$395.5	\$8,364.2	\$478.9	\$539.5	\$8,190.9	-293,893	\$1,973	—	\$157	—
Percent .....	-18.7%	-80.1%	302.5%	74.3%	108.9%	94.6%	-6.2%	107.6%	—	8.6%	—

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

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

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

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

### 3. Ten-Year Funding History

#### a. Total K-12 Revenues

Table 5 displays total funding for K-12 education, by source, for the 10 years 1976-77 to 1985-86. The principal funding sources identified in the table are as follows:

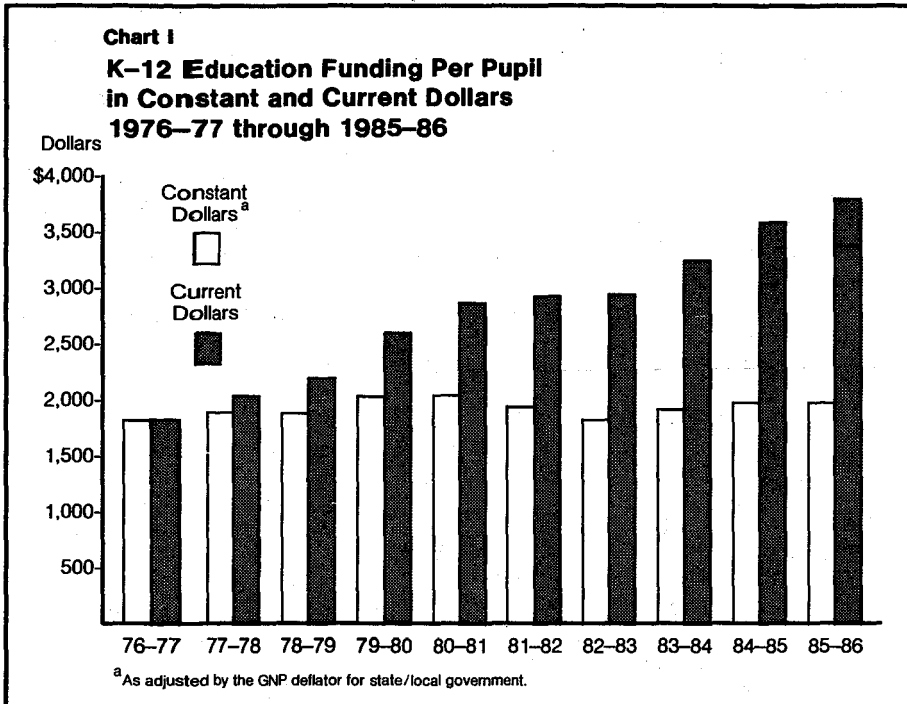
- **Local Property Tax Levies**—revenues raised by the tax on real property.
- **State Property Tax Subventions**—funds provided by the state to school districts in order to replace property tax revenues foregone due to tax exemptions granted by the state, such as the homeowners exemption and the business inventory exemption.
- **State Aid**—K-12 revenues provided from the General Fund and state special funds.
- **Federal Aid**—all K-12 education funds received from the federal government.
- **Miscellaneous Revenues**—combined state/federal grants, income from the sale of property and supplies, cafeteria revenues, interest income, and other revenues.

Table 5 shows total funding for California's K-12 public schools growing from \$8.7 billion in 1976-77 to \$16.9 billion in 1985-86—an increase of \$8.2 billion, or 95 percent, over the 10-year period. Of the five revenue sources, state aid from the General Fund and state special funds has shown the greatest increase since 1975-76 (302 percent), while the amount of support derived from local property taxes and state property tax subventions has actually declined. This decline is due, in part, to the combined effects of Proposition 13 and the state's fiscal relief program established by AB 8 (Ch 282/79). The significant reduction in state property tax subventions between 1982-83 and 1983-84 reflects the elimination of funding for the business inventory exemption subvention provided for in the 1983 Budget Act. (State apportionment aid to schools was increased by an amount equivalent to their share of this subvention, resulting in no net loss of revenue for K-12 education.)

Average daily attendance (ADA) over the 10-year period fell 6.2 percent, from 4,718,800 to 4,424,907. Two factors explain this decline. First, the number of 5-17 year olds residing in the state declined during this period. Second, the number of summer school ADA dropped sharply between 1977-78 and 1978-79, following the passage of Proposition 13. This occurred because the state withdrew support for all non-remedial summer school programs except those that were offered as part of a year-round school. Since 1981-82, however, ADA statewide has increased steadily. We expect this trend to continue throughout the decade because of (1) a projected increase in the school-age population and (2) the expansion of the summer school program authorized by SB 813.

#### b. Revenues Per ADA

Table 5 and Chart 1 display per-pupil funding levels during the 10-year period, in both current dollars and constant dollars (that is, dollars that have been adjusted to reflect the effects of inflation on purchasing power). The table and chart show per-pupil funding in current dollars growing by 108 percent since 1976-77 (\$1,834 to \$3,807).

**DEPARTMENT OF EDUCATION—Continued**

If we adjust these expenditures for inflation, however, a different picture emerges. For 1985-86, the proposed per-pupil expenditure level, as measured in constant dollars, is \$1,991—\$157, or 8.6 percent, above the 1976-77 amount. Putting it another way, assuming enactment of the budget, the purchasing power of K-12 funding per pupil in 1985-86 will be 8.6 percent greater than it was in 1976-77. Since 1980-81, however, funding on a constant dollar basis has actually declined—from \$2,056 to \$1,991 per pupil—a reduction of \$65, or 3.2 percent.

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

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

**A. GENERAL EDUCATION PROGRAMS**

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

As shown in Table 6, the budget proposes total general education expenditures (consisting of apportionments and other expenditures) of \$12,058 million in 1985-86. This is an increase of \$1,163 million, or 10.7 percent, over the current-year amount, and is composed of a \$751 million increase in General Fund support, a \$169 million increase in revenues from local sources, and \$243 million from the new state lottery. Support from other state funds and federal aid are expected to remain constant at \$27 million and \$52 million, respectively.

**Table 6**  
**General Education Expenditures**  
**1983-84 through 1985-86**  
**(dollars in millions)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
<b>A. General Education Apportionments:</b>					
K-12 districts.....	\$8,343.9	\$9,387.2	\$10,243.7	\$856.5	9.1%
State .....	(5,948.9)	(6,597.5)	(7,294.1)	(696.6)	(10.0)
Local .....	(2,395.0)	(2,789.7)	(2,949.6)	(159.9)	(5.7)
County offices.....	154.9	168.2	184.1	15.9	9.5
State .....	(75.7)	(81.6)	(88.2)	(6.6)	(8.1)
Local .....	(79.2)	(86.6)	(95.9)	(9.3)	(10.7)
Subtotals.....	\$8,498.8	\$9,555.4	\$10,427.8	\$872.4	9.1%
State .....	(6,024.6)	(6,679.1)	(7,382.3)	(703.2)	(10.5)
Local .....	(2,474.2)	(2,876.3)	(3,045.5)	(169.2)	(5.9)
<b>B. Other General Education:</b>					
Meals for Needy Pupils, Apprenticeship Programs .....	\$20.8	\$25.5	\$26.9	\$1.4	5.5%
Federal PL 81-874 .....	51.7	51.7	51.7	—	—
Urban Impact Aid .....	61.5	72.5	75.5	3.0	4.1
Meade Aid .....	9.7	9.9	10.3	0.4	4.0
Small School District Aid.....	18.6	19.1	19.9	0.8	4.2
Transfer to State Teachers' Retirement Fund.....	401.1	369.1	410.9	41.8	11.3
Miscellaneous .....	792.1	792.1	1,035.1 <sup>a</sup>	243.0	30.7
Subtotals.....	\$1,355.5	\$1,339.9	\$1,630.3	\$290.4	21.7%
Totals.....	\$9,854.3	\$10,895.3	\$12,058.1	\$1,162.8	10.7%
<b>Funding Sources:</b>					
General Fund .....	\$6,509.4	\$7,148.3	\$7,898.9	\$750.6	10.5%
State School Fund .....	26.9	26.9	26.9	—	—
Federal funds .....	51.7	51.7	51.7	—	—
Local funds .....	3,266.3	3,668.4	3,837.6	169.2	4.6
Lottery fund .....	—	—	243.0	243.0	N/A

<sup>a</sup> Includes \$243 million in lottery revenues (Governor's Budget estimate).

**DEPARTMENT OF EDUCATION—Continued**

Within the total, the budget proposes \$10,428 million in general education apportionments for K-12 districts and county offices of education in 1985-86—an increase of \$872 million, or 9.1 percent over the amount provided in 1984-85. The state General Fund contributes 71 percent of this amount, while local property taxes account for 29 percent.

The remaining general education expenditures are proposed at \$1,630 million in 1985-86—an increase of \$290 million, or 22 percent, over the current-year level. Most of this increase is attributable to the \$243 million in lottery revenues which the Governor's Budget estimates K-12 education will receive for the first time in 1985-86.

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

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

**a. 1985-86 Budget Changes**

Table 7 displays the changes from 1984-85 to 1985-86 in the amount proposed from the General Fund to support general education apportionments to K-12 districts and county offices of education. The table shows that in order to *maintain the existing program*, the budget reflects (1) a \$167.7 million increase to fund additional ADA in district and county office of education programs, (2) a \$169.2 million reduction in General Fund costs resulting from an equivalent increase in local property tax revenues, (3) a \$579 million increase to provide a 5.95 percent statutory cost-of-living adjustment (COLA) for apportionments to K-12 districts (\$568.6 million) and county offices of education (\$10.4 million), (4) a \$105 million increase to fund the second year of the program, created by SB 813, which provides incentives for school districts to increase the length of the school day, (5) a \$12 million increase, in order to fund the difference between the 1984-85 inflation adjustment (5.90 percent) and the statutorily-prescribed increase in revenue limits (6.02 percent), (6) a \$10.4 million increase to compensate for a temporary reduction in district revenue limits approved by the Legislature in 1984 in order to reflect reduced district contributions to the Public Employees' Retirement System (PERS), (7) a \$6.2 million decrease, reflecting the elimination of the "minimum revenue guarantee" provided in 1984-85 only, and (8) a \$5.9 million increase due to a variety of other changes. These baseline changes yield a net increase in funding of \$704.6 million.

In addition to the baseline changes, the administration has made three significant *budget change proposals*. First, the budget proposes \$21 million in additional *Serrano* equalization aid for large and small high school districts, small elementary districts, and small unified districts. Second, the budget proposes *not* to fund the \$12 million deficiency in district revenue limits that will be carried over from 1984-85.



**Table 7**  
**K-12 Education**  
**General Education Apportionments**  
**Changes Proposed for 1985-86**  
**General Fund**  
**(dollars in millions)**

1984-85 General Fund Expenditures (Revised) .....		\$6,652.2 <sup>a</sup>
<b>A. Changes Needed to Maintain Existing Base:</b>		
ADA increase .....		\$167.7
Increase in local property taxes .....		-169.2
Statutory inflation adjustments .....		579.0
K-12 districts .....	(\$568.6)	
County offices .....	(10.4)	
Incentives for longer school day (SB 813) .....		105.0
Elimination of 1984-85 COLA deficiency .....		12.0
Elimination of one-time PERS reduction .....		10.4
Elimination of one-time minimum revenue guarantee .....		-6.2
Other baseline changes .....		5.9
Total, Changes Needed to Maintain Existing Program ..		\$704.6
<b>B. Budget Change Proposals:</b>		
Serrano equalization .....		21.0
Do Not Fund COLA deficiency carried over from 1984-85 ..		-12.0
Continue PERS reduction .....		-10.4
Total, Budget Change Proposals .....		-1.4
1985-86 General Fund Expenditures (Proposed) .....		\$7,355.4
Changes from 1984-85:		
Amount .....		\$703.2
Percent .....		10.6%

<sup>a</sup> Includes \$70 million proposed by the Governor to fund 1984-85 apportionments deficit.

Finally, the budget proposes to continue the \$10.4 million "PERS reduction," notwithstanding the provision in the 1984 budget trailer bill (Ch 268/84) that called for the reduction to be restored after 1984-85. The net result of these three budget change proposals, which are discussed in greater detail below, is to *decrease* General Fund support for general education apportionments by \$1.4 million.

The total change in General Fund support for K-12 apportionments (baseline adjustments and program changes) is an increase of \$703 million, or 10.6 percent, over the 1984-85 level. This results in a total General Fund apportionments appropriation in 1985-86 of \$7,355 million.

### **b. Serrano Equalization**

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

In response to the court's decision, the Legislature enacted a school finance system in AB 65 (Ch 894/77) which provided school districts with different inflation adjustments (COLAs), depending upon their per-pupil revenue limits. In general, a school district with a revenue limit above the statewide average would receive a smaller COLA than would a district with a revenue limit below the statewide average. Under this system,

**DEPARTMENT OF EDUCATION—Continued**

per-pupil funding levels would be drawn to the statewide average ("squeezed") over time. Thus, funding disparities stemming from differences in district wealth gradually would be reduced.

Senate Bill 813 (Ch 498/83) repealed the "squeeze" formulas which had been used to determine each district's revenue limit COLA, thereby eliminating the equalization mechanism established in AB 65. In its place, SB 813 provided that in 1983-84, revenue limits below a computed statewide average amount for districts of similar size and type would be raised to within \$50 of the computational average. The bill further provided that in 1984-85, below-average revenue limits would be raised the remainder of the way towards the computational statewide average. Senate Bill 813 provided \$23 million to implement this "level-up" equalization in 1983-84, and the 1984 Budget Act provided an additional \$149 million for this purpose in 1984-85.

The Governor's Budget proposes that \$21 million in additional equalization aid be provided to school districts in 1985-86, using a new mechanism. Eligibility for this aid would be restricted to certain types of districts.

In order to understand the reasons why restrictions on eligibility for equalization aid are proposed, one must first understand the latest developments in the ongoing *Serrano* litigation.

**1983 Superior Court Decision.** In 1980, a group of plaintiff school districts sought to have the state's school finance system once again declared unconstitutional for failing to comply with the requirement of the 1974 *Serrano* decision (affirmed in 1976 by the California Supreme Court). Much of the argument in the case turned on the issue of how compliance should be measured.

The plaintiff school districts argued that a standard of strict compliance should be adopted—one that would require the general education expenditures per pupil of all school districts to be within a "closure band" of \$100. The plaintiffs further argued that, in measuring the extent to which equalization had been achieved, the court should consider the percentage of school districts—rather than the percentage of statewide average daily attendance—that was included within the closure band. Finally, the plaintiffs contended that the definition of "general education expenditures" should include funds, such as the minimum revenue guarantee and the declining enrollment adjustment, which districts received outside of their base revenue limits but which could be spent for any purpose.

The State Department of Education, the defendant in the case, argued that the court should adopt a standard of "reasonably feasible" compliance which considers the amount of progress which the state has made toward achieving equalization. The department also argued that (1) the measurement of equalization should be based on the percentage of statewide ADA within the closure band; (2) the \$100 closure band should be adjusted for inflation since the earlier *Serrano* decision was issued; and (3) the definition of general education expenditures should be limited to base revenue limit amounts only.

In a decision issued in April 1983, Judge Lester Olson of the Los Angeles Superior Court found that the standard of compliance proposed by the State Department of Education was appropriate. Relying on data showing the distribution of school district expenditures per pupil in 1982-83, Judge Olson further held that the state had complied with the terms of the earlier *Serrano* ruling, and that no further equalization was required. The decision is being appealed by the plaintiffs.

### **Additional Equalization Aid is Not Needed**

*We recommend that \$21 million requested from the General Fund for equalization aid be eliminated because (1) it is not clear that further equalization is needed in order to comply with the requirements of the Serrano decision, (2) the proposed mechanism for distributing these funds would increase disparities in average per-pupil expenditures among different types of school districts, and (3) there are less costly means of achieving further equalization. (Reduce Item 6100-101-001 by \$21,000,000.)*

The Governor's Budget proposes that \$21 million in equalization aid be provided to school districts in 1985-86. Like the equalization approach adopted in SB 813, the budget proposes that this equalization aid be provided to school districts with revenue limits below the statewide average for districts of a similar size and type, in order to bring those districts up to the level of the statewide average.

Unlike SB 813, however, the budget proposes to provide equalization aid only to those categories of school districts for which fewer than 90 percent of the ADA would otherwise be included within the *Serrano* closure band, as defined by the 1983 Superior Court decision. Thus, under the budget proposal, neither large elementary school districts nor large unified school districts would be eligible to receive equalization aid. This is because—in the absence of such additional aid—the closure band would already include 93.0 percent and 97.1 percent of these districts' ADA, respectively.

We identify three major problems with the Governor's proposal. First, it is not clear that further equalization is needed, in light of the recent Superior Court ruling. Second, while the proposed mechanism for distributing equalization aid would enhance equalization within certain types of districts, it would at the same time increase disparities in average per-pupil expenditures among districts of different sizes and types. Finally, our analysis indicates that, if the Legislature wishes to achieve further equalization, there are other, less costly ways of doing so.

**Further Equalization May Not Be Needed.** Table 8 shows the trends in equalization since 1974, as measured by the percentage of ADA within the closure band (as adjusted for inflation), for each category of district. The table also shows the percentages of ADA that would be equalized in 1985-86, under two alternative assumptions: (1) no additional equalization aid is provided and (2) \$21 million aid in equalization aid provided, as the Governor proposes.

As Table 8 shows, the state has made substantial progress in achieving school finance equalization since the 1974 *Serrano* decision. In 1974-75, 50.7 percent of ADA statewide was enrolled in school districts having revenue limits within the \$100 closure band (measured separately for districts of similar size and type). The data for 1982-83—on which the Superior Court based its decision that the state *has* fully complied with the earlier *Serrano* judgment—indicate that 93.4 percent of statewide ADA was encompassed by the closure band (adjusted for inflation) in that year.

The table also shows that, *even if no additional equalization aid is provided in 1985-86, the level of equalization achieved will exceed the 1982-83 levels for every category of school district.* With no additional aid, 95.0 percent of statewide ADA will be encompassed by the *Serrano* closure band, compared to 93.4 percent in 1982-83. Because the level of equalization in 1985-86 will exceed what the Superior Court found to be the "full compliance" level, it would seem that further equalization is not needed in order to comply with the 1974 *Serrano* ruling.

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Table 8  
Trends in School Finance Equalization  
(Percent of ADA Within *Serrano* Closure Band)  
by Category of School District  
Selected Years

School District Category	1974-75	1982-83	1983-84	1984-85	1985-86	
					No Additional Equalization Aid	Governor's Proposal (\$21 million)
Small elementary .....	15.8%	40.3%	48.5%	74.2%	75.4%	81.2%
Large elementary .....	38.5	92.3	84.9	92.4	93.0	93.0
Small high school .....	35.7	45.5	57.2	79.8	75.2	75.2
Large high school .....	31.5	82.0	80.3	87.1	87.3	89.3
Small unified .....	28.8	66.3	85.2	90.4	89.6	90.1
Large unified .....	58.3	96.3	94.7	97.0	97.1	97.1
Totals <sup>a</sup> .....	50.7%	93.4%	90.8%	94.8%	95.0%	95.3%

<sup>a</sup> Total ADA within closure band for all six categories, divided by statewide total ADA.

Under the Governor's proposal, the expenditure of \$21 million would produce modest gains in equalization among small elementary districts, small and large high school districts, and small unified districts. Because these four categories account for only 12.3 percent of total statewide ADA, however, total equalization statewide would increase above the "no aid" level by only 0.3 percentage points—to 95.3 percent.

***Distribution Mechanism Would Increase Disparities Across District Types.*** Our review of the Governor's proposal indicates that, while it would tend to enhance equalization within the three categories of school districts noted above, it would *increase* disparities in the average revenue limits *among* the six categories. This latter effect (which is caused by the budget's proposed "level up approach") is shown in Table 9.

As Table 9 indicates, the average revenue limit of a small elementary district in 1984-85 is approximately 30 percent higher than that of a large elementary district—a difference of \$614 per ADA. If no additional equalization aid is provided, this gap would remain relatively constant, rising only to \$629 per ADA. Under the Governor's proposal, however, the gap would increase to \$762 per ADA—and the average revenue limit of a small elementary district would be 34 percent higher than that of its larger counterpart.

At least two negative consequences flow from the growing disparities among the average revenue limits. First, whatever rational relationship that once may have existed among the average revenue limits, is steadily eroded. For example, if the higher costs of small elementary districts justified a revenue limit that—on average—was 22 percent higher than the revenue limits for large elementary districts in 1982-83, why should this differential be 34 percent in 1985-86?

Second, and more importantly, as the differentials between the average revenue limits of small and large districts of the same type increase, the possibility that some districts will realize windfall revenue gains also increases. The opportunity to secure a windfall is especially large in the case of those districts with enrollments that are close to the dividing line

**Table 9**  
**K-12 Education**  
**Average Revenue Limits**  
**By Size and Type of School District**  
**1982-83 to 1985-86**

School District Category	1982-83	1983-84	1984-85	1985-86	
				No Additional Governor's Equalization Aid	Proposal (\$21 million)
Small elementary (less than 101 ADA) .....	\$2,088	\$2,404	\$2,683	\$2,877	\$3,010
Large elementary (more than 100 ADA) .....	1,714	1,908	2,069	2,248	2,248
Difference .....	\$374 (21.8%)	\$496 (26.0%)	\$614 (29.7%)	\$629 (28.0%)	\$762 (33.9%)
Small high school (less than 301 ADA) .....	\$2,358	\$2,688	\$2,946	\$3,203	\$3,271
Large high school (more than 300 ADA) .....	2,100	2,367	2,563	2,790	2,830
Difference .....	\$258 (12.3%)	\$321 (13.6%)	\$383 (14.9%)	\$413 (14.8%)	\$441 (15.6%)
Small unified (less than 1501 ADA)	\$1,968	\$2,181	\$2,373	\$2,574	\$2,623
Large unified (more than 1500 ADA) .....	1,865	2,054	2,207	2,401	2,401
Difference .....	\$103 (5.5%)	\$127 (6.2%)	\$166 (7.5%)	\$173 (7.2%)	\$222 (9.2%)

between the two size categories. For example, a "large" elementary district with 101 ADA and a revenue limit of \$2,300 would not qualify for additional equalization aid in 1985-86. If that district were to lose one pupil, however, it would become a "small" elementary school district, thereby qualifying for aid of approximately \$700 per ADA, in order to raise its revenue limit to the average for other small elementary districts. (If this district were to regain its lost ADA in the following year, its revenue limit would not be adjusted downward. Instead, its now-higher revenue limit would be included in computing the average revenue limit for large elementary districts, thereby creating a "need" for additional equalization aid.)

**Less Costly Equalization Alternatives Exist.** Finally, our analysis indicates that, if the Legislature should wish to achieve additional equalization in 1985-86, there are less-costly alternatives for accomplishing this objective than what the Governor proposes. In fact, because the "leveling up" approach proposed by the Governor assumes that districts with high revenue limits are funded at an appropriate level (and low revenue limit districts are underfunded), it is generally the *most costly* means of achieving equalization. One less costly alternative, therefore, would be to return to the AB 65 "squeeze" mechanism that was used to allocate COLA funds prior to 1983-84.

Even within the "leveling up" framework, however, there exist approaches which are less costly than what the Governor proposes. One of these would involve eliminating, for equalization purposes, the distinction between small and large districts of the same type. While this approach would not reduce the costs involved in achieving 100 percent equalization, it would reduce the costs associated with achieving, for example, 95 per-

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cent equalization. This is because the handful of high revenue limit districts that tend to raise the average revenue limit for small districts would have little effect on the average for small and large districts combined.

For all of the foregoing reasons, therefore, we recommend that the Legislature eliminate from the budget the \$21 million in equalization aid requested by the Governor, for an equivalent General Fund savings. These funds could then be directed to other, higher priority, education or noneducation programs.

**Provision of "Basic Aid" Hinders Equalization Efforts**

*We recommend that the Legislature adopt Budget Bill language limiting the amount of "basic aid" provided to high-wealth school districts, because the provision of such aid (1) is not necessary in order to comply with the requirements of the state constitution and (2) is contrary to the state's policy of eliminating wealth-related disparities in educational spending. Consistent with this recommendation, we further recommend that the Legislature reduce the amount of funding for "basic aid" by \$1,676,000. (Reduce Item 6100-101-001 by \$1,676,000.)*

Under California's current system of financing schools, general purpose aid is allocated to school districts through a "revenue limit" system. Each school district has a specific revenue limit per unit of average daily attendance (ADA) which is based, in part, on the district's historical level of expenditures. The school finance system guarantees each school district an amount of general purpose funds equal to its revenue limit times its ADA, with this amount financed through a combination of local property taxes (together with other, specified local revenues) and state aid. Article IX, Section 6, of the California Constitution further provides that each school district shall receive from the State School Fund an amount equal to the greater of \$120 per (prior-year) ADA or \$2,400.

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

For a handful of school districts, however, the amount of local property taxes received exceeds the revenue limit guarantee. The state does not recapture any of the excess amount, and in fact adds to the excess by providing these districts with additional state "basic aid" equal to the greater of \$120 per ADA or \$2,400. As a result, the revenue limit guarantee bears no relationship to the amount of general purpose funds actually available to these districts.

The State Department of Education estimates that, in 1985-86, 21 districts will receive these basic aid payments, at a cost of \$1.7 million.

**Basic Aid Exacerbates Wealth-Related Disparities.** Because these 21 school districts receiving basic aid clearly are able to raise large amounts of revenue from local sources, the provision of this aid by the state tends to exacerbate wealth-related disparities in educational spending per pupil—and is thus contrary to the requirements of the *Serrano* decision. Table 10 compares the amount of general purpose funds per ADA received by "basic aid" districts in 1983-84 (the most recent year for which data are available) to the average revenue limit amounts for districts of a similar size and type.

**Table 10**  
**K-12 Education**  
**"Basic Aid" Districts:**  
**Local Revenues per ADA<sup>a</sup> Versus**  
**Statewide Average Revenue Limit,**  
**By Type of District**  
**1983-84**

		<i>Local Revenue</i>	<i>Local Revenue</i>
	<i>ADA</i>	<i>Per ADA</i>	<i>Plus State Basic Aid Per ADA</i>
<i>Small Elementary School Districts</i>			
Chawanakee Elementary .....	22	\$4,176	\$4,296
Pine Ridge Elementary .....	91	7,491	7,611
Belridge Elementary .....	69	11,872	11,992
McKittrick Elementary .....	42	10,642	10,762
Pleasant Valley Joint Union Elementary .....	20	3,250	3,370
Ballard Elementary .....	36	4,493	4,613
Pacific Elementary .....	50	3,799	3,919
Indian Springs Elementary .....	40	8,272	8,392
Totals, Small Elementary School Districts .....	370	\$7,533 <sup>b</sup>	\$7,653 <sup>b</sup>
Statewide Average Revenue Limit for Type of District .....	—	\$2,404	\$2,404
<i>Large Elementary School Districts</i>			
Midway Elementary .....	195	\$8,372	\$8,492
Taft City Elementary .....	1,983	2,148	2,268
Del Mar Union Elementary .....	751	2,258	2,378
Fallbrook Union Elementary .....	3,771	1,921	2,041
Solana Beach Elementary .....	827	2,319	2,439
Montecito Union Elementary .....	276	2,817	2,937
Totals, Large Elementary School Districts .....	7,803	\$2,246 <sup>b</sup>	\$2,366 <sup>b</sup>
Statewide Average Revenue Limit for Type of District .....	—	\$1,908	\$1,908
<i>Large High School Districts</i>			
Taft Union High .....	891	\$4,770	\$4,890
Fallbrook Union High .....	1,808	2,634	2,754
Totals, Large High School Districts .....	2,699	\$3,339 <sup>b</sup>	\$3,459 <sup>b</sup>
Statewide Average Revenue Limit for Type of District .....	—	\$2,367	\$2,367
<i>Small Unified School Districts</i>			
Maricopa Unified .....	400	\$3,176	\$3,296
Middletown Unified .....	784	3,731	3,851
Mammoth Unified .....	684	2,774	2,894
Cloverdale Unified .....	1,146	3,102	3,222
Geyserville Unified .....	329	4,027	4,147
Totals, Small Unified School Districts .....	3,343	\$3,282 <sup>b</sup>	\$3,402 <sup>b</sup>
Statewide Average Revenue Limit for Type of District .....	—	\$2,181	\$2,181

<sup>a</sup> Average daily attendance.

<sup>b</sup> Average, weighted by ADA.

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As shown in the table, *each* of the 21 school districts receiving basic aid in 1983-84 raised from local sources an amount of revenues per ADA which exceeded the statewide average revenue limit for comparable districts. Local revenues per ADA for these districts ranged from 101 percent (Fallbrook Union Elementary) to 494 percent (Belridge Elementary) of the statewide average. These wealth-related disparities in educational spending per pupil are increased when consideration is given to basic aid. This causes total general purpose revenues per ADA for these 21 districts to range from 107 percent to 499 percent of the statewide average revenue limit for similar districts.

**Basic Aid Not Constitutionally Required.** In implementing the requirements of Article IX, Section 6, of the California Constitution, the Legislature has assumed that each school district must receive at least \$120 per pupil (or \$2,400) in general-purpose *apportionment aid* from the State School Fund. A recent opinion (No. 18721) provided by the Legislative Counsel, however, concludes that the constitutional requirement may be satisfied by the provision of at least \$120 per pupil (or \$2,400) in state aid of any type including aid provided under categorical programs—which flows through the State School Fund. Our analysis indicates, therefore, that the Legislature could comply with the requirements of Article IX, Section 6, by specifying that additional state aid shall be provided a school district only to the extent that it would otherwise fail to receive at least \$120 per pupil (or \$2,400) in *total* state aid from the State School Fund. We estimate that if such a provision had been in effect during 1983-84, the total requirement for basic aid would have been reduced by \$1,676,000, resulting in an equivalent General Fund savings.

In sum, our analysis indicates that the provision of basic aid (1) is not necessary in order to comply with the requirements of the state constitution and (2) is contrary to the state's policy of eliminating wealth-related disparities in educational spending. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-101-001:

"Notwithstanding the provisions of Sections 41790 and 41800 of the Education Code, or any other provision of law to the contrary, the Superintendent of Public Instruction shall allow to each school district "basic state aid" only in such an amount as is necessary to ensure that the district receives at least \$120 per pupil in average daily attendance during the preceding fiscal year (but not less than \$2,400) in total state aid from the State School Fund."

Consistent with this recommendation, we further recommend that the Legislature reduce Item 6100-101-001 by \$1,676,000; to reflect the reduced need for basic aid.

**c. Incentives for Longer School Day and Year**

Senate Bill 813 created two voluntary programs which, commencing in 1984-85, offer school districts incentives to increase instructional time. The first provided \$35 per ADA to districts that offered a 180-day school year in 1984-85. In 1985-86 and thereafter, these funds are folded into the district's per-pupil revenue limit.

The act's second incentive (commonly referred to as the longer school day program) encourages districts to increase the total instructional time offered to their students over a three-year period. It does so by providing additional funds if certain target levels of instruction are met. Table 11 displays the length of the minimum school year for each grade level as



required under current law and the optional target levels for 1986-87 established by SB 813. We note that SB 813 established goals in terms of "total minutes per year," rather than in terms of minutes per day and days per year.

**Table 11**  
**Minimum School Year**  
**Current Law and SB 813 Targets for 1986-87**

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

Specifically, the measure provides each district in 1984-85 with an additional \$20 per ADA for grades K-8 and \$40 per ADA for grades 9-12 if the district increases the total instructional time offered in each of the four grade categories by an amount of time equal to one-third of the difference between the 1986-87 target levels and the amount of instructional time offered in 1982-83. The additional \$20 or \$40 per ADA is provided each year through 1986-87, as long as the district continues to increase instructional time by one-third of the original difference. Thus, the cumulative funding adjustment for the three-year period would be either \$60 or \$120 per ADA.

Like the funds provided districts for increasing the length of the school year, the funds which a district receives for increasing total instructional time are folded into its revenue limit in subsequent years. If a district drops below the target level in any grade category for a given year, it loses the funding bonus associated with that year. For example, if a district were to attain the third-year target level of total instructional time in 1986-87, but in 1988-89 offered less instructional time than the goal for 1985-86 (second-year), it would lose both the \$20/\$40 per ADA bonus associated with 1985-86 and the \$20/\$40 per ADA bonus associated with 1986-87.

#### **Funding for Longer School Day/Year May Be Overbudgeted**

*We withhold recommendation on \$354 million requested for the program to lengthen the school day and year, pending receipt of additional information on projected participation rates.*

The Governor's Budget provides \$249 million to fund the revenue limit adjustments which school districts will receive in 1985-86 on account of their participation in the longer school day and year programs in 1984-85. In addition, the budget provides \$105 million to fund the second year of the three-year program to increase the total amount of instructional time. In total, therefore, the Governor's Budget provides \$354 million for costs associated with lengthening the school day and year in 1985-86.

Our analysis indicates that the amount proposed in the Governor's Budget for increasing the school day and year is likely to exceed the programs' actual requirements in 1985-86. This is because the budget assumes that all of the state's 1,029 school districts will fully participate in these programs during 1984-85 and 1985-86.

The State Department of Education indicates that data on the actual

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participation of school districts in these programs will be available in February 1985, thereby permitting a more refined estimate of funding requirements to be made for 1985-86. Accordingly, we withhold recommendation on the amount requested for the longer school day/year, pending review of data on actual participation rates.

**Technical Clarification of Longer Year Provisions Needed**

*We recommend that the Legislature adopt Budget Bill language providing that any school district which fails to offer at least 180 days of instruction in 1985-86 shall be ineligible to retain its funding bonus for the longer school year program, in order to avoid the inequitable treatment of identically situated districts.*

As noted above, SB 813 provides that the funding bonuses which a district receives on account of its participation in the longer school day and longer school year programs are folded into the district's revenue limit in subsequent years. In the case of the longer school day program, the measure provides that a district falling below the target level of instructional time for a given year loses the funding bonus associated with that year. In the case of the longer school year program, however, SB 813 provides that a district will lose the \$35 per ADA funding bonus only if it (1) fails to offer a 180-day school year and (2) fails to meet the target level of total instructional time for that year. As a result, our analysis indicates that two districts could offer identical amounts of instructional time and have an identical number of days in their school years in 1985-86, and still receive different amounts of funding under the longer school year program.

Table 12 provides a hypothetical example of how these contrary results could occur. In the table, District A and District B are two high school districts which offered identical amounts of instructional time in 1982-83 (the base year for the longer school day program).

**Table 12**  
**Comparison of Two Hypothetical**  
**Districts Under the Longer Day and Year Programs**

	1982-83	1984-85	1985-86
<i>District A</i>			
Instructional time:			
Time per day .....	5 hours 30 minutes	5 hours 34 minutes	5 hours 56 minutes
Days per year .....	175	180	175
Funding bonus:			
Longer day .....	—	\$40/ADA	\$80/ADA
Longer year .....	—	\$35/ADA	\$35/ADA
<i>District B</i>			
Instructional time:			
Time per day .....	5 hours 30 minutes	5 hours 44 minutes	5 hours 56 minutes
Days per year .....	175	175	175
Funding bonus:			
Longer day .....	—	\$40/ADA	\$80/ADA
Longer year .....	—	—	—

In the first year of the program (1984-85), District A extends the length of its school day by four minutes and the length of its school year by five days. As a result, it receives \$40 per ADA from participating in the longer

school day program, and \$35 per ADA from participating in the longer year program. School District B only participates in the longer school day program. Like District A, it receives the \$40 per ADA funding bonus, but it does not receive the \$35 per ADA bonus for the longer year program.

In the second year of the program (1985-86), District A withdraws from the longer year program, perhaps because it prefers not to pay the added energy and transportation costs associated with a longer school year. District A does not, however, withdraw from the longer school day program, and continues to extend the length of the school day in the same manner as District B. Under current law, it will retain both its \$40 incentive funding and \$35 longer school year bonus, and will receive an additional \$40 per ADA for reaching the instructional day targets for the second year, for a total increase of \$115. As shown in Table 12, District A and District B offer the same amount of total instructional time and days per year in 1985-86, but District A receives \$35 per ADA more than District B.

We see no reason why any district that does not provide 180 days of instruction should qualify for incentive funding under the longer school year program, simply because it meets the target for total instructional time. Such a district is already rewarded for the additional instruction time under the longer school day program. It would not seem to warrant any incentive funding under the longer school year program. We therefore recommend that the Legislature adopt the following Budget Bill language in Item 6100-101-001 to eliminate the unwarranted bonus:

"Notwithstanding Section 46200(b) of the Education Code, for any school district which received an apportionment pursuant to Section 46200(a) of the Education Code and which offers less than 180 days of instruction in the 1985-86 fiscal year, the Superintendent of Public Instruction shall reduce the base revenue limit per unit of average daily attendance for 1985-86 by an amount attributable to the increase received pursuant to Section 46200(a), as adjusted."

#### **Technical Error in Budget Bill Language**

Senate Bill 813 provides that, in calculating a school district's entitlement to incentive funds for increasing the length of the school day and year, the average daily attendance (ADA) of pupils in adult education classes and summer school classes shall be excluded. As noted above, SB 813 also provides that, in 1985-86 and succeeding years, the funding bonuses which a district receives on account of participation in these programs shall be folded into the district's revenue limit. If the district's revenue limit were simply to be increased by \$35 per ADA (in the case of the longer year program) or by \$20 to \$40 per ADA (in the case of the longer day program), however, the district would receive a windfall gain in 1985-86 and thereafter. This is because the measurement of ADA used in computing districts' revenue limit entitlements includes the types of ADA which are specifically excluded from being counted for purposes of the longer school day and longer school year programs.

In order to address this problem, the Department of Finance has proposed Budget Bill language in Provisions 9 and 10 of Item 6100-101-001. This language provides that the base revenue limit of a school district which participated in the longer school day and longer school year programs will be increased in 1985-86 by an amount equal to the total amount of incentive funds received by the district in 1984-85, divided by the district's total revenue limit ADA. As a result, each participating district's per-pupil revenue limit would be increased by an amount less than \$35 (in

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the case of the longer school year program) or by an amount less than \$20 to \$40 (in the case of the longer school day program).

We believe the intent of the language proposed by the Department of Finance has merit. Our review indicates, however, that the language is technically flawed. Specifically, we find that the Budget Bill language would increase the base revenue limits of *all* school districts which had participated in the longer school year and longer school day programs in 1984-85—including the revenue limits of districts which, in 1985-86, fell below the respective target levels of instructional time for which they initially received the funding bonuses. We have brought this apparent unintended consequence to the attention of the Department of Finance staff, who indicate that they will propose an amended version of the language at budget hearings.

**d. Clarification Needed on Computation of Statutory COLA (Item 6100-226-001)**

*We recommend that the Legislature adopt Budget Bill language requiring the Superintendent of Public Instruction to compute the statutory inflation adjustment for revenue limits of school districts and county offices of education using data published by the United States Department of Commerce as of April 30, thus ensuring that the amount appropriated by the Legislature for this purpose will be consistent with the amount subsequently apportioned by the Superintendent.*

Section 42238.1 of the Education Code requires the Superintendent of Public Instruction to adjust the revenue limits of school districts to compensate for inflation, using the change in "the Implicit Price Deflator for State and Local Government Purchases of Goods and Services for the United States, as published by the United States Department of Commerce for the 12-month period ending in the third quarter of the prior fiscal year."

Based on U.S. Commerce Department data available in May 1984, the Legislature provided full funding for the statutory cost-of-living adjustment (COLA)—5.9 percent.

In July 1984, the Superintendent of Public Instruction made advance apportionments to school districts and county offices of education, based on more recent data from the Commerce Department. (Although the time period covered by the index ends in March, the Commerce Department continues to revise the value of the state and local government price index for several months afterwards.) These data indicated that the statutorily-required inflation adjustment was 6.02 percent, rather than 5.9 percent. By using the more recent data in apportioning funds, the Superintendent created a \$12 million funding deficiency in 1984-85.

Our review indicates that the Superintendent's actions in apportioning these funds were consistent with the statutory requirements of Section 42238.1.

As a matter of policy, however, we believe that it is undesirable for the Superintendent to apply a COLA to revenue limits which is different from the COLA assumed in the budget. Changes in the implicit price deflator are invariably going to be minor, and would not seem to be worth the trouble of accounting for in a program of this size. (For example, the 1984-85 discrepancy amounts to 0.1 percent of total revenue limit funding for K-12 education in that year, or \$2.94 per ADA.)

Furthermore, such a practice will result in a deficit or surplus, depending on whether the Commerce Department's statistics are revised upwards or downwards after the budget is passed. Deficits due to technical revisions impose additional administrative costs on the state because the department must seek a deficiency appropriation in subsequent legislation. Surpluses, on the other hand, make excess funds unavailable to the Legislature for three years for use in funding other high priority areas.

In order to prevent a deficit (or surplus) in the budget year resulting from statistical changes in the price deflator, we recommend that the Superintendent be required to use the same statistics in calculating inflation adjustments that are used in the budget approved by the Legislature. To accomplish this, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-226-001:

"Notwithstanding any other provision of law to the contrary, the Superintendent of Public Instruction shall compute the statutory inflation adjustment specified in paragraph (2) of subdivision (a) of Section 42238.1 of the Education Code using data published by the United States Department of Commerce as of April 30 of the year in which this bill is enacted."

#### **e. Continuation of PERS Reduction**

*We recommend that the Legislature direct the Department of Finance to explain why the budget does not provide funding to increase school district revenue limits so as to reflect termination of the PERS reduction pursuant to SB 813 (Ch 498/83) and SB 1379 (Ch 268/84).*

Pursuant to Ch 330/82 (SB 46), the Public Employees Retirement Board reduced the employer contributions to PERS that school districts and county offices of education were required to make in 1982-83. Recognizing the savings that districts and county offices would realize as a result of this change, the Legislature provided for a corresponding reduction in revenue limits in the Budget Act of 1982. Because the employer contribution rates were increased in 1983, the Legislature, in SB 813, provided for the reduction to be restored at the end of the 1983-84 fiscal year.

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

The Governor proposes to continue the PERS reduction (adjusted for changes in current-year contribution rates) during 1985-86, thereby keeping revenue limits \$10.4 million below what they otherwise would be.

Because the Legislature provided for the termination of the reduction in both SB 813 and the trailer bill (Ch 268/84) to the 1984 Budget Act, we recommend that the Department of Finance explain why the budget does not provide funding for the corresponding revenue limit increase for 1985-86.

**DEPARTMENT OF EDUCATION—Continued****2. Urban Impact Aid (Item 6100-206-001)**

*We withhold recommendation on \$75.4 million requested for Urban Impact Aid, pending completion of two legislatively-mandated reports on the continued need for, and appropriate allocation of, these funds.*

Urban Impact Aid provides additional support to qualifying school districts to compensate them for the higher costs that many believe are associated with schools in an urban setting. In 1984-85, 125 districts will receive Urban Impact Aid. Of these, 19 are unified districts which have received Urban Impact Aid since 1977. The remaining 106 consist of 12 high school districts and their feeder elementary districts which first received Urban Impact Aid in 1984-85, pursuant to SB 813 (Ch 498/83).

The budget proposes a General Fund appropriation of \$75,445,000 for Urban Impact Aid in 1985-86. This amount is \$2,902,000 above the current-year funding level. The increase would provide a 4 percent COLA. Of the total amount proposed for Urban Impact Aid, \$65.9 million (87 percent) would be distributed to unified districts, and \$9.6 million (13 percent) would be distributed to nonunified districts.

*Reports on Distribution of Urban Impact Aid.* Assembly Bill 3757 (Ch 482/84) requires the Legislative Analyst to study the distribution of Urban Impact Aid. The study is to include:

- A reassessment of the rationale for Urban Impact Aid;
- An examination of the effect of Urban Impact Aid on wealth-related expenditure disparities among school districts;
- Recommendations for the development of alternative distribution formulas; and
- Recommendations on the distribution of Urban Impact Aid for the 1985-86 fiscal year.

In addition, supplemental report language to the 1984 Budget Act requires the State Department of Education to submit a report to the Legislature which examines the impact of allocating Urban Impact Aid to unified school districts based on the most recent data available, and which presents alternative allocation formulas.

At the time this analysis was completed, both of these reports were being prepared. Accordingly, we withhold recommendation on the proposed appropriation for Urban Impact Aid, pending completion of these reports.

**3. Meade Aid (Item 6100-207-001)**

*We recommend approval.*

Meade Aid, like Urban Impact Aid, provides funds to qualifying school districts to compensate them for the higher costs that some believe are associated with schools in an urban setting. Over 250 districts currently receive Meade Aid.

The budget proposes \$10,332,000 from the General Fund for Meade Aid in 1985-86, \$397,000 more than the current-year funding level. The increase provides for a 4 percent COLA.

Our analysis indicates that the request is reasonable, and we recommend that it be approved.

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

Small School District Aid provides additional general state aid to school districts which (1) have fewer than 2,501 units of average daily attendance and (2) incurred transportation costs equal to more than 3 percent of their total General Fund education expenses in 1977-78. Each qualifying district receives an increase in its revenue limit based on its transportation costs in 1977-78 or 1978-79. There is no requirement, however, that this aid be spent on transportation, and it may be used for a variety of other purposes.

The budget proposes \$19,891,000 for Small School District Aid in 1985-86. This amount provides for a 4 percent cost-of-living adjustment. Our analysis indicates that the request is reasonable, and we recommend that it be approved.

**5. County Offices of Education (Item 6100-106-001)*****We recommend approval.***

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

- **"Direct" Services.** These services—health care, guidance, and supervision of instruction and pupil attendance—are provided to small districts, as defined by statute.
- **"Other Purpose" Services.** These services include audiovisual services, staff development, and curriculum development.
- **Business Services.** These services consist of payroll preparation, expenditure audits, maintenance of financial records, budget approval, collection and disbursement of funds, centralized purchasing, and data processing.
- **Program Administration.** County programs include special education classes; Regional Occupational Programs (ROP); opportunity schools; juvenile hall schools; technical, agricultural, and natural resource conservation schools; pregnant minor programs; child development programs; and other special classes (county jails, handicapped adults).

**Funding.** The budget proposes to increase *total* revenue limit funds (state and local) for county offices from \$169.5 million in 1984-85 to \$189.4 million in 1985-86, an increase of 11.7 percent. This increase reflects funding for enrollment growth plus a 5.95 percent cost-of-living adjustment (COLA). Of the total, \$88.2 million would come from a General Fund appropriation—an increase over current-year expenditures of \$6.6 million, or 8.1 percent.

**a. Unemployment Insurance Claims Administration**

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

In last year's *Analysis*, we reported that county offices of education may have accumulated potentially significant unexpended revenues for ad-

**DEPARTMENT OF EDUCATION—Continued**

ministration of this program—revenues which could be reverted to the School Employees Fund. Because county offices generally had not identified these funds in their budgets, however, we were unable to estimate the level of unexpended balances statewide. Consequently, we recommended that the Legislature adopt budget bill language requiring the county superintendents to certify the amount of such balances and to revert this amount to the School Employees Fund.

The Legislature did not adopt this recommendation. Instead, the Legislature adopted supplemental language requiring the State Department of Education to report, by December 1, 1984, on the reserve balances associated with the unemployment insurance claims management systems, and the reasons for such balances. The report was also to include recommendations on alternative management systems and funding mechanisms for such systems, as well as an evaluation of the appropriateness of the local charge rate for the costs of administration.

At the time this analysis was written, the State Department of Education had not submitted this report. The department indicates, however, that it will be submitted prior to budget hearings. We will review this information and make comments during the budget hearings as appropriate.

**b. County Jail Programs**

Pursuant to Section 1909 of the Education Code, the Department of Education apportions funds on a per-ADA basis to three county offices of education for the operation of adult education programs in county jails. A specific level of funding for adult education programs in county jails is not provided in the Budget Bill. Instead, funding for these programs is provided as part of the total amount appropriated for county offices of education. The Department of Finance estimates that \$338,300 will be expended for county jail programs in the current year.

The Governor's Budget proposes an appropriation from the General Fund of \$358,455 for county jail programs in 1985-86. This amount represents a continuation of the current level of funding, plus an inflation adjustment of 5.95 percent, and thus assumes no growth in these programs' enrollment levels. The Governor, however, does not propose to limit growth in county jail programs in the budget year. Instead, if the amount actually claimed based on reported ADA levels exceeds \$358,455, the additional entitlements would be funded from any unexpended balance in the total appropriation for county offices. If there are no unexpended balances, the additional entitlements would create a deficiency.

Last year, the Governor proposed to limit funded enrollment growth in county jail programs to 2.5 percent—the same limitation applied to adult education programs generally. The Legislature rejected the Governor's proposal and, instead, adopted supplemental report language requiring the Legislative Analyst to report in the 1985-86 *Analysis* on the need for funding enrollment growth in the adult education program for county jails.

Our analysis indicates that the growth in demand for adult education programs in county jails is primarily determined by the growth in the jails' inmate population.

Based on expected increases in the county jails' population, we estimate that, in the absence of any growth limitation, statewide enrollment levels in county offices' jail programs would grow approximately 10 percent per year over the next several years. Construction of new jails in most of the



counties with jail programs is the primary factor contributing to this growth.

Our analysis further indicates that total ADA in these programs could grow in excess of 10 percent annually if county offices decided to increase the number of instructional hours provided per student.

Because the amount of funding proposed for adult education programs in county jails represents less than 1 percent of total revenue limit funds proposed for county offices of education in 1985-86, our analysis indicates that the fiscal consequences of failing to provide a specific amount of funding for growth in these programs would not be significant. To provide full funding for 10 percent enrollment growth, for example, would cost \$36,000. It would seem, however, that the county offices could easily absorb these costs since they amount to approximately 0.02 percent of the county offices' apportionments.

We have no analytical basis on which to recommend additional funding for enrollment growth in county jail programs, given that it is the Legislature's policy to limit enrollment growth in the regular adult education program by 2.5 percent. This is a policy decision which only the Legislature can make, in light of its priorities for the use of limited state funds. Accordingly, we make no recommendation on this matter.

## 6. Lottery Revenues

Proposition 37, which was approved by the voters in November 1984, amended the California Constitution to authorize a statewide lottery. The proposition also created the California State Lottery Act of 1984, which prescribes how lottery revenues are to be distributed. Specifically, the measure provides that 50 percent of the lottery's proceeds are to be paid out as prize money and no more than 16 percent of the proceeds are to be used for administrative costs. The balance of the proceeds (at least 34 percent) are to be placed in a special fund, known as the California State Lottery Education Fund, to benefit public education.

The measure requires that the funds made available for public education be allocated, on a "per capita" basis, to the following four categories of public education: K-12 education, community colleges, the California State University, and the University of California. The measure intends that the funds made available for public education in this way are to *augment* (rather than substitute for) funds already allocated for public education in California, and that the funds are to be spent exclusively for *instructional* purposes.

**Fiscal Effect in 1985-86 Uncertain.** The Governor's Budget estimates that the state lottery will yield a total of \$300 million for all levels of public education in 1985-86. Of this amount, \$243 million would be distributed to K-12 school districts.

The amount of lottery revenues which will actually be available for public education in the budget year, however, cannot be predicted with any certainty. The amount of lottery revenues will depend upon:

- Which lottery games are operated,
- The amount of time it takes for each of these games to become operational, and
- The volume of lottery sales in California for each type of game.

Based on an analysis of the amount of revenues raised by lotteries in other states, we estimate that *once the lottery is fully operational*, it will yield approximately \$500 million annually for public education. Of this amount, we estimate that approximately 80 percent, or \$400 million, will

**DEPARTMENT OF EDUCATION—Continued**

be allocated to K-12 education. The exact allocation, however, is subject to legislative clarification regarding the type of enrollment which should be considered for purposes of the per capita distribution of lottery funds. (It is not clear, for example, if enrollment in programs administered by county offices of education should be counted.)

Due to delays in getting the lottery off the ground and implementing a full range of lottery games, we believe that the amount of lottery revenues available to K-12 education in 1985-86 will be significantly less than \$400 million, and could easily fall short of the \$243 million estimated in the budget.

**B. SPECIALIZED EDUCATION PROGRAMS**

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

**School-Based Program Coordination**

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

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

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

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

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

**Report on Implementation.** The 1984-85 school year is the third full year of the School Based Program Coordination Act. The State Department of Education (SDE) indicates that, during the current year, 512 schools in 191 districts are combining some categorical educational services through the act’s provisions.

Ch 1270/83 repealed requirements that school districts submit to SDE

school site plans for the implementation of school-based coordinated programs. Instead, plans are reviewed and maintained by each local school district, and are reviewed by SDE only (1) during onsite visits and compliance reviews, which are conducted in each district every three years, and (2) when there is a complaint regarding any of the categorical programs at a particular school. As a result of this recent change in the law, neither we nor SDE have been able to obtain any comprehensive, detailed information regarding the implementation of school-based coordinated programs.

We are able to report, however, that based on information reported by the districts and by SDE:

- SDE recently increased the amount of technical assistance and program monitoring which it provides to schools implementing coordinated programs;
- Districts implementing coordinated programs at this time appear to be using their funds to purchase the same types of services (primarily those of resource teachers and instructional aides) and instructional materials that previously were used in the separate categorical programs;
- Staff supported with categorical program funds now spend more time working with greater numbers of children, and less time completing paperwork;
- Classroom teachers may have greater control regarding the supplementary educational services which are provided to each child; and
- Some schools have established child study teams to determine which supplementary services are appropriate for each student who is referred to the team.

The information available to us does not allow us to determine the effects of school-based program coordination on those children who are specifically eligible to receive supplementary educational services under the categorical programs which may be included in a coordinated program.

## 1. Programs Relating to Classroom Instruction

**Table 13**  
**K-12 Education**  
**General Fund Support for Programs Relating to Classroom Instruction**  
**Local Assistance**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

Program	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
School Improvement Program .....	\$172,457	\$187,931	\$205,710	\$17,779	9.5%
Classroom Teacher Instructional Improvement Program .....	—	17,100	17,100	—	—
Education Improvement Incentive Program .....	—	14,400	15,000	600	4.2
Educational Technology Program .....	1,927	15,027	15,628	601	4.0
Institute for Computer Technology .....	250	258	268	10	4.0
Specialized Secondary Schools .....	—	2,000	2,080	80	4.0
Opportunity Classes .....	—	4,126	4,291	165	4.0
Instructional Materials .....	77,659	81,895	86,881	4,986	6.1
Demonstration Programs .....	3,772	3,993	4,153	160	4.0
High School Counseling .....	6,168	6,600	6,864	264	4.0
Totals .....	\$262,233	\$333,330	\$357,975	\$24,645	7.4%

**DEPARTMENT OF EDUCATION—Continued**

Table 13 summarizes local assistance funding from the General Fund for the ten programs relating to classroom instruction. In total, the budget requests \$358 million for these programs in 1985-86—an increase of \$24.6 million, or 7.4 percent, over current-year expenditures. Funding for individual programs will be discussed later in this analysis.

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

The School Improvement Program (SIP) provides funding to schools for expenditure based on decisions made by local school site councils. SIP grants are used for a variety of purposes, such as for teacher aides, staff development, and/or curriculum development. Funds may not be used to employ regular classroom teachers or for capital outlay.

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

**SIP Equalization and Expansion**

Prior to SB 813, SIP implementation grants were awarded at statutory rates of \$148 per ADA in grades K-3 and \$90 per ADA in grades 4-6. At these rates, a total of 997,666 K-6 ADA (47 percent of the total K-6 enrollment) were being served in 1983-84, consisting of 68 percent of the K-3 ADA (792,530 ADA) and 22 percent of the 4-6 ADA (205,136 ADA). Because of disparities in the apportionment of SIP funds per pupil, and because many elementary schools were not participating in SIP, the Legislature, in SB 813, determined that SIP grants should be (1) equalized in grades K-6 over time and (2) expanded to cover all students in grades K-6.

**Equalization.** Senate Bill 813 (Ch 498/83), as amended by AB 70 (Ch 1302/83), established a mechanism to equalize SIP funds. Specifically, beginning in 1984-85, all COLA funds for SIP in grades K-6 are to be allocated only to school districts receiving a SIP appropriation that is less than \$106 per pupil (adjusted for inflation in 1985-86 and thereafter), times 80 percent of the district's K-6 enrollment. Any district below this "base rate" of \$84.80 per pupil ( $\$106 \times .80$ ) receives an equalization COLA, while districts above the base rate do not receive a COLA. Any COLA funds remaining after all eligible districts have received their allowed adjustment are to be used to augment the funds available for expansion.

**SIP Expansion.** Senate Bill 813 also authorized the Superintendent of Public Instruction to establish procedures for the distribution of expansion funds to districts with average SIP funding levels that are less than the base rate of \$84.80 per pupil. (The "base rate" level of \$84.80 per pupil is also the maximum amount such districts may receive under the expansion process.)

In 1984-85, the State Department of Education established two procedures through which districts can request expansion funds. Specifically, a district may request either (1) sufficient funding to fully fund a previously non-SIP elementary school at the base rate of \$84.80 per pupil or (2) a 3 percent augmentation to its total SIP allocation. Districts may select the

option that results in the higher level of funding.

Finally, another provision of SB 813 allows districts with schools funded above the base rate to reallocate SIP funds to other K-6 grades within the district. At the time this analysis was written, the department did not know how many pupils have been added to SIP through this provision.

### Governor's Proposal

As shown in Table 14, the Governor's Budget proposes to appropriate \$176,570,000 for K-6 SIP and \$28,550,000 for 7-12 SIP in 1985-86. These amounts include \$6.8 million and \$1.1 million, respectively, for a 4 percent COLA. Also included in the amount for grades K-6 is \$9.3 million for expansion of the SIP program.

**Table 14**  
**K-12 Education**  
**School Improvement Program Funding**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

Grade Level	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
K-6.....	\$146,792	\$160,479	\$176,570	\$16,091	10.0%
7-12 .....	25,665	27,452	28,550	1,098	4.0
Totals.....	\$172,457	\$187,931	\$205,120	\$17,189	9.1%

According to the Governor's Budget, 88 percent of the state's K-6 pupils currently are participating in SIP. In fact, the budget indicates that enrollment in the K-6 program nearly doubled in the current year, increasing from 998,000 pupils in 1983-84 to 1,818,000 pupils in 1984-85. This implies that the SIP equalization and expansion program is nearly complete; providing additional funding for the remaining 12 percent of K-6 pupils (248,000 pupils) will accomplish the expansion and equalization objective. The cost of funding 248,000 pupils at the rate of \$84.80 each is \$21 million.

The Governor's Budget, indicating that 1985-86 will be the second year of a three-year effort to achieve equalization, proposes nearly half this amount—\$9.3 million—for SIP expansion in 1985-86.

### Expansion Projection Unrealistic

*We recommend that the Legislature direct the Department of Finance to clarify during budget hearings (1) the administration's objectives for SIP expansion and equalization, and (2) how the administration intends to achieve the statutory objectives of expansion and equalization established by SB 813, because the appropriation proposed for the program does not appear to be responsive to the statutory objectives.*

Table 15 presents our estimates of what the maximum level of SIP participation would be at the "base rate" of funding in 1984-85 and 1985-86. In making these estimates, we used the most liberal procedures by assuming that (1) *all* of the funds provided for SIP equalization and expansion in 1984-85 and 1985-86 would be used to fund new pupils at the base rates of \$84.80 and \$89.95, respectively (that is, no new pupils will be funded below the base rate) and (2) *none* of these funds would be used to "level up" funding for pupils previously participating in the program at less than the base rate.

**DEPARTMENT OF EDUCATION—Continued**

**Table 15**  
**K-12 Education**  
**School Improvement Program**  
**Grades K-6 Participation**  
**1983-84 through 1985-86**

	<i>Governor's Budget</i>		<i>Legislative Analyst</i>	
	<i>Enrollment</i>	<i>Percent of K-6 Enrollment in SIP</i>	<i>Enrollment</i>	<i>Percent of K-6 Enrollment in SIP</i>
1983-84.....	997,666	47.4%	997,666	47.4%
1984-85.....	1,818,319	88.0	1,187,619	54.6
1985-86.....	Over 1,818,319 <sup>a</sup>	over 88	1,367,206	62.9

<sup>a</sup> Governor's Budget estimates that 1985-86 ADA will be greater than 1984-85 by an unspecified amount.

As Table 15 shows, we believe the Governor's Budget gives a false impression of how much SIP expansion and equalization has actually been achieved and, consequently, underestimates the amount of money still needed to achieve the Legislature's objectives. Specifically, we find that the amount of funding proposed for 1985-86 is not sufficient to support 88 percent of the K-6 enrollment at the base rate authorized in SB 813. In fact, we estimate that SIP funding in the current year is sufficient to provide participation for only 54.6 percent of the statewide K-6 enrollment, and that the amount proposed for the budget year would expand participation to 62.9 percent of K-6 enrollment if all pupils were funded at the base rate. To fully fund the 1.8 million pupils indicated in the Governor's Budget at the base rate, \$72.5 million would be needed for expansion alone in 1985-86. Put another way, the level of SIP funding provided in the current year, plus the amount proposed in the Governor's Budget, would extend SIP participation to 1.8 million pupils only if a substantial number of pupils were being funded at a rate far below \$84.80.

The Department of Education confirms that students are being funded at rates that are less than \$84.80. Therefore, a simple headcount of the number of pupils participating in SIP, without reference to the rate at which they are actually being funded, does not provide an accurate measure of progress toward the Legislature's twin goals of SIP expansion and equalization. Nor is it clear from the budget that equalized funding at the rate specified by SB 813 is indeed the administration's goal as well.

Accordingly, we recommend that the Legislature direct the Department of Finance to (1) clarify its objectives with regard to SIP expansion and equalization, (2) explain how these objectives relate to the statutory objectives established by SB 813, and (3) explain how the proposed level of funding will promote the achievement of these objectives.

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

*We recommend approval.*

The Classroom Teacher Instructional Improvement program, established by SB 813, was implemented during the current year. Under this program, the Superintendent of Public Instruction will award each applicant school district funds equal to \$2,000 times 5 percent of the number of full-time teachers in the district, excluding teachers in adult education, child care, and regional occupational programs. Teachers employed by

these districts may, in turn, apply for grants of up to \$2,000 for use in improving the quality of classroom instruction.

The grants are to be awarded by district governing boards, based on (1) an allocation plan and (2) recommendations made by each district's instructional improvement grant committee. The law requires that a majority of each grant committee consist of teachers. The district may also request reimbursement for administrative costs in an amount not to exceed 5 percent of its entitlement for funds.

During 1984-85, 867 of California's 1,029 school districts participated in the Classroom Teacher Instructional Improvement program.

The Governor's Budget proposes to appropriate \$17.1 million for the Classroom Teacher Instructional Improvement program—the same amount as in the current year. Because the budget proposes to provide the statutorily-authorized level of funding for this program, we recommend that the request be approved.

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

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

The Education Improvement Incentive Program in SB 813 is based on a similar program that was proposed in SB 1086 (1983). Under the SB 1086 program, all high schools statewide would have competed for incentive funds from an appropriation of \$50 million. This measure, however, was vetoed by the Governor.

Subsequently, the Legislature appropriated \$7.2 million in SB 813 to implement the EIIP during 1984-85, and required the Superintendent of Public Instruction to "select a stratified sample of high schools to participate in the program on a pilot basis." The Governor also vetoed these funds. In his budget for 1984-85, however, he proposed—and the Legislature approved—\$15 million for the EIIP.

The Governor's Budget again proposes that \$15 million be provided for the EIIP in 1985-86. Of this amount, \$175,000 will be used for state administrative expenses and the costs of providing test proctors, with the remainder distributed as awards to qualifying high schools. (Because the Legislature reappropriated \$600,000 of the 1984-85 funds to fund a revision of the 12th grade CAP test, the budget proposal represents an increase of \$600,000, or 4.2 percent, over the amount actually available for the program in the current year.)

### **SDE Has Failed to Implement EIIP on Pilot Basis**

*We recommend that the Legislature direct the State Department of Education to explain why it has failed to implement the Education Improvement Incentive Program on a pilot basis, as required by SB 813.*

During hearings on the 1984-85 budget, the State Department of Education indicated that if the Legislature were to provide \$15 million for the EIIP, the department would select 30 percent of the state's high schools to participate in the pilot program. On the basis of this assurance, the

**DEPARTMENT OF EDUCATION—Continued**

Legislature approved the budget request. In September 1984, however, the department decided to abandon the sample approach in favor of one in which *all* high schools would be eligible to participate in the program and compete for funds.

The department indicates that it decided *not* to select a sample of schools to participate in the EIIP, in part, because of the provisions contained in SB 1889 (Ch 1697/84) in September 1984. This bill, among other things, provides that a school must administer the CAP test to at least 93 percent of its 12th grade students in order to be eligible for funding under the EIIP. The department contends that, because few high schools administer the 12th grade CAP test to at least 93 percent of their students, this requirement will result in a "self-selected sample" of schools participating in the program—thereby meeting the requirements of SB 813.

We find the department's explanation to be without merit. Senate Bill 1889 made no change in the requirement that the Superintendent of Public Instruction select a stratified sample of schools to participate in the program on a pilot basis. Nor do we find any evidence that the "93 percent" requirement was intended to select a sample of schools to participate in the pilot EIIP, in lieu of the Superintendent's sample. A much more cogent rationale for the 93 percent standard is that it is to ensure that a school does not attempt to increase its CAP test scores through the exclusion of low-achieving students.

***Statewide Implementation Precludes Evaluation.*** As we noted in last year's *Analysis*, a pilot study comparing the performance of students in randomly selected schools to the performance of students in a "control group" would permit the state to identify and measure improvements in student achievement due to the program. The approach actually implemented by the department, in contrast, provides no control group against which to measure the effects of the EIIP. Thus, if average scores on the 12th grade CAP test should increase, it will not be possible to determine how much of the increase is due to the EIIP and how much is due to other factors, such as the significant funding increases and reforms provided by SB 813.

In sum, we believe that the State Department of Education has both failed to comply with the requirements of SB 813 (that the EIIP be implemented on a pilot basis, using a stratified sample of high schools), and failed to make good on its commitment to the Legislature during budget hearings last year. As a result, it will be impossible to evaluate the effectiveness of the program in improving academic performance, making the program of dubious value. Accordingly, we recommend that the Legislature direct the State Department of Education to explain its actions.

**Ceiling on Administrative Costs is Too Low**

***We recommend that the Legislature adopt Budget Bill language authorizing the Department of Education to reserve up to \$225,000 of the EIIP appropriation for administrative costs, because the current allowance is too low.***

In implementing the EIIP, the State Department of Education (SDE) has incurred administrative costs in excess of those associated with the regular administration of the 12th grade CAP test. The majority of these costs were incurred in order to increase the security surrounding the test, so as to ensure the validity of the test scores on which the distribution of



EIIP funds will be based. For example, the department has required the company which administers and scores the tests to account for all of the test materials distributed and to create tamper-proof seals for these materials. In addition, SB 813 required each administration of the test to be proctored by a person not employed by the district administering the test. Finally, the department has incurred costs in calculating districts' allocations of incentive funds and assisting districts in understanding the new program.

The statutes governing the EIIP originally provided no funding for these additional costs. In September 1984, however, the Governor approved SB 1889 (Ch 1697/84) which, among other things, permitted the department to use up to 0.5 percent of the EIIP appropriation to pay proctors and finance other administrative costs. This provided an administrative cost allowance of \$75,000 in the current year.

Our review of the administrative costs actually incurred by the SDE in administering the 12th grade CAP test indicates that the allowance provided by Ch 1697/84 is too low. Specifically, our review indicates that the department incurred additional costs of approximately \$225,000—or 1.5 percent of the EIIP appropriation for 1984-85. Of this amount, \$75,000 was used to partially reimburse the districts for the costs they incurred in hiring test proctors. The remaining \$150,000 represents costs incurred by the department directly and costs incurred by the company administering the 12th grade CAP test (which must be reimbursed by the department).

Based on our review, we believe that an administrative cost allowance of \$225,000 would more accurately reflect the additional costs of administering the EIIP.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-107-001:

"Notwithstanding Section 54657.7 of the Education Code, an amount not to exceed \$225,000 of the funds appropriated in this item shall be used for the payment of grade 12 testing proctors and the administration of the Education Improvement Incentive Program."

Because the costs of administering the EIIP are essentially fixed, and are not related to the amount of funds provided for incentive awards under the program, we do *not* recommend that the administrative allowance be expressed as a percentage of the EIIP appropriation.

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

##### ***We recommend approval.***

The Educational Technology program, as amended by Ch 1133/83 (AB 803), provides support for computer and other technology education, as well as instructional telecommunications services for schools. Grants are awarded to local educational agencies on a state/local matching ratio of 10:1.

The budget proposes a General Fund appropriation of \$15.6 million for local assistance in the Educational Technology program during 1985-86. This is an increase of \$600,000, or 4 percent, over estimated current-year expenditures.

In the current year, 60 percent of the appropriation (\$9 million) will be used for local matching grants to school districts and county offices. These grants, in turn, will be used for the purchase of computer hardware and software to assist in the implementation of computer education programs or computer-assisted instruction. The remainder of the appropriation (\$6

**DEPARTMENT OF EDUCATION—Continued**

million) is being allocated to fund other activities specified by AB 803, including (1) district-wide model educational technology or computer education program grants, (2) local planning assistance and grants management services, (3) instructional television (ITV) services expansion, (4) statewide software and ITV program acquisitions, and (5) educational technology research studies.

The Department of Education indicates that, in the budget year, funding for educational technology program activities will be allocated in roughly the same proportion as in the current year.

Because the program is being implemented in a manner consistent with the Legislature's intent expressed in AB 803, we recommend approval of the amount requested.

**e. Institute for Computer Technology (ICT) (Item 6100-181-001)***We recommend approval.*

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

The budget proposes a General Fund appropriation of \$268,000 for this program in 1985-86—\$10,000 more than the current-year amount. The increase provides for a 4 percent cost-of-living adjustment. The amount requested will support approximately 100 ADA.

Our analysis indicates that the institute is providing education and training in computer technology for pupils in grades K-12 and adults, as authorized under current statute. Because this program is meeting its intended purpose, we recommend approval of the amount requested.

**f. Specialized Secondary Schools (Item 6100-119-001(c))***We recommend approval.*

Senate Bill 813 authorized school districts, beginning in 1984-85, to apply to the Superintendent of Public Instruction for funds to establish high schools with specialized curricula in the fields of mathematics, science, visual and performing arts, and computer technology. The objective of these specialized secondary schools is to provide talented students with specialized learning experiences and training in these areas and to promote the development of specialized curricula for other school districts. Funding may be used only for "start-up" costs associated with the establishment of a new specialized secondary school or a new program in an existing school. In the current year, the State Department of Education awarded, through a competitive grant process, an average of \$194,000 each to 10 school districts, for the purpose of establishing specialized secondary schools.

The Governor's Budget proposes \$2,080,000 for this program in 1985-86—an increase of 4 percent (COLA) over the current-year appropriation. This amount would be used to provide funding for the establishment of new specialized secondary schools or to fund additional start-up costs related to the expansion of those schools funded initially in the current year.

The specialized secondary schools are now being established. Thus, we have no basis on which to evaluate the effectiveness of these schools. An

evaluation of these programs will be initiated in 1985-86, and completed by October 1, 1986.

Because the budget proposes to continue the legislatively-authorized level of funding for this program, we recommend that the amount be approved.

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

*We withhold recommendation on \$4,291,000 requested for the continuation of fiscal incentives for the expansion of opportunity classes and programs, pending receipt of additional information on the projected amount of claims for such funding in 1985-86.*

Commencing in 1984-85, SB 813 provides fiscal incentives for school districts to increase the availability of opportunity classes and programs in grades 7 to 9. The purpose of these classes and programs is to provide pupils who are identified as potential truants or disciplinary problems "an opportunity ... to resolve their problems" so that they may return to regular classroom instruction. Specifically, the measure provides that school districts maintaining opportunity classes and programs shall be eligible to receive reimbursements for costs associated with increasing the availability of such classes and programs in grades 7 to 9, "which are in excess of the reimbursements provided in the regular apportionment." The amount of reimbursements received by a district may not exceed \$400 per pupil for each additional pupil enrolled in an opportunity class or program above the 1982-83 enrollment level.

The Governor's Budget proposes \$4,291,000 to support this program in 1985-86—an increase of 4 percent over the current-year funding level. At the time this analysis was written, the Department of Education had not issued a Program Advisory or established procedures for districts to claim reimbursements under the program. As a result, we had no information with which to assess the appropriateness of the level of funding proposed in the Governor's Budget. When such information becomes available, we will review it and provide our recommendations for funding this program.

**Clarification of Budget Bill Language Needed**

*We recommend that the Legislature amend the provisions of Budget Bill language governing reimbursement for the excess costs of opportunity classes and programs, in order to clarify that districts expanding the availability of opportunity programs are eligible to receive these funds.*

We noted in last year's *Analysis* that, because it based the maximum reimbursement paid to a district for expanding opportunity classes and programs on the number of pupils *enrolled*, SB 813 failed to relate the amount of this reimbursement to the additional workload actually generated by the expansion. This is because the purpose of opportunity classes and programs is to return students to a regular classroom as quickly as possible, and as a consequence, enrollments typically reflect substantial "turnover" of individual students. Accordingly, we recommend—and the Legislature approved—the adoption of budget bill language requiring that funding for the expansion of opportunity classes and programs be based upon units of average daily attendance (ADA), rather than on headcount enrollment. The Governor proposes to continue this language in the 1985 Budget Bill.

The State Department of Education (SDE) has concluded that, because enrollment in opportunity *programs* is not calculated in terms of ADA for school apportionment purposes, the current and proposed budget lan-

**DEPARTMENT OF EDUCATION—Continued**

guage effectively prohibits school districts from receiving reimbursement for the increased costs associated with program expansion. (Unlike opportunity classes, which enroll students on a full-time basis, opportunity programs may offer a limited amount of instruction which supplements a student's regular program.) The department further indicates that under existing law, it is not authorized to compute enrollment in opportunity programs on an ADA-equivalent basis.

We believe that the SDE has read more into the budget bill language than was ever intended when the Legislature adopted it. In order to clarify this intent, however, we recommend that the Legislature amend the budget bill language contained in Item 6100-119-001 (b) as follows:

*"3. Notwithstanding Section 48644 of the Education Code, funds allocated to school districts for the expansion of Alternative Educational Programs shall not exceed \$400 per unit of average daily attendance (ADA), based on the additional enrollment in these classes and programs above the 1982-83 enrollment levels, expressed in terms of ADA. For the purpose of making this allocation, the Superintendent of Public Instruction shall establish a formula expressing enrollment in opportunity programs in terms of ADA."*

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

The California Constitution requires the state to adopt textbooks for use in grades K-8 and supply them to the schools without charge. To supplement this program, SB 813 (Ch 498/83) provided state funding for the purchase of textbooks for grades 9-12. During 1984-85, state aid for the purchase of textbooks was apportioned to schools at the rate of \$22.07 per ADA for grades K-8 and \$15.25 per ADA for grades 9-12.

Table 16 shows instructional materials funding for the prior, current, and budget years.

**Table 16**  
**K-12 Education**  
**Funding for Instructional Materials**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
<b>State Operations:</b>					
General Fund .....	\$1,476	\$1,582	\$1,645	\$63	4.0%
Federal funds .....	2	—	—	—	—
Reimbursements/Special Deposit Fund .....	82	105	106	1	1.0
Subtotals .....	\$1,560	\$1,687	\$1,751	\$64	3.8%
<b>Local Assistance:</b>					
General Fund (grades K-8) .....	\$59,310	\$62,446	\$66,270	\$3,824	6.1%
General Fund (grades 9-12) .....	18,250	19,449	20,611	1,162	6.0
Federal funds .....	99	—	—	—	—
Subtotals .....	\$77,659	\$81,895	\$86,881	\$4,986	6.1
Totals .....	\$79,219	\$83,582	\$88,632	\$5,050	6.0%

Table 16 shows that the budget proposes \$88.6 million for the instructional materials program in 1985-86—an increase of \$5 million, or 6 percent, over the current-year funding level. Of the total, \$1.8 million is for state operations and \$86.9 million is for local assistance. The increase requested for local assistance reflects baseline adjustments to account for increased enrollment plus a cost-of-living adjustment of 4.3 percent for grades K-8 and 4 percent for grades 9-12. The total increase is \$3.8 million, or 6.1 percent, over the current-year appropriation. The budget also proposes an increase of \$64,000, or 4 percent, for state operations.

#### **K-8 Local Assistance is Overbudgeted**

*We recommend that the appropriation for instructional materials local assistance in grades K-8 be reduced by \$226,000 and the related COLA be reduced by \$45,000, for a total General Fund savings of \$271,000, because the budget overestimates K-8 enrollment. (Reduce Item 6100-186-001 by \$226,000 and Item 6100-226-001 (k) by \$45,000.)*

Current law provides that funding for instructional materials shall be based upon a statutory rate per ADA, multiplied by actual ADA for the prior year. The amount of funding in 1985-86, therefore, is based upon enrollment in 1984-85.

Using enrollment estimates available in December, the Department of Finance estimated total funding needs for K-8 instructional materials to be \$66,270,000 in the budget year. This amount consists of \$63,504,000 to fully fund instructional materials at the current-year rate of \$22.43 per ADA, plus \$2,766,000 to provide the 4.3 percent cost of living adjustment (COLA) specified in statute.

Using more recent enrollment data, we estimate that only \$63,278,305 will be needed to fully fund K-8 instructional materials (including the 4.3 percent statutory COLA) in the budget year. As a result, we estimate that the amount requested in the Governor's Budget exceeds program requirements by \$270,728.

In order to accurately reflect funding requirements for this program in the budget year, we recommend that the Legislature reduce the K-8 instructional materials base by \$226,000 (Item 6100-186-001) and the K-8 instructional materials COLA by \$45,000 (Item 6100-226-001 (k)).

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

Demonstration programs in reading and mathematics were established to provide cost-effective, exemplary reading and math programs in grades 7 through 9, using innovative instructional techniques. The enabling legislation for the demonstration programs specifies that they are intended to (1) develop new approaches to the teaching of reading and mathematics, (2) provide information about the successful aspects of the projects, and (3) encourage project replication in other schools. The legislation further requires that the programs be ranked according to evaluation results, with state support withdrawn from the lowest-rated programs. In 1984-85, the program will serve 8,908 students in 29 schools representing 19 districts.

The Governor's Budget proposes an appropriation of \$4,153,000 for the demonstration programs in 1985-86. This amount includes \$3,993,000 to continue the level of funding provided in the current year, plus \$160,000 for a 4 percent cost of living adjustment.

**DEPARTMENT OF EDUCATION—Continued****Results of Sunset Review**

Chapter 1318, Statutes of 1984, establishes a "sunset date" of June 30, 1986 for demonstration programs in reading and math, and requires the State Department of Education to report to the Legislature by January 31, 1985, on the appropriateness and effectiveness of the programs. The law further requires the Legislative Analyst to submit findings, comments, and recommendations regarding the programs within 90 days of receiving the report.

Prior legislation (Chapter 1270, Statutes of 1983) set June 30, 1985, as the sunset date for demonstration programs, and required the SDE to submit its report by December 1, 1983. We received this report in August 1984 and presented our findings and recommendations to the Legislature in November 1984 in a report titled, *Demonstration Programs in Reading and Mathematics: A Review*.

Our review of the demonstration programs indicated that the reading and mathematics scores of participating pupils have increased significantly more than one would expect, based on the norm of all pupils taking the tests. In addition, we found that the cost-effectiveness of the programs, as measured by achievement gains, has shown continual improvement.

In addition to these favorable findings, however, our review also identified several areas in which the use of demonstration program funds could be improved. Because two of our recommendations are relevant to the Legislature's consideration of the budget request for the demonstration program in 1985-86, we present them here.

**State Support for Innovative Programs**

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

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

In funding new (as opposed to ongoing) demonstration programs, the State Board of Education in recent years has selected several programs which, at least initially, utilized the same methodology as another demonstration program. (In some cases, these programs subsequently were modified to meet local needs.)

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

Accordingly, to increase the demonstration value of the projects, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-146-001, targeting funding for new projects toward those that

do not duplicate existing projects:

"Notwithstanding any provision of law to the contrary, funds appropriated by this item and allocated to support the instructional costs of demonstration programs established after June 30, 1985, shall be allocated only to programs that demonstrate a significant departure from or variation of existing instructional practices. The State Department of Education shall establish criteria and guidelines necessary to ensure the implementation of this provision."

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

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

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

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

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

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

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

*We recommend that the Legislature direct the Department of Finance and the Department of Education to comment, at the time of budget hearings, on the consequences of underfunding the high school pupil counseling program.*

Senate Bill 813 (Ch 498/83) established a permissive program for counseling high school pupils. Under this program, each pupil is to receive, prior to age 16 or the end of the 10th grade (whichever comes first), a review of his or her academic progress and counseling regarding educational and career options. Priority must be given to identifying and counseling pupils who are not earning credits at a rate which will enable them

**DEPARTMENT OF EDUCATION—Continued**

to graduate with the rest of their class. The act authorizes an allocation of \$20 for each 10th grade pupil (based on prior-year enrollments) to school districts adopting the counseling program. These funds must be used to supplement, rather than supplant, existing funding for counseling services.

Table 17 shows both total funding and per-pupil funding for the high school pupil counseling program in the prior, current, and budget years. The Governor's Budget requests \$6,864,000 for the 10th grade counseling program in 1985-86. This amount includes \$6,600,000 to continue the current-year funding level, plus \$264,000 for a 4 percent cost of living adjustment (COLA).

**Table 17**  
**Funding For the Tenth Grade Counseling Program**  
**1983-84 through 1985-86**

	<i>Actual</i> <i>1983-84</i>	<i>Estimated</i> <i>1984-85</i>	<i>Proposed</i> <i>1985-86</i>	<i>Change</i> <i>1984-85 to 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
Appropriation .....	\$6,510,000 <sup>a</sup>	\$6,600,000	\$6,864,000	\$264,000	4.0%
10th Grade ADA <sup>b</sup> .....	325,488	335,611	347,627	12,016	3.6
Funding per ADA .....	\$20.00	\$19.67	\$19.75	\$0.08	0.4

<sup>a</sup> Includes \$342,000 provided in Ch 1073/84.

<sup>b</sup> Prior year ADA.

Because the number of 10th grade pupils in participating schools was not estimated accurately, the amount appropriated for this program in the current year has not been sufficient to provide funding at the statutory rate of \$20 per 10th grade pupil. Specifically, we estimate that the current-year funding amount will provide an allocation of only \$19.67 per pupil—rather than the \$20 per pupil intended by the Legislature. If the budget is approved as submitted, this is likely to be the case again in 1985-86. Our analysis indicates that the Governor's Budget fails to take account of anticipated growth in 10th grade enrollment during the current year (which determines the amount of funding needed in the budget year). As a result, most of the \$264,000 COLA will be needed to support increased enrollment and will not be available for maintaining the purchasing power of the per-pupil allocation.

Our analysis indicates that:

- in order to provide funding at the statutory rate of \$20 per 10th grade ADA and fully fund enrollment growth, the Legislature would need to augment the budget by \$89,000, and
- if the Legislature wishes to provide full funding for the program and provide a 4 percent COLA, an augmentation of \$367,000 would be needed.

We therefore recommend that the Legislature direct the Department of Finance and the Department of Education to comment on the consequences of underfunding this program.



## 2. Programs Relating to Teaching and Administration

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

**Table 18**  
**K-12 Education**  
**General Fund Support for Programs Relating to Teaching and Administration**  
**Local Assistance**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

Program	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
Mentor Teacher Program.....	\$10,805	\$30,800	\$37,800	\$7,000	22.7%
Minimum Teachers' Salaries .....	2,948 <sup>a</sup>	24,800	25,435	635	2.6
Teacher Education and Computer Centers .....	6,931	11,982	12,461	479	4.0
Administrator Training and Evaluation Program.....	—	2,000	4,160	2,160	108.0
Pilot Project for Administrative Personnel Recruitment .....	—	250	250	—	—
Local Pilot Projects to Strengthen Personnel and Management.....	—	250	—	-250	-100.0
School Personnel Staff Development Program.....	3,369	3,470	3,609	139	4.0
Bilingual Teacher Training Program.....	779	802	834	32	4.0
Totals .....	\$24,832	\$74,354	\$84,549	\$10,195	13.7%

<sup>a</sup> Actual reimbursements claimed.

### a. California Mentor Teacher Program (Item 6100-191-001(c) and (d))

The California Mentor Teacher program was created by SB 813 (Ch 498/83) to retain and reward exemplary teachers, and upgrade the skills of new and experienced staff. Under this program, exemplary teachers are designated as "mentors" and are awarded annual stipends of \$4,000. In return, the mentor teachers are expected to perform additional duties such as assisting and guiding other teachers, and developing new curricula. (A report on the duties performed by mentor teachers is described below).

Under current law, each school district and county office of education is allowed to designate as mentor teachers 5 percent of its eligible, certificated classroom teachers (that is, one mentor for every 20 teachers). Districts and county offices participating in the program receive funds for the mentor teacher stipends, and are reimbursed for the necessary costs to operate the program, such as the costs of substitute teachers, and administrative costs.

### Scope of the Program in 1984-85

In the current year, 740 school districts and county offices are participating in the mentor teacher program. These local educational agencies (LEAs) employ approximately 90 percent of the total number of eligible

**DEPARTMENT OF EDUCATION—Continued**

teachers in the state, and represent approximately 90 percent of statewide ADA. In these participating districts, approximately 3.2 percent of the total number of certificated classroom teachers are designated as mentors—a total of 5,086. This results in a ratio of one mentor for every 48 teachers in those LEAs that first participated in the program during 1983–84, and a ratio of one mentor for every 119 teachers in newly-participating LEAs. In addition, the appropriation provides sufficient funding to reimburse school districts and county offices for support costs associated with the operation of the program, at a rate of \$2,000 per mentor teacher (50 percent of the mentor teacher stipend).

**1985–86 Proposal to Limit Support Costs**

The budget proposes a General Fund appropriation of \$37.8 million for the Mentor Teacher program in 1985–86. This is an increase of \$7 million—or 23 percent—over estimated current-year expenditures of \$30.8 million. These funds are provided in two subschedules within Item 6100-191-001. Subschedule (c) would appropriate \$35.8 million to provide stipends of \$4,000 each to 5 percent (the maximum level authorized) of the total number of certificated classroom teachers, and subschedule (d) would appropriate \$2 million to reimburse school districts and county offices for their support costs. In addition, the Budget Bill contains language which would limit the amount available for the reimbursement of support costs to the amount appropriated in the schedule—\$200 per mentor teacher.

**Proposal Needs Clarification**

*We recommend that the Legislature direct the Department of Finance and the Department of Education to clarify the likely consequences of underfunding by \$15.9 million the amount needed to reimburse school districts for the support costs of the mentor teacher program.*

Senate Bill 813 specifies that the Superintendent of Public Instruction shall allocate to school districts and county offices participating in the program an amount which he determines to be “sufficient to reimburse the necessary costs of participation in the mentor program.” Such support costs may include the cost of:

- Selection committees, including release time for teachers on mentor teacher selection committees;
- Substitutes for teachers—especially new teachers—to observe mentor teachers, and for mentor teachers to observe teachers;
- Training for mentor teachers; and
- Support materials.

During the past and current years, the superintendent has reimbursed school districts and county offices for their costs of administering the mentor teacher program at a rate of \$2,000 per mentor teacher (or 50 percent of the mentor teacher stipend). This would require a total of \$17.9 million in the budget year. As noted above, however, the Governor’s Budget provides a total of \$2 million for support costs and proposes to limit the reimbursement rate to \$200 per mentor teacher, or 5 percent of the mentor teacher stipend. Hence, under the budget proposal, participating districts and county offices will receive \$1,800 less per mentor teacher—a reduction of 90 percent from the amounts which LEAs have received for support costs since the program began. Thus, the budget significantly underfunds the program requirements as determined by the superintendent.

We find that the allowable cost categories specified by the Department of Education are reasonable for support of the program. Moreover, it appears from preliminary spot surveys conducted by the Department of Education that districts are using their support allowances for the allowable costs suggested by the department. On this basis, we conclude that a support allowance of \$200 per mentor teacher would not be sufficient to accomplish the Legislature's objectives in setting up this program.

To illustrate the inadequacy of a \$200 support allowance, we have attempted to estimate funding needs for one of the cost categories mentioned above.

One of the primary duties of the mentor teacher is to assist new and experienced teachers. In order to do this, the mentor can observe the teacher and make suggestions and/or the teacher can observe the mentor and learn through watching. Under the Governor's Budget proposal, there will be one mentor for every 20 teachers. If, during the course of one year, each mentor spent just one day with another teacher—either the mentor teacher observing the teacher or the teacher observing the mentor—the equivalent of 20 substitute days would be required. This would cost, at an average rate of \$67 per day per substitute, \$1,340. Obviously, \$200 would not be adequate to cover the support costs of the program in just this one category.

Accordingly, we recommend that during budget hearings, the Legislature direct the Department of Finance and the Department of Education to clarify what the consequences would be if the support cost program element is reduced by \$15.9 million.

#### **Report on Duties Performed by Mentor Teachers**

The *Supplemental Report to the 1984 Budget Act* required the State Department of Education (SDE) to report by November 1, 1984, on the duties of mentor teachers. The SDE prepared its report in cooperation with the Far West Laboratory for Educational Research and Development.

Data was collected for the report from a statewide survey sent out to all school districts. Of the 490 surveys that were returned, 367 were from districts that were implementing the program. This sample was representative of the 662 districts implementing the program statewide in 1983-84.

The survey results indicate that the districts expect their mentor teachers to perform the following primary duties during the academic year 1984-85:

- **Assist new teachers.** Slightly less than half of the participating districts anticipate that mentors will use some or all of their mentoring time to provide direct assistance to new teachers;
- **Assist experienced teachers.** Roughly 50 percent of the surveyed districts will use mentors to work with experienced teachers on a one-to-one basis, or in school- and district-level staff development; and
- **Develop curriculum.** Somewhat less than half of the districts report that mentors will be assigned to curriculum development activities.

From this survey, it appears that the mentor program is being implemented in a manner consistent with legislative intent. It is too early, however, to evaluate fully the duties performed by mentor teachers. Most mentor teachers began their terms during the summer of 1984, and have

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not participated in the program for a full academic year.

Based on the data presented in the report, it is not possible to determine what proportion of the mentors' time is spent on each activity. Subsequent studies planned by the Department of Education, in conjunction with the Far West Laboratory, are intended to provide more detailed descriptions of how mentors spend their time, and the rationale behind these allocations. We will review these reports when they become available and report to the Legislature as appropriate.

**b. Minimum Teachers' Salaries (Item 6100-101-001(g))**

Senate Bill 813, as amended by AB 70, provides reimbursements to school districts and county offices of education that increase salaries paid beginning teachers. Specifically, the act provides that the state will reimburse districts and county offices for the costs of increasing the lowest salary of the teachers' pay schedule by 10 percent each year in 1983-84 through 1985-86, to a specified maximum level (adjusted annually for inflation). The maximum level in 1984-85 is \$19,084.

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

In 1983-84, there were 318 school districts and county offices of education—29 percent of the total—participating in the program. These LEAs have approximately 68 percent of the state's total ADA. Based on a survey of school districts conducted in late 1984, we find that there are a variety of reasons for the low level of participation in the program. These include:

- Some districts with a number of teachers at the lower range of the salary schedule elected not to participate, because they believed the resulting compaction of the salary schedule would pressure them to increase all teachers' salaries;
- Some districts did not participate because they have no entry-level teachers earning below the statutory target; and
- Some districts that are planning to hire more entry-level teachers in the future chose not to participate, because the additional salary costs for *these* teachers would not be funded by the program.

**Proposed Funding Level Exceeds Program Requirements**

*We recommend that \$25.4 million proposed from the General Fund for increasing minimum teachers' salaries be eliminated, because the amount appropriated for this program in the 1984 Budget Act is sufficient to fund both the current-year and budget-year requirements. Consistent with this recommendation, we further recommend that the Legislature adopt Budget Bill language in Item 6100-490 reappropriating the undisbursed balance of the current-year appropriation. (Reduce Item 6100-101-001(g) by \$25,435,000.)*

The budget proposes a General Fund appropriation of \$25.4 million from the General Fund to increase minimum teachers' salaries in 1985-86—an increase of \$635,000, or 2.6 percent, over the current-year funding level.

In order to estimate more accurately the funding requirements for increasing minimum teachers' salaries, we surveyed a sample of school districts to determine the amount of reimbursements which they will be claiming for this purpose in the current year. Our survey was based on a stratified, random sample of 48 school districts. The districts surveyed account for approximately 30 percent of the statewide total ADA.

Our survey found that the current-year appropriation for the program greatly exceeds the program's funding requirements.

**Past- and Current-Year Costs.** In 1983, we conducted a similar survey of school districts, in order to estimate the funding requirements for the minimum teachers' salaries provisions in 1983-84. As Table 19 shows, we estimated the funding requirements to be \$3.9 million. The Legislature appropriated \$12.3 million to fund the program in 1983-84. The actual amount claimed, however, was only \$2.9 million, which was \$9.4 million less than the amount appropriated, and \$0.9 million less than our estimate.

**Table 19**  
**Minimum Teachers' Salaries**  
**Estimated Versus Actual**  
**Funding Requirements**  
**1983-84 through 1985-86**  
**(dollars in millions)**

	1983-84	1984-85	1985-86
Estimated funding requirements:			
Department of Finance.....	\$12.3	\$24.8	\$25.4
Legislative Analyst .....	3.9	6.5	14.6
Actual reimbursements claimed .....	2.9	—	—

The results of the survey conducted for the current year indicate that, in 1984-85, the amount of reimbursements claimed for increasing minimum teachers' salaries will total approximately \$6.5 million—\$18.3 million less than the amount appropriated for the current year. We estimate that the unspent balance from the current-year appropriation (\$18.3 million) would be more than sufficient to fund program costs in the budget year.

**Budget-Year Costs.** The costs of increasing minimum teachers' salaries in the budget year will consist of (1) the funds needed to continue in districts' base revenue limits the amounts provided in 1984-85 and (2) the funds needed to provide an additional 10 percent increase in these salaries (to a maximum adjusted salary of \$19,084 plus inflation). As noted above, we estimate that the first of these components will cost no more than \$6.5 million. The cost of the second component will be determined by the number of positions that will have to be given a salary increase as a result of raising the minimum salary by 10 percent, offset by the number of positions that do not warrant further adjustment because of the \$19,084 cap. According to our estimates, this component of program costs increased by approximately 124 percent from 1983-84 to 1984-85. Assuming the increase from 1984-85 to 1985-86 will be similar, the cost of this component in the budget year will be approximately \$8.1 million.

In total, we estimate that the costs of providing full funding for the minimum teachers' salaries provisions of SB 813 in 1985-86 will be no more than the sum of the two components, \$14.6 million—or \$3.7 million less than the amount appropriated for this program that we estimate will remain unexpended at the end of the current year. We, therefore, conclude that reappropriation of the program's unexpended balance in the

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current year would be adequate to cover program requirements in the budget year, and no appropriation for 1985-86 is needed. Accordingly, we recommend that the 1985-86 budget be reduced by \$25.4 million. Consistent with this recommendation, we recommend that the Legislature reappropriate the unexpended balance of the current-year appropriation for the minimum teachers' salaries by adopting the following Budget Bill language in Item 6100-490:

"(—) Item 6100-101-001(g), Budget Act of 1984, the undisbursed balance, for the purpose of Section 45023.4 of the Education Code, minimum teachers' salaries program."

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

*We recommend approval.*

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

The budget proposes a General Fund appropriation of \$12.5 million for the TEC Centers in 1985-86. This is an increase of \$479,000, or 4 percent over estimated current-year expenditures. Our analysis indicates that this program is serving its intended purpose and, accordingly, we recommend approval of the amount budgeted.

**Sunset Report Due**

Chapter 1318, Statutes of 1984, establishes a "sunset date" of June 30, 1986 for the Teacher Education and Computer Centers, and requires the State Department of Education to report to the Legislature by January 31, 1985, on the appropriateness and effectiveness of the program. The law further requires the Legislative Analyst to submit findings, comments, and recommendations regarding the program within 90 days of receiving the report.

At the time this analysis was written, the required report had not been submitted. We will review the report when it becomes available, and prepare findings, comments, and recommendations in accordance with the requirements of Ch 1318/84.

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

Chapter 1388, Statutes of 1982, (AB 3253) authorized the California Leadership Institute program, in which a school district, county office of education, or a consortium of these agencies may apply for funds to establish a three-year project for administrator training. Senate Bill 813 changed the name of the program to the Administrator Training and Evaluation program. This program received funding for the first time in the 1984 Budget Act—\$2 million from the General Fund. The budget proposes a General Fund appropriation of \$4.2 million for this program in 1985-86.

The State Department of Education (SDE) anticipates that the Administrator Training and Evaluation program will consist of 12 regional training centers and one central institute known as the California School

Leadership Academy (CSLA). Staff at the regional centers will work with client districts to evaluate their needs and adapt the academy-designed training curricula to those needs. In addition, regional centers will assist districts in providing institutional support for trainees in applying what they have learned. The central institute will be made up of full-time and visiting staff from the regional centers. Its primary task will be to design and provide training curricula for administrators for dissemination through the regional centers.

The SDE plans to establish six regional centers and the central institute in the current year, and the six remaining centers in the budget year.

The \$4.2 million requested for the Administrator Training and Evaluation program in 1985-86 is \$2.2 million, or 108 percent, more than the current-year amount. The budget proposal consists of (1) \$2 million to fund the six centers and the institute established in the current year, (2) \$2 million to support six new centers in the budget year, and (3) \$160,000 for a 4 percent cost-of-living adjustment.

#### **Program Implementation Behind Schedule**

*We recommend that the amount proposed for the Administrator Training and Evaluation program be reduced by \$1.0 million, because implementation of the program in the current year has been delayed allowing part of the current-year appropriation to be used for support of the program in the budget year. Consistent with this recommendation, we recommend that the Legislature reappropriate the undisbursed balance of the current-year appropriation in Item 6100-490. (Reduce Item 6100-191-001(a) by \$1,000,000.)*

The \$2 million appropriated for this program in the current year is intended to provide full-year support for the central institute (approximately \$500,000) and each center (\$175,000 - \$300,000) during 1984-85.

As of December 1984—half way into the 1984-85 fiscal year—none of the six regional centers or the central institute planned had been established. The SDE indicates that contracts will be awarded to district and county superintendents for the development of the regional centers and the central institute in mid-February 1985. As a result, the six regional centers and the central institute will be in operation for approximately four months in 1984-85, and will not require full-year funding as provided in the 1984 Budget Act.

We estimate that one-half of the current year appropriation—or \$1 million—will be sufficient to fund startup costs and about four months of operations. Accordingly, we recommend that the unexpended funds remaining from the current-year appropriation be reappropriated in order to fund the program in 1985-86. This can be done by adopting the following Budget Bill language in Item 6100-490:

“(—) Item 6100-191-001(a), Budget Act of 1984, the undisbursed balance for the Administrator Training and Evaluation program.”  
Consistent with this recommendation, we recommend that the amount proposed from the General Fund for support of the Administrator Training and Evaluation program in the budget year be reduced by \$1.0 million.

#### **e. Pilot Projects for Administrative Personnel (Item 6100-191-001(b))**

*We recommend that \$250,000 requested for the administrative personnel recruitment pilot projects be deleted because the current-year appropriation can be used to fund the projects in 1985-86. Consistent with this recommendation, we further recommend that the Legislature reappropri-*

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*ate the undisbursed balance of the current-year appropriation in Item 6100-490. (Reduce Item 6100-191-001(b) by \$250,000.)*

Chapter 1388, Statutes of 1982, (AB 3253) authorizes the State Board of Education to establish pilot projects for administrative personnel recruitment and selection. (Senate Bill 813 made minor modifications to the program.) The pilot projects received funding for the first time in the 1984 Budget Act—\$250,000 from the General Fund. The Governor's Budget proposes a General Fund appropriation of \$250,000 to continue the program in 1985-86.

At the time this analysis was written, the projects for administrative personnel recruitment had not been implemented. Our analysis indicates, moreover, that the pilot projects probably will not be implemented in the current year. The Department of Education indicates that it is planning to conduct the pilot projects in conjunction with the new, central institute of the California Leadership Academy. As we note in our analysis of the Administrator Training and Evaluation program, this institute has not been established—nor is it likely to be established prior to March 1985.

We conclude that sufficient funds have already been appropriated for the pilot projects to support them through June 30, 1986, and accordingly recommend that the proposed appropriation of \$250,000 be eliminated. Consistent with this recommendation, we recommend that the Legislature reappropriate the undisbursed balance of the current-year appropriation by adopting the following Budget Bill language in Item 6100-490:

“(—) Item 6100-191-001(b); Budget Act of 1984, the undisbursed balance for the pilot projects for administrative personnel.”

**f. Innovative Local Experiments to Strengthen Personnel and Management**

*We recommend that the Legislature reappropriate the undisbursed balance of the current-year appropriation for the personnel and management pilot projects, because it is unlikely that these projects will be established in the current year. We further recommend that the Legislature enact legislation authorizing these projects in the budget year.*

Senate Bill 813 required the Superintendent of Public Instruction to select up to five pilot projects designed to:

- Improve the efficiency of school district operations;
- Devise incentives for personnel to serve in high-demand areas;
- Improve on-the-job training of new personnel; and
- Improve personnel evaluations.

The legislation declares that the state should fund the marginal costs of the projects, and a total of \$250,000 is provided in the current year to support them. Authorization for these projects expires on July 1, 1985.

Because authorization for these projects expires on July 1, 1985, the budget proposes no funding for them in 1985-86.

At the time this analysis was written, none of the pilot projects to strengthen personnel and management had been implemented. Moreover, our analysis indicates that the five projects probably will not be implemented in the current year.

The Department of Education intends to use a Request for Proposal (RFP) process to determine which projects will receive funding. It will take time, however, for: (1) the SDE to develop an RFP, (2) applicants to respond to the RFP, (3) the SDE to review and select proposals for funding, and (4) implementation and operation of the projects. Since the



SDE had not yet issued its RFP in early February, there probably will not be time for the projects to be selected and implemented prior to the end of the current fiscal year.

In order to assure that the Legislature's intent in authorizing these projects is achieved, we recommend that: (1) the Legislature enact legislation extending the authorization for these projects for another year (until July 1, 1986), and (2) the undisbursed balance remaining from the current-year appropriation for the pilot projects be reappropriated by adopting the following Budget Bill language in Item 6100-490:

"(—) Item 6100-191-001(c), Budget Act of 1984, the undisbursed balance for the pilot projects to strengthen personnel and management."

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

*We recommend approval.*

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

**School Personnel Staff Development.** The budget proposes \$3.6 million from the General Fund for the School Personnel Staff Development program in 1985-86. This is an increase of 4 percent over estimated current-year expenditures. This program funds grants to school districts for local staff development activities.

**Bilingual Teacher Training Program.** The budget also proposes \$834,000 for the Bilingual Teacher Training program in 1985-86, which is an increase of \$32,000, or 4 percent, above the current-year amount. This program provides training for teachers seeking certification as bilingual instructors.

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

**Sunset Report Due**

Chapter 1318, Statutes of 1984, establishes a "sunset date" of June 30, 1986 for local staff development programs, and requires the State Department of Education to report to the Legislature by January 31, 1985, on the appropriateness and effectiveness of the program. The law further requires the Legislative Analyst to submit findings, comments, and recommendations regarding the program within 90 days of receiving the report.

At the time this analysis was written, we had not received the department's report. We will review the report when it becomes available, and prepare findings, comments, and recommendations on the programs, in accordance with the requirements of Ch 1318/84.

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

California's special education programs include support for (1) the Master Plan for Special Education, (2) state administration, (3) the state special schools for the deaf and blind, and (4) the Southwest Regional Deaf-Blind Center. In 1985-86, approximately 363,000 students who are learning, communicatively, physically, or severely handicapped will be served by special education programs.

Table 20 shows the budgeted expenditures and funding for the Special Education program in the prior, current, and budget years. During 1985-86, total support for these programs is proposed at approximately \$1.4

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billion, only part of which is financed by the state budget. The remaining support is derived primarily from property taxes and local revenue limits.

**Table 20**  
**K-12 Education**  
**Special Education Programs**  
**Expenditures and Funding**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> <i>1983-84</i>	<i>Estimated</i> <i>1984-85</i>	<i>Proposed</i> <i>1985-86</i>	<i>Change</i> <i>1984-85 to 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
<i>Expenditures</i>					
<b>1. State Operations:</b>					
State administration .....	\$4,855	\$6,336	\$6,464	\$128	2.0%
Clearinghouse Depository .....	496	536	523	-13	-2.4
Southwest Deaf-Blind Center.....	191	208	187	-21	-10.1
Special Schools .....	35,170 <sup>a</sup>	39,709	39,576	-133	-0.3
Special Schools Transportation.....	—	504	544	40	7.9
Subtotals .....	\$40,712	\$47,293	\$47,294	\$1	—
<b>2. Local Assistance:</b>					
Support for Local Programs .....	\$931,215	\$862,020	\$950,931	\$88,911	10.3%
Totals .....	\$971,927	\$909,313	\$998,225	\$88,912	9.8%
<i>Funding Sources</i>					
General Fund.....	\$868,639	\$806,458	\$892,566	\$86,108	10.7%
Federal funds .....	99,523	98,827	101,142	2,315	2.3
Reimbursements .....	3,753	4,010	4,517	507	12.6
Special Deposit Fund.....	12	18	—	-18	—

<sup>a</sup> Includes funding for special schools transportation.

The budget requests \$998,225,000 for special education programs in 1985-86, an increase of \$88,912,000, or 9.8 percent, from the current-year level. This \$89 million increase will be combined with local revenues to provide (1) an increase in program funding of \$80.1 million for a 5.95 percent cost-of-living adjustment and (2) \$32.5 million to expand existing, or establish new, programs (described below). Consistent with the requirements of SB 813 (Ch 498/83), the administration proposes to continue funding all special education transportation, including travel other than to home or to school, exclusively in the home-to-school transportation item (Item 6100-111-001).

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

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

School districts and county offices of education receive state reimbursement for costs incurred in their special education programs, based on (1)

the current level of services provided, (2) costs incurred in 1979-80, adjusted for inflation, (3) local general fund contributions to the program, (4) federal funds, and (5) local property taxes. Regional services are funded at a uniform reimbursement rate per pupil served.

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

- **Designated Instruction and Services (DIS)**—an instructional setting that provides special services such as speech therapy, guidance, and counseling to students in conjunction with their regular or special education classes.
- **Resource Specialist Program (RSP)**—a program to provide instruction and services to pupils who are assigned to regular classroom teachers for the majority of the school day.
- **Special Day Class or Center (SDC)**—a classroom or facility designed to meet the needs of severely handicapped students who cannot be served in regular education programs.
- **Nonpublic Schools (NPS)**—schools serving special education students whose needs cannot be met in public school settings.

Table 21 displays the distribution of special education students, by general disability and instructional setting, as of December 1, 1983.

**Table 21**  
**K-12 Education**  
**Special Education Enrollment**  
**December 1, 1983**

Placement	Disability				Totals
	Communi- cation	Learning	Physical	Severe	
Designated Instruction and Service (DIS).....	85,533	7,512	14,076	1,299	108,420
Resource Specialist Program (RSP) .....	1,032	135,054	858	1,012	137,956
Special Day Class (SDC) .....	9,924	58,426	7,702	36,667	112,719
Nonpublic Schools (NPS) .....	187	713	132	2,370	3,402
Totals.....	96,676	201,705	22,768	41,348	362,497

#### **Additional Funding Proposed for Special Education**

The Governor proposes \$33 million to establish new, or expand existing, special education programs in 1985-86. Of this amount, \$32.5 million is funded in the budget for special education. The remaining \$500,000, which would be used to develop a curriculum on the prevention of developmental disabilities and birth defects, is funded separately in Item 6100-183-001. (The Governor's Budget also includes \$21.7 million to eliminate a current-year deficit in special education transportation.)

The proposed augmentations included in the special education budget consist of the following:

- \$10 million for program growth;
- \$5.5 million to increase the number of instructional aides in classes for the severely handicapped;
- \$5 million in additional funding for infant programs;
- \$5 million for the purchase of specialized equipment for students with low-incidence disabilities;
- \$3.5 million to match federal vocational education funds; and

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- \$3.5 million for county offices of education that extend the length of the school day or year in special day classes.

Our review of the first two proposals—increases of \$10 million for program growth and \$5.5 million for additional instructional aides—indicates that they are reasonable and, accordingly, we recommend that these amounts be approved.

With respect to the remaining four proposals, we either (1) do not have sufficient information on which to base a recommendation at this time or (2) recommend that the amounts proposed be reduced or eliminated. Our analysis of these four proposals follows.

**Plan Needed for Allocation of Infant Program Funds**

*We withhold recommendation on a proposed General Fund augmentation of \$5 million for special education infant programs, pending receipt of a plan from the Department of Education specifying how the augmentation will be allocated.*

The state currently spends \$2.1 million to serve approximately 2,200 handicapped infants, age two and under, in 63 home-based and center-based programs. Infant programs which are operated by school districts or county offices of education are not available statewide. Parents of handicapped infants living in areas without infant programs usually are referred to another LEA or to a regional center operated by the Department of Developmental Services.

Current law requires local education agencies that operated a program in 1980-81 to continue operating their program unless the program is transferred to another entity. Local education agencies that did not offer an infant program in 1980-81 are not required to establish one or to ensure that services are available to area residents. An LEA may, however, establish a program at its own discretion.

The Governor's Budget proposes a \$5 million General Fund augmentation for infant programs. The budget, however, does not specify how these funds would be allocated. Instead of providing for the allocation of these funds through the budget, thereby giving the Legislature a say in how the money is used, the administration proposes to leave the allocation up to the Superintendent of Public Instruction.

Without an expenditure plan, the Legislature has no way of knowing how this money will be used, or whether its priorities would be achieved. Without such a plan, we do not see how the department will be able to identify in a consistent manner those districts and county offices of education that have the greatest need for these funds, or, in fact, what constitutes need in the program.

We therefore withhold recommendation on this program, pending receipt of a plan from the Department of Education specifying how the infant program expansion funds will be allocated.

**Plan Needed for Allocation of Low-Incidence Equipment Funds**

*We withhold recommendation on \$5 million requested from the General Fund to finance the purchase of specialized equipment for students with low-incidence disabilities, pending receipt of a plan from the Department of Education specifying how these funds will be allocated.*

In order to provide a severely handicapped student a "free and appropriate public education," as required by federal law, local education agen-

cies often must purchase specialized equipment adapted to the student's disability. Such equipment may include braille typewriters and electric wheelchairs. The state currently does not provide funds specifically for the purchase of such equipment; instead, LEAs purchase this equipment using either local revenues or funds provided for their special education programs.

The Governor's Budget requests a General Fund augmentation of \$5 million to finance the purchase of equipment for students with "low-incidence disabilities." (Current law defines a low-incidence disability as a severe hearing, vision, or orthopedic impairment.) The budget, however, does not specify how these funds are to be allocated, and the Department of Education has not developed an expenditure plan for their use.

Without an expenditure plan, the Legislature has no way of determining whether the proposed use of these funds is justified. Accordingly, we recommend that the Department of Education prepare an expenditure plan for these funds prior to budget hearings, specifying how these equipment funds will be allocated.

This plan also should ensure that equipment purchased with the requested funds is reassigned to another local educational agency, once the agency that originally received the equipment no longer needs it. (The department's Clearinghouse Depository for Handicapped Students periodically inventories and reassigns various materials and equipment purchased for the visually impaired; a similar process could be followed with regard to the low-incidence disability equipment.)

We withhold recommendation on this proposal, pending receipt of a plan from the Department of Education specifying how the low-incidence equipment funds will be used.

#### **Vocational Education Matching Funds Unnecessary**

*We recommend that the \$3.5 million requested from the General Fund for use in matching federal vocational education funds be deleted, because there is no need for the state to replace the local money now being used for this purpose. (Reduce Item 6100-161-001 by \$3,500,000.)*

Under the federal Vocational Education Act of 1976, school districts may receive federal funds for vocational education of special education students on a dollar-for-dollar matching basis. Each district is allocated a specific entitlement to federal matching funds, using a formula specified in federal law. During the current year, California school districts will be eligible to receive up to \$3.2 million in federal funds under this provision.

The Governor's Budget requests \$3.5 million from the General Fund to be used as the "local match" for these federal vocational education funds. Under the Governor's proposal, this amount, plus the \$3.5 million in federal funds, would be distributed to school districts using the federal formula.

Our analysis indicates that the Governor's proposal should not be approved, for three reasons:

First, it is not clear that there is a need for the state to provide matching funds for these local programs. In 1982-83, school districts matched 90 percent of the \$3.15 million in federal funds which were available. Since then, funding for K-12 education has increased by \$4.5 billion, giving districts an even greater capacity to match federal funds.

Second, elimination of the local match would weaken school districts' incentive to develop and operate vocational education programs that are cost-effective. With no financial stake of their own in these programs, the

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districts would have less reason to be concerned with program costs. Consequently, the state would have to rely on the State Department of Education to ensure that funds are being used effectively, resulting in additional administrative costs.

Third, there is no guarantee that a significant portion of the funding increase would even be used for special education. Since the state would be taking over costs that the districts are *now* funding, the districts that would otherwise have provided matching funds from local general fund revenues, would be free to divert their money to other district purposes. (If the local matching funds had originally been provided for special education, these funds would still have to be used for that purpose.)

For these reasons, we recommend that the Governor's proposal be rejected, and that the \$3.5 million requested for this purpose be deleted. Consistent with this recommendation, we further recommend that the Legislature delete Budget Bill language in provision 11 of Item 6100-161-001.

**Funding for County Offices' Longer School Day and Year**

*We recommend that \$1,750,000 of the \$3,500,000 requested from the General Fund for lengthening the school day and year of county offices' special education programs be deleted, because there is no reason why incentive funding should be provided to these programs at a rate which is twice that provided to school districts' special education programs. (Reduce Item 6100-161-001 by \$1,750,000.)*

The financial incentives provided by SB 813 have led most school districts to increase the amount of instructional time offered in both their regular and special education programs. Under the longer school day program, school districts that meet specified instructional time target levels will receive \$40 per ADA in grades K-8 and \$80 per ADA in grades 9-12 during 1985-86. Under the longer school year program, school districts offering at least 180 days of instruction will receive \$35 per ADA in 1985-86. (Both of these programs are described more fully elsewhere in this analysis.)

Senate Bill 813 excluded county offices of education from participation in the longer school day and year programs. Some county offices, however, have had no practical alternative but to extend the length of the school day and year for their special education programs which meet in district-operated schools. Students in such classes often depend on the district for their transportation. Furthermore, federal law requires that these students be offered the same amount of instruction as their peers. For these reasons, when school districts extend the length of the regular school day or year, county offices often must make corresponding extensions in their special education classes. In such cases, the county offices incur greater costs, but receive no additional funding from the state.

The Governor's Budget proposes that \$3.5 million be appropriated for distribution to county offices with pupils enrolled in special day classes as incentive funds for a longer school day/year. The administration has proposed Budget Bill language which would provide incentive funds of \$80 per ADA in grades K-8 and \$160 per ADA in grades 9-12 to county offices meeting specified target levels of instructional time in these special education classes. In addition, the budget proposes to provide incentive funds of \$70 per ADA to county offices which offer at least 180 days of instruction in their special day classes.

The Governor's proposed funding rates are thus *twice* the rates offered to school districts.

It is appropriate to provide county offices of education with incentive funds for increasing the amount of instructional time offered in their special education classes. We know of no reason, however, why such funding should be provided at a rate that is twice the rate received by school district special day classes. In addition, it is likely that if the Governor's proposal is adopted, school districts will insist on receiving the higher reimbursement rate for *their* special day classes. This would require an additional General Fund augmentation of \$12.6 million in 1985-86.

For these reasons, we recommend that the Legislature limit incentive funding for county offices participating in the longer school day and year programs to the same rates offered to local districts. Consistent with this recommendation, we recommend that the Legislature (1) reduce the amount budgeted for these incentives from \$3.5 million to \$1,750,000, for a General Fund savings of \$1,750,000, and (2) make conforming amendments in Provisions 6, 7, and 8 of Item 6100-161-001.

#### **Implementation of Awareness Program Delayed**

*We withhold recommendation on \$200,000 requested from the General Fund for the Awareness Program, pending receipt of information from the Department of Education regarding the anticipated funding requirements of the program in the budget year.*

Chapter 1677 of the Statutes of 1984, requires the Superintendent of Public Instruction to establish a pilot program in up to six elementary school districts, in order to increase the awareness among nonhandicapped students of the problems encountered by individuals with exceptional needs.

The measure (1) provides that, of the amount appropriated for special education local assistance in the 1984 Budget Act, up to \$200,000 may be used for the Awareness Program in 1984-85 and (2) declares legislative intent that funding for the program in 1985-86 and 1986-87 be provided in the Budget Act.

The Governor's Budget proposes that \$200,000 be provided for the Awareness Program in 1985-86.

At the time this analysis was written, the Department of Education was still in the process of soliciting applications from local school districts. Consequently, none of the \$200,000 authorized in the current year for the Awareness Program had been distributed. The department has indicated that if the full \$200,000 is not used in the current year, the balance will be used for special education local assistance.

Because no funds have been allocated for this program in the current year, we are unable to determine what level of funding will be required for the Awareness Program in the budget year. At present, we do not know the number of districts that will participate in the program during 1985-86, nor do we know the level of funding that will be needed for each local program.

We therefore withhold recommendation on this request, pending receipt of information from the Department of Education regarding the anticipated funding needs of the Awareness Program in the budget year.

#### **b. Federal Public Law 94-142—Special Education (Item 6100-161-890)**

*We recommend approval.*

The Education for All Handicapped Children Act (PL 94-142), enacted in 1975, established and funded the right of all pupils to a "free and

**DEPARTMENT OF EDUCATION—Continued**

appropriate public education,” and required that all handicapped individuals aged 3 to 21 years be served by September 1980.

The budget estimates that California's PL 94-142 award for 1985-86 will be \$97.9 million, or \$5 million more than the amount received in 1984-85. Of this amount, the budget proposes to allocate \$79.6 million for local assistance, \$12.0 million for state discretionary programs, and \$6.3 million for state administration.

Under the provisions of Ch 797/80 (SB 1870), all federal PL 94-142 funds disbursed as local assistance are used as an offset against state special education funds. Federal funds received by districts through the state discretionary programs, however, do not offset state costs. Consequently, any reduction in the \$79.6 million budgeted for local assistance would result in a special education funding deficit for 1985-86, even if the reduction were made in order to increase the amount available for discretionary programs.

The budget also anticipates federal grants of (1) \$2.4 million for the Pre-School Incentive Grant program, (2) \$240,000 for the Southwest Regional Deaf-Blind Center, and (3) \$657,000 for Handicapped Personnel Preparation Grants.

**Increased Funding for State Discretionary Programs.** State discretionary programs provide either (1) direct services to handicapped students through state- and locally-administered programs, or (2) support services to special education staff and administrators.

- **Direct services** include infant programs for children aged 0 to 3 years; vocational education model sites; assessment centers at the state special schools and the California Youth Authority; and model sites to serve students from different linguistic and cultural backgrounds.

- **Support services** include state personnel development programs; the Special Education Resource Network; local inservice training programs; and programs—such as investigations, mediation, and due process hearings—to ensure compliance with federal and state laws.

The budget proposes that \$12.0 million be made available for direct or indirect expenditures by the State Department of Education for state discretionary programs. This is an increase of \$890,000 over estimated expenditures for discretionary programs in 1984-85. The budget further proposes that \$1.6 million of the funds proposed for discretionary programs be used to fund program growth associated with students in licensed children's institutions.

**Contingency Plan for Unanticipated PL 94-142 Funds.** The budget estimates that the state will receive a total of \$97,860,000 under the federal PL 94-142 program in 1985-86. The exact amount of California's award, however, will not be known until July 1985. Should the amount of funds received exceed the amount anticipated, the budget proposes that up to 5 percent of the excess funds be allocated to state operations, and that the remainder be used to fund local entitlements.

Our review indicates that the proposed allocation of PL 94-142 funds is reasonable and, accordingly, we recommend that the request be approved.



**c. State Special Schools (Item 6100-006-001)**

The state operates six special schools for handicapped children. These schools offer both residential and nonresidential programs for students who are deaf, blind, neurologically handicapped, and multihandicapped. Only those students who cannot receive an appropriate education in their district of residence are eligible for admission to a special school. In 1985-86, these schools will serve approximately 955 students who are deaf and 115 students who are blind. In addition, approximately 472 students with neurological handicaps will receive diagnostic assessment services.

Table 22 displays the enrollment and cost per student in the six special schools for the prior, current, and budget years.

As shown in Table 20, the budget proposes \$39,576,000 for the state special schools in 1985-86. This is a net decrease of \$133,000, or 0.3 percent, below the current-year funding level. Of the amount, \$78,000 reflects a decrease for state administration contained in the state operations budget (Item 6100-001-001). The remaining \$55,000 decrease reflects: (1) a reduction of \$800,000 to eliminate one-time funding provided in 1984-85 for seismic tests at the state special schools in Fremont; (2) an increase of \$115,000 in employee benefit costs; (3) an increase of \$77,000 to partially fund merit salary adjustments; (4) an increase of \$61,000 to partially offset the effects of inflation on the amounts budgeted for operating expenses and equipment; and (5) an increase of \$3,000 in expenditures resulting from collective bargaining.

**Table 22**  
**K-12 Education**  
**Enrollment and Cost per Student in Special Schools**  
**1983-84 through 1985-86**

	<i>Students Served</i>			<i>Cost Per Student</i>		
	<i>Actual 1983-84</i>	<i>Estimated 1984-85</i>	<i>Proposed 1985-86</i>	<i>Actual 1983-84</i>	<i>Estimated 1984-85</i>	<i>Proposed 1985-86</i>
School for the Blind, Fremont:						
Blind .....	6	6	6	\$25,500	\$28,500	\$27,000
Multihandicapped blind .....	101	104	109	33,446	37,558	35,431
School for the Deaf, Fremont:						
Deaf .....	485	463	463	18,590	21,518	21,931
Multihandicapped deaf .....	61	62	62	26,656	30,855	31,452
School for the Deaf, Riverside:						
Deaf .....	342	340	320	21,249	25,047	26,366
Multihandicapped deaf .....	120	110	110	27,092	31,936	33,618
Diagnostic School, San Francisco:						
Short-term assessment .....	125	150	150	2,352	2,340	2,373
Long-term assessment .....	37	43	48	32,757	32,698	29,833
Follow-up service .....	190	200	210	274	315	305
Diagnostic School, Fresno:						
Short-term assessment .....	137	162	162	2,818	2,710	2,802
Long-term assessment .....	39	42	48	33,333	34,571	31,521
Follow-up service .....	248	240	240	395	463	479
Diagnostic School, Los Angeles:						
Short-term assessment .....	146	160	160	2,856	2,769	2,831
Long-term assessment .....	51	52	52	27,647	28,385	29,038
Follow-up service .....	72	76	78	667	691	709

**DEPARTMENT OF EDUCATION—Continued****Technical Issue: Funding for Special Schools Overbudgeted**

*We recommend that the amount requested from the General Fund for operation of the special schools be reduced by \$247,000 because the amount budgeted exceeds the schools' anticipated funding needs. (Reduce Item 6100-006-001 by \$247,000.)*

Our analysis indicates that the amount proposed for the state special schools is overbudgeted by \$247,000. This net amount reflects: (1) a technical error which resulted in the Governor's Budget proposing \$489,000 more than will be needed for the schools' operations in 1985-86 and (2) a \$242,000 under funding of the amount necessary to provide full funding for merit salary increases (\$63,000) and inflation adjustments for operating expenses and equipment (\$179,000).

In order to reflect accurately the funding needs of the state special schools in 1985-86, therefore, we recommend that the budget request be reduced by \$247,000.

**d. Special Schools Transportation (Item 6100-007-001)**

*We recommend approval.*

Each of the six state special schools is authorized to receive up to \$389 in state funding annually for each pupil enrolled in the schools' residential program, for the purpose of providing transportation services. Transportation to and from the student's home is available for weekends and holidays and is provided either directly by the school or indirectly through a contract with private carriers.

The budget proposes that \$544,000 be made available to the state special schools for the purpose of providing transportation services to residential students in 1985-86. This amount is \$40,000 above the current-year funding level. The increase is intended to offset the effects of inflation on the amount budgeted for operating expenses and equipment. The budget proposal does not include *full* funding for these inflation adjustments. Presumably, the other \$4,000 in inflation costs will be financed by diverting funds budgeted for other purposes.

Our review indicates that the budget request is reasonable and, accordingly, we recommend that it be approved.

**4. Vocational Education Programs**

Table 23 summarizes funding in the prior, current, and budget years for all vocational education programs, including Regional Occupational Centers and Programs. As the table shows, the budget proposes a total expenditure of \$285.7 million for state operations and local assistance in vocational education programs during 1985-86. Funding for these programs is discussed in greater detail below.

**a. Regional Occupational Centers and Programs (ROC/Ps)  
(Item 6100-102-001)**

Regional Occupational Centers and Programs (ROC/Ps) provide vocational training to high school pupils and adults. There are 67 ROC/Ps in the state. Of these, 41 are operated by county superintendents of schools and 26 are operated by districts (mostly through joint powers agreements). In 1983-84, these programs enrolled 91,756 pupils in average daily attendance (ADA), consisting of 61,399 high school ADA and 30,357 adult ADA.

**Table 23**  
**K-12 Education**  
**Funding for Vocational Education Programs**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
<b>State Operations</b>					
General Fund .....	\$3,173	\$2,151	\$2,127	-\$24	-1.1%
Federal funds <sup>a</sup> .....	4,816	5,314	5,478	164	3.1
Reimbursements <sup>b</sup> .....	1,739	1,797	1,898	101	5.6
Special Deposit Fund .....	26	145	—	-145	-100.0
Subtotals .....	\$9,754	\$9,407	\$9,503	\$96	1.0%
<b>Local Assistance</b>					
Regional Occupational Centers/Programs:					
General Fund .....	\$167,910 <sup>c</sup>	\$177,597	\$195,205	\$17,608	9.9%
Other programs:					
General Fund .....	3,063	3,820	4,100	280	7.3
Federal funds <sup>a</sup> .....	62,993	58,020	63,215	5,195	9.0
Reimbursements <sup>b</sup> .....	7,541	13,675	13,675	—	—
Subtotals .....	\$241,507	\$253,112	\$276,195	\$23,083	9.1%
Totals .....	\$251,261	\$262,519	\$285,698	\$23,179	8.8%
Positions .....	101.2	96.5	96.5	—	—

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

<sup>b</sup> Includes reimbursements from the Employment Development Department for federal Job Training Partnership Act programs.

<sup>c</sup> Includes \$5.6 million appropriated by Ch 1073/84.

Courses offered by ROC/Ps cover a wide range of job-related training. Training is conducted in facilities on high school sites, centers, or business sites. High school pupils are provided transportation between their school and the ROC/P facility.

The budget proposes an appropriation of \$195 million for ROC/Ps in 1985-86—an increase of \$18 million, or 9.9 percent, over estimated current-year expenditures. This increase consists of (1) \$4.5 million to fund enrollment growth of 2.5 percent, (2) \$5.6 million to fully fund the base entitlement for ROC/Ps in 1985-86, and (3) \$7.5 million to fund a 4 percent cost-of-living adjustment.

We estimate that each 1 percent increase in enrollment growth beyond 2.5 percent would increase expenditures by approximately \$1.8 million.

#### **Current-Year Deficiency Not Funded**

*We recommend that the Legislature direct the Department of Finance and the Department of Education to identify the consequences of failing to fund a \$5.6 million deficiency in the funding of Regional Occupational Centers and Programs in the current year.*

Before he signed the 1983 Budget Act, the Governor vetoed \$12.6 million appropriated for ROC/Ps in order to eliminate funding for 9th and

**DEPARTMENT OF EDUCATION—Continued**

10th grade pupils. As it turned out, only \$7 million would have been spent on 9th and 10th grade pupils in 1983-84. Thus, the amount vetoed was \$5.6 million more than what should have been vetoed to accomplish the Governor's intent. Assembly Bill 3333 (Ch 1073/84) appropriated \$5.6 million to make up for the shortfall in funding for 11th and 12th grade pupils in 1983-84. The 1984 Budget Act, however, carried over the same shortfall into 1984-85.

The Governor's Budget for 1985-86 proposes to fully fund the \$5.6 million deficiency in funding for 11th and 12th grade pupils, but the administration has not requested funding to eliminate the *current-year* deficit. We recommend that the Legislature direct the Department of Finance and the Department of Education to comment on the consequences of failing to fund the deficiency in the current-year budget.

**b. Vocational Education Student Organizations (Item 6100-118-001)***We recommend approval.*

There are five vocational education student organizations in California. The Governor proposes \$500,000 to continue the current-year level of support for these organizations in the budget year.

The department uses these funds for numerous activities, including statewide conferences for officers of the student organizations, in-service training for teachers who act as local chapter advisors, training for students who intend to become vocational education teachers, and the development of instructional materials and handbooks.

Because the budget proposes to continue the legislatively-authorized level of funding for this program, we recommend approval of the amount requested.

**c. Peninsula Academies Model Program (Item 6100-166-001)***We recommend approval.*

The Peninsula Academies Model program is an industry-school partnership that offers training in electronics and computer technology to educationally disadvantaged high school students. The program was first implemented in the fall of 1981 by the Stanford Mid-Peninsula Urban Coalition and the Sequoia Union High School District (SUHSD) in San Mateo county. In the current year, SUHSD will conduct the program at two high school sites, enrolling a total of 184 students in grades 10 through 12.

Initial funding for the program came from private foundation grants and general purpose education revenues available to the SUHSD. The foundation grants provided funding through June 1984. In the current year, the program will, for the first time, receive direct General Fund support in the amount of \$70,000, through provisions of Ch 1568/84.

Chapter 1568 also (1) expanded the program and authorizes the creation of not more than ten new academies to be selected by the Superintendent of Public Instruction, (2) appropriated \$250,000 in 1984-85 to fund planning and curriculum development grants, (3) requires the superintendent to provide apportionments of \$50,000 per academy (a total appropriation of \$600,000 for 12 academies) in 1985-86 and 1986-87, and (4) specifies that all grants must be matched by cash or in-kind contributions by each district and participating companies (or a combination of business and community-based organizations).

The budget includes \$600,000 from the General Fund to fully fund this program in the budget year, as specified by the legislation. Our review indicates that the program is being implemented in a timely fashion during the current year, and should begin operations at the beginning of the budget year. Because the budget proposes the legislatively-authorized level of funding for this program, we recommend approval of the amount requested.

**d. Agricultural Vocational Education Incentive Program (Item 6100-167-001)**

Senate Bill 813 (Ch 498/83) created the Agricultural Vocational Education Incentive program to improve the quality of approved agricultural vocational education programs. Under this program, local educational agencies (LEAs) operating agricultural vocational education programs may receive incentive grants, on a dollar-for-dollar matching basis, for the purpose of purchasing or leasing equipment (defined as nonsalary items). The Superintendent of Public Instruction may waive the matching requirement if it would create a financial hardship for the district.

The grant program received approximately \$3 million in both 1983-84 and 1984-85. In 1983-84, 268—or 84 percent—of the 318 LEAs offering agricultural vocational education programs applied for and received incentive grants. In 1984-85, 288 LEAs—or 91 percent—have applied for and will receive local grants. The budget proposes \$3 million for the program in 1985-86, which maintains the level of support provided in both 1983-84 and the current year.

**Evaluation Report Warranted**

*We recommend that the Legislature adopt supplemental report language directing the Department of Education to report to the Legislature on or before November 1, 1985, on the effectiveness of the agricultural vocational education incentive program, and documenting the continued need for the program.*

Given the emphasis of the Agricultural Vocational Education Incentive Program on subsidizing purchases which are primarily “one-time” in nature, it is not clear the extent to which funding for this program needs to be provided on an ongoing basis. As agricultural vocational education programs acquire the equipment they need, funding requirements should decrease to reflect just the ongoing costs of maintenance and replacement.

In its 1983-84 evaluation report of the grant program, the Department of Education found that the incentive grant funds had a positive impact on programs, as measured by increased compliance with various program standards. Even so, our analysis indicates that 50 percent of the participating LEAs still do not meet the program standards for facilities, equipment, and supplies. Thus, state support for the program appears to be warranted at least for the immediate future.

So that the Legislature can determine the program’s ongoing funding requirements, we recommend that the Legislature adopt the following supplemental report language:

“The State Department of Education shall report to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1985, on the effectiveness of the Agricultural Vocational Education Incentive program in 1984-85, and document the continued need for the program. This report shall include an estimate of (1) the amount of additional funding needed on a one-time only basis in order to provide agricultural

**DEPARTMENT OF EDUCATION—Continued**

vocational education programs an appropriate inventory of equipment, and (2) the amount of funding needed on an ongoing basis in order to maintain and replace this inventory, once it has been established.”

**e. School-Based Programs (Item 6100-166-890)**

*We recommend approval.*

Under federal vocational education legislation, local educational agencies receive support for their school-based vocational education programs which are provided through the regular secondary school curriculum.

In the budget year, funds will be received under the new federal Vocational Education Act of 1984, Public Law 98-524. The budget proposes \$63.2 million from the Federal Trust Fund for local assistance support in 1985-86—an increase of \$5.2 million, or 9 percent, over estimated expenditures in the current year.

The new federal act makes major changes in federal policy with regard to vocational education. The new act shifts the responsibility for basic vocational education to the state.

Under the previous vocational education acts, basic grant funds could be used to improve, expand and maintain existing programs. Under the new act, 43 percent of the basic grant funding will support only the expansion or improvement of programs, and 57% will support programs for target populations with special needs. The target populations include the handicapped, the disadvantaged, adults who are in need of training and retraining, single parents or homemakers, men and women who are entering nontraditional occupations, individuals with limited English proficiency, and individuals who are incarcerated in correctional institutions.

The Department of Education is in the process of implementing the new act, which will take effect on July 1, 1985. It is not clear how the new act will affect the local educational agencies. It is likely, however, that many districts will be ineligible for funds under the new act and will therefore have to find new sources of revenue to support their programs. We will monitor the implementation of this new act and report to the Legislature as appropriate.

**f. Federal Job Training Partnership Act  
(Item 6100-166-001—reimbursements)**

The SDE budget includes \$13.3 million in reimbursements from the Employment Development Department (EDD) in 1985-86. These reimbursements, which are from the federal Job Training Partnership Act, support training for economically disadvantaged youth and adults. (For our analysis of and recommendation on this item, please see our analysis of the proposed budget for EDD.)

**5. Compensatory Education Programs**

This section analyzes state- and federally-funded programs which provide compensatory education services. These programs assist students who are educationally disadvantaged due to poverty, language barriers, or cultural differences, or who experience learning difficulties in specific subject areas. Compensatory education programs include federal ECIA Chapter 1, Economic Impact Aid, federal refugee and immigrant education programs, Indian education, and the Miller-Unruh Reading Program.

Table 24 displays local assistance expenditures from the General Fund and federal funds for these programs in the prior, current, and budget years. The budget proposes total state expenditures of \$215.1 million for compensatory education local assistance during 1985-86—an increase of \$8.3 million, or 4.0 percent, over estimated expenditures during the current year. In addition, the budget proposes \$402.6 million in expenditures from federal funds for compensatory education local assistance—approximately the same amount that is available in the current year.

**Table 24**  
**K-12 Education**  
**Funding for Compensatory Education Programs**  
**Local Assistance**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
General Fund:					
Economic Impact Aid <sup>a</sup> .....	\$180,791	\$187,502	\$195,002	\$7,500	4.0%
Miller-Unruh Reading Program ..	17,153	18,166	18,893	727	4.0
Indian Education .....	1,132	1,166	1,213	47	4.0
Subtotals .....	\$199,076	\$206,834	\$215,108	\$8,274	4.0%
Federal Funds:					
ECIA Chapter 1 .....	\$361,931	\$397,210	\$397,066	-\$144	0.0%
Refugee and Immigrant Programs .....	5,086	5,565	5,565	—	—
Subtotals .....	\$367,017	\$402,775	\$402,631	-\$144	0.0%
Totals .....	\$566,093	\$609,609	\$617,739	\$8,130	1.3%

<sup>a</sup> In addition to the amounts indicated in the table, the budget proposes to reappropriate \$1.25 million (which was initially appropriated in 1983-84 and 1984-85) for one-time costs during the budget year associated with a federal audit of ECIA Chapter 1 compensatory education programs.

**a. Education Consolidation and Improvement Act—Chapter 1**  
**(Items 6100-136-890 and 6100-141-890)**

***We recommend approval.***

The federally-funded Education Consolidation and Improvement Act (ECIA), Chapter 1 provides support for compensatory education services to educationally disadvantaged students. Both the federal ECIA Chapter 1 and the state Economic Impact Aid (EIA) programs fund a variety of supplemental educational services for children who have difficulty mastering basic skills and who attend targeted schools. In addition, a portion of ECIA Chapter 1 funds is designated specifically for educational services to children of migrant workers.

Table 25 displays federal funding for Chapter 1 in the prior, current, and budget years. The budget proposes total expenditures of \$397 million for Chapter 1 local assistance in 1985-86. Of this amount, \$323.4 million will be allocated to school districts for compensatory education programs, and \$73.7 million is proposed for migrant education programs. The budget also proposes (in Item 6100-001-890) to allocate \$3.8 million for the administration of all Chapter 1 programs and \$1.2 million for administration of the migrant education program.

Our review indicates that the programs supported by ECIA Chapter 1

**DEPARTMENT OF EDUCATION—Continued**

funds are serving their intended purpose, and accordingly, we recommend approval of the amount as budgeted.

**Table 25**  
**K-12 Education**  
**Federal ECIA Chapter 1 Expenditures**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Operations					
Chapter 1 administration .....	\$2,979	\$3,678	\$3,813	\$135	3.7%
Migrant Education program <sup>a</sup> ..	1,016	1,167	1,202	35	3.0
Subtotals .....	\$3,995	\$4,845	\$5,015	\$170	3.5%
Local Assistance					
Chapter 1 <sup>b</sup> .....	\$292,753	\$323,415	\$323,415	—	—
Migrant Education .....	69,178	73,795	73,651	—\$144	—0.2%
Subtotals .....	\$361,931	\$397,210	\$397,066	—\$144	0.0%
Totals .....	\$365,926	\$402,055	\$402,081	\$26	0.0%

<sup>a</sup> The SDE Migrant Education Unit is supported by both Chapter 1 administrative funds and Migrant Education program funds. Total proposed allocation for migrant education state operations in 1985-86 is \$1,953,000.

<sup>b</sup> Excluding migrant education.

**Migrant Education.** The migrant education program was established in 1965 to provide supplementary educational and health services to children of migrant and formerly migrant workers in agriculture, fishing, and agriculture-related seasonal employment. In the current year, the State Department of Education (SDE) will distribute migrant education funds primarily through 13 regional offices which are operated through certain county offices of education. The regional offices provide funds and/or services to school districts which enroll migrant students. In addition, five school districts, at their request, operate their migrant education programs independent of a regional office, and receive their funds directly from the SDE.

Typically, regional offices and school districts use migrant education funds to employ additional teachers and aides to work directly with migrant pupils during the school year and to provide special summer school programs. Regional offices also supply a variety of educationally-related services, such as counseling, health care, and college preparatory programs. Further, the regions and districts use the Migrant Student Record Transfer System (MSRTS) to assure that migrant students' files follow them wherever they move within the United States.

The SDE indicates that 137,000 pupils will be served by the migrant education program in 1984-85. In addition, an estimated 43,000 migrant students in the state are not receiving migrant education services during the current year because (1) they have not been identified as eligible migrant students or (2) their local school districts, such as the Los Angeles Unified School District, have declined to participate in the migrant education program.



**Mini-Corps Staffing Report.** The statewide Mini-Corps Program operates a nine-month school year program and a summer school program. During the current fiscal year, estimated expenditures for the Mini-Corps programs total \$3.0 million, including \$1.6 million for the school year program and \$1.4 million for the summer program.

Both programs seek to: (1) provide services to migrant education pupils by using college students as teacher aides in migrant education classrooms and (2) increase the number of bilingual professionals available to serve migrant children by encouraging college students to become teachers. During the fall 1984 semester, 302 college students enrolled in 16 institutions of higher education were serving as Mini-Corps aides.

Campus coordinators are located at each of the 16 community colleges and state universities that have Mini-Corps programs during the school year. The campus coordinators report to the Mini-Corps Director and Associate Director. Each campus coordinator is allocated a half time clerical position and funds for travel and office expenses. Campus coordinators are responsible for (1) recruitment of college students to serve as Mini-Corps aides, (2) training, supervision, and evaluation of aides, and (3) completion of paperwork associated with the Mini-Corps program.

In our *Analysis of the 1983-84 Budget Bill*, we recommended that Mini-Corps campus coordinators be reduced to half-time positions because: (1) each coordinator was responsible for an average of 16, and as few as 8, Mini-Corps aides and (2) adequate training and supervision of aides could be accomplished by supervising classroom teachers and regional migrant education program staff. In response to this recommendation, the Legislature adopted supplemental language directing the Department of Education to "conduct a detailed, systematic review and evaluation of migrant education Mini-Corps campus coordinators," and to make recommendations regarding appropriate staffing levels for these positions. The department was directed to report its findings to the legislative budget committees by December 1, 1984.

The department submitted its report to the Legislature on January 28, 1985. We have reviewed the report, and find that it fails to provide an adequate basis upon which recommendations can be made regarding appropriate staffing levels for campus coordinators.

The report indicates that:

- Campus coordinators report that they work an average of 41 hours a week.
- Campus coordinators spend, on average, 60 percent of their time (approximately 24 hours a week) at school sites observing and conferring with Mini-Corps aides.
- Campus coordinators hold an average of 12 meetings a week with students, primarily for the purpose of academic and career-related counseling.

The report, however, does not include data regarding the number of Mini-Corps aides at each campus, or the number of aides which would require the supervision of a full-time coordinator. The report also fails to (1) indicate the level of training and supervision provided to Mini-Corps aides by supervising teachers and regional migrant education staff and (2) evaluate the need for, and effectiveness of, additional training and supervision provided by campus coordinators. Consequently, we have no analytical basis upon which to make a recommendation regarding the appropriate level of staffing for the Mini-Corps program.

**DEPARTMENT OF EDUCATION—Continued****b. Economic Impact Aid (Item 6100-121-001)*****We recommend approval.***

The State Economic Impact Aid (EIA) program provides funds to local school districts for (1) the state compensatory education program (EIA-SCE) and (2) bilingual education programs for limited English-proficient students (EIA-LEP). The EIA funds are allocated to schools with high concentrations of children who are poor, educationally disadvantaged, or limited English-proficient. Schools use these funds to provide (1) supplemental educational services, particularly in basic skills, to children who have difficulty in reading, language development, or mathematics and (2) bilingual education services to children who are classified as limited English-proficient.

The budget proposes to appropriate \$195,002,000 from the General Fund for EIA local assistance in 1985-86. This amount provides for a 4 percent cost-of-living adjustment increase. Our review indicates that this program is serving its intended purpose, and accordingly, we recommend that the proposed funding level be approved.

**Bilingual Education**

Current state law requires that limited-English proficient (LEP) pupils be provided a basic bilingual education program consisting of (1) an English language development component and (2) a primary language component for instruction in basic skills until the LEP pupil makes a transition to English. Current law also authorizes a limited number of experimental bilingual education programs.

State funding for bilingual education programs is provided primarily under Economic Impact Aid. Additional funding for services to LEP pupils may be provided as part of other state-funded programs such as Demonstration Programs in Reading and Mathematics and Special Education, as well as a number of federally-funded programs, including ECIA Chapter I, Migrant Education, the Transition Program for Refugee Children, and the recently established Emergency Immigrant Education Assistance Program.

Because of the multiplicity of programs and funding sources for bilingual education, California's total expenditures for bilingual education cannot be determined.

**Annual Census of LEP Pupils.** Current state law requires that all school districts conduct an annual census to determine the home language of each pupil enrolled in the district, and to assess the language skills of those pupils whose primary language is other than English. Based on this assessment, students are classified as limited English-proficient (LEP) or fluent English-proficient (FEP). In the most recent language census, which was conducted in the spring of 1984, school districts identified 487,835 LEP students who are eligible to receive bilingual education services, and an almost equal number—475,203—of FEP students who do not require specialized educational services in their primary language.

As shown in Table 26, the total number of LEP students in California increased by nearly 50 percent between 1980 and 1984. Of the total LEP population, 73 percent have Spanish as their primary language. The number of LEP students whose primary language is not Spanish, however, has nearly doubled in the past five years. The LEP students now constitute

approximately 11 percent of all public school enrollment in the state. Because nearly half of all LEP students are in grades K-3, these students represent an even larger share of enrollment in the early grades. Nearly one-fourth (22.5 percent) of the students who were in kindergarten in 1984 were classified as LEP.

**Table 26**  
**Number of K-12**  
**Limited English Proficient Pupils**  
**1980 through 1984**

Language	1980	1981	1982	1983	1984	Increase, 1984 Over 1980	
						Number	Percent
Spanish .....	257,033	285,567	322,526	337,141	355,650	98,617	38.4%
Non-Spanish .....	68,715	91,227	108,923	120,401	132,185	63,470	92.4
Vietnamese .....	(14,018)	(22,826)	(27,733)	(29,033)	(29,535)	(15,517)	(110.7)
Cantonese .....	(10,174)	(14,196)	(16,096)	(15,870)	(18,139)	(7,965)	(78.3)
Korean .....	(6,599)	(7,508)	(7,980)	(8,703)	(8,993)	(2,394)	(36.3)
Pilipino .....	(6,658)	(6,752)	(8,569)	(9,624)	(10,941)	(4,283)	(64.3)
All Others .....	(31,266)	(39,945)	(48,449)	(57,171)	(64,577)	(33,311)	(106.5)
Totals .....	325,748	376,794	431,449	457,542	487,835	162,087	49.8%

### Sunset Review

Under current law, the statutes and regulations governing Economic Impact Aid and bilingual education will cease to be operative on June 30, 1987. This sunset provision is intended to provide for a comprehensive review of these, as well as other, state-funded categorical education programs.

To assist the Legislature in its review of these programs, current law requires the Department of Education (SDE) to submit a report to the Legislature by September 15, 1985, regarding all of the programs scheduled to sunset in 1987. The law further requires the Legislative Analyst to submit findings, comments, and recommendations regarding the programs within 90 days after receiving this report. In addition, an advisory committee of 12 members has been appointed to assist SDE and the Legislature in reviewing EIA, bilingual education, and the other education programs scheduled to sunset in 1987.

Our analysis indicates that most school districts use EIA funds to provide supplementary educational services to eligible children, as intended by the Legislature. Nevertheless, there are a number of issues regarding the EIA program that should be addressed by SDE and the sunset review advisory committee as part of the comprehensive sunset review process. Specifically, we believe that the review should develop answers to the following questions in order to assist the Legislature in conducting its review of the EIA program during 1986:

- Does the current system of allocating EIA funds to local school districts appropriately reflect the distribution of poor, educationally disadvantaged, and limited English-proficient students?
- To what degree do EIA-funded services supplement, rather than supplant, the basic educational program provided by schools?
- How are services coordinated for children who are eligible to receive assistance from two or more categorical education programs?
- To what degree has the state bilingual education program been implemented in all schools?

**DEPARTMENT OF EDUCATION—Continued**

- What is the effectiveness of EIA-supported services, and are there some approaches which appear to be more effective than others?

**c. Refugee and Immigrant Programs (Item 6100-176-890)**

*We withhold recommendation on \$5,565,000 in federal funds requested for refugee and immigrant programs, pending receipt of a budget proposal which includes anticipated expenditures of federal funds for the Emergency Immigrant Education Assistance Program.*

The Department of Education administers two federally-funded programs which provide financial assistance to local school districts for education services to refugee and immigrant children—(1) the Transition Program for Refugee Children (TPRC) and (2) the Emergency Immigrant Education Assistance Program (EIEAP).

The budget proposes to appropriate \$5,565,000 in federal funds for local assistance expenditures under the Transition Program for Refugee Children. In addition, the budget proposes to allocate \$70,000 in federal funds for state operations expenditures associated with this program. The Governor's Budget, however, identifies no expenditures for the Emergency Immigrant Education Assistance Program in either the current or budget years.

**Transition Program for Refugee Children.** The TPRC provides federal funds to school districts which have experienced heavy enrollments of refugee students—primarily Indochinese, Cuban, and Haitian children.

Table 27 displays funding for the TPRC in the prior, current, and budget years. As the table indicates, the budget anticipates that TPRC funding will be \$5.6 million in 1985-86—approximately the same amount that is available in the current year.

**Table 27**  
**K-12 Education**  
**Transition Program for Refugee Children**  
**Federal Funds**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Administration .....	\$85	\$58	\$70	\$12	20.7%
Local Assistance .....	5,086	5,565	5,565	—	—
Totals .....	\$5,173	\$5,623	\$5,635	\$12	0.2%

School districts use their TPRC funds to provide a variety of educational and educationally-related services including:

- bilingual education/English language development;
- community and school orientation;
- development of curriculum and materials;
- liaison activities between families, school personnel, and refugee assistance agencies; and
- testing, assessment, and placement of incoming pupils.

The TPRC grants are allocated to school districts based on the number

of eligible refugee students. Eligible students include refugee children in grades K-6 who have been in this country no longer than two years, and those in grades 7-12 who have been in this country for no more than three years. As shown in Table 28, the number of students for which districts receive TPRC funds has been declining sharply in recent years. This decline is primarily attributable to the fact that most refugee children have now been in this country for more than two or three years.

**Table 28**  
**K-12 Education**  
**Transition Program for Refugee Children**  
**Participation and Funding**  
**1981-82 to 1984-85**

<i>School Year</i>	<i>School Districts</i>	<i>Eligible Refugee Students</i>	<i>Total Federal Grant<sup>a</sup></i>
1981-82 .....	231	55,506	\$6,975,701
1982-83 .....	261	46,019	7,662,445
1983-84 .....	279	35,923	5,064,600
1984-85 .....	257	29,601	5,096,420

<sup>a</sup> based on allocation for federal fiscal year.

Federal law authorizes SDE to use no more than one percent of the total amount provided for the TPRC to fund state administrative costs associated with this program. Consequently, we estimate that the Department of Education may legally spend no more than \$56,000 for TPRC-related administrative costs. The budget, however, proposes to allocate \$70,000 in federal funds for this purpose. Normally, we would recommend an adjustment to the budget to rectify this problem. Our review has disclosed so many inaccuracies in the amount of state operations funding displayed in the Governor's Budget, however, that we are withholding recommendation on the budget request for state operations, pending receipt of an accurate budget display.

**Emergency Immigrant Education Assistance Program (EIEAP).** The EIEAP provides financial assistance to school districts in which at least 500 students (or, alternatively, 5 percent of the district's enrollment) are immigrant children who have been attending schools in the United States for less than three years. These federal funds may be used by local school districts to meet the costs of (1) supplementary educational services for immigrant children (including bilingual or English language instruction), (2) additional basic instructional services which are directly attributable to the presence of immigrant children in the school district (including capital outlay or transportation costs), and/or (3) in-service training for staff who will be teaching immigrant children.

During the current fiscal year, California received a grant of \$13 million in federal funds for this program. Of this amount, \$195,000 (the maximum allowable under federal law) was allocated to SDE for state operations expenditures. The SDE indicated that these funds would be used to (1) carry out grant administration tasks and (2) provide technical assistance to local school districts regarding the development of instructional programs for immigrant children. The balance of the federal funds—\$12.8 million—will be distributed to qualifying school districts in the current year.

At the time the EIEAP funds were received, SDE indicated that a

**DEPARTMENT OF EDUCATION—Continued**

portion of the money would be used to fund state operations costs during the 1985-86 fiscal year. The department has also indicated that it anticipates receiving additional federal funds (for both state operations and local assistance) under the EIEAP in the budget year. The Governor's Budget, however, fails to identify any expenditures from this source in either 1984-85 or 1985-86.

Accordingly, we withhold recommendation on the proposed budget for refugee and immigrant programs, pending receipt of a budget proposal which reflects anticipated expenditures of federal funds for the Emergency Immigrant Education Assistance Program.

**d. Indian Education (Items 6100-131-001 and 6100-151-001)**

*We recommend approval.*

The Office of American Indian Education in the Department of Education administers two separate projects intended to improve the academic performance and self-concept of Native American students—SB 2264/74 Indian Education Centers and the AB 1544/77 Native American Indian Education program. The office is staffed by two consultants and one clerical position in the current year.

Table 29 shows state administration and local assistance expenditures proposed for the two state Indian Education projects in 1985-86. As the table indicates, the budget proposes General Fund expenditures totalling \$1,414,000 for the two projects in the budget year.

**Table 29**  
**K-12 Education**  
**Indian Education General Fund Expenditures**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
State Operations.....	\$172	\$200	\$201	\$1	0.5%
Local Assistance:					
AB 1544 Native American Indian Education Program .....	337	347	361	14	4.0
SB 2264 American Indian Education Centers .....	795	819	852	33	4.0
Subtotals, local assistance .....	\$1,132	\$1,166	\$1,213	\$47	4.0%
Totals.....	\$1,304	\$1,366	\$1,414	\$48	3.5%

**Indian Education Centers (Item 6100-151-001).** Twelve Indian education centers serve as regional educational resource centers to Indian students, parents, and schools. The centers are operated by Indian tribes or private nonprofit organizations which report to a community-elected board of directors. Each center typically offers a variety of services, funded through several sources. In their role as education centers, the centers: (1) provide tutorial assistance and counseling for Indian pupils, (2) provide Native American-related curriculum development for school districts, and (3) serve as a cultural center and library.

**Native American Indian Education Program (Item 6100-131-001).** The Native American Indian Education program seeks to improve the

educational accomplishments of kindergarten through fourth grade Native American pupils in selected rural school districts. The intent of this program is to develop and test educational models which increase competence in reading and mathematics. In 1983-84, rural school districts received funds under this program for 23 schools, serving 1,170 pupils. These schools received an average grant of \$31,500 each, or about \$300 for each Indian student enrolled.

Our analysis indicates that these two programs are serving their intended purpose and, therefore, we recommend that funding for them be approved and budgeted.

**e. Miller-Unruh Reading Program (Item 6100-126-001)**

The Miller-Unruh Reading program is designed to upgrade the reading achievement of low-performing K-6 pupils by funding reading specialists for participating schools. In the current year, the state will allocate approximately \$20,000 per full-time reading specialist. School districts must pay for the remainder of the specialist's salary.

During 1983-84 (the most recent year for which statewide teacher salary data are available), the amount of funding provided for each reading specialist equalled 75 percent of the average salary paid to elementary school teachers statewide.

The budget proposes \$18,893,000 from the General Fund for the program in 1985-86, an increase of 4.0 percent over the current-year level.

**Procedures Needed for Reallocation of Excess Funds**

*We recommend that the Legislature adopt supplemental report language requiring the Department of Education (1) to reallocate Miller-Unruh funds whenever the number of reading specialists is reduced in participating districts, and (2) to select new participants from those school districts with the lowest California Assessment Program reading scores and revenue limits.*

Table 30 shows Miller-Unruh program participation and funding from 1980-81 to 1984-85. As shown in the table, over the past five years sixteen districts have dropped out of the program and the number of full-time reading specialists funded by the program has declined by 74 positions (from 992 to 918). Although the 16 school districts have withdrawn from the Miller-Unruh program since 1980-81, SDE has not established procedures that would allow new school districts to enter the program.

**Table 30**  
**K-12 Education**  
**Miller-Unruh Reading Program**  
**Participation and Funding**  
**1980-81 to 1984-85**

	<i>Number of Districts Participating</i>	<i>Number of Positions Funded</i>	<i>Total Appropriation</i>	<i>Funding Level Per Position</i>
1980-81.....	165	992	\$15,265,796	\$15,389
1981-82.....	161	964	16,181,744	16,786
1982-83.....	157	948	16,182,000	17,070
1983-84.....	152	919	17,152,920	18,665
1984-85.....	149	918	18,166,000	19,789
Change from 1980-81 to 1984-85:				
Amount .....	-16	-74	\$2,900,204	\$4,400
Percent .....	-9.7%	-7.5%	19.0%	28.6%

**DEPARTMENT OF EDUCATION—Continued**

Current law provides that Miller-Unruh program funds shall be allocated according to the following priorities:

- First, to allow participating districts to maintain their programs at the level of the preceding year, and
- Second, to fund applications for new programs in schools where the percentage of students with reading difficulties is greatest, and the financial ability of the district to provide special instructional assistance is least.

The SDE has indicated that those school districts which withdrew from the Miller-Unruh program in past years may resume their participation at a later time. In fact, the department anticipates that at least one school district will resume participation, with 12 funded positions, during 1985-86. The department, however, has no procedures for school districts which have not previously participated in the Miller-Unruh program to apply for program funds when funds become available as a result of other districts withdrawing from the program. Instead, the department has used these excess funds to provide increases in the amount of the stipend paid to reading specialists. These increases have exceeded amounts approved by the Legislature for cost-of-living adjustments. As a result, the amount allocated for each reading specialist position in those school districts remaining in the program has increased by approximately 29 percent since 1980-81.

Our analysis indicates that the department's practice of using excess Miller-Unruh funds to increase reading specialist stipends, rather than to expand participation in the program, is contrary to the priorities established by the Legislature. Accordingly, we recommend that the Legislature adopt supplemental report language directing the department to (1) reallocate Miller-Unruh funds whenever the number of reading specialists is reduced in participating districts, and (2) to select new participants from those school districts with the lowest California Assessment Program reading scores and revenue limits.

Specifically, we recommend that the Legislature adopt the following supplemental report language in Item 6100-126-001:

"The Department of Education shall accept applications from any school district for participation in the Miller-Unruh Reading Program. Whenever the number of reading specialist positions funded by the program is reduced in any school district, funds shall be reallocated to support an equivalent number of positions in another district or districts. Districts with the lowest California Assessment Program reading scores and district base revenue limits shall receive first priority for any available funds."

**6. Other Specialized Education Programs**

This section analyzes those specialized education programs which do not fit into any of the five categories discussed above. These programs include Gifted and Talented Education; the Mathematics, Engineering, Science Achievement program; intergenerational education; foster youth services; the youth suicide prevention program; environmental education; the curriculum on birth defects; commissions on professional competence; driver training; and the ECIA Chapter 2 federal block grant.



**a. Gifted and Talented Education (Item 6100-124-001)*****We recommend approval.***

The Gifted and Talented Education (GATE) program was established by Ch 774/79 to supersede the Mentally Gifted Minor program. Each district which operates a GATE program must establish criteria and a method for the identification of gifted or talented students in one or more of the following categories: (1) intellectual ability, (2) creative ability, (3) specific academic ability, (4) leadership, (5) high achievement, (6) visual and performing arts, or (7) any other criteria which meet standards established by the State Board of Education. Typically, the local selection process is complex, and may utilize standardized test scores, teacher or parent referrals, course grades, pupil products, and a review by a school psychologist or other professional.

The design of each district's GATE program is determined locally, within state guidelines. All GATE programs are required to provide unique educational opportunities for high-achieving and under-achieving gifted and talented pupils, including those in the upper range of intellectual ability, while ensuring the participation of children from disadvantaged and varying cultural backgrounds. The guidelines allow the following types of approaches to be used: (1) independent study, (2) special day classes, (3) part-time or cluster groupings of GATE students, (4) enrichment activities, (5) acceleration activities, and (6) higher education opportunities.

For the 1983-84 school year, GATE provided funds to 430 school districts for educational programs which served approximately 194,000 students identified as gifted or talented. Districts which operated a mentally gifted minor program during 1978-79 are eligible to receive GATE funds. In addition, a limited number of districts have been admitted to the program to replace districts which have withdrawn from GATE since 1979.

Table 31 shows expenditures and funding for the GATE program in the prior, current, and budget years. As shown in the Table, the budget proposes a General Fund appropriation of \$20,034,000 for GATE local assistance in 1985-86. This amount provides a 6 percent increase to fund the program's statutory COLA.

**Table 31**  
**K-12 Education**  
**Gifted and Talented Education Program Funding**  
**1983-84 through 1985-86**  
**General Fund**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Operations.....	\$199	\$138	\$219	\$81	58.7%
Local Assistance .....	18,154 <sup>a</sup>	18,900	20,034	1,134	6.0
Totals.....	\$18,353	\$19,038	\$20,253	\$1,215	6.4%

<sup>a</sup> Includes \$306,000 provided in Ch 1073/84.

In addition, the main support item for the Department of Education (6100-001-001) includes \$219,000 from the General Fund for administrative costs associated with the GATE program. This amount represents an

**DEPARTMENT OF EDUCATION—Continued**

increase of \$81,000—or 59 percent—over estimated current-year expenditures. The department indicates that the increase is intended primarily to restore funds which were reduced from this program during the current year, and will be accomplished by the redirection of resources within SDE.

Our analysis indicates that the budget proposal is reasonable and, accordingly, we recommend that it be approved.

**b. Mathematics, Engineering, Science Achievement (MESA) Program  
(Item 6100-192-001)*****We recommend approval.***

The MESA program is designed to increase the enrollment of under-represented ethnic minority students in university and college mathematics and mathematics-based disciplines such as engineering and physical sciences. The program provides tutoring, counseling, study groups, and summer school enrichment for secondary school pupils who show an aptitude and interest in mathematics and science. MESA is funded jointly by the state and the private sector.

The state's contribution currently is provided through the budget appropriation for the State Department of Education. MESA is coordinated by a central office located in the Lawrence Hall of Science in Berkeley.

The budget proposes \$1,447,000 from the General Fund for MESA—an increase of \$56,000 (COLA) over the current-year appropriation. The budget also proposes to continue the requirement that MESA obtain matching support on a 2:1 ratio of state to private funds.

We recommend approval of the amount requested.

**Study of MESA Administration**

Language contained in the *Supplemental Report of the 1984 Budget Act* required the California Postsecondary Education Commission (CPEC) to report to the Joint Legislative Budget Committee by January 15, 1985, on the MESA program's administration, management, accountability, and state oversight.

The commission's report on this study contains three recommendations: (1) that the state appropriation for MESA be shifted to the University of California; (2) that the fiscal management and operation responsibility for MESA remain with the University of California at Berkeley; and (3) that the statewide MESA office develop—in conjunction with the Director of the Lawrence Hall of Science, the MESA Board of Directors, and officials of the public postsecondary education segments—a procedure for representing the program to the Legislature and the Governor in the budget process.

**Comments.** In support of the first recommendation, CPEC argues that since MESA is located at—and its funds are disbursed by—the University of California, Berkeley, the appropriation should be made to the University. We do not find this is a compelling argument. There is ample precedent for the Department of Education entering into contractual agreements with external agencies, and for those agencies to exercise fiscal management. Moreover, secondary school pupils, who are within the department's purview, constitute the primary target group for the MESA program.

We endorse CPEC's second recommendation—that responsibility for fiscal management under MESA remain with the University of California.

The CPEC study "finds that MESA's overall fiscal management arrangement serves the state and MESA well." We see no reason to shift to another arrangement.

The CPEC's third recommendation concerns the establishment of procedures whereby all affected parties are consulted on how MESA is represented to the Legislature and the Governor in the budget process. This recommendation reflects the Commission's concerns that MESA's needs be fairly and adequately represented. Implementation of this recommendation would have no direct fiscal impact on the MESA program.

**c. Intergenerational Education Programs (Item 6100-128-001)**

*We withhold recommendation on \$165,000 requested from the General Fund for intergenerational education programs, pending receipt of the State Department of Education's evaluation of the programs' effectiveness.*

Intergenerational education programs provide for the involvement of senior citizens in public elementary and secondary schools. The programs' objective is to provide educational experiences that benefit both students and the participating senior citizens. In 1983-84, 11 intergenerational programs were established using \$90,000 of federal ECIA Chapter 2 funds. In 1984-85, SB 3029 (Ch 1592/84) replaced those federal funds with state General Fund support, and increased the funding level to \$165,000. The Governor's Budget proposes to continue this level of funding in 1985-86.

Pursuant to Chapter 1592, the State Department of Education allocates funds to programs that involve persons over 55 year of age in projects with public school pupils. These funds are used to provide a minimum salary or transportation stipend, or both, to participating senior citizens. The measure further requires the State Department of Education to evaluate intergenerational education programs to "determine whether those projects have been successful and whether they warrant further support," and report its findings to the Legislature by January 1, 1985.

At the time this analysis was written, the SDE had not submitted the evaluation report required by Ch 1592/84. The department indicates that the report will be presented to the Legislature prior to budget hearings. We will review the report when it is submitted, and prepare comments and recommendations on the intergenerational education programs for the Legislature as appropriate.

**d. Foster Youth Services (Item 6100-119-001(a))**

The budget proposes that \$813,000 be appropriated from the General Fund to provide special services to foster children in four school districts in California—Elk Grove Unified, Mount Diablo Unified, Sacramento Unified, and San Juan Unified. The proposed amount is 4.0 percent more than the level of support provided for these programs during the current year.

Foster Youth Services programs provide educational planning, assessment, and placement services; tutoring; and counseling and on-the-job training. The programs also provide student advocacy and liaison with families, schools, and other agencies. The Governor's Budget proposes no funds for the expansion of foster youth services to other districts.

**Program Report Does Not Provide Adequate Information**

*We recommend that the Legislature adopt supplemental report language directing the Department of Education to collect and report information regarding the effectiveness of the Foster Youth Services program.*

**DEPARTMENT OF EDUCATION—Continued**

Current law requires the Secretary for Health and Welfare to report every two years regarding the effectiveness of foster youth services provided by school districts. The Secretary's report is to be prepared in cooperation with the Superintendent of Public Instruction and the Director of the Youth Authority, based upon information provided by the school districts. The next report is due to the Legislature and the Governor by February 15, 1986.

Our review of the most recent report on Foster Youth Services, presented in February 1984, indicates that it fails to provide the information which the Legislature needs in order to assess the effectiveness of these programs. Instead, the report contains primarily descriptive information regarding the scope and nature of foster youth services provided by each district.

In order for the Legislature to determine the cost-effectiveness of the Foster Youth Services program, it needs information on the extent to which the program affects (1) student achievement, (2) drop-out or high school graduation rates, and (3) the number of placements in California Youth Authority or other juvenile facilities. (Such information also would assist participating school districts in improving the effectiveness of their programs.) Accordingly, we recommend that the Legislature adopt supplemental report language directing the State Department of Education to collect and report information regarding Foster Youth Services program effectiveness.

Specifically, we recommend that the Legislature adopt the following language in Item 6100-119-001 of the Supplemental Report of the 1985 Budget Act:

"The Department of Education shall collect information regarding the effectiveness of foster youth services provided by school districts. This information shall include (1) student achievement data, (2) drop-out or high school graduation rates, and (3) the number of foster children who are placed in California Youth Authority or other juvenile facilities, in each school district which receives funds to support a Foster Youth Services program. This information shall be included in the report prepared pursuant to Section 42923 of the Education Code."

**e. Youth Suicide Prevention Program (Item 6100-222-001)**

*We recommend approval.*

Chapter 750, Statutes of 1983 (SB 947), created the Youth Suicide School Program Fund. It also declared legislative intent that beginning in 1984-85, funds be appropriated for the development of a statewide youth suicide prevention school program and the establishment of demonstration programs in two counties. The act provides that the State Department of Education (SDE) is to administer the fund, using up to 5 percent of the fund balance for its administrative costs. The department is also required to submit reports annually on the implementation and effectiveness of the program.

As shown in Table 32, the budget proposes that \$312,000 be appropriated from the General Fund for this program in 1985-86, an increase of 4 percent over the current-year level. The budget also provides \$15,000 in the department's main support item (6100-001-001) for administrative costs associated with the program. Thus, the budget provides a total of \$327,000 for the Youth Suicide Prevention Program in 1985-86.

**Table 32**  
**K-12 Education**  
**Youth Suicide Prevention Program<sup>a</sup>**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Operations.....	—	\$15	\$15	—	—
Local Assistance.....	—	\$300	\$312	\$12	4.0%
Totals.....	—	\$315	\$327	\$12	3.8%

<sup>a</sup> General Fund

Under the terms of Ch 750/83, two three-year demonstration youth suicide prevention programs have been established in San Mateo and Los Angeles counties. During the current year, each of these programs received \$150,000 for planning and program development. Implementation of demonstration program services is scheduled to begin July 1, 1985, and must be completed by June 30, 1986. The act requires an evaluation of each demonstration program by January 1, 1987.

The programs, which will be coordinated by suicide prevention and crisis centers designated by each county board of education, may include classroom instruction designed to achieve the following objectives:

- encourage sound decision-making and promote ethical development,
- increase pupils' awareness of the relationship between drug and alcohol use and youth suicide,
- teach pupils to recognize signs of suicidal tendencies, and
- inform pupils of available community youth suicide prevention services.

The demonstration programs may also support other school- or community-based suicide prevention programs, such as:

- positive peer group programs,
- telephone "hotline" services,
- programs to collect data on youth suicide attempts,
- intervention services, and
- programs to train parents and teachers.

In addition, during the current year, the designated suicide prevention and crisis centers are serving as coordinating centers for the planning and development of a statewide youth suicide prevention school program, in cooperation with the State Department of Education, county offices of education, and local school districts. Planning and development of the statewide program is to be completed by June 30, 1985. School districts and county offices of education may implement the program, on a voluntary basis, beginning in 1985-86.

Our analysis indicates that the funding level proposed in the budget is consistent with the intent of the legislation which established this program, and is appropriate to support (1) implementation of the demonstration programs in the two counties, (2) implementation of a statewide program in additional counties on a voluntary basis, and (3) SDE administrative costs for this program. Accordingly, we recommend that the amount requested be approved.

**DEPARTMENT OF EDUCATION—Continued**

**f. Environmental Education (Items 6100-001-140 and 6100-181-140)**

*We recommend approval.*

The Environmental Education program provides grants to local education agencies, other government agencies, and nonprofit organizations to support interdisciplinary education programs related to the environment, energy, and conservation. In 1983-84, 116 grant applications were received, and 50 programs—serving approximately 38,000 youths—were funded. Table 33 shows environmental education funding for the prior, current, and budget years.

**Table 33**  
**K-12 Education**  
**Environmental Education Expenditures <sup>a</sup>**  
**1983-84 to 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
State Operations .....	\$95	\$106	\$123	\$17	16.0%
Local Assistance .....	405	394	481	87	22.1
Totals .....	\$500	\$500	\$604	\$104	20.8%

<sup>a</sup> California Environmental License Plate Fund.

As Table 33 shows, the Governor's Budget proposes expenditures of \$604,000 from the Environmental License Plate Fund for support of the Environmental Education program in 1985-86. This is an increase of \$104,000, or 21 percent, over the amount appropriated for the program in the current year. The \$104,000 consists of \$17,000 (up 16 percent) for state operations and \$87,000 (up 21 percent) for local assistance. The Environmental Education program is staffed with 2.0 positions in the current year.

The State Department of Education (SDE) indicates that the proposed \$87,000 increase in local assistance funding will be used in two ways. First, \$29,000 of this amount will be used for the expansion of an existing program, which is currently funded at \$56,000. This augmentation will support the dissemination of curriculum materials developed by the project. The remainder of the local assistance augmentation—\$58,000—will be used to provide funding for a larger number of local projects. The SDE indicates that, in recent years, a number of otherwise worthy proposals have been turned down due to lack of funds.

Our review indicates that the proposed expansion in funding for Environmental Education projects is reasonable, and is consistent with uses of Environmental License Plate revenues authorized by statute. Accordingly, we recommend that the amount be approved as budgeted.

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

*We withhold recommendation on \$500,000 requested from the General Fund for the development of a new curriculum on birth defects, pending receipt from the State Department of Education of a proposal for developing this curriculum.*

The Governor's Budget proposes a General Fund appropriation of \$500,000 to develop a model curriculum on developmental disabilities and birth defects. This proposed project is part of an interagency effort that would involve the Departments of Education, Developmental Services, and Health Services in an attempt to reduce the incidence of premature births, low birth weights, birth defects, neurological defects, and childhood illnesses among babies born to teenage mothers.

At the time this analysis was written, the State Department of Education (SDE) had not prepared a proposal for developing the developmental disabilities and birth defects curriculum. We have no basis, therefore, on which to evaluate the appropriateness of the proposed funding level. The State Department of Education indicates that it will present its proposal for the use of these funds in February 1985. We will review this information and prepare a supplemental analysis of the request for presentation during the budget hearings.

#### **h. Commissions on Professional Competence (Item 6100-209-001)**

*We recommend approval.*

Under current law, a school district employee who has been served with a notice of the governing board's intention to dismiss or suspend him or her may request a hearing before a local three-member Commission on Professional Competence. The commission consists of one member chosen by the employee, one member chosen by the governing board, and one member who is a hearing officer from the Office of Administrative Hearings.

Education Code Section 44944 provides, among other things, that in the event the commission decides that the employee *should* be dismissed or suspended, the state shall pay the reasonable expenses associated with the service of the member chosen by the employee and the member chosen by the governing board. The local governing board pays these expenses if the employee is not dismissed.

In years prior to 1984-85, funding for costs associated with commissions on professional competence was provided in the local mandate item of the Budget Act. Because the Controller has determined that Section 44944 did not impose a reimbursable mandate on districts, the Legislature provided funding for this purpose in the current year through a new Budget Act item. The Governor's Budget proposes to continue this practice.

Based on the amount of claims received in prior years, the Governor's Budget proposes an appropriation of \$18,000 to reimburse school districts for the costs of commissions on professional competence in the budget year. Our review indicates that provision of such funding is consistent with the intent of the Legislature, and we recommend that the requested amount be approved.

#### **i. Driver Training (Item 6100-171-178)**

*We recommend approval.*

The Department of Education administers a driver training program which authorizes districts to provide driver education through both a laboratory component (behind-the-wheel training) and a classroom component. Local school districts offering the laboratory driver training phase are reimbursed during any given fiscal year for their actual costs in the prior fiscal year, up to a maximum of \$80 per nonhandicapped pupil and \$247 per handicapped pupil. In addition, school districts may receive reimbursement for the cost of replacing vehicles and simulators used exclusive-

**DEPARTMENT OF EDUCATION—Continued**

ly in the laboratory phase of driver education programs. The maximum allowable reimbursement for this purpose is 75 percent of the actual cost in excess of \$80 per pupil instructed.

Table 34 displays funding for driver training in the prior, current, and budget years.

**Table 34**  
**K-12 Education**  
**Allocations for Driver Training**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
<i>Expenditure</i>					
Driver training					
State operations .....	\$120	\$186	\$126	-\$60	-32.3%
Local assistance .....	15,720	19,500	19,500	—	—
Totals .....	\$15,840	\$19,686	\$19,626	-\$60	0.3%
<i>Funding Sources</i>					
Motor Vehicle Account, State Transportation Fund .....	\$15,720	—	—	—	—
Driver Training Penalty Assessment Fund .....	—	\$19,500	\$19,500	—	—
General Fund .....	87	117	119	\$2	1.7%
Federal Trust Fund .....	—	6	7	1	16.7
Reimbursements .....	33	63	—	-63	-100.0

As shown in Table 34, the Governor's Budget proposes to continue the current-year funding level of \$19,500,000 for driver training local assistance. This program is funded from the Driver Training Penalty Assessment Fund (DTPAF), which receives its revenues from traffic citations. The budget also proposes a reduction of \$60,000 in driver training state operations, reflecting a one-time equipment purchase in the current year.

Our analysis indicates that the budget proposes to provide the statutorily-authorized level of funding for this program and, accordingly, we recommend that the item be approved as budgeted.

**Transfer to the General Fund—Control Section 24.10*****We recommend approval.***

Control Section 24.10 of the Budget Bill transfers to the General Fund the unencumbered balance in the Driver Training Penalty Assessment Fund on June 30, 1986. This amount represents the surplus in the DTPAF in excess of the amount necessary to fund the Driver Training Program and related programs during the budget year. According to the budget, this provision would result in a General Fund increase of \$18.8 million on June 30, 1986. This amount would be increased by the amount of any reduction to the appropriation for driver training in the budget year.

Control Section 24.10 would continue current legislative policy and, on that basis, we recommend that it be approved.



**j. Federal Block Grant—ECIA Chapter 2 (Items 6100-101-890 and 6100-001-890)**

*We withhold recommendation on \$35,218,000 requested in Item 6100-101-890 and \$6,563,000 requested in Item 6100-001-890, pending submission of an expenditure plan for federal ECIA Chapter 2 block grant funds.*

In 1982-83, the federal government consolidated approximately 30 categorical grant programs into a single block grant. The authorizing legislation for the block grant—the Education Consolidation and Improvement Act, Chapter 2—requires that at least 80 percent of the block grant be allocated to local school districts according to an enrollment-based formula. Federal law prohibits the state from specifying how these funds will be used by local school districts. The balance of Chapter 2 funds—no more than 20 percent of the total grant—may be retained for discretionary expenditures by the state. These funds may be used for state operations or to finance discretionary grants for specific programs.

Federal law requires that an advisory committee be formed to make recommendations regarding (1) the formula used to allocate at least 80 percent of Chapter 2 funds to all local school districts and (2) the allocation of funds used for state discretionary purposes. The 24 members of California's Chapter 2 advisory committee are appointed by the Governor.

Table 35 shows state operations and local assistance funding for the Chapter 2 federal block grant in the prior, current, and budget years. The budget anticipates that total Chapter 2 block grant expenditures in 1985-86 will be \$42.3 million—a decrease of \$1.5 million, or 3.3 percent, from estimated current-year expenditures from this source. The State Department of Education (SDE) has indicated, however, that it anticipates total Chapter 2 expenditures will be \$47.5 million in 1985-86—an increase of \$3.8 million, or 8.7 percent, above the current-year level.

**Table 35**  
**K-12 Education**  
**Federal Chapter 2 Block Grant Funding**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
Local Assistance					
Formula allocations .....	\$38,931	\$34,488	\$33,825	-\$663	-1.9%
Discretionary grants .....	2,295	2,108	1,893	-215	-10.2
Subtotals .....	\$41,226	\$36,596	\$35,718	-\$878	-2.4%
State Operations .....	\$8,176	\$7,142	\$6,563	-\$579	-8.1%
Totals .....	\$49,042	\$43,738	\$42,281	-\$1,457	-3.3%

**Formula Allocations.** The budget proposes to allocate \$33.8 million (or 80 percent of California's total Chapter 2 grant) to local school districts on a formula basis.

Under the current-year formula, funds are allocated to each school district on the basis of total public and private school enrollment, with additional funds provided for (1) each student who receives Aid to Families with Dependent Children (AFDC) and (2) each student who is classified as Limited English Proficient (LEP). A minimum allocation of \$3,000 is provided to each district. Under federal law, a portion of the funds each

**DEPARTMENT OF EDUCATION—Continued**

district receives must be used to provide services to students in private schools.

The Governor's Chapter 2 block grant advisory committee will make recommendations later this spring regarding the formula to be used to allocate these funds during the budget year. We will review the report of the advisory committee and make recommendations on the proposed allocations to the Legislature, as appropriate. Until the advisory committee's report has been received and a determination made by SDE regarding an allocation formula for 1985-86, the Legislature will not have the information it needs in order to review the proposed expenditure of \$33,825,000 in Chapter 2 funds for local assistance. Accordingly, we withhold recommendation on this amount, pending receipt of additional information.

**Plan Needed For State Discretionary Expenditures.** The budget proposes that 20 percent of the total Chapter 2 block grant—\$8.5 million—be retained for state discretionary expenditures in 1985-86. Of this amount, \$1.9 million would be allocated to fund grants for specific local education programs and \$6.6 million would go for state operations.

The Budget Bill contains control language which would appropriate \$200,000 of the \$1.9 million in local assistance funds for a program on youth and the administration of justice. Another \$300,000 would be allocated by the language for parenting education programs authorized by AB 3031 (Ch 1619/84). Presumably, the balance of local assistance grant funds—or \$1,393,000—would be allocated to "priority projects" designated by the Superintendent of Public Instruction. The Superintendent, however, has not identified these projects as yet.

Likewise, the Superintendent has not indicated how he proposes to use the \$6.6 million for state operations during the budget year. During the current year, Chapter 2 funds have been used for the following state purposes:

- Assessment, research, and evaluation (\$1.8 million)—including expansion of the California Assessment Program (CAP) test;
- Instructional services (\$1.5 million)—including development of model curriculum standards; and
- Staff development (\$1.2 million)—including state administrative costs associated with implementation of the mentor teacher program.

In order to ensure that these funds are allocated according to its priorities in 1985-86, the Legislature needs more information regarding proposed (1) local assistance "priority projects" and (2) state operations. We therefore recommend that the Department of Education submit an expenditure plan for these activities. Pending receipt of the department's plan, we withhold recommendation on the proposed expenditures of \$1,393,000 in local assistance and \$6,563,000 in state operations.

**C. SCHOOL DESEGREGATION (Items 6100-114-001 and 6100-115-001)**

Under the provisions of current law, the state reimburses school districts for the cost of both court-ordered and voluntary school desegregation programs. These reimbursements are funded from the General Fund. Table 36 shows expenditures for court-ordered and voluntary school desegregation reimbursements in the prior, current, and budget years.

As shown in Table 36, the budget proposes no change in the total amount provided for court-ordered school desegregation reimbursements and a decrease of \$5.9 million, or 46 percent, in funding for voluntary

**Table 36**  
**K-12 Education**  
**General Fund Reimbursement**  
**of School Desegregation Programs**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> <i>1983-84</i>	<i>Estimated</i> <i>1984-85</i>	<i>Proposed</i> <i>1985-86</i>	<i>Change</i> <i>1984-85 to 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
A. Court-Ordered					
Desegregation:					
Budget Act Appropriation ....	\$138,816	\$154,416	\$184,416	\$30,000	19.4%
Other Appropriations .....	3,507	30,000	—	-30,000	-100.0
Subtotals .....	\$142,323	\$184,416	\$184,416	—	—
B. Voluntary Desegregation:					
Budget Act Appropriation ....	—	—	7,000	7,000	N/A
Other Appropriations .....	—	\$12,855	—	-12,855	-100.0%
Subtotals .....	—	\$12,855	\$7,000	-\$5,855	-45.5%
Totals .....	\$142,323	\$197,271	\$191,416	-\$5,855	-3.0%

school desegregation reimbursements, relative to current-year funding levels. Thus, total funding for school desegregation reimbursements would decrease by \$5.9 million, or 3.0 percent, if the proposed budget were enacted.

A more detailed explanation of the funding for court-ordered and voluntary school desegregation reimbursements is provided below.

**Table 37**  
**K-12 Education**  
**Court-Ordered Desegregation**  
**Funding for Claims Approved by the Controller**  
**and Additional Claims Eligible for Reimbursement**

<i>Desegregation Claims</i>	<i>Actual</i> <i>Claims for</i> <i>1982-83</i>	<i>Actual</i> <i>Claims for</i> <i>1983-84</i>	<i>Estimated</i> <i>Claims for</i> <i>1984-85</i>	<i>Estimated</i> <i>Claims for</i> <i>1985-86</i>
Bakersfield Unified .....	—	—	\$1,544,157	\$1,544,157 <sup>a</sup>
Los Angeles Unified .....	\$124,455,997	\$126,378,493	151,634,763	151,634,763
San Bernardino Unified .....	3,055,457	2,917,096	3,657,590	3,657,590
San Diego City Unified .....	20,451,646	20,752,983	27,393,607	27,393,607
San Francisco Unified .....	—	3,507,200	12,153,000	12,153,000
Stockton Unified .....	3,170,819	2,478,368	4,143,474	4,143,474
Total claims .....	\$151,133,919	\$156,034,140	\$200,526,591	\$200,526,591
Budget Act Appropriation	128,726,000	138,816,000	154,416,000	184,416,000 <sup>b</sup>
Deficit .....	22,407,919	17,218,140	46,110,591	16,110,591
Other appropriations ....	-22,407,919 <sup>c</sup>	-3,507,200 <sup>c</sup>	-30,000,000 <sup>d</sup>	—
Cumulative remain- ing deficit subject to Commission on State Mandates action .....	—	\$13,710,940	\$29,821,531	\$45,932,122

<sup>a</sup> Funding not included in Governor's Budget.

<sup>b</sup> Proposed in Item 6100-114-001.

<sup>c</sup> Governor's proposed legislation (SB 1).

<sup>d</sup> Chapter 481/84.

**DEPARTMENT OF EDUCATION—Continued****1. Court-Ordered Desegregation (Item 6100-114-001)**

State reimbursement for the costs of court-ordered desegregation is not required by the California Constitution. Under current law, however, school districts incurring costs for court-ordered desegregation may submit initial claims for reimbursement to the Commission on State Mandates. The Commission must review each claim to determine if the costs claimed are reasonable. The Commission then seeks funding for approved claims in a claims bill. After a district's initial claim has been reimbursed through a claims bill, all subsequent claims are submitted to the State Controller for review and reimbursement from Budget Act appropriations. If the amounts claimed by districts and approved by the Controller exceed the amount appropriated in the Budget Act, the available funds will be prorated among claiming districts. The Commission on State Mandates is authorized to review any unfunded claims and seek funding for them in a subsequent claims bill.

**Funding.** Table 37 displays the actual funding for and potential costs of reimbursements for court-ordered desegregation costs.

The Governor's Budget proposes to appropriate \$184,416,000 for court-ordered desegregation in the budget year—the same level of funding as provided in the current year through the 1984 Budget Act and SB 1992 (Ch 418/84).

**Continued Underfunding of Court-Ordered Desegregation Reimbursements**

*We recommend that the Legislature direct the Department of Finance to explain during budget hearings why the administration does not intend to fund \$16.1 million in court-ordered desegregation reimbursement claims that are expected to be filed in the budget year.*

As Table 37 indicates, the \$184.4 million proposed for the budget year is not sufficient to fund the \$200.5 million in expected claims during 1985–86. (We also note that because funding for Bakersfield Unified School District's claim has not yet been provided in a claims bill, that district will be ineligible under current law to receive funds appropriated through the Budget Act.) The table also shows that a deficit (that is, unpaid claims approved by the Commission on State Mandates) of approximately \$29.8 million remains from 1983–84 and 1984–85. When this is added to the projected budget-year deficit of \$16.1 million, we estimate that approval of the Governor's Budget as proposed would result in a total cumulative deficit in funding for approved claims of \$45.9 million at the end of 1985–86.

We recognize that the precise amount of claims to be filed in the budget year cannot be determined in advance. This, however, should not be used as an excuse for knowingly underfunding this program, any more than the inability to predict inflation or ADA growth should be used as a reason for holding K–12 apportionments constant at the current funding level. Such a policy makes it more difficult for both the state and school districts entitled to these funds to undertake sound fiscal planning. We therefore recommend that the Legislature direct the Department of Finance to explain why it does not intend to fund the full estimated costs of reimbursing districts for court-ordered desegregation programs.

**2. Voluntary Desegregation (Item 6100-115-001)**

School districts are also authorized to submit claims to the Commission or State Mandates for reimbursement of costs associated with their voluntary desegregation programs. State reimbursement of these claims, however, is not required by the California Constitution. Among the local programs eligible for reimbursement are voluntary pupil assignment or reassignment, magnet schools, and transportation of pupils to alternative schools or programs of their choice. In addition, districts may claim reimbursement for the cost of programs designed to combat the harmful effects of racially isolated minority schools. Programs of this type that are eligible for reimbursement include parent training and involvement programs, reduction in class size, and instructional programs to increase achievement in basic skills.

**Major Funding Deficit in 1985-86**

*We recommend that the Legislature direct the Department of Finance to explain during budget hearings what the administration's intentions are regarding a potential \$87 million deficiency in funding for voluntary desegregation reimbursement claims.*

Funding for costs associated with voluntary desegregation programs was first provided in 1984-85 by SB 1992 (Ch 418/84), which appropriated \$7 million for this purpose. In addition, the Governor has indicated his support of pending legislation (SB 1) which, in addition to appropriating \$25.9 million for court-ordered desegregation, would appropriate \$5.9 million for reimbursement of voluntary desegregation costs. If SB 1 is approved, funding for voluntary desegregation in the current year would be increased to \$12.9 million.

The Governor's Budget proposes to appropriate \$7 million for voluntary desegregation reimbursements in 1985-86.

At the time this analysis was written, the State Controller was still in the process of reviewing the initial claims for reimbursement of voluntary desegregation costs. Staff of the Controller's Office have indicated, however, that they expect school districts' claims for reimbursement of costs incurred in 1981-82 through 1984-85 to amount to *at least \$76 million*. This exceeds by \$63 million the combined amount provided by SB 1992 and SB 1. If claims for reimbursement in the budget year equal anticipated current-year claims of \$30.5 million, the funding level proposed in the Governor's Budget would be short by \$23.5 million—resulting in a cumulative deficit of approximately \$81 million for the two years. We therefore recommend that the Legislature direct the Department of Finance to explain during budget hearings what the administration's intentions are regarding the potential deficiency.

**III. ANCILLARY SUPPORT FOR K-12 EDUCATION**

This section analyzes those programs which complement the direct instructional support function, including (1) student transportation programs, (2) school facilities programs (construction and deferred maintenance), and (3) child nutrition programs.

**A. TRANSPORTATION**

The State Department of Education apportions state aid to school districts and county superintendents of schools for home-to-school transportation programs. In addition, the department administers the School Bus Driver Instructor Training program.

## DEPARTMENT OF EDUCATION—Continued

## 1. Home-to-School Transportation (Item 6100-111-001)

The Home-to-School Transportation program provides state reimbursement for the approved transportation costs of local school districts or county superintendents of schools, up to a specified amount. The program also funds transportation to and from related student services required by the individualized education programs of special education pupils. The state also provides assistance to small school districts for bus replacement.

Under current law, a school district or county office of education receives funds for home-to-school transportation based upon the amount of state funding it received in the prior year. Specifically, local education agencies which certify that their prior-year approved transportation costs were at least 95 percent of their transportation allowances from the state will receive the same transportation allowance, plus any inflation adjustment provided in the Budget Act, during the next fiscal year. If a school district or county office certifies that its approved transportation costs were less than 95 percent of the state allowance received for that year, the district will receive an allowance equal to that percentage plus 5 percent and any inflation adjustment provided in the Budget Act.

## Funding

Table 38 shows funding for transportation aid for the prior, current, and budget years.

**Table 38**  
**K-12 Education**  
**Transportation Aid<sup>a</sup>**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
Home-to-school transportation	\$154,383 <sup>b</sup>	\$247,241	\$279,724	\$32,483	\$13.1%
Small school district bus replacement .....	1,021	3,000	3,120	120	4.0
Totals .....	\$155,404	\$250,241	\$282,844	\$32,603	13.0%

<sup>a</sup> General Fund.

<sup>b</sup> Excludes special transportation program reimbursement of \$112.6 million.

## a. Transportation

The Governor's Budget proposes a net increase of \$32,483,000, or 13.1 percent, for home-to-school transportation in 1985-86. This increase consists of (1) \$21.7 million to eliminate in the *budget* year the deficit in home-to-school transportation expected during the current year and (2) \$10.8 million for a 4 percent cost-of-living adjustment. The Governor has not requested an appropriation to fund the home-to-school transportation deficit in the current year.

Our analysis indicates that, absent a change in existing law, the Governor's proposal to fund the home-to-school transportation deficit in the budget year but not in the current year cannot be implemented. As explained above, current law provides that a local education agency's enti-

tlement to home-to-school transportation funds during any fiscal year shall be based upon the amount of state aid *it actually received* in the prior year—not upon the amount it would have received had its transportation costs been fully reimbursed. Under existing law, therefore, the only way in which the current-year deficit can be reflected in budget-year entitlements is for the current-year deficit to be funded. Thus, even if the Legislature were to approve the Governor's proposal, school districts and county offices of education would not be able to claim the additional \$21.7 million in the budget year.

The Legislature has at least three options for addressing this issue:

- ***The Legislature could fund the current-year deficit instead of the budget year deficit.*** This option would not require the budget to be augmented; the Legislature need only adopt Budget Bill language directing the \$21.7 million to the current-year deficiency.
- ***The Legislature could fund the budget-year deficit, but not the current-year deficit (Governor's proposal).*** This option would not require the budget to be augmented. It could be accomplished by adopting Budget Bill language waiving the provisions of existing law governing the distribution of home-to-school transportation funds.
- ***The Legislature could fund both the current-year and budget-year deficits.*** This option would require a General Fund augmentation of \$21.7 million and the adoption of Budget Bill language directing that the augmentation shall be used for the current-year deficit.

#### **b. Small School District Bus Replacement**

Table 38 also shows funding for small school district school bus replacement in the prior, current, and budget years. Under this program, school districts with fewer than 2,501 ADA may receive funds for the replacement of reconditioning of school buses. In allocating these funds, the law assigns first priority to the replacement of school buses that cannot be reconditioned, second priority to the reconditioning of unsafe school buses, and third priority to the purchase of new buses to expand a district's fleet.

During the current year, 193 districts received \$2,984,000 in aid through this program. The Governor's Budget proposes a 4 percent increase for the program in 1985–86, for a total appropriation of \$3,120,000. Our review indicates that these funds are being expended in accordance with the Legislature's objective. We recommend, therefore, that the amount be approved as budgeted.

#### **2. School Bus Driver Instructor Training Program (Item 6100-001-178)**

***We recommend approval.***

The Department of Education administers a School Bus Driver Instructor Training program that prepares teachers to instruct classes for prospective school bus drivers. Since 1974, state law (Section 1204, California Administrative Code) has required all public school bus drivers to complete 40 hours of training provided by an instructor who has been trained under this program.

The School Bus Driver Instructor Training program was established in 1970. Except for one year, the program has been jointly supported with federal funds and with state funds provided from the Driver Training Penalty Assessment Fund throughout its existence. At the end of the current year, however, federal funds will no longer be available to support the program.

**DEPARTMENT OF EDUCATION—Continued**

The Governor's Budget requests \$500,000 from the DTPAF for this program in 1985-86—\$141,000 more than the current-year appropriation. The increase equals the level of federal funding for the program provided in the current year.

Because the program is mandated by state law, we conclude that the proposed increase in state funding is appropriate. Accordingly, we recommend approval of the request as budgeted.

**B. SCHOOL FACILITIES PROGRAMS**

School facilities programs include:

- incentive payments to districts for the use of year-round schools or alternatives to the construction of new school facilities,
- the School Facilities Planning Unit within the Department of Education,
- the School Facilities Asbestos Abatement program (discussed in Item 6350, later in this *Analysis*),
- construction, reconstruction, or deferred maintenance of school facilities, and
- emergency portable classrooms.

Funding for the first three of these activities is included in the annual Budget Act, while funds for the last two are provided through statutory appropriations. Actual expenditures under these programs are determined by the State Allocation Board (SAB), which includes members of the Legislature and representatives of the Department of Finance, the Department of Education, and the Department of General Services.

**1. School Facilities Aid**

Funding for the construction, reconstruction, or deferred maintenance of school facilities is provided through three major statutory appropriations, each of which is available for expenditure irrespective of fiscal year. They are as follows:

- ***The proceeds from bond sales authorized by the State School Building Lease-Purchase Bond Acts of 1982 (Proposition 1) and 1984 (Proposition 26).*** *Proposition 1 of 1982* authorized the sale of \$500 million in bonds—\$350 million for the construction of new school facilities and \$150 million for reconstruction and rehabilitation of facilities constructed over 30 years ago. It is anticipated that all revenues from *Proposition 1* bonds will have been allocated by the end of the 1984-85 fiscal year. *Proposition 26 of 1984* authorized the sale of \$450 million in additional bonds—up to \$200 million for reconstruction of existing school facilities, with the balance for new construction.
- ***A \$150 million annual appropriation of tidelands oil revenues through 1988-89.*** Of this amount, up to 5 percent may be used each year for the Emergency Classroom program, and the balance is used primarily for new construction.
- ***School district "excess repayments."*** These payments represent the amount by which school district principal and interest payments on State School Building Aid loans exceed the amount needed to service state school construction bonds issued for this program. The excess payments are primarily used to fund school district deferred maintenance projects, with any remaining amount going to fund new construction.



Table 39 shows total revenues available for apportionment by the SAB for school facilities aid during the prior, current, and budget years, as well as the allocations proposed by the Governor's Budget. Actual expenditures under SAB-administered programs in a given year may not equal the revenues to the State School Building Lease-Purchase Fund or the Deferred Maintenance Fund during that year because (1) reserves may be used to finance project grants and (2) the SAB may choose not to allocate all revenues that become available during any one year.

**Table 39**  
**K-12 Education**  
**Revenues Available for School Facilities Aid<sup>a</sup>**  
**1983-84 to 1985-86 and Proposed 1985-86 Allocation**  
**(dollars in millions)**

	Revenues			Proposed Allocation
	Actual 1983-84	Estimated 1984-85	Estimated 1985-86	
State School Building Lease-Purchase program (Construction and Reconstruction):				
Tidelands oil revenues .....	—	\$142.5	\$142.5	\$142.5 <sup>c</sup>
State School Building Lease-Purchase Bond Act of 1982 (Proposition 1) .....	\$185.0	190.0	—	—
State School Building Lease-Purchase Bond Act of 1984 (Proposition 26) .....	—	—	450.0 <sup>c</sup>	95.0
School Building Aid Bonds (Ch 764/84) .....	—	40.0	—	40.0
Excess School Building Aid loan repayments (General Fund transfer) .....	26.9	—	—	—
Lease-Purchase rental revenues .....	3.1	1.5	1.5	1.5 <sup>c</sup>
Subtotals .....	\$215.0	\$374.0	\$594.0	\$279.0
Deferred Maintenance (Excess repayments) <sup>b</sup> .....	\$63.2	\$90.8	\$71.2	\$71.2
Emergency Classroom Program .....	1.6	7.5 <sup>d</sup>	7.5	7.5
Asbestos Abatement Program .....	—	10.0	10.0	10.0
Totals .....	\$279.8	\$482.3	\$682.7	\$367.7

<sup>a</sup> This table illustrates only the revenue sources provided by current statutes. This is not a fund condition statement and, accordingly, does not include any beginning balances for each school facilities program.

<sup>b</sup> School districts receive apportionments from the State School Deferred Maintenance Fund to match district expenditures up to one-half of 1 percent of the district's general fund budget. The fund balance not used for deferred maintenance is transferred to the State School Building Lease-Purchase Fund.

<sup>c</sup> Assumes that all funds from Proposition 26 bonds will be available for apportionment during 1985-86. The State School Building Lease-Purchase Bond Act of 1984 provides \$200 million available December 1, 1984 and \$25 million monthly thereafter, up to total of \$450 million. Actual expenditures during 1985-86 may be substantially less than \$450 million, with balances available for apportionment in following years.

<sup>d</sup> Up to 5 percent of tidelands oil revenues to the State School Building Lease-Purchase Fund during fiscal years 1984-85 to 1988-89 may be used for the Emergency Classroom program (pursuant to Section 6217F(2) of the Public Resources Code).

<sup>e</sup> From tidelands oil revenues, and Lease-Purchase rental revenues, the budget proposes to allocate \$2 million for administrative costs associated with school facilities aid programs.

**Budget Proposal.** The Governor's Budget proposes to allocate a total of \$367.7 million for school facilities aid during 1985-86. Of this amount, the budget proposes to allocate \$365.7 million in apportionments to local school districts and \$2 million for state administrative expenditures, as follows:

- \$95 million of the \$450 million in revenues from Proposition 26 bonds;

**DEPARTMENT OF EDUCATION—Continued**

- \$40 million from funds made available by AB 3067 (Ch 764/84) during the current year;
- \$150 million from tidelands oil revenues and \$1.5 million from Lease-Purchase rental revenues, to be used as follows—\$142 million in allocations to school districts through the Lease-Purchase program, \$7.5 million for the Emergency Classroom program, and \$2 million for use by the Department of General Services and the Department of Education in administering school facilities aid programs;
- \$71.2 million from “excess repayments” for deferred maintenance expenditures. (Control Section 24.30 of the Budget Bill would authorize the SAB to make additional apportionments to school districts, on a matching basis, above the limits established by current law); and
- \$10 million from the Special Account for Capital Outlay to the Asbestos Abatement Fund for apportionments to school districts during 1985–86.

**a. State School Building Lease-Purchase Program**

Through the State School Building Lease-Purchase program the SAB apportions funds to local school districts for (1) acquisition and development of school sites, (2) construction or reconstruction of school buildings, and (3) purchase of equipment for newly-constructed buildings. School districts rent the newly-constructed or reconstructed facilities from the state under a long-term, lease-purchase agreement that calls for title to the facility to be transferred to the district within 40 years. In most cases, rent is paid to the state at the rate of \$1 per year, plus (1) specified revenues from the sale of surplus school sites, and (2) any interest earned on state funds deposited in the county school lease-purchase fund on behalf of the district. Because this amount is usually nominal in comparison to the amount of state aid provided, the state essentially is providing a grant to the districts for school construction or reconstruction.

In order to establish eligibility for school construction funds appropriated to the State Allocation Board, school districts must demonstrate that they are experiencing overcrowding and that they are fully utilizing all available facilities. (In a very small number of cases, districts receive new school construction funds from the SAB for reasons other than overcrowding—for example, where a school has been destroyed by an earthquake.) Districts may be eligible to receive funds for reconstruction of school facilities which (1) were built over 30 years ago and have not been substantially reconstructed within the past 30 years and (2) will continue to be utilized as schools for the foreseeable future. The maximum allocation provided for reconstruction of any building is 25 percent of the building's current replacement value.

**Legislation Needed to Require 10 Percent District Match**

*We recommend that the Legislature adopt budget control language and enact legislation requiring school districts to contribute 10 percent toward the cost of any project for which an apportionment is made from the State School Building Lease-Purchase Fund.*

Under the State School Building Lease-Purchase program, each school district which receives an apportionment from tidelands oil revenues must contribute an amount equal to 10 percent of the project's costs. The district may either (1) provide the matching contribution all at once

during the first year or (2) contribute an amount equal to 1 percent of the project's cost each year for 10 years. Local matching funds are deposited in the State School Deferred Maintenance Fund. To meet the 10 percent match requirement, school districts may use revenues from "impact fees" paid by local developers or the fair market value of land contributed by a developer for a school site. The 10 percent match requirement may also be reduced if a district uses relocatable structures for more than 10 percent of the building area in a new school.

The State School Building Lease-Purchase Bond Acts of 1982 and 1984 did not include language specifically applying the 10 percent match requirement to projects funded with bond revenues. Until recently, however, the SAB had interpreted current law to require the 10 percent match for *all* projects funded through the Lease-Purchase program, regardless of funding source.

In a recent opinion, the Attorney General has indicated that the SAB does *not* have the authority to require districts to make the 10 percent match when projects are funded from bond revenues (rather than tidelands oil revenues). The Attorney General's opinion is consistent with an opinion issued in 1983 by the Legislative Counsel.

Based on the Attorney General's opinion, the SAB discontinued the 10 percent matching contribution requirement, effective November 1984. Because, in most cases, current law does not permit the SAB to waive the 10 percent match when apportionments are made from tidelands oil revenues, the board has established a policy of using only non-tidelands oil funds, pending further action by the Legislature to establish a consistent match requirement for all Lease-Purchase apportionments.

The SAB does have the authority to approve any lease-purchase project "in whole or in part," and thus has the option of providing only 90 percent of the amount requested for a project that is to be funded from bond revenues. Were the SAB to do so, it is not clear whether the board could require the district to contribute the balance from its own funds, instead of reducing project expenditures to the level of state funding provided.

Nearly all school districts that have received funds for lease-purchase projects have chosen to contribute 1 percent of the project's costs each year for 10 years, instead of making a one-time, 10 percent matching contribution. As a result, only about \$150,000 has been collected to date in contributions from school districts receiving lease-purchase apportionments from bond revenues. We estimate that if the 10 percent matching requirement were imposed during the current fiscal year, contributions from districts to the State School Deferred Maintenance Fund would total about \$2 million. During 1985-86, revenues from this source would increase to approximately \$3 million.

We believe it is appropriate for the school districts, which, after all, are the primary beneficiaries of construction projects, to pay at least part of the costs of these projects, regardless of what fund provides the state's share. Our conclusion is based on the following considerations:

- **Funding Source is Irrelevant.** There is no apparent policy reason why a matching contribution should be required for lease-purchase projects funded with tidelands oil revenues, but not be required for other lease-purchase projects.
- **More Schools' Needs Can Be Met.** Requiring a matching contribution from school districts increases the number of school facilities projects which can be supported with the available state funds.
- **Cost Sharing Ensures Local Responsibility.** The match require-

**DEPARTMENT OF EDUCATION—Continued**

ment helps to encourage the design of cost-effective projects because districts must pay part of the cost of the project's features.

- **No Fiscal Hardship.** Because the match requirement for projects funded from tidelands oil revenues gives school districts the option of contributing 1 percent of project costs each year for 10 years, the requirement does not impose an unreasonable hardship on local districts. For a \$1 million school, a district would be required to contribute only \$10,000 annually to the State School Deferred Maintenance Fund.
- **Current Law Provides Flexibility.** Districts can also reduce their required contribution by using relocatable structures as part of new school facilities. We believe it is preferable to provide districts with these options for meeting or reducing the 10 percent match requirement, rather than to direct the SAB to provide apportionments from bond revenues equal to only 90 percent of a project's costs.

For these reasons, we recommend the enactment of legislation that specifically applies the 10 percent match requirement contained in current law to all projects which receive funds, from any source, through the State School Building Lease-Purchase program. In order to give the SAB the authority to require matching contributions from school districts receiving lease-purchase apportionments, pending the enactment of such legislation, we recommend that the Legislature adopt the following language in a new Control Section 24.40:

"Notwithstanding any other provision of law, except as provided in Section 17761(b) of the Education Code, each school district to which funds from any source are allocated from the State School Building Lease-Purchase Fund shall either: (1) provide 10 percent of the cost of the project from other district funds; or (2) agree to contribute, each year for a period of 10 years, to the State School Deferred Maintenance Fund an amount equal to 1 percent of the cost of the project."

**b. Deferred Maintenance**

The State Allocation Board apportions funds from the State School Deferred Maintenance Fund on a matching basis to school districts for (1) deferred maintenance or (2) elimination of asbestos-related health hazards. The match is one dollar for every dollar of local funds contributed to the district's deferred maintenance fund. Under current law, the amount of this apportionment generally is limited to a maximum of one-half of one percent of the district's total general fund budget (excluding capital outlay).

Funding for the State School Deferred Maintenance Fund is provided from "excess repayments"—the amount by which school district payments on State School Building Aid loans exceed the amount needed to service state school construction bonds issued under that program. Of the total amount of "excess repayments" received each fiscal year, the State Allocation Board (SAB) transfers to the State School Deferred Maintenance Fund the maximum amount which can be apportioned to school districts under current law. Any remaining "excess repayment" funds generally are transferred to the State School Building Lease-Purchase Fund.

The budget indicates that in 1985-86, excess repayments will total \$71,166,000. The budget proposes that the full amount of the anticipated excess

repayments be transferred by the SAB to the State School Deferred Maintenance Fund. This amount, however, exceeds—by approximately \$5 million—the maximum amount which, under current law, may be allocated during the budget year to school districts for deferred maintenance. Control Section 24.30 in the Budget Bill (discussed below) would authorize the SAB to use the full amount in the State School Deferred Maintenance Fund for deferred maintenance apportionments to local school districts during 1985–86.

Similarly, the budget indicates that the full amount of anticipated excess repayments in the 1984–85 fiscal year—\$90,802,000—will be transferred to the Deferred Maintenance Fund, and that none of these funds will be transferred to the Lease-Purchase program. During this year, however, current law limits total deferred maintenance apportionments to approximately \$66 million. As a result, we estimate that if the SAB allocates excess repayments funds as indicated in the Governor's budget, approximately \$25 million will remain unspent at the end of the current fiscal year and would be available for apportionment during the budget year.

#### **Increased Deferred Maintenance Apportionments—Control Section 24.30**

##### *We recommend approval.*

Control Section 24.30 of the Budget Bill authorizes the SAB to make additional deferred maintenance apportionments to local school districts during 1985–86 only—above the one-half of one percent limit set by current law—to the extent funds are available from excess repayments transferred into the State School Deferred Maintenance Fund. In order to be eligible to receive an additional deferred maintenance apportionment, a school district would be required to (1) submit an application to the SAB and (2) certify that an equivalent amount of additional district funds will be allocated for deferred maintenance to match any additional apportionment provided.

We estimate that approval of Control Section 24.30 would result in an increase of approximately \$30 million in the amount of funds available for deferred maintenance apportionments during 1985–86—assuming that about \$25 million remains in the Deferred Maintenance Fund at the end of the current fiscal year. Without this provision, these funds would be transferred to the State School Building Lease-Purchase Fund to support new school construction and reconstruction.

Our analysis indicates that it would be appropriate to authorize additional apportionments to local school districts for deferred maintenance during 1985–86 because (1) these funds could be used to reduce the current backlog of deferred maintenance in local schools and (2) there is sufficient revenue available from other sources to support the State School Building Lease-Purchase program. Accordingly, we recommend approval of Control Section 24.30.

#### **Hardship Apportionments**

*We recommend the enactment of legislation to (1) authorize the State Allocation Board to reserve for "hardship apportionments" to school districts of any size up to 10 percent of the funds transferred to the State School Deferred Maintenance Fund in any year and (2) specify that deferred maintenance apportionments to any district which receives a hardship apportionment shall be reduced for up to five years to offset the increased apportionment.*

In cases of extreme hardship, school districts may qualify for a one-year

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increase in apportionments for deferred maintenance. In order to qualify for a "hardship apportionment," a district must have deposited at least one-half of 1 percent of its general fund budget (the maximum amount matched by state funds) in its deferred maintenance fund. Hardship funds may be provided if total state and local funds are not sufficient to complete a critical project which, if not completed in one year, would result in serious damage to the remainder of a school facility or a serious hazard to the health and safety of students.

Prior to 1984, the law authorized the SAB to use up to 5 percent of the funds transferred into the State School Deferred Maintenance Fund for hardship apportionments during any fiscal year. The law specified that districts receiving hardship apportionments would have their deferred maintenance apportionments reduced in subsequent years for as long as was necessary in order to offset the amount of hardship apportionment received. Under this approach, a hardship apportionment constituted an interest-free advance from the state deferred maintenance program for the amount by which the cost of the project exceeded the district's total deferred maintenance budget in that year.

In 1984, in response to a recommendation we made in the *Analysis of the 1984-85 Budget Bill*, the Legislature enacted legislation (Ch 232/84 and Ch 268/84) increasing the maximum amount which could be reserved for hardship apportionments to 10 percent of the Deferred Maintenance Fund. The Legislature subsequently enacted AB 2948 (Ch 1234/84), which eliminated, effective January 1, 1985, the SAB's authorization to use the full 10 percent for hardship apportionments to school districts of any size. Instead, this measure (1) authorizes the SAB to reserve up to 5 percent of the Deferred Maintenance Fund each year for hardship apportionments to only those school districts with more than 2,500 units of average daily attendance (ADA) and (2) requires the SAB to reserve 5 percent of the fund for hardship apportionments to only those districts with 2,500 or fewer ADA.

In the case of hardship apportionments to districts with 2,500 or fewer ADA, AB 2948 authorizes the SAB to (1) require the district to make a matching contribution (to be determined by the board), (2) reduce deferred maintenance apportionments to the district in future years to offset the increased apportionments, or (3) waive repayment by the district.

The SAB has established the policy, effective January 1, 1985, of waiving repayment of all hardship apportionments to districts with 2,500 or fewer ADA. As a result, the SAB has changed the nature of small district hardship apportionments from interest-free loans to grants. In the case of hardship apportionments to larger districts, the act continues to require repayment through the reduction of future deferred maintenance apportionments.

Our analysis indicates that (1) there is no need to reserve up to 5 percent of the Deferred Maintenance Fund for districts with more than 2,500 ADA and (2) it is not appropriate for the SAB to waive all requirements that small school districts which receive hardship apportionments repay these funds through reductions in deferred maintenance apportionments in future years.

**No Need to Reserve Funds for Larger Districts.** Nearly all of the districts which apply for and receive deferred maintenance hardship apportionments have fewer than 2,500 ADA. (During 1983-84, the SAB granted only four hardship apportionments, totaling less than \$800,000, to districts with more than 2,500 ADA.) This is because the maximum apportion-

tionment under the regular deferred maintenance program, when matched by district contributions, will provide a school district with an amount equal to 1 percent of its general fund budget for the year. For many small school districts, this amount is not sufficient to fund major repair expenditures. For larger districts, however, a critical project can usually be funded within the 1 percent provided through the regular deferred maintenance program.

Accordingly, we believe the Legislature can accomplish more effectively its policy objectives under this program if it allows the SAB to use up to 10 percent of the Deferred Maintenance Fund for hardship apportionments to districts of any size. This would enable the board to (1) determine how much to allocate for hardship funds during any year and (2) allocate these funds to those school districts with the greatest need.

**Repayment Waiver is Not Appropriate.** As noted above, the SAB has adopted a policy of waiving repayment of all hardship apportionments granted to smaller school districts. We do not believe the Legislature intended AB 2948 to be implemented this way. Rather, we suspect the Legislature intended that waivers would only be granted in cases of extreme hardship, where otherwise a district would be liable for repayments to the state (in the form of foregone state funds) for an extended number of years.

In establishing a policy of automatically waiving repayment for all hardship apportionments to small school districts, the SAB has created incentives for abusing this program. Specifically, the board's policy may encourage districts to define projects as "critical" merely for the purpose of receiving hardship funds. In some cases, these projects may not be of sufficient priority for the district to undertake them through the regular deferred maintenance program, which requires a contribution of local funds. Alternatively, districts may apply for hardship funds to complete major projects that should more appropriately be funded through the Lease-Purchase reconstruction program.

Our review indicates that such abuses may already be occurring. For example, in January of 1985 (the first month in which the SAB policy of waiving repayment when into effect) the board approved applications for hardship apportionments submitted by three small school districts for (1) the replacement of inefficient heating and air conditioning units, (2) leveling and resurfacing of a combination play area-parking lot, and (3) floor covering, and repaving of a bus driveway. In each case, it is not clear that the project for which hardship funds were apportioned had to be completed immediately in order to avoid either serious damage to school facilities or to eliminate a hazard to the health and safety of students.

In addition, our analysis indicates that this policy may result in increased administrative costs to the state, since it will be necessary to screen the increased number of applications for hardship apportionments, in order to limit apportionments to only those projects which are truly "critical," according to the criteria established by the Legislature.

It is appropriate to require local school districts to repay a portion of the funds provided through a hardship apportionment or to contribute a portion of project costs for the following reasons:

- It encourages districts to request hardship apportionments only for those projects which are truly critical.
- It is inequitable to provide grants for a few small districts for some projects, while other districts must pay half the cost of each deferred maintenance project.

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- The repayment or contribution requirement encourages districts to find cost-effective ways to complete needed repairs.

At the same time, however, we believe that it is appropriate to limit the liability of a district for major costs associated with an unforeseen, emergency repair need.

The Legislature, in AB 2948, authorizes the SAB to require repayment and/or a contribution by small districts which receive hardship funds. For a very small district which receives a large hardship apportionment for a major repair, however, requiring full repayment could mean that the district would not be eligible to receive any state funds for deferred maintenance for many years. Recognizing this problem, the Legislature also gave to the SAB *the option* of waiving repayment by small districts. Rather than waive repayment of hardship apportionments by small districts in every case, the board should require at least partial repayment of hardship apportionments by offsetting state apportionments to each district for up to five years. Such a policy, we believe, would be more in keeping with the Legislature's intent in approving AB 2948, and would (1) reduce the incentive for districts to make inappropriate requests for hardship apportionments, (2) encourage districts to make cost-effective use of hardship funds, and (3) avoid imposing upon the district an excessive, long-term financial liability. During the five years (or less, in the case of smaller apportionments) in which state funds would be reduced to offset the hardship apportionment, necessary deferred maintenance expenditures could be supported with district funds.

Accordingly, we recommend the enactment of legislation (1) authorizing the State Allocation Board to reserve up to 10 percent of the funds transferred to the State School Deferred Maintenance Fund in any year for "hardship apportionments" to school districts of any size and, (2) specifying that deferred maintenance apportionments to any district which receives a hardship apportionment shall be reduced for up to five years, in order to offset the increased apportionment.

**c. Emergency Classrooms**

*We recommend that the State Allocation Board and the Department of General Services report during budget hearings regarding (1) estimated expenditures during 1984-85 and 1985-86 for the Emergency Classroom Program, and (2) the reasons for delays in the processing of school district applications for emergency classrooms.*

Through the Emergency Classroom program, the SAB allocates funds for the acquisition and installation of relocatable classroom facilities, including furnishings, to districts with overcrowded schools. The classrooms may be relocated to another school site when they are no longer needed because of declining enrollments or the availability of new facilities. Districts rent these portable classrooms, on a year-to-year basis, at an annual cost of \$2,000 per building. Rental income, which will total approximately \$1.9 million in 1985-86, is used by the SAB for the construction and installation of additional emergency classrooms.

**Additional Emergency Classroom Funds Unused.** Additional funds for the Emergency Classroom program are available from tidelands oil revenues, which are appropriated to the State School Building Lease-Purchase Program. In SB 1379 (Ch 268/84)—the trailer bill to the 1984 Budget Act—the Legislature authorized the SAB to use up to \$7.5 million



annually from these funds for emergency classrooms. At the time this analysis was prepared, none of these funds had been used, although applications from 70 school districts, for a total of 373 emergency classrooms, had been submitted to the SAB but not reviewed by the board's staff. Staff at the Department of General Services' Office of Local Assistance indicate that the processing of applications for emergency classrooms currently takes at least one year.

Our analysis indicates that the Emergency Classroom Program can provide a quick and cost-effective solution to overcrowding in schools. Because relocatable classrooms can be moved to other school sites in response to changing enrollments, they are especially practical in areas where recent high growth rates in the school-aged population are not likely to continue for more than 10 to 20 years. Given (1) the cost-effectiveness of this program and (2) the need for emergency classrooms, as demonstrated by the number of applications before the SAB, we see no justification for the board's apparent failure to allocate, in a timely manner, funds which were provided by the Legislature expressly for this purpose.

Accordingly, we recommend that the SAB and the Department of General Services report during budget hearings regarding (1) their estimate of expenditures for the Emergency Classroom Program during 1984-85 and 1985-86, and (2) the reasons for delays in processing school district applications for emergency classrooms.

#### **d. Automated School Facilities Inventory**

*We recommend that the State Allocation Board and the Department of General Services report during budget hearings regarding the implementation of an automated school facilities inventory.*

Assembly Bill 2743 (Ch 1680/84) directed the State Allocation Board, in cooperation with the Superintendent of Public Instruction, to develop and maintain an automated school facilities inventory that would be capable of (1) indicating the statewide percentage of facility utilization and (2) projecting school facilities needs five years in advance. The purpose of this automated inventory system is to (1) assist the SAB in the allocation of funds for school facilities and (2) provide a basis for the automation of the application process for school facilities aid programs which are administered by the Department of General Services' Office of Local Assistance (OLA), as staff to the SAB.

Assembly Bill 2743 reappropriated \$600,000 from tidelands oil revenues to the State School Building Lease-Purchase Fund for implementation of the school facilities inventory in the current year. The act authorized the SAB to allocate in 1985-86 and subsequent years an amount which the board determines is necessary for the continuation of the automated school facilities system.

At the time this analysis was prepared, the SAB had not established an automated school facilities inventory. The SAB and OLA appear to be experiencing substantial delays in completing a feasibility study and developing a technical plan for the acquisition of a data processing system which can be used to establish and maintain the facilities inventory. If the feasibility study and technical plan cannot be developed by the OLA within a reasonable time period, we believe it may be appropriate for the SAB to contract with a data processing consultant with expertise in the area of construction management to develop such a system. Accordingly, we recommend that the State Allocation Board and the Department of

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General Services report during budget hearings regarding the implementation of the automated school facilities inventory.

**2. Department of Education—School Facilities Planning (Item 6100-001-344)**

*We recommend approval.*

The budget includes \$647,000 from the State School Building Lease-Purchase Fund for support of the School Facilities Planning Unit in the Department of Education. This is an increase of \$8,000, or 1.3 percent, over estimated 1984-85 state expenditures for this purpose.

Our analysis indicates that the amount proposed in the budget is needed to support the ongoing responsibilities of the School Facilities Planning Unit. Accordingly, we recommend approval of the request as budgeted.

**3. Alternatives to School Construction—Control Section 24.20**

*We withhold recommendation on Control Section 24.20, pending receipt from the State Allocation Board of information regarding estimated current-year incentive payments for year-round schools and alternatives to new construction.*

The Legislature in 1983 enacted two different bills which provide districts with overcrowded schools incentives to use year-round schools or other alternatives to the construction of new facilities—SB 813 and SB 81. Senate Bill 813 (Ch 498/83) established payments to school districts of \$25 per pupil for every pupil in a school which is operated on a year-round basis because of overcrowding. Senate Bill 81 (Ch 684/83) provided incentive payments for school districts to use alternatives to new construction (including year-round schools) to reduce or eliminate their need for new school facilities. In order to be eligible to receive funds from either incentive payment program, a district must have filed an application with the State Allocation Board (SAB) for new school facilities and be eligible to receive construction funding.

In the 1984 Budget Act, the Legislature appropriated \$7,687,000 from the General Fund for both types of incentive payments. The Budget Act included language which (1) provided that a district may receive either type of incentive payment, but not both, and (2) limited the amount of incentive payments which may be claimed by districts receiving state reimbursement for the costs of operating year-round schools pursuant to a court-ordered or voluntary desegregation program.

Both SB 813 and SB 81 require that the SAB certify to the Superintendent of Public Instruction the amount of incentive payment due each qualifying school district. Senate Bill 81 provides that this certification shall be made each year by December 15, beginning in 1984-85. At the time this analysis was prepared, however, the SAB had not adopted a procedure to establish the eligibility of school districts to receive incentive payments for either year-round schools or alternatives to new construction. As a result, the SAB had not certified the total amount of incentive payments due to school districts during the current year. We anticipate that this certification will be made during the spring of 1985, and that funds will be allocated to districts during the current year from the appropriation provided in the 1984 Budget Act.

Control Section 24.20 of the 1985 Budget Bill reappropriates the unexpended balance of the funds which were provided for incentive payments in the current year, to continue this program in 1985-86. Because the SAB

has not yet determined total expenditures for this program during the current year, we have no basis for determining whether the unexpended balance to be reappropriated by this Control Section would provide an appropriate level of funding for incentive payments in the budget year. Accordingly, we withhold recommendation on Control Section 24.20, pending receipt of information from the SAB regarding estimated current-year expenditures for this program.

### C. CHILD NUTRITION

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 Programs and Child Care Food Program. These programs assist schools in providing nutritious meals to pupils, with emphasis on providing free or reduced-price meals to children from low-income households.

**Funding for Child Nutrition Programs.** Table 40 summarizes funding for child nutrition programs in the prior, current, and budget years.

**Table 40**  
**K-12 Education**  
**Funding for Child Nutrition Programs**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
General Fund .....	\$1,317	\$1,384	\$1,900	\$516	37.3%
Federal funds .....	4,425	6,074	6,309	235	3.9
Subtotals .....	\$5,742	\$7,458	\$8,209	\$751	10.1%
Local Assistance:					
General Fund <sup>a</sup> .....	\$26,803	\$28,384	\$29,463	\$1,079	3.8%
Federal funds .....	341,280	370,716	404,866 <sup>b</sup>	34,150	9.2
Subtotals .....	\$368,083	\$399,100	\$434,329	\$35,229	8.8%
Totals .....	\$373,825	\$406,558	\$442,538	\$35,980	8.8%

<sup>a</sup> Amount for 1983-84 includes \$639,000 from the State Child Nutrition Fund.

<sup>b</sup> Includes \$500,000 from child nutrition reconciliation account.

The table shows that child nutrition programs are supported primarily by federal funds. The budget proposes an increase of \$751,000—or 10.1 percent—for state operations, and an increase of \$35.2 million—or 8.8 percent—for local assistance. These changes are explained in the following analyses of the state and federal child nutrition programs.

#### 1. Nutrition Education and Training Projects (NETP) (Item 6100-021-001)

##### *We recommend approval.*

The Nutrition Education and Training Projects program, authorized by Chapter 1010, Statutes of 1976, funds mini-grants to local educational agencies and child care agencies to implement nutrition education programs in the classroom. The program also provides nutrition education for food service personnel.

The budget proposes \$580,000 from the General Fund for this program in 1985-86. (This will be the first year that the program will receive

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funding in a separate budget item.) This amount would maintain the level of funding provided in the current year.

Our analysis indicates that this program is meeting its intended purpose and, accordingly, we recommend that the requested funds be approved.

**2. State Child Nutrition Program (Item 6100-201-001)**

*We withhold recommendation on \$29,463,000 requested from the General Fund for the child nutrition program, pending receipt of additional information on the projected number of meals to be served.*

The state child nutrition program provides a basic subsidy from the General Fund for each meal served by public schools, private not-for-profit schools, and child care centers to pupils from low-income households eligible for free and "reduced-price" meals.

The budget proposes \$29.5 million to fund the state child nutrition subsidy in 1985-86, an increase of 3.8 percent over the current-year level. This amount (1) assumes that approximately the same number of meals will be served in 1985-86 as were served in 1984-85, and (2) fully funds a 3.8 percent statutory COLA, which is based on the "food away from home" component of the Consumer Price Index for San Francisco and Los Angeles.

The Department of Education indicates that additional information on the number of meals served during the current year will be available in February 1985. This information will provide a better basis for estimating the number of meals eligible for the state subsidy in 1985-86. We will review this information and report on its implications for the state nutrition program in 1985-86 during the budget hearings.

**3. Federal Child Nutrition Program (Item 6100-201-890)**

*We recommend approval.*

The budget proposes an appropriation of \$404 million from the Federal Trust Fund for local assistance in 1985-86. This is an increase of 9.1 percent over estimated expenditures in the current year.

Our review indicates that these federal funds will be expended for appropriate purposes and, consequently, we recommend approval of the funds as budgeted.

**III. NON-K-12 EDUCATION PROGRAMS**

This section analyzes those programs administered by the Department of Education which are not a part of the K-12 education system. These include Child Development, Adult Education, and the Office of Food Distribution.

**A. CHILD DEVELOPMENT PROGRAMS**

Table 41 summarizes funding in the prior, current, and budget years for child development programs, which include state preschool and child care services. The budget proposes total expenditures of \$299.6 million for state operations and local assistance for child development programs during 1985-86—an increase of \$10.6 million, or 3.7 percent, over estimated expenditures during the current year.

**Table 41**  
**K-12 Education**  
**Funding for Child Development Programs**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
State Operation.....	\$3,380	\$4,127	\$4,097	-\$30	-0.7%
Local Assistance:					
State preschool .....	33,176	33,871	35,232	1,361	4.0
Child care .....	237,647	250,994	260,287	9,293	3.7
Subtotals .....	\$270,823	\$284,865	\$295,519	\$10,654	3.7%
Totals .....	\$274,203	\$288,992	\$299,616	\$10,624	3.7%
Funding Sources:					
General Fund .....	\$272,176	\$283,711	\$294,848	\$11,137	3.9%
Federal funds .....	1,955	1,957	1,957	—	—
Special Account for Capital Outlay	72	135	—	-135	-100.0
Reimbursements .....	—	3,189	2,811	-378	-11.8

### 1. Preschool (Item 6100-196-001(a))

The State Preschool program provides educational and related services in part-day programs for pre-kindergarten (four-year old) children from low-income families. Parent education and training are also provided for the parents of enrolled children. Preschool programs are administered by 115 school districts and by 70 private nonprofit agencies and institutions of higher education. Together, they enroll approximately 19,250 children.

The State Preschool program also funds the preschool scholarship incentive program (Ch 795/75), which provides scholarships for both preschool teachers and aides in order to assist them in continuing their professional development toward attainment of full credentials.

Table 42 shows expenditures for the State Preschool program in the prior, current, and budget years.

**Table 42**  
**K-12 Education**  
**State Preschool General Fund Expenditures**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
State Operations .....	\$372	\$494	\$499	\$5	1.0%
Local Assistance .....	33,176	33,871	35,232	1,361	4.0
Scholarship Incentive program .....	(186)	(263)	(261)	(-2)	(-0.8)
Totals .....	\$33,548	\$34,365	\$35,731	\$1,366	4.0%

The budget proposes expenditures of \$35.7 million from the General Fund for State Preschool programs in 1985-86. This amount includes \$499,000 for state operations and \$35,232,000 for local assistance, and is 4 percent more than the current-year funding level for this program.

### Budget Proposal Exceeds Funding Needs

*We recommend that the Legislature reduce the proposed appropriation for state preschool services by \$115,000, in order to reflect amounts available through reappropriation and to correct for technical budgeting errors.*

**DEPARTMENT OF EDUCATION—Continued**

*Consistent with this recommendation, we further recommend that the Legislature reappropriate the unencumbered balance of funds appropriated by Ch 1604/84 in Item 6100-490. (Reduce Item 6100-196-001(a) by \$115,000.)*

Our analysis indicates that, because of (1) a failure to account for unencumbered current-year balances which will be available for reappropriation during the budget year and (2) technical budgeting errors, the Governor's Budget overstates the funding requirements of the state preschool program in 1985-86 by \$115,000.

**Unencumbered Current-Year Balances Available.** Chapter 1604, Statutes of 1984 (SB 1674), appropriated \$3 million to increase the per-child reimbursement rates of "underfunded" child care and development programs, including state preschools. Of this amount, \$672,000 was allocated by the Department of Education for state preschool reimbursement rate increases in the current year. Because of delays in the establishment of higher reimbursement rates, however, the new rates will only be effective during the second half of the current fiscal year. (This issue is discussed in greater detail as part of our analysis of the proposed budget for Child Care (please see page 1165). As a result, approximately \$336,000 of the funds appropriated for state preschool rate increases will remain unencumbered at the end of the current year, and may be reappropriated for expenditure during the budget year.

**Technical Budgeting Errors.** Our analysis indicates that the proposed budget for state preschool programs does not accurately reflect the allocation of funds provided by SB 1674 to finance reimbursement rate increases for child development programs. Specifically, the amount proposed for state preschool is underbudgeted by \$221,000, and the amount proposed for child care services is overbudgeted by an equivalent amount.

In order to reflect accurately the funding requirements of the state preschool program in the budget year, therefore, we recommend a \$115,000 reduction in the amount budgeted for this program in 1985-86 (that is, \$336,000 minus \$221,000). Consistent with this recommendation, we further recommend that the Legislature reappropriate the unencumbered balance of funds appropriated by Ch 1604/84 in Item 6100-490. (Suggested language to reappropriate the unencumbered balance of preschool and child development funds appropriated by both Ch 1603/84 and Ch 1604/84 is presented below, in our analysis of child development programs.)

## **2. Child Care (Items 6100-196-001(b) and 6100-196-890)**

The Child Care program's major goals are to (1) enhance the physical, emotional, and developmental growth of participating children, (2) assist families to become self-sufficient by enabling parents to work or receive employment training, and (3) refer families in need of medical or family support services to appropriate agencies.

The Child Development Division (CDD) within SDE administers a variety of subsidized child care programs. Over the years, several different program structures have been established to target resources to specific populations and/or to address specific types of needs.

**Funding.** Table 43 summarizes state and federal funding for child care services in the prior, current, and budget years.

For 1985-86, the budget proposes a total funding level of \$260,287,000 for child care local assistance—an increase of \$9,293,000 over estimated current-year expenditures—and \$3,598,000 for state operations (a decrease of \$35,000). The changes primarily reflect:

- An increase of \$9.8 million for a 4 percent cost-of-living adjustment in payments to child care agencies;
- A decrease of \$135,000 to reflect one-time capital outlay funds which were fully expended in 1984-85; and
- A decrease of \$378,000 in reimbursements for child care services provided to participants in federal job training programs. (One-time federal funds for this program, which will operate during fiscal years 1984-85 and 1985-86, are provided through reimbursements from the Department of Social Services.)

**Table 43**  
**K-12 Education**  
**Child Care Services**  
**Expenditures and Funding**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
Local Assistance:					
General Child Care:					
Center Program—Public .....	\$127,282	\$132,627	\$137,955	\$5,328	4.0%
Center Program—Private .....	43,710	45,869	47,711	1,842	4.0
Center Program—Title 22 .....	8,917	8,813	9,168	355	4.0
Family child care homes .....	4,199	4,438	4,616	178	4.0
County child care services.....	5,896	5,991	6,231	240	4.0
Child Care Employment Act ..	—	3,078	2,622	-456	-17.4
Campus children's centers.....	5,648	5,759	5,989	230	4.0
High school age parenting.....	5,351	4,810	5,002	192	4.0
Migrant day care .....	8,350	8,279	8,532	253	3.1
Special allowance for rent .....	388	404	420	16	4.0
Special allowance for hand- icapped .....	652	677	704	27	4.0
Alternative Payment Program ...	17,746	18,531	19,276	745	4.0
Resource and referral .....	5,165	6,790	7,062	272	4.0
Campus child care tax bailout ...	3,686	3,833	3,986	153	4.0
Employer-sponsored child care ..	250	—	—	—	—
Protective services (respite) .....	163	1,007	1,013	6	0.6
Child care capital outlay (car- ryover) .....	244	88	—	-88	-100.0
Subtotals .....	\$237,647	\$250,994	\$260,287	\$9,293	3.7%
State Operations .....	\$3,008	\$3,633	\$3,598	-\$35	-1.0%
Totals .....	\$240,655	\$254,627	\$263,885	\$9,258	3.6%
Funding Sources:					
General Fund .....	\$238,628	\$249,346	\$259,117	\$9,771	3.9%
Federal funds .....	1,955	1,957	1,957	—	—
Special Account for Capital Outlay	72	135	—	-135	NA
Reimbursements <sup>a</sup> .....	—	3,189	2,811	-378	-11.8

<sup>a</sup> Reimbursements provided from federal funds initially appropriated to Department of Social Services for implementation of Child Care and Employment Act (Ch 1602/84) pursuant to interagency agreement.

**DEPARTMENT OF EDUCATION—Continued**

**Participation.** Table 44 summarizes the scope of SDE-administered child care services in each of the nine major types of programs which are funded on the basis of daily enrollment. During the current fiscal year, nearly 500 different public and private agencies will provide subsidized child care services for an average daily enrollment of approximately 52,000 children from low-income families. These agencies will receive reimbursements for each day an eligible child is enrolled in a child care program. The maximum amount of reimbursement to be provided to each agency is established by a contract with SDE.

Additional child care services will be provided by (1) county welfare departments, which are reimbursed on an hourly basis, (2) school districts participating in the school age parenting and infant development program (SAPID), (3) respite child care programs, which provide short term, protective services child care, and (4) child care programs which contract with local private industry councils to provide services to participants in federal job training programs.

**Table 44**  
**K-12 Education**  
**Child Development Services**  
**Participation**  
**1984-85**

<i>Program</i>	<i>Number Agencies</i>	<i>Average Days of Service</i>	<i>Average Daily Enrollment</i>
Center Program—Public .....	108	246	28,237
Center Program—Private.....	182	250	10,727
Center Program—Title 22 .....	54	246	2,243
Family child care homes .....	22	253	1,049
Campus child care .....	50	186	2,021
State migrant .....	22	148	2,463
Federal migrant .....	7	192	354
Alternative payment .....	40	252	4,810
Handicapped children.....	7	238	162
Totals .....	492	—	52,066

**Employer-Sponsored Child Care.** The 1983 Budget Act reappropriated \$250,000 of child care and development local assistance funds for the development of employer-sponsored child care programs. The CDD entered into contracts with 13 agencies to provide assistance in developing employer-sponsored child care services in local communities. Each contractor was expected to have established at least one employer-sponsored child care program by October 1, 1984. Language contained in the *Supplemental Report to the 1983 Budget Act* declared the Legislature's intent that these programs were to be fully self-supporting by the 1984-85 fiscal year.

The CDD has indicated that of the 13 agencies which contracted to develop employer-sponsored child care programs during 1983-84, six agencies were successful in helping to establish self-supporting programs which were in operation by January 1985. Two additional agencies had assisted in developing employer-sponsored child care programs which were not yet operational because building construction had not been completed. The remaining agencies had provided information to employers regarding employee child care needs and local services, and had devel-



oped options which employers could use for providing child care services directly, through vouchers, or as a component of flexible benefit plans.

#### **Budget Proposal Exceeds Funding Needs**

*We recommend that the amount requested for child care services be reduced by \$2.2 million, in order to reflect amounts available through reappropriation and to correct for technical budgeting errors. Consistent with this recommendation, we further recommend that the Legislature reappropriate the unencumbered balance of funds appropriated by Ch 1603/84 and Ch 1604/84 in Item 6100-490. (Reduce Item 6100-196-001 (b) by \$2,240,000.)*

During 1984, the Legislature approved a number of bills which would have substantially increased the size and scope of subsidized child care and development programs. The Governor vetoed several of these measures—including bills which would have established extended day care services for school-age children (SB 1717/SB 1718)—and reduced the appropriations contained in those bills which were approved. After these reductions, a total of \$8.5 million was provided in two measures—AB 3138 (Ch 1603/84) and SB 1674 (Ch 1604/84)—to increase state support for child care and development services in 1984-85.

Assembly Bill 3138 (Ch 1603/84) provided:

- \$2.6 million to increase cost-of-living adjustments (COLAs) for all state-funded child care programs, and
- \$1.5 million for the expansion of child care resource and referral programs.

Senate Bill 1674 (Ch 1604/84) provided:

- \$3 million to increase reimbursement rates for “underfunded” child care and development programs, including preschools,
- \$1 million for respite child care for children in need of protective services, and
- \$400,000 to expand child care services for children with exceptional needs.

From these appropriations, a total of \$157,500 was allocated to CDD for administration of expanded child care services in the current year. The Governor's Budget proposes to continue this increased level of support for child care services during 1985-86, and includes \$112,000 for state operations costs associated with the expansion in 1985-86.

Our analysis indicates that, because of delays in the implementation of the program expansion authorized by AB 3138 and SB 1674, approximately \$2.4 million of the \$8.5 million appropriated by these measures will be unencumbered in the current year and, thus, available for reappropriation in 1985-86. Of this amount, \$2,019,000 may be reappropriated for child care services and \$336,000 may be reappropriated for state preschool programs. Our analysis further indicates that, because of technical budgeting errors, the Governor's Budget overstates the funding needs of child care services by an additional \$221,000. In total, therefore, we estimate that the Governor's Budget request exceeds by \$2,240,000 (that is, \$2,019,000 plus \$221,000) the funding requirements for child care in 1985-86.

**Implementation of 1984 Legislation Delayed.** Legislation adopted during 1984 appropriated sufficient funds to fully fund authorized program expansion for the entire 1984-85 fiscal year. The CDD has begun to implement the provisions of these measures. Because of delays in (1) establishing increased reimbursement rates and (2) soliciting and review-

**DEPARTMENT OF EDUCATION—Continued**

ing applications to provide new child care services, however, not all of the funds appropriated by the Legislature can be used during the current year. Under current law, funds which are not encumbered for child care contracts by June 30, 1985 will revert to the General Fund.

Table 45 shows the estimated expenditures and remaining balances available for reappropriation from funds provided in AB 3138 and SB 1674.

**Table 45**  
**K-12 Education**  
**Child Care Services<sup>a</sup>**  
**Estimated Expenditures and Balances Available for Reappropriation**  
**From 1984-85 Expansion Funds**  
**(dollars in thousands)**

	Appropriation	Estimated Expenditures	Available For Reappropriation
Reimbursement Rate Increases			
Child care.....	\$2,238	\$1,119	\$1,119
Preschool .....	(672)	(336)	(336)
Resource and Referral Programs .....	1,475	775	700
Respite Child Care .....	970	970	—
Exceptional Needs .....	388	188	200
Totals .....	\$5,071	\$3,052	\$2,019

<sup>a</sup> Local Assistance

**Technical Budgeting Errors.** As noted in our analysis of state preschool programs, our analysis indicates that the proposed budget for child care services does not accurately reflect the allocation of funds provided by SB 1674 for reimbursement rate increases. Specifically, the amount proposed for child care services is overbudgeted by \$221,000 and the amount proposed for state preschool programs is underbudgeted by an equivalent amount.

In order to reflect accurately the funding requirements of child care services in the budget year, therefore, we recommend a reduction of \$2,240,000 from the amount budgeted for these services in 1985-86. Consistent with this recommendation, we further recommend that the Legislature adopt the following reappropriation language in Item 6100-490:

“\_\_\_\_. The unencumbered balances of Section 4 of Chapter 1603 of the Statutes of 1984, and Section 7 of Chapter 1604 of the Statutes of 1984, for the purpose of child care and development services, as specified in those sections.”

**Budget Guidelines Needed for Child Care Programs**

*We recommend that the Legislature adopt supplemental report language directing the Department of Education to develop budget guidelines regarding the use of state funds by child care agencies, because some agencies have allocated an excessive amount of these funds to administrative costs.*

Public and private agencies which provide child care services through contracts with the Department of Education receive state funds as reimbursement for the agencies' actual and allowable expenditures, up to a maximum amount specified in each agency's contract. Allowable expenditures are defined in the funding terms and conditions issued annually by

SDE. Currently, however, there are no guidelines regarding the allocation of state funds to the various categories of allowable expenditures (such as administrative salaries, teacher salaries, and instructional supplies).

In an effort to achieve greater funding for program services, the Legislature, in SB 813 (Ch 498/83), has required school districts which receive state child development funds to spend at least 85 percent of those funds at school sites for direct services to children. Current law does not, however, apply this requirement to private agencies which receive state funds for child care services.

Our review of expenditures by child care agencies indicates that, in some cases, private child care centers have allocated an unusually large share of program funds to administrative costs, leaving a relatively low level of expenditures for teaching and the direct care of children. Moreover, Program Quality Reviews conducted by SDE have indicated that low levels of expenditure for direct services to children frequently are associated with lower than average levels of program quality.

Accordingly, we recommend that the Legislature direct the Department of Education to adopt budget guidelines regarding the allocation of state child care funds by all public and private agencies. These guidelines should specify minimum allocations for direct services to children (including salaries for teachers and aides, and instructional supplies). Specifically, we recommend that the Legislature adopt the following supplemental report language:

"The Department of Education shall develop budget guidelines regarding the allocation of state funds by all public and private child care agencies. These guidelines shall include requirements specifying minimum expenditures for direct services to children."

## B. ADULT EDUCATION

The Office of Adult, Alternative, and Continuation Education Services is responsible for managing (1) state- and federally-funded programs for adults and (2) general education development (GED) testing. Adult education ADA is estimated to be 162,615 in 1984-85.

Table 46 shows the state operations and local assistance funding for adult education in the prior, current, and budget years.

**Table 46**  
**K-12 Adult Education Funding**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
State Operations:					
General Fund .....	\$226	\$252	\$244	-\$8	-3.2%
Federal funds .....	642	821	882	61	7.4
Special Deposit Fund .....	115	150	145	-5	-3.3
Subtotals .....	\$983	\$1,223	\$1,271	\$48	3.9%
Local Assistance:					
General Fund .....	\$159,993	\$181,010	\$197,984	\$16,974	9.4%
Federal funds .....	7,220	9,288	9,288	—	—
Reimbursements .....	91	91	91	—	—
Subtotals .....	\$167,304	\$190,389	\$207,363	\$16,974	8.9%
Totals .....	\$168,287	\$191,612	\$208,634	\$17,022	8.9%
Positions .....	17.7	18.1	18.1	—	—

**DEPARTMENT OF EDUCATION—Continued****1. State Adult Education Program (Item 6100-156-001)**

*We recommend approval.*

The budget proposes a General Fund appropriation of \$198 million for adult education local assistance (including adults in correctional facilities) in 1985-86. This represents an increase of \$17 million, or 9.4 percent, over estimated expenditures in the current year. The proposed increase for 1985-86 consists of (1) \$4.5 million to fund a 2.5 percent increase in enrollment, (2) \$11.0 million to fund a statutory 6 percent cost-of-living adjustment, and (3) \$1.4 million to continue providing equalization aid pursuant to SB 813 (Ch 498/83).

The budget also proposes \$244,000 from the General Fund for state operations associated with the adult education program, a decrease of 3.2 percent compared to estimated current-year expenditures.

Our review indicates that the budget proposal is reasonable and, accordingly, we recommend that the requested amount be approved.

**Report on Concurrent Enrollment**

In the supplemental report to the 1984 Budget Act, the Legislature directed the Department of Education to submit by December 30, 1984, a report on the impact of funding high school pupils who are concurrently enrolled in adult education programs at the districts' adult revenue limit rate. The department submitted its report on January 10, 1985.

We did not have sufficient time to review the report prior to completing work on this analysis. When our review is completed, we will report our recommendations and comments to the Legislature as appropriate.

**2. Federal Adult Basic Education Act (Item 6100-156-890)**

*We recommend approval.*

The budget proposes \$9.3 million from the Federal Trust Fund for local assistance in adult education, an amount equal to estimated current-year expenditures. The budget also proposes \$882,000 in federal funds for state operations, an increase of 7.4 percent. These funds are provided under the federal Adult Basic Education Act to support basic skills instruction for adults with less than an eighth grade level of education.

Our review indicates that this program is serving its intended purpose, and therefore we recommend that the requested amount be approved.

**3. Adults in Correctional Facilities (Item 6100-158-001)**

*We recommend that the Legislature direct the Department of Finance to explain at the time of budget hearings why the Governor's Budget fails to provide full funding for the adults in correctional facilities program's 6 percent statutory COLA.*

The budget proposes to continue the 1984-85 level of General Fund support of \$1.3 million for education of adults in correctional facilities, increased by \$54,000 for a 4 percent cost-of-living adjustment (COLA). Current law (Education Code 41841.5), however, provides for a 6 percent COLA, which would require an increase of \$80,760 above the 1984-85 level. Our review indicates, therefore, that the budget underfunds the statutory COLA by approximately \$27,000.

We recommend that the Legislature direct the Department of Finance to explain why the administration has chosen not to fund this one statutory COLA, while providing full funding for all other statutory COLAs.

**C. OFFICE OF FOOD DISTRIBUTION (Items 6100-001-687 and 6100-203-890)**

The Office of Food Distribution (OFD)—formerly the Office of Surplus Property—within the State Department of Education administers the Surplus Food program and the Temporary Emergency Food Assistance program (TEFAP).

- Under the *Surplus Food program*, the OFD receives surplus food commodities donated from the United States Department of Agriculture (USDA) and distributes them to eligible agencies throughout the state. The bulk of the food received is distributed to schools, and the rest is delivered to child care centers and food programs for the elderly.
- Under the *Temporary Emergency Food Assistance program*, the OFD distributes agricultural commodities to food banks, charitable institutions and other nonprofit agencies.

The Office of Food Distribution is entirely self-supporting. Local agencies that receive commodities under the Surplus Food program are assessed processing and handling charges that are sufficient to cover 100 percent of the office's costs. For delivering food under the TEFAP program, the OFD receives federal funds to reimburse state and local delivery costs.

Table 47 shows the value of food distributed, as well as the OFD's expenditures and revenues, from 1983-84 through 1985-86.

**Table 47**  
**Department of Education**  
**Office of Food Distribution**  
**Distribution Activity and Administrative Costs**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Projected 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
Commodities Distributed:					
Surplus Food Program					
Total value of food distributed <sup>a</sup> .....	\$90,000	\$92,000	\$92,000	—	—
(Number of agencies participating) .....	(2,750)	(2,945)	(3,140)	(195)	(6.6%)
Temporary Emergency Food Assistance Program					
Total value of food distributed .....	100,000	100,000	100,000	—	—
(Number of agencies participating) .....	(52)	(51)	(51)	—	—
Administrative Costs:					
State <sup>b</sup> .....	\$9,307	\$9,772	\$10,261	\$489	5.0%
Local <sup>c</sup> .....	1,929	3,000	3,000	—	—

<sup>a</sup> Includes "bonus" food commodities.

<sup>b</sup> The state is reimbursed for these costs through fees charged to local agencies.

<sup>c</sup> Includes the federal funds provided for the purpose of reimbursing local agencies' claims for their costs of delivering food received under the TEFAP program.

**DEPARTMENT OF EDUCATION—Continued**

As shown in Table 47, in the budget year the OFD will distribute an estimated \$92 million in donated food commodities under the Surplus Food program and approximately \$100 million in food commodities under the Emergency Food program.

Table 48 shows the Office of Food Distribution's expenditures and funding, as indicated in the Governor's Budget, for the prior, current, and budget years. The state expenditures shown in the budget are substantially higher than the amounts shown in Table 48. State expenditures have been purposely overbudgeted in order to reflect the maximum expenditure level which the OFD could possibly realize during a given fiscal year. The amounts indicated in Table 47 reflect a more realistic estimate of expenditures.

**Table 48**  
**Department of Education**  
**Office of Food Distribution**  
**Expenditures and Funding**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
<b>Administrative Costs:</b>					
State .....	\$15,866	\$29,317	\$28,844	-\$473	-1.6%
Local <sup>a</sup> .....	1,913	3,000	3,000	—	—
Totals .....	\$17,779	\$32,317	\$31,844	-\$473	-1.5%
<b>Funding Sources:</b>					
Donated Food Revolving Fund .....	—	\$27,317	\$26,844	-\$473	-1.7%
Surplus Property Revolving Fund .....	\$14,310	—	—	—	—
Reimbursements .....	5	—	—	—	—
Federal Trust Fund .....	3,464	5,000	5,000	—	—
Personnel-years .....	151.3	116.1	115.9	-0.2	-0.2%

<sup>a</sup> Includes the federal funds provided for the purpose of reimbursing local agencies' claims for their costs of delivering food received under the TEFAP program.

As shown in Table 48, the budget proposes aggregate expenditures of \$31.8 million for the OFD in 1985-86—a decrease of \$473,000, or 1.5 percent, below estimated 1984-85 expenditures. This decrease, however, will be offset by the amount of any salary or benefit increase approved for the budget year. To administer the Emergency Food program in 1985-86, the budget includes \$5 million in federal funds—\$2 million for state operations and \$3 million for local assistance.

**Management Report Indicates Potentially Significant Savings**

*We recommend that the Legislature adopt supplemental report language directing the State Department of Education to report to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1985 on (1) the status of the department's efforts to comply with the recommendations outlined in the Management Analysis Report of California's Food Distribution program completed in December 1984 and (2) the estimated savings that will be realized through compliance.*

In the *Supplemental Report to the 1984 Budget Act*, the Legislature directed the State Department of Education (SDE) to contract for an independent evaluation of the food distribution program, and specified that the report should include:

- a survey of the costs incurred by school districts and other local agencies in storing and distributing surplus food commodities distributed by the OFD,
- an analysis of the costs and savings associated with increasing the frequency with which surplus commodities are distributed to local agencies,
- a comparison of the costs and projected levels of commodity usage by local agencies, under both the current distribution system operated by the OFD and various options, including contracts with commercial distributors, and regional warehouses operated by the state, school districts, or other agencies, and
- recommendations for improving the cost-effectiveness of the Surplus Food program.

The SDE included these items within the scope of a management analysis for which it had already contracted with the Arthur Young Company. The report was submitted to the Legislature in December 1984.

The report makes 12 recommendations, the most significant of which call for (1) reorganizing the central office; (2) reducing staffing levels in the state warehouses; (3) reducing the inventory levels in the two state warehouses from six months to two months; (4) discontinuing the use of state processing for local agencies; and (5) changing the current distribution system to a completely commercial system based on four regional centers. In sum, the report concludes that implementation of its recommendations would result in client agencies receiving commodities earlier in the school year, at a lower total cost than under the current system.

Eleven of the 12 recommendations pertain to the OFD's *current* distribution system and, if implemented, would result in potential savings of nearly \$3.5 million annually. The report further estimates that, if the OFD were to switch to a completely commercial distribution system with four regional centers, an additional \$500,000 in savings could potentially be realized annually.

The potential savings identified in the Arthur Young report represent nearly one-third of the OFD's total annual operating expenses. If the OFD were fully able to realize these savings, the amount of handling charges assessed recipient agencies could be reduced commensurately.

Our review indicates, however, that the OFD may not be able to realize the full \$4 million in potential savings identified in the Arthur Young report. We find that implementation of some of the report's recommendations would require changes in current USDA ordering and shipping policies. In addition, implementation of some recommendations might reduce total costs while at the same time shifting costs from the state to the local agencies served. In such cases, it might be appropriate for the OFD to redistribute part of its savings to these agencies.

Given the magnitude of the potential savings identified in the report, we believe the Legislature needs to monitor the extent to which these savings are being achieved. Accordingly, we recommend that the Legislature adopt the following supplemental report language calling for a report on the department's implementation efforts:

"The State Department of Education shall report to the Joint Legislative Budget Committee and the fiscal committees by November 1, 1985,

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on (1) the implementation status of the recommendations outlined in the Management Analysis Report of California's Food Distribution program completed in December 1984 and (2) the estimated savings realized."

**Revision of Revolving Fund Balance Target Level Warranted**

*We recommend that the Legislature adopt supplemental report language directing the Department of Education to (1) revise by November 1, 1985, the target level for the reserve balance in the Donated Food Revolving Fund for 1985-86, (2) achieve and maintain the revised target level of reserves in the budget year, and (3) report quarterly to the Legislature on the balance in the fund.*

A reserve balance in the Donated Food Revolving Fund is necessary because (1) payments of service and handling charges by agencies receiving commodities may lag several months behind OFD expenditures for operating costs and food processing contracts and (2) it enables the OFD to enter into processing agreements on short notice, when increased supplies of food commodities become available. Existing law, however, provides no ceiling on the reserve balance which may be maintained in the Donated Food Revolving Fund. A growing balance indicates that schools and other agencies receiving commodities are being charged more than it costs the OFD to acquire, process, and distribute those commodities.

Because the Department of Education had failed to monitor adequately revenues and expenditures under the Surplus Food program, the reserve balance in the Surplus Property Revolving Fund increased to approximately \$17.6 million at the end of 1981-82 and to \$19.3 million at the end of 1982-83. Consequently, the USDA established a target for the fund's reserve of \$7 million—or, alternatively, an amount equal to approximately six months of operating and processing expenses. In addition, the Legislature directed the Department of Education in the *Supplemental Report of the 1984 Budget Act* to (1) achieve and maintain a target level of reserves in the Surplus Property Revolving Fund (now the Donated Food Revolving Fund) equal to \$7 million and (2) report quarterly to the Legislature on the balance in the fund.

In order to reduce the reserve balance in the revolving fund, all service and handling charges were suspended in 1983-84. As a result, the reserve was reduced in 1983-84 from a beginning balance of \$19.3 million to an estimated ending balance of \$7.6 million. The balance at the end of the first quarter in 1984-85 was reported by the department to be \$6.3 million. Therefore, the OFD has achieved and maintained the target level of reserves specified by the Legislature.

The current target is based on expenditure data that is no longer relevant. Therefore, a revised target level is warranted.

We believe a target level based on expenditures in the *current year* would be more appropriate, for two reasons. First, as discussed earlier, the OFD estimates that savings will be realized in the current year due to the implementation of recommendations made in the management report. Second, 1984-85 expenditures should more accurately reflect the costs of the Surplus Food program because it is the first year in which the OFD's operations do not reflect costs associated with the surplus hardware program. (This program was transferred to the Department of General Services at the end of 1983-84.)



Our analysis indicates that the earlier USDA standard—six months of actual operating and processing expenses for the target level of reserves—continues to be appropriate. Because the OFD's current-year expenditures should decline to the extent recommendations in the management report are adopted, this standard would result in a target level that is *less* than \$7 million.

The budget, however, proposes to maintain an *\$11 million* reserve balance in the Donated Food Revolving Fund during both the current and budget years. This is because the OFD projects revenue to the fund based on the handling fees that it currently charges. The OFD states that the fee level will be reduced as savings are realized. In order to ensure that this occurs, we recommend that the Legislature adopt the following supplemental report language:

"It is the intent of the Legislature that the Office of Food Distribution shall reduce its service and handling charges in 1985-86 such that a reserve balance equaling not more than six months of operating and processing expenses in 1984-85 is achieved and maintained in the Donated Food Revolving Fund. The Department of Education shall report to the Joint Legislative Budget Committee and the fiscal committees on September 15, 1985, the target level to be maintained in the revolving fund, and shall report quarterly thereafter, the average reserve balance in the Donated Food Revolving Fund during the preceding calendar quarter."

#### IV. STATE DEPARTMENT OF EDUCATION

This section discusses the overall administrative budget for the State Department of Education (SDE), as well as those administrative activities which are not tied to a particular local assistance program, such as program evaluation and curriculum services. Administrative issues related to particular local assistance programs, such as the School Improvement Program, are discussed in connection with the program itself. In addition, issues related to the State Library, the state special schools, and the Office of Food Distribution within SDE are discussed elsewhere in this analysis and are not treated here.

##### A. OVERVIEW OF THE DEPARTMENT'S BUDGET FOR 1985-86 (Items 6100-001-001 and 6100-001-890)

Table 49 shows state operations expenditures for the State Department of Education (excluding the State Library, state special schools, and Office of Food Distribution) in the prior, current, and budget years. These expenditures are proposed at \$72.7 million in 1985-86, of which \$30.9 million is requested from the General Fund.

The budget proposes an increase of \$1,581,000, or 5.4 percent, in General Fund support for the department. This increase will grow by the cost of any salary or staff benefit increases provided in the Budget Act.

Table 49 shows that *total* Department of Education expenditures are expected to increase by \$3.2 million, or 4.5 percent, while *General Fund* expenditures by the department are proposed to increase by \$1.6 million, or 5.4 percent. The most significant reason for the difference is that federal funds—which account for roughly half of the department's total expenditures—are anticipated to increase by only 3.8 percent in the budget year.

The Governor's Budget reflects a determination by the Department of Finance that various revenues previously deposited in the Special Deposit Fund should be budgeted as reimbursements. The shift in funding

**DEPARTMENT OF EDUCATION—Continued**

between these two sources results in the 59 percent decrease in Special Deposit Fund revenues and the 41 percent increase in reimbursements shown in Table 49. Total funding from these two sources, however, is expected to increase by only 3.1 percent in 1985-86.

**Table 49**  
**Department of Education**  
**State Operations Funding<sup>a</sup>**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i>	
				<i>Amount</i>	<i>Percent</i>
A. Department of Education Funding:					
General Fund .....	\$25,898	\$29,345	\$30,926	\$1,581	5.4%
Federal Funds .....	29,847	33,904	35,192	1,288	3.8
Special Account for Capital Outlay .....	37	47	—	-47	-100.0
Environmental License Plate .....	100	111	123	12	10.8
Driver Training Penalty Assessment .....	255	359	500	141	39.3
Private Postsecondary Education .....	715	855	892	37	4.3
School Building Lease-Purchase .....	506	639	647	8	1.3
Special Deposit .....	1,081	1,603	663	-940	-58.6
Student Tuition Recovery .....	34	50	52	2	4.0
Subtotals .....	\$58,473	\$66,913	\$68,995	\$2,082	3.1%
b. Reimbursements .....	\$2,726	\$2,610	\$3,679	\$1,069	41.0
Totals .....	\$61,199	\$69,523	\$72,674	\$3,151	4.5%

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

**1. Significant General Fund Changes in 1985-86**

Table 50 shows the components of the \$1,581,000 (5.4 percent) increase in General Fund support proposed for the State Department of Education in the budget year.

The most significant changes shown in Table 50 are (1) baseline changes to maintain the existing budget, including the elimination of \$1,524,000 in one-time funding provided in the current year, and an increase of \$363,000 for inflation and merit salary adjustments (-\$1,006,000); (2) an increase to expand the California Assessment Program to include tests of students' writing abilities in grades 8, 10, and 12 (\$1,175,000); (3) an increase to restore \$550,000 appropriated by the Legislature for consultant and professional services (\$400,000) and travel (\$150,000) but vetoed by the Governor; and (4) a reduction to eliminate funding provided in the current year to cover the California High School Proficiency Examination (CHSPE) deficit (-\$500,000).

**2. Personnel**

Table 51 shows the number of funded positions (personnel-years), by fund source, in the Department of Education. The budget proposes an increase of 10.1 (0.8 percent) in the number of funded positions, of which 7.7 would be supported by the General Fund.

**Table 50**  
**Department of Education**  
**Proposed General Fund Budget Changes**  
**State Operations<sup>a</sup>**  
**1985-86**  
**(dollars in thousands)**

1984-85 Expenditures (revised) .....		\$29,345
A. Changes to maintain existing budget		
1. Employee compensation .....	\$99	
2. Inflation/merit salary adjustments .....	363	
3. Elimination of one-time funding in 1984-85 .....	-1,524	
4. Other changes .....	56	
Total, changes to maintain existing budget .....		-\$1,006
B. Program Change Proposals		
1. California Assessment Program—Writing Skills .....	\$1,175	
2. Restoration of Governor's Veto .....	550	
3. Elimination of Funding for CHSPE deficit .....	-500	
4. Commission on School Governance .....	250	
5. Office of Intergroup Relations .....	206	
6. School District Management Assistance Teams .....	170	
7. Apportionments Documentation .....	158	
8. Instructional Materials .....	152	
9. Sunset Review Committees .....	114	
10. Child Care Administration .....	112	
11. Bilingual Education .....	97	
12. Restoration of Abolished Positions .....	88	
13. Genetic Diseases Workshops .....	25	
14. Maritime Academy Personnel Services .....	-10	
Total, Program Change Proposals .....		\$2,587
1985-86 Expenditures (Proposed) .....		\$30,926
Change from 1984-85:		
Amount .....		\$1,581
Percent .....		5.4%

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

**Table 51**  
**Department of Education**  
**Personnel Years by Fund Source<sup>a</sup>**  
**1983-84 through 1985-86**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change	
				Amount	Percent
Department of Education					
General Fund .....	388.6	385.4	393.1	7.7	2.0%
Federal funds .....	396.5	431.0	434.3	3.3	0.8
Other funds .....	356.2	422.8	421.9	-0.9	-0.2
Totals .....	1,141.3	1,239.2	1,249.3	10.1	0.8%

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

### **Inaccurate Budget Display of State Operations Funding**

*We withhold recommendation on \$64,588,000 in state and federal support requested for the Department of Education's state operations, pending receipt from the Department of Finance of a document which accurately displays how these funds will be used.*

The Governor's Budget proposes appropriations of \$30,075,000 from the

**DEPARTMENT OF EDUCATION—Continued**

General Fund and \$42,584,000 in federal funds for support of the Department of Education's state operations in 1985-86. By the time this analysis was completed, we had received sufficient information (usually in the form of budget change proposals) to permit a meaningful analysis of only \$8,071,000 of this amount. We cannot analyze the need for the balance of the funds requested—\$64,508,000.

Our initial review of funding for the Department of Education disclosed numerous inaccuracies and inconsistencies in how the state operations component of the department's funding request was displayed in the Governor's Budget. For example, the budget document incorrectly indicates that General Fund support for the state operations component of the child nutrition program will increase from \$1.4 million in 1984-85 to \$1.9 million in 1985-86—an increase of 37 percent. The Governor's Budget also incorrectly shows federal support for the state operations component of the instructional materials program at \$4.5 million, even though no federal funds will actually be provided for this program in the budget year. Fiscal staff at the Department of Education have informed us that they are unable to verify the amounts proposed for state operations in the Governor's Budget.

The Department of Finance's budget staff advises us that, while the distribution of the individual components of state operations funding is not accurately displayed, the total level of funding for state operations is, in their opinion, correct. We are unable to verify this claim.

Accordingly, we withhold recommendation on \$64.6 million in state and federal funds requested for support of the Department of Education's state operations in 1985-86, pending receipt from the Department of Finance of a document which accurately displays how these funds will be used.

**B. DIVISION OF PLANNING, EVALUATION AND RESEARCH**

The Division of Planning, Evaluation and Research is the department's centralized evaluation unit. Its main functions are to administer (1) the California Assessment Program, (2) the California High School Proficiency Examination, and (3) various program evaluations. The division is also responsible for implementing the Education Improvement Incentive Program (discussed elsewhere in the analysis) and the Golden State Examination Program, both created by SB 813. The division has 56.1 personnel-years in the current year.

Table 52 shows expenditures and funding for the Division of Planning, Evaluation and Research in the prior, current, and budget years.

**1. California Assessment Program**

The California Assessment Program (CAP) is designed to provide the public, the Legislature, and local school districts with information regarding the level of K-12 student performance in the state. Under this program, standardized achievement tests are administered to all public school students at specified grade levels, with results reported on a school-wide and districtwide basis. Prior to the enactment of SB 813, (1) CAP tests were administered to students in grades 3, 6, and 12 and (2) the range of subject matter tested was limited by statute to "basic skills," such as reading, writing, and basic mathematics.

**Table 52**  
**Department of Education**  
**Expenditures and Funding for the Division of**  
**Planning, Evaluation and Research <sup>a</sup>**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change 1984-85 to 1985-86	
				Amount	Percent
Special Studies and Evaluation Reports ....	\$1,689	\$1,690	\$1,781	\$91	5.4%
California Assessment Program (CAP) .....	3,107	3,423	3,844	421	12.3
California High School Proficiency Examination (CHSPE) .....	775	751	755	4	0.5
Educational Planning and Information Center .....	478	678	725	47	6.9
Totals .....	\$6,049	\$6,542	\$7,105	\$563	8.6%
<i>Funding Sources:</i>					
General Fund .....	\$2,097	\$3,328	\$3,157	-\$171	-5.1%
Federal Funds .....	3,616	2,878	3,225	347	12.1
Special Deposit Fund .....	336	336	—	-336	-100.0
Reimbursements .....	—	—	723	723	N/A

<sup>a</sup> Does not include funding for Education Improvement Incentive Program.

Senate Bill 813 authorized the expansion of the California Assessment Program to include the testing of students in grades 8 and 10. The act further authorized the State Board of Education to expand the range of subject matter tested to include higher-level "content courses," such as literature, history, advanced mathematics, and science. The act provided an appropriation of \$200,000 from the General Fund for both 1983-84 and 1984-85 to expand the CAP test to grades 8 and 10.

The 1984 Budget Act provided \$475,000 from the General Fund for expansion of CAP in the current year. This amount was in addition to the \$200,000 statutory appropriation in SB 813, bringing total funding for the expansion to \$675,000. Of this total, \$550,000 may be used only for development and implementation of the 10th grade test. The remaining \$125,000 was provided to (1) expand the range of subject matter tested in the 8th grade test and (2) administer the 8th grade test in 1984-85. In addition to these funds, the Legislature in SB 1889 (Ch 1697/84) reappropriated from the General Fund \$600,000 of the \$15 million provided in the 1984 Budget Act for the Education Improvement Incentive Program, to be used instead to revise the 12th grade CAP test in 1984-85.

The Governor's Budget proposes \$1,175,000 in additional General Fund support for CAP in 1985-86. These funds would be used to develop and administer a writing skills test to all students in 8th grade and to a sample of students in grades 10 and 12. Under the budget proposal, total funding for CAP would increase from \$1,531,000 in 1982-83 to \$3,844,000 in 1985-86—an increase of over 150 percent in three years.

#### **Failure to Develop 10th Grade Test**

*We recommend that the Legislature reduce the proposed General Fund appropriation for CAP by \$1.1 million, because (1) the budget incorrectly assumes that funding will be required for a 10th grade test in 1985-86 and (2) the funds provided for this purpose in the current year will be available for reappropriation. Consistent with this recommendation, we further recommend that the Legislature reappropriate, in Item 6100-490, \$550,000*

**DEPARTMENT OF EDUCATION—Continued**

*provided in the 1984 Budget Act for the development and implementation of the 10th grade test. (Reduce Item 6100-001-001 by \$1,100,000.)*

When the Legislature decided to provide \$550,000 in the 1984 Budget Act for the development and implementation of a 10th grade CAP test, the exact amount of funds that would be needed for this purpose was not known. Accordingly, we recommended, and the Legislature approved, inclusion of the following language in the Budget Act:

“\$550,000 of the funds appropriated in this item shall be used only for the development and implementation of the 10th grade CAP test and shall be expended only upon the approval of the Director of Finance. None of these funds shall be used by the Department of Education for the development of a test format which permits the reporting of scores on an individual student basis.”

Following enactment of the 1984 Budget Act, the Superintendent of Public Instruction decided not to pursue development of the 10th grade test. As a result, our review indicates that the \$550,000 provided for this purpose in the current year will not be expended.

The budget for 1985-86, however, fails to eliminate the \$550,000 from the base budget for CAP, even though the department will not need the funds in the budget year. Therefore, the total funding needs for CAP in 1985-86 have been overstated in the budget by \$550,000.

In order to reflect accurately the budget requirements for this program in 1985-86, we recommend that the Legislature (1) reduce the proposed General Fund appropriation in Item 6100-001-001 by \$1.1 million, and (2) reappropriate the \$550,000 remaining from the 1984 Budget Act in Item 6100-490, for a net reduction in support for CAP of \$550,000. Specifically, we recommend that the Legislature adopt the following reappropriation language in Item 6100-490:

“\_\_\_\_. Item 6100-001-001, Budget Act of 1984, \$550,000 for support of the California Assessment Program.”

**No Positions for Writing Skills Assessment**

*We recommend that the Legislature direct the Department of Finance to explain how it intends for the Department of Education to develop and implement the proposed CAP writing skills assessments, when no positions have been provided for this purpose.*

The Governor's Budget requests a General Fund augmentation of \$1,175,000 to develop and implement writing skills assessments of all students in grade 8 and of a sample of students in grades 10 and 12. The budget, however, does not propose any new positions to accomplish these tasks. In contrast to the currently-administered CAP tests, which consist of multiple-choice questions, the writing skills assessments would rely on the evaluation of students' writing samples by teams of specially-trained readers. The tests themselves would be administered under contract, by testing firms specializing in the assessment of writing skills.

In its budget request, the SDE requested 2.5 positions to (1) develop specifications for the contract bids and monitor the contracts, (2) coordinate the work of advisory committees to develop essay topics for the tests, and (3) work with schools in the interpretation and application of test results. The department has indicated that, without these positions, it has no realistic plan for the expenditure of the \$1.2 million proposed in the budget.

Accordingly, we recommend that the Legislature direct the Department of Finance to explain how it intends for the Department of Education to develop and implement the writing skills assessments, absent the requested positions.

## 2. California High School Proficiency Examination (CHSPE)

*We recommend that prior to budget hearings, the Department of Finance and the Department of Education submit a plan for funding the CHSPE deficit.*

Chapter 1265, Statutes of 1972, established an examination process which provides students with an opportunity to obtain a certificate of proficiency before their formal graduation from high school. The examination is administered three times annually by the department, at approximately 100 centers statewide. Currently, a \$20 fee—the maximum fee allowed by law—is charged those taking the CHSPE, in order to cover the cost of the exam.

The current \$20 fee is not sufficient to cover the costs to the state of administering the exam. As a result, the program has incurred substantial deficits in recent years. As shown in Table 53, the program is expected to incur a deficit of approximately \$410,000 in the current year.

**Table 53**  
**Department of Education**  
**California High School Proficiency**  
**Examination Costs and Fee Revenues**  
**1982-83 through 1984-85**  
**(in thousands)**

	<i>Actual</i> 1982-83	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85
Cost .....	\$741.8	\$775.3	\$750.7
Fee revenues.....	417.1	338.6	340.0
Deficit .....	(\$324.7)	(\$436.7)	(\$410.7)

The CHSPE deficits have been funded in a variety of ways. In 1982-83, the deficit was absorbed by redirecting General Fund support which had been provided for other purposes. In 1983-84, the deficit was funded by using part of a surplus in the school apportionments appropriation, as authorized by the Legislature. In the current year, the Governor proposes to fund the deficit through a \$500,000 deficiency appropriation.

In 1985-86, the Governor's Budget proposes only \$28,000 in General Fund support for CHSPE, and assumes that revenues from test fees will support the remaining \$723,000 cost of the program. For revenues in the budget year to reach this level, however, they will have to increase by \$383,000—or 113 percent. We believe this is totally outside the realm of the possible.

Consequently, we estimate that the budget contains a hidden deficit of approximately \$383,000. Since this deficit will have to be funded, the Legislature can expect that the expenditure plan it approves for 1985-86 will be modified by the administration.

In order to ensure that the Legislature has an opportunity to review and approve the actions that will be taken to fund the CHSPE deficit, we recommend that prior to budget hearings, the Department of Finance and the Department of Education submit a plan on how they propose to cover the deficit.

**DEPARTMENT OF EDUCATION—Continued****3. Golden State Examination**

*We recommend that the Legislature direct the Department of Finance to explain how the administration intends to comply with the requirement, contained in SB 813, that the Superintendent of Public Instruction develop examinations under the Golden State Examination program.*

The Governor's Budget proposes no funding for the Golden State Examination program that was authorized by SB 813. Under this program, which is intended to recognize the achievement of high school students in specified academic areas, students in participating school districts would be eligible to take a variety of academic subject matter examinations. A student attaining a qualifying score would receive an honors designation in the tested subject, which would be affixed to his or her diploma.

Senate Bill 813 required the Superintendent of Public Instruction to develop examinations in each of the following areas by March 15, 1985:

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

The measure appropriated \$125,000 to the State Department of Education (SDE) for the initial costs of developing the Golden State Examinations for two subject areas in 1983-84.

The department did not expend any of the \$125,000 appropriated by SB 813 in 1983-84. Instead, SDE requested that these funds be reappropriated and augmented by \$800,000 in the 1984-85 Budget Bill, in order to cover the costs of developing and implementing on a pilot basis a full range of exams. Although the Legislature approved the department's request, the Governor vetoed the \$800,000 augmentation from the bill. In his veto message, the Governor stated that the two subject matter examinations funded by SB 813 should be developed before considering expansion of the program.

Subsequently, the Legislature passed SB 2282 which, among other things, also would have provided the \$800,000 requested by SDE. The Governor, however, vetoed this bill. Accordingly, the SDE is proceeding with the development and pilot testing of two mathematics examinations, with completion expected in spring 1985. The department indicates that the \$125,000 appropriated in SB 813 will be fully expended.

The Legislature has repeatedly indicated its desire to provide funding sufficient to complete the development and implementation of the Golden State Examination program, as contemplated by SB 813. The Governor's Budget, however, provides no funds for further development or implementation of the program in 1985-86. Accordingly, we recommend that the Legislature direct the Department of Finance to explain how the administration intends to comply with the requirement contained in SB 813 that the superintendent develop examinations under the Golden State Examination program.



**C. LOCAL ASSISTANCE BUREAU (Item 6100-001-001)**

The Local Assistance Bureau within the State Department of Education (SDE) is responsible for making apportionments of state and federal aid to school districts, county offices of education, and entities specified in statute. In 1984-85, these apportionments totaled over \$9.9 billion. The bureau is staffed with 78 personnel-years in the current year, at a total cost of \$4,523,000. Of this amount, \$3,606,000 is from the General Fund, \$685,000 is from federal funds, and \$232,000 is from other funding sources.

**Contracting Out Proposal Vague**

*We withhold recommendation on \$158,000 requested from the General Fund for tasks related to the automation of various education apportionments systems, pending the receipt of additional information regarding the department's proposal to contract out data processing activities.*

The budget proposes a one-time, General Fund appropriation of \$158,000 for the Local Assistance Bureau to purchase data processing services from the department's Education Data Management Systems (EDMS) division. The services purchased would include: (1) documentation of the department's computerized system of school apportionments (\$78,000); (2) automation and documentation of the department's system of apportioning child development funds (\$46,000); and (3) preparation of a feasibility study on the automation of the department's system of apportioning child nutrition funds (\$34,000).

The Governor proposes to add no positions to the EDMS division in order to accommodate this additional workload. Instead, the SDE indicates that it would use the funds to contract with other state agencies or private firms for the performance of unspecified, routine data processing tasks currently performed by EDMS staff. This, in turn, would release EDMS staff time to perform the activities noted above.

Because the department has not specified which data processing activities would be contracted out, or which entities would perform these activities, we have no basis for evaluating the appropriateness of this proposal. Accordingly, we withhold recommendation on this issue, pending the receipt of additional clarifying information.

**D. COMMISSION ON SCHOOL GOVERNANCE AND MANAGEMENT**

*We recommend that the Legislature eliminate \$250,000 proposed for the support of the Commission on School Governance and Management, because statutory authority for this commission will expire on June 30, 1985. (Reduce Item 6100-001-001 by \$250,000.)*

Senate Bill 813 (Ch 498/83) established a 15-member Commission on School Governance and Management (COSGAM) to "conduct appropriate studies and make recommendations to the Legislature and the Governor" on the following topics:

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

**DEPARTMENT OF EDUCATION—Continued**

Senate Bill 813 required the COSGAM to submit by October 1, 1984, an initial report on its findings to the Legislature and the Governor. Recognizing the delays in appointing persons to the commission, the Legislature in AB 3757 (Ch 482/84) extended the due date for this report until April 1, 1985. This measure further provides that the COSGAM shall "sunset" on June 30, 1985.

**Funding.** Senate Bill 813 provided no funding for support of the COSGAM. In the 1984 Budget Act, the Legislature appropriated—and the Governor approved—\$150,000 to support the commission's operations in 1984–85.

The Governor's Budget proposes \$250,000 and 1.5 positions for the COSGAM to complete the second year of a proposed two-year work plan in 1985–86—an increase of \$100,000 over the amount appropriated for the commission's operations in the current year. This increase is composed of (1) \$35,000 to provide "full-year" funding for the commission (based on the assumption that the current-year appropriation was intended to support only nine months of operations) and (2) \$65,000 to enable the commission to contract for special studies on selected topics.

The Department of Education indicates that it intends to seek legislation extending the sunset date for the COSGAM until June 30, 1986. We believe that it would be inappropriate to provide funding in the Budget Bill for a program that lacks authorization beyond the current year. Accordingly, without prejudice to the commission, we recommend that the \$250,000 requested for the COSGAM in 1985–86 be deleted, for an equivalent General Fund savings. If legislation to extend the commission is approved by the Legislature, funding to support the commission can be included in that measure.

**E. PRIVATE POSTSECONDARY EDUCATION (Item 6100-001-305)*****We recommend approval.***

The Office of Private Postsecondary Education (OPPE) within the Department of Education regulates private schools in the state, and is the administrative arm of the Council for Private Postsecondary Educational Institutions.

The OPPE is self-supporting, and derives its revenues from (1) federal reimbursements, (2) fees charged to private schools seeking state licensure, and (3) charges assessed to the Student Tuition Recovery Fund for its administration. (The Student Tuition Recovery Fund reimburses students enrolled in private postsecondary schools for a portion of their tuition payments when schools close before the students have completed their instructional program.)

The office has 32.4 positions authorized in the current year. Table 54 shows OPPE support for the prior, current, and budget years.

The budget requests \$2,097,000 for OPPE's state operations in the budget year, including \$892,000 from the Private Postsecondary Education Fund (Item 6100-001-305). This amount represents an \$83,000 (4.1 percent) increase from current-year estimated expenditures. The budget also requests \$420,000 from the Student Tuition Recovery Fund for local assistance expenditures—an amount equal to estimated current-year expenditures. Our analysis indicates that, based on OPPE's anticipated workload, the amounts requested are reasonable. Accordingly, we recommend approval of these amounts as budgeted.

**Table 54**  
**Department of Education**  
**Office of Private Postsecondary Education**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Operations.....	\$1,689	\$2,014	\$2,097	\$83	4.1%
Local Assistance .....	149	420	420	—	—
Totals.....	\$1,838	\$2,434	\$2,517	\$83	3.4%
Private Postsecondary Education Fund.....	\$715	\$855	\$892	\$37	4.3%
Federal Trust Fund.....	940	1,107	1,153	46	4.2%
Student Tuition Recovery Fund .....	183	472	472	—	—
Positions .....	31.4	32.4	32.4	—	—

## V. STATE LIBRARY

### A. OVERVIEW OF THE BUDGET PROPOSED FOR 1985-86 (Items 6100-011-001, 6100-011-890, 6100-211-001, 6100-211-890, and 6100-221-001)

The California State Library (1) maintains reference and research materials for state government, (2) provides support to local public libraries, and (3) provides library services to the blind and physically handicapped in Northern California.

The state operations budget for the State Library supports the maintenance of the various library collections (law, reference, Sutro, government publications, etc.), the provision of consultant services to public

**Table 55**  
**State Library**  
**Expenditures and Funding**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i> 1983-84	<i>Estimated</i> 1984-85	<i>Proposed</i> 1985-86	<i>Change</i> 1984-85 to 1985-86	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
Reference for the Legislature .....	\$733	\$859	\$970	\$111	12.9%
Statewide library support and development .....	2,724	3,097	2,964	-133	-4.3
Special clientele services.....	1,367	1,544	1,610	66	4.3
Support services.....	3,511	4,048	4,632	584	14.4
Subtotals.....	\$8,335	\$9,548	\$10,176	\$628	6.6%
Local Assistance:					
Statewide library support and development .....	\$23,488	\$28,007	\$38,248	\$10,241	36.6%
Totals .....	\$31,823	\$37,555	\$48,424	\$10,869	28.9%
General Fund .....	\$18,798	\$29,732	\$34,916	\$5,184	17.4%
Federal funds .....	13,013	7,810	13,495	5,685	72.8
Reimbursements .....	12	13	13	—	—

**DEPARTMENT OF EDUCATION—Continued**

libraries, and the administration of the California Library Services Act (CLSA), the California Literacy Campaign (CLC), and the Public Library Foundation Program. The local assistance component consists of state and federal grants to public libraries and library agencies, and support of local resource sharing through the creation and maintenance of a data base of California public library materials.

Total funding for the California State Library for the prior, current, and budget years is displayed in Table 55.

As Table 56 shows, the budget requests a total of \$48,424,000 for the State Library in 1985-86—an increase of \$10.9 million, or 29 percent over the current-year level. The requested amount consists of \$34,916,000 in General Fund support—an increase of 17.4 percent; \$13,495,000 in federal support—an increase of 73 percent; and \$13,000 in reimbursements.

**Summary of Changes**

Table 56 shows total baseline adjustments to support for the State Library of —\$388,000. These adjustments reflect the elimination of one-time expenditures associated with acquisition of genealogy materials and microfilming equipment and supplies (—\$504,000), as well as increases for merit salary adjustments (\$29,000) and employee compensation (\$87,000).

**Table 56**  
**California State Library**  
**Summary of Proposed Budget Changes,**  
**By Funding Source**  
**(dollars in thousands)**

	<i>General Fund</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Totals</i>
1984-85 Expenditures (revised) .....	\$29,732	\$7,810	\$13	\$37,555
A. Baseline Adjustments .....	107	-495	—	-388
1. Merit Salary Adjustments .....	(26)	(3)	—	
2. Employee Compensation .....	(81)	(6)	—	
3. One-time Adjustments .....	—	(-504)	—	
B. Budget Change Proposals .....	\$5,077	\$6,180	—	\$11,257
1. Cost-of-Living Adjustments .....				
a. State operations .....	(243)	(21)	—	
b. Local assistance .....	(288)	—	—	
2. California Literacy Campaign .....	(900)	—	—	
3. Relocation of Library Development Services Bureau .....	(88)	—	—	
4. Extended Hours at Sutro Library .....	(56)	—	—	
5. Automation of Braille Library .....	(143)	—	—	
6. Capitol Assembly Library .....	(109)	—	—	
7. Newspapers and Microfilm .....	—	(321)	—	
8. Public Library Foundation Program .....	(3,250)	—	—	
9. Library Services Construction Act .....	—	(5,838)	—	
1985-86 Expenditures (proposed) .....	\$34,916	\$13,495	\$13	\$48,424
Change from 1984-85:				
Amount .....	\$5,184	\$5,685	—	\$10,869
Percent .....	17.4%	72.8%	—	28.9%

Table 56, also shows that budget change proposals submitted for the State Library total \$11,257,000. Some of the major funding increases include:

- \$3,250,000 for general local assistance to public libraries under the Public Library Foundation program;
- \$5,838,000 for grants to local public libraries under the federal Library Services Construction Act;
- \$900,000 for the California Literacy Campaign; and
- \$552,000 for cost-of-living adjustments to state operations (\$264,000) and local assistance under the California Library Services Act (\$288,000).

We recommend approval of the following program changes, which are not discussed elsewhere in this analysis:

- An increase of \$109,000 to fund the transfer of the Assembly Office of Research Library to the State Library;
- An increase of \$321,000 to acquire California newspapers on microfilm;
- An increase of \$143,000 to automate the Braille and Talking book Library; and
- An increase of \$288,000 to provide a 4 percent cost-of-living adjustment for local assistance under the California Library Services Act.

#### **B. STATE LIBRARY SUPPORT (Items 6100-011-001 and 6100-011-890)**

The budget proposes total funding for the State Library's state operations of \$10,176,000 in 1985-86—an increase of \$628,000, or 6.6 percent, over the current-year level. This amount reflects a \$781,000 increase in General Fund support and a decrease of \$153,000 in federal funds.

#### **Technical Issue: Overbudgeting of Relocation Expenses**

*We recommend that the amount requested from the General Fund for the relocation of the State Library Development Services Bureau be reduced by \$47,000, because the amount budgeted exceeds the anticipated cost of the project. (Reduce Item 6100-011-001 by \$47,000.)*

The Library Development Services Bureau within the State Library currently is located in a building shared with the Third District Court of Appeal. Because the court has indicated that its space requirements will increase in 1985-86, the bureau will need to relocate its operations to a new, leased facility.

The budget proposes \$88,000 for the relocation of the bureau in 1985-86. Our review of the State Library's budget request, however, indicates that the amount proposed exceeds the anticipated cost of the relocation by \$47,000.

Specifically, State Library staff estimate that (1) the bureau will lease 7,600 square feet of space (1,000 square feet more than the amount of space that will be yielded to the court) and (2) this office space may be obtained at a cost of \$.98 per square foot (\$.27 per square foot more than the rate paid for space in the courts building). In addition, the State Library requests \$8,000 to purchase duplicates of equipment which, because of the relocation, could no longer be shared with the part of the library's operations remaining in the courts building.

Relying on these assumptions, our calculations indicate that the State Library will require only \$41,000 in order to lease the full amount of space proposed and to purchase the \$8,000 in equipment. Our analysis therefore indicates that the amount proposed in the budget exceeds the anticipated cost of the relocation by \$47,000. Accordingly, we recommend that the Legislature reduce the appropriation in Item 6100-011-001 by \$47,000, for an equivalent General Fund savings.

**DEPARTMENT OF EDUCATION—Continued****Extension of Sutro Library Hours Unnecessary**

*We recommend that \$56,000 requested to increase the number of hours that the Sutro Library is open to the public be deleted, because the library can achieve its objective of accommodating its patrons by rescheduling its hours of operation. (Reduce Item 6100-011-001 by \$56,000.)*

The Sutro Library, located near the California State University at San Francisco, makes available to the general public a significant research collection, including collections of Mexican and English history. The library is also recognized for its collection of genealogical records. In 1983-84, over 11,000 people visited the Sutro Library.

The Governor's Budget requests a \$56,000 General Fund augmentation which would allow the Sutro Library to remain open to the public for an additional 11 hours per week. In order to provide the added public service, the Sutro Library would hire a full-time reference librarian through a contractual agreement with the University Services Program of the California State University. In addition, the library would contract for part-time student assistants through the university's work-study program and for security guards through an outside agency.

The State Library claims that the Sutro Library's current schedule of operation—10:00 a.m. to 5:00 p.m., Monday through Friday—prevents it from serving all clients who might wish to use its resources. Under the budget proposal, the Sutro Library would remain open one evening a week and on Saturdays. The extended hours would allow patrons who work between 9:00 a.m. to 5:00 p.m. and who live outside of the San Francisco Bay Area to use the library's resources.

Our analysis confirms the desirability of extending library access to those who are now excluded because of the current schedule. Our review indicates, however, that the total number of hours during which the Sutro Library is open need not be increased in order to broaden access to the working public and non-Bay Area residents. The Sutro Library could accomplish its intended objective by closing on Monday and providing services Tuesday through Saturday. Were this done, the Sutro Library could experience greater-than-average patronage on Saturdays, thereby necessitating additional staff. Our review indicates, however, that this additional workload could be accommodated through the increased use of volunteer staff, since Saturday operations would allow for greater access by volunteers as well as by patrons. (Volunteers currently contribute an average of 49 hours of service each month at the Sutro Library.) In fact, volunteer support on Saturdays may more than offset Saturday workload, thereby allowing weekday backlogs—if any—to be reduced.

For these reasons, we recommend that \$56,000 requested to increase the number of hours that the Sutro Library is open to the public be deleted.

**C. SUPPORT TO LOCAL LIBRARIES**

The budget proposes to provide a total of \$38.0 million in support to local libraries in 1985-86 through the California Library Services Act, the California Literacy Campaign, the federal Library Services and Construction Act, and the Public Library Foundation Program. Each of these programs is discussed below.

**1. Statewide Library Support (Item 6100-211-001)**

The State Library allocates funds to assist California public libraries in improving local library services, establishing innovative library projects, and promoting library resource sharing. Funding is provided through the California Library Services Act and through grants under the California Literacy Campaign.

**a. California Library Services Act**

General Fund support for public libraries and regional library cooperative systems is provided under the California Library Services Act (CLSA) for the purposes of:

- encouraging the sharing of resources between libraries,
- encouraging libraries to serve the underserved, and
- reimbursing libraries for providing services outside their jurisdictions or beyond their normal clienteles.

The act is administered by the State Librarian, who serves as chief executive officer of the Library Services Board. The board was established under the CLSA to adopt rules, regulations, and general policies for the implementation of the act. Programs for libraries and library systems are funded by formula, by transaction-based reimbursements, or through service plan agreements.

The budget requests \$7.5 million for CLSA in 1985-86, an increase of \$288,000, or 4.0 percent, over the estimated current-year level. We recommend that this amount be approved.

**b. California Literacy Campaign**

The California Literacy Campaign (CLC), established by the State Library in September 1983 with \$2.5 million in one-time federal funds, provides financial support and technical assistance to local public libraries to assist them in establishing adult reading programs. All public libraries in the state were invited to submit grant proposals for 1983-84, and 27 projects were funded.

Data provided by the State Library indicate that, in 1983-84, the 27 projects served approximately 3,500 students on both a group and one-to-one basis. Another 1,000 individuals were referred to other reading programs more suited to their needs. By August 1984, almost 2,400 volunteer tutors had been trained under the CLC program, and more than 400 instructional sites had been established.

Last year's Budget Act provided \$2.6 million from the General Fund to continue the CLC once the one-time federal funds were used up. In addition, the Act provided \$212,000 to the California State Library for consultant staff hired to provide technical assistance to the local reading projects. Forty-five projects—including 18 new projects—are expected to receive CLC support in the current year.

**Funding for Additional Program Growth Not Justified**

*We recommend that \$900,000 requested from the General Fund for the expansion of the California Literacy Campaign to new local public libraries be deleted, because the existing funding level already provides for orderly expansion of the program. (Reduce Item 6100-211-001 by \$900,000.)*

The Governor's Budget proposes \$3,747,000 in General Fund support for the CLC in 1985-86—an increase of \$935,000, or 33 percent, over the

**DEPARTMENT OF EDUCATION—Continued**

current-year funding level. The proposal would provide an additional \$900,000 for grants to local library reading programs (a 35 percent increase) and an additional \$35,000 for state administration to provide consultant services (a 17 percent increase). The CSL informs us that the additional \$35,000 in state support is needed to fund the full-year cost of providing the consultant services (the \$212,000 provided by the Legislature in 1984-85 represents 10 months of support).

**Analysis.** The California Literacy Campaign's current funding policy is to provide grants only for start-up costs; state support is withdrawn gradually from assisted programs over a three-year period. A recent preliminary evaluation of the program suggests that the three-year funding cycle could provide "100 percent of the project funds the first year, perhaps 75 to 80 percent of the original level of the funding the second year, then dip to perhaps 50 percent or even 25 percent of the original funding level in the third and final year of California State Library funding support." The 1985-86 fiscal year will be the third and final year of support for the original 27 projects which received funding in 1983-84.

State Library staff inform us that as a result of the phase-out of state support for the original 27 projects, 18 local libraries will receive grants for the first time in the current year. Because of this funding schedule, *additional program expansion would occur in 1985-86—even if no additional General Fund support were provided.*

Our analysis further indicates that augmenting the number of grants made to local libraries could jeopardize the success of the statewide program. Specifically, a rapid escalation of demands on the CSL staff providing consultant and technical service to local reading programs could reduce the quality of the services provided. The State Library recognizes this problem, and has stated in its budget request that "the ability of consultant staff to effectively offer technical assistance to more than a given number of service programs at one time is limited."

In sum, because (1) the California Literacy Campaign already provides for orderly program expansion and (2) excessive demands on State Library consultant staff could jeopardize the success of the statewide program, we recommend that the \$900,000 requested from the General Fund for the expansion of the CLC be deleted.

**2. Library Services and Construction Act (Item 6100-211-890)**

*We recommend approval.*

The federal Library Services and Construction Act (LSCA) has as its goals (1) extending library services to underserved areas, (2) improving library accessibility for disadvantaged individuals, (3) strengthening major metropolitan libraries and the State Library, and (4) promoting interlibrary cooperation. Funds are provided to the State Librarian who allocates them among library agencies within the state.

Each fall, the State Librarian initiates a grant application process whereby library agencies may seek funds for new services or the extension of currently-funded services. Awards are made on a competitive basis for locally-initiated service projects which meet the purposes of the federal act. In 1984-85, the State Librarian, with the advice of the California State Advisory Council on Libraries, awarded 96 grants to applicants.

The budget estimates that the state will receive \$12.0 million in federal funds for local assistance through the LSCA. This is an increase of \$5.8



million, or 95 percent, over the authorized expenditure level for 1984-85. Because the program is serving its intended purpose, we recommend approval of this item as budgeted.

### 3. Public Library Foundation Program (Item 6100-221-001)

Chapter 1498, Statutes of 1982 (SB 358), created the Public Library Fund to increase the amount of state funds provided to public libraries. Prior to Ch 1498/82, public libraries under local jurisdictions were supported primarily from local funding sources. This chapter authorized an appropriation of state funds to supplement, by up to 10 percent of a "foundation program" level, the local funding of each library. A foundation program is defined as activities of a library related to its role as a provider of information, education, and cultural enrichment to the community, excluding capital outlay expenses.

The budget requests \$15,250,000 for the Public Library Foundation Program in 1985-86—an increase of \$3,250,000 or 27 percent, over the amount provided in the current year. Based on (1) the level of entitlements claimed by libraries in the current year under this program, and (2) an increase of 5.9 percent in unified districts' total revenue limits in 1984-85, we estimate that claims for full-year funding in the budget year will total approximately \$31.7 million. Because the proposed appropriation of \$15,250,000 would not be sufficient to fully fund this program, each public library's apportionment would be reduced proportionately. We note that this program has never been funded to the level authorized in statute.

Because these funds represent a general aid block grant to libraries, we have no analytical basis for determining how much, if any, funding should be provided for the Public Library Foundation Program in 1985-86. Accordingly, we have no basis for recommending any change in the proposed amount.

## DEPARTMENT OF EDUCATION—CAPITAL OUTLAY

Item 6100-301 from the General  
Fund, Special Account for  
Capital Outlay

Budget p. E 51

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Requested 1985-86 .....	\$189,000
Recommendation pending .....	189,000

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### ANALYSIS AND RECOMMENDATIONS

#### Minor Capital Outlay

*We withhold recommendation pending receipt of additional cost information.*

The budget proposes \$189,000 under Item 6100-301-036 for three minor capital outlay projects (\$200,000 or less per project) for the Department of Education. Specifically, this item includes: (1) \$10,000 to reinforce the microfilm storage area floor at the Sutro Library in San Francisco; (2) \$96,000 to apply a new stucco finish to the exterior of Sutro Library; and (3) \$83,000 to install covers for 2600 fluorescent lamps at the State Library in Sacramento.

*Cost Information is Inadequate.* The cost estimates provided by the

**DEPARTMENT OF EDUCATION—CAPITAL OUTLAY—Continued**

department for all three projects funded by this item contain no information that would justify the costs of each project. Consequently, we withhold recommendation on this item pending receipt of additional cost information.

**DEPARTMENT OF EDUCATION—REAPPROPRIATION**

Item 6100-490 from the General  
Fund

Budget p. E 1

**ANALYSIS AND RECOMMENDATIONS**

The budget proposes to reappropriate the following amounts on July 1, 1985:

- the undisbursed balance of Item 6100-146-001, Budget Act of 1984, for evaluation of the Demonstration Programs in Reading and Mathematics;
- a total of \$1.25 million from Item 6100-121-001, Budget Acts of 1983 and 1984, for settlement of a final audit determination regarding federal compensatory education programs; and
- the unencumbered balance of funds appropriated by Ch 1651/84 for Regional Science Resource Centers.

Our analysis indicates that the proposed reappropriations for (1) Demonstration Programs in Reading and Math and (2) settlement of the federal audit are justified and, accordingly, we recommend that they be approved. Our review indicates, however, that additional information is needed regarding the proposed reappropriation of funds for regional science resource centers.

**Information Needed on Regional Science Resource Centers**

*We withhold recommendation on the proposed reappropriation of funds for Regional Science Resource Centers, pending receipt of information from the Department of Education regarding program implementation.*

In Ch 1651/84, the Legislature appropriated \$750,000 for the establishment of regional science resource centers. The act directed the Superintendent of Public Instruction to designate one regional science resource center in 1984-85, and to report during hearings on the Budget Act of 1985 regarding (1) the progress of the designated center and (2) plans for statewide expansion of this program.

At the time this analysis was prepared, no funds had been allocated to regional science resource centers in the current year, and the State Department of Education (SDE) was unable (1) to indicate what portion of the funds initially appropriated by Ch 1651/84 would be available for reappropriation in the budget year, or (2) to provide an expenditure plan for these funds. Accordingly, we withhold recommendation on the proposed reappropriation of funds for Regional Science Resource Centers pending receipt of legislatively-required information regarding program implementation.

**Reappropriation of Additional Funds Warranted**

*We recommend that the unencumbered or undisbursed balances of funds appropriated from various sources be reappropriated, as specified below.*

In our analysis of K-12 education programs (Item 6100), we recommend that the unencumbered or undisbursed current-year balances of various programs be reappropriated in this item. Specifically, we recommend reappropriation of the following amounts:

- \$550,000 from Item 6100-001-001, Budget Act of 1984, for support of the California Assessment Program (please see page 1177 in this *Analysis*);
- the undisbursed balance of Item 6100-101-001 (g), Budget Act of 1984, for the minimum teachers' salaries program (please see page 1104);
- the undisbursed balance of Item 6100-191-001 (a), Budget Act of 1984, for the Administrator Training and Evaluation program (please see page 1107);
- the undisbursed balance of Item 6100-191-001 (b), Budget Act of 1984, for the pilot programs for administrative personnel (please see page 1107);
- the undisbursed balance of Item 6100-191-001 (c), Budget Act of 1984, for the pilot projects to strengthen personnel and management (please see page 1108); and
- the unencumbered balances of Ch 1603/84 and Ch 1604/84, for child development programs (please see page 1165).

**DEPARTMENT OF EDUCATION—REVERSION**

Item 6100-495 to the General  
Fund

Budget p. E 1

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes that the undisbursed balance of funds appropriated by Chapter 1073, Statutes of 1984, for the purposes of conducting seismological tests at the state special schools in Fremont, revert to the General Fund on June 30, 1985.

In June 1984, the U.S. Court of Appeals, Ninth Circuit, ordered the Department of Education to conduct seismological tests at the State Special Schools for the Deaf and the Blind at Fremont. The tests were ordered in conjunction with a lawsuit brought by a group of parents and special schools employees, charging that the schools' location was unsafe.

The Legislature subsequently passed, and the Governor signed into law, two measures providing funding for these tests. Specifically, Ch 1073/84 and Ch 1677/84 each reappropriated for this purpose \$800,000 from the expended balance of the 1982 Budget Act appropriation for special education. Because the actual cost of the tests was only \$800,000, however, the appropriation provided in one of these measures is not needed. Accordingly, the Governor proposes that the undisbursed balance of Chapter 1073 revert to the General Fund at the end of the current year. (In the absence of this proposal, the funds would revert on June 30, 1987.)

Our analysis indicates that the Governor's proposal is reasonable and, accordingly, we recommend that it be approved.

# CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND

Item 6300 from the General  
Fund

Budget p. E 52

Requested 1985-86 .....	\$399,713,000 <sup>a</sup>
Estimated 1984-85.....	336,860,000
Actual 1983-84 .....	359,171,000 <sup>b</sup>
Requested increase \$62,853,000 (+18.7 percent)	
Total recommended reduction .....	None

<sup>a</sup> This amount includes \$227,499,000 and \$100,000,000 which will be appropriated pursuant to Education Code Sections 23401 and 23402, respectively.

<sup>b</sup> This amount includes \$127,358,000 which was paid pursuant to a state appellate court decision in *California Teachers' Association (CTA) v. Cory*.

## 1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
Education Code Sections 23401 and 23402: Unfunded Liability Payments	General	\$327,499,000
6300-111-001—State Teachers' Retirement System: Cost-of-Living Adjustments	General	72,214,000
Total		\$399,713,000

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
page

1. New Retirement Plans. Recommend the enactment of legislation establishing new benefit structures for future teachers. 1194
2. Unfunded Liability Payments. Recommend the enactment of legislation terminating the state's basic contribution to the State Teachers' Retirement Fund in the year 2045 in order to limit the state's legal responsibility for the unfunded liability. 1195

## GENERAL PROGRAM STATEMENT

The state appropriates funds to the State Teachers' Retirement Fund (STRF) for two purposes. First, Sections 23401 and 23402 of the Education Code (as added by Chapter 282, Statutes of 1979—AB 8) appropriate funds for the state's annual contributions to the fund. These contributions are intended to reduce the unfunded liability of the State Teachers' Retirement System (STRS). Second, as provided by Chapter 1606, Statutes of 1982, the state also appropriates funds for cost-of-living adjustments (COLAs) to STRS retirees.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes total General Fund contributions to the STRF of \$399,713,000 in 1985-86. This is \$62,853,000, or 18.7 percent, more than estimated current-year expenditures. Table 1 shows the components of state contributions to the STRF for the past, current, and budget years.

**Table 1**  
**State General Fund Contributions to the**  
**State Teachers' Retirement Fund**  
**1983-84 through 1985-86**  
**(dollars in millions)**

	Actual 1983-84	Estimated 1984-85	Proposed 1985-86	Change, 1985-86 Over 1984-85	
				Amount	Percent
<b>AB 8 Contributions:</b>					
Base Contribution .....	\$171.3	\$216.5	\$227.5	\$11.0	5.1%
Incremental Contribution .....	40.0	80.0	100.0	20.0	25.0
CTA v. Cory Settlement.....	127.4	-	-	-	-
Subtotals .....	(\$338.7)	(\$296.5)	(\$327.5)	(\$31.0)	(10.5%)
<b>COLA Funding.....</b>	<b>\$20.5</b>	<b>\$40.4</b>	<b>\$72.2</b>	<b>\$31.8</b>	<b>78.7%</b>
Total Expenditures .....	\$359.2	\$336.9	\$399.7	\$62.8	18.7%

**Payments Toward Unfunded Liability.** As Table 1 indicates, the budget proposes \$327.5 million as the state's statutory AB 8 contribution to the State Teachers' Retirement Fund in 1985-86. This amount is \$31.0 million, or 10.5 percent, greater than current-year expenditures. The increase is due to: (1) the required inflationary adjustment to the "base" contribution (\$11.0 million), and (2) growth in the AB 8 "incremental" contribution (\$20.0 million).

In past years, the state's contribution toward the unfunded liability was appropriated in the Budget Act. For 1985-86, however, the budget document shows the \$327.5 million as a *statutory* appropriation. This reflects the recent state appellate court decision in *California Teachers' Association v. Cory*, which holds that the state must make the *full* contribution to the STRF that is called for by current law. In fiscal years 1980-81 through 1983-84, the Budget Act had provided in lieu appropriations which were *less than* what AB 8 required. The state restored these "shortfalls" during the current year by transferring \$127.4 million from the General Fund to the STRF. This transfer is reflected in Table 1 as a 1983-84 expenditure.

**COLA Payments.** The budget proposes a General Fund appropriation of \$72,214,000 to the STRF in 1985-86. These funds pay for *ad hoc* COLAs for those STRS retirees who have been most adversely affected by inflation.

## ANALYSIS AND RECOMMENDATIONS

### The STRS Funding Problem

In our *Analysis of the 1984-85 Budget Bill* (please see pages 1628-1629), we discussed the nature and scope of the STRS funding problem. Basically, we find that the problem has two major components.

**"Normal Costs" Are Not Being Covered by Current Contributions.** The system's normal costs (that is, the cost of funding the retirement benefits that are being earned in a given year) are not being covered by contributions to the fund. As of December 1984 (when the last actuarial valuation was revised), the normal costs of STRS benefits were estimated at 17.64 percent of statewide certificated payroll. Given that ongoing contributions to the system are only 16 percent (8 percent from both school districts and teachers), there is a normal cost annual "shortfall" of 1.64 percent. In 1985-86, this shortfall would amount to about \$123 million.

The current shortfall is *less* than the 3.2 percent shortfall which existed prior to December 1984. The chief reason for this improvement in the

**CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued**

annual funding ratio is that the consulting actuary assumed that the system's investment yield would be higher than previously assumed.

**The System Has a Large Unfunded Liability.** Because normal costs have never been adequately funded, the STRS has accumulated a large unfunded liability. This unfunded liability represents the cost of benefits earned in prior years that are not covered by current assets. The last actuarial valuation found the size of the STRS unfunded liability to be \$10.1 billion. This estimate, however, seriously *overstates* the system's actual unfunded liability, because it does *not* take into account the "present value" of future state AB 8 contributions. As a result of the court's ruling in the *CTA v. Cory* case (see above), these state payments *should* be reflected in the system's actuarial "balance sheet," since they are now considered to be *guaranteed*. When these payments are recognized, *the STRS unfunded liability falls to only \$1.3 billion.*

To the extent, however, that normal costs are *not* funded in the future (which would be the case if no changes are made to current statutory contribution rates), the unfunded liability will grow.

**Legislature Should Provide New STRS Benefit Structures**

*We recommend the enactment of legislation establishing new retirement programs for future public school teachers.*

In last year's *Analysis* (please see page 1631), we recommended that the Legislature act to eliminate the system's normal cost shortfall *before* it acted to reduce the system's unfunded liability. We also identified several options for eliminating the shortfall, including options that maintained the existing benefit structure and options that modified it.

Our analysis indicates that the Legislature should give its primary attention to those options that would modify the existing STRS benefit structure. This is because the existing benefit structure has the following shortcomings:

- ***It Does Not Allow Teachers Any Choice In Providing For Their Retirement Needs.*** Currently, a teacher is *required* to join the STRS and pay 8 percent of his/her salary to the system. Furthermore, the system offers only a single benefit program which cannot possibly meet the needs of all public school teachers.
- ***It Does Not Allow Teachers To Take Advantage of Existing Opportunities to Reduce Their Federal Taxes.*** Under the existing system, teachers must pay their contributions from *after-tax* income. Under existing federal law, however, retirement plans are available which allow for such contributions to be made from *pre-tax* income.
- ***The State Is Liable For All Funding Shortfalls.*** Given the *CTA v. Cory* decision, the state is now liable for all *past* funding shortfalls in the STRS. Under the *existing* benefit structure, however, the state may also be responsible for all *future* shortfalls. This is because the mandate provisions of the California Constitution may preclude the state from requiring school districts to cover any normal cost shortfalls. Thus, the state, as the only other available funding source, probably would be liable for any of these unfunded costs.

In order to both provide teachers with benefits they currently do *not* enjoy (greater choice and flexibility in designing their retirement program, and the opportunity to realize federal tax savings) and control the state's financial exposure under the STRS, we recommend the enactment of legislation providing new retirement options to *future* public school

teachers. The following options are illustrative of the new "tiers" that could be offered:

- **A defined contribution plan** [as authorized under Internal Revenue Code Sections 401(k) or 403(b)], which would permit substantial tax-deferred contributions by employees and accumulation of tax-deferred interest, a variety of investment vehicles, possible borrowing privileges, and favorable withdrawal provisions;
- **A lower-tier defined benefit plan supplemented by a defined contribution plan**, providing both individual flexibility and basic retirement security; and
- **A modified defined benefit plan**, with tax savings to participants through employer pickup of employees' contributions [under Internal Revenue Code Section 414(h)(2)].

In developing new benefit structures, it is critical that the state ensure that normal costs are paid in full *at the local level*. While the state undoubtedly will continue to provide state aid to districts in order to help them fund normal costs, the state should no longer be the entity that is liable for shortfalls in the funding of local employee retirement benefits.

Toward this end, the Legislature should seriously consider the recommendations of the "ACR 62 Study Panel." This panel was established by Resolution Chapter 123, Statutes of 1983 (ACR 62), for the purpose of examining the funding and benefit structure of the STRS. The study panel met frequently during 1984, and has prepared final recommendations for new STRS benefit tiers. Apparently, the legislative vehicle for enacting these recommendations will be AB 62 (Elder), which was introduced in December 1984.

Generally, the recommendations of the study panel are intended to offer new teachers several benefit plan options, including a modified "base entry" plan (with basic retirement benefits and an improved annual COLA), a defined contribution plan (with a minimum STRS benefit element), and a "discount" home-loan plan.

These options, taken together, directly address the problems noted above, as they (1) provide choice and flexibility to new teachers, (2) attempt to limit the state's future financial role by including only those benefit plans which can be fully funded by *existing* contribution rates, and (3) recognize the need to provide future retirees with better protection against inflation. We believe the study panel's recommendations serve as an excellent starting point for legislative consideration of alternative STRS benefit structures.

### **The State Should Limit Its Court-Imposed Liability**

*We recommend the enactment of legislation which terminates the state's basic contribution to the STRF in the year 2045 in order to limit the state's legal responsibility for past STRS unfunded liability.*

The state's AB 8 payments, which under current law are scheduled to continue indefinitely, are intended to reduce the STRS unfunded liability. In *CTA v. Cory*, the court found that these contributions constitute an implicit contract with school teachers, and therefore, cannot be changed by the Legislature—now or in the future.

Our interpretation of the court's decision in this case is that the state was found to have committed itself to paying off the STRS unfunded liability which had accrued *at a given point in time*. If this interpretation is valid, the decision does not in any way make the Legislature *fiscally liable* for any funding shortfalls which may accrue in the future.

**CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued**

In order to ensure, however, that the state's liability under this decision is limited, we recommend that the Legislature amend Sections 23401 and 23402 of the Education Code to terminate state payments to the STRF once the *current* amount of the STRS unfunded liability has been paid off. At that time, the state would have met its contractual obligation. It could then choose to continue making *voluntary* payments to the system, but it could not be *forced by the courts* to make payments that it did not wish to make.

Based on the latest STRS actuarial valuation, the system's unfunded liability (\$10.1 billion) could be paid off by AB 8 contributions in about 60 years. Consequently, the Legislature should terminate its obligation to make these judicially required payments by "sunsetting" the current contributions schedule in the year 2045.

**Ad Hoc Cost-of-Living Adjustments*****We recommend approval.***

The budget proposes a General Fund appropriation of \$72.2 million to the State Teachers' Retirement Fund to fund COLAs for STRS retirees under the provisions of Chapter 1606, Statutes of 1982 (SB 1562). This measure states the Legislature's intent to maintain STRS retirement benefits at 75 percent of their original purchasing power. Toward that end, Chapter 1606 requires the Governor to budget an amount equal to 5 percent of the average statewide salary increase granted to public school teachers over the three preceding school years. For 1985-86, this amount is \$14.2 million. Thus, the budget proposes to augment this amount by \$58 million.

The total \$72.2 million proposed for 1985-86, when combined with other statutory benefit adjustments, would bring all STRS retirees' benefit levels up to a minimum of 65 percent of their original purchasing power. This is an increase from the 62 percent level that is being maintained in the current year.

We recommend approval of this proposed appropriation for supplemental COLA payments. Because of the statutory limit on annual COLAs (2 percent per year, uncompounded), long-time STRS retirees were particularly hard-hit by the high inflation rates that prevailed in the late 1970s and early 1980s. This appropriation would restore some of the purchasing power they lost to inflation.

**REPORT ON TWO ELECTIVE EARLY RETIREMENT PROGRAMS**

Chapter 557, Statutes of 1982, extended for three years the provisions of existing law relating to two elective *early retirement programs* under the State Teachers' Retirement System. This legislation also directed the Legislative Analyst to report to the Legislature on (1) the fiscal effects of early retirement programs on participating school districts, and (2) the desirability of extending the programs beyond the sunset dates established for each.

**Background**

Under existing law, a member of the STRS can retire with full retirement benefits at age 60, providing that he or she has at least five years of service credit. A retiree receives 2 percent of "final average salary" (the



member's average annual salary during the three highest-paid years) for each year of service. Thus, an STRS member with 30 years of service credit can retire at age 60 and receive an annual benefit equal to 60 percent of his/her final average salary.

Members of the STRS also can choose to retire *before* reaching age 60 under one of several early retirement provisions. Currently, there are two *ongoing* provisions and two *limited-term* provisions that allow for early retirement.

**Ongoing Early Retirement Provisions.** All STRS members have available to them a "standard" early retirement program. Under this provision, the retiree must be at least 55 years of age. The program also requires a reduction in the basic retirement allowance equal to .5 percent of the full retirement allowance for each *month* the member is younger than the age of 60. The increased value of receiving *earlier* benefits is offset by the allowance reduction, so that the provision does not affect the normal cost of the system.

In addition, school districts can *elect* to offer a "30-and-Out" option which allows a member to retire as early as age 50, providing the member has completed 30 years of service. In addition to the .5 percent reduction described above, the member's basic retirement allowance is also reduced by .25 percent for each month the member is younger than age 55. As with the standard early retirement provision, the "30-and-Out" alternative imposes no additional costs on the STRS.

**Limited-Term Early Retirement Alternatives.** In 1979, the state enacted two additional early retirement provisions. First, Chapter 248, Statutes of 1979, directed the STRS to develop an alternative "30-and-Out" option which (1) had a minimum age requirement of 55 (as opposed to age 50 under the basic "30-and-Out" plan), and (2) provided an allowance reduction of .25 percent per month (as opposed to .5 percent under the basic "30-and-Out" plan). The cost of this added benefit *must* be paid to the STRS by the school districts electing to participate in the plan. The program, which was available beginning June 1, 1979, was originally scheduled to sunset on July 1, 1982.

Second, Chapter 219, Statutes of 1979, authorized an alternative early retirement program available only to community college districts. This elective program is the same as the standard "30-and-Out" alternative *except* that it is available to community college members of the STRS who have completed 25 years of service. While this "25-and-Out" alternative extends early retirement eligibility to additional STRS members, it does not result in direct costs to the system, as the early retirement benefits have been actuarially reduced. The program started on July 6, 1979, and was originally scheduled to sunset on January 1, 1983.

Both of these elective early retirement programs—the modified "30-and-Out" provision and the "25-and-Out" community college provision—were extended by Ch 557/82. As a result, the current sunset dates for these two programs are July 1, 1985, and January 1, 1986, respectively. Senate Bill 68 (Deddeh), introduced in December 1984, would extend the sunset dates of these two programs even further, to July 1, 1988, and January 1, 1989, respectively.

Table 2 summarizes the four STRS early retirement programs described above.

**CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued**

**Table 2**  
**State Teachers' Retirement System**  
**Summary of STRS Early Retirement Programs**

	<i>Ongoing Provisions</i>		<i>Temporary Provisions As Provided by Ch 557/82</i>	
	<i>Standard</i>	<i>30-and-Out</i>	<i>Modified 30-and-Out</i>	<i>25-and-Out</i>
Minimum Years of Service .....	5	30	30	25
Minimum Age .....	55	50	55	50
Eligibility .....	All STRS Members	All STRS Members	All STRS Members	Community College Members
Percent Allowance Reduction For Each Month Retiree Is Between:				
55-60 years of age .....	0.50%	0.50%	0.25%	0.50%
50-55 years of age .....	NA <sup>a</sup>	0.25	NA <sup>a</sup>	0.25
Sunset Date .....	None	None	7/1/85	1/1/86
School District Participation:				
Mandatory (M) or Elective (E) .....	M	E	E	E

<sup>a</sup> Not applicable.

**Purpose of the Optional Programs.** It is our understanding that these optional early retirement alternatives extended by Chapter 557 were enacted primarily for the purpose of helping school districts manage their personnel resources in the aftermath of Proposition 13. Because early retirement options generally accelerate the rate at which employees retire, these programs provided districts with the opportunity to save money, either by leaving retirees' positions vacant for some time or by filling the positions with less-experienced teachers, who receive lower salaries and fringe benefits.

Early retirement programs, however, can also serve other purposes. For instance, accelerated employee turnover can also expand promotional opportunities, thereby providing districts with an additional means of retaining and rewarding outstanding employees. Furthermore, elective early retirement options provide school districts and employee groups with an extra element to consider in the determination of the total compensation package. It is possible that school districts have offered these elective retirement programs as a means of offsetting other reductions in employee compensation.

#### **Impact of the Optional Early Retirement Programs**

**Participation to Date.** Table 3 provides a summary of participation levels and direct costs associated with the two elective early retirement programs established in 1979 and extended by Ch 557/82. The table indicates that only 309 STRS members took advantage of the modified "30-and-Out" program between 1979-80 and 1982-83 (information was not available for 1983-84). This program has cost school districts approximately \$6.9 million during the five years it has been in effect.

With regard to the "25-and-Out" provision for community college members, participation has been even lower, as only 29 members chose this retirement option between 1979-80 and 1983-84. As noted above, this alternative imposes no cost on the system.

**Table 3**  
**STRS Limited-Term Early Retirement Programs**  
**Participation Levels and Direct Costs**  
**1979-80 through 1983-84**

	<i>Modified "30-and-Out"</i>		<i>"25-and-Out"/ Community College</i>	
	<i>Number of Participants</i>	<i>Direct Cost<sup>a</sup></i>	<i>Number of Participants</i>	<i>Direct Cost<sup>b</sup></i>
1979-80 .....	69	\$295,000	4	—
1980-81 .....	73	1,517,000	3	—
1981-82 .....	123	1,932,000	3	—
1982-83 .....	44	1,895,000	7	—
1983-84 .....	NA <sup>c</sup>	1,219,000 <sup>d</sup>	12	—
Totals.....	309	\$6,858,000	29	—

<sup>a</sup> These figures represent the "present value" (that is, current lump-sum) cost to the system of this enhanced benefit.

<sup>b</sup> This plan is "actuarially funded," so that there is no cost to community college districts.

<sup>c</sup> Not available.

<sup>d</sup> Estimate.

**Impact on School Districts.** As noted above, the *direct* fiscal impact of the optional early retirement programs on school districts has been a cost of almost \$7 million over a five-year period. These costs were all attributable to the modified "30-and-Out" provision, since the "25-and-Out" provision imposes no direct costs on community college districts.

With regard to the modified "30-and-Out" provision, we assume that, since the districts *chose* to participate in the program, they anticipated benefits corresponding to (or exceeding) the costs. As noted above, these benefits may be in the form of: (1) salary savings, from hiring replacement teachers at a lower cost or not filling positions for a certain time; (2) reductions in other aspects of employee compensation, as negotiated in bargaining agreements; or (3) potentially improved teacher morale, to the extent the program is offered unilaterally to teachers. We have no way of knowing, however, whether participating school districts have actually realized benefits which are commensurate with or greater than the cost of the modified "30-and-Out" provision.

**Impact on the State.** Participation by districts in the modified "30-and-Out" program imposes some *indirect* costs on the state. First, because this provision provides for *higher* retirement benefit allowances than is the case under current law, the state's subsequent payments for supplemental cost-of-living adjustments (COLAs) will be slightly higher than they would have been under the permanent 30-and-Out provision. Since these COLAs are provided only after a retiree's purchasing power has fallen below 75 percent of its original level, it is unlikely that the state has yet incurred any of these indirect costs. Even in the future, however, it is unlikely that these annual COLA costs will be significant.

#### **Desirability of Future Extensions of the Programs**

Chapter 557 also requires that we provide the Legislature with our comments regarding the desirability of future extensions of these optional early retirement programs.

Our analysis suggests that the benefits of these programs probably exceed their shortcomings. Essentially, these provisions are beneficial both to teachers, who receive enhanced benefits or the ability to retire earlier,

**CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued**

and to school districts, which are provided an additional personnel management tool. In addition, since the programs are *optional*, we assume that the school districts would not participate unless it were advantageous for them to do so.

We also find, however, that the programs have several minor drawbacks. As noted above, there is a state cost under the modified 30-and-Out provision, although it is an indirect cost and probably not very significant. More importantly, the addition of two additional early retirement provisions does complicate the existing STRS benefit structure, making it more difficult for members to understand their retirement options and imposing an additional—probably minor—administrative cost on the system. Finally, the inclusion of *elected* benefits does detract from what apparently has been a legislative objective of providing a *uniform* state retirement plan.

If, however, the Legislature does not view these concerns as serious drawbacks and, if school districts are still desirous of having these additional early retirement options, we see no compelling reason not to extend these two limited-term provisions.

### CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION

Item 6320 from the General  
Fund and Federal Trust Fund

Budget p. E 53

Requested 1985-86 .....	\$281,000
Estimated 1984-85.....	278,000
Actual 1983-84 .....	207,000
Requested increase (excluding amount for salary increases) \$3,000 (+1.1 percent)	
Total recommended decrease .....	56,000

**1985-86 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6320-001-001—CACVE, support	General	\$56,000
6320-001-890—CACVE, support	Federal Trust	225,000
Total		\$281,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

Analysis  
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1. *State Support. Reduce Item 6320-001-001 by \$56,000.* 1202  
Recommend elimination of General Fund support for CACVE because (1) federal funds will be available to cover the costs of state-mandated duties during the first half of the budget year and (2) legislation specifying the extent of such duties during the second half of the budget year has not been enacted.

## GENERAL PROGRAM STATEMENT

The federal Vocational Education Act of 1984 requires the state to establish an advisory council on vocational education and specifies the council's membership and duties. The current advisory council, the California Advisory Council on Vocational Education (CACVE), was established by Ch 1555/69 in order to comply with the requirements of an earlier federal vocational education act and does not meet the requirements of the new act.

The advisory council, as specified by the new federal law, must consist of 13 members appointed by the Governor (CACVE now has 25 members), and must have planning, oversight, and evaluative functions. Specifically, the council is mandated by the new act to (1) advise the State Board of Education, the Governor, the business community, and the general public of the state on general vocational education policy, (2) take an active role in the development of a state plan for vocational education, (3) assess the distribution of financial assistance furnished under the act and report on the extent to which populations with special needs are provided with equal access to quality vocational education, and (4) evaluate, at least once every two years, the vocational education program delivery systems assisted under both the federal Vocational Education Act and the Job Training Partnership Act.

Under the new federal law, the new advisory council must be established before April 1, 1985. Because the state constitution prohibits the use of an urgency statute to create or abolish any office, however, the CACVE will operate under the provisions of current state law until January 1, 1986.

In the current year, the CACVE is staffed by 4.1 positions.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$281,000 from state and federal funds for support of the CACVE during 1985-86. This is an increase of \$3,000, or 1.1 percent, over estimated current-year expenditures. Funding for the council in the prior, current, and budget years is summarized in Table 1.

The budget proposes \$56,000 from the General Fund to support the council in 1985-86, an increase of \$29,000—or 107 percent—over the current-year level. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

The budget also proposes expenditures of \$225,000 from the Federal Trust Fund, which represents the *maximum* amount that may be allotted to the California council under the new federal act. This amount is \$16,000

Table 1  
Funding for the California Advisory Council  
On Vocational Education  
1983-84 through 1985-86  
(dollars in thousands)

	1983-84 Actual	1984-85 Estimated	1985-86 Proposed	Change 1984-85 to 1985-86	
				Amount	Percent
Federal funds:					
Funding in current year .....	\$184	\$209	\$225	\$16	-7.7%
Carryover from prior years .....	-	42	-	NA	NA
General Fund .....	23	27	56	29	107.4
Totals .....	\$207	\$278	\$281	\$3	1.1%
Personnel-Years .....	4.1	4.1	4.1	-	-

**CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION—Continued**

—or 8 percent—above the \$209,000 that the CACVE annually received under the old act. In the current year, the CACVE has \$42,000 in federal funds carried over from the prior year, in addition to its annual allocation. Of this amount, \$12,000 will fund employee compensation increases in the current year, and \$30,000 will be carried over into the budget year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend that \$56,000 requested from the General Fund for the CACVE be eliminated because (1) federal funds will be available to cover the costs of state-mandated duties during the first half of the budget year and (2) legislation specifying the extent of the council's state-mandated duties during the second half of the budget year has not been enacted. (Reduce Item 6320-001-001 by \$56,000.)*

The proposed General Fund appropriation of \$56,000 for the CACVE in 1985-86 is *more than twice* the current-year appropriation of \$27,000. The proposed appropriation consists of (1) \$27,000 to maintain the current level of support, (2) \$27,000 for program expansion, and (3) \$2,000 to support the General Fund share of employee compensation increases.

In the past, the provision of additional General Fund support for the CACVE has been justified on the basis that state law required the council to perform functions in addition to those specified in federal law. Presumably, then, the budget proposal assumes that the council's state-mandated duties will not only continue to exceed the requirements of federal law, but will increase during the budget year. Our analysis indicates that this assumption is probably unwarranted, for two reasons.

First, the Legislature must enact legislation reinstating the CACVE and conforming its duties to those specified in the new law. As noted earlier, this legislation will be effective January 1, 1986. At this point, it is far from clear that this legislation will impose duties on the CACVE in excess of those required by federal law, or even those required by current state law. To the extent the legislation specifies such additional duties, it is the appropriate vehicle to provide the General Fund support needed to carry out these duties. Accordingly, our analysis finds no justification for providing through the budget General Fund support for the CACVE during the second half of 1985-86.

Second, although the council will continue to operate under current state law until January 1, 1986—and will thus be required to continue to perform its state-mandated duties during this period—the council will have sufficient carryover federal funds available to finance its state-mandated duties. Specifically, the CACVE will have \$30,000 in carryover funds, while according to the budget request, only \$28,000 will be needed during the first half of 1985-86 to finance the council's existing state-mandated duties.

For these reasons, we recommend that all General Fund support requested for the CACVE in 1985-86 be eliminated. If the legislation reconstituting the council imposes any state-mandated duties, the funding for these duties should be provided in that legislation.

## CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 6330 from the Federal  
Trust Fund and Special  
Deposit Fund

Budget p. E 54

Requested 1985-86 .....	\$104,000
Estimated 1984-85 .....	180,000
Actual 1983-84 .....	141,000
Requested decrease (excluding amount for salary increases) \$76,000 (-42.2 percent)	
Total recommended reduction .....	None

### GENERAL PROGRAM STATEMENT

The California Occupational Information Coordinating Committee (COICC) was established by Ch 972/78, pursuant to a requirement contained in the federal Vocational Education Act of 1978. The committee is responsible for the development of the California Occupational Information System, which provides occupational planning and guidance information to educational institutions, the Employment Development Department, and private industry. This committee will continue under the Federal Vocational Education Act of 1984. It has three authorized positions in the current year.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$104,000 from the Federal Trust Fund for support of the COICC in 1985-86. This is a decrease of \$76,000—or 42.2 percent—below estimated expenditures in the current year.

This reduction is due to the fact that the COICC's current-year expenditures include a one-time \$88,000 Job Training Partnership Act (JTPA) grant from the California Employment Development Department. These funds are being used to (1) develop, produce, and distribute a labor market information guide for career counselors and (2) conduct workshops for career counselors on the use of labor market information. The COICC expects to complete this work during 1984-85.

Table 1 shows COICC funding for the prior, current, and budget years.

**Table 1**  
**Funding for the California Occupational**  
**Information Coordinating Committee**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	1983-84 Actual	1984-85 Estimated	1985-86 Proposed	Change 1984-85 to 1985-86	
				Amount	Percent
Federal funds .....	\$129	\$104	\$104	—	—
Special Deposit fund .....	12	76	—	-\$76	-100.0%
Totals .....	\$141	\$180	\$104	-\$76	-42.2%
Personnel-Years .....	2	3	2	—	—

**CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE**  
**—Continued**

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

During 1985-86, the COICC expects to continue conducting workshops for vocational counselors and planners on the use of labor market information in conjunction with the distribution of the labor market information guide published in 1984-85.

**SCHOOL FACILITIES ASBESTOS ABATEMENT**

Item 6350 from the Special Account for Capital Outlay

Budget p. E 56

Requested 1985-86 .....	\$10,000,000
Estimated 1984-85.....	10,000,000
Actual 1983-84 .....	—
Requested increase: None	
Total recommended reduction .....	None
Recommendation pending .....	(10,000,000)

**1985-86 FUNDING BY ITEM AND SOURCE**

Item—Description	Fund	Amount
6350-201-036—Asbestos Abatement: transfer to Asbestos Abatement Fund	Special Account for Capital Outlay	\$10,000,000
6350-201-973—Asbestos Abatement: Local Assistance	Asbestos Abatement Fund	(10,000,000)
Total		\$10,000,000

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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1. Matching Contributions. Recommend adoption of Budget Bill language requiring districts that receive apportionments from the Asbestos Abatement Fund to provide matching contributions, as specified. 1206
2. Manufacturer Liability. Recommend adoption of Budget Bill language requiring districts receiving state funds for asbestos abatement to repay the state if they receive compensation from asbestos manufacturers. 1207
3. Model Contract. Recommend adoption of supplemental report language directing the State Allocation Board to develop a model contract for all state-funded, school asbestos abatement projects. 1208
4. Cal-OSHA Monitoring. Withhold recommendation on \$10 million requested from the Asbestos Abatement Fund for local assistance pending determination of the amount needed for Cal-OSHA reimbursements. 1210



## GENERAL PROGRAM STATEMENT

Current federal law requires each school district to *inspect* all school facilities for asbestos and to *notify* parents and employees of any hazardous asbestos materials found in school buildings. Hazardous asbestos materials are those which are "friable"—loose, crumbling, flaking, or dusting—and thus make it possible for asbestos fibers to be released into the air. Exposure to airborne asbestos fibers has been linked with a number of serious diseases, including cancer, which affect primarily the lungs and digestive system. Current state and federal law does *not* require the containment or removal of asbestos materials which are found in schools.

In 1984, the Legislature enacted Chapter 1751, Statutes of 1984, (AB 2377) which established the Asbestos Abatement Fund and appropriated \$10 million from the Special Account for Capital Outlay (SAFCO) to the fund for matching grants to school districts for asbestos abatement projects during 1984-85. The act directed the State Allocation Board (SAB) to establish policies for the allocation of these funds, and authorized the board to establish funding priorities based on the health hazards posed by the asbestos materials in each school. At the time this analysis was prepared, none of these funds had been allocated to local school districts.

This budget item requests additional financial assistance for local school districts to help them contain or remove hazardous asbestos materials in school buildings.

Asbestos abatement activities are intended to limit the possibility that asbestos fibers will become airborne. This may be done by (1) sealing the asbestos-containing materials (encapsulation), (2) enclosing the materials with barriers to prevent the escape of fibers into the occupied areas of a building, or (3) removing asbestos-containing materials. Removal frequently requires scraping off asbestos materials which, prior to 1978, were sprayed onto walls and ceilings in many school buildings.

Asbestos abatement projects themselves carry risks. In fact, poorly-conducted projects can increase, rather than reduce, asbestos-related health hazards in schools. If, for example, asbestos-containing materials are not removed properly, or if they are damaged during enclosure or encapsulation, workers may be exposed to dangerous quantities of airborne asbestos. Moreover, if asbestos fibers are not properly contained in the work area, widespread contamination of school buildings may occur, exposing students and school district employees to higher levels of asbestos than were present before abatement activities began.

## OVERVIEW OF THE BUDGET REQUEST

The budget proposes to appropriate \$10 million from SAFCO to the Asbestos Abatement Fund, to be allocated by the SAB to local school districts for asbestos abatement.

Federal funds also have been appropriated to provide loans or matching grants (up to 50 percent of project costs) to local public or private schools for asbestos abatement during the current year and in 1985-86. At the time this analysis was prepared, the amount of federal funding which will be provided for asbestos abatement projects in California schools had not been determined.

**SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued****ANALYSIS AND RECOMMENDATIONS****Local District Matching Contributions**

*We recommend that the Legislature adopt Budget Bill language requiring each district that receives an apportionment from the Asbestos Abatement Fund to provide a matching contribution equal to 50 percent of total project costs, up to a specified maximum annual contribution.*

In Chapter 1751, the Legislature directed the State Allocation Board (SAB) to establish policies for the allocation of asbestos abatement funds to local school districts on a matching basis. The act further authorized the board to increase the allocation of funds to any district by the amount needed to complete critical projects.

The SAB has adopted a policy requiring local districts to provide a matching contribution, for all asbestos abatement projects funded in any year, equal to the lesser of (1) 10 percent to 50 percent (depending upon the size of the district) of total project costs, or (2) one-half of 1 percent of the district's general fund and adult education budget (excluding capital outlay and debt service). Under this policy, relatively few school districts will be required to provide the maximum matching contribution of 50 percent of project costs, for two reasons. *First*, the 50 percent match requirement applies only to the approximately 300 school districts with an average daily attendance (ADA) of more than 2,500. (Approximately 88 percent of the state's public school students are enrolled in these districts.) *Second*, because of the high cost of most asbestos abatement projects, relative to the size of even a large district's budget, matching contributions frequently will be limited by the one-half-of-1 percent cap before a district has contributed 50 percent of total project costs.

Our analysis identifies the following problems with the SAB policy:

- ***It Reduces the Incentive for Schools to Use Federal Funds.*** Because the policy requires matching contributions for state-funded projects which may be substantially less than the 50 percent match (or loan repayment) required for federally-funded projects, districts will have little incentive to apply for and use the federal funds which will be available for asbestos abatement. The federal funds will be awarded only for completion of the state's most critical asbestos abatement projects. To the extent that districts with critical needs apply for and receive state funding instead of federal funds, schools in California are likely to receive a smaller share of the total federal funds available for this purpose.
- ***The Lesser Matching Requirement for Small Districts is Redundant.*** There is no need to apply a match rate of less than 50 percent for smaller districts because, by capping matching contributions at one-half of 1 percent of a district's budget, the SAB has already limited the match to reflect each district's size and financial resources.
- ***The Policy Establishes Different Matching Rates for No Reason.*** The SAB policy will have the effect of applying different matching rates to asbestos abatement projects undertaken by local school districts—depending on when funds are allocated—for no apparent policy reason. For example, if one district receives funds to complete several projects in a single year, the district must make a one-time, capped matching contribution. Another district which has identical financial resources, and completes asbestos abatement projects with the same total cost over several years, would be required to make a

matching contribution during each year state funds are provided—ultimately paying a larger share of total project costs than the district which received all of its funding in a single year.

As an alternative to the policy established by the SAB, our analysis indicates that requiring each district to provide a 50 percent local match for all asbestos abatement projects supported with state funds would (1) provide the same amount of state support to all districts with equivalent asbestos-related expenditures and (2) encourage the full utilization of available federal funds for these projects. In addition, a 50 percent match requirement would provide greater incentives for cost-effective expenditures for asbestos abatement, and would increase the total number of projects which can be completed with a limited amount of state funds.

While our analysis indicates that a 50 percent match requirement, applied to all districts, is more appropriate than the SAB's current policy, we also recognize that a school district which undertakes a major asbestos abatement effort may not have the financial resources to provide the full match amount in a single year. Accordingly, we believe that it would be appropriate to limit the contribution required in any single year, and to protect districts from incurring long-term financial liabilities for major asbestos-related costs.

Specifically, we believe it would be appropriate to require each district receiving an apportionment from the Asbestos Abatement Fund to provide a matching contribution equal to 50 percent of total project costs, up to a maximum of one-half of 1 percent of the district's general fund budget (as specified) during each year, for a period of five years. In applying this policy, the SAB could either (1) allocate funds to the district over a number of years, requiring an annual matching contribution or (2) increase the allocation to a district in order to complete critical projects, and require the district to contribute its match amount to the Asbestos Abatement Fund over a five-year period. Either way, the district would make the same total matching contribution.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6350-201-973:

"Notwithstanding any other provision of law to the contrary, the State Allocation Board shall provide from the Asbestos Abatement Fund to each eligible school district, an amount equal to 50 percent of the approved cost of asbestos abatement projects. The board may increase the allocation to any district by the amount it determines necessary to complete critical projects, provided that the district agrees to contribute to the Asbestos Abatement Fund an amount equal to the lesser of (1) one-half of 1 percent of the district's General Fund and adult education budget (excluding capital outlay and debt service) each year for a period of five years or (2) 50 percent of the total costs of projects for which the district receives an apportionment from the Asbestos Abatement Fund."

#### **Asbestos Manufacturers May Be Liable for Abatement Costs**

*We recommend that the Legislature adopt Budget Bill language requiring school districts that receive state funds for asbestos abatement costs to repay these funds, to the extent that the districts receive compensation from asbestos manufacturers.*

A large number of school districts and local governments have sued asbestos manufacturers in an effort to recover the costs of asbestos abate-

**SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued**

ment activities. One lawsuit against 54 asbestos manufacturers has been declared a class-action suit, representing all schools and school districts in the country except those which have chosen to pursue litigation on their own. In addition, many school districts have filed claims against the nation's largest producer of asbestos products.

As a result of these proceedings, it is possible that asbestos manufacturers may be found liable for some or all of the costs of asbestos abatement activities. To the extent that school districts receive compensation from asbestos manufacturers, part of the award should be used to repay the state for funds advanced to the districts for asbestos abatement. Current federal law requires districts that receive federal funds for asbestos abatement to repay these funds in the event that the district is compensated through asbestos-related litigation.

Because it is likely that the actual amount of awards received from asbestos manufacturers will be less than the total costs incurred by districts for asbestos abatement, we believe it would be appropriate to require that each district repay the state in the same proportion as the district's total asbestos abatement costs were compensated. That is, if 80 percent of a district's total asbestos abatement expenditures are compensated as a result of a lawsuit or claim, the district would repay 80 percent of the state funds received.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6350-201-973:

"Notwithstanding any other provision of law to the contrary, the State Allocation Board shall require local education agencies receiving funds appropriated in this item to agree to the following conditions: In the event the local education agency receives an award for the costs of asbestos abatement as a result of any lawsuit or claim brought by it or on its behalf against asbestos manufacturers or any person determined to be liable for these costs, a part of such award shall be used to repay funds which the agency receives from this item. The amount of the repayment shall equal the product of (a) the amount received from funds appropriated in this item and (b) the proportion of total asbestos abatement expenditures made by the agency which are compensated as a result of the lawsuit or claim."

**Model Asbestos Abatement Contract Needed**

*We recommend that the Legislature adopt supplemental report language directing the State Allocation Board to develop a model contract, as specified, to be used by each school district that receives state funds for asbestos abatement projects.*

In Chapter 1751, the Legislature declared its intent that school districts which receive state funds for asbestos abatement shall comply with guidelines established by the Environmental Protection Agency (EPA) for the protection and safety of workers and all other individuals during asbestos abatement activities. The EPA has established non-regulatory guidelines for school districts regarding worker protection, asbestos removal procedures, and work area preparation and decontamination. In addition, current state and federal regulations contain fairly detailed provisions regarding some aspects of asbestos abatement activities, including requirements for (1) the use of protective respirators and clothing for asbestos abatement workers, (2) testing for airborne concentrations of asbestos fibers, and (3) proper disposal of asbestos materials.

We have visited a number of school districts which conducted asbestos abatement projects prior to the establishment of the state-funded asbestos abatement program. (These districts used their general funds or deferred maintenance funds to support these expenditures.) Our review indicates that many districts are not fully aware of current state and federal regulations regarding asbestos abatement activities. In some cases, it appears that projects have been completed safely, in compliance with the applicable regulations and guidelines. In other cases, however, potentially serious violations have occurred that may have exposed asbestos workers, school district staff, and children to airborne asbestos fibers. At one site we visited, for example, district officials described improper cleanup procedures which may have resulted in the contamination of school facilities. Following completion of asbestos removal at this site, there had been no testing to determine airborne concentrations of asbestos in work areas prior to occupancy by students and teachers.

In order to help ensure that (1) school districts and contractors are aware of EPA guidelines and all applicable regulations and (2) state-supported asbestos activities are completed in compliance with these requirements, we believe that the State Allocation Board should develop a model asbestos abatement contract to be used by any school district which receives an apportionment from the Asbestos Abatement Fund.

Staff at EPA have indicated that the agency currently is developing a model asbestos abatement contract which may be modified to meet the particular needs of each state. They anticipate that this contract will be available later this spring, and could be used by the SAB with only minimal changes.

Our analysis indicates that the model contract should include, at a minimum, specifications regarding:

- training requirements for asbestos abatement contractors and all employees who will be working in areas where there is friable asbestos,
- procedures for monitoring airborne asbestos concentrations during abatement activities, and standards for allowable concentrations,
- procedures for the decontamination of workers and materials prior to exiting work areas,
- standards for the inspection of work areas prior to occupancy by school staff or students, and
- requirements for the disposal of asbestos-containing materials.

We believe that the use of such a contract could increase the level of compliance with existing requirements by clarifying the responsibilities of school districts and contractors regarding asbestos abatement projects prior to the start of these projects. The contract requirements would also discourage bids from contractors who lack the qualifications to complete asbestos abatement projects properly.

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

"The State Allocation Board shall develop, by October 1, 1985, a model contract to be used by any school district or county office of education as a condition of receiving state funds for asbestos abatement projects. The contract shall be based, as much as possible, on model contracts developed by the Environmental Protection Agency, and shall, at a minimum, include specifications regarding: (1) training requirements for contractors and all employees who will be working in areas where

**SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued**

there is friable asbestos, (2) procedures for monitoring airborne asbestos concentrations during abatement activities, (3) procedures for the decontamination of workers and materials prior to exiting work areas, (4) standards for inspection of work areas prior to occupancy by school staff or students, and (5) requirements for disposal of asbestos-containing waste materials."

**Cal-OSHA Should Monitor School Asbestos Abatement Projects**

*We withhold recommendation on the \$10 million requested for local assistance from the Asbestos Abatement Fund, pending a determination of the reasonable amount needed to reimburse specified Cal-OSHA activities.*

The Division of Occupational Safety and Health, within the Department of Industrial Relations, has the responsibility for conducting monitoring and related activities, through the Cal-OSHA program, for asbestos abatement projects. Our analysis indicates that neither the Cal-OSHA program, nor the other state and federal agencies with responsibility for school asbestos abatement activities, has adequate resources available in the budget year to provide the consultation and monitoring which are necessary to ensure that state asbestos abatement funds are used in a safe and cost-effective manner.

Given (1) the level of funding proposed in the budget for asbestos abatement and (2) the amount of funds which will be allocated in the current year for this program, we estimate that asbestos abatement projects will be undertaken at approximately 500 schools throughout the state during the budget year. (This number will be increased to the extent that federal funds are also provided for this purpose.)

As noted, improperly conducted asbestos abatement activities may actually increase the exposure of children and school employees to hazardous airborne asbestos. This exposure could increase the risk that children or school employees may eventually develop asbestos-related health problems. If this occurs, the long-term cost of asbestos abatement could increase on account of (1) the need to finance further cleanup work and (2) the districts' potential liability for damages if students or employees later develop asbestos-related diseases.

Serious problems have occurred in other states where asbestos abatement projects have been undertaken without adequate school district expertise or state monitoring and technical assistance. In New Jersey, for example, nearly 100 schools were unable to open in September 1984 because of sloppy or incomplete asbestos removal or inadequate cleanup of asbestos projects. New Jersey officials have indicated that many of the problems encountered in that state were the result of inadequate monitoring, both during and following completion of asbestos abatement projects.

These same problems could occur in California's asbestos abatement program. Most school districts with asbestos abatement projects that we contacted received little or no assistance or monitoring from those state or federal agencies which have responsibility for regulating asbestos-related activities—primarily Cal-OSHA and the federal Environmental Protection Agency (EPA). Our review indicates that, without appropriate assistance and monitoring, most districts lack both the specialized expertise and knowledge of current regulations to ensure that asbestos abatement projects are completed safely and effectively.

The EPA indicates that plans have not yet been developed for federal monitoring and inspection of sites where there is demolition or renovation of asbestos-containing materials, although the agency reports that there have been frequent and potentially serious problems of non-compliance with federal regulations regarding asbestos abatement. During the current year, EPA has provided \$150,000 in federal funds to SDE to monitor school district compliance with federal regulations regarding the *identification* of asbestos hazards. No federal funds have been provided for SDE to assist schools with asbestos *abatement* activities. At the time this analysis was prepared, SDE and EPA had not established a contract for asbestos-related activities to be completed during 1985-86. As a result, we are unable to determine what level of federal assistance—if any—will be provided (either directly or indirectly, under contract with SDE) for school asbestos abatement activities in the budget year.

Our analysis indicates that Cal-OSHA is the appropriate program to monitor asbestos abatement projects in order to protect the health and safety of asbestos workers, school staff, and students. Current regulations require that employers notify Cal-OSHA before beginning asbestos abatement work. Cal-OSHA may provide assistance to school districts through two programs: (1) a consultation service available to districts and contractors prior to the start of asbestos abatement projects and (2) monitoring and enforcement of worker safety requirements while projects are underway. When appropriate, Cal-OSHA has the authority to shut down an asbestos abatement project until safety violations have been corrected.

Cal-OSHA, however, has not been given additional staff to provide registration, consultation, monitoring, and enforcement related to school asbestos abatement projects during the current year, and the budget proposes no additional funds for this purpose in 1985-86. Consequently, these services will be available to school districts and contractors only to the extent that Cal-OSHA decreases its consultation, monitoring, and enforcement activities in other areas. In our analysis of the proposed budget for Cal-OSHA, we recommend that the Department of Industrial Relations report, prior to budget hearings, regarding the anticipated costs of activities relating to school asbestos abatement projects. (Please see our analysis of Item 8350.)

Our analysis indicates that it would be appropriate to reimburse the Department of Industrial Relations (DIR) from the Asbestos Abatement Fund for increased workload associated with the Cal-OSHA registration, consultation, monitoring, and enforcement, in order to ensure that asbestos abatement projects are completed safely and effectively, and do not result in increased exposure to airborne asbestos and the contamination of school buildings. Cal-OSHA is the appropriate agency to carry out these activities because (1) it has expertise and regulatory responsibilities in this area and (2) state funds allocated for Cal-OSHA activities may be matched by federal funds.

Accordingly, we recommend approval of the request to transfer \$10 million from SAFCO to the Asbestos Abatement Fund (Item 6350-201-036), but we withhold recommendation on the request to allocate this full amount for local assistance (Item 6350-201-973), pending receipt of information from DIR which would allow the Legislature to determine the amount needed to reimburse DIR for specified Cal-OSHA activities relating to asbestos abatement projects in schools. We will review this information, and make recommendations to the Legislature regarding the amount that should be transferred from the Asbestos Abatement Fund to DIR to reimburse the department for the reasonable costs of these activities.

## COMMISSION ON TEACHER CREDENTIALING

Item 6360 from the Teacher  
Credentials Fund

Budget p. E 59

Requested 1985-86 .....	\$6,281,000
Estimated 1984-85 .....	5,843,000
Actual 1983-84 .....	5,591,000
Requested increase (excluding amount for salary increases) \$438,000 (+7.5 percent)	
Recommendation pending .....	6,281,000

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. Funding Alternatives. Withhold recommendation on the \$6.3 million requested for the Commission on Teacher Credentialing, pending completion of a report on funding alternatives. 1214

### GENERAL PROGRAM STATEMENT

The Commission on Teacher Credentialing (CTC) is responsible for (1) developing standards and procedures for credentialing teachers and administrators, (2) issuing and revoking credentials, (3) evaluating and approving programs of teacher-training institutions, and (4) establishing policy leadership in the field of teacher preparation. The commission, which is supported by the Teacher Credentials Fund, has 93.4 authorized positions in the current year.

**Table 1**  
**Commission on Teacher Credentialing**  
**Budget Summary<sup>a</sup>**  
**1983-84 through 1985-86**  
**(dollars in thousands)**

	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>	<i>Change</i>	
	<i>1983-84</i>	<i>1984-85</i>	<i>1985-86</i>	<i>to 1985-86</i>	
				<i>Amount</i>	<i>Percent</i>
Credential issuance and information .....	\$1,936	\$2,092	\$2,215	\$123	5.9%
Certification standards and program approval ....	428	462	554	92	19.9
Program monitoring and evaluation .....	504	537	569	32	6.0
Examinations .....	1,696	1,708	1,827	119	7.0
Professional standards .....	1,027	1,044	1,116	72	6.9
Administration <sup>b</sup> .....	(956)	(1,010)	(1,059)	(49)	(4.9)
Total Expenditures .....	\$5,591	\$5,843	\$6,281	\$438	7.5%
Positions .....	98.8	99.2	93.4	-5.8	-5.8%

<sup>a</sup> Teacher Credentials Fund.

<sup>b</sup> Administration costs distributed among other program elements.

### OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$6.3 million from the Teacher Credentials Fund for support of the commission in 1985-86. This is an increase of \$438,000, or 7.5 percent, over estimated current-year expendi-



tures. This increase will grow by the amount of any salary or staff benefit increase approved for the budget year. Table 1 summarizes funding for the commission in the prior, current, and budget years.

Table 2 shows the changes in the commission's budget proposed for the budget year. As the table indicates, an increase of \$384,000 is required to maintain the existing level of service. Of this amount, (1) \$146,000 would fund increased prorata charges for services provided to the commission by other state agencies (\$70,000 of which is to make up for an under-estimate of prorata costs in 1983-84), (2) \$129,000 is for price increases in the budget year, and (3) \$115,000 is to provide for increased rent—the commission will be changing locations in the budget year.

**Table 2**  
**Commission on Teacher Credentialing**  
**Proposed 1985-86 Budget Changes**  
**(dollars in thousands)**

1984-85 Expenditures (revised) .....		\$5,843
Changes to Maintain Existing Budget: .....		384
Employee compensation .....	13	
Nonrecurring expenditures .....	-53	
Inflation adjustments .....	129	
Merit Salary adjustments .....	34	
Prorata adjustments .....	146	
Rental increase .....	115	
Budget Change Proposals: .....		54
Workload adjustments related to SB 813 .....		
Study of teacher trainee program .....	31	
Regulations for professional growth requirements .....	14	
Review of single-subject waiver programs .....	22	
Data collection workload adjustment .....	-4	
Negative budget change proposal .....	-9	
1985-86 Expenditures (proposed) .....		\$6,281
Change from 1984-85: .....		
Amount .....		\$438
Percent .....		7.5%

Table 2 shows that the budget change proposals would result in a net expenditure increase of \$54,000 in 1985-86. Of this amount, \$45,000 is to accommodate increased workload related to provisions of SB 813 (Ch 498/83). Specifically, the budget proposes a one-time expenditure of \$31,000 to study the effectiveness of the new certificated teacher trainee program, and an augmentation of \$14,000 for the development of regulations for teacher professional growth requirements.

The budget also requests a one-time augmentation of \$22,000 for the purpose of reviewing single subject credential programs that an applicant may complete in lieu of passing an examination on the subject matter. These "single subject waiver program" reviews were initially funded by a one-time augmentation of \$42,000 in 1983-84. The reviews were not completed in that fiscal year, however, and approximately \$22,000 of the initial augmentation reverted to the Teacher Credentials Fund. The commission is now requesting the use of these funds so that the reviews can be completed.

**COMMISSION ON TEACHER CREDENTIALING—Continued**

Finally, the budget reflects a reduction of 5.8 personnel-years. This reduction in personnel-years primarily reflects the elimination of 4.8 temporary help positions authorized in the current year, for the purpose of reducing to 30 days the average amount of time needed to award a credential to an applicant.

**ANALYSIS AND RECOMMENDATIONS**

*We withhold recommendation on the \$6.3 million requested for the Commission on Teacher Credentialing, pending completion of our report on funding alternatives.*

The Commission on Teacher Credentialing is supported entirely by fee revenues, most of which is derived from examination and teacher credential fees. These fees, which have generated adequate revenues in the past, have failed in recent years to keep pace with the commission's funding needs. As a result, the reserve balance in the Teacher Credentials Fund will have declined from a level of \$2.0 million (42 percent of the commission's annual expenditures) at the end of 1982-83 to an estimated level of \$1.1 million (17 percent of expenditures) at the end of the current year, and to an estimated level of \$12,000 (0.2 percent of expenditures) at the end of the budget year.

Recognizing this problem, the Legislature adopted language in the *Supplemental Report of the 1984 Budget Act* directing the Legislative Analyst to prepare a report examining alternatives to the present system of funding the operation of the Commission on Teacher Credentialing. We are in the process of completing this report and will submit it prior to hearings on the commission's budget. Pending completion of this report, we withhold recommendation on the \$6.3 million requested for the commission.

**Automation Requirements**

In the *Analysis of the 1984-85 Budget Bill*, we reported that the automation requirements of the CTC needed to be identified. Accordingly, we recommended that the commission's budget be augmented by \$30,000 so that it could contract for an examination of its electronic data processing (EDP) needs. Specifically, the contractor was to examine the extent to which an EDP system could improve both the efficiency of application processing and the commission's information gathering and reporting capabilities. The Legislature approved this augmentation, which was included in the 1984 Budget Act.

A study of the commission's electronic data processing needs has been completed and submitted to the Legislature. The report estimates that the system required by the commission would cost approximately \$1.1 million over a 5 year period.

Our review indicates that an electronic data processing system for the commission is, indeed, warranted. Some of the significant benefits that would result from such a system include:

- **Reduced Application Processing Time.** The report estimates that the EDP system would reduce the average amount of time required for processing credential applications from 17 to 7 days. The delay from the time an application is first received until processing begins would be reduced to 2 days (from a current delay of 34 days).
- **Automated Reporting Capabilities.** The system would automate the gathering of data and the reporting of information. This would

significantly improve the commission's capabilities in this area.

- **Significant Savings.** The report estimates that, over the five year implementation period, the system would result in \$1.2 million in savings, thereby offsetting the estimated \$1.1 million cost of implementing the system. The report further estimates ongoing savings to the commission of \$424,000 annually.

Based on its current projection of credential application fee revenues, the CTC will not have sufficient funds in the Teacher Credentials Fund to support the implementation of the EDP system efforts in the budget year. Consequently, the budget provides no funding for the EDP system in 1985-86. We will address the issue of funding for the proposed EDP system in our report on funding alternatives for the commission.