EDUCATION

Overview of K-12 Education

The K-12 education budget funds enrollment growth, a 1.5 percent cost-of-living adjustment, and a number of policy initiatives.

The budget proposes General Fund expenditures of $17.9 billion for K-12 education in 1992-93, including spending for both Proposition 98 and non-Proposition 98 programs. This is 41 percent of all General Fund spending, and $437 million, or 2.5 percent, over estimated expenditures in the current year.

Chart 1 shows that K-12 education expenditures from the General Fund increased by $6.9 billion since 1985-86, representing an average annual increase of 7.1 percent. When these expenditures are adjusted for inflation, General Fund spending increased by an average of 2.8 percent annually. The share of General Fund spending allocated to K-12 education has increased from 38 percent to 41 percent.

These increases are substantial, especially compared to other areas in the state budget. Later in this overview section, we provide more detailed information on K-12 funding. Specifically, we discuss K-12 funding from all sources, not just the state General Fund, and compare growth in total funding support, in current and inflation-adjusted dollars, to growth in school enrollment.

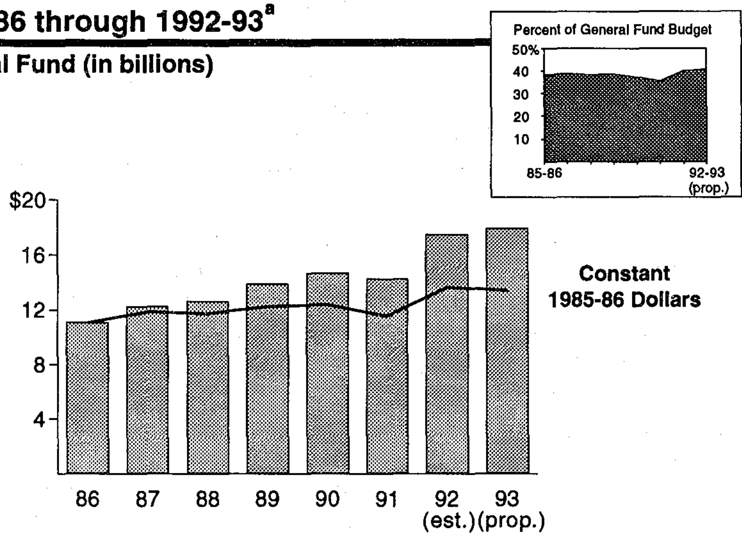
Proposition 98. The budget proposes to fully fund Proposition 98. The growth in General Fund spending for Proposition 98 programs within the K-12 budget is proposed to be 0.5 percent. These programs represent about 92 percent of General Fund support for K-12 education.

There are several reasons for the low growth rate in General Fund spending on Proposition 98 programs. The primary ones are: (1) the budget reflects substantial increases in property tax revenues allocated to school districts, which reduces the amount required from the state's General Fund, and (2) the inflation factor used in the 1992-93 Proposition 98 calculation — change in per capita personal income — is projected to be *negative* (-0.95 percent). For comparison, the inflation factor we use for Chart 1, which is based on the cost of state and local government services, is 4.1 percent. We discuss the Proposition 98 funding proposal in detail later in this overview section.

Chart 1

K-12 Education Expenditures Current and Constant Dollars 1985-86 through 1992-93[a]

General Fund (in billions)

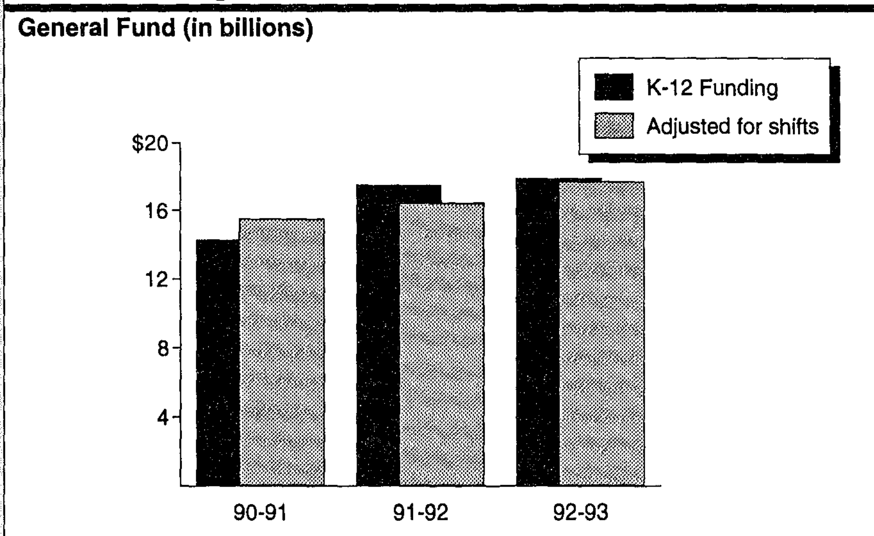


[a] Data are for fiscal years ending in years shown.

Effect of Funding Shifts. The budget expenditures for 1990-91 through 1992-93 are affected by funding shifts across fiscal years. (The purpose of the funding shifts is to allow reductions in spending for Proposition 98 purposes when estimates of the guarantee amount decline.) These funding shifts particularly distort the calculations of the funding change from the current year to 1992-93. When the figures are adjusted to remove the effects of the funding shifts, proposed expenditures for 1992-93 are $17.7 billion, which is $1.3 billion, or 7.9 percent, above the adjusted current-year amount. Chart 2 shows General Fund spending levels shown in the budget compared to adjusted spending levels from 1990-91 through 1992-93.

Chart 2

K-12 Education Funding
Adjusted for Shifts Across Fiscal Years
1990-91 through 1992-93



Spending by Major Programs

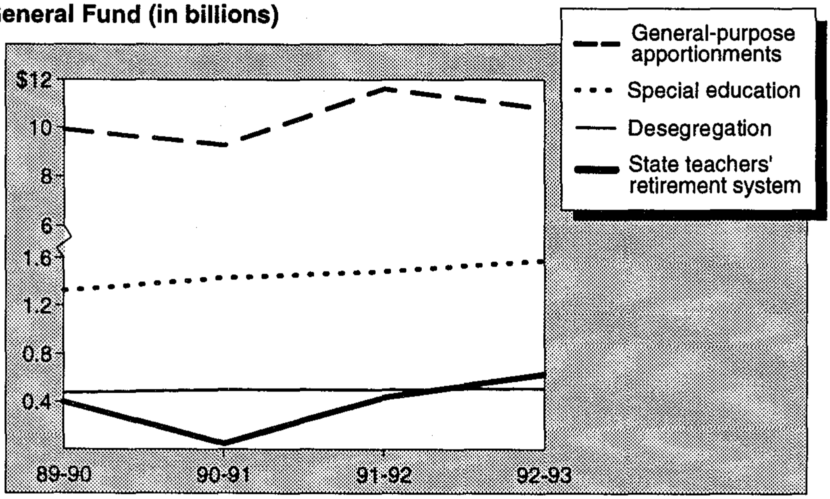
Chart 3 shows General Fund expenditures since 1989-90 for the major K-12 education programs. As the chart shows, general-purpose apportionments represent a large share of K-12 education spending. Spending for this program declined in 1990-91, increased in the current year, and is proposed to decline again in 1992-93. These fluctuations are due to the effect of the funding shifts discussed earlier.

The special education and desegregation programs both show growth during the four-year period. The portion of the State Teachers' Retirement System (STRS) funding shown in the K-12 budget has also fluctuated during the four-year period. The changes are due to a revision of the funding schedule for amortizing the system's unfunded liability, pursuant to the Elder STRS Full Funding Act (Ch 115/90, SB 1370, Cecil Green), and increases in the contribution required to fund the purchasing power protection program for retired teachers. (For a discussion of these programs' funding requirements, see our analysis of Item 1920 in this *Analysis*.)

Chart 3

K-12 Education Expenditures By Major Program 1989-90 through 1992-93

General Fund (in billions)



Factors Driving Program Costs

This section examines the specific factors responsible for increases in K-12 education expenditures in recent years, which also are likely to drive expenditures for the next several years.

The primary factors driving K-12 education program costs are specified in Proposition 98, as amended by Proposition 111. These measures generally require that total funding for K-12 schools and community colleges from state and local sources be no less than the amount provided in the prior year, as adjusted for enrollment growth and growth in California per capita personal income. The measures also provide for the minimum funding requirement to be based on K-14 education's 1986-87 share of General Fund revenues, if this would result in a higher amount, and provide for an automatic reduction to the minimum funding level in years of low General Fund revenue growth.

Under the basic Proposition 98 minimum funding guarantee formula, therefore, the level of General Fund support required for K-12 education is based on three factors: (1) K-12 enrollment growth, (2) per capita personal income growth, and (3) local property tax growth. Other things being equal, increases in the first two factors *increase* the required level of General Fund support, while increases in local property taxes *reduce* General Fund requirements on a dollar-for-dollar basis.

K-12 Enrollment Growth. The budget estimates K-12 enrollment growth of 4.2 percent, which *increases* the amount of General Fund support needed to comply with Proposition 98 by $766 million.

Per Capita Personal Income Growth. The budget estimates a reduction in California per capita personal income of 0.95 percent, which *reduces* the amount of General Fund support needed by $173 million.

Property Tax Growth. The budget estimates growth in school district property tax revenues of 12 percent, which *reduces* the amount of General Fund support needed by $648 million.

Major Budget Changes

Table 1 presents the major budget changes resulting in the net increase of $437 million in General Fund spending. The table shows that the major changes fall into several categories: (1) funding shifts from one year to another, (2) funding for enrollment growth and a 1.5 percent cost-of-living adjustment, (3) other cost and revenue changes, and (4) policy initiatives.

Table 1

K-12 Education Programs
Proposed Major Changes for 1992-93

Funding Shifts

- − $1,233 million to eliminate one-time shift from 1990-91 to the current year
- + $367 million to reflect proposed shift of $183 million in current-year spending to 1992-93

Enrollment and Cost-of Living Adjustments

- + $870 million for enrollment increases
- + $325 million for a 1.5 percent cost-of-living adjustment

Other Cost and Revenue Changes

- + $220 million to pay State Teachers' Retirement System costs
- + $108 million for additional payments on general obligation bonds
- + $70 million for state-mandated local programs
- + $67 million for current-year deficiencies
- − $365 million due to increases in local property tax collections

Policy Initiatives

- + $200 million for a Proposition 98 reserve
- + $90 million for Governor's initiatives
- + $38 million for increased summer school attendance
- + $28 million to provide school restructuring demonstration programs
- + $24 million to expand subject matter projects
- + $23 million for an augmentation for deferred maintenance
- − $299 million due to a proposal to shift property tax revenues from "enterprise special districts" to school districts
- − $80 million net due to changes in attendance accounting

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. A fuller discussion of these issues follows in this overview and our analysis of various education budget items.

- ***Proposition 98.*** The budget proposes full funding of Proposition 98. However, the estimate of the minimum funding guarantee amount for the current year is likely to be reduced due to General Fund revenue changes. The minimum funding guarantee amount for 1992-93 may also be reduced. This raises the question of whether proposed education spending should be reduced in line with the reduction in the minimum funding guarantee. (See following discussion in this overview.)
- ***Accrual Revenues.*** Excluding $1.7 billion in accrual revenues from the Proposition 98 calculations could reduce the 1991-92 Proposition 98 minimum funding guarantee by $945 million and substantially increase the Legislature's flexibility in dealing with the state's budget problems. Action to exclude accrual revenues would have the effect of reducing General Fund revenues for purposes of the Proposition 98 calculations. This reduction would be in addition to any General Fund revenue losses that may be caused by delayed economic recovery. (See following discussion in this overview.)
- ***Options for Spending Reductions.*** Achieving spending reductions potentially in the billion dollar range would not be easy. Cost-of-living adjustments, policy proposals, and Proposition 98 reserves add up to a total of around $1 billion. We identify several other possible reductions in our analysis of the Department of Education (Item 6110) and our recent publication, *Options for Addressing the State's Fiscal Problem.*
- ***Property Tax Proposals.*** The budget assumes enactment of three proposals involving property tax collections. The largest of these proposals involves shifting $299 million in revenues from enterprise special districts to schools (the proposal also involves $48 million for community colleges). The Legislature could free up $46 million for non-Proposition 98 purposes by counting the increased property taxes resulting from the two smaller budget proposals towards Proposition 98 spending requirements. (See following discussion in this overview.)
- ***Cost-of-Living Adjustments (COLAs) for Revenue Limits.*** Actual percentage increases in school district funding will be significantly less than the 1.5 percent provided in the budget. This is primarily due to the elimination of available one-time funding in the current year from two Public Employees' Retirement System accounts. (See Item 6110, Department of Education.)

- ***Health Education Technology.*** The budget proposes $10 million to acquire laser disk technology for schools to provide health education. This technology does not appear to offer any significant advantage over videotape technology that would justify the costs involved. (See Item 6110, Department of Education.)
- ***Preschool Expansion.*** Due to delays in start-up of these programs, $22 million in current-year funds will not be spent. These funds could be used in the budget year to fund a portion of the Governor's proposed expansion of the Preschool Program. (See Item 6110, Department of Education.)
- ***Healthy Start.*** Under the budget proposal, this program would receive $38 million more in the first two years of operation than the amount authorized in statute. Elimination of this amount would leave sufficient funding to support this program in the current and budget years. (See Item 6110, Department of Education.)
- ***Adult Education Concurrent Enrollment.*** The Budget Bill imposes standards related to funding of students who are concurrently enrolled in adult education and high school. We estimate that this proposal will result in savings of $55.9 million that are not reflected in the budget. (See Item 6110, Department of Education.)
- ***Supplemental Grants.*** By providing "level-up" aid to equalize categorical program spending, this program is directly contrary to the intent of the categorical programs. Elimination of this program would save $185.4 million. (See Item 6110, Department of Education.)
- ***Lease-Purchase Program Backlog.*** Absent any changes in state funding assistance requirements, the $1.6 billion in additional bonds proposed by the administration will leave a multi-billion dollar backlog of funding requests for school facilities. (See Item 6350, School Facilities Aid Program.)
- ***Proposed Constitutional Amendment.*** Shifting to a simple majority, rather than two-thirds, vote for local school bond measures would increase districts' ability to fund facilities with local resources. (See Item 6350, School Facilities Aid Program.)
- ***Deferred Maintenance.*** The budget overstates the amount of funds that will be available for deferred maintenance by $50 million over the two-year period of 1991-92 through 1992-93. The Proposition 98 guarantee is, therefore, underfunded by $50 million. (See Item 6350, School Facilities Aid Program.)

Other Budget Issues

Ten-Year Funding History

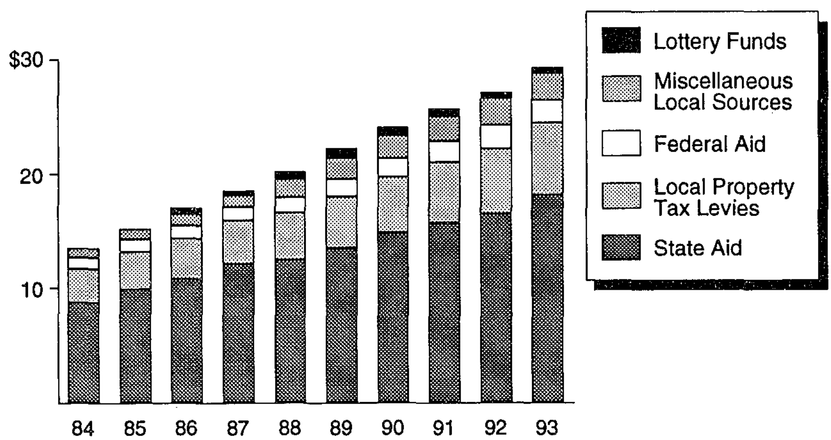
Funding From All Sources

Chart 4 and Table 2 provide a 10-year history of funding for K-12 education programs from all funding sources. This funding history differs from the information provided earlier in this overview section because it (1) includes all funding sources, not just the state General Fund, (2) covers a longer time period, and (3) shows funding in the years when it was actually allocated to school districts, rather than the year the funding is shown as an expenditure in the Governor's Budget. (These are different due to the funding shifts across fiscal years discussed earlier.) The chart and table show that funding from all sources has increased by a total of 116 percent since 1983-84. The largest percentage increase has been in miscellaneous local sources. This category includes local revenues such as interest income, developer fees, cafeteria revenues, revenues from the sale of property and supplies, and other revenues.

Chart 4

K-12 Education Funding By Funding Source 1983-84 through 1992-93[a]

(in billions)



[a] Data are for fiscal years ending in years shown.

Table 2

K-12 Education Funding By Funding Source 1983-84 through 1992-93

(dollars in millions)

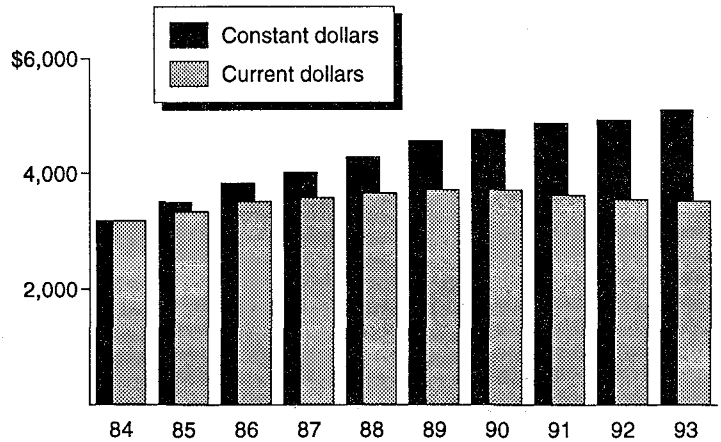
	State Funds	Local Property Tax Levies	Lottery Funds	Federal Funds	Other Local Sources	Total
1983-84	$8,724	$2,976	—	$1,017	$859	$13,575
1984-85	9,940	3,298	—	1,095	918	15,251
1985-86	10,805	3,596	$556	1,126	1,003	17,085
1986-87	12,174	3,804	411	1,167	979	18,535
1987-88	12,486	4,132	651	1,345	1,617	20,231
1988-89	13,568	4,498	834	1,517	1,807	22,224
1989-90	14,875	4,830	789	1,634	2,003	24,131
1990-91 (estimated)	15,743	5,312	621	1,804	2,221	25,701
1991-92 (estimated)	16,533	5,644	485	2,090	2,336	27,088
1992-93 (budgeted)	18,173	6,292	485	2,011	2,336	29,297
Cumulative change						
Amount	$9,449	$3,317	$485	$994	$1,477	$15,721
Percent	108.3%	111.5%	—	97.8%	172.0%	115.8%

Funding Adjusted For Inflation and Enrollment Growth

Chart 5 and Table 3 show funding on a per-ADA basis, both for current dollars and constant (inflation-adjusted) dollars. They show that per-ADA funding in inflation-adjusted dollars will have increased by 11 percent during the 10-year period, despite a downward trend in per-ADA funding that began in 1990-91.

Chart 5

K-12 Education Funding per ADA In Current and Constant Dollars 1983-84 through 1992-93[a]



[a] Data are for fiscal years ending in years shown.

Table 3

K-12 Education Funding Per ADA In Current and Constant Dollars 1983-84 through 1992-93

(ADA in thousands, total funding in millions)

		Current Dollar		Constant Dollars	
	ADA	Total Funding	Funding Per ADA	Total Funding	Funding Per ADA
1983-84	4,261	$13,575	$3,186	$13,575	$3,186
1984-85	4,353	15,251	3,504	14,559	3,345
1985-86	4,470	17,085	3,822	15,709	3,514
1986-87	4,612	18,535	4,019	16,518	3,582
1987-88	4,723	20,231	4,284	17,269	3,657
1988-89	4,872	22,224	4,562	18,066	3,708
1989-90	5,060	24,131	4,769	18,763	3,708
1990-91 (estimated)	5,265	25,701	4,881	19,098	3,627
1991-92 (estimated)	5,478	27,088	4,945	19,429	3,547
1992-93 (budgeted)	5,728	29,297	5,115	20,190	3,525
Cumulative change					
Amount	1,467	$15,721	$1,929	$6,614	$339.0
Percent	35.4%	115.8%	60.5%	48.7%	10.6%

Proposition 98

Proposition 98, the "Classroom Instructional Accountability and Improvement Act of 1988," establishes a constitutionally guaranteed minimum level of funding for K-12 schools and community colleges in 1988-89 and thereafter. Proposition 98 was amended by Proposition 111 of 1989 and implemented by various legislative statutes.

Overview of Proposition 98

Minimum Funding Guarantee. The core of Proposition 98 is the minimum funding guarantee, which is determined based on one of three so-called "tests."

As amended, Proposition 98 guarantees K-14 education a level of funding based on the *greater* of:

- *Test 1 — Percentage of General Fund Revenues.* This is defined as the 1986-87 percentage of General Fund tax revenues provided K-14 education — about 40 percent.

- ***Test 2 — Maintenance of Prior-Year Service Levels.*** This is defined as the prior-year level of total funding for K-14 education from state and local sources, adjusted for enrollment growth and for growth in per capita personal income.

In low-revenue years, defined as years in which General Fund revenue growth per capita is more than one-half percentage point *below* growth in per capita personal income, the minimum funding guarantee is based on:

- ***Test 3 — Adjustment Based on Available Revenues.*** This is defined as the prior-year total level of funding for K-14 education from state and local sources, adjusted for enrollment growth and for growth in General Fund revenues per capita, *plus* one-half percent of the prior-year level. However, the increase in per-pupil funding must be at least equal to the increase in per capita expenditures for all other General Fund-supported programs. This per-pupil funding floor (the so-called "equal pain, equal gain" provision) was intended to ensure that K-14 education is treated no worse, in years of low revenue growth, than are other segments of the state budget.

Suspension. Proposition 98 provides that the minimum funding guarantee may be suspended for one year, through urgency legislation, in a bill other than the Budget Bill. The Legislature may suspend the minimum funding guarantee for any reason that meets the general criterion for urgency legislation specified in the California Constitution ("necessary for the immediate preservation of the public peace, health, or safety"). Once the minimum funding guarantee is suspended, which requires a two-thirds vote of each house, the Legislature may appropriate any level of funding for K-14 education.

Restoration. In years following a suspension or use of Test 3, the state may have to make specified minimum payments toward restoring K-14 education funding to the level that would have been required had funding not been reduced.

In practice, the process of suspension and restoration works as follows:

- ***Creation of a "Maintenance Factor."*** In any year in which funding for the minimum guarantee is reduced below the level that would otherwise have been required by either Test 1 or Test 2, a "maintenance factor" is created in an amount equal to the underfunding.

- ***Computation of Guarantee.*** In the following year, the minimum funding guarantee is computed using Test 1, 2, or 3 (as appropriate), with the prior year's *actual* (reduced) level of funding as the new "base."

- ***Computation of Adjusted Maintenance Factor.*** The amount of the maintenance factor is increased annually, using the adjustment factors specified in Test 2 (enrollment growth and growth in per capita personal income).

- *Minimum Restoration Payment.* In any year in which General Fund revenue growth per capita exceeds per capita personal income growth, the state must make a minimum payment towards restoring the maintenance factor, equal to one-half of the difference in these growth rates, times total General Fund tax proceeds. The restoration payment serves to reduce the amount of any maintenance factor outstanding.

The restoration payments serve to restore K-14 education funding to pre-reduction levels (as adjusted for enrollment growth and inflation). Amounts that the state saves due to suspension or use of Test 3 do not have to be repaid.

Proposition 98 Funding Shifts Between 1990-91 and 1991-92

Estimating the proper level of funding for Proposition 98 minimum funding requirements has proven extremely difficult. The estimated level of Proposition 98 minimum funding requirements in 1990-91 dropped by over $1.8 billion between the time the 1990 Budget Bill was enacted in July 1990 and the May 1991 estimates near the close of the fiscal year. This was largely the result of a $4.3 billion decline in estimated General Fund tax revenues during that period.

Despite a substantial Proposition 98 reserve in 1990-91, the state still faced a situation where the 1990-91 Proposition 98 guarantee was overfunded by over $1.3 billion. To correct this situation, the Legislature enacted legislation that:

- Counted $133 million of the $1.3 billion "overfunding" towards amounts then owed to fulfill the 1989-90 Proposition 98 guarantee.
- Reduced funding for schools by $1.2 billion in 1990-91 while simultaneously providing schools an equivalent "loan" in 1990-91 from funds counting towards the 1991-92 guarantee. The effect of this transaction was to shift $1.2 billion of the excess 1990-91 funding across fiscal years to fund the 1991-92 Proposition 98 guarantee.

Because the 1990-91 funding level was based on "Test 3," a "maintenance factor" was created amounting to $1.6 billion. The proposed budget reflects required restoration payments in 1991-92 and 1992-93 to restore K-14 education funding to pre-reduction levels.

Budget Proposes a Funding Shift Between 1991-92 and 1992-93

The budget proposes full funding of Proposition 98 under "Test 2" in 1992-93.

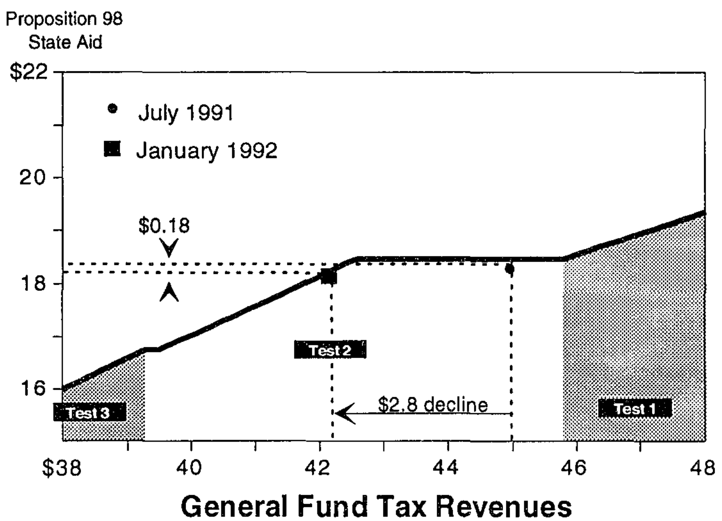
As was the case in 1990-91, estimates of the 1991-92 level of General Fund tax revenues have declined since the time the Budget Bill was enacted. A $2.8 billion decline in estimated General Fund tax revenues has reduced the Proposition 98 minimum funding requirement for the current year by $183 million, according to administration estimates.

Chart 6 shows how the Proposition 98 guarantee varies based on General Fund revenue projections in 1991-92. The guarantee amount shown in the "Test 2" area of the chart includes the required restoration payment. As Chart 6 shows, the $2.8 billion revenue decline has placed the Proposition 98 guarantee level just into the sloping portion of the Test 2 line — a reduction of $183 million in the guarantee.

Chart 6

Proposition 98 Funding Guarantee 1991-92

(in billions)



In 1992-93, the administration proposes to fully fund Proposition 98 minimum funding requirements, in part by proposing legislation to shift the $183 million estimated 1991-92 "excess" towards funding the 1992-93 guarantee. Presumably this legislation will be similar to the legislation that effected the $1.2 billion shift from 1990-91 into 1991-92. Chart 7 shows how the Proposition 98 guarantee varies with General Fund revenue projections in 1992-93. The chart identifies the restoration payment required in 1992-93. (This is a residual amount that, based on formulas in Proposition 98, wascarried over from 1991-92.) As Chart 7 shows, the administration estimates that General Fund tax revenues will be $44.7 billion in 1992-93 and that this estimate will result in a "Test 2" state General Fund Proposition 98 funding level of $18.3 billion. Adding an estimated $240 million "restoration" payment yields a total state General Fund Proposition 98 obligation of $18.5 billion.

Table 4 shows that the budget proposes a total of $25.4 billion in state and local funding counting towards Proposition 98 in 1992-93, an increase of $1 billion, or 3.4 percent. Most of this increase is funded by growth in estimated local property tax receipts; the state General Fund share increases by only $283 million, or 1.6 percent.

Chart 7

Proposition 98 Funding Guarantee 1992-93

(in billions)

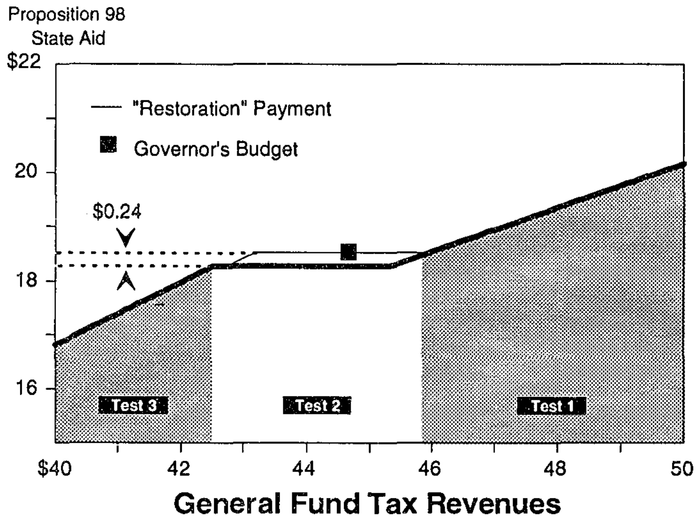


Table 4

Proposition 98
State and Local Funding
1990-91 through 1992-93

(dollars in millions)

	1990-91 (Estimated)	1991-92 (Estimated)	1992-93 (Proposed)	Change From 1991-92	Percent Change From 1991-92
K-12 schools					
General Fund	$13,553	$16,478	$16,588	$110	-0.7%
Local property taxes	4,949	5,262	5,901	640	12.2
Subtotals	($18,503)	($21,740)	($22,490)	($749)	(3.4%)
Community colleges					
General Fund	$1,714	$1,694	$1,866	$172	10.2%
Local property taxes	791	844	947	103	12.2
Subtotals	($2,505)	($2,538)	($2,813)	($275)	(10.8%)
Other agencies					
General Fund	$62	$65	$66	$1	1.4%
Totals	**$21,070**	**$24,343**	**$25,369**	**$1,025**	**4.2%**
General Fund	*$15,330*	*$18,237*	*$18,520*	*$283*	*1.6%*
Local property taxes	*5,740*	*6,106*	*6,849*	*743*	*12.2*
Adjustments to exclude effects of funding shifts					
1991-92 funding shift	$1,233	-$1,233	—	$1,233	-100.0%
Proposed 1992-93 funding shift	—	183	-$183	-367	—[a]
Adjusted totals[b]	**$22,303**	**$23,294**	**$25,185**	**$1,892**	**8.1%**

[a] Not a meaningful figure.
[b] Details may not add to totals due to rounding.

Table 4 also shows Proposition 98 funding adjusted for shifts across fiscal years. These amounts provide a truer picture of funding actually provided to schools and community colleges. The table shows that adjusted Proposition 98 spending from all funds is proposed to increase by $1.9 billion, or 8.1 percent. Adjusted General Fund spending increases by $1.1 billion, or 6.7 percent.

Revenue Estimates May Decline Further

The estimate of the Proposition 98 guarantee amount for the current year is likely to decline due to General Fund revenue changes, which raises the question of whether proposed education spending should be reduced in line with the reduction in the minimum funding guarantee.

In the companion document to this *Analysis, The 1992-93 Budget: Perspectives and Issues,* we identify a number of factors that are likely to lead to reductions in the estimates of General Fund revenues in the current year and 1992-93. Chief among these factors is a soft economy.

As shown in Charts 6 and 7, any reduction in General Fund revenues for the current year would result in declines in the Proposition 98 guarantee amount for 1991-92 and possibly 1992-93. Reductions solely in 1992-93 revenues would result in a decline in the Proposition 98 guarantee amount if the revenue reduction exceeds $1.5 billion.

Declines in the Proposition 98 guarantee amount do not, by themselves, require spending reductions. However, it is likely that the Legislature would be forced to consider reductions in proposed education spending to correspond with reductions in the Proposition 98 guarantee amount due to spending pressures in the non-Proposition 98 portion of the budget. The primary areas for reductions might include:

- Cost-of-living adjustments of 1.5 percent: $363 million ($325 million in K-12 schools and $38 million in the community colleges).
- Policy proposals: $421 million ($246 million in K-12 schools and $175 million in the community colleges).
- Proposition 98 reserves: $210 million ($200 million in K-12 schools and $10 million in the community colleges).

Reductions exceeding these amounts would require reductions in "base" program spending. We identify several additional options for reductions in our analysis of the Department of Education budget (please see Item 6110) and our recent publication, *Options for Addressing the State's Fiscal Problem.*

The administration plans to submit revised estimates of General Fund revenues and the Proposition 98 minimum funding guarantee, together with a revised spending plan to accommodate the revised revenue estimates in May.

Accrual Accounting

Excluding $1.7 billion in accrual revenues could reduce the 1991-92 Proposition 98 minimum funding requirement by $945 million and substantially increase the Legislature's flexibility in dealing with the state's budget problems.

State General Fund revenues were augmented in the 1991-92 budget year by an estimated $1.7 billion due to changes in the state's accounting practices. These changes allow the state to count revenues as received by the state when they are *earned* instead of when the state *receives* the actual cash.

The effect of this change is a one-time increase in 1991-92 state General Fund revenues. When the 1991-92 budget was enacted in July of 1991, the Legislature never explicitly addressed the issue of whether these one-time $1.7 billion in accrual revenues should count as General Fund tax revenues when calculating the Proposition 98 guarantee. In July 1991, whether or not to count accrual revenues was irrelevant in determining the level of the guarantee, because excluding the $1.7 billion from General Fund revenues would still have yielded the same Test 2 guarantee level.

Since July 1991, however, General Fund revenues (including accruals) have dropped by an estimated $2.8 billion according to administration estimates. This decline, as noted above and shown on Chart 6, has placed the guarantee on the sloping portion of the line denoting the minimum funding level. Thus, any further decline in General Fund revenues causes a decline in the Proposition 98 minimum funding level. In contrast to July 1991, whether to count the $1.7 billion in accrual revenues is now a critical question in determining the Proposition 98 minimum funding level.

The administration's proposed budget *includes* the $1.7 billion in accrual revenues in its definition of General Fund revenues used to determine the Proposition 98 guarantee. The Legislature has the option, however, of *excluding* the $1.7 billion in accrual revenues from General Fund revenues used to determine the guarantee. Action to exclude accrual revenues would have the effect of reducing General Fund revenues for purposes of the Proposition 98 calculations. This reduction would be in addition to any General Fund revenue losses that may be caused by delayed economic recovery.

We estimate that if the Legislature were to enact legislation to exclude these revenues, the Proposition 98 minimum funding level in 1991-92 would decline by $945 billion below current administration estimates. Capturing these savings in 1991-92 would be very difficult and would likely cause extreme financial problems for school districts that have few options to reduce their expenditures in the current year. The Legislature could, however, increase the amount of funds otherwise shifted from 1991-92 to 1992-93 to account for revenue shortfalls by up to $945 million. This increased flexibility could be translated into one-time savings to the state, if combined with reductions in Proposition 98 education expenditures below levels proposed in the 1992-93 budget.

Achieving reductions of up to $945 million in Proposition 98 programs in 1992-93, above reductions that might otherwise be taken, would not be easy. As discussed earlier, the primary targets for reductions might be cost-of-living adjustments, policy proposals, and Proposition 98 reserves. Reductions possible from these actions are $994 million.

Enterprise Special District Proposal

Of the $742 million estimated increase in local property tax revenue, nearly half is attributable to the administration's proposed shift of $347 million of local property tax revenue from enterprise special districts to K-14 districts. This proposal is discussed in more detail in Part Two of the companion volume to this book, *The 1992-93 Budget: Perspectives and Issues.*

Department of Education
Item 6110

Expenditures

Requested 1992-93	$24,873,621,000
Estimated 1991-92	24,272,054,000
Actual 1990-91	21,180,763,000

Requested increase $601,567,000 (+2.5 percent)

Fiscal Recommendations

Total recommended reduction	$319,150,000

MAJOR ISSUES

- **Property Tax Proposals.** The Legislature could free up $46 million for non-Proposition 98 purposes by counting increased property taxes resulting from two budget proposals towards Proposition 98 spending requirements.
- **Cost-of-Living Adjustments for Revenue Limits.** Actual percentage increases in school district funding will be significantly less than the 1.5 percent provided in the budget. The details of the administration's proposed legislation regarding cost-of-living adjustments could have a significant effect on individual district allocations.
- **Health Education Technology.** The budget proposes $10 million to acquire laser disk technology for schools to provide health education. This technology does not appear to offer any significant advantage over videotape technology that would justify the costs involved.
- **Preschool Expansion.** Due to delays in start-up of these programs, $22 million in current-year funds will not be spent.

Continued

DEPARTMENT OF EDUCATION—Continued

- **Adult Education Concurrent Enrollment.** The Budget Bill places restrictions on funding of students who are concurrently enrolled in adult education and high school. We estimate that this proposal will result in savings of $55.9 million that are not reflected in the budget.
- **Supplemental Grants.** By providing "level-up" aid to equalize categorical program spending, this program is directly contrary to the intent of the categorical programs.
- **Healthy Start.** Under the budget proposal, this program would receive $38 million more in the first two years of operation than the amount authorized in statute.

Education
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Findings and Recommendations

Analysis Page

General Education Programs

1. **Consistent Treatment of Property Tax Revenues Could Free Up $46 Million.** The budget assumes that increased property taxes resulting from one of three property tax-related proposals will count towards Proposition 98 requirements, thereby reducing General Fund obligations under Proposition 98. If the Legislature enacts the two other proposals, we recommend it treat any increased property taxes in a consistent manner, thereby freeing up $46 million for non-Proposition 98 purposes. 34
2. **COLA Confusion.** Actual percentage increases in school district budgets will be significantly less than the 1.5 percent provided in the budget. The details of the administration's proposed legislation regarding COLAs could have a significant effect on individual district allocations. 36
3. **No Funding for Students Who Skip Classes.** The budget reduces funding for revenue limits by $100 million, based on the assumption that strict compliance with current law attendance accounting requirements will result in a decline in reported attendance. 39
4. **Attendance Accounting Grants.** Recommend that the Legislature approve a proposal to provide $20 million for attendance accounting grants if it approves the $100 million reduction associated with strict compliance with current law requirements. 40
5. **Proposed Controls.** Recommend that the Legislature modify a proposed Budget Bill provision limiting transfer arrangements. 41
6. **Increase in Supplemental Summer School Funding.** The proposed augmentation in supplemental summer school funding is a cost-effective use of funds. 42

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7. **School Restructuring Demonstrations.** The amount of funding proposed for the school restructuring evaluation is insufficient to rigorously address the various evaluation questions specified in the program's authorizing legislation. 44
8. **Pupil Assessment.** Budget projections regarding the state's new assessment system are likely to be too low. 46

DEPARTMENT OF EDUCATION—Continued

9. **Health Education Technology. Reduce Item 6110-184-001 by $10 Million.** Recommend the deletion of $10 million requested from the General Fund for the acquisition of laser disk technology for health-related education, because the technology does not appear to offer any significant advantages over videotape technology that would justify the costs involved. 48

Teaching and Administration

10. **Professional Development Program. Reduce Item 6110-191-001(e) by $250,000.** Recommend that the Legislature reduce the amount proposed from the General Fund for the professional development programs by $250,000 because of technical overbudgeting. 51

11. **Redesigning Teacher Preparation Programs. Reduce Item 6110-197-001 by $1 Million.** Recommend that the Legislature delete $1 million proposed from the General Fund for redesigning teacher preparation programs because these funds should be appropriated through separate legislation. 51

Special Education

12. **Diagnostic Schools Funding Shift.** Although operating the diagnostic schools on a reimbursement basis has merit in concept, implementation as contemplated in the budget has a number of problems. 54

13. **Special Education Preschool Program.** A shortfall in federal funding for this program is indirectly requiring the state to support the program from the General Fund. Recommend that the department report at budget hearings on options available for reducing program costs, resolving funding problems in future years, and phasing out the program. 55

School Desegregation

14. **School Desegregation.** The proposed budget for desegregation is underfunded by $15.6 million. 59

Child Development

15. **Study Results Will Help in Evaluating New Staff:Child Ratios.** The Legislature will have additional information with which to evaluate the Governor's proposed change in staff:child ratios when it receives the results of the staff:child ratio study required by Ch 81/89 (SB 230, Roberti). 65

16. **Leftover Funds Available for Preschool Expansion. Reduce Item 6110-196-001 by $22 Million and Add Provision (4) to Item 6110-490.** If the Legislature decides to fund all or a 66

portion of the Governor's proposed $50 million preschool expansion, we recommend that $22 million in preschool funds that will not be awarded in the current year be reappropriated to fund a portion of the costs.

Adult Education

17. **Adult Education Concurrent Enrollment. Reduce Item 6110-101-001 by $55.9 Million.** Consistent with proposed Budget Bill language imposing standards on funding of concurrently enrolled students, recommend that the Legislature reduce funding for concurrent enrollment by $55.9 million. 70

Other Programs

18. **Year-Round Implementation Grants Overbudgeted. Reduce Item 6110-224-001 by $2.6 Million.** Recommend the deletion of $2.6 million from the General Fund for year-round school implementation grants to reflect a reduction in the number of schools that will convert to a year-round schedule in 1992-93. 72

19. **Supplemental Grants. Reduce Item 6110-108-001 by $185.4 Million.** Recommend that the Legislature not renew authority for the supplemental grants program because providing "level-up" aid to equalize categorical program spending is directly contrary to the intent of the categorical programs, for a General Fund savings of $185.4 million in 1992-93. 73

20. **Healthy Start. Reduce Item 6110-200-001 by $38 Million.** Recommend that the Legislature reduce General Fund support for this program by $38 million to comply with funding policies set forth in current law. 74

21. **Prenatal Substance Abuse Education. Reduce Item 6110-183-001 by $4 Million.** Recommend the deletion of $4 million requested from the General Fund for prenatal substance abuse education because school district costs are likely to be minor. 75

22. **Proposed Elimination of Proposition 99 Funds.** If the Legislature wishes to restore funding for SDE-administered health education programs from Proposition 99 funds, it must either reduce Department of Health Services (DHS) health education programs or identify a different funding source for Medi-Cal perinatal services. 76

DEPARTMENT OF EDUCATION—Continued

General Program Statement

The State Department of Education is responsible for providing funding, oversight, and technical assistance to the state's 1,013 school districts and 58 county offices of education.

Table 1 shows that average daily attendance (ADA) in California's public schools is projected to be 4.6 percent higher in 1992-93 than in 1991-92. This increase is double the projected growth in California's civilian population (2.3 percent). The most rapidly growing component of ADA is supplemental summer school ADA, which is projected to increase by 49 percent, primarily due to a budget proposal for a major expansion of this program.

Table 1

**Department of Education
Annual Average Daily Attendance
in California Public Schools
1990-91 through 1992-93**

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Elementary	3,513,166	3,660,700	3,817,600	4.3%
High school	1,344,897	1,396,100	1,450,300	3.9
Supplemental summer school	52,246	54,383	80,933	48.8
Adult education	213,571	218,910	224,383	2.5
County	25,795	27,573	29,728	7.8
Regional occupational centers and programs	115,699	120,327	125,140	4.0
Totals	**5,265,374**	**5,477,993**	**5,728,084**	**4.6%**

Excluding the growth in supplemental summer school ADA, the remaining ADA is projected to grow by 4.1 percent. (Due to technical differences in the definition of ADA, this figure differs from the 4.2 percent ADA increase that is used to calculate the Proposition 98 minimum funding guarantee for 1992-93.)

Overview of the Budget Request

The budget for the State Department of Education funds enrollment growth, a 1.5 percent cost-of-living adjustment (COLA), and a number of policy initiatives.

The budget proposes $24.9 billion for the State Department of Education (SDE), including $16.4 billion from the General Fund. This is an increase of $602 million, or 2.5 percent, above estimated expenditures in the current year. The increase is primarily supported by additional revenue from local property taxes; the increase in General Fund expenditures is proposed to be only $28 million, or 0.2 percent.

Table 2 shows the department's budget by program and funding source. As shown in the table, local assistance expenditures are proposed to increase by $615 million (2.5 percent), while state operations expenditures are proposed to decline by $13 million (8.3 percent).

Table 2

Department of Education Budget Summary 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Local Assistance				
General education	$14,410.6	$16,955.2	$17,159.6	1.2%
Classroom instruction	510.2	527.1	631.1	19.7
Teaching and administration	107.6	119.1	166.1	39.5
Special education	2,114.6	2,227.9	2,408.7	8.1
Vocational education	335.7	343.9	359.2	4.5
Compensatory education	876.0	963.9	1,006.0	4.4
School desegregation	502.9	505.3	519.3	2.8
Transportation	332.0	343.7	343.7	—
Child nutrition	706.0	820.8	828.7	1.0
Child development	365.5	494.7	560.0	13.2
Adult education	395.9	372.0	329.0	-11.6
Other programs	377.5	440.7	417.5	-5.3
Subtotals	($21,034.6)	($24,114.1)	($24,728.8)	(2.5%)
State Operations	146.1	158.0	144.8	-8.3
Totals	**$21,180.8**	**$24,272.1**	**$24,873.6**	**2.5%**
General Fund	*$13,764.5*	*$16,403.0*	*$16,431.1*	*0.2%*
Federal funds	*1,732.6*	*1,979.1*	*1,937.4*	*-2.1*
Lottery funds	*620.5*	*484.9*	*484.9*	*—*
Local property tax revenues	*5,006.7*	*5,339.4*	*5,987.1*	*12.1*
Special funds	*56.4*	*65.7*	*33.2*	*-49.4*

DEPARTMENT OF EDUCATION—Continued

Table 3 shows the components of the $615 million net increase in proposed total local assistance support for K-12 local education agencies in 1992-93. The increase is due to (1) a net reduction of $866 million to reflect funding "shifts" across fiscal years to ensure compliance with Proposition 98 minimum funding requirements, (2) an augmentation of $870 million to fund statutory growth in K-12 programs, (3) an augmentation of $325 million for a 1.5 percent COLA, and (4) additional funding for various policy initiatives.

Table 3

Department of Education
Proposed 1992-93 Budget Changes

(dollars in millions)

	General Fund	Other Funds	Total
1991-92 Expenditures (revised)	$16,315.9	$7,798.1	$24,114.1
Proposition 98 funding shifts			
Shift from 1990-91 to 1991-92	-1,233.0	—	-1,233.0
Proposed shift from 1991-92 to 1992-93	366.6	—	366.6
Cost and workload changes			
Enrollment/ADA increases	870.3	—	870.3
Increase in local property taxes	-292.1	348.5	56.4
Revenue limits COLA (1.5 percent)	260.5	—	260.5
Other COLAs (1.5 percent)	64.0	—	64.0
Year-round schools workload	11.7	—	11.7
Special education reductions due to revenue limit changes	-22.5	—	-22.5
Special education baseline adjustment	7.7	—	7.7
Other baseline adjustments			
Revenue limit deficiency	42.1	—	42.1
One-time appropriations—1991-92	-30.2	—	-30.2
Special education deficiencies	18.4	—	18.4
Special education federal funding changes	-6.0	14.8	8.8
Oakland desegregation program	7.8	—	7.8
Other changes	-0.6	-0.5	-1.1
Tax-related proposals			
Enterprise special district tax shift	-299.3	299.3	—
Delinquent taxes	-15.0	—	-15.0
Redevelopment agency tax changes	-10.0	—	-10.0

Continued

	General Fund	Other Funds	Total
Program changes			
Proposition 98 reserve	151.3	—	151.3
Attendance accounting—compliance	-100.0	—	-100.0
Attendance accounting grants	20.0	—	20.0
Governor's initiatives	90.0	—	90.0
Expand supplemental summer school	37.7	—	37.7
Joint K-12/university programs	28.2	—	28.2
School restructuring	28.0	—	28.0
Year-round schools grant reduction	-17.7	—	-17.7
Staff development proposals	15.1	—	15.1
Instructional materials	15.0	—	15.0
New assessment system	14.8	—	14.8
Diagnostic schools funding shift	8.9	—	8.9
School breakfast program	3.0	—	3.0
Specialized secondary schools	3.0	—	3.0
Partnership academies	2.3	—	2.3
Other proposals	0.6	-1.6	-1.0
Program reductions			
Regional Science Resource Center (Exploratorium)	-0.6	—	-0.6
Driver training	—	-10.0	-10.0
Immigration Reform and Control Act	—	-55.0	-55.0
Tobacco use prevention	—	-20.7	-20.7
1992-93 Expenditures (proposed)	**$16,356.0**	**$8,372.8**	**$24,728.8**
Change from 1991-92			
Amount	$40.1	$574.6	$614.7
Percent	0.2%	7.4%	2.5%

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 8 percent from the General Fund state operations budget in 1991-92. (This reduction is 4.6 percent of the department's state operations budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Cost-of-Living Adjustments. The $325 million proposed to fund a 1.5 percent COLA would be in lieu of the estimated 3.85 percent statutorily required COLA for K-12 programs. The administration has said it will propose legislation to set the 1992-93 statutory COLA to the 1.5 percent level. Fully funding the estimated 3.85 percent statutory COLA would cost $832 million, or $508 million over the amount provided in the proposed budget.

DEPARTMENT OF EDUCATION—Continued

Analysis and Recommendations

General Education Programs

The budget funds statutory growth and a 1.5 percent COLA, in part using property tax funds proposed to be shifted from enterprise special districts to schools.

General education programs include general-purpose apportionments to school districts and county offices of education, and other education funding programs such as the California State Lottery which provide funding that can be used by local education agencies at their discretion with few "strings attached."

Table 4 shows that the budget proposes a total of $17.2 billion from all funding sources for general education local assistance. This is an increase of $204 million, or 1.2 percent, above estimated expenditures in the current year. The table also shows that state General Fund contributions towards general education programs decline by 3.7 percent under the proposed budget, while local property tax support for general education programs increases by 12 percent. The local property tax increase is a result of (1) growth in assessed valuation in the tax base and (2) an administration proposal (discussed in more detail below) to shift property tax revenue from "enterprise" special districts to local education agencies.

These expenditure figures are influenced by funding "shifts" across fiscal years to ensure compliance with Proposition 98 minimum funding requirements. (Please see our discussion of Proposition 98 in the K-12 overview section preceding this item.) When these shifts are excluded, to provide a truer picture of actual funding for general education programs, funding from all sources would increase by $1.1 billion (6.7 percent) and state General Fund contributions would increase by $443 million (4.3 percent).

General-Purpose Apportionments. These programs provide the largest single source of funds for local education agencies. Most apportionments funding is provided through the "revenue limit" system. In this system, school districts receive funding based on a specific per-ADA amount known as a revenue limit. Revenue limits are funded by a combination of local property taxes and state aid. In a typical school district, local property taxes fund approximately one-third of the revenue limit. State funding makes up the difference between each district's property tax revenues and its revenue limit.

Table 4

Department of Education General Education Programs Local Assistance 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
General-purpose apportionments				
K-12 districts	$14,629.9	$15,000.5	$15,838.2	5.6%
County offices of education	297.5	291.3	305.6	4.9
Supplemental summer school	76.3	78.6	127.0	61.6
Lottery revenues	620.4	484.8	484.8	—
Proposition 98 reserve	—	48.7	200.0	310.3
Attendance improvement grants	—	—	20.0	—[a]
Legislation	-10.2	0.3	-0.7	-318.5
Richmond loans	28.5	—	—	—
Unemployment insurance expenditures	1.2	1.3	1.3	—
Subtotals	($15,643.6)	($15,905.5)	($16,976.3)	(6.7%)
Proposition 98 funding shifts				
Shift from 1990-91 to 1991-92	-1,233.0	1,233.0	—	-100.0
Proposed shift from 1991-92 to 1992-93	—	-183.3	183.3	—[a]
Totals	**$14,410.6**	**$16,955.2**	**$17,159.6**	**1.2%**
General Fund	*$9,034.5*	*$11,384.9*	*$10,965.5*	*-3.7%*
Local funds	*4,750.9*	*5,069.8*	*5,693.5*	*12.3*
State Lottery Education Fund	*620.4*	*484.8*	*484.8*	—
State School Fund	*13.1*	*14.4*	*14.4*	—
Special Deposit Fund	*1.2*	*1.3*	*1.3*	—
Special Account for Capital Outlay	*-9.5*	—	—	—

[a] Not a meaningful figure.

Funding for general-purpose school apportionments increases by 5.6 percent under the proposed budget. The bulk of this increase is attributable to funding 4.2 percent growth in average daily attendance (ADA) in K-12 schools and a 1.5 percent COLA.

Budget Assumes Enactment of Three Proposed Property Tax Changes

The budget assumes that enactment of three legislative proposals involving the allocation of additional property taxes to schools will reduce General Fund school apportionments spending by $324 million in 1992-93. The budget assumes that increased property taxes resulting from one of the proposals will count towards Proposition 98 requirements, thereby reducing General Fund obligations under Proposition 98. If the Legislature enacts the two other proposals, we recommend it treat any increased property taxes in a consistent manner, thereby freeing up $46 million for non-Proposition 98 purposes.

In the revenue limit system, each additional dollar of property tax revenues allocated to local education agencies results in a dollar of General Fund savings. Similarly, under Proposition 98, in "Test 2" and "Test 3" years, each additional local property tax dollar results in a dollar reduction in the General Fund support required to meet the Proposition 98 minimum funding guarantee.

The budget assumes enactment of three legislative proposals involving allocation of property taxes to schools. At the time this analysis was prepared (February 1992), the administration had not yet introduced the legislation necessary to implement the property tax changes. According to the Department of Finance (DOF), the proposed legislation would:

- Shift property tax revenue from enterprise special districts to schools and community colleges. (This proposal is discussed in more detail in Part Two of the companion volume to this book, *The 1992-93 Budget: Perspectives and Issues.*) According to the budget, this proposal would generate $299 million for K-12 schools and $48 million for community colleges beginning in 1992-93.
- Shift, starting in 1991-92, property tax delinquency penalties and interest paid on judgments for the recovery of unpaid property taxes from counties to schools and count them as local property tax revenue. This legislation would amend or repeal provisions of Ch 1230/89 (AB 2372, Hannigan) which declared that these penalties and interest are not property taxes. According to the budget, this proposal would increase revenues to schools and reduce revenues to counties by an estimated $15 million in 1991-92 and $15 million in 1992-93.
- Require that, starting in 1991-92, tax increment revenues distributed to school districts by redevelopment agencies via so-called "pass-through" agreements count as property tax revenue. According to the budget, this proposal would increase revenues to schools by $6 million in 1991-92 and $10 million in 1992-93.

Table 5 summarizes the effect of the proposals on both apportionments spending and Proposition 98, as assumed in the budget.

Table 5

Fiscal Effect of Property Tax Proposals General Fund Spending Reductions 1991-92 and 1992-93

(in millions)

	Effect on Proposition 98 Guarantee 1992-93	Effect on Apportionments Spending 1991-92	Effect on Apportionments Spending 1992-93
K-12 Schools			
Delinquent taxes/penalties	—	$15	$15
Redevelopment agencies	—	6	10
Enterprise special districts	$299	—	299
Subtotals	($299)	($21)	($324)
Community Colleges			
Enterprise special districts	$48	—	$48
Totals	**$347**	**$21**	**$372**

Effect on Apportionments. As shown in Table 5, the proposed budget presumes that the changes involving delinquency payments and redevelopment agency "pass-through funds" are enacted in 1991-92 and affect both the 1991-92 and 1992-93 fiscal years. The aggregate effect of the proposals on school apportionments is up to $21 million in 1991-92 and up to $324 million in 1992-93. The effect on community college apportionments is $48 million in 1992-93.

Effect on Proposition 98 Requirements. Table 5 shows that the administration proposes counting the $347 million in property tax revenue from enterprise special districts, including $299 million to be allocated to K-12 schools and $48 million to be allocated to community colleges, towards funding Proposition 98 minimum funding requirements in 1992-93.

The administration has not, however, proposed counting the property tax revenues from delinquent taxes and penalties or redevelopment agency "pass-through" agreements towards funding Proposition 98 minimum funding requirements. If the Legislature decides to enact these two changes, we recommend that it also reduce the required General Fund contribution to the 1991-92 and 1992-93 Proposition 98 guarantees by corresponding amounts. This would free up $46 million ($21 million from 1991-92 and $25 million from 1992-93) for non-Proposition 98 purposes. We note that to implement this recommendation, the Legislature would have to identify $46 million in reductions in Proposition 98 spending.

COLA Confusion

The actual percentage increases in school district budgets will be significantly less than the 1.5 percent provided in the budget. The details of the administration's proposed legislation regarding COLAs could have a significant effect on individual district allocations.

Actual Percentage Increase for COLAs Differs from Budgeted Percentage. The budget includes $260.5 million for a 1.5 percent COLA for revenue limits. The actual percentage increase in school district budgets would be around 0.3 percent, however, due to reductions in one-time funding available to school districts from two Public Employee Retirement System (PERS) accounts. Chapter 83, Statutes of 1991 (AB 702, Frizzelle), captures balances in two PERS accounts, and uses these "one-time" funds to pay employer PERS contributions in 1991-92 and part of 1992-93. Due to complex provisions in the apportionments system, this capture of PERS funds results in the funding of COLAs in school district budgets.

Table 6 provides a detailed summary of revenue limit COLAs from 1990-91 through 1992-93. The table shows that school districts received a cumulative increase of 4.5 percent in 1990-91 and 1991-92, which consisted of 3.7 percent in 1990-91 and 0.8 percent in 1991-92 (for simplicity, the figures are not compounded). The table also shows that the effective COLA available to school districts will be around 0.3 percent if the Legislature approves the COLA funding proposed in the budget, even though the budget cites an increase of 1.5 percent. This is because the "base" used by the DOF in calculating the budget does not include funds available from the two PERS accounts.

Administration to Propose Legislation to Clarify Statutory Funding Obligations. Although the 1990 and 1991 Budget Acts, and the 1992-93 Budget Bill, do not contain sufficient funding to fully fund statutory COLAs, the statutory obligation to fund these adjustments remains. The administration advises that it intends to propose legislation to (1) set statutory revenue limit entitlements for 1992-93 based on the assumptions it used in building the budget and (2) set the 1992-93 COLA at 1.5 percent in lieu of the statutory COLA estimated to be 3.85 percent. Presumably, the proposed legislation will also eliminate the continuing obligation to fund the statutory COLAs in 1990-91 and 1991-92.

We believe that legislation along these lines makes sense because it would simplify the calculations of revenue limit entitlements and clarify the state's funding obligations. However, the details of the legislative proposal were not available at the time this analysis was prepared (February 1992). One of the most important issues to be addressed in the legislation will be the method of calculating 1992-93 revenue limit COLAs for individual school districts. Below, we illustrate the consequences for individual districts.

Table 6

Revenue Limit Cost-of-Living Adjustments Budget Assumptions 1990-91 through 1992-93

	1990-91 Estimated	1991-92 Estimated	1992-93 Estimated
Amount included in "base" from prior year	NA	3.0%[a]	3.0%
Budget appropriation	3.7%[a]	—	1.5
Subtotals	(3.7%)	(3.0%)	(4.5%)
Funding from PERS accounts	—	1.5%	0.3%
Cumulative increase	3.7%	4.5%	4.8%
Change from prior year	3.7%	0.8%	0.3%

[a] When the 1990-91 budget was enacted, the level of funding provided was estimated to represent a 3 percent COLA. Currently, this funding level is estimated to represent a 3.7 percent COLA.

Effect on Individual School Districts Varies Widely. From an overall budget perspective, the method for setting revenue limit entitlements does not affect the aggregate level of funding provided for schools. However, the difference for an individual school district can be substantial, due to the procedure the SDE uses for calculating the amount of funds each school district actually receives.

Specifically, under the current procedure, the SDE does not calculate entitlements based directly on the percentage increase in funding provided. Instead, it uses a two-step process. First, it calculates revenue limit entitlements for each district based on statutory formulas. Then the department reduces these entitlements to accommodate available funding. Table 7 summarizes the COLA calculations as performed by the SDE. As the table shows, the cumulative increase provided in the SDE calculation (4.8 percent over three years) is the same as the cumulative increase provided in the budget as shown in Table 6.

DEPARTMENT OF EDUCATION—Continued

Table 7

Revenue Limit Cost-of-Living Adjustments Assumptions for School District Allocations 1990-91 through 1992-93

	1990-91 Estimated	1991-92 Estimated	1992-93 Estimated
Amount carried over from prior year	NA	4.76%	9.07%
Statutory amount	4.76%	4.69	3.85
Subtotals	(4.76%)	(9.07%)	(12.92%)
Reduction to accommodate budget appropriation	-1.06	-6.07	-8.42
Subtotals	(3.7%)	(3.0%)	(4.5%)
Funding from PERS accounts	—	1.5	0.3
Cumulative increase	3.7%	4.5%	4.8%
Change from prior year	3.7%	0.8%	0.3%

The effect of this calculation varies by school district because the department adds statutory COLA funding to each district's entitlement based on a *constant dollar amount per ADA* (for example, a 2.5 percent statutory COLA may translate to $100 per ADA), while it makes the reductions based on a *constant percentage across-the-board.*

To illustrate the impact of this method, we developed an example assuming no COLA funds are provided in the budget in a year that the statutory COLA is 2.5 percent, or $100 per ADA. In a district with a relatively high base amount, the $100 per ADA may represent a 2 percent increase, while in a district receiving a relatively low base amount, the $100 per ADA may represent a 3 percent increase. (The purpose of adding COLAs based on a constant dollar amount per ADA is to promote equal funding among districts.)

An across-the-board reduction of 2.5 percent to accommodate available funding would result in the high-base district experiencing a net *reduction* of 0.5 percent and the low-base district receiving a net *increase* of 0.5 percent. In contrast, if the statutory COLA is revised in this situation to the amount actually provided — zero — the funding available to each district would stay constant.

No Funding for Students Who Skip Classes

The budget reduces funding for revenue limits by $100 million, based on the assumption that strict compliance with current law attendance accounting requirements will result in a decline in reported attendance.

Background. Under current administrative practice, the SDE allows school districts to receive a full school day's apportionment for a student who leaves school prior to completing the minimum school day (generally three to four hours, depending on grade level) without an authorized excuse if the student (1) was enrolled for at least a minimum day of classes and (2) was under the supervision of a district employee at any time during the school day. Thus, a school district may receive a full day's apportionment for a student who shows up long enough to have his or her attendance noted, but then skips classes for the remainder of the day.

In the 1991 Budget Bill, the administration proposed language that, in effect, would have required that students attend the minimum school day in order to generate a full day's apportionment. The Legislature eliminated this proposed language from the 1991 Budget Act and restored $250 million that the administration had proposed deleting from the apportionments item. However, the Governor vetoed $50 million from the school apportionments item to reflect compliance with this proposal.

Since the veto, the Attorney General has stated that students who leave school before completing the minimum school day should not generate a full day's apportionment, and that current administrative practice in this regard is void. In response to the Attorney General's opinion, the Superintendent of Public Instruction (SPI) has advised school districts that attendance reporting for apportionment claims in 1992-93 must be in compliance with the Attorney General's opinion. He suggested in his letter that "different approaches" for accounting for ADA "may conceivably be appropriate" depending on local situations.

The Budget Proposal. In its proposed 1992-93 budget, the administration has reduced school apportionments by an additional $100 million (above the $50 million veto) to reflect its estimate of the decline in reported ADA that will occur as a result of compliance with current law. The administration is not, however, proposing new Budget Bill language to enforce current law on attendance accounting, presumably because such language is unnecessary given the Attorney General's recent opinion and the SPI's plan to enforce it.

The administration is also proposing that the state provide $20 million in financial assistance to districts for the cost of implementing attendance accounting changes. We discuss this proposal in more detail in the next section.

Legislative Options. The Legislature has at least three options for responding to the administration's proposed $100 million reduction. One option is to concur with the administration's proposed reduction. Another is to augment the apportionments item by $150 million and enact legislation that declares current attendance accounting practices to be legal.

A third option is to explore various ways of implementing entirely new attendance accounting and/or school apportionments systems. For example, the Legislature could establish:

- New methods for ensuring the provision of specified amounts of instructional time. For example, the state could monitor attendance using random sample techniques.
- Entirely different methods for assuring accountability in the education system. The current school finance system holds districts accountable for providing a certain quantity of instructional time. In our *Options for Addressing the State's Fiscal Problem* (issued in January 1992), we suggest two types of options for changing school district accountability by realigning fundamental incentives in the K-12 system including (1) implementing a statewide system of school choice and (2) granting the ability to qualified persons/organizations to charter new, state-funded, public schools.

We are generally supportive of the policy of basing apportionments on the number of students actually attending school for at least the minimum day and recommend that the Legislature either (1) accept the administration's proposal or (2) explore options for implementing entirely new attendance accounting and/or school apportionments systems.

Attendance Accounting Grants

We recommend that the Legislature approve a proposal to provide $20 million for attendance accounting grants if it approves the $100 million reduction associated with strict compliance with current-law requirements.

The administration proposes $20 million for attendance accounting grants. These funds could be used to:

- Implement new attendance accounting systems, if necessary, to comply with current law as recently interpreted by the Attorney General.
- Track attendance using both the old and new systems for one year to ensure that any changes in attendance accounting procedures do not affect the Proposition 98 guarantee.
- Implement initiatives, at district discretion, to improve student attendance.

The funds would be distributed on a per-ADA basis. The proposal would provide an average of $2,500 to each of California's roughly 7,500 schools. According to the SDE, at least 28 percent of school sites currently have automated attendance accounting systems which could accommodate period-by-period attendance accounting with little or no changes in the accounting software. Presumably, these schools would use this funding for attendance improvement purposes. For schools that currently lack this capability, these funds would likely pay a significant portion of the start-up costs associated with period-by-period attendance accounting.

By assisting districts to comply with attendance accounting requirements as set forth in the Attorney General opinion, this proposal would assure an orderly transition to a new attendance accounting system. Accordingly, if the Legislature approves the $100 million reduction related to attendance accounting, we recommend that it also approve the $20 million proposed for grants.

Proposed Controls

We recommend that the Legislature modify a proposed Budget Bill provision limiting transfer arrangements.

The Budget Bill contains three new provisions intended to control the claiming of apportionments funding. Two of the proposals relate to funding for pupils with excused absences; the other proposal relates to transfer arrangements.

Excused Absences. Under current law, local education agencies may claim apportionments for absent students if the absence is due to one of several statutorily specified reasons — typically for illness. The proposed Budget Bill language:

- Prohibits claiming apportionments for more than 10 consecutive excused absences for a particular student (Provision 19).
- Requires local education agencies to document excused absences within four weeks (Provision 23).

According to the Department of Finance (DOF), the primary purpose of Provision 19 is to encourage school districts to provide instruction to students with long-term illnesses through home, hospital, or independent study programs. The purpose of Provision 23 is to prevent school districts from contacting parents to obtain reasons for an absence long after the absence occurred — when the parent is not likely to remember the reason for the absence.

Based on our preliminary review, these proposed Budget Bill provisions seem reasonable.

DEPARTMENT OF EDUCATION—Continued

Transfer Arrangements. This Budget Bill language (Provision 18) would prohibit a local education agency from claiming state apportionments for a student unless it provided educational services for the student with its own certificated employees. According to the DOF, the purpose of this proposed language is to prevent local education agencies from contracting with outside providers, public or private, for educational services — particularly in situations where the agency "profits" from the transaction. The DOF has identified several situations where a district has received revenue limit funding for students who actually attend schools outside of the district at a cost to the district that is significantly less than the revenue limit amount.

We concur with the DOF that it is improper for districts to profit over contract arrangements and transfer agreements. However, the language may also impede the ability of districts to enter into reasonable transfer arrangements that accommodate the wishes of individual parents and students. Accordingly, we recommend that the Legislature modify the language to permit such arrangements when the costs of the arrangement are more than a certain threshold amount, for example, 95 percent of revenue limit funding for the district.

Increase in Supplemental Summer School Funding

The proposed augmentation in supplemental summer school funding is a cost-effective use of funds.

The budget proposes $37.7 million to increase supplemental summer school funding.

Under current law, local education agencies may receive supplemental summer school funding of $2.20 per pupil-hour of instruction up to a specified cap. The current cap for most districts is equal to 120 hours of funding for 7 percent of enrollment. The proposed budget would increase this funding cap from 7 percent to 10 percent of enrollment — a 43 percent increase over the 1991-92 level.

School districts have considerable flexibility in designing summer school programs and may, for example, use the funding to serve more than 7 percent of their students by providing fewer than 120 hours of instruction per pupil. Instruction generally must be in one of several "core" academic subjects such as math, science, history, English, language arts, fine arts, or computer science. Districts generally may also schedule supplemental "summer school" programs on Saturdays during the entire year, and year-round schools may schedule supplemental "summer school" programs during after-school hours.

We view supplemental summer school as a high-priority program that allows districts to provide substantive instruction to a targeted group of students in a cost-effective fashion. Districts can hire teachers on an hourly basis at less cost than during the regular school year, because teachers' health and other benefits are already paid for.

School-Based Program Coordination

Chapter 100, Statutes of 1981 (AB 777, L. Greene), also known as the School-Based Program Coordination Act, authorizes schools to combine funding from certain categorical programs in order to provide innovative school services to the general school population, as long as students eligible for categorical funding are also adequately served. The act further requires the Legislative Analyst to report annually in the *Analysis of the Budget Bill* regarding the program's implementation.

According to data provided by SDE, there are 5,050 schools participating in the program in the current year, an increase of 14 percent over the prior year. The increased popularity of school-based program coordination reflects the continuation of a trend that we have documented and discussed in detail in previous editions of the *Analysis* (please see page 871 in the 1990-91 *Analysis* and page 929 in the 1991-92 *Analysis*).

Classroom Instruction

The budget proposes a number of policy initiatives related to classroom instruction programs.

Table 8 summarizes local assistance funding from the General Fund and the Environmental License Plate Fund for programs relating to classroom instruction. In total, the budget requests $631.1 million for classroom instruction programs in 1992-93, an increase of $104.1 million (20 percent). The increase includes $19.2 million to reflect statutorily required enrollment growth and $7.4 million for a 1.5 percent COLA.

In addition, the increase includes funding for (1) school restructuring ($28 million), (2) proposed legislation addressing schools with low levels of pupil achievement ($10 million), and (3) delivering health-related curricula through the use of advanced technology ($10 million). The budget also proposes $15 million for additional instructional materials, and $14.8 million primarily to expand the California Assessment Program.

DEPARTMENT OF EDUCATION—Continued

Table 8

Department of Education
Classroom Instruction Local Assistance
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
School Improvement Program	$315,049	$328,490	$346,693	5.5%
Instructional materials	128,885	134,174	157,147	17.1
Class size reduction	30,994	31,000	31,000	—
School restructuring demonstrations	6,548	—	28,000	—[a]
Pupil assessment	1,000	5,000	19,835	296.7
Low-performing schools (set-aside for legislation)	—	—	10,000	—[a]
Educational technology program	13,977	13,977	13,887	-0.6
Institute for Computer Technology	428	428	428	—
Advanced technology for health education	—	—	10,000	—[a]
High school pupil counseling	7,916	8,298	8,693	4.8
Demonstration programs in intensive instruction	4,695	4,707	4,707	—
Environmental education	512	804	554	-31.1
Intergenerational education	159	175	175	—
Totals	**$510,163**	**$527,053**	**$631,119**	**19.7%**
General Fund	*$509,651*	*$526,249*	*$630,565*	*19.8%*
Environmental License Plate Fund	*512*	*804*	*554*	*-31.1*

[a] Not a meaningful figure.

School Restructuring Demonstrations

The amount of funding proposed for the school restructuring evaluation is insufficient to rigorously address the various evaluation questions specified in the program's authorizing legislation.

The budget proposes $28 million to implement the school restructuring program authorized by Ch 1556/90 (SB 1274, Hart). School restructuring involves making significant changes to many aspects of school operations, including curriculum and instructional methods, assessment, school organization, governance, and community relations. The $28 million proposed for 1992-93 includes $26.5 million for demonstration grants to schools and $1.5 million for technical assistance.

Chapter 1556 requires the Legislative Analyst to submit interim progress reports on this program to the Legislature on an annual basis, and a final evaluation report on the program at the end of the five-year period.

Report On Program Implementation. Chapter 1556 appropriated $6.4 million in planning grants to enable schools that are interested in becoming a demonstration site to prepare a proposal. The department reports that 1,500 schools, or approximately 20 percent of the schools in the state, submitted applications for planning grants in the current year, of which 210 were approved. Chapter 1556 further provides that any school in the state, including those that have not received a planning grant, may submit a demonstration grant proposal to the State Board of Education (SBE).

Under Chapter 1556, those schools with proposals that have been approved by the SBE are eligible to receive a demonstration grant of up to $200 per student annually over a five-year period, depending on the availability of funding for this purpose. The measure specifies, however, that the board may fund a lesser amount per student, depending on the nature and magnitude of each proposal.

The $26.5 million proposed in the budget for demonstration grants is sufficient to provide demonstration grants to the 210 schools receiving planning grants only if the state provided, on average, $125 per student, which is less than the statutory maximum. The budget proposal does not, however, preclude the SBE from funding a fewer number of schools at a higher funding rate per pupil, or a larger number of schools at a lower funding rate. The SBE plans to determine how many schools will actually receive funding sometime in the fall of 1992.

Report on Program Evaluation. Under Chapter 1556, the Legislative Analyst is required to contract for an independent evaluation of the school restructuring demonstrations, in order to answer specified questions regarding the program's effectiveness and implementation. The Legislature appropriated $50,000 for the evaluation in the current year, and the Governor's Budget proposes to appropriate another $50,000 for the evaluation in 1992-93, in the department's support budget (Item 6110-001-001).

As the first step in contracting for an evaluation, we convened an evaluation advisory committee composed primarily of legislative staff, as well as staff from the Departments of Education and Finance. In conjunction with the advisory committee, we determined that it would not be possible for the evaluation to address all of the questions specified in Chapter 1556 with the limited amount of funding available — $50,000 a year — with the degree of depth and rigor necessary to answer the questions posed in the authorizing legislation.

DEPARTMENT OF EDUCATION—Continued

As a result, we have retained a nationally recognized expert in school restructuring to (1) assist the Legislature in clarifying its goals for the evaluation and (2) explore other funding options for the evaluation. We have requested the consultant to provide an analysis for submission to the Legislature in March 1992 detailing the type of information that the evaluation could reasonably provide for different funding levels. The Legislature may wish to take further action in regard to funding for the evaluation in light of this additional information.

Pupil Assessment

Budget projections regarding the state's new assessment system are likely to be too low.

The budget proposes $24.8 million for pupil assessment, including $19.8 million in local assistance and $5 million in state operations (not shown in Table 8). Of the proposed amount, $23.8 million is for the California Assessment Program, and the remaining $1 million is to continue funding for a pilot program in alternative assessment methods operated by several district consortia. The pilot project was established by Ch 12/91 (AB 40, Quackenbush).

California Assessment Program. The California Assessment Program (CAP) is responsible for the administration of a number of statewide achievement tests that provide information on where and how to improve the instructional program. In addition, CAP tests are often viewed as powerful instruments for influencing and upgrading the school curriculum because school staff often tend to teach the topics that will be on these statewide exams. One study, for instance, found that teachers gave students significantly more writing exercises in response to changes in the CAP writing test.

New Statewide Assessment System. The Legislature recently enacted Ch 760/91 (SB 662, Hart), which significantly revised the CAP and restored funding for it. The new CAP will consist of mandatory state tests to be administered in grades 4, 5, 8, and 10, as well as some voluntary "end-of-course" exams. As compared to the previous assessment system, the revised CAP will have two new features: (1) it will provide a score for each pupil who takes these tests, rather than for each school, and (2) the new system will contain "performance exams" as well as multiple choice tests, in order to assess a greater range of critical and creative thinking skills. In a performance exam, students are graded on how well they can accomplish a specific task, such as writing an essay, designing an experiment, or constructing a diagram. The previous system only contained one performance component, the CAP writing assessment.

Funding for CAP. In 1990-91, almost all funding for the CAP was eliminated by the previous administration. In the current year, the Legislature appropriated $10 million from the General Fund for the CAP, of which $5 million was for local assistance. The Governor's Budget proposes to increase funding for the CAP by $13.8 million, in order to enable the program to produce individual student scores in almost all core subject areas. In addition, the proposed amount would allow the department to administer comprehensive performance exams in the areas of reading and writing, and one performance task in each of the remaining areas — specifically, science, mathematics, and history.

The proposed amount reflects the second year of the department's plan to phase in the new assessment system over a five-year period. When fully operational, the department predicts that the new assessment system will cost $38 million annually. The increase in costs in future years will be primarily due to the inclusion in the CAP of additional performance components in the three remaining instructional areas.

Cost Projections Speculative. Our analysis indicates that there is little data available to verify the $38 million cost estimate. The cost estimate assumes that when the system is fully operational, each pupil in the relevant grades will be administered four performance tasks in each of the three remaining instructional areas, and that each task will cost between $1 and $2 per student to score. We question the reasonableness of these assumptions, for two reasons.

First, there is little data available to indicate whether four tasks are sufficient to produce scores that constitute a reliable sample of pupils' true abilities, and which examine — in conjunction with multiple choice tests — most of the key concepts and skills that the state considers important.

Second, because the department did not collect good information on costs during its field tests, there is little data to indicate how much it will cost to administer and score the performance items. Although there is good evidence on the costs of scoring writing assessments, the department believes that scoring costs will be only one-fourth to one-eighth as large in the areas of science, mathematics, and history. The department, however, could provide no firm data to verify this assumption.

For these reasons, we are concerned that the department's cost estimates may be too low, but recognize that more research and development into performance tests may be needed in order to determine the actual level of costs.

The department informs us that it will be conducting a large number of field tests during the current year in order to generate additional information on these issues, as well as on some potential sampling designs that could reduce the program's costs. We believe that the Legislature should closely monitor the results of these field tests in order to ensure that the new testing system will achieve its intended purpose at a reasonable cost.

Health Education Technology

We recommend the deletion of $10 million requested from the General Fund for the acquisition of laser disk technology for health-related education, because the technology does not appear to offer any significant advantage over videotape technology that would justify the costs involved. (Reduce Item 6110-184-001 by $10 million.)

The budget proposes $10 million for the acquisition of laser disk technology for schools. Laser disk technology is similar to videotape technology in that a disk is played on a television screen. Laser disk technology differs from videotape technology in two respects: (1) laser disks cannot be recorded or copied using a standard player and (2) laser disks permit sections of a program to be deleted or reordered using a computer.

There are two types of packages that the budget had assumed in estimating its total cost: (1) a "deluxe" package that includes a computer, a laser disk player, and at least one set of health-related instructional material at a total cost of $2,500 per package, and (2) a "regular" package that includes a laser disk player and one set of instructional material at a total cost of $1,000 each. The budget proposes to acquire 1,010 "deluxe" packages for each school district and 750 schools, and purchase a "regular" package for another 5,600 schools.

Our review indicates that the $10 million proposed in the budget is not justified because laser disk technology does not appear to offer any significant advantage over videotape technology that would justify the costs involved. Providing health-related education through videotape technology would have minimal costs because each school already has a videocassette recorder and a television purchased under a 1985 program similar to the current proposed program for laser disk technology.

Accordingly, we recommend that the Legislature delete $10 million requested from the General Fund for laser disk technology.

Teaching and Administration

The budget proposes a major expansion of many of the programs relating to teaching and administration, as well as a number of new programs.

The primary purpose of most teaching and administration programs is to provide staff development to school personnel, or to build linkages between schools and institutions of higher education.

As Table 9 shows, the budget proposes $151.5 million from the General Fund, which is an increase of 45 percent over estimated expenditures in the current year. Almost half of this increase is due to a major expansion of the "Subject Matter Projects," which are currently operated by the University of California. These projects, which would receive an additional $24 million in the budget year, provide intensive staff development on how best to teach certain core subjects, such as science or literature. The proposed budget also includes additional funding for:

- The training of beginning teachers ($9 million), administrators and school leadership teams ($2 million), bilingual teachers ($1.5 million), teachers of mathematics ($1.7 million), and school board members ($500,000).
- A new training program in collaborative collective bargaining ($1 million).
- Upgrading teacher training programs that are operated by institutions of higher education ($1 million).
- The expansion of a number of programs that provide services to pupils who come from groups that are underrepresented in higher education ($3.2 million).

The budget also proposes $6.5 million to provide a statutory adjustment for enrollment growth (4.2 percent) and a cost-of-living adjustment (1.5 percent). In addition, the budget proposes to eliminate funding for the Regional Science Resource Center (the San Francisco Exploratorium).

DEPARTMENT OF EDUCATION—Continued

Table 9

Department of Education Teaching and Administration Local Assistance 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Mentor teacher program	$65,543	$71,454	$73,861	3.4%
Professional development	16,039	16,692	17,889	7.2
Beginning teacher support	3,255	1,000	10,000	900.0
Administrator training	5,372	5,592	7,913	41.5
Bilingual teacher training	942	981	2,537	158.6
Middle school mathematics	—	—	1,700	—[a]
Intersegmental programs				
Subject matter projects	5,346	5,570	29,654	432.4
International studies	—	1,000	1,058	5.8
College preparation	—	—	3,240	—[a]
Teaching improvement programs	1,224	1,274	1,347	5.7
Redesigning teacher education	—	—	1,000	—[a]
Collaborative bargaining training	—	—	1,000	—[a]
School board member training	—	—	500	—[a]
Regional Science Resource Center	—	568	—	-100.0
Curriculum Resource Center	140	—	—	—
Reader service for blind teachers	242	252	267	6.0
Geography education	104	108	115	6.5
Federal math and science teacher training	9,411	14,604	14,004	-4.1
Totals	**$107,618**	**$119,095**	**$166,085**	**39.5%**
General Fund	*$98,207*	*$104,491*	*$151,481*	*45.0%*
Federal funds	*9,411*	*14,604*	*14,604*	—

[a] Not a meaningful figure.

Professional Development Program

We recommend that the Legislature reduce the amount proposed from the General Fund for the Professional Development Program by $250,000 because of technical overbudgeting. (Reduce Item 6110-191-001(e) by $250,000.)

Under the Professional Development Program, established by Ch 1362/88 (SB 1882, Morgan), the state provides grants to participating high schools in order to implement a school-wide staff development plan. The measure also authorized funding for (1) regional resource agencies, which provide technical assistance in staff development, and (2) University of California-based subject matter projects.

Proposed Amount Overbudgeted. The budget proposes funding of $17.9 million for the Professional Development Program. This amount excludes funding for the subject matter projects, which the Governor proposes to fund through a separate item in the Budget Bill.

The proposed amount reflects a 7.2 percent increase over the current-year funding level. Due to a technical error, this amount is in excess of the amount that would be needed to provide full funding for statutorily required enrollment growth (4.2 percent) and the Governor's proposed 1.5 percent COLA. Our analysis indicates that, in order to correct this error, the Legislature should reduce the proposed amount by $250,000.

Status Report on Program Implementation. Chapter 1362 requires the Legislative Analyst to report annually, through the 1992-93 *Analysis*, on the status of the Professional Development Program.

Currently, the program is being implemented in 250 high schools throughout the state, with technical assistance provided by 11 regional resource agencies. Due to concerns with the quality of services provided by these agencies, the Legislature included $60,000 in the program's current-year budget for the department to contract for an independent evaluation of the program. At the time this analysis was written, the department was in the process of selecting a contractor for the evaluation, who will be required to submit a report to the Legislature by August 1992. Once submitted, the evaluation should provide the Legislature additional information on the nature and quality of the program's implementation.

Redesigning Teacher Preparation Programs

We recommend that the Legislature delete $1 million proposed from the General Fund for redesigning teacher preparation programs, because these funds should be appropriated through separate legislation. (Reduce Item 6110-197-001 by $1 million.)

The budget proposes $1 million from the General Fund for redesigning teacher preparation programs that are operated by institutions of higher education. According to the DOF, these funds are intended to address a problem with a lack of responsiveness in many of these programs to the true needs and requirements of teaching. The DOF also indicates that the administration will develop further details on the nature of this initiative through separate legislation.

We believe that the Legislature should appropriate funding for this initiative through this legislation, rather than through the budget. Doing so would enable the Legislature to review the merits of the proposal in greater depth before appropriating funds for it. In particular, the Legislature needs to consider whether the proposal reflects a systematic strategy for reforming teacher preparation programs, or whether the benefits of the proposal would likely be only marginal. Such an in-depth review is best conducted through the bill process, and with the full participation of the education policy committees, rather than through the budget process.

For this reason, we recommend that the Legislature delete the proposed funding for redesigning teacher preparation programs.

Special Education

Students with physical or learning disabilities receive special education and related services primarily through the Master Plan for Special Education. Under the Master Plan, school districts and county offices of education administer services through regional organizations called special education local planning areas (SELPAs). Each SELPA is required to adopt a plan that details the provision of special education services among the member districts.

Special education students are served through one of five settings: (1) Designated Instruction and Services classes, (2) Resource Specialist Programs, (3) Special Day Classes or Centers, (4) the state special schools, and (5) nonpublic schools. There are approximately 499,000 special education students in the current year. This number is an increase of 25,000 students, or 5.3 percent, above the prior year.

Table 10 shows the expenditures and funding sources for special education in the prior, current, and budget years. For 1992-93, the budget proposes expenditures from all funds of $2.6 billion for special education programs. This represents an increase of $183.2 million (7.5 percent) above the current-year expenditure level. This increase is primarily due to increases of $100.3 million for statutory enrollment growth, $6 million from an increase in federal funds, $36.5 million for a 1.5 percent COLA, and $25 million for deficiencies in 1990-91 and 1991-92.

Table 10

Department of Education Special Education Local Assistance 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Local assistance				
Master Plan	$2,067,949	$2,174,603	$2,346,693	7.9%
Early Intervention for School Success	620	1,620	1,620	—
Federal preschool program	30,339	33,228	36,000	8.3
Other federal programs	15,712	18,410	26,269	42.7
Subtotals	($2,114,620)	($2,227,861)	($2,410,582)	(8.2%)
Local matching funds	167,488	167,488	167,488	—
Subtotals	($2,282,108)	($2,395,349)	($2,578,070)	(7.6%)
General Fund	*$1,682,484*	*$1,747,755*	*$1,889,827*	*8.1%*
Federal funds	*176,306*	*210,563*	*227,194*	*7.9*
Local funds	*423,318*	*437,031*	*461,049*	*5.5*
State operations				
Master Plan	$9,293	$8,810	$8,837	0.3%
State special schools	48,598	49,514	49,936	0.9
Clearinghouse Depository	1,080	714	714	—
California Deaf-Blind Services	558	511	521	2.0
Subtotals	($59,529)	($59,549)	($60,008)	(0.8%)
General Fund	*$45,924*	*$46,302*	*$37,786*	*-18.4%*
Federal funds	*9,851*	*9,321*	*9,358*	*0.4*
Lottery funds	*101*	*95*	*95*	—
Reimbursements	*3,653*	*3,831*	*12,769*	*233.3*
Totals	**$2,341,837**	**$2,454,898**	**$2,638,078**	**7.5%**

Diagnostic Schools Funding Shift

Although operating the diagnostic schools on a reimbursement basis has merit in concept, implementation as contemplated in the budget has a number of problems.

The budget proposes to change the funding procedure for the three state diagnostic schools. The diagnostic schools provide specialized assessment services to children referred by local education agencies. Currently, the schools are funded in the state operations budget item. The budget transfers $8.9 million needed to operate the diagnostic schools to the local assistance item for use by local education agencies to reimburse the diagnostic schools for services. The effect of the proposal is to qualify diagnostic school expenditures as expenditures under Proposition 98.

We believe the concept of operating these schools on a reimbursement basis has merit from a cost perspective. Currently, local education agencies have an incentive to refer children to the diagnostic schools regardless of the cost of diagnostic school services. This is because the local education agencies only pay up to 10 percent of the costs of these services, while they pay 100 percent of the costs of similar services available from other service providers. Operating the diagnostic schools on a reimbursement basis, where local education agencies would pay 100 percent of the costs, would give districts an incentive to seek the least costly services, thereby reducing overall costs for assessments. We note that, to the extent that diagnostic school costs exceed the costs of similar services, this system ultimately may result in a reduction in the use of — or elimination of — diagnostic school services.

However, we have identified three problems with the proposal. First, the DOF advises that, under this proposal, local education agencies could use funds transferred to the local assistance items only to pay for services provided by the diagnostic schools, not other services. This requirement would eliminate the advantage of the proposal from a cost perspective. While it makes sense to protect the diagnostic schools from overly rapid fluctuations in service demands, in the long run, the cost incentives inherent in the reimbursement arrangement should be allowed to work.

Second, the details of implementation have not been developed. For example, it is not clear how the reimbursement system would work. Under the budget, it is possible that the diagnostic schools would not have any funds for operation at all until they receive local education agency reimbursements. This could severely affect the ability of the diagnostic schools to continue providing services, especially at the beginning of the fiscal year.

Third, an adjustment to the Proposition 98 "base" may be required to implement this proposal. Proposition 98 requires adjustment of the minimum funding guarantee when there are shifts in functional or financial responsibility into the Proposition 98 portion of the budget. The DOF has not adjusted the guarantee to reflect the inclusion of these expenditures under Proposition 98.

The DOF advises that it intends to seek legislation to implement the proposal. Presumably, the legislation will address these issues.

Special Education Preschool Program

A shortfall in federal funding for this program is indirectly requiring the state to support the program from the General Fund. We recommend that the department report at budget hearings on options available for reducing program costs, resolving funding problems in future years, and phasing out the program.

Chapter 311, Statutes of 1987 (AB 2666, Hannigan), as amended by Ch 184/90 (AB 3451, Hannigan), authorized the state to participate in the federal preschool program under Public Law (PL) 99-457, which expands services to all disabled students, ages three to five. Prior to Chapter 311, the state mandated services only to those students who require intensive services (RIS). Participation in PL 99-457 expanded the program to include special education students who do not require intensive services (non-RIS).

Federal funds for the non-RIS program are provided mainly from PL 99-457, with a small entitlement from PL 94-142. (PL 94-142 provides funds for special education based on the number of students served.) Table 11 shows proposed non-RIS program expenditures by funding source in the prior, current, and budget years. The budget proposes $49.9 million in federal funds for this program, an increase of $5.2 million, or 12 percent, above estimated current-year expenditure levels.

DEPARTMENT OF EDUCATION—Continued

Table 11

Department of Education
Special Education Preschool Program
Services for Students Not Requiring Intensive Services
Federal Funds
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
PL 94-457	$30,354	$38,182	$36,000	-5.7%
PL 94-142				
Entitlements for non-RIS students ages 3-5	3,095	4,265	7,877	84.7
Supplement	—	2,277	6,000	163.5
Totals	$33,449	$44,724	$49,877	11.5%

Table 11 shows that funding from PL 99-457 and PL 94-142 will not be sufficient to fund program expenditures in either the current year or 1992-93. The budget requests supplementing these funding sources with other PL 94-142 funds. The supplements would total $2.3 million in the current year and $6 million in 1992-93. The current-year request has not yet been submitted to the Legislature.

The effect of the budget request to allocate $6 million in additional PL 94-142 funds to this program is to increase General Fund expenditures on special education, because, in effect, the General Fund backfills any reduction in availability of PL 94-142 funds for other PL 94-142 purposes.

The shortfall in federal funds for this program raises the issue as to whether the program should be terminated. Chapter 313 requires the termination of the preschool program for non-RIS students, ages three to five, if the amount provided by PL 99-457 is not sufficient to fully fund the program and if this lack of federal funds requires any General Fund or local contribution. Our analysis reveals that both in the current year and the budget year (1) PL 99-457 does not provide the full amount needed to support the program and (2) the use of the increases in PL 94-142 to supplement PL 99-457 funds is effectively a General Fund contribution to the program.

Implication of Terminating the Preschool Program. If the Legislature were to terminate the preschool program under PL 99-457, services would be eliminated for 15,600 non-RIS students, and the state would experience increased General Fund costs of $5.3 million due to the net effect of (1) increased General Fund costs of $11.3 million, due to loss of federal funds to serve RIS students, and (2) freeing up for other purposes the $6 million in PL 94-142 funds currently budgeted in the non-RIS program.

Our review indicates that terminating the non-RIS preschool program is not an attractive option. However, federal funding shortfalls are likely to continue in future years. Thus, the Legislature is likely to face the problem of insufficient funding in the future. In years in which there are no PL 94-142 increases for the program, the state may be forced to make General Fund contributions to the program.

We recommend that the department report at budget hearings on options available for reducing program costs, resolving the funding problem in future years, and phasing out the program.

Vocational Education Programs

The budget proposes funding increases for several vocational education programs.

Table 12 summarizes funding for vocational education programs, including Regional Occupational Centers and Programs (ROC/Ps). The budget requests $385.5 million for vocational education programs in 1992-93, an increase of $15.4 million, or 4.1 percent, above the estimated current-year level of expenditures. This increase is the result of a $2.3 million increase in funding for the Partnership Academies Program, a $10 million increase in funding for ROC/Ps for enrollment growth, and a $3.9 million increase to provide a 1.5 percent COLA. The increase is partially offset by an $872,000 reduction in General Fund support for the Greater Avenues for Independence (GAIN) Program.

DEPARTMENT OF EDUCATION—Continued

Table 12

Department of Education
Vocational Education Local Assistance
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Regional Occupational Centers/Programs	$240,651	$248,496	$262,464	5.6%
School-based programs	81,252	79,484	79,484	—
Agricultural education	3,233	3,233	3,233	—
Student organizations	576	567	567	—
Partnership academies	2,330	2,330	4,587	96.9
Greater Avenues for Independence matching funds	7,694	9,784	8,912	-8.9
Federal Job Training Partnership Act and other reimbursements	16,189	26,256	26,256	—
Totals	**$351,925**	**$370,150**	**$385,503**	**4.1%**
General Fund	*$253,670*	*$263,596*	*$278,949*	*5.8%*
Federal funds	*82,066*	*80,298*	*80,298*	—
Reimbursements	*16,189*	*26,256*	*26,256*	—

Compensatory Education Programs

The budget proposes significant increases in General Fund spending for compensatory education due to a statutory growth formula involving the number of children who (1) are from families receiving Aid to Families with Dependent Children or (2) have limited English proficiency.

Compensatory education programs assist students who are educationally disadvantaged due to poverty, language barriers, or cultural differences, or who experience learning difficulties in specific areas. These programs receive around two-thirds of their support from federal funds, with the remaining funding coming from the General Fund.

Table 13 summarizes local assistance funding for compensatory education programs in the prior, current, and budget years. The budget proposes a total of $1 billion for compensatory education programs, an increase of $42 million, or 4.4 percent, over estimated expenditures in the current year. This increase is entirely due to a proposed increase of $42 million, or 14 percent, in the Economic Impact Aid (EIA) Program, which is entirely General Fund-supported.

Table 13

Department of Education
Compensatory Education Local Assistance
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
General Fund				
Economic impact aid	$271,589	$304,571	$346,669	13.8%
Miller-Unruh reading program	22,409	22,409	22,409	—
Native American Indian education	410	410	410	—
Indian education centers	1,912	1,896	1,896	—
Subtotals	($296,320)	($329,286)	($371,384)	(12.8%)
Federal Funds				
Education Consolidation and Improvement Act Chapter 1 (migrant and compensatory)	$566,244	$621,001	$621,001	—
Refugee and immigrant programs	13,457	13,610	13,610	—
Subtotals	($579,701)	($634,611)	($634,611)	(—)
Totals	$876,021	$963,897	$1,005,995	4.4%

The EIA Program increase consists of a COLA of 1.5 percent and a statutory adjustment for enrollment growth of 12.1 percent. The adjustment for enrollment growth is based on the average of the percentage growth rates from the prior year to the current year in two populations: (1) children ages 5 to 17 who are in families receiving Aid to Families with Dependent Children (AFDC) and (2) pupils with limited English proficiency (LEP). Thus, enrollment growth for the budget year is the average of the actual growth between 1990-91 and 1991-92 for AFDC school-age children (8.1 percent) and LEP pupils (16.2 percent).

School Desegregation

The proposed budget for desegregation is underfunded by $15.6 million.

State reimbursement of school desegregation costs is not required by the California Constitution. However, under current law, the state reimburses school districts for the cost of both court-ordered and voluntary school desegregation programs. Reimbursement is provided from the General Fund, based on claims filed by school districts. In the current year, 12 school districts and two county offices of education receive reimbursement for court-ordered programs, and 46 school districts receive reimbursement for voluntary programs.

Table 14 shows the three-year funding history for these programs. The budget proposes a total of $519.3 million for desegregation programs, including $435.8 million for court-ordered and $83.4 million for voluntary programs. This total represents an increase of $14 million, or 2.8 percent, over estimated expenditures in the current year.

Table 14

Department of Education
School Desegregation Local Assistance
General Fund
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Court-ordered desegregation	$424,792	$429,394	$435,848	1.5%
Voluntary desegregation	78,145	75,874	83,430	10.0
Totals	**$502,973**	**$505,268**	**$519,278**	**2.8%**

The increase consists of the following adjustments:

- An increase of $7.8 million for the Oakland Unified School District to reflect an adjustment in base-year costs.
- A decrease of $1.4 million to reflect net reductions in 1991-92 claims from amounts appropriated.
- An increase of $7.6 million to fund a 1.5 percent COLA.

Budget Underfunded by $15.6 Million. Our review indicates that the budget does not provide funding for statutorily required workload adjustments. These are adjustments based on actual increases or decreases in the number of pupils between past and current years. Information from the Department of Finance indicates that enrollment is expected to grow by (1) 3 percent, or $12.9 million, in the court-ordered program, and (2) 3.1 percent, or $2.5 million, in the voluntary program. Including the 1.5 percent COLA, we estimate that the desegregation program's budget is underfunded by $15.6 million ($13.1 million for court-ordered programs and $2.5 million for voluntary programs).

Transportation

School transportation is funded at current levels, with the exception of a decrease in the school bus demonstration program.

The state provides funding for school transportation through three programs: (1) the home-to-school transportation program, (2) the small school district bus replacement program, and (3) the school bus demonstration program. The school bus demonstration program is funded through the Energy Resources Conservation and Development Commission (Item 3360).

Proposed funding for transportation programs is shown in Table 15. The budget proposes to continue funding both the home-to-school transportation and the small school bus replacement programs at their current-year funding levels. The decrease in the school bus demonstration project is due largely to a drop in the participation rate for the budget year.

Table 15

Department of Education
Transportation Local Assistance
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Home-to-school transportation	$328,596	$340,282	$340,282	—
Small school district bus replacement	3,400	3,400	3,400	—
School Bus Demonstration Program	5,403	45,296	7,339	-83.8%
Totals	**$340,799**	**$388,978**	**$351,021**	**-9.8%**
General Fund	*$331,998*	*$343,682*	*$343,682*	—
Katz School Bus Fund	*5,403*	*45,296*	*7,339*	*-83.8%*

Child Nutrition

The budget proposes to continue current services, with the exception of a $3 million augmentation for school breakfast programs.

Child nutrition programs assist schools in providing nutritious meals to pupils, with emphasis on providing free or reduced price meals to children from low-income households. These programs are supported primarily by federal funds.

Table 16 summarizes local assistance funding for child nutrition programs in the prior, current, and budget years. Federal funding is projected to remain constant at $755.9 million. The budget proposes an increase of $7.9 million in General Fund support, or 12 percent, above estimated current-year expenditures. This increase is due to (1) an augmentation of $3 million to start up additional school breakfast programs, (2) funding for growth based on a statutory formula involving the number of meals served, and (3) a 1.5 percent COLA.

Table 16

Department of Education
Child Nutrition Local Assistance
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
General Fund	$51,708	$64,891	$72,789	12.2%
Federal funds	654,246	755,862	755,862	—
Totals	**$705,954**	**$820,753**	**$828,651**	**1.0%**

The school breakfast program funds would be used to implement Ch 1164/91 (AB 745, Moore). This measure requires the department to (1) identify those schools that serve 75 percent of their meals to needy children, but currently provide only one meal, and (2) provide start-up funds to encourage additional schools to participate in the program. As passed by the Legislature, Chapter 1164 also appropriated $500,000 to start up new programs. The Governor vetoed the funding, stating that appropriations for this purpose should be provided through the budget process.

We estimate that the $3 million amount proposed in the budget could start up breakfast programs at 300 school sites. We estimate that the ongoing annual cost for future meals served on these sites would be in the $3 million range, of which around $400,000 would be paid from the General Fund and the remaining costs from federal funds. School districts would also incur ongoing costs for staff to provide the meals.

Child Development

The budget includes funds for enrollment growth, a 1.5 percent COLA, and a $50 million expansion of the State Preschool Program.

The department administers a variety of subsidized child care and development programs that provide services directly to children from low-income families and to those with special needs. The major goals of these programs include enhancing the developmental growth of participating children and assisting families to become self-sufficient by enabling parents to work or receive employment training. In addition, the department administers several programs that provide indirect services, such as child care referrals to parents and training for providers.

Table 17 summarizes local assistance funding for the prior, current, and budget years for child development programs. For 1992-93, the budget proposes a total funding level of $596 million for child development local assistance, an increase of $65.3 million (12 percent) over estimated current-year expenditures. This increase primarily reflects (1) a proposed $50 million expansion of the State Preschool Program, (2) an increase of $9.5 million to provide statutory population growth funding, and (3) $7.1 million to provide a 1.5 percent COLA.

DEPARTMENT OF EDUCATION—Continued

Table 17

Department of Education Child Development Local Assistance 1990-91 through 1992-93[a]

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
State preschool	$40,322	$86,022	$140,071	62.8%
General child care	225,711	234,550	243,401	3.8
Alternative payment	35,974	36,785	38,195	3.8
Extended day care (latchkey)	17,341	18,077	18,770	3.8
Federal Child Development Block Grant	—	74,416	74,416	—
Campus children's centers	6,948	7,195	7,470	3.8
School-age parenting and infant development	7,528	7,887	8,189	3.8
Migrant child care	10,090	10,308	10,622	3.0
Resource and referral	9,176	8,666	8,998	3.8
Other child development programs	12,395	10,748	9,822	-8.6
Subtotals	$365,486	$494,654	$559,954	13.2%
Federal IV-A "at-risk"	—	36,014	36,014	—
Totals	**$365,486**	**$530,668**	**$595,968**	**12.3%**
General Fund	*$362,676*	*$416,203*	*$482,044*	*15.8%*
Federal funds	*2,810*	*78,451*	*77,910*	*-0.7%*
Reimbursements	—	*36,014*	*36,014*	—

[a] Details may not add to totals due to rounding.

Table 18 summarizes the average daily enrollment (ADE) in the current year for most of the child development programs funded by the department. During the current year, more than 613 public and private agencies will provide subsidized child care services for an ADE of approximately 92,000 children who are from low-income families and/or have special needs. The number of hours of service provided for each full-time enrolled child varies somewhat among the programs. For example, a full day at a facility funded by the State Preschool Program is equal to 3.5 hours, while a full day funded under the general child care program ranges from 6.5 hours to 10.5 hours.

Table 18

Department of Education
Child Development Programs
1991-92

	Average Daily Enrollment
General child care	43,178
State preschool	29,708
Campus children's centers	2,053
State and federal migrant	2,840
Alternative payment	7,824
Extended day care (latchkey)	6,680
Exceptional needs	110
Total	92,393

The table includes 10,000 ADE that we estimate will result from a $44 million expansion of the State Preschool Program in the current year. We estimate that full-year implementation of the current-year expansion will result in additional ADE of approximately 10,000 above the level shown in the table. The table does not include the additional services that will be funded from new federal block grant and IV-A "at-risk" funds, or services provided through three relatively small programs that are not funded on the basis of daily or hourly enrollment: School-Age Parenting and Infant Development (SAPID), Protective Services, and special allowance for handicapped.

Study Results Will Help in Evaluating New Staff:Child Ratios

The Legislature will have additional information with which to evaluate the Governor's proposed change in staff:child ratios when it receives the results of the staff:child ratio study required by Ch 81/89 (SB 230, Roberti).

The proposed Budget Bill includes language that would change the staff:child ratios for preschool-aged children served through subsidized child development programs from 1:8 to 1:10. Adoption of the proposed language would allow more children to be served with the same amount of funds. We recommended this change in staff:child ratios in our *Analysis of the 1989-90 Budget Bill.* At that time, we estimated that it would result in annual savings of $19 million, which could be used to provide preschool services to an additional 4,300 children. Because expenditures for child development programs have increased since that time, the annual savings that would result from adoption of the staff:child ratio reduction would probably be several million dollars more than our 1989-90 estimate. The number of additional children that could be served would be at least several hundred more than we estimated in 1989-90.

Chapter 81, Statutes of 1989 (SB 230, Roberti), directs the department to conduct a study of the impact on the quality of care resulting from staff:child ratios of 1:8, 1:9, and 1:10. It requires the department to submit the report to the Legislature in January 1992. At the time this analysis was prepared (January 1992), the study was nearly complete and the department planned to submit the report to the Legislature in February. The results of this study will provide the Legislature with additional information with which to evaluate the Governor's proposal.

Leftover Funds Available for Preschool Expansion

If the Legislature decides to fund all or a portion of the Governor's proposed $50 million preschool expansion, we recommend that $22 million in preschool funds that will not be awarded in the current year be reappropriated to fund a portion of the costs. (Reduce Item 6110-196-001(a) by $22 million and add provision (4) to Item 6110-490.)

The Governor's Budget includes an increase of $50 million from the General Fund to expand the State Preschool Program in 1992-93. Under the program, the state subsidizes preschool programs for low-income three- and four-year old children. Preschool programs provide pre-kindergarten education for 3.5 hours to 4.0 hours per day, 175 days per year.

The budget amount is in addition to $44 million from the General Fund that was added to the program in the current year. These funds are part of the Governor's plan to expand the availability of preschool to all eligible four- and three-year-old children by 1996-97. Under the administration's proposal, the entire $50 million would count towards the Proposition 98 minimum funding guarantee, because the funds would be used only to expand preschool programs operated by school districts and county offices of education. Preschool programs operated by private agencies would not be eligible for expansion funds. In addition to the increased funding, the Budget Bill includes language that would change the priorities used to fund preschool programs from those used in the current year in accordance with Ch 758/91 (AB 1670, Hansen).

The amount of funds, if any, that should be included in the budget for expansion of preschool programs is a policy decision for the Legislature. However, our analysis of the Governor's proposal indicates that (1) there are at least two issues of potential concern to the Legislature and (2) half of the funds appropriated to expand the preschool program in the current year will not be awarded and could be used to decrease the amount of new funds appropriated in 1992-93.

Should the Current Priorities Be Changed? Chapter 758 requires the department to fund all applications to provide half-day preschool to eligible four-year old children and then to fund applications to provide half-day preschool to eligible three-year old children. Only when all applications to serve eligible three- and four-year old children in the State Preschool Program have been funded may CDE use funds to provide full-day child development programs, first to eligible four-year old children and then to eligible three-year old children.

The proposed Budget Bill language would change the order of these priorities. First priority for funding would remain four-year old children in the half-day State Preschool Program. However, the second and third priorities would be switched, so that second priority would be given to funding full-day programs for four-year olds. Three-year olds in the half-day preschool program would become the third priority. Funding full-day programs for three-year olds would still be the last priority.

Our analysis indicates that it makes sense from a policy perspective to change the priorities, as proposed in the Budget Bill language. The most prominent study of the long-term benefits to society that result from investing in preschool does not demonstrate any additional benefits from enrolling a child for a second year. Thus, to maximize the goal of preventing future state expenditures in areas such as remedial education, welfare, and criminal justice, this study indicates that preschool funds are best spent enrolling all eligible four-year old children in a preschool program prior to enrolling any three-year old children. This is because, once children enter a program, they generally stay until they start kindergarten. Thus, children who enroll in the program at age three are in the program for two years. The Budget Bill language accomplishes this by requiring preschool funds to be spent first to serve four-year old children in both part-day preschool programs and full-day programs that include a preschool component.

In addition to maximizing the cost-effectiveness of preschool services, the proposed Budget Bill language directs state funding to an area of great need. Local child care resource and referral agencies, which monitor child care needs in their service areas, indicate that most parents need full-day, rather than part-day, child development programs, because they work more than part-time.

While the Budget Bill language seems to make sense from a policy perspective, the Legislature needs more information on how it will actually be implemented. Implementation of the language will affect the cost per child of providing services, the number of additional children who will be served, the ease with which local education agencies will be able to apply for and use the funds, and the allocation of funds across the state. At the time this analysis was prepared (January 1992), neither the department nor the administration could provide any details on how the preschool funds would be administered in accordance with the proposed Budget Bill language.

Will Adequate Facilities Be Available? Another area of potential concern to the Legislature is whether sufficient facilities will be available to accommodate the increased number of children that could be served with the expansion funds. Our conversations with school districts and departmental staff indicate that lack of additional facility space has become a critical issue for many local education agencies interested in expanding their child development programs. According to the administration, it plans to introduce legislation to provide funds for facility expansion. However, the details of the proposal are still unavailable.

Before the Legislature can make a decision on the appropriate level of funding, if any, for preschool expansion in 1992-93, it needs more information from the department and the administration on (1) the need for additional facilities to accommodate program expansion and (2) the administration's proposal for addressing that need.

Recommendation. Because the department got a late start awarding preschool expansion funds in the current year, half of the $44 million appropriated in the current year will not be awarded. If the Legislature decides to fund all or a portion of the proposed preschool expansion, we recommend that the $22 million that will not be awarded in the current year be reappropriated to fund a portion of the costs in 1992-93. This would free up $22 million for use for other Proposition 98-eligible purposes.

Adult Education

The adult education budget shows a net decline due to phase-out of federal State Legalization Impact Assistance Grant funds.

Adult education programs provide instruction designed to (1) improve general literacy, English-speaking skills, employability, and knowledge of health and safety, and (2) meet the special needs of older adults, parents, and the handicapped. We estimate that, in 1992-93, average daily attendance (ADA) in adult education will be 225,000 in K-12 schools and 82,540 in the community colleges.

Table 19 shows SDE local assistance funding for adult education in the prior, current, and budget years. The budget proposal for community colleges is discussed in Item 6870 of the *Analysis*. The budget requests $339 million from all funds for support of adult education programs. This is a net decrease of $33.1 million, or 8.9 percent, below estimated current-year expenditures. This decrease is primarily due to a reduction of $55 million, due to phase-out of State Legalization Impact Assistance Grant (SLIAG) funds in the budget year (we discuss SLIAG funding in our analysis of Control Section 23.5), and is partially offset by an increase in federal matching funds for the Greater Avenues for Independence Program and increases in General Fund-supported programs.

Table 19

Department of Education
Adult Education Local Assistance
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
School districts	$286,845	$294,016	$305,886	4.0%
Correctional facilities	3,295	8,078	7,933	-1.8
Independent study	—	—	232	—[a]
State Legalization Impact Assistance Grant	$91,570	$55,020	—	-100.0
Other federal funds	14,238	14,922	14,923	—
Subtotals	($395,948)	($372,036)	($328,974)	(-11.6%)
Greater Avenues for Independence reimbursements	8,519	—	10,000	—
Totals	**$404,467**	**$372,036**	**$338,974**	**-8.9%**
General Fund	*$290,140*	*$302,094*	*$314,051*	4.0%
Federal funds	*105,808*	*69,942*	*14,923*	-79.7
Reimbursements	*8,519*	—	*10,000*	—[a]

[a] Not a meaningful figure.

The budget provides $314.1 million from the General Fund for adult education, which is 4 percent ($12 million) above estimated current-year General Fund expenditures. The increase is due to the net effect of (1) a 2.5 percent statutory increase for targeted adult education programs growth ($7.5 million), (2) a 15 percent increase for adults in correctional facilities workload growth ($1.2 million), (3) a 1.5 percent COLA ($4.6 million), and (4) a one-time reduction.

DEPARTMENT OF EDUCATION—Continued

Adult Education Concurrent Enrollment

Consistent with proposed Budget Bill language imposing standards on funding of concurrently enrolled students, we recommend that the Legislature reduce funding for concurrent enrollment by $55.9 million. (Reduce Item 6110-101-001 by $55.9 million.)

Currently, average revenue limit funding for pupils enrolled in high school is $3,108 per ADA unit. A minimum day to qualify for this level of funding is four hours. In comparison, average revenue limit funding for pupils enrolled in adult education is $1,511 per ADA unit. These pupils are funded essentially on an hourly basis, with a full ADA unit being three hours per day.

Under current law, pupils enrolled in high school also may enroll in adult education courses. Current law allows districts to count attendance of these concurrently enrolled pupils twice — once for attending high school and once for attending adult courses. Consequently, concurrently enrolled pupils may generate more units of ADA than other students. In addition, current law provides that the adult ADA attributable to these pupils be funded at the district's base revenue limit for its regular high school program, rather than the lower adult education revenue limit.

As a result, a student who attends four hours of regular high school and two hours of adult education classes — a total of six hours of classes — would generate $5,109 ($3,108 plus two-thirds of $3,108) in revenue limit funding, whereas a student attending a traditional six-hour high school day would generate only $3,108. Information from the department indicates that, in the current year, approximately one-half of the 36,000 concurrently enrolled ADA attend high school for less than six hours per day.

The Budget Bill includes language that would require students to attend a minimum of six hours of high school classes, rather than four, before being eligible to generate adult education revenue limit funding. Our analysis indicates that this proposed language imposes a reasonable standard on concurrent enrollment in adult education. It would reduce the incentive for districts to enroll students in adult education solely for purposes of collecting additional revenue limit funds. Consequently, we recommend that it be adopted. We further find that adoption of this language could reduce the concurrently enrolled ADA in adult education by as much as half, for a General Fund savings of approximately $55.9 million, based on 18,000 ADA times $3,108 in revenue limit funding. Although the Budget Bill includes the language, the budget does not reflect the corresponding reduction in funding; accordingly, we recommend that the Legislature reduce Item 6110-101-001 by $55.9 million.

Other Education Programs

Although General Fund support for "other" education programs increases slightly in the budget year, overall funding for these programs decreases due to a $32 million reduction in special fund support.

This section analyzes those education programs that are not included in any of the other categories previously discussed in this *Analysis*. Table 20 identifies each of these programs (in alphabetical order) and shows each program's three-year funding history.

Table 20

Department of Education
Other Education Programs Local Assistance
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Commissions on professional competence	$14	$30	$30	—
Driver training	1	10,000	1	-100.0%
Earthquake relief	—	1,293	—	-100.0
Federal Education Consolidation and Improvement Act Chapter 2	40,498	40,772	40,772	—
Federal drug and alcohol abuse prevention	33,426	40,329	40,329	—
Foster youth services	938	1,353	1,353	—
Gifted and Talented Education	29,426	32,632	34,509	5.8
Healthy Start	—	19,000	39,000	105.3
Opportunity classes and programs	2,028	1,618	1,874	15.8
Postsecondary education	238	—	—	—
Prenatal substance abuse education	—	4,000	4,000	—
Pupil dropout prevention and recovery	12,089	12,089	12,089	—
School/law enforcement	650	650	650	—
Specialized secondary schools	2,264	2,264	5,264	132.5
Supplemental grants	185,400	185,400	185,400	—
Tobacco use prevention	35,092	20,692	—	-100.0
Year-round school incentives	35,425	68,600	52,274	-23.8
Totals	**$377,489**	**$440,722**	**$417,545**	**-5.3%**
General Fund	*$267,296*	*$327,576*	*$336,443*	*2.7%*
Federal funds	*73,924*	*81,101*	*81,101*	*—*
Special funds	*36,269*	*32,045*	*1*	*-100.0%*

DEPARTMENT OF EDUCATION—Continued

The budget proposes a total of $418 million for these programs. This is a decrease of $23.2 million, or 5.3 percent, from estimated expenditures in the current year. The decrease is the net effect of the following adjustments:

- Elimination of the tobacco use prevention program, for a savings of $20.7 million.
- Elimination of the driver training program, for a savings of $10 million.
- Elimination of $1.3 million in earthquake relief.
- A decrease of $16.3 million for year-round school incentive payments.
- An increase of $20 million for the Healthy Start Program.
- An increase of $3 million for specialized secondary schools.
- Increases of (1) $1.9 million for the Gifted and Talented Education Program and (2) $250,000 for opportunity classes.

Year-Round Implementation Grants Overbudgeted

We recommend the deletion of $2.6 million from the General Fund for year-round school implementation grants to reflect the actual number of schools that will convert to a year-round schedule in 1992-93. (Reduce Item 6110-224-001 by $2.6 million.)

School districts that increase their enrollment capacity through the use of year-round education may be eligible for both one-time implementation grants and annual operating grants pursuant to Ch 1261/90 (AB 87, O'Connell). In 1992-93, the budget proposes $52.3 million from the General Fund for year-round school grants — $8.2 million for one-time implementation grants and $44.1 million for annual operating grants. This is a decrease of $16.3 million from the current-year funding level.

Implementation grants are available to school districts on a one-time basis to defray the costs associated with planning, one-time minor capital outlay and equipment acquisition, and deferred maintenance for year-round school facilities. Chapter 1261 limits the amount of any one grant to $25 per pupil enrolled at a school, not to exceed $100,000 for any one site. Chapter 931, Statutes of 1991 (AB 1247, Alpert), requires school districts to repay, with interest, any planning grant funds received for a school site that does not convert to a multi-track operation.

The department indicates that, in the current year, the Los Angeles Unified School District (LAUSD) will receive approximately $2.6 million in one-time planning grant funds, for an estimated 60 school sites that were scheduled to begin as multi-track year-round schools in 1992-93. Information from the LAUSD, however, indicates that no new schools will be converted to a multi-track schedule in 1992-93. Instead, the district will delay by one year the start-up of the 60 schools planned for multi-track operation in 1992-93 until 1993-94. The budget, however, includes $2.6 million to provide planning grants for an *additional* 60 schools in the LAUSD. Because the LAUSD is planning to convert 60, rather than 120, schools to a multi-track schedule in 1993-94, and it already has received the planning grants for these 60 schools, we recommend reducing the amount of funding for the one-time grants by $2.6 million.

Supplemental Grants

We recommend that the Legislature not renew authority for the supplemental grants program, because providing "level-up" aid to equalize categorical program spending is directly contrary to the intent of the categorical programs, for a savings of $185.4 million in 1992-93. (Reduce Item 6110-108-001 by $185.4 million.)

Chapter 82, Statutes of 1989 (SB 98, Hart), and Ch 83/89 (AB 198, O'Connell) established the supplemental grants program. Under this program, school districts receiving below-average amounts of per-pupil funding from general-purpose school apportionments and 27 specified categorical aid programs are provided supplemental grant funds, not to exceed $100 per pupil. Essentially, the program provides funding to many districts that previously received below-average amounts of categorical aid. (Because general-purpose revenues are substantially equal as a result of state compliance with the *Serrano* decision, they have minimal effect on supplemental grant funding allocations.)

In 1990-91, 476 districts received supplemental grants. Of these districts, 37 percent received per-pupil grants of $90 or more, 47 percent received grants of between $25 and $90 per pupil, and 16 percent received grants of $25 per pupil or less.

The program was established in 1989-90 and authorized in statute only through 1991-92. The budget proposes to renew authority for the supplemental grants program and to continue the current-year level of funding for this program in the budget year — $185.4 million.

In general, the intent of categorical program aid is to provide additional funding support to districts based on certain "needs." Needs related to such factors as poverty or limited proficiency in English — one or both of which are used to measure needs in the Economic Impact Aid and child nutrition programs — vary widely among districts and, consequently, so does the per-pupil level of categorical aid. To provide supplemental grants to equalize the per-pupil level of categorical aid is directly contrary to the intent of the categorical aid programs. For this reason, we recommend that the Legislature allow the supplemental grants program to terminate, for a savings of $185.4 million.

If the Legislature chooses to renew the statutory authority for the supplemental grants program or provide funding despite expiration of the statute, we recommend that it consider the following changes to the program.

- Remove transportation, Economic Impact Aid, child nutrition, and five other specified programs from the list of 27 programs used to determine the allocation of supplemental grants. This is because the per-pupil needs in these programs vary significantly among districts, and their inclusion does not promote the goal of achieving an equitable distribution of funds. This action would reduce by several million dollars the amount needed to equalize funding for those programs remaining on the list.
- Adopt a uniform policy on the amount of local flexibility provided districts in the expenditure of both categorical funds and supplemental grants. Currently, categorical funds must be spent for the specific program provided. Supplemental grants, however, may be spent for any of the 27 programs identified in the allocation list. As a result, districts that mostly receive traditional categorical aid are far more restricted than districts that are having their level of categorical aid "leveled up" in the supplemental grant program. A uniform policy would probably have no direct fiscal effect, but would result in a more equitable treatment of districts.

A more detailed discussion of these two recommendations, and the supplemental grants program overall, appears in our *Analysis of the 1990-91 Budget Bill* (please see pages 902-910).

Healthy Start

We recommend that the Legislature reduce General Fund support for this program by $38 million to comply with funding policies set forth in current law. (Reduce Item 6110-200-001 by $38 million.)

Chapter 759, Statutes of 1991 (SB 620, Presley), established the Healthy Start Support Services for Children Act. This program provides matching grants to local education agencies (LEAs) and consortia of LEAs. These grants are used to pay the costs of planning or operating programs that provide support services to eligible students and their families at the school site. Grant recipients must provide matching funds of $1 for every $4 received.

The 1991 Budget Act appropriated $20 million for this program. The department transferred $1 million of the available funds to state operations for administrative expenditures. The department reports that it intends to award the $19 million available for grants in the current year in June 1992, the deadline established by Chapter 759.

The budget proposes to provide $40 million for the Healthy Start Program, including $1 million for state operations and $39 million for grants. This is an increase of $20 million (100 percent) above the current-year funding level. In total, the amount available over the two-year period for grants would be $58 million under the budget proposal.

Our review indicates that the program needs a total of $20 million, at most, for grants over the first two years of the program, not $58 million as assumed in the budget ($19 million in the current year and $39 million in 1992-93). This is because Chapter 759 specifies that no more than 100 local education agencies or consortia could participate during the first three years of the program. The maximum amount an agency can receive each year is $100,000, according to the department. Consequently, the maximum amount of funding required each year is $10 million.

Therefore, we recommend the deletion of $38 million of the $39 million proposed in the budget year for grant awards. This leaves sufficient funding to support grant awards for two years of operation.

Prenatal Substance Abuse Education

We recommend the deletion of $4 million requested from the General Fund for prenatal substance abuse education because school district costs are likely to be minor. (Reduce Item 6110-183-001 by $4 million.)

Chapter 450, Statutes of 1990 (AB 2822, Woodruff), requires that instruction on the effects of alcohol, narcotics, and other dangerous substances upon prenatal development be included in the curriculum of all secondary schools.

The budget proposes to provide $4 million to support school district costs of providing this instruction. This amount is a continuation of the current-year funding level.

In our analysis of the current-year budget, we recommended that the Legislature reject the funding proposal for this program. We continue to recommend the deletion of this funding for three reasons:

First, the department has already prepared curriculum materials addressing the issues cited in Chapter 540, and is planning to distribute these to school districts, using existing funds. Consequently, school districts should not incur additional costs for developing such materials.

Second, it is not clear that districts will incur any significant costs to integrate this information into their existing health curricula. To the extent that districts do incur any costs, they may submit claims for funding through the existing mandated cost reimbursement process.

Third, when Chapter 540 was enacted, we could find no evidence that the Legislature intended to implement a program costing $4 million annually. Our analysis of AB 2822 indicated that school districts could incur unknown, but probably minor, costs for carrying out the requirements of that legislation.

Proposed Elimination of Proposition 99 Funds

If the Legislature wishes to restore funding for SDE-administered health education programs from Proposition 99 funds, it must either reduce Department of Health Services (DHS) health education programs or identify a different funding source for Medi-Cal perinatal services.

The budget proposes to eliminate SDE-administered health education programs funded from the Health Education Account of the Cigarette and Tobacco Products Surtax Fund (Proposition 99 funds), and use these funds, instead, primarily to support the Medi-Cal perinatal program (Item 4260). SDE programs were funded at $27.2 million in the current year. Proposition 99 specifies that Health Education Account (HEA) funds shall be available only for programs for the prevention and reduction of tobacco use, primarily among children, through school and community health education programs.

Budget Proposal. The budget estimates that resources available for the HEA will decrease from $155 million in 1991-92 to $116 million in 1992-93, which represents a $39 million, or 25 percent, decrease. This decrease reflects reductions of (1) $34 million in one-time carryover funds that were available in the current year and (2) $5 million in tobacco tax revenues and interest earnings.

The budget reflects the following significant funding changes in the current year:

- The enactment of proposed legislation to use $31.6 million for Medi-Cal perinatal programs administered by the Department of Health Services (DHS).
- The elimination of $16 million for an anti-smoking media campaign administered by the DHS.
- The reduction of $6.4 million in SDE programs. This leaves $20.8 million for the SDE in the current year, including $20.2 million in local assistance and $582,000 in state operations.

The budget indicates that the administration will seek legislation to implement these changes.

For 1992-93, the budget proposes a net $39 million reduction in HEA expenditures, transfers, and reserves below revised current-year levels. This reflects a decrease of $20.8 million to eliminate the health education programs administered by the SDE, an increase of $8 million for Medi-Cal perinatal programs proposed for enactment in the current year, and a variety of changes in other programs.

Options for 1992-93. In enacting Ch 278/91 (AB 99, Isenberg), which reauthorized various Proposition 99-funded programs, the Legislature did not contemplate eliminating the SDE program in 1992-93. In fact, the measure requires the SDE to undertake a comprehensive evaluation of the program involving data from the current year through 1993-94. This evaluation is underway.

However, there are not sufficient funds in the HEA to both continue existing programs and fund the proposed Medi-Cal perinatal program. Our review indicates that the Legislature has the following major options if it wishes to restore funding for SDE-administered HEA programs:

- Identify a different funding source to support expenditures for Medi-Cal perinatal programs. This would free up $39.6 million in 1992-93.
- Reduce or delete DHS-administered grants to local agencies for tobacco use prevention and reduction programs. This would make up to $20.5 million available in the HEA in 1992-93.
- Reduce or delete the DHS-administered competitive grants program for nonprofit organizations to provide health education and promotion activities. This would make up to $13.8 million available in the HEA in 1992-93.

We recommend that the Legislature consider the proposed elimination of HEA funds for SDE programs in light of its overall priorities for the use of these funds.

We discuss the DHS programs in more detail in our write-up of the DHS (Item 4260).

State Operations

The budget generally proposes to continue current-year funding levels with the exception of several reductions in special fund programs.

The budget proposes $158 million from all funds for Department of Education state operations, including $87.1 million from the General Fund. Funding from all sources is proposed to decline by $13.2 million, a reduction of 9.1 percent. General Fund support is proposed to decline by $12 million, a reduction of 16 percent. These reductions primarily are due to (1) a proposal to fund the state diagnostic schools through reimbursements ($8.9 million), (2) a reduction of $3.4 million in one-time costs to pay a federal

DEPARTMENT OF EDUCATION—Continued

audit exception, and (3) phase-out of $1.6 million in funding from the State Legalization Impact Assistance Grant and tobacco tax funds. Table 21 shows the changes in detail.

Table 21

State Operations
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	Other Funds	All Funds
1991-92 Expenditures (revised)	$87,082	$70,889	$157,971
Baseline adjustments			
Delete audit exception funds	-$3,350	—	-$3,350
Price increase for operating expenses and equipment	1	$216	217
Program reductions to fund price increases	(204)	—	(204)
Miscellaneous one-time adjustments	89	248	337
Program changes			
School restructuring staff	-255	—	-255
Fund state diagnostic schools through reimbursements	-8,920	—	-8,920
Positions at Riverside special school	400	—	400
Phase out of State Legalization Impact Assistance Grant	—	-$1,000	-1,000
Transfer tobacco tax funds	—	-582	-582
1992-93 Expenditures (proposed)	**$75,047**	**$69,771**	**$144,818**
Change from 1991-92			
Amount	-$12,035	-$1,118	-$13,153
Percent	-16.0%	-1.6%	-9.1%

We discuss the diagnostic schools proposal in the special education section of this analysis.

As indicated in the budget overview, the budget proposes to continue unallocated reductions imposed in the current year. These reductions total 8 percent of the General Fund state operations budget, and 4.6 percent of the state operations budget from all sources in the current year. We discuss the impact of unallocated reductions on state departments, generally, in our companion volume: *The 1992-93 Budget: Perspectives and Issues.*

California State Library
Item 6120

Expenditures

Requested 1992-93	$50,398,000
Estimated 1991-92	50,353,000
Actual 1990-91	50,291,000
Requested increase $45,000 (less than 0.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California State Library (1) maintains reference and research materials for state government, (2) provides support to local public libraries, and (3) coordinates statewide efforts on numerous programs like the California Literacy Campaign. The library is funded primarily from the General Fund (around 70 percent) and federal funds (25 percent).

Overview of the Budget Request

The budget request is a continuation of the current-year funding level.

The total funding requested for the California State Library in 1992-93 is $50.4 million. This is an increase of $45,000 (less than 0.1 percent) above the current-year funding level.

The State Library, along with many other agencies, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 7.2 percent from the General Fund in 1991-92. (This reduction is 5.3 percent of the State Library's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various agencies.

The proposed budget includes $3,627,000 to continue funding the new Research Service Bureau at its current-year funding level. The Legislature approved this amount in the 1991 Budget Bill to establish a *"Legislative"* Research Service Bureau. In signing the Budget Bill, however, the Governor removed the word "Legislative" because the State Library is part of the Executive Branch.

California State Summer School for the Arts

Item 6255

Expenditures

Requested 1992-93	$1,157,000
Estimated 1991-92	1,157,000
Actual 1990-91	1,065,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California State Summer School for the Arts (CSSSA) is a residential program in which talented high school students receive art instruction from professional artists. Students from throughout the state compete for approximately 400 openings, and choose from six disciplines: dance, music, theater arts, visual arts, creative writing, and film/video.

The CSSSA is funded by the state General Fund, private contributions and student fees. Funding for the CSSSA does not count towards meeting Proposition 98 requirements.

Overview of the Budget Request

The budget proposes to support the CSSSA at the current-year funding level.

The budget proposes $1.2 million to support the CSSSA. This amount includes $622,000 from the General Fund and $535,000 from cash, in-kind contributions, and student fees. These amounts are the same as the current-year funding level.

This program, along with many state agencies, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 10 percent from the General Fund in 1991-92. (This reduction is 5.8 percent of the program's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

California State Council on Vocational Education
Item 6320

Expenditures

Requested 1992-93	$317,000
Estimated 1991-92	316,000
Actual 1990-91	318,000
Requested increase $1,000 (less than +0.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California State Council on Vocational Education plans, evaluates, and provides guidance on statewide vocational education programs and services. The council receives around two-thirds of its funding from federal sources, and the remaining funding from the General Fund.

Overview of the Budget Request

The budget proposes no workload or program changes for the council.

The budget proposes expenditures of $317,000 from state and federal funds to support the council in 1992-93. This is an increase of $1,000 above estimated expenditures in the current year.

The council, along with many other agencies, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 11 percent from the General Fund in 1991-92. (This reduction is 3.6 percent of the council's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

California Occupational Information Coordinating Committee
Item 6330

Expenditures

Requested 1992-93	$272,000
Estimated 1991-92	275,000
Actual 1990-91	251,000

Requested decrease $3,000 (-1.1 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Occupational Information Coordinating Committee is responsible for the development of the California Occupational Information System, which provides occupational planning and guidance to educational institutions, the Employment Development Department, and private industry. The committee is supported entirely from federal funds.

Overview of the Budget Request

The budget proposes no workload or program changes for the agency.

The budget proposes expenditures of $272,000 from federal funds to support the committee in 1992-93. This is a decrease of $3,000, or 1.1 percent, from estimated expenditures in the current year.

School Facilities Aid Programs
Item 6350

Expenditures

Requested 1992-93	$127,136,000
Estimated 1991-92	90,097,000
Actual 1990-91	72,781,000
Requested increase $37,039,000 (+41.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

School facilities aid programs provide state assistance for (1) construction of new schools; (2) modernization, air conditioning, and deferred maintenance for existing schools; and (3) leasing of portable classrooms. Please see our analysis of these programs in the capital outlay section of this *Analysis,* which is in the back portion of this document.

Commission on Teacher Credentialing
Item 6360

Expenditures

Requested 1992-93	$14,003,000
Estimated 1991-92	14,073,000
Actual 1990-91	13,627,000
Requested decrease $70,000 (-0.5 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Fund Reserve Below Historical Levels.** Additional information should be available in the spring regarding an appropriate reserve level for the Teacher Credentials Fund. 85
2. **Teacher Assignment Monitoring Mandate.** Recommend the enactment of legislation either eliminating the mandate or reducing the frequency of reviews of teacher classroom assignments, because substantial progress has now been made in curtailing abuses. 86

General Program Statement

The Commission on Teacher Credentialing (CTC) is responsible for developing standards and procedures for credentialing teachers and school administrators. The CTC also (1) administers credential-related examinations and (2) oversees the process for accrediting teacher-training programs.

Overview of the Budget Request

The proposed budget for the CTC contains increased funding for the Paraprofessional Teacher Training Program, offset by elimination of funding for one-time special studies and activities.

The budget proposes appropriations for the CTC of $14 million, which generally reflects a continuation of its current-year spending level. Within this spending level, however, the budget proposes to increase funding for several new programs and activities, and to decrease funding for others.

Specifically, the budget proposes $500,000 from the General Fund and $148,000 from the Teacher Credentials Fund for a new pilot program, the Paraprofessional Teacher Training Program, which was established by Ch 1444/90 (SB 1636, Roberti). These funds would be allocated to participating school districts to provide support and financial assistance to paraprofessionals who wish to enroll in a teacher training program. The budget also proposes $102,000 from the Teacher Credentials Fund for the CTC to develop and adopt new teaching standards for adult and vocational education.

These increases would be offset by the elimination of funding for one-time special studies and limited-term positions.

Analysis and Recommendations

Fund Reserve Below Historical Levels

Additional information should be available in the spring regarding an appropriate reserve level for the Teacher Credentials Fund.

Chapter 572, Statutes of 1986 (AB 3843, Clute), requires the Department of Finance (DOF) and the Legislative Analyst, as part of the annual budget review process, to evaluate the reserve level in the Teacher Credentials Fund. A reserve is necessary because of potential fluctuations in revenues.

Estimated Reserve Levels. The budget proposes a reserve in the fund of $1.3 million, which is 10 percent of the commission's proposed operating budget. These figures, however, include revenues related to a restricted account within the fund that are generated by examination fees. Because these funds are intended only to support activities related to test development and administration, they should be excluded from the reserve calculations. With this adjustment, our analysis indicates that the budget actually proposes a reserve of only 1.6 percent.

Historically, the CTC has maintained a reserve in the fund of at least 21 percent. This level was established by the DOF in response to a 1984 legislative directive after a sudden drop in revenues threatened the viability of the fund.

In order to rebuild a reserve to the historical level, the CTC would need to increase credential fees from $60 to approximately $85. The CTC could not implement a fee increase of this magnitude under its existing authority. Under its existing authority, it could increase fees by $5 per applicant, thereby raising the fund reserve to 8 percent (assuming the fee increases are effective throughout 1992-93). It may, therefore, be necessary for the Legislature to authorize the CTC to raise fees more than the $5 currently allowed. On the other hand, it is not clear that a reserve level as high as 21 percent is still necessary, given that credential revenues have not fluctuated much over the last several years.

Additional Information Will Be Forthcoming. The CTC advises that it will be preparing an analysis for release this spring as to what reserve level should now be considered "prudent." We believe that the Legislature should review this analysis — as well as revised revenue forecasts that will be available in May — before taking any specific action to authorize additional fee increases. We will provide the Legislature additional comments on this issue, as appropriate, during budget hearings.

Teacher Assignment Monitoring Mandate

We recommend the enactment of legislation either eliminating the mandate or reducing the frequency of reviews of teacher classroom assignments, because substantial progress has now been made in curtailing abuses.

Chapter 1376, Statutes of 1987 (SB 435, Watson), established specific procedures that local education agencies must follow in order to ensure that teachers are not assigned to teach subjects in which they are not properly credentialed. Prior to the enactment of Chapter 1376, each school district was responsible for developing its own procedures for ensuring that teachers were properly assigned. Some districts assigned this responsibility to each school principal, while others used district personnel to review assignments against the specific credential held by each teacher.

In 1986, the CTC conducted a study that found that school administrators had improperly assigned as many as 8 percent of the teachers in the state. According to this study, the main causes of misassignments were (1) a lack of awareness, on the part of school administrators, of various changes that the Legislature had made over time to the laws governing credentialing and (2) imbalances in the regional supply and demand for teachers in certain subject areas, such as mathematics.

In order to better enforce the laws governing credentialing, Chapter 1376 required the legality of each assignment to be annually verified by both the school principal and a district personnel administrator. The personnel administrator is specifically required to check the assignments of each teacher against the provisions of the teacher's credential. In addition, the legislation required each county office of education to review the assignment practices of one-third of the districts within its jurisdiction each year.

Commission on State Mandates Action. The Contra Costa County Office of Education filed a test claim with the Commission on State Mandates (COSM) on December 10, 1988, asserting that it should be funded for the additional local costs associated with Chapter 1376. In response to this test claim, the COSM found that Chapter 1376 imposed an "increased level of service" on both school districts and county offices of education, and subsequently adopted a cumulative cost estimate of $12.6 million for the period of 1987-88 through 1990-91, based on a survey of local costs. It proposed $15 million in the 1991 claims bill, including $2.4 million for 1991-92 costs.

The COSM estimate included costs for years not covered by the mandate. Due to this problem and a number of other technical problems with the COSM's cost estimate, the Legislature appropriated only $4 million to fund this mandate through 1991-92, a reduction of 73 percent.

Review of the Governor's Budget Proposal. The Governor's Budget proposes $630,000 from the General Fund (in Item 8885) in order to fund this mandate in 1992-93. This amount is based on the COSM's cost estimate for 1991-92 ($2.4 million), reduced by 73 percent. Our analysis indicates that there is no analytic basis for applying the reduction mandated by the Legislature to the COSM's cost estimate for 1991-92. The Legislature's reduction in the cumulative cost estimate primarily affected costs for earlier years, not costs for 1991-92. We do not have any basis for believing 1991-92 costs will be reduced by 73 percent below the COSM's estimate. Accordingly, we believe that the proposed amount for 1992-93, which is based on the budget's assumptions regarding 1991-92 costs, probably understates the actual reimbursable costs of this mandate.

Because, however, the actual number of claims that local education agencies will file against the state is not yet known, for either prior-year costs or future ongoing costs, we have no firm basis for recommending an alternative amount.

Review of Current Law. Current law (Ch 1256/80, SB 90, Russell) requires the Legislative Analyst to review any mandate that the Legislature has recently funded for the first time, and to determine whether the mandate should be repealed or modified in light of the state's future fiscal liability.

Our review of Chapter 1376 indicates that it did impose a higher level of service on school districts and county offices. Consequently, the state should reimburse local education agencies for their costs of complying with it. Second, the mandate serves a statewide interest in helping to ensure that teachers are properly qualified. Third, this interest is best served through a state-level mandate because leaving the responsibility for teacher assignments to local education agencies has in the past led to abuses.

Finally, the mandate has been effective in reducing these abuses. Specifically, the rate of misassignments decreased from 8 percent prior to the enactment of Chapter 1376 to 3 percent in 1989-90, which is the latest year for which data are available. It is likely that the rate has significantly decreased even further since 1989-90, due to continued efforts on the part of the CTC and county offices both to enforce the law and to educate school administrators on the intricacies of the statutes governing credentialing.

Cost of Mandate Can Be Reduced. Although the mandate has been beneficial, our review of the mandate indicates that the Legislature could now achieve these benefits at a lower cost. Specifically, because much progress has been made in remedying the problem, we believe school districts will require less monitoring in the future than has been necessary to date. In order to eliminate unnecessary monitoring, and to avoid costs at both the state and local levels, the Legislature could either (1) modify the mandate to reduce the frequency of reviews by both county offices and school districts or (2) eliminate the mandate and find another way to enforce credentialing laws.

COMMISSION ON TEACHER CREDENTIALING—Continued

Specifically, in counties that are found to have misassignment rates that fall below a certain level (2 percent, for example), one option would be to require (1) districts to review only one-half of their schools annually and (2) county offices of education to review only one-fifth of their districts annually. The schools and school districts to be included in these reviews could be selected at random, so that a school principal would not know in advance, when formulating the teacher assignment schedule, whether his or her school will be reviewed. Such a practice would thus help discourage any future intentional violations without requiring the same level of monitoring as is mandated by current law.

Adoption of this option would reduce reimbursable costs by about half. We would not recommend, however, that the Legislature reduce the amount of funding proposed in the Governor's Budget, because — as we discuss above — that amount is probably insufficient to fully fund the level of costs associated with the existing mandate. Rather, the Legislature could address this underfunding by modifying the mandate to reduce local costs.

An alternative option would be to eliminate the mandate entirely, and require the CTC, in conjunction with the Department of Education, to find less costly ways of monitoring compliance with existing law, for example, through spot checks in conjunction with existing school compliance reviews. This option would result in General Fund savings of $630,000 in 1992-93.

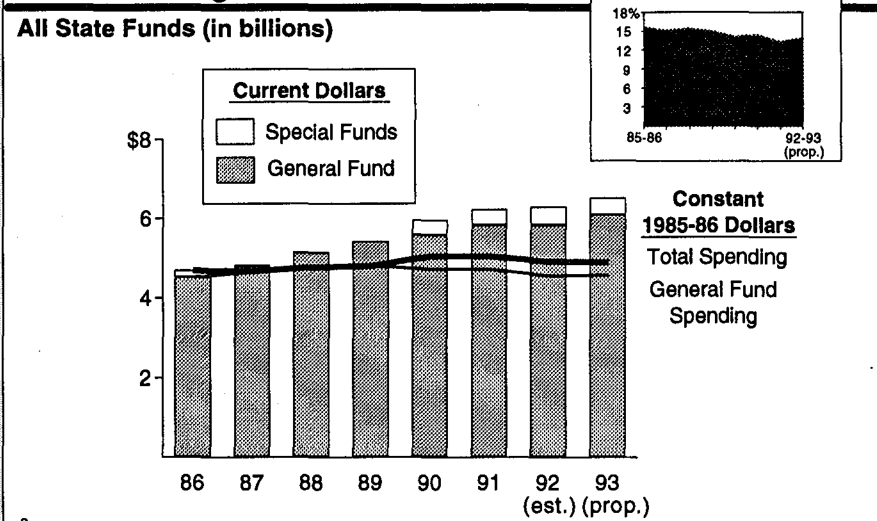
Overview of Higher Education

The proposed funding level for the University of California (UC) and the California State University (CSU) does not provide sufficient support to continue the current level of services and falls short by 12,000 students of fully funding the Master Plan level of enrollment for the CSU. The budget fully funds Proposition 98 for the community colleges.

The budget proposes General Fund expenditures of $6.1 billion for higher education in 1992-93. This is 14 percent of all General Fund spending, and $250 million, or 4.3 percent, over estimated expenditures in the current year.

Chart 1

Higher Education Expenditures Current and Constant Dollars 1985-86 through 1992-93[a]



[a] Data are for fiscal years ending in years shown.

Chart 1 shows that higher education expenditures from the General Fund increased by $1.6 billion since 1985-86, representing an average annual increase of 4.4 percent. When these expenditures are adjusted for inflation, General Fund spending increased by an average of 0.2 percent annually. The share of General Fund spending allocated to higher education has declined from 16 percent to 14 percent over the period.

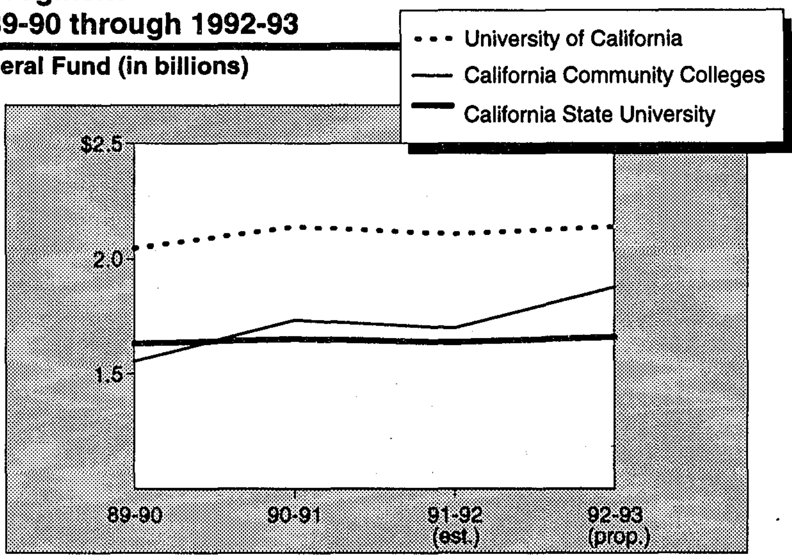
Spending by Major Programs

Chart 2 shows General Fund expenditures since 1989-90 for each of the three major segments of higher education — the UC, the CSU, and the California Community Colleges (CCC). It shows that General Fund spending during this period has increased at a faster rate at the community colleges than at the UC and the CSU.

Chart 2

Higher Education Expenditures By Segment 1989-90 through 1992-93

General Fund (in billions)

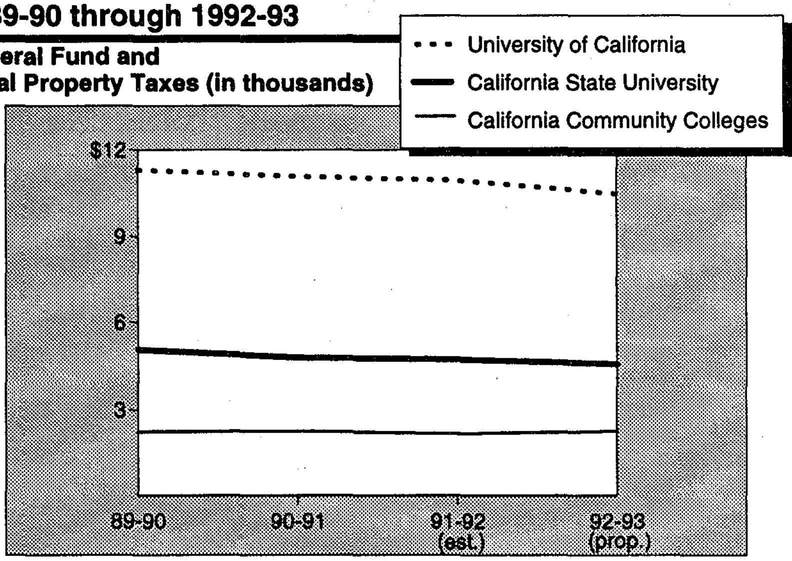


Inflation-Adjusted Spending Per Student. Chart 3 shows inflation-adjusted spending from general tax funds (the General Fund for all three segments plus local property tax funds for the community colleges) per student for the three segments since 1989-90. It shows that the community colleges have fared better than both the UC and the CSU during this period. The combination of state General Fund and local property tax support for the community colleges has allowed inflation-adjusted spending per student to increase during this period by 1.3 percent. This growth is primarily attributable to increases in local property tax support, which increased on a constant dollar basis by 7.8 percent while General Fund support fell by 1.7 percent.

Chart 3

Higher Education Expenditures by Segment Constant Dollars Per Student 1989-90 through 1992-93

General Fund and Local Property Taxes (in thousands)



During this same period, inflation-adjusted General Fund spending per student at the UC, adjusted to reflect the UC's retention of $33 million in retirement contributions, declined by 7.4 percent. The CSU's inflation-adjusted spending per student experienced the greatest decline during this period, falling by 9.8 percent.

The average spending figures cited in Chart 3 are higher than the cost of adding new students — cited later in this analysis — because (1) total spending includes funds for some research and public service activities that do not increase when new students are added and (2) average faculty salaries are higher than salaries for entry-level faculty hired in response to enrollment growth.

Factors Driving Program Costs

This section examines the specific factors responsible for increases in higher education expenditures in recent years, which also are likely to drive expenditures for the next several years.

The major factors accounting for growth in program costs at the UC and the CSU are: (1) competitive salaries, (2) price increases and instructional equipment purchases, (3) enrollment growth, and (4) construction and operation of new buildings. Proposition 98 is the primary factor driving funding of the CCC.

Competitive Salaries. The California Postsecondary Education Commission (CPEC) annually submits to the Legislature an analysis comparing UC and CSU salaries to an agreed-upon group of comparable universities with which they compete for faculty. The comparison group is intended to provide a benchmark for the Legislature to use in determining what salaries the UC and the CSU should offer. The CPEC's report for 1992-93 indicates that a salary increase of 6.7 percent for UC faculty and 6 percent for CSU faculty is needed to have the segments at parity with their respective comparison groups.

Price Increases/Instructional Equipment Replacement. Other major cost factors are price increases and instructional equipment purchases. Price increases affect library subscriptions, utilities, laboratory supplies, and other items. In addition, to adequately teach students, up-to-date instructional equipment is needed. Since 1984-85, the Legislature has recognized the need to schedule replacement of instructional equipment. Based on the current methodology, the UC should expend above the amounts contained in the budget an additional $22 million and the CSU an additional $18 million in 1992-93 to maintain a schedule for equipment replacement.

Enrollment. The Master Plan for Higher Education establishes eligibility for admission to higher education. As enrollment increases, additional faculty and staff are added to the UC and the CSU budgets based on established budget formulas. The formulas are intended to maintain a given level of instructional quality within the educational program. The General Fund cost for 1992-93 to add a student at the UC is $6,000, while the cost at the CSU is $4,400.

New Construction. New construction at UC and CSU campuses has been significant in recent years. As new facilities are opened, budgets need to be adjusted for related maintenance and operation expenses. In addition to these costs, there are the costs of the bonds to pay for new higher education construction. Prior to 1983, construction costs were financed with general obligation bonds and tidelands oil revenues. With the enactment of Ch 1268/83 (SB 1067, Petris), the Legislature authorized the use of revenue bonds to pay for new higher education facility construction. The payments on revenue bonds are made from the General Fund in the segments' operating budgets. The first revenue bond payment in 1987-88 amounted to $312,000. The 1992-93 budget includes $84 million for lease-purchase payments on revenue bonds for higher education.

The budget also includes $161 million for general obligation bond payments. These payments are not shown in the operating budgets of the segments, but are included in the totals for higher education. The amount for these payments has grown less rapidly than the revenue bond payment amount, due to a greater reliance by the state on revenue bonds to fund UC and CSU construction.

Proposition 98. Proposition 98 generally requires that total state and local funding for community colleges and K-12 schools be no less than the amount provided in the prior year, as adjusted for enrollment growth and growth in California per capita personal income. The 1992-93 budget proposes a 10 percent increase in the CCC budget as a result of Proposition 98 requirements. We discuss Proposition 98 funding requirements in detail in the K-12 overview section.

Major Budget Changes

Table 1 presents the major budget changes resulting in a net increase of $225 million in General Fund spending for the UC, the CSU, and the CCC. As the table shows, the budget includes a UC student fee increase that is expected to provide an additional $60 million in revenue. The budget does not include a fee increase for CSU students. The Governor's Budget indicates that the administration supports a CSU student fee increase of up to $372 (40 percent), but leaves the decision to increase the fees to the CSU trustees.

Table 1

Higher Education
Proposed Major Changes for 1992-93

University of California	Requested:	$2.1 billion	
	Increase:	$31.1 million	(+1.5%)

- + $46 million for merit salary increases
- + $17 million for enrollment increases
- + $13 million for price increases and equipment
- + $13 million for employee benefit increases
- + $12 million for revenue bonds and maintenance of new space
- − $60 million to reflect an increase in student fees
- − $7 million reduction to the Office of the President

California State University	Requested:	$1.7 billion	
	Increase:	$23.2 million	(+1.4%)

- + $17 million for enrollment increases

California Community Colleges	Requested:	$1.9 billion	
	Increase:	$171 million	(+10%)

- + $155 million for student enrollment (new and current)
- + $50 million for program improvements
- + $38 million for a 1.5 percent cost-of-living increase
- + $10 million for a reserve
- + $8 million for revenue bond payments
- − $9 million for deferred maintenance
- − $101 million local revenue offset

Since introduction of the budget, the trustees have tentatively adopted the $372 per student fee increase. After allowance for financial aid, this fee change will increase CSU revenue by $93 million. The CSU is currently developing an allocation plan for this additional revenue, pending a final decision on the fee level. This allocation plan would include funding for various categories of spending, such as merit salary increases, price adjustments, financial aid, and revenue bonds.

The budget fully funds Proposition 98 for the community colleges. Table 1 shows that $155 million is provided for currently unfunded enrollment and for new students. An additional $50 million is included in the budget for program improvements. Offsetting these increases is a projected local revenue increase of $101 million.

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. A fuller discussion of these issues is contained in our analysis of the affected higher education segment, which follows this overview.

- ***UC and CSU Budget Gap of $343 Million.*** Based on various established budget formulas and projected growth in enrollment, we estimate that there is a $343 million shortfall in 1992-93, including $124 million for the UC and $219 million for the CSU. The budget bridges this gap by underfunding salaries, price adjustments, and instructional equipment replacement. The CSU's budget gap would be reduced to $126 million if the $372 fee increase suggested in the budget is adopted. (See Items 6440 and 6610, University of California and California State University.)
- ***CSU Budget Fails to Comply with Master Plan.*** In 1992-93, we estimate that approximately 12,000 Master Plan-eligible students will not be able to attend the CSU due to budget constraints. Fully funding these students would cost an additional $53 million. We recommend that the Legislature explicitly state its policy with respect to Master Plan enrollment goals. (See Item 6610, California State University.)
- ***Enrollment at the UC.*** Despite a funding gap of $124 million, the UC will be able to serve all Master Plan-eligible undergraduate students and to expand its graduate enrollments in 1992-93. (See Item 6440, University of California.)
- ***Program Improvement and Unfunded Enrollment at the CCC.*** A variety of proposals should significantly improve student access to the CCC in 1992-93. The Legislature will need to evaluate whether the $50 million proposed for program improvement would be better spent on the remaining unfunded enrollment, which we estimate would cost $30 million. (See Item 6870, California Community Colleges.)

- ***Potential CCC Savings of $100 Million.*** Enactment of legislation providing that students with more than 90 credits would not be counted as part of CCC enrollment for apportionment purposes would allow savings of $100 million (assuming that 5 percent of current enrollment falls into this category). This savings could be redirected to other community college priorities. (See Item 6870, California Community Colleges.)
- ***Student Fees, Course Offerings, Financial Aid.*** The budget proposes student fee increases for the UC, the CSU, Hastings College of the Law, and the California Maritime Academy. There is no fee increase proposal for the CCC. The budget leaves the decision to increase CSU fees to the trustees. We recommend that in reviewing the CSU allocation plan for any fee revenues resulting from the pending increase, the Legislature consider (1) the needs of enrolled students to find suitable course offerings and (2) the need for additional State University Grants for financial aid. (See Item 6610, California State University.)
- ***Cal Grant Shortfall of $19.2 Million.*** While the Governor's Budget supports student fee increases for the UC and the CSU, the budget does not provide increases in Cal Grant award levels to offset these fee increases. We estimate a shortfall of $19.2 million in the Cal Grant program. (See Item 7980, Student Aid Commission.)
- ***UC and CSU Faculty Workload.*** We recommend that the Legislature request the CSU administration and California Faculty Association to defer a planned one-unit reduction in teaching workload in 1992-93. This workload reduction would exacerbate the access problems facing CSU students. We also recommend that the Legislature request the UC faculty to increase the number of courses taught from the current five courses to six. Full implementation of this recommendation would result in annual savings of approximately $47 million. (See Items 6440 and 6610, University of California and California State University.)
- ***Faculty Salary Methodology Change Would Save $17 Million.*** Our review of the methodology used for UC faculty salary comparisons found that a "weighted" approach, like that used for CSU faculty salary comparisons, makes more sense then the current "unweighted" UC approach. This recommendation would provide future annual savings of approximately $17 million. (See Item 6440, University of California.)
- ***State Could Save Dollars by Redirection to Community Colleges.*** Enactment of legislation to establish a policy whereby the UC and the CSU would admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in specific community colleges, would allow annual savings of approximately $25 million, beginning in 1993-94. (See Item 6440, University of California.)

California Postsecondary Education Commission
Item 6420

Expenditures

Requested 1992-93	$8,803,000
Estimated 1991-92	8,855,000
Actual 1990-91	6,739,000
Requested decrease $52,000 (-0.6 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Postsecondary Education Commission (CPEC) is an advisory body to the Legislature responsible for planning, evaluation, and coordination of postsecondary education policy. Among its major responsibilities are review of proposed capital projects, evaluation of higher education budget requests, updating a five-year plan for postsecondary education, and maintaining a statewide postsecondary information system.

The commission is supported primarily from the General Fund.

Overview of the Budget Request

The proposed budget is essentially a workload budget.

The budget proposes total expenditures of $8.8 million for support of the commission. This is a net decrease of $52,000, or 0.6 percent, from estimated current-year expenditures. This decrease results from a reduction in salaries and benefits, partially offset by an increase in operating expenses and equipment.

The commission, along with many other agencies, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the commission's General Fund state operations budget in 1991-92. (This reduction is 15 percent of the commission's state operations budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

The University of California
Item 6440

Expenditures

Requested 1992-93	$9,829,513,000
Estimated 1991-92	9,318,825,000
Actual 1990-91	8,789,551,000

Requested increase $510,688,000 (+5.5 percent)

Fiscal Recommendations

Total recommended reduction	$7,500,000

MAJOR ISSUES

- **Budget Gap.** Despite a funding gap of $124 million, the University of California will be able to serve all Master Plan-eligible undergraduate students and to expand its graduate enrollments in 1992-93.
- **Fee Increase.** Budget proposes a $550 (24 percent) increase in resident student fees. Without the fee increase, the budget gap increases to $184 million.
- **Faculty Workload.** If University of California faculty increase the number of courses taught during a year from the current five courses to six the state could save $7.5 million in 1992-93. Full implementation would result in annual savings of approximately $47 million.
- **Redirection to Community Colleges.** Enactment of legislation to establish a policy whereby the University of California and the California State University admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in specific community colleges, would allow annual savings of approximately $25 million beginning in 1993-94.

Findings and Recommendations

Analysis Page

1. **Budget Shortfall.** Despite a funding gap of $124 million, the University of California (UC) will be able to serve all Master Plan-eligible undergraduate students and to expand its graduate enrollments in 1992-93. 103
2. **Student Fees.** The budget proposes a student fee increase of $550 (24 percent) but does not propose Budget Bill language to suspend existing statutory limitations on student fee increases exceeding 10 percent. 105
3. **Increase Faculty Teaching By One Course Per Year. Reduce Item 6440-001-001 by $7.5 Million and 147 New Positions.** Recommend that the Legislature request UC faculty to increase the number of courses taught during a year from the current level of five courses to six courses per year, for a savings of $7.5 million in 1992-93. 106
4. **Faculty Salary Methodology Change Would Save $17 Million Annually.** Recommend the adoption of supplemental report language directing the California Postsecondary Education Commission (CPEC) to use the same "weighted" approach in the calculation of parity level salaries for UC as that used in the calculation of parity salaries for the California State University, for future annual state savings of approximately $17 million. 107
5. **Redirection to Community Colleges Could Save Dollars for State.** Recommend the enactment of legislation to establish a policy whereby the UC and the CSU would admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in specific community colleges, allowing annual state savings of approximately $25 million beginning in 1993-94. 109
6. **Clear Intent Needed on Community College Transfers.** Recommend that the Legislature adopt supplemental report language which expresses its intent that the UC and the CSU continue to accept at least the same number of community college transfer students in 1992-93 as each segment accepted in 1990-91. 111
7. **Proposed Use of Proposition 99 Funds.** The proposal to transfer $15 million from the Research Account, Cigarette and Tobacco (C&T) Products Surtax Fund, from the UC to the Medi-Cal Program would require voter approval because the proposal extends the account's purposes beyond those specified in Proposition 99. 112

THE UNIVERSITY OF CALIFORNIA—Continued

General Program Statement

The University of California (UC) includes eight general campuses and one health science campus. The university has three law schools, five medical schools, two dental schools, and one school of veterinary medicine. It has sole authority among public institutions to award doctoral degrees in all disciplines, although it may award joint doctoral degrees with the California State University. Admission of first-year students to the UC is limited to the top one-eighth (12.5 percent) of California's high school graduates.

The primary funding source for the UC's instructional programs is the state General Fund. Other important funding sources are (1) federal funds for research and three Department of Energy laboratories and (2) patient service revenues for teaching hospital operations.

Overview of the Budget Request

The proposed UC budget includes a variety of workload and cost-related proposals which are funded primarily by a resident student fee increase.

Table 1 shows that the budget proposes expenditures from all funds of $9.8 billion for UC in 1992-93.

Table 1

The University of California Budget Summary 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Change from 1991-92	
				Amount	Percent
Expenditures					
Budgeted Programs					
Instruction	$1,566.1	$1,709.9	$1,746.8	$36.8	2.2%
Research	257.4	243.7	228.6	-15.1	-6.2
Public service	98.7	90.9	90.9	—	—
Academic support	391.9	430.1	443.2	13.1	3.0
Teaching hospitals	1,458.7	1,583.5	1,685.8	102.2	6.5
Student services	205.2	198.0	198.0	—	—
Institutional support	331.1	321.4	321.4	—	—
Operation and maintenance	275.7	307.8	311.4	3.5	1.2

Continued

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Change from 1991-92 Amount	Percent
Student financial aid	101.5	117.0	137.3	20.2	17.3
Auxiliary enterprises	333.8	359.8	384.8	25.0	7.0
Special Regents' Program	49.5	83.5	89.1	5.6	6.8
Unallocated adjustments	19.0	-49.6	36.6	86.2	—[a]
Subtotals	($5,088.5)	($5,396.0)	($5,673.7)	($277.7)	(5.1%)
Extramural Programs					
Extramural research	$1,443.0	$1,551.8	$1,665.8	$114.0	7.3%
Department of Energy Laboratories	2,258.1	2,371.0	2,490.0	119.0	5.0
Subtotals	($3,701.0)	($3,922.8)	($4,155.8)	($233.0)	(5.9%)
Totals	**$8,789.6**	**$9,318.8**	**$9,829.5**	**$510.7**	**5.5%**
Budgeted Programs					
General Fund	*$2,135.7*	*$2,105.6*	*$2,136.6*	*$31.0*	*1.5%*
State Transportation Fund	*1.0*	*1.0*	*1.0*	—	—
California Water Fund	*0.1*	*0.1*	—	*-0.1*	*-100.0*
Cigarette and Tobacco Products Surtax Fund	*31.9*	*26.9*	*11.9*	*-15.0*	*-55.9*
Capital Outlay Bond Fund (1990)	*3.0*	—	—	—	—
Lottery Education Fund	*18.6*	*14.5*	*14.5*	—	—
Federal funds	*9.4*	*13.4*	*13.4*	—	—
Higher education income and fees	*471.7*	*580.3*	*669.2*	*88.9*	*15.3*
University funds	*2,417.1*	*2,654.4*	*2,827.2*	*172.9*	*6.5*
Extramural Programs					
Federal funds	*$3,064.0*	*$3,233.4*	*$3,412.8*	*$179.4*	*5.5%*
Other funds	*637.0*	*689.4*	*743.0*	*53.6*	*7.8*
Personnel-Years	**58,901**	**57,299**	**57,674**	**375**	**0.7%**

[a] Not a meaningful figure.

The budget proposes General Fund expenditures of $2.1 billion, or 22 percent of total UC expenditures. The budget proposes: (1) a General Fund increase of $31 million (1.5 percent) and (2) a $60 million net increase in student fee revenue as a result of a resident student fee increase of $550 per student. Table 2 shows the proposed allocation of this additional $91 million in 1992-93.

THE UNIVERSITY OF CALIFORNIA—Continued

The major changes in Table 2 are: (1) merit salary increases for faculty and staff ($46 million), (2) price adjustments and equipment purchases ($13 million), (3) enrollment-related increases ($17 million), and (4) revenue bond and new space-related expenses ($12 million). The budget also proposes a General Fund reduction of $6.6 million in the administrative costs in the UC Office of the President.

Table 2

University of California
Proposed 1992-93 Budget Changes

(dollars in millions)

	General Fund
1991-92 Expenditures (revised)	$2,105.6
Baseline adjustments	
Full-year cost of 1991-92 benefit increases	$7.4
1991-92 faculty merit increases	17.0
1992-93 faculty merit increases	17.0
1992-93 staff merit increases	11.9
Price adjustments	10.2
Instructional equipment replacement	3.0
UC income adjustment	-3.0
Workload changes	
Undergraduate enrollment increase	$8.4
Graduate enrollment increase	5.6
Health science enrollment increase	1.3
Library staff related to enrollment increase	1.0
Financial aid for new undergraduates	0.9
Maintenance for new space	3.5
Other changes	
Annuitant benefit increases for 1992-93	$5.1
Office of the President reduction	-6.6
Additional lease payments on revenue bonds	8.3
Increase in resident student fees	-60.0
1992-93 Expenditures (proposed)	**$2,136.6**
Change from 1991-92	
Amount	$31.0
Percent	1.5%

Table 1 also shows that the budget proposes to reduce funding from the Research Account of the Cigarette and Tobacco Products Surtax Fund by $15 million (56 percent). The UC uses these funds to support a statewide program of tobacco-related disease research. These research funds are derived from revenue raised from the surtax on tobacco products that was enacted with the passage of Proposition 99 in November 1988. The budget redirects this $15 million to address the needs of state-supported medical care.

The university, along with many state departments, has been subject to a variety of unallocated reductions over the past several years. In 1991-92, the university was subject to reductions totaling $117 million from the General Fund (part of which was unallocated, with the remainder allocated to broad spending categories). This reduction is 5.5 percent of the UC's General Fund budget. We discuss the impact of unallocated reductions on various state agencies in our companion document, *The 1992-93 Budget: Perspectives and Issues*.

Analysis and Recommendations

Budget Shortfall

Despite a funding gap of $124 million, the UC will be able to serve all Master Plan-eligible undergraduate students and to expand its graduate enrollments in 1992-93.

In this section, we discuss the effects of the current-year budget actions and budget-year proposals on educational services and the university's ability to meet Master Plan enrollment goals.

Effect of the Current-Year Budget Actions. The 1991 Budget Act reduced UC General Fund appropriations by $30 million (1.4 percent). This reduction was offset by revenues of $91 million from fee increases. Even with a net increase of $61 million due to the fee increase, we estimate that the 1991-92 UC budget is $174 million short of the amount required to serve the 150,000 full-time equivalent (FTE) students budgeted.

Table 3 summarizes the levels of FTE students for the past, current, and budget years. The 150,000 FTE enrollment upon which the current-year budget is based assumes that the university would serve all Master Plan-eligible students. This enrollment level is lower than the 1990-91 total, when the UC served slightly more than the top 12.5 percent of high school students. The table shows that the university has not reduced its enrollment to the extent anticipated in the budget.

THE UNIVERSITY OF CALIFORNIA—Continued

Table 3

The University of California Full-Time Equivalent (FTE) Students (Three-Quarter/Two Semester Average) 1990-91 through 1992-93

	Actual 1990-91	1991-92 Budgeted	1991-92 Estimated	Proposed 1992-93	Change From Budgeted 1991-92
Campus					
Berkeley	28,620	27,496	28,214	27,910	414
Davis	22,861	21,265	21,979	21,637	372
Irvine	16,082	15,692	15,928	16,043	351
Los Angeles	32,501	30,960	32,194	31,420	460
Riverside	8,185	8,326	8,357	8,523	197
San Diego	16,965	16,481	16,956	16,848	367
San Francisco	3,562	3,450	3,450	3,480	30
Santa Barbara	17,453	17,073	17,439	17,367	294
Santa Cruz	9,567	9,467	9,870	9,682	215
Totals	**155,796**	**150,210**	**154,387**	**152,910**	**2,700**
Student categories					
Undergraduates	115,517	112,455	115,596	113,955	1,500
Postbaccalaureate	944	975	953	975	—
Graduate	26,798	25,170	26,228	26,270	1,100
Health Sciences	12,537	11,610	11,610	11,710	100

Despite the budget shortfall, the university is accommodating about 4,100 more FTEs than are budgeted in 1991-92 because it has taken cuts in areas that do not have a serious short-term effect on the educational program (for instance, salary and merit increases and instructional equipment). Our field visits to UC campuses this past fall found little impact on course offerings. While some campuses consolidated course offerings, students told us that the current year was no worse than prior years with regard to finding appropriate classes. In fact, on one campus we found that the number of students obtaining their first choices in courses actually *improved* over the prior year. This lack of a significant current-year impact on UC's education program contrasts markedly with that of the California State University (please see Item 6610).

Impact of Fee Increases. The 1991 Budget Act allowed a student fee increase of $650 (40 percent). The impact of this fee increase on students is difficult to assess. Our campus discussions with students this past fall revealed that by the time the fee increase was adopted students had already made plans to attend the UC. In the *Supplemental Report to the 1991 Budget Act*, the Legislature directed the California Postsecondary Education Commission (CPEC) to prepare a review of the state's student fee and financial aid policies by April 15, 1992. We anticipate that this report will provide pertinent information on the effects of the recent fee increases on access to the UC. The report, however, will not include information on student income levels, because income data will not be available until late summer 1992.

Budget Compared to Current Service Level. We estimate that the proposed 1992-93 General Fund funding level for the UC is approximately $124 million below the level needed to maintain its current 1991-92 service level. Our estimate is based on full funding of faculty and staff salaries and benefits under existing formulas, instructional equipment replacement, and growth in enrollment to accommodate all Master Plan-eligible students. (The shortfall would be $184 million were it not for the fee increase proposal.)

As with the current year, the university proposes to deal with the shortfall in ways that minimize short-term impacts on the educational program. For example, the amount budgeted for UC faculty salaries falls short by $50 million of the amount necessary for salary parity with comparable universities, and the UC's price increase and instructional equipment cost needs are underfunded by $23 million in comparison to projected price increases and equipment replacement formulas. By addressing the shortfall in these ways, the UC will be able to serve all Master Plan-eligible undergraduate students and expand its graduate enrollments in 1992-93 over the budgeted current-year level by 1,100 (see Table 3).

Student Fees

The budget proposes a student fee increase of $550 (24 percent) but does not propose Budget Bill language to suspend existing statutory limitations on student fee increases exceeding 10 percent.

The proposed budget includes a student fee increase of $550 per student (24 percent). This fee would increase resources available to the UC by $84 million. The UC proposes to use $19.3 million (23 percent) of this revenue for university-based financial aid to offset the fee increase for needy students. In past years the UC allocated 20 percent of fee increases for needy students. The increase in aid is based on the projected increase of students who will become needy based on the new fee level. (This financial aid increase does not offset the shortfall in funding for Cal Grant financial aid, which we discuss in our analysis of Item 7980.) The budget also proposes to use $4.7 million of new fee revenue for cost adjustments to student fee-supported programs.

THE UNIVERSITY OF CALIFORNIA—Continued

Chapter 572, Statutes of 1990 (SB 1645, Dills), governs the fixing of student fees at the UC, the California State University, and the Hastings College of the Law. Among other things, these provisions restrict student fee increases in any year to no more than 10 percent above the prior year. The budget proposes a 24 percent increase in student fees. The Budget Bill does not include language contained in the current-year Budget Act that suspends the 10 percent restriction.

Increase Faculty Teaching By One Course Per Year

We recommend that the Legislature request UC faculty to increase the number of courses taught during a year from the current level of five courses to six courses per year, for a savings of $7.5 million in 1992-93. (Reduce Item 6440-001-001 by $7.5 million and 147 new positions.)

In our overview of higher education, preceding Item 6420, we discuss the major factors accounting for growth in program costs at the UC. One of these factors is growth in enrollment. As enrollment increases, additional faculty and staff are added to the UC budget based on established budget formulas. The formulas are intended to maintain a given level of instructional quality within the educational program. The General Fund cost for 1992-93 to add a student at the UC is $6,000, almost one-half of which is attributable to the addition of faculty positions.

The budget formula for adding faculty assumes a given distribution of faculty workload. UC faculty divide their time among the following activities: (1) teaching, (2) research and other creative work, (3) professional activity, and (4) university and public service. Typically, UC faculty teach no more than five courses per academic year. Faculty at the California State University (CSU), by comparison, teach approximately eight courses per academic year and community college faculty teach approximately 10 courses. According to the Master Plan for higher education, UC faculty have the primary responsibility to conduct research. This is the major factor explaining the lower course teaching load at UC in comparison to the CSU and the CCC.

Our review of UC faculty workload distribution indicates that it would be reasonable for the Legislature to request that UC faculty alter the distribution of their workload by increasing teaching by one course per year and reducing other activities. This means, for those campuses on the quarter system, the faculty that currently teach on a 2-1-2 basis (two courses in two quarters and one course in the other quarter) will change to a 2-2-2 basis. Two of the quarters would be unaffected by this change. In one quarter of the year the faculty would teach an additional course and reduce research or other activities. This recommendation does not request UC faculty to work more but rather to shift current workload to teaching from other activities.

Accordingly, we recommend that the Legislature request UC faculty to increase the number of courses taught during a year from the current level of five courses to six courses per year. Full implementation of this recommendation would result in annual state savings of approximately $47 million. However in order to avoid faculty layoffs, we recommend that the Legislature phase in this recommendation over time by not increasing the number of faculty positions as enrollment increases until the new workload distribution standard is achieved. Because UC has requested $7.5 million for 147 new faculty positions based on its projected enrollment increase of 2,700 students, we recommend that this $7.5 million be deleted as the first phase reduction. These funds could be used to help reduce the UC's budget gap or for other legislative priorities.

Faculty Salary Methodology Change Would Save $17 Million Annually

We recommend the adoption of supplemental report language directing the California Postsecondary Education Commission (CPEC) to use the same "weighted" approach in the calculation of parity level salaries for UC as that used in the calculation of parity salaries for the California State University (CSU), for future annual state savings of approximately $17 million.

Resolution Chapter 223, Statutes of 1965 (SCR 51, Miller), requires the California Postsecondary Education Commission (CPEC) to annually submit to the Legislature an analysis comparing UC and CSU salaries to an agreed-upon group of comparable universities with which they compete for faculty. The comparison group is intended to provide a benchmark for the Legislature to use in determining what salaries the UC and the CSU should offer.

Table 4 shows that, based on the CPEC's "unweighted" comparison, UC salaries would need to be increased by 6.7 percent in 1992-93 to be at parity with its comparison group. The UC's comparison group includes four private universities—Harvard, Stanford, Yale and MIT—and four public universities—the State University of New York at Buffalo and the Universities of Illinois, Michigan, and Virginia.

THE UNIVERSITY OF CALIFORNIA—Continued

Table 4

The University of California Faculty Salary Increase Required to Achieve Parity With Comparison Institutions 1991-92 and 1992-93

Academic Rank	UC Average Salaries 1991-92	Comparison Group Salaries[a] Actual 1991-92	Comparison Group Salaries[a] Est. 1992-93	Percentage Change Required in UC Salaries Actual 1991-92	Percentage Change Required in UC Salaries Est. 1992-93
Full Professor	$75,810	$77,382	$81,247	2.1%	7.2%
Associate Professor	52,062	52,421	55,061	0.7	5.8
Assistant Professor	43,622	43,648	46,022	0.1	5.5
All Ranks Average	$64,528	$65,551	$68,862	1.6%	6.7%

[a] Comparison group salary average by rank is an unweighted average. The all-ranks average for the comparison group is based on the following UC staffing patterns for 1991-92: professors 60 percent (3,367), associate professors 19 percent (1,097), and assistant professors 21 percent (1,163).

The most significant difference between the methodologies used in determining UC and CSU salaries concerns the "weighting" of comparison university data. The CSU data is weighted by the number of faculty at each university. Thus, larger universities have a more significant impact on the average (parity) figure in that the faculty salaries at these institutions contribute proportionately higher in the calculation. In contrast, the UC data is based on an equal value to each of its comparison universities regardless of size. Thus in the calculation of UC's parity figure each university carries equal weight.

The following example shows the difference between the two approaches. University "A" employs four faculty members and pays each of them $50,000. University "B" employs two faculty members and pays each of them $80,000. The average "weighted" salary of the six faculty is $60,000, while the average "unweighted" salary of the two universities is $65,000. The "unweighted" approach yields an "average" salary that is $5,000 more than the "weighted" method. If these two universities constituted the entire faculty marketplace, the weighted approach would more accurately represent the average salary paid to faculty in that market. Thus, we conclude that the weighted approach is the desired approach if the Legislature intends to use the parity figure as an estimate of the average salary paid to faculty at comparable universities.

Our example is consistent with the parity group for the UC. The four private universities have fewer faculty and pay higher salaries than the four public universities. If the data from UC's comparison universities are weighted by the number of faculty at each university, the 1992-93 parity figure would be 5 percent rather than the 6.7 percent increase shown in Table 4. As each 1 percent increase in salary costs $10 million, the change to a "weighted" approach, like that used for CSU, would result in an annual state savings of $17 million. Because the budget is $50 million short of the amount necessary for salary parity (as calculated using the traditional unweighted method) with comparable universities, there is no immediate savings in the budget year. However, if the weighted methodology is adopted, UC's salary shortfall would be reduced from $50 million to $33 million and the overall UC shortfall would be reduced from $124 million to $107 million.

Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6420-001-001 directing the CPEC to "weight" the UC data in the same manner as the comparison data for the CSU.

> It is the intent of the Legislature that, starting with the faculty salary report for 1993-94, the CPEC "weight" the comparison university data for the UC in the same manner as the comparison data for the CSU.

Redirection to Community Colleges Could Save Dollars for State

We recommend the enactment of legislation to establish a policy whereby the UC and the CSU would admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in specific community colleges, allowing annual state savings of approximately $25 million beginning in 1993-94.

In our overview of higher education, preceding this item, we discuss the major factors accounting for growth in program costs in higher education. One of these factors is growth in enrollment. As enrollment increases, additional faculty and staff are added to the UC and the CSU budgets based on established budget formulas. As enrollment increases at the California Community Colleges (CCC) the state also adds a specific dollar amount per student based on an established budget formula.

Because of the different missions of the three segments, the per student support rates for new students vary substantially among the three segments. For 1992-93 each student added at the UC costs the state $6,000 compared to a cost of $4,400 at the CSU and $2,700 at the CCC. In addition, the student fees charged by the segments vary substantially. Based on the proposed 1992-93 fees, a UC undergraduate student's mandatory systemwide fee would be $2,824 compared to $1,308 at the CSU and $120 at the CCC.

All three segments of higher education offer lower division (freshman and sophomore) level studies. The Legislature has identified matriculation from community colleges to the UC and the CSU as a central priority for all segments of higher education in Ch 1188/91 (SB 121, Hart). Given the higher costs to the state and student to attend the UC and the CSU, it is cost-beneficial to each to have students attend the community colleges for lower division work and then transfer to either the UC or the CSU. In fact, the Legislature has undertaken a number of measures, including the development of transfer centers at the community colleges in the past several years, to encourage students to attend the community colleges and than transfer to the UC and the CSU.

The UC Santa Cruz Program. We believe that a program used several years ago to address low enrollment at the UC Santa Cruz campus may be applied with good results to the transfer situation. Several years ago, when the UC Santa Cruz campus was experiencing low enrollment levels, the UC developed a program that admitted students to UC Berkeley (UCB) on the condition that the student attend UC Santa Cruz for the first two years. This program was very successful. Many students who were redirected to UC Santa Cruz decided to stay at that campus. Those who decided to transfer to UCB were guaranteed a space there.

Redirect to the CCC Using the UC Santa Cruz Model. Our analysis indicates that a similar program could be developed between the UC, the CSU, and the community colleges. Currently, students can choose to attend a community college and in some cases obtain a transfer guarantee to a UC or CSU campus. While this current arrangement encourages transfer, we believe that a program that allows a student to be accepted at a UC or CSU campus and than be redirected to a specific community college would encourage many more students to attend a community college. Under this program, students would indicate on their applications to the UC or the CSU that they would be willing to be redirected for lower division work to a specific community college. For example, a student applying to UC Santa Barbara (UCSB) from the Sacramento area could indicate on the application form a willingness to be redirected to American River College (AR) in Sacramento. UCSB would accept and redirect the student to AR.

The primary difference between this proposal and existing transfer agreement programs is that students would apply directly to the UC or CSU campus and be accepted and redirected with a guaranteed transfer from the start. Existing programs have the students first attend the CCC and then apply or obtain a transfer guarantee to a UC or CSU campus.

Savings are Substantial. The state would save almost $7,000 for each student over the two-year period ($7,000 is the difference between the state cost for the UC versus the CCC; the difference is less for CSU) while the student or student's family would save approximately $5,400 in mandatory fees and as much as $14,000 in living and other expenses over the two-year period. If only 10 percent of the entering freshman class at the UC and the

CSU could be redirected to attend community colleges, the annual savings to the state would total $25 million.

May Improve Access to the UC and the CSU. Given the state's fiscal condition and the projected enrollment growth in higher education in the latter part of this decade, we believe that this proposal would facilitate access to the UC and the CSU compared to other alternatives. For instance, the proposal represents an alternative to reducing eligibility through changes in admission criteria set forth in the Master Plan. A voluntary redirection plan may be preferable to changing UC's admission standard from, say, the current top one-eighth (12.5 percent) of all high school graduates to the top tenth (10 percent).

Accordingly, we recommend the enactment of legislation to establish a policy whereby the UC and the CSU would admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in specific community colleges. We anticipate that this policy would take several years to implement and would require a commitment on the part of the UC and the CSU to fully inform students and parents about the program in order to be successful.

Clear Intent Needed on Community College Transfers

We recommend that the Legislature adopt supplemental report language which expresses its intent that the UC and the CSU continue to accept at least the same number of community college transfer students in 1992-93 as each segment accepted in 1990-91.

Chapter 1198, Statutes of 1991 (AB 617, Hayden), expresses the Legislature's intent that the transfer function be a central institutional priority of all segments of higher education in California. Our discussions at local community college campuses this past fall revealed considerable confusion among administrators and faculty regarding UC and CSU policies with regard to the future admission of community college transfer students. The widely publicized budget constraints at the UC and the CSU have left many community college administrators with the impression that the UC and the CSU may reduce the number of transfer students admitted. The UC and CSU administrative staff have informed us that this is not their intent.

We are concerned that community college students may be misled into believing that the UC and the CSU are cutting back on transfer admissions. Such beliefs by students could discourage them from enrolling in community colleges for transfer purposes and thus undermine the intent of the Legislature regarding the transfer function. We believe a clear statement that the Legislature intends the UC and the CSU to continue acceptance of transfer students at current rates would help to alter perceptions in the field. Accordingly, we recommend that the Legislature adopt the following supplemental report language expressing the Legislature's intent that the UC and the CSU continue to accept in 1992-93 at least as many transfer students as were accepted in 1990-91.

It is the intent of the Legislature that the UC and the CSU continue to accept in 1992-93 at least as many transfer students as were accepted in 1990-91.

Proposed Use of Proposition 99 Funds Would Require Voter Approval

The proposal to transfer $15 million from the Research Account, Cigarette and Tobacco (C&T) Products Surtax Fund, from the UC to the Medi-Cal Program would require voter approval because the proposal extends the account's purposes beyond those specified in Proposition 99.

In the current year, the UC has $26.9 million from the Research Account for tobacco-related disease research. The budget proposes to reduce research expenditures from the account to $11.9 million and schedule $15 million in the Medi-Cal Program to provide perinatal services.

The Legislative Counsel indicates that the proposed use of the funds for the Medi-Cal program extends beyond the purposes specified in Proposition 99 for the Research Account. Proposition 99 provides that Research Account funds shall only be available for tobacco-related disease research. The Legislative Counsel also states that the use of the Research Account funds for Medi-Cal requires voter approval in order to be implemented.

For a more detailed discussion of this issue, please see our analysis of the Medi-Cal Program in the Department of Health Services (Item 4260).

Capital Outlay

The Governor's Budget proposes an appropriation of $232.6 million in Item 6440 for capital outlay expenditures at the UC. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Hastings College of the Law
Item 6600

Expenditures

Requested 1992-93	$23,791,000
Estimated 1991-92	23,158,000
Actual 1990-91	21,558,000
Requested increase $633,000 (+2.7 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Student Fees.** The budget proposes a student fee increase of $550 (21 percent) but does not propose Budget Bill language to suspend existing statutory limitations on student fee increases exceeding 10 percent. 114

General Program Statement

Hastings College of the Law was founded in 1878. It is designated by statute as a law school of the University of California, although it is governed by its own board of directors. Hastings is funded primarily from the General Fund and student fees. Enrollment in 1992-93 is projected to total 1,270 students, approximately the same level as the current year.

Overview of the Budget Request

The proposed Hastings budget is essentially a workload budget, with expenditure increases funded primarily by a student fee increase.

Expenditures from all funds are proposed to increase by a net amount of $633,000 (2.7 percent) above estimated current-year expenditures. The General Fund portion of this increase is $51,000 (0.4 percent above the current year). The balance of the increase is funded from a proposed resident student fee increase of $550 per student (21 percent) — from $2,650 to $3,200. The fee increase is equal to proposed fee increases for law students at the University of California.

Hastings plans to use the additional support in 1992-93 for faculty and staff merit salary increases and various other cost- and workload-related purposes.

Analysis and Recommendations

Student Fees

The budget proposes a student fee increase of $550 (21 percent) but does not propose Budget Bill language to suspend existing statutory limitations on student fee increases exceeding 10 percent.

Chapter 572, Statutes of 1990 (SB 1645, Dills), governs the fixing of student fees at the California State University, the University of California, and the Hastings College of the Law. Among other things, these provisions restrict student fee increases in any year to no more than 10 percent above the prior year. As stated above, the budget proposes a 21 percent increase in student fees. The Budget Bill does not include language contained in the current-year Budget Act that suspends the 10 percent restriction.

The California State University
Item 6610

Expenditures

Requested 1992-93	$2,890,364,000
Estimated 1991-92	2,831,021,000
Actual 1990-91	2,793,409,000

Requested increase $59,343,000 (+2.1 percent)

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Budget Gap.** The California State University's proposed budget is underfunded by $219 million. The budget closes this gap by underfunding salaries, price adjustments and instructional equipment replacement.
- **Budget Fails to Comply With Master Plan.** Approximately 12,000 Master Plan-eligible students will not be able to attend the California State University in 1992-93 due to lack of funding in the proposed budget. Fully funding these students would cost an additional $53 million.
- **Fee Increase.** The budget leaves the decision to increase California State University fees by up to $372 per student for 1992-93 to the trustees. If this fee level is adopted, the California State University budget gap would be reduced to $126 million.
- **Faculty Workload.** The California State University and California Faculty Association propose a reduction in faculty direct instruction workload starting on July 1, 1992 that, if it takes place, would exacerbate the current-year course selection problem facing students.

THE CALIFORNIA STATE UNIVERSITY—Continued

Findings and Recommendations

Analysis Page

1. **Pending Fee Increase and the Master Plan.** In reviewing the California State University (CSU) plan to allocate any fee revenues resulting from a pending fee increase, the Legislature should consider (1) the needs of enrolled students to find suitable course offerings and (2) the need for additional financial assistance through State University Grants. If there are not sufficient additional funds available to enable the CSU to meet the Master Plan enrollment goal, recommend that the Legislature explicitly state its policy with respect to that goal. 118
2. **Faculty Workload Reduction Should Be Deferred.** Recommend that the Legislature adopt supplemental report language requesting that the CSU administration and faculty defer the planned July 1, 1992 implementation of a teaching workload reduction of one unit. 121
3. **Redirection to Community Colleges Could Save Dollars for State.** Recommend the enactment of legislation to establish a policy whereby the University of California (UC) and the CSU would admit qualified freshmen but redirect a portion of freshman students, on a voluntary basis, to enroll in specific community colleges, allowing annual state savings of up to $25 million beginning in 1993-94. 122
4. **Clear Intent Needed on Community College Transfers.** Recommend that the Legislature adopt supplemental report language which expresses its intent that the UC and the CSU continue to accept at least the same number of community college transfer students in 1992-93 as each segment accepted in 1990-91. 123

General Program Statement

The California State University (CSU) consists of 20 campuses. The oldest campus — San Jose State University — was founded in 1857; the newest campus — CSU, San Marcos — was established in 1989. The CSU offers more than 1,500 bachelor's and master's degree programs in over 200 subject areas. A limited number of doctoral degrees are offered jointly with the University of California and with private universities in California. Admission of first-year students to CSU is limited to the top third (33.3 percent) of California's high school graduates. The CSU receives around 60 percent of its funding from the General Fund and around 15 percent from student fees, with the remaining funding from a variety of sources.

Overview of the Budget Request

The budget proposes an increase of $17 million for enrollment growth but in other respects is incomplete pending a fee increase decision by the CSU trustees.

Table 1 shows that the budget proposes total expenditures from all funds of $2.9 billion in 1992-93, an increase of $59.3 million (2.1 percent) above estimated expenditures in the current year. General Fund expenditures are proposed to increase by $23.2 million (1.4 percent).

Table 1

The California State University Budget Summary 1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Change from 1991-92 Amount	Change from 1991-92 Percent
Expenditures					
Instruction	$1,250.5	$1,364.1	$1,371.1	$7.1	0.5%
Public service	1.1	1.3	1.5	0.2	15.7
Academic support	206.3	235.6	236.4	0.9	0.4
Student services	282.4	318.3	323.2	5.0	1.6
Institutional support	536.9	562.8	571.0	8.2	1.5
Independent operations	89.0	77.6	78.0	0.4	0.5
Auxiliary organizations	427.2	459.8	494.9	35.2	7.6
Provision for allocation	—	-188.3	-185.9	2.5	-1.3
Totals	**$2,793.4**	**$2,831.0**	**$2,890.4**	**$59.3**	**2.1%**
General Fund	$1,653.4	$1,640.2	$1,663.4	$23.2	1.4%
Student fees	362.8	408.5	408.4	-0.1	—
Lottery Education Fund	48.9	26.6	26.0	-0.7	-2.4
Special Account for Capital Outlay and bond funds	11.6	15.4	5.0	-10.4	-67.6
Special funds	110.3	110.4	120.0	9.6	8.7
Federal funds	107.9	108.3	110.4	2.1	2.0
Reimbursements	71.3	61.9	62.3	0.4	0.7
Auxiliary organization funds	427.2	459.8	494.9	35.2	7.6
Personnel-Years	**36,869**	**36,562**	**36,562**	—	—

The budgeted increase is proposed primarily to fund 2,600 additional students. In other respects, the budget is incomplete pending a decision by the CSU trustees on a student fee increase.

The CSU, along with many state departments, has been subject to a variety of unallocated reductions over the past several years. In 1991-92, the university was subject to reductions totaling $103 million from the General Fund (part unallocated with the remainder allocated to broad spending categories). This reduction is 6.2 percent of CSU's General Fund budget. We discuss the impact of unallocated reductions on various state agencies in our companion document, *The 1992-93 Budget: Perspectives and Issues.*

Analysis and Recommendations

Pending Fee Increase and the Master Plan

In reviewing the CSU plan to allocate any fee revenues resulting from a pending fee increase, we recommend that the Legislature consider (1) the needs of enrolled students to find suitable course offerings and (2) the need for additional financial assistance through State University Grants. If there are not sufficient additional funds available to enable the CSU to meet the Master Plan enrollment goal, we recommend that the Legislature explicitly state its policy with respect to that goal.

The Governor's Budget indicates that the administration supports a student fee increase of up to $372 (40 percent) from $936 to $1,308 per year. The budget indicates that any fee increase would be accompanied by an increase in financial aid provided through State University Grants to ensure that the fee increase has no adverse impact on student access.

Since the budget was introduced, the trustees have tentatively approved a $372 fee increase, which would increase the resources available to the CSU by $116 million. The CSU estimates that approximately $23 million (20 percent) of this revenue would be needed for financial aid to offset the fee increase for needy students who received grants in the current year. After allocation of this $23 million for financial aid, the CSU would have $93 million to allocate to other programmatic needs.

The CSU would need legislation to implement this fee increase, or even to maintain current levels. This is because under current law, half of the 20 percent increase implemented in 1991-92 would be rescinded in 1992-93.

Our review indicates that the $93 million revenue increase resulting from a 40 percent fee increase would not be sufficient to fully fund the CSU. First, we estimate that — even with the proposed fee increase — the budget falls short by $126 million of the amount that would be needed to fund current services, including budgeted enrollment growth. Second, this shortfall figure may understate the true budget shortfall because it is based on continuing services funded in the current year — a year in which we found significant problems with educational programs and access due to budget constraints. Third, the budget does not account for an additional 12,000 students that are eligible for CSU admission under the Master Plan for Higher Education but would not be served. In this section, we discuss these points in more detail, then comment on how we believe the Legislature should require the CSU to allocate the fee increase funds.

Budget Compared to Current Service Level. We estimate that the proposed General Fund funding level for the CSU is approximately $219 million below the level needed to maintain its current 1991-92 service level, assuming no offsetting student fee increase. Our estimate is based on enrollment in 1991-92 plus budgeted 1992-93 enrollment growth, full funding of faculty and staff salaries and benefits, and instructional equipment replacement under existing formulas. If a student fee increase of $372 per student is adopted, the shortfall would be reduced to $126 million.

Effect of Current-Year Budget Cuts on Quality and Access. During this past fall we made several visits to CSU campuses (as well as University of California and community college campuses) to discuss with faculty, staff and students the impact of 1991 Budget Act reductions. The 1991 Budget Act reduced CSU General Fund appropriations by $13.2 million (0.8 percent), relative to 1990-91, and increased student fees by $156 (20 percent). We were interested in the effects of these actions on the educational program and student access.

We found that due to budget constraints the CSU reduced its course offerings by approximately 5,000 course sections this past fall. Table 2 shows that overall CSU enrollment fell by approximately 8,500 full-time equivalent (FTE) students in the current year. In addition, discussions with faculty revealed that, in an effort to accommodate student needs, many faculty overenrolled students in their classes. On one campus, we found writing classes that in previous years had been limited to 25-27 students were now enrolling an average of 38 students per class and ranging as high as 52 students in a class. Based on our site visits we believe that even with the decline in enrollment, the CSU currently has more students to serve than the current budget effectively allows. Students who remain enrolled are having a hard time finding appropriate course offerings and are finding larger class sizes in courses that are available.

THE CALIFORNIA STATE UNIVERSITY—Continued

Table 2

The California State University Annual Full-Time Equivalent Students 1990-91 and 1991-92

	Actual 1990-91	1991-92 Budgeted	1991-92 Estimated	Change Actual 1990-91 to Estimated 1991-92
Campus				
Bakersfield	3,969	4,035	4,054	85
Chico	14,241	13,450	13,711	-530
Dominguez Hills	7,159	7,014	7,663	504
Fresno	15,825	15,660	15,900	75
Fullerton	17,939	17,390	16,800	-1,139
Hayward	10,368	10,415	10,387	19
Humboldt	7,171	6,783	7,056	-115
Long Beach	23,724	22,770	22,000	-1,724
Los Angeles	16,347	15,348	15,334	-1,013
Northridge	21,437	20,824	21,053	-384
Pomona	16,579	15,900	15,862	-717
Sacramento	19,442	19,023	19,101	-341
San Bernardino	8,098	8,310	8,723	625
San Diego	26,354	24,955	24,277	-2,077
San Francisco	20,522	19,306	19,272	-1,250
San Jose	21,649	21,232	21,000	-649
San Luis Obispo	16,886	15,756	16,563	-323
San Marcos	344	721	777	433
Sonoma	5,795	5,572	5,850	55
Stanislaus	4,179	4,247	4,209	30
International Program	474	509	458	-16
Totals	**278,502**	**269,220**	**270,050**	**-8,452**
Student categories				
Undergraduate	239,117	230,527	231,238	-7,879
Postbaccalaureate	19,667	18,450	18,507	-1,160
Graduate	19,718	20,243	20,305	587

The impact of the fee increase is a more difficult question to determine at this point. In most cases, by the time the fee increase was adopted students had already made plans to attend the CSU. Our conversations with campus administrators did reveal, however, that many more students are eligible for

State University Grants than are currently receiving them. Thus, it appears that funding constraints have limited grant availability.

Projected Enrollment Short of Master Plan Goals. The budget proposes serving 272,000 students in 1992-93. The CSU estimates that the full Master Plan level of enrollment would be 284,000 students. Thus, in 1992-93, we estimate that approximately 12,000 Master Plan-eligible students (FTE) will not be able to attend the CSU due to budget constraints. We note that Budget Bill language adopted in past years that states "it is the intent of the Legislature in enacting this act that no qualified student be denied admission to the California State University because of a budget deficiency..." is omitted in the 1992 Budget Bill. It would cost an additional $53 million to serve all Master Plan-eligible students at the CSU in 1992-93.

How Should the Fee Increase Funds Be Used? In order for the Legislature to evaluate the CSU budget, we have requested that the trustees submit their fee level proposal and spending plan for any additional fee revenue to the Legislature prior to budget hearings. In considering the plan submitted by the trustees, we recommend that the Legislature ensure that the allocation of any new fee revenues addresses the concerns we identified in our site visits. Specifically, we believe any allocation of new fee revenue should address (1) the needs of enrolled students to find suitable course offerings and (2) the need for additional financial assistance through State University Grants.

In our view, the course availability and financial aid needs of enrolled students should be addressed *before* consideration of additional funding to meet the Master Plan enrollment goal. Once these needs have been addressed, if there are not sufficient additional funds available to enable the CSU to meet the Master Plan enrollment goal, we recommend that the Legislature adopt Budget Bill language or enact legislation (1) making explicit that it intends the CSU to restrict enrollment in 1992-93 consistent with the budget and (2) stating whether it intends these enrollment restrictions to be a short- or long-term policy.

Faculty Workload Reduction Should Be Deferred

We recommend that the Legislature adopt supplemental report language requesting that the CSU administration and faculty defer the planned July 1, 1992 implementation of a teaching workload reduction of one unit.

Currently, CSU faculty workload consists of 12 units of direct instruction and three units of instruction-related responsibilities per semester. Direct instruction generally is defined as teaching course sections with the normal teaching load consisting of four three-unit courses per semester. Instruction-related activities generally include student advising, committee work, and community service.

THE CALIFORNIA STATE UNIVERSITY—Continued

On July 1, 1991 the CSU trustees and the California Faculty Association (CFA) reached a contract agreement that would alter faculty workload. Starting on July 1, 1992 the number of direct instruction units would be reduced from 12 units to 11 units per semester (an 8.3 percent reduction) and a new workload category called "indirect instruction" would be added. Indirect instruction includes activities such as new course preparation, curriculum planning and research. The required indirect instruction workload would be one unit per semester. Instruction-related workload would remain at three units per semester. While not a formal part of the agreement, the CSU administration and the CFA have reached an understanding that direct instruction units would be reduced by one unit in each of the two subsequent years "until assignment for all tenure track faculty shall normally be composed of nine...units of direct instruction, three...of indirect instruction, and three...of instruction-related responsibilities" per semester.

We have not evaluated the merits of the proposed faculty workload change. Though the proposal may be meritorious, the timing is not. We recommend that such a change not be made in 1992-93. Such a workload distribution change, if made, would result in even greater increases in class sizes than are already occurring due to budget constraints. As mentioned earlier CSU students are already having a hard time finding appropriate courses with manageable class sizes. CSU faculty are already over-enrolling students in their classes to help meet student needs. This workload change would exacerbate this problem because it would require increasing class size or elimination of additional sections. Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6610-001-001:

> It is the intent of the Legislature that the CSU trustees and California Faculty Association defer implementation of a teaching (direct instruction) workload reduction proposal in 1992-93.

Redirection to Community Colleges Could Save Dollars for State

We recommend the enactment of legislation to establish a policy whereby the University of California (UC) and the CSU would admit qualified freshmen but redirect a portion of them, on a voluntary basis, to enroll in specific community colleges, allowing annual state savings of up to $25 million beginning in 1993-94.

Our analysis of the UC budget (Item 6440) includes a discussion of this issue and the reasons for our recommendation.

Clear Intent Needed on Community College Transfers

We recommend that the Legislature adopt supplemental report language which expresses its intent that the UC and the CSU continue to accept at least the same number of community college transfer students in 1992-93 as each segment accepted in 1990-91.

Chapter 1198, Statutes of 1991 (AB 617, Hayden), expresses the Legislature's intent that the transfer function be a central institutional priority of all segments of higher education in California. As previously discussed in our analysis of the UC budget, our discussions at local community college campuses this past fall revealed considerable confusion among administrators and faculty regarding UC and CSU policies with regard to the future admission of community college transfer students. The widely publicized budget constraints at the UC and the CSU have left many community college administrators with the impression that the UC and the CSU may reduce the number of transfer students admitted. UC and CSU administrative staff have informed us that this is not their intent.

We are concerned that community college students may be misled into believing that the UC and the CSU are cutting back on transfer admissions. Such beliefs by students could discourage them from enrolling in community colleges for transfer purposes and thus undermine the intent of the Legislature regarding the transfer function. We believe a clear statement that the Legislature intends the UC and the CSU to continue acceptance of transfer students at current rates would help to alter perceptions in the field. Accordingly, we recommend that the Legislature adopt the following supplemental report language expressing the Legislature's intent that the UC and the CSU continue to accept in 1992-93 at least as many transfer students as were accepted in 1990-91.

> It is the intent of the Legislature that the UC and the CSU continue to accept in 1992-93 at least as many transfer students as were accepted in 1990-91.

Capital Outlay

The Governor's Budget proposes an appropriation of $214.1 million in Item 6610 for capital outlay expenditures at the CSU. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

California Maritime Academy
Item 6860

Expenditures

Requested 1992-93	$10,310,000
Estimated 1991-92	10,135,000
Actual 1990-91	9,783,000

Requested increase $175,000 (+1.7 percent)

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

	Analysis Page
1. **Student Fees.** The budget does not contain a spending plan for additional revenues resulting from student fee increases currently under consideration.	125

General Program Statement

The California Maritime Academy (CMA) was established in 1929, and is one of six institutions in the United States providing a program for students who seek to become licensed officers in the U.S. Merchant Marine. Students major in either Marine Transportation, Marine Engineering Technology, Business Administration, or Mechanical Engineering. The academy is funded primarily from the General Fund. Enrollment in 1992-93 is projected to total 430 students, an increase of 30 students (7.5 percent) above the current-year level.

Overview of the Budget Request

The budget proposes no workload or program changes for the CMA.

The budget proposes total expenditures of $10.3 million in 1992-93, an increase of $175,000 (1.7 percent) above estimated current-year expenditures. General Fund expenditures, however, are proposed to decrease by $35,000 (0.5 percent). The proposed budget changes are minor and cost- and workload-related.

Student Fees

The budget does not contain a spending plan for additional revenues resulting from student fee increases currently under consideration.

The Governor's Budget indicates that the administration supports a student fee increase of up to $391 (40 percent) — from $978 to $1,369. The budget, however, does not reflect any increase in fee revenues and leaves the decision to increase the fees to the CMA board. It indicates that any fee increase would be accompanied by an increase in financial aid to ensure that the fee increase has no adverse impact on student access.

Since the budget was introduced, the CMA board has expressed its intent to adopt whatever fee increase and financial aid policies are adopted by the California State University (CSU). The CSU has tentatively approved a 40 percent fee increase and a policy to provide sufficient financial aid to offset the fee increase for needy students. The 40 percent fee increase would increase the resources available to the academy by $163,000. In order for the Legislature to evaluate the budget for the academy, we have requested that the academy submit the board's proposal for spending the additional revenue. This information should be available prior to budget hearings.

Capital Outlay

The Governor's Budget proposes an appropriation of $125,000 in Item 6860-301 for capital outlay expenditure at the CMA. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

California Community Colleges
Item 6870

Expenditures

Requested 1992-93	$3,053,770,000
Estimated 1991-92	2,773,559,000
Actual 1990-91	2,762,155,000

Requested increase $280,211,000 (+10.1 percent)

Fiscal Recommendations

Total recommended reduction	$101,766,000

MAJOR ISSUES

- **Enrollment.** A variety of proposals in the budget should significantly improve student access in 1992-93.
- **Program Improvement.** The Legislature will need to evaluate whether a portion of the $50 million proposed for "program improvement" would be better spent on the remaining unfunded enrollment, which we estimate would cost $30 million.
- **Students With More Than Ninety Credits.** Enactment of legislation providing that students with more than 90 credits would not be counted as part of enrollment for apportionment purposes would result in savings in the magnitude of $100 million.

Findings and Recommendations

Analysis Page

1. **Community Colleges Have Had Difficulty Serving All Eligible Students.** A variety of proposals contained in the budget should significantly improve access to services. 131
2. **Program Improvement Proposal.** Recommend that (a) the Chancellor's Office report at budget hearings on the imple- 132

mentation of Ch 973/88 (AB 1725, Vasconcellos) and (b) the Legislature reject the proposal to redirect $8.7 million from deferred maintenance to program improvement.

3. **Management Information System.** Recommend that the Chancellor's Office report at budget hearings on how it intends to resolve problems in implementing Phase I of its management information system. 135

4. **Students With More Than Ninety Credits.** Recommend enactment of legislation providing that students with more than 90 credits would not be counted as part of enrollment for apportionment purposes, thereby allowing a redirection of $100 million (General Fund) to other Proposition 98 purposes. 136

5. **Workplace Learning. Reduce Item 6870-101-001 by $1 Million.** Recommend that the Legislature reduce $1 million proposed for workplace learning resource centers because the proposal is premature. 137

6. **Overbudgeting for Enrollment Growth. Reduce Item 6870-101-001 by $766,000.** Recommend a reduction of $766,000 from the General Fund to correct for overbudgeting. 138

General Program Statement

The California Community Colleges (CCC) provide instruction to approximately 1.5 million students at 107 colleges operated by 71 locally governed districts throughout the state. The community college system serves all California residents over the age of 18. The system offers a variety of academic and occupational programs in addition to basic skills and citizenship instruction.

The community colleges receive around 60 percent of their support from the General Fund, around 30 percent from local property tax revenues, and the remaining support from a variety of sources.

Overview of the Budget Request

The proposed community college budget includes significant increases for enrollment growth, previously unfunded workload, and program improvements.

As shown in Table 1, the budget proposes expenditures of $3.1 billion by the CCC in 1992-93. This is $280.2 million, or 10 percent, above estimated current-year expenditures. The budget proposes expenditures of $1.9 billion from the General Fund in 1992-93, an increase of $170.9 million, also 10 percent above estimated current-year expenditures.

CALIFORNIA COMMUNITY COLLEGES—Continued

Table 1

California Community Colleges Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
State operations	$16,627	$16,749	$17,447	4.2%
Categorical programs	218,060	212,995	216,273	1.5
Apportionments	1,564,813	1,533,222	1,695,519	10.6
Proposition 98 reserve	—	—	10,000	—[a]
Subtotals	($1,799,500)	($1,762,966)	($1,939,239)	(10.0%)
Local property taxes	791,021	844,352	947,385	12.2
Lottery funds	97,055	75,838	75,838	—
Student fees	72,263	87,898	88,763	1.0
State School Fund	2,316	2,545	2,545	—
Totals	**$2,762,155**	**$2,773,599**	**$3,053,770**	**10.1%**
General Fund	*$1,734,870*	*$1,705,597*	*$1,876,538*	*10.0%*
Local property taxes	*791,021*	*844,352*	*947,385*	*12.2*
Lottery funds	*97,055*	*75,838*	*75,838*	—
Bond funds	*28,159*	*726*	*5,788*	*697.2*
Reimbursements	*35,394*	*54,919*	*55,691*	*1.4*
Student fees	*72,263*	*87,898*	*88,763*	*1.0*
Other funds	*3,393*	*4,269*	*3,767*	*-11.8*

[a] Not a meaningful figure.

Table 2 shows the budget changes proposed for 1992-93. Major changes include:

- $44.9 million for statutory growth (1.95 percent) in apportionments, based on the increase in the adult population.
- $110.6 million to fund 42,604 full-time equivalent students that are currently being served but have never been funded by the state.
- $50 million for "program improvement."
- $37.5 million for a 1.5 percent COLA.

Table 2

California Community Colleges
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund
1991-92 Expenditures (revised)	$1,705,597
Baseline adjustments	
Local revenue increase	-$100,830
Full-year costs to lease relocatable classrooms	856
Carry-over appropriations	-8,056
Lease payments for revenue bonds	8,450
Other changes	-770
Workload and cost-related changes	
Statutory enrollment growth (1.95 percent)	44,863
Targeted program growth (1.95 percent)	9,126
Adjustment to 1991-92 base	2,682
COLA (1.5 percent)	37,527
Program changes	
Unfunded enrollment (5 percent)	110,557
Workplace learning	1,000
Cooperative Agencies Resources for Education (CARE)	1,653
Math, Engineering, Science Achievement (MESA)/ Migrant education/Puente programs	1,129
Management information system	6,500
Greater Avenues for Independence (GAIN)	4,400
Program improvement	50,000
Deferred maintenance	-8,681
Proposition 98 reserve	10,000
Other changes	535
1992-93 Expenditures (proposed)	**$1,876,538**
Change from 1991-92	
Amount	$170,941
Percent	10.0%

The budget assumes enactment of legislation to continue existing fee levels, which would otherwise be reduced under current law.

The CCC, along with many state departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent of the General Fund budget for state operations in 1991-92 (13 percent from all funds). This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93*

Budget: Perspectives and Issues, we discuss the impact of these reductions on various departments.

State-Funded Enrollment. Table 3 shows that state-funded enrollment, measured in full-time equivalent (FTE) students, is estimated to increase in 1992-93 by 60,976 FTEs, or 7.3 percent, for a total of 921,686 FTEs. This increase reflects (1) a 1.95 percent increase (16,641 FTEs) based on the statutory enrollment growth formula, (2) a budget proposal to fund 42,604 currently served but unfunded FTEs, and (3) funding for an additional 1,731 FTEs in the Greater Avenues for Independence (GAIN) Program.

Table 3

California Community Colleges Full-Time Equivalent Students State-Funded Versus Actual 1988-89 through 1992-93

	State-Funded FTE	Actual FTE	Unfunded FTE as a Percent of Actual FTE
1988-89	786,839	812,946	3.2%
1989-90	810,527	857,710	5.5
1990-91 (actual)	831,187	897,373	7.4
1991-92 (est.)	860,710	915,320	6.0
1992-93 (prop.)	921,686	933,627	1.3
Change from 1991-92			
Amount	60,976	18,307	
Percent	7.3%	2.0%	

Actual Enrollment. Table 3 also shows that actual enrollment is expected to increase by 18,307 FTEs, or 2 percent, in 1992-93, for a total of 933,627 FTEs. The effect of the budget proposal to fund currently unfunded FTEs is to narrow the gap between state-funded and actual FTEs. The table shows that the unfunded FTEs would be 1.3 percent of actual FTEs in 1992-93 under the proposed budget, versus 6 percent in the current year.

Analysis and Recommendations

Community Colleges Have Had Difficulty Serving All Eligible Students

A variety of proposals contained in the budget should significantly improve access to services.

The budget proposes $110.6 million to reduce the "gap" between funded workload and actual enrollment. Under the budget proposal, these funds, and $44.9 million for statutory enrollment growth, could not be used for employee cost-of-living adjustments. As shown in Table 3, the effect of the proposal, together with other proposals related to workload, is to reduce the unfunded enrollment from 6 percent of actual enrollment in the current year to 1.3 percent in 1992-93. Funding the remaining unfunded FTEs would cost an additional $30 million.

Our review indicates that the current gap between funded and actual enrollment, together with changes in the student population, has affected the ability of the community colleges to serve its students. We believe that the budget proposal to fund currently unfunded workload should improve the community colleges' ability to achieve their mission. Below, we discuss in detail the effects on the community colleges of (1) changes in the student population and (2) the gap between funding and actual workload. Our comments are based on our observations during site visits and data from the Chancellor's Office.

Changes in the Student Population. Colleges report that changes in the student population have affected the types of courses demanded. For example, the demand for basic skills courses (such as remedial English, mathematics and writing) has risen sharply in the past three years, and colleges have also reported the need to provide more elementary *levels* of remedial instruction than in prior years. At the same time, the Chancellor's Office found that full-time enrollment grew faster than part-time enrollment because younger students who would have attended the University of California and the California State University in prior years chose instead to attend the CCC. These students seek more traditional core courses that can be transferred to these institutions.

In view of the changing demands, most colleges have begun to change the kinds of services they deliver. Transfer courses, English as a second language, and locally supported community service offerings have generally received the highest priority. Lower levels of remediation and the most advanced community college courses were most frequently reduced.

Unfunded Workload. Most community colleges have adopted a variety of enrollment management strategies to deal with their unfunded workload. The two most frequently used enrollment management strategies were (1) increasing class enrollment limits and (2) adding fewer new sections than needed to keep pace with student demand. Most community colleges increased maximum enrollment limits for sections in high demand courses, and as a result average class size increased from about 28 students per class to about 31 students per class. (According to some colleges, class sizes would have been higher were it not for fire department room capacity standards.)

Other strategies include:

- Reducing or eliminating summer school course sections and course sections with low enrollment.
- Reducing or eliminating upper division courses.
- Reducing or eliminating the lowest levels of remedial education.
- Hiring more part-time faculty.

Despite adopting many of these strategies, the colleges had to restrict enrollment in some mathematics, English, basic science, and English as a second language courses. Some colleges estimated that 30 percent to 60 percent of all course sections were closed on the first day of classes in the current year, which is considerably higher than past years. Unlike previous years, colleges could not add enough new courses to accommodate the student overflow. The result was that the least aggressive or sophisticated students were apparently the least likely to compete successfully for the available course openings. The campuses we visited (which were mostly in Southern California) indicated that many of the students who were affected by these enrollment management strategies were underrepresented students.

Program Improvement Proposal

We recommend that (1) the Chancellor's Office report at budget hearings on the implementation of Ch 973/88 (AB 1725, Vasconcellos) and (2) the Legislature reject the proposal to redirect $8.7 million from deferred maintenance to program improvement (Item 6870-101-001).

The budget proposes to spend $50 million for "program improvement" pursuant to Ch 973/88 (AB 1725, Vasconcellos). These funds consist of $41.3 million in new funds plus $8.7 million available as a result of eliminating deferred maintenance spending in the budget year. Under Chapter 973, program improvement funds can be used for 19 different categories of expenditures covering the full range of services provided by the colleges. The funds are allocated to districts on a dollars-per-FTE basis with an equalization adjustment to provide additional funds for low-revenue districts.

Chapter 973 Implementation Status. Chapter 973 established a long-term framework for reforming the California Community Colleges. Chapter 973 provides for a two-phase reform process. Phase I focused on increasing the status and skills of faculty in community college programs. Phase II implements "program-based funding" (PBF) as the new funding methodology. Under the PBF model, budgets are calculated based on standards for funding quality services in five program areas. For example, under the instruction category, the standard is based on a target student:faculty ratio. The "program improvement" augmentations provide funding until the PBF system is fully implemented.

The colleges have received program improvement augmentations totaling $140 million from 1989-90 through the current year to implement the measure. According to status reports submitted by the colleges, they have spent a majority of program improvement funds in three areas: (1) full-time faculty hiring ($39 million, or 28 percent), (2) plant maintenance and operations ($34 million, or 24 percent), and (3) new community-related courses and programs ($17 million, or 12 percent). In addition, a number of campuses indicated that program improvement funds were used to fund salary increases above the COLAs provided through the budget. The amount of funds provided for salary increases is unknown.

In our site visits this fall, we investigated whether the funding provided has resulted in improvement in community college programs in three priority areas identified in Chapter 973 as part of Phase I: hiring of additional full-time faculty, increase in faculty and staff diversity, and greater flexibility in faculty hiring.

Our review indicates that Chapter 973 funding has not achieved its goals with respect to the mix of full-time and part-time faculty. Chapter 973 required districts with less than 75 percent full-time faculty to use up to one-third of their program improvement money for hiring full-time faculty. According to the Chancellor's Office, all the districts have spent the required portion of their allocations on full-time faculty hiring. However, many districts report that, at the same time, they added additional part-time faculty to staff new course sections in response to unfunded enrollment growth. The net result is that most districts are not significantly closer to the 75 percent full-time instructor target than they were two years ago.

With respect to the diversity of faculty and staff, there is little information available regarding what goals and timelines have been established by the campuses, how well they have met these goals, and what the effect of increased funding for this purpose has been.

With respect to greater flexibility in faculty hiring, college administrators and faculty reported to us that the Chapter 973 changes seem to have *reduced*, rather than increased, hiring flexibility. Specifically, repeal of state credentialing procedures formerly in place appears to have resulted in the establishment by the academic Senate of hiring procedures that significantly limit local discretion in hiring decisions. Administrators report that in some cases, these procedures have prevented hiring faculty who previously would have been hired. The Chancellor's Office has not surveyed the colleges to determine the extent of these problems.

Legislature Needs Additional Information. We believe that using a funding model that is based on the costs of providing quality services makes sense for the community colleges. However, we have two concerns regarding the program improvement proposal currently before the Legislature.

First, as we noted in the *Analysis of the 1991-92 Budget Bill,* the specific program-based funding standards proposed by the Chancellor's Office have not been fully justified. For example, the Chancellor's Office has provided little justification for proposing a student:faculty ratio of 25:1. Likewise, there is little justification provided for the selection of CSU for faculty salary comparisons. Staff of the California Postsecondary Education Commission advise that they are currently evaluating the PBF standards, and will be prepared to report to the Legislature by June 30, 1992.

Second, as discussed earlier, the Legislature has insufficient information regarding the implementation of Chapter 973. It makes little sense to authorize $50 million in additional funding for program improvement if the community colleges cannot tell the Legislature what it "bought" with the first $140 million.

The Legislature will need to evaluate whether the funds proposed for program improvement would be better spent on the remaining unfunded enrollment, which we estimate would cost $30 million, or other legislative priorities. Accordingly, we recommend that the Chancellor's Office report at budget hearings regarding the progress of the community colleges in meeting Chapter 973 goals.

Reject Redirection of Funds for Deferred Maintenance. Under the budget proposal, the $8.7 million proposed for redirection from deferred maintenance to program improvement would be allocated to community college districts based on the PBF model, along with other program improvement funds. The funds could be used by the colleges to support deferred maintenance projects or any of the 19 categories of reforms and improvements mandated by Chapter 973. According to the Department of Finance, the goal is to use these redirected funds to help districts achieve the Chapter 973 program-based funding targets.

Under current law, state deferred maintenance funds must be matched one-to-one with local funds. Consequently, the total amount at stake is twice the General Fund amount.

We have identified three reasons why the state should continue to schedule funds for deferred maintenance. First, deferred maintenance needs are not declining. In fact, the backlog of projects has been growing. Second, deferred maintenance is not part of the PBF model and — unlike other cost factors identified in the model — the need for deferred maintenance funds is likely to vary significantly (1) among the colleges and (2) from year to year at any one college. For example, older campuses are likely to need roof repairs — a large component of previous deferred maintenance budgets. We believe it makes more sense to set priorities for these type of projects on a statewide basis, rather than expect the colleges to fund these occasional, fairly large projects in competition with ongoing operating needs.

Third, the colleges have limited incentives to fund critical deferred maintenance projects because the fiscal consequences of not doing so are felt by the state — not the colleges. This is because the consequence of not funding deferred maintenance is a need for additional (and more expensive) capital outlay later. For example, failure to make roof repairs could lead to a request to replace a building. Capital outlay at the community colleges, however, is funded entirely by the state.

Accordingly, we recommend that the Legislature reject the proposal to redirect $8.7 million in deferred maintenance funds to program improvement.

Management Information System

We recommend that the Chancellor's Office report at budget hearings on how it intends to resolve problems in implementing Phase I of its management information system.

The budget requests $6.5 million to implement the second phase of the community colleges' management information system. Chapter 973, Statutes of 1988 (AB 1725, Vasconcellos), required implementation of a statewide management information system to provide accountability information on student demographics, course information, academic progress and fiscal information. When complete, the system should be useful in the annual budgetary process. The implementation plan for the system is structured in three phases. To date, the state has spent $6 million to implement the first phase.

According to the Chancellor's Office, the implementation of Phase I is essentially complete. However, to date, neither the California Postsecondary Education Commission (CPEC) nor our office has been able to obtain reports from the system that would demonstrate the successful completion of Phase I. The Chancellor's Office advises that this is due to two problems. First, it has taken longer than expected to receive data from the districts. Second, state operations funding — needed for staff to review district data and process reports — has not kept pace with local assistance funding. As a consequence of insufficient state staff, in the short term information generated from the system is likely to represent only 50 percent of the districts.

The Chancellor's Office indicates that it intends to deliver fiscal and accountability reports in the budget year. However, our review indicates that insufficient resources at the Chancellor's Office could result in long delays and reports that do not include data from all the districts. We recommend that the Chancellor's Office report at budget hearings on how it intends to resolve these problems.

Students With More Than Ninety Credits

We recommend enactment of legislation providing that students with more than 90 credits would not be counted as part of enrollment for apportionment purposes, thereby allowing a redirection of $100 million (General Fund) to other Proposition 98 purposes.

Earlier in this analysis, we discussed a proposal for $110.6 million to fund previously unfunded enrollment at the community colleges. We also noted that the Legislature will need to evaluate whether monies proposed for program improvement would be better spent on the remaining unfunded enrollment.

In conjunction with its actions on unfunded enrollment and program improvement, we recommend that the Legislature take action to prevent community colleges from again developing a gap between funded and actual enrollment. Taking such action would limit the state's potential future liability for unfunded enrollment. One way of preventing such a gap from developing would be to limit funding for categories of students (1) that have a lower priority for state funding based on the Master Plan and (2) whose enrollment can be influenced a great deal by the colleges themselves.

Community colleges primarily serve students who enroll to (1) obtain an Associate in Arts or Science degree, (2) earn credits for transfer to a four-year institution, or (3) gain basic job or language skills. Students seeking Associate degrees and transfer credits need a minimum of 60 units of coursework. In general, students who wish to obtain technical training rather than an Associate degree need less than 60 units of credit.

In our campus visits this fall, administrators and faculty indicated that there are many students currently enrolled in classes who have already earned more than 60 credits and in many cases have already earned Bachelor of Arts (BA) degrees. Students with more than 60 credits may represent 20 percent of the total workload in some community college districts. Currently these students are charged the same fee ($6 per credit) as students with little or no previous access to postsecondary education.

Our review of CCC enrollment indicates that it would be reasonable for the Legislature to eliminate state funding for enrollment of students who have completed more than a specific number of course credits. Our analysis indicates that a 90-unit credit limit would provide a reasonable maximum for state funding purposes. A 90-unit limit would give students 30 credits (one full year) more than what is required to earn an Associate degree or credits for transfer. This higher limit also would allow students to earn some credit for course work that is not applicable for degree or transfer purposes. For example, students who need remedial instruction could earn up to 30 credits for basic English or mathematics courses which are not applicable for a degree or transfer.

Under this proposal, the colleges could continue to enroll these students, although the students would not be funded by the state. In order to help assure continued access in these cases, the Legislature could authorize districts to charge these students fees up to the full cost of instruction.

Accordingly, we recommend the enactment of legislation specifying that students with more than 90 credits will not be counted as part of enrollment for apportionment purposes. Based on preliminary estimates, adoption of this recommendation would allow a reduction in General Fund spending of $20 million for each 1 percent of FTEs affected. The precise amount of savings available from this action is unknown; however, based on available data it appears that a minimum of 5 percent of FTEs would be affected, allowing a reduction of $100 million. These funds could be used to support program improvement activities or fund other legislative priorities within the Proposition 98 guarantee.

Workplace Learning

We recommend that the Legislature reduce $1 million proposed for workplace learning resource centers because the proposal is premature. (Reduce Item 6870-101-001 by $1 million.)

The budget requests $1 million from the General Fund to establish workplace learning resource centers at five colleges. These funds would be matched dollar-for-dollar by employers. Designed as an addition to the colleges' Economic Development Network (ED>Net), these centers would provide a variety of education services including employee assessment, English as a second language, and job-related instruction. ED>Net programs include employer-based training, small business development and other services that support community economic development.

Our analysis indicates that this proposal is incomplete in the following respects: (1) it does not identify how the proposed centers would coordinate with other agencies providing workplace training (there are 23 statewide), (2) it does not document industry cooperation or support of the proposal, and (3) it does not address how the costs of providing training would be funded or how the students would be tracked in the apportionments system.

Based on these considerations, we recommend that the Legislature delete the proposed $1 million for workplace learning resource centers. This action would free up these funds for other legislative priorities within the Proposition 98 guarantee.

Overbudgeting for Enrollment Growth

We recommend a reduction of $766,000 from the General Fund to correct for overbudgeting. (Reduce Item 6870-101-001.)

The budget requests $44.9 million to fund student enrollment growth at the community colleges. Our review indicates that this amount is $766,000 higher than the amount needed based on the statutory growth formula. The Department of Finance agrees that the proposed amount was incorrectly calculated. We recommend a reduction of $766,000 to correct the overbudgeting error. These funds could be used for other community colleges purposes within the Proposition 98 guarantee.

Capital Outlay

The Governor's Budget proposes an appropriation of $101.4 million from the Higher Education Capital Outlay Bond Fund in Item 6870 for capital outlay at the California Community Colleges. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Council For Private Postsecondary and Vocational Education

Item 6880

Expenditures

Requested 1992-93	$5,147,000
Estimated 1991-92	5,126,000
Actual 1990-91	2,564,000
Requested increase $21,000 (+0.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Fee Schedule Delayed.** The council indicates that it will adopt a new license fee schedule by June 1992, around six months past its statutory deadline. 139

General Program Statement

The Council for Private Postsecondary and Vocational Education approves and regulates private colleges, universities, and vocational education institutions. The council is self-supporting and derives its revenues from federal reimbursements, fees charged to private schools seeking licensure, and charges assessed to the Student Tuition Recovery Fund. This fund partially reimburses students when private postsecondary institutions close before the students have completed their instructional programs.

Overview of the Budget Request

The budget proposes no workload or program changes for the agency.

The budget proposes a total of $5.1 million for support of the council in 1992-93. This is a net increase of $21,000, or 0.4 percent, above estimated current-year expenditures.

Analysis and Recommendations

Fee Schedule Delayed

The council indicates that it will adopt a new license fee schedule by June 1992, around six months past its statutory deadline.

Chapter 1307, Statutes of 1989 (SB 190, Morgan), requires the council to adopt a new fee schedule for private postsecondary and vocational educational institutions by January 1, 1992. The council has informed the Department of Finance of its inability to meet the statutory deadline, and requested an extension until June 1992. According to the council, the current fee schedule will provide sufficient revenue to support its activities through the current year.

Student Aid Commission
Item 7980

Expenditures

Requested 1992-93	$536,122,000
Estimated 1991-92	534,145,000
Actual 1990-91	633,196,000
Requested increase $1,977,000 (+0.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- The budget proposes no increase in Cal Grant awards to offset University of California and California State University fee increases.

Findings and Recommendations

Analysis Page

1. **Cal Grant Funding Will Not Cover Fee Increases.** The budget does not provide $19.2 million in additional grant funding needed to offset fee increases proposed for the University of California and the California State University. 141

General Program Statement

The Student Aid Commission provides financial aid to students through a variety of grant, loan, and work-study programs. The commission also: (1) operates an outreach program for disadvantaged and underrepresented students and (2) collects financial aid data and assesses the statewide need for graduate and undergraduate financial aid.

The commission receives around two-thirds of its funding from federal funds. Most of the remaining funding is from the General Fund.

Overview of the Budget Request

The proposed budget increase is due to workload-related proposals and a proposal to expand the commission's outreach program.

The budget proposes $536.1 million from all funds for support of the commission in 1992-93. This is a net increase of $2 million, or 0.4 percent, above estimated current-year expenditures. The budget proposes $175.1 million from the General Fund for the commission, also an increase of $2 million, which is 1.1 percent above estimated current-year General Fund expenditures. The increase is primarily due to a proposal for $500,000 (General Fund) to expand the California Student Opportunity and Access Program, and various work-related proposals.

This commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 4.5 percent from the General Fund in 1991-92. (This reduction is 1.4 percent of the commission's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Cal Grant Funding Will Not Cover Fee Increases

The budget does not provide $19.2 million in additional Cal Grant funding needed to offset fee increases proposed for the University of California (UC) and the California State University (CSU) system.

Chapter 1699, Statutes of 1990 (AB 4270, Bader), establishes legislative policy that the commission provide maximum Cal Grant awards sufficient to cover the systemwide and campus-based fees at the two segments. Consistent with this policy, the SAC budget has been increased to cover any fee increases affecting Cal Grant recipients the past three years.

The budget for 1992-93 proposes increasing UC fees by $550 (24 percent). Under the budget, a portion of the revenues from increased fees at UC would be used to increase financial aid provided by the UC itself for students who do not receive Cal Grants. The budget does not reflect a fee increase for CSU. However, it indicates that the administration supports a CSU student fee increase of up to $372 (40 percent), and since the budget was introduced, the CSU trustees have tentatively adopted a fee increase in this amount. According to the Department of Finance, consistent with the budget for UC, a portion of the revenues from the CSU fee increase would be used to increase financial aid for non-Cal Grant recipients.

In a departure from past policy and practice, the commission's budget does not provide any additional funding to increase Cal Grant awards to offset the fee increase. We estimate that the cost of increasing Cal Grant awards to fully offset the fee increases would be $11 million for the UC and $8.2 million for the CSU. According to the Governor's Budget, additional funding for the Cal Grant program was not provided because of state fiscal constraints. If this funding is not provided, the commission has two options: (1) provide the same number of awards at existing award levels or (2) reduce the number of awards, but increase the award levels to offset the fee increase. The commission indicates that it plans to implement the first option: provide the same number of awards at existing levels — or up to $550 and $372 less than the amount required to meet anticipated fee increases at the UC and the CSU, respectively.

We discuss the impact of fee increases and other factors on access to higher education in our analysis of the UC and the CSU budgets (Items 6440 and 6610).