

MAJOR ISSUES

%*Proposed Income Tax Cut Would Reduce School Funding.*

The budget proposes an income tax cut that would reduce the Proposition 98 minimum funding guarantee by \$136 million in 1995-96. The long-term impacts of the tax reduction are more substantial—for example, by 1998-99 the guarantee would be \$1.8 billion lower. Specifically, with the tax cut, Proposition 98 per-pupil funding would increase an average of 2.4 percent each year—less than the projected three percent annual inflation rate. Without a tax reduction, Proposition 98 funding is projected to increase about four percent each year. (See page E-18.)


%*K-12 Funding Priorities.* The Governor's Budget contains a number of significant budget proposals that affect the expenditure of \$1.2 billion in Proposition 98 funds in 1995-96. The options available to the Legislature in addressing the K-12 budget are complex and competing legislative priorities cannot be fully funded. To assist the Legislature in its deliberations, we present an alternative budget proposal for available Proposition 98 funds. Our plan has a number of major differences from the Governor's Budget, including (1) providing an additional \$93 million for K-14 cost-of-living adjustments and (2) allocating \$37 million for education reform initiatives, substantially less than the \$148 million proposed by the Governor. (See page E-15.)

%*Categorical Program Mega-item.* The budget proposes to make modest changes to the mega-item to (1) increase local flexibility over the allocation of funds among programs funded in the item and (2) budget separately for four programs that were included in

the 1994-95 mega-item. The existing mega-item flexibility has failed to achieve the Legislature's policy goals of helping districts address high-priority categorical program funding needs. We think the Legislature needs to make long-term statutory changes to improve the operation of categorical programs. In the meantime, however, we recommend the Legislature breakup the existing mega-item into four separate items. These clusters would increase local flexibility over funding among similar types of categorical programs. (See page E-33.)

%New Funding Model for Special Education. The Legislative Analyst and the Departments of Education and Finance are charged by the Legislature with developing, by May 31, 1995, a new funding model for special education finance. The three agencies' January preliminary report recommends a population-based formula that allocates funding to Special Education Local Planning Areas (SELPA) based on a uniform amount for each pupil residing in the SELPA. We recommend that the Legislature enact a new funding model in the coming year. We also recommend that \$20 million be set aside, above the amount proposed in the budget for special education, for possible allocation to the lowest-funded SELPAs to allow for the earliest possible phase-in of a new funding model. (See page E-42.)

%School Safety Initiatives Fall Short. The budget proposes a General Fund increase of \$12.3 million to fund the half-year cost of new "zero-tolerance" mandatory expulsion policies (\$10 million) and augment the School/Law Enforcement Partnership Program and the Gang Risk Intervention Program (\$2.3 million). We recommend the Legislature reject the administration's proposals because they would exacerbate problems we have identified with the existing school safety programs and could increase pressures to provide additional funding for the most costly educational settings. We recommend instead that the Legislature enact comprehensive reform of the state's school safety programs to (1) better control community school funding, (2) improve the performance of district programs for at-risk students, and (3) increase school district flexibility to respond to local needs. (See page E-54.)



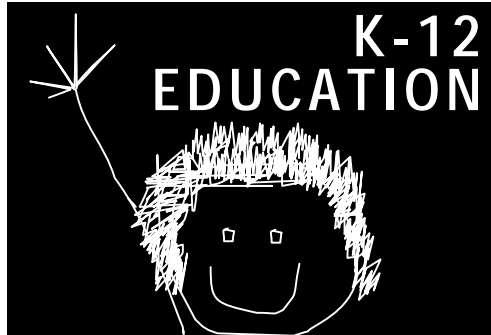
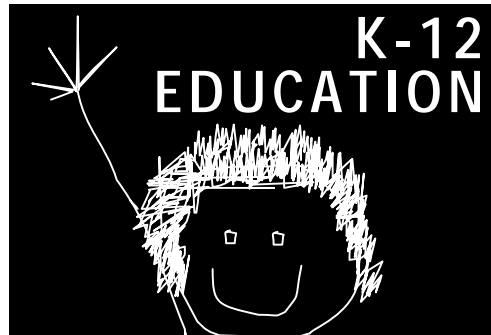


TABLE OF CONTENTS

Overview	E-5
Proposition 98	E-5
Summary of K-12 Spending from All Sources	E-12
Spending by Major Programs	E-13
Budget Issues	E-15
K-12 Budget Priorities	E-15
Categorical Program Mega-item	E-33
Special Education	E-42
School Safety Initiatives	E-54
General-Purpose Funding	E-70
Desegregation	E-76
California's Assessment Program	E-83
Child Development	E-91
Other Issues	E-99
List of Findings and Recommendations	E-107



OVERVIEW

The K-12 education budget reflects a General Fund increase of \$927 million, due primarily to an increase in the Proposition 98 funding guarantee.

The budget proposes expenditures of \$30.3 billion from all sources for K-12 education in 1995-96, including \$16.2 billion from the General Fund. This is \$1.3 billion, or 4.9 percent, more than estimated expenditures from all sources for the current year. Proposition 98 provides \$23.4 billion, or 77 percent, of these expenditures from all sources, and \$1.1 billion, or 88 percent of the increase.

PROPOSITION 98

The Governor's proposal funds the Proposition 98 minimum guarantee in the current and budget years. It increases K-12 funding on a per-pupil basis in both years, and sets aside a total of \$514 million to repay Proposition 98 loans.

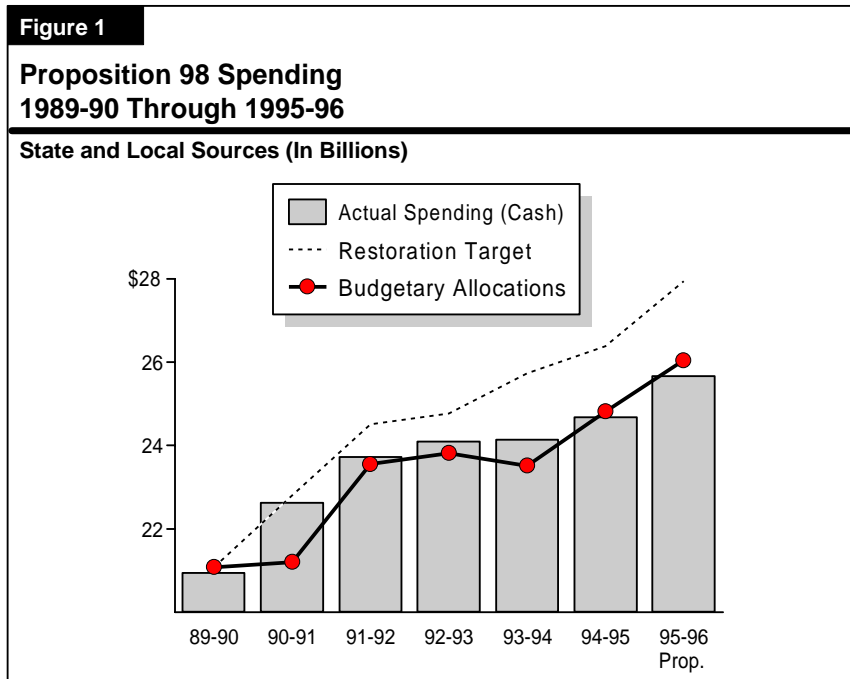
Proposition 98 (as amended by Proposition 111) guarantees a minimum amount of state and local property tax funding for K-14 education—support for schools, community colleges, and a few state agencies that provide direct instructional services.

Figure 1 displays the history of Proposition 98 spending. It shows the amount of Proposition 98 funding counted on the state's books in any given fiscal year—"budgetary allocation" (solid line), and the amounts actually available for programs—"cash" (bars). These amounts differ primarily because cash includes (1) off-budget loans that have been pro-

vided by the Legislature to avoid spending reductions in districts, and (2) repayments of those loans.

In determining the impact of the budget on schools and community colleges—for example, in calculating the amount of funding per student—it is the amount of cash actually available that matters, not the Proposition 98 appropriations recorded on the state's books. Accordingly, our tables generally show both (1) Proposition 98 funding as it appears on the state's books (that is, “budgetary” basis) and (2) adjusted cash totals reflecting actual funds available (“cash” basis).

Figure 1 also shows the difference between Proposition 98 spending and the Proposition 98 “restoration target.” This target represents the minimum level that Proposition 98 funding would have attained, if not for funding reductions in 1990-91, 1992-93, and 1993-94 due to slow state revenue growth. In years of moderate or rapid state revenue growth, the state must at least partially restore these reductions. A proposed restoration payment in 1994-95 narrows the gap between spending and restoration target to about \$1.6 billion. The gap widens to \$1.9 billion in 1995-96 due to relatively slow state revenue growth.



Proposed Changes in 1994-95

The budget proposes to fully fund the Proposition 98 guarantee for 1994-95. It proposes to increase per-pupil funding for K-12 schools, fully backfill property tax shortfalls for schools and community colleges, and make a Proposition 98 loan repayment.

The budget proposes \$24.9 billion in 1994-95 Proposition 98 cash spending, \$9 million less than assumed in the 1994 Budget Act. Figure 2 shows that some noteworthy changes underlie this relatively small difference in cash spending. Specifically, the \$9 million reduction in cash is the net result of:

- A \$144 million increase in the total Proposition 98 funding level.
- A \$135 million cash adjustment to reflect a Proposition 98 loan repayment—this reduces cash available to K-14 programs.
- An \$18 million reduction in estimated community college fee revenues.

Figure 2					
Proposition 98 Programs					
“Cash” Funding, 1994-95 and 1995-96^a					
(Dollars in Millions)					
	1994-95			1995-96	
	Budget Act	Revised	Change	Proposed	Change From 1994-95 Revised
Proposition 98 funding sources (budgetary basis)					
State appropriations	\$14,366	\$14,885	\$520	\$15,854	\$968
Local property taxes	10,308	9,932	-376	10,192	259
Subtotals	\$24,673	\$24,818	\$144	\$26,045	\$1,228
Funding adjustments					
Loan repayments	—	-\$135	-\$135	-\$379	-\$244
Community college fees	\$197	178	-18	196	18
Adjusted cash totals	\$24,870	\$24,861	-\$9	\$25,862	\$1,001
K-12 schools					
ADA (Proposition 98)	5,256,627	5,216,171	-40,456	5,352,831	136,660
Amount per ADA ^b	\$4,198	\$4,231	\$33	\$4,292	\$61
Community colleges	\$2,717	\$2,705	-\$12	\$2,800	\$96
Other agencies	\$84	\$87	\$3	\$88	\$2

^a Detail may not add to totals due to rounding.

^b In dollars.

While schools would have slightly *less* total cash than assumed in the Budget Act, per pupil spending actually *increases* from \$4,198 to \$4,231 per pupil. This is explained by reductions in enrollment estimates. On a program basis, the budget proposes to spend these additional per-pupil funds, on a one-time basis, for various categorical programs, including instructional materials, deferred maintenance, education technology, and payments related to the Long Beach Unified desegregation court case.

Proposition 98 Minimum Funding Requirement. The budget estimate of the Proposition 98 “minimum funding requirement” (financed from the General Fund and local property taxes) is \$144 million greater than the 1994-95 Budget Act estimate. This increase is the net result of faster-than-expected growth in state tax revenues, and slower-than-anticipated growth in K-12 enrollments. A \$520 million General Fund increase is proposed in order to fund the \$144 million increase and fully backfill an estimated \$376 million shortfall in local property tax revenue for schools and community colleges.

Loan Repayment. In accordance with existing statute, the budget sets aside \$135 million from the 1994-95 minimum funding requirement as a partial repayment of off-budget loans made to K-14 programs in 1992-93 and 1993-94. Existing law—Ch 66/93 (SB 399, Hart)—requires K-14 programs to partially repay these loans if the Proposition 98 minimum spending requirement exceeds a specified base amount. The base amount is defined as the amount required to fund the prior-year level of cash spending for K-14 programs, plus enrollment growth for schools and community colleges.

Figure 3 more specifically defines this base amount, and shows the calculation of the proposed current- and budget-year loan repayments. For instance, in the current year, the minimum funding requirement exceeds the base by \$270 million. Consistent with Chapter 66, the budget sets aside half of this amount—\$135 million—from the minimum spending requirement. While this amount counts as 1994-95 Proposition 98 spending for *budgetary* purposes, and for purposes of calculating the budget-year minimum spending requirement, it is not actually available for spending in K-14 programs in 1994-95.

Community College Fee Revenue. The budget estimate of community college fee revenue is \$18 million less than the Budget Act estimate. The budget does not propose to backfill this shortfall in 1994-95.

Figure 3		
Proposition 98 Loan Repayments Calculation Detail 1994-95 and 1995-96		
(In Millions)		
	1994-95	1995-96
Minimum funding requirement	\$24,818	\$26,045
"Base" funding for repayment purpose	-24,548	-25,287
Funding in excess of base	\$270	\$758
Half for loan repayment	(\$135)	(\$379)
Half for spending on K-14 programs	(\$135)	(\$379)
Spending proposal ("cash")		
Base funding	\$24,548	\$25,287
Excess available for spending	135	379
Community college fees	178	196
Proposed K-14 cash spending	\$24,861	\$25,862
"Base" funding for loan repayment purposes is the amount required to:		
<ul style="list-style-type: none"> • Maintain per-pupil funding for K-12 schools at \$4,225 per pupil in 1994-95 and \$4,231 per pupil in 1995-96. • Increase community colleges funding from the prior-year level by the percentage increase in California adult population. • Fund other agencies based on prior-year spending. 		

Proposal for 1995-96

The budget proposes to fully fund the Proposition 98 guarantee for 1995-96. It proposes to give a partial cost-of-living adjustment (COLA) (2.2 percent) for school and community college general-purpose spending, and make a Proposition 98 loan repayment.

The budget proposes to provide \$25.9 billion in Proposition 98 funding on a cash basis in 1995-96. This is an increase of \$1 billion above cash funding proposed for 1994-95. Figure 2 shows that this increase is allocated to:

- K-12 schools—\$904 million primarily to fund enrollment growth of 136,600 (2.6 percent) average daily attendance (ADA), a 2.2 percent COLA for general-purpose spending, and spending increases in selected categorical programs. The budget proposes

to fund K-12 schools at the level of \$4,292 per pupil, a \$61 per pupil increase above the revised 1994-95 level.

- Community colleges—\$96 million, primarily to fund enrollment growth, a 2.2 percent COLA for general-purpose spending, and to backfill the current-year fee revenue shortfall.
- Other agencies—\$1.5 million to fund program growth.

Figure 2 shows that this increase in Proposition 98 cash funding is the net effect of three changes: increases of \$1.2 billion in the Proposition 98 minimum funding requirement and \$18 million in community college fee revenues, offset by a \$244 million increase in loan repayments.

Proposition 98 Minimum Funding Requirement. The budget estimate of the Proposition 98 minimum funding requirement is \$26 billion, a \$1.2 billion increase above the estimated current-year level. This consists of a General Fund increase of \$968 million and growth of \$259 million in local property tax revenue. The estimated guarantee is based on assumptions that the Legislature (1) funds the 1994-95 Proposition 98 guarantee at the level estimated in the budget, and (2) adopts the administration's proposed 1995-96 tax reduction.

Loan Repayment. Consistent with existing law, the budget proposes a loan payment of \$379 million, \$244 million more than the proposed 1994-95 payment. While the \$379 million counts as Proposition 98 spending for budgetary purposes, it is not actually available for spending in K-12 programs in 1995-96.

Community College Fee Revenue. The budget estimate of community college fee revenue is \$196 million, \$18 million above the revised estimate for 1994-95. This results from a budget proposal to increase community college fees by \$2 per unit.

Major K-12 Spending Changes

Figure 4 displays the major changes resulting in the net increase of \$904 million in Proposition 98 cash spending for K-12 education. The figure shows that the major changes fall into three main categories: (1) inflation and statutory growth adjustments, (2) other cost and revenue changes, and (3) program proposals.

Figure 4

**K-12 Education
Proposed Major Changes for 1995-96
Proposition 98 Cash Spending**

Inflation and Statutory Growth Adjustments

- \$535 million for statutory growth for school district general purposes, special education, and county offices of education
- \$444 million for a 2.2 percent COLA for school district revenue limits, special education, and county offices of education

Other Cost and Revenue Changes

- \$153 million to account for proposed one-time funding for various purposes (including deferred maintenance, earthquake repairs, Long Beach desegregation, instructional materials, education technology, civic center mandate)

Program Proposals

- \$20 million to expand the Healthy Start Program
- \$20 million to expand the preschool program
- \$10 million for school safety programs

**California Teachers Association (CTA) v. Gould:
Potential Major General Fund Budget Effects**

The budget estimates of the Proposition 98 minimum funding requirement and proposals for Proposition 98 cash spending assume that the state will win its appeal of a superior court judgment in the *CTA v. Gould* lawsuit. That judgment would: (1) nullify requirements that the schools and community colleges repay the state for the 1992-93 and 1993-94 Proposition 98 loans and (2) require the loan funds to be counted in the funding base that is used to calculate the Proposition 98 minimum funding guarantee. The effect of the judgment has been delayed pending a decision on the state's appeal. The State Department of Education (SDE) advises that a decision is not likely before early

1996. If the state is unsuccessful in its appeal, it faces a \$3 billion General Fund budget threat:

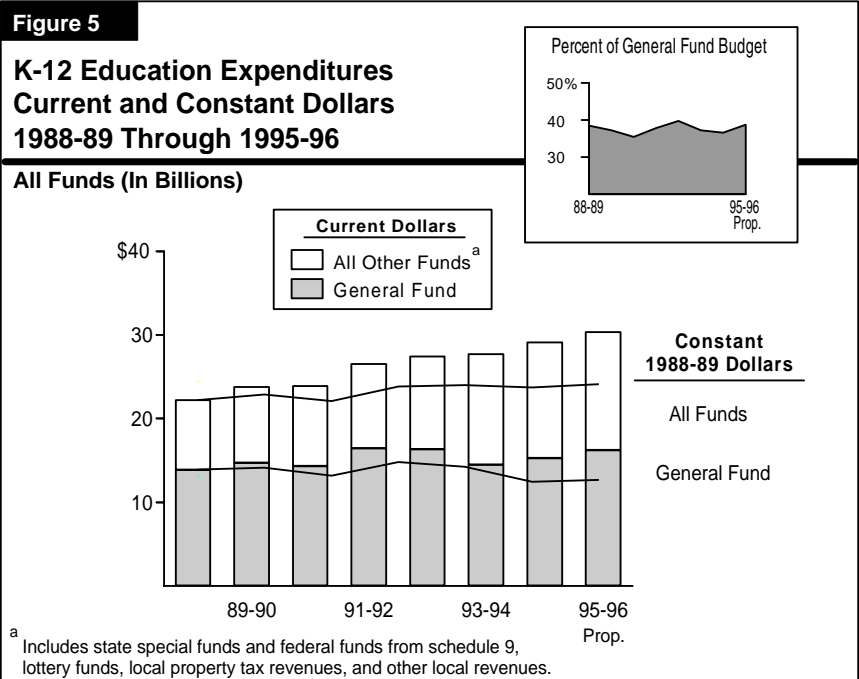
- The 1995-96 General Fund balance would decline by about \$1.8 billion on a budgetary basis to recognize the prior loan expenditures. However, this would have no effect on the state's cash situation—and no effect on the amount of cash available to K-14 programs—because these funds have been spent. It also would not increase the amount of borrowing assumed in the budget.
- The state could be required to budget about \$1.2 billion more than the amount currently proposed for the two-year period 1994-95 through 1995-96. This amount would affect both the state budgetary and cash positions.

The amount that the state would actually provide to K-14 programs on a *cash* basis, however, could increase by \$1.7 billion over current assumptions—the \$1.2 million increase in Proposition 98 spending on a budgetary basis plus \$514 million no longer retained by the state as loan repayments.

SUMMARY OF K-12 SPENDING FROM ALL SOURCES

The budget proposes expenditures of \$30.3 billion from all sources for K-12 education in 1995-96, including \$16.2 billion from the General Fund. Figure 5 shows that K-12 expenditures from all sources have increased by \$8.1 billion since 1987-88, representing an average annual increase of 4.5 percent. After adjustment for inflation, spending increased at an average annual rate of 1.4 percent. The share of General Fund spending allocated to K-12 education has varied in the range of 35 to 40 percent over the eight-year period shown in Figure 5. Much of the variability in the period 1990-91 through 1995-96 is explained by funding shifts—such as changes in the share of local property tax revenues allocated to schools—and realignment of fiscal responsibilities between the state and counties.

Figure 5 shows the amount of K-12 education funding from state, local, and federal sources as reflected in the Governor's Budget. For the period 1990-91 through 1995-96, however, this is not an accurate picture of the actual funding available to K-12 programs. This is because of funding shifts, off-budget loans, and loan repayments that change the actual amounts available in a given fiscal year. In our earlier discussion of Proposition 98, we provide a detailed description of these funding shifts and loans, and discuss year-to-year changes in the amounts actually available for spending in Proposition 98 programs.



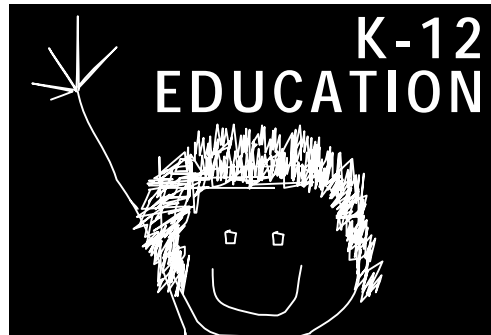
SPENDING BY MAJOR PROGRAMS

Figure 6 (see next page) shows funding for K-12 programs from all sources since 1993-94. The budget proposes local assistance expenditures of \$28.6 billion for the SDE from state, federal, and local sources. This is an increase of \$1.2 billion, or 4.5 percent, from estimated 1994-95 expenditures.

The budget also proposes General Fund increases of \$53 million, or 7.5 percent, for debt service on school construction bonds. The sharp increase in support for the Secretary of Child Development and Education reflects a proposed expenditure of \$5 million to implement the Volunteer Mentor Program authorized by Ch 901/92 (SB 1114, Leonard). These funds would support a program to match children with academic mentors. The sharp reduction in the school facilities aid program occurs because the budget allocates funds through this program in 1994-95 on a one-time basis to (1) repair school facilities that were damaged in the Northridge earthquake, and (2) fund K-12 deferred maintenance needs.

Figure 6**K-12 Education Expenditures
1993-94 Through 1995-96****(Dollars in Millions)**

	1993-94	1994-95	1995-96	Percent Change From 1994-95
State Department of Education (SDE) local assistance	\$26,311.0	\$27,332.9	\$28,573.6	4.5%
Retirement program contributions (State Teachers' Retirement System)	689.6	752.4	771.4	2.5
Debt service	508.4	703.6	756.5	7.5
SDE state operations	140.1	151.1	152.8	1.1
State Library	48.2	51.8	51.6	-0.3
Commission on Teacher Credentialing	23.2	19.3	21.0	8.9
School Facilities Aid Program	-11.5	32.1	-7.7	-124.0
Secretary for Child Development and Education	1.9	15.6	20.9	34.6
Summer School for the Arts	0.6	0.6	0.6	—
Council on Vocational Education	0.3	0.3	0.3	—
Occupational Information Coordinating Committee	0.3	0.3	0.3	0.7
Totals	\$27,712.2	\$29,060.1	\$30,341.4	4.9%
<i>General Fund</i>	<i>\$14,480.8</i>	<i>\$15,251.2</i>	<i>\$16,177.7</i>	<i>5.3%</i>
<i>Local property tax revenues</i>	<i>8,245.1</i>	<i>8,650.9</i>	<i>8,899.3</i>	<i>4.9</i>
<i>Other local revenues</i>	<i>2,114.0</i>	<i>2,151.0</i>	<i>2,189.0</i>	<i>1.8</i>
<i>Federal funds</i>	<i>2,279.8</i>	<i>2,408.0</i>	<i>2,473.9</i>	<i>5.6</i>
<i>Lottery funds</i>	<i>556.3</i>	<i>567.7</i>	<i>567.7</i>	<i>—</i>
<i>Special funds</i>	<i>36.2</i>	<i>31.2</i>	<i>33.8</i>	<i>-13.9</i>



BUDGET ISSUES

K-12 BUDGET PRIORITIES

Budget Proposes \$444 Million for a COLA

The budget allocates \$444 million for a cost-of-living adjustment (COLA) and \$76 million for policy initiatives.

The Governor's Budget proposes to set total state and local Proposition 98 funding (cash basis) for K-12 funding at \$4,292 per pupil, an increase of \$61 per student, or 1.4 percent, from the revised 1994-95 amount. To accomplish this level of support, the budget proposes to increase Proposition 98 spending on K-12 programs by \$904 million. Figure 7 (see next page) shows how the proposed 1995-96 budget allocates the K-12 share of Proposition 98 funding to major program categories. The figure also illustrates how the budget allocates prior-year Proposition 98 funds, which are estimated to total \$11 million in 1995-96.

As Figure 7 indicates, the 1995-96 Governor's Budget proposes \$17.7 billion for school district and county office of education general purpose funding. This is an increase of \$834 million, or 5 percent above 1994-95. The increase includes funding for expected growth in the student population (\$468 million), a COLA (\$386 million), and policy initiatives (\$10.5 million). The remaining change is due to various one-time adjustments.

The budget proposes \$1.9 billion for special education services, an increase of \$111.5 million, or 6.1 percent above the current year. The increase results from projected growth in the number of special education

students (\$67 million), a COLA (\$58 million), and various baseline adjustments. In a later section of our analysis of K-12 issues, we review the special education budget proposal in more detail.

Figure 7

K-12 Education Proposed Expenditures 1994-95 and 1995-96

(Dollars in Millions)

	Revised 1994-95	Proposed 1995-96	Change from 1994-95	
			Amount	Percent
General purpose	\$16,820.3	\$17,653.9	\$833.6	5.0%
Special education	1,825.6	1,937.1	111.5	6.1
Other programs	3,484.2	3,394.3	-89.9	-2.6
Totals	\$22,130.1	\$22,985.3	\$855.2	3.9%
<i>Proposition 98 (cash basis)</i>	<i>\$22,069.6</i>	<i>\$22,974.0</i>	<i>\$904.4</i>	<i>4.1%</i>
<i>Prior-year funds</i>	<i>60.5</i>	<i>11.3</i>	<i>-49.2</i>	<i>-81.3</i>

The “other” category in Figure 7 includes all categorical program spending other than special education. The budget proposes total spending of \$3.4 billion in 1995-96, a reduction of \$90 million, or 2.6 percent, from the current year. A reduction of \$156 million due to baseline adjustments is partially offset by a \$66 million increase due to policy initiatives. The large baseline reduction is primarily caused by the elimination of \$153 million in one-time 1994-95 expenditures. The budget does not propose funding to provide growth or a COLA for categorical programs.

Figure 8 summarizes the proposed K-12 Proposition 98 budget changes for 1995-96.

Figure 8

K-12 Education Proposed Budget Changes by Category

(In Millions)

	Baseline				Total
	Adjustments	Growth	COLA	Policy	
General purpose	-\$31.4	\$468.4	\$386.1	\$10.5	\$833.6
Special education	-13.3	66.7	58.1	0.0	111.5
Other programs	-155.6	0.0	0.0	65.7	-89.9
Totals	-\$200.3	\$535.1	\$444.2	\$76.2	\$855.2

Billions to Schools at Stake in the 1995-96 Budget

The 1995-96 Governor's Budget contains a number of significant budget proposals that affect the expenditure of more than \$1.2 billion in Proposition 98 funds in 1995-96. Figure 9 summarizes these proposals.

Figure 9	
K-12 Education	
Major K-12 Budget Proposals	
(In Millions)	
Proposal	1995-96 Proposed
One-time 1994-95 categorical program proposals	\$152.7
1995-96 cost-of-living adjustments	444.2
1995-96 categorical program augmentations	76.2
1994-95 and 1995-96 Proposition 98 "loan" repayments	514.0
Total	\$1,187.1

In total, the categorical program and cost-of-living proposals would increase the amount available to school districts by \$675 million. This is the sum of (1) \$153 million in one-time 1994-95 funds for categorical program augmentations, (2) \$444 million proposed for a 1995-96 COLA, and (3) \$76 million for specific program augmentations in 1995-96.

Proposition 98 Loan Repayments. The budget also proposes two other actions that have a significant impact on the amount of funds available to schools. First, the budget proposes to spend \$514 million (\$135 million in 1994-95 and \$379 million in 1995-96) to begin repaying \$1.8 billion in Proposition 98 loans. The loan repayments would reduce the amount of these "off-budget" loans made to schools in 1992-93 and 1993-94. Over the next four years, we estimate that General Fund revenues will be sufficient to repay the full \$1.8 billion in loans to schools. This is true with or without the Governor's proposed income tax cuts, discussed below.

Income Tax Cuts. The budget also proposes an income tax reduction, which would result in a \$136 million reduction in the minimum funding level under Proposition 98 in 1995-96. The tax cut would reduce General Fund revenues to the state over a three-year period. Because Proposition 98 is based, in part, on the level of General Fund revenues, the tax cut would reduce the amount of funding required to satisfy the constitutional K-14 minimum funding guarantee. We estimate the proposed tax cut would reduce funding to schools by a cumulative \$3.9 billion from

1995-96 through 1998-99. While the tax cut would not prevent the Proposition 98 loans from being fully repaid during this period, it would change the amount that is repaid each year.

Impact of Tax Cut on Proposition 98 Is Substantial

The proposed income tax reduction would result in an annual growth rate in funding available to schools over the next three years that is less than the projected inflation rate.

The proposed tax cut proposal has substantially different short- and long-term impacts. The short-term reduction in the minimum funding requirement under Proposition 98 is modest. In 1995-96, the tax cut reduces the minimum funding level by \$136 million. On a cash basis, however, schools lose only half of this amount—\$68 million. Under current law, the remaining \$68 million reduction results in a reduced loan repayment.

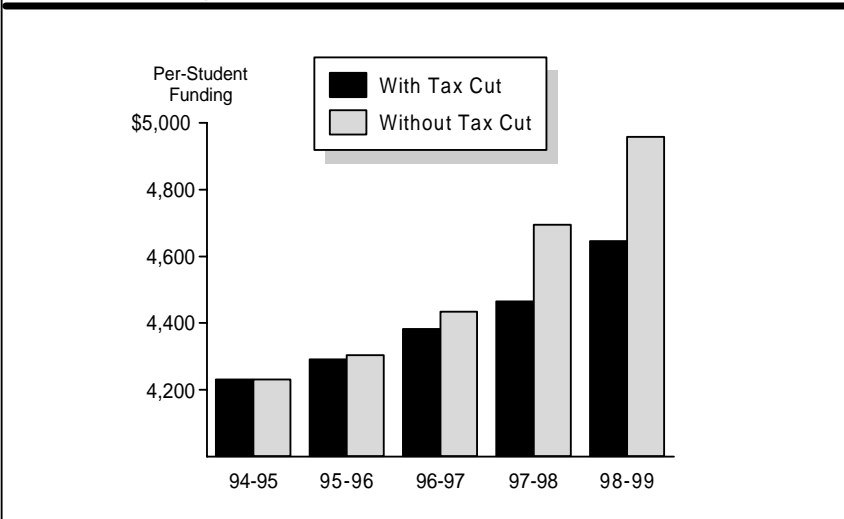
The long-term impacts of the tax reduction are more substantial. Figure 10 shows the impact of the tax cut on the per-student Proposition 98 funding for K-12 schools. While the impact on school funding in 1995-96 is modest (\$13 per pupil), the impact increases over time. The effect of the tax cut becomes especially significant in 1997-98, when per-student funding would be reduced by \$230. The total dollar impact of the tax cut on 1997-98 spending is about \$1.3 billion. In 1998-99, with no loan repayment, the tax cut impact increases to \$314 per student, or \$1.8 billion.

Over the four-year period, the reduction in revenues due to the tax cut lowers the average annual funding increase to below the projected inflation rate. With no tax reduction, Proposition 98 funds available to schools (after loan repayments) are projected to increase about 4 percent each year (1.7 percent in 1995-96 to 5.9 percent in 1998-99). With the tax cut, the Proposition 98 increase would average about 2.4 percent (ranging from 1.4 percent in 1995-96 to 4 percent in 1998-99). The 2.4 percent increase is less than the expected annual inflation rate of about 3 percent. Thus, with the proposed tax cut, K-12 purchasing power will continue to decline over the 1990s.

The level of funding that is available to schools under Proposition 98 is only one of many issues that must be discussed by the Legislature as it considers the proposed tax reduction (please see our discussion of the proposed tax reduction in *The 1995-96 Budget: Perspectives and Issues*). As a result, we make no recommendation to the Legislature regarding the tax cut solely on its Proposition 98 impact.

Figure 10

**Impact of Tax Cuts
On K-12 Per-Pupil Funding (cash basis)
1994-95 Through 1998-99**



LEGISLATURE'S K-12 FUNDING OPTIONS

We recommend the Legislature take an alternative approach to funding K-12 education in 1995-96 consistent with its stated priorities. We present our recommended approach for the Legislature's consideration.

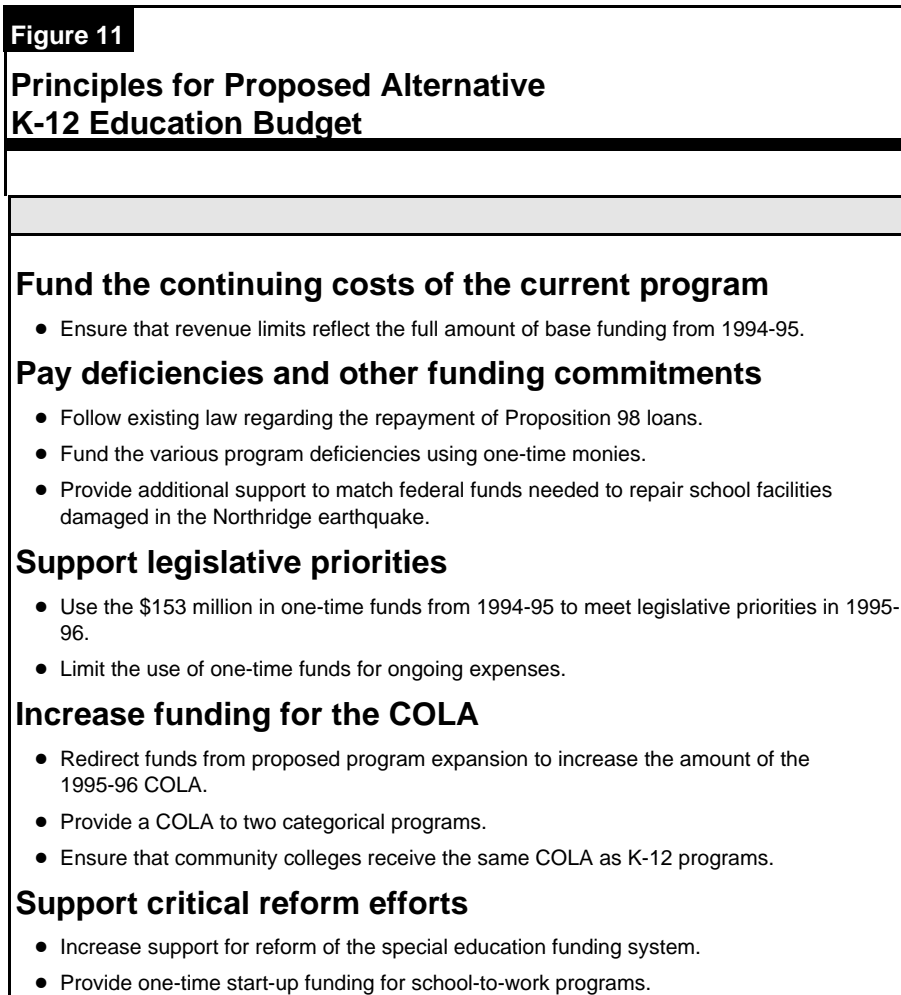
In order to assist the Legislature with its deliberations on K-12 funding priorities for the 1995-96 budget, we developed an alternative budget proposal for the funds that are available to schools. The options open to the Legislature are complex—competing legislative priorities cannot all be funded within the amount provided under Proposition 98 in 1995-96. These competing priorities include:

- **Repaying the Proposition 98 Loans.** Existing law requires repayment of these loans as funding becomes available.
- **Providing a Full 3.35 Percent COLA to General Purpose Funding in K-12.** Intent language included in trailer legislation to the 1994 Budget Act commits the Legislature to providing a full COLA in 1995-96 under certain circumstances.

- *Supporting K-12 Reform Initiatives, Such as School Safety and Special Education Funding Reform.*

Our alternative budget attempts to balance these competing priorities. As shown in Figure 11, our recommendations are based on the following order of priorities:

- *Fund the continuing cost of the program.* Funding to support the “base” program should receive the highest priority.
- *Pay Program Deficiencies and Other Funding Commitments.* The second priority for funding should be costs resulting from past



obligations. This would place a high priority on repaying the Proposition 98 loans.

- **Support Legislative Priorities.** One-time funds from 1994-95 should be used to meet the Legislature's priorities in 1995-96. The Legislature should be wary, however, of using these funds to pay for ongoing services.
- **Increase Funding for the COLA.** Based on intent language included in trailer legislation to the 1994 Budget Act, we have tried to maximize funding available for a K-12 COLA.
- **Support Critical Reform Efforts.** While funding the COLA is a high priority, the Legislature should not forego opportunities to provide modest support for critical K-12 reform efforts.

Overview of LAO Alternative Budget Proposal

Figure 12 (see next page) displays the administration's proposed 1995-96 K-12 spending plan and our recommended alternative spending plan. As the figure shows, our alternative proposes to fund K-12 priorities at virtually the same level of funding as included in the Governor's Budget. (Our alternative proposes to spend \$1.4 million more as a result of our recommendation—discussed later in this analysis—to eliminate unneeded retirement funding.)

Our alternative, however, uses the available funds in a somewhat different manner. Most significantly, our proposal would provide an additional \$93 million for K-14 COLA from the level proposed in the Governor's Budget (allowing for a COLA of 2.55 percent instead of a 2.2 percent increase). Second, with the funds remaining, our alternative would commit \$37 million to support reform initiatives, compared to the \$148 million proposed by the Governor. Our recommended reform augmentations are, for the most part, different from those proposed in the budget. The third major difference is that we propose to spend the \$153 million in one-time 1994-95 funds to supplement the amount of funding available in 1995-96. Of these funds, \$82 million would be dedicated to one-time activities. We use the remaining \$71 million to increase support for the COLA, as described above (that is, \$71 million of the \$93 million increase for the COLA is one-time money).

We make this recommendation to spend one-time funds on a COLA reluctantly. The result of this action would be to reduce the amount of funding available for a COLA or other program expenses in 1996-97. For this reason, we believe it is poor budgeting practice to commit future funds in this manner. Because of the Legislature's stated priority to provide a full COLA in 1995-96, however, we have tried to strike a

Figure 12		
K-12 Education		
Proposed 1995-96 General Fund Increases		
Governor's Budget and Legislative Analyst's Office		
(Dollars in Millions)		
Proposed increase	Governor's Budget	Legislative Analyst's Office
Fund the continuing costs of the current program		
Restore full Supplemental Grant funding	—	\$19.5
Fund new voluntary desegregation programs	\$3.5	3.5
Subtotals	(\$3.5)	(\$23.0)
Pay program deficiencies and other funding commitments		
Make 1994-95 and 1995-96 loan repayment	\$514.0	\$514.0
Set-aside for Long Beach settlement	30.0	30.0
Pay various program deficiencies	27.3	27.3
Match federal earthquake funding	20.0	20.0
Subtotals	(\$591.3)	(\$591.3)
Increase funding for the COLA		
Cost-of-living for revenue limits and special education	\$444.2	\$511.7
Community college COLA (increase only)	—	8.4
Cost-of-living for selected categorical programs	—	17.2
Subtotals	(\$444.2)	(\$537.3)
Support reform efforts		
Special education funding reform	—	\$20.0
One-time school-to-work grants	—	5.0
School safety	\$12.3	10.0
Other reform proposals	135.8	1.9
Subtotals	(\$148.1)	(\$36.9)
Totals	\$1,187.1	\$1,188.5

balance between increased support for the COLA and using one-time funds for ongoing activities.

In the sections below, we discuss the individual recommendations in our alternative budget.

Fund Continuing Program Costs

We recommend approval of \$23 million to increase support for "base" program costs in 1995-96.

The 1995-96 budget proposes to spend \$3.5 million in ongoing funds to pay for the voluntary desegregation program in the Redwood City Elementary School District. We recommend approval of this request.

Restore Supplemental Grant Funding. We also recommend the Legislature use \$19.5 million to restore funding that was deleted when supplemental grants were added to district revenue limits. Because this reduction probably represents a permanent reduction in funding for affected districts, we recommend the Legislature restore the funds to the revenue limits. Please see our more detailed discussion of this issue in a later section of this analysis.

Pay Program Deficiencies and Other Commitments

We recommend the Legislature approve \$591 million to satisfy program deficiencies and other funding commitments.

The 1995-96 budget proposes to spend \$591 million to make loan repayments and satisfy three smaller obligations. First, \$30 million in one-time funds would be set-aside for court-ordered payments in the Long Beach desegregation lawsuit. Second, \$27.3 million in one-time funds are proposed to repay program deficiencies, many dating back to 1990-91 and 1991-92. Third, \$20 million in one-time funds would be used to match federal earthquake funding needed to repair school facilities that were damaged in the Northridge earthquake. These funding obligations should be met. We recommend approval.

Loan Repayment a High Priority. The Governor's Budget proposes to set aside \$514 million over two years to begin repaying Proposition 98 loans. These loans are one manifestation of the very difficult fiscal crisis the state endured during the early 1990s. These appropriations were never recognized as General Fund expenditures during the years the loans were made. Instead, the state will recognize the loans as General Fund expenditures during the years in which the loans are repaid.

From our perspective, it is important that the state budget recognize the \$1.8 billion in Proposition 98 loans. This could occur by forgiving the loan (which would increase the state's deficit by \$1.8 billion) or repaying the loans as required by statute.

While a lawsuit clouds the issue of whether the loans are permitted under Proposition 98 (*CTA v. Gould*), an initial negative judgment has been stayed pending appeal. As a consequence, there is still a statutory commitment to repay these loans.

The loan repayments also help the Legislature avoid funding reductions that could be required as part of the "trigger" process. Under existing statutes, the State Controller will determine in the fall of 1995 whether the state has sufficient money to repay its General Fund loans and pay for the appropriations made in the 1995 Budget Act. If the state's cash flow is inadequate to meet these needs, reductions to most non-Proposition 98 programs are required. Since the Proposition 98 loan repayments significantly improve the state's cash situation, these payments help the Legislature reduce the likelihood that trigger reductions will be needed next fall.

We recognize there will be pressure to redirect these funds to increase support for schools and community colleges in 1995-96. Any reduction in the 1994-95 or 1995-96 repayments, however, will increase the amount of repayments that must be made in future years (assuming repayments are upheld by the courts). Based on our projections of future General Fund revenues, the Proposition 98 minimum funding level will never increase so dramatically that loan repayments will be easily accommodated.

For these reasons, we recommend the Legislature approve the proposal made in the Governor's Budget to use \$514 million from 1994-95 and 1995-96 to partially repay the \$1.8 billion in outstanding Proposition 98 loans.

Increase Funding for the COLA

We recommend a \$93 million augmentation in funding for the K-14 COLA proposed in the Governor's Budget. This would result in a 2.55 percent COLA to school districts, county offices of education, community colleges, and for selected categorical programs.

As we discussed earlier, one of the central issues for the K-12 budget in 1995-96 is whether a full 3.35 percent COLA can be provided. Intent language adopted as part of trailer legislation to the 1994 Budget Act (Ch 153/94, AB 2480, Vasconcellos) commits the Legislature to providing a full COLA if two conditions are met: (1) sufficient funding is available under Proposition 98 for the 1995-96 fiscal year and (2) providing a full COLA cannot result in a reduction of funding to other K-12 programs, such as special education and categorical programs.

Providing a full COLA to special education, district and county revenue limits, and community colleges would require substantial additional resources. It would cost \$700 million, an increase of \$254 million above the budgeted level. The level of Proposition 98

funding proposed in the budget can not support both a full COLA and the Proposition 98 loan repayment.

If the tax cut proposed by the Governor is not approved by the Legislature, a full COLA and loan repayment can be accommodated—but just barely. The Legislature, however would have to (1) forego all policy initiatives in 1995-96, (2) leave unfunded up to \$60 million in deficiencies and other funding needs, and (3) spend \$110 million in one-time monies for ongoing expenses.

For these reasons, we have concluded that providing a full COLA for K-12 in 1995-96 would stretch available resources beyond the breaking point. As a consequence, our alternative would provide as much additional funding to the K-12 COLA as resources and other competing demands permit.

As Figure 12 illustrates, our alternative proposal for the use of K-12 funds would provide \$537 million for K-14 inflation adjustments. This would provide a 2.55 percent COLA in 1995-96. Of this amount, \$512 million would be directed to the general purpose and special education COLA, an increase of \$68 million. We also recommend an \$8.4 million increase in funding for the community college COLA, in order to maintain parity between these two branches of education.

COLAs for Selected Categorical Programs. In addition, we recommend appropriating \$17.2 million to provide a 2.55 percent COLA for vocational education and child development programs. In developing our alternative budget, we considered whether to recommend a COLA for all categorical programs. Given the Proposition 98 resource constraints and other more pressing needs, this was not possible.

We believe that vocational education and child development programs merit special attention. Funding for these programs in the state budget is the primary source of support for program services. Like a district revenue limit or special education support, funding for these three programs must cover total program costs—including instruction, facilities, and other costs such as materials and overhead costs. And, like revenue limits and special education, without a COLA, inflation erodes the programs' ability to provide the basic level of services required by law.

In contrast, most other categorical programs *supplement* general purpose funding—they add to the level of resources provided through revenue limits. If inflation reduces the purchasing power of these supplemental programs, funding will simply buy fewer program services.

In addition, vocational education and child development programs may have few other sources of funding available. Supplemental

categorical programs may be subsidized with school district general purpose funding. This is not the case with many child development and vocational education programs, which are not operated by school districts. Therefore, if state funding is not sufficient, these programs have few alternative ways to support program services.

Therefore, to maintain the quality of services provided by these programs, we recommend the Legislature allocate \$17.2 million to provide a 2.55 percent COLA to vocational education and child development programs.

Support Critical Reform Efforts

We recommend the Legislature appropriate \$36.9 million for high-priority K-12 reform efforts.

The 1995-96 proposed budget requests an additional \$148 million for reform efforts and program expansion. Our review indicates these proposals have merit—each would attempt to improve the quality or level of services to K-12 students. Some of the proposals have a preventive aspect that may result in long-term savings to the education system and to the state.

Given the Legislature's priority on providing a full COLA, only the most critical needs can be funded in 1995-96. Below, we summarize the augmentations we recommend the Legislature make to K-12 programs.

Special Education Funding Reform. In the *Analysis of the 1994-95 Budget Bill*, we identified a number of major problems with the way special education is funded. We also recommended the Legislature direct our office, the Department of Finance (DOF), and the State Department of Education (SDE) to work together to redesign the special education funding model. The Legislature adopted this recommendation. In a later section of this analysis, we discuss the special education budget and the preliminary funding model recommended by this group.

Additional funding in support of these reforms would give the Legislature more flexibility in meeting the multiple objectives of the reforms. For instance, the funding model is designed to address per-pupil funding uniformity among Special Education Local Plan Areas (SELPA's). The agencies' preliminary report recommends that the new model be phased in over time and that, during phase-in, all or a major portion of any funding provided for COLAs and/or growth be used to promote uniformity. Providing special education augmentations in excess of these amounts would make it possible to achieve full phase-in more rapidly.

Because alternative phase-in plans are still being evaluated, we recommend that the Legislature set aside \$20 million from the proposed budget for allocation to the lowest funded SELPAs to achieve funding uniformity at the earliest possible time. We believe that this action will help address a critical policy area in education of concern to the Legislature. The final decision on the allocation of the \$20 million could be made during deliberations on special education funding reform legislation.

School-to-Work Start-Up Grants. A second major reform area is “school-to-work,” which seeks the reform of high schools in order to (1) increase student achievement and, as a result, college attendance, and (2) help students get better jobs, especially in high-skill, high-wage occupations. Currently, most high school curricula are geared to the needs of students planning to enter four-year colleges. School-to-work reforms are designed to increase the rigor and relevance of high school curricula for both the college-bound and those who do not plan to attend college.

California's Partnership Academy program promotes one model of school-to-work programs. The proposed budget requests \$1.1 million in 1995-96 funds to increase support for existing programs and to provide start-up funds for new programs. The Partnership Academy model appears to hold great promise. Increasing support for this program as an approach to supporting school-to-work reforms has two drawbacks, however:

- ***State Support of School-to-work Programs Should Give Districts Flexibility to Meet Local Needs.*** While Partnership Academies appear promising, other school-to-work program models may more successfully meet the specific needs of schools and local businesses. For this reason, we suggest that any support for school-to-work programs should not require the use of any particular program model.
- ***The Partnership Academy Model Is Too Expensive for Statewide Implementation.*** Under the program, the state provides up to \$1,000 per-student each year in supplemental funding to pay for the higher costs of the program. Thus, if only 10 percent of high school students in the state participated in the program, state costs would exceed \$100 million a year. Because of its costs, we believe the ongoing costs of school-to-work programs need to be supported by school district, regional occupation programs (ROC/Ps), community colleges, and private industry.

There is an important role for the state to plan in encouraging the development of school-to-work programs at the local level, however

(please see our report *School-to-Work Transition: Improving High School Career Programs*). One way the Legislature can signal its support of these efforts is to help LEAs with program start-up costs. The start-up costs can be significant. School-to-work programs require high schools to revise academic and vocational curriculum and work with a broad range of groups—parents, employers, community college, and ROC/P programs—in the development of local programs.

To support local school-to-work efforts, we recommend the Legislature appropriate \$5 million in one-time funds to provide start-up funding for new programs. These new programs could be based on the Partnership Academy model or on other program designs. We further recommend the Legislature clearly state the one-time nature of the program and that the grant program would end once the funds were exhausted.

School Safety. The Governor's Budget proposes to increase funding for three school safety programs by \$12.3 million in 1995-96. Specifically, the additional funding would (1) increase by \$1.1 million support for the Gang Risk Intervention program, (2) expand by \$1.2 million the School/Law Enforcement Partnership program, and (3) provide \$10 million support for county office of education alternative programs to reflect the enactment of state legislation that would result in an increased number of expelled students.

In a later section of this analysis, we review the Governor's school safety proposals. From this review, we conclude that an alternative approach (1) stressing local control over disciplinary outcomes and (2) providing additional funding for school district alternatives would result in a better alignment of funding and responsibility at the local level. In our alternative approach, we recommend the creation of a Drop-out/Alternative Program funding category (see below).

To increase the level of support for this item, we recommend the Legislature appropriate \$10 million in 1995-96 funding for this purpose. The amount would increase the level of funding statewide for these activities and could ensure a minimum level of funding in areas of the state where there are few existing alternative programs available.

Reject Most Other Policy Initiatives

We recommend the Legislature delete \$133.9 million in policy initiatives proposed in the Governor's Budget. Of this amount, \$58.9 million would be from projects funded with 1995-96 Proposition 98 funds and the remaining \$75 million would be from one-time requests funded with 1994-95 funds.

As Figure 12 displays, we recommend approval of many of the augmentations in the 1995-96 proposed budget. However, given the Legislature's priority for maximizing the size of the COLA and the need to reserve a small amount of funding for critical policy initiatives as described above, funding is simply not sufficient to support many of the worthy proposals made in the budget.

For this reason, we recommend deletion of most of these proposals. Below, we summarize the program augmentations proposed by the Governor and indicate the portions of each augmentation that we recommend be approved and deleted.

1995-96 Proposition 98 Funds

- \$20 million to expand child development programs beginning January 1996. The funds would serve additional students in preschool programs. This proposal also would commit the state to an additional \$20 million increase in funding in 1996-97 to accommodate the full-year cost of these services. Given our recommended alternative plan for using available funding described above, we recommend this augmentation be deleted.
 - \$20 million for the Healthy Start Program, bringing its total funding to \$39 million. The budget also proposes an increase of \$1.7 million for state support of the program. The program uses each year's appropriation to provide three-year funding to LEAs. As a result, base program funding will allow SDE to fund about 90 new projects in 1995-96. Since the program will continue to expand without the proposed augmentation, we recommend deleting the local assistance increase and \$1 million of the state support augmentation. We recommend approval of \$678,000 (non-Proposition 98) to increase administrative support for the program.
 - \$7.7 million to increase support for the state's assessment program. Of this amount, (1) \$725,000 would increase support for the Golden State Examinations, (2) \$1 million would be used to develop a new state assessment to replace the California Learning Assessment System (CLAS), and (3) \$6 million would create a new local testing incentive program. We recommend deletion of these funds because (1) the proposal is incomplete, (2) federal funding could support some of the costs of this proposal, and (3) elements of the proposal appear to address a solution for which there is no clearly identified problem. Please see our discussion of this augmentation in a later section of this analysis.
-

- \$5 million to augment local education technology assistance centers. This increase would bring total support for this program to \$6.2 million. The program provides technical assistance to school districts in the use of computers and other technology in the classroom. We think the proposal is premature. Under the federal Goals 2000 program, SDE is developing a state plan for education technology. We believe any funding requests for technology should be delayed until the plan is completed and incorporated into the state's overall Goals 2000 plan. At that point, federal funds may be available to support some or all of the activities included in this proposal. For these reasons, we recommend deletion of these funds.
 - \$2 million to increase support for programs that help to increase college attendance of students from racial or ethnic groups that traditionally are less likely to go to college. We recommend approval of \$700,000. These programs have been shown to be effective in helping increase college attendance of students from underrepresented groups. Because one of the programs, the California Student Opportunity and Access program (CAL-SOAP) expects to receive a \$300,000 increase in federal funding in 1994-95 and 1995-96, we recommend allocating the \$700,000 to the College Readiness program and the Advancement via Individual Determination (AVID) program.
 - \$2 million to create 20 pilot projects to increase the number of current high school and college students who become bilingual teachers. Based on the availability of funds in the 1995-96 budget, we recommend \$735,000 for this proposal. California is currently experiencing a shortage of teachers—especially bilingual teachers. We think the proposed efforts to recruit bilingual teachers could help increase the supply of teachers over the next five years, when the shortage is expected to worsen substantially.
 - \$2 million to increase support for the Early Mental Health program, for a total of \$12 million. This program provides three-year start-up grants to LEAs for projects that provide school-based mental health intervention and prevention services. As a result, the program's base funding is sufficient to award about \$3.1 million in new projects, double the amount that is available for new grants in the current year. Given our recommended alternative expenditure plan, and since the program will continue to expand without this proposed increase, we recommend deletion of these funds.
-

- \$1.1 million to increase funding for the Partnership Academy program. This proposal would (1) increase support for the 45 existing programs (\$363,000) and (2) provide start-up funding for 50 new programs (\$750,000). As we discussed above, the program appears to be a promising school-to-work model. Above, we recommend an alternative approach (and funding) for school-to-work programs. Accordingly, we recommend deletion of these funds.
- \$500,000 to supplement funding for county office of education fiscal review capability. This increase would bring the program's total support to \$3.25 million. The additional funding is requested to increase the allocations to small counties. We recommend approval.

One-Time 1994-95 Proposition 98 Funds

- \$25.2 million to increase support for deferred maintenance funding. Funding for deferred maintenance is far below its statutory entitlement due to a lack of growth funding and prior-year budget reductions. We think deferred maintenance should be high on the list of programs that would receive an augmentation if additional funding becomes available. At this time, however, we recommend deletion of these one-time funds.
 - \$25.2 million for an augmentation of funding for instructional materials. This area, too, is an appropriate way to spend one-time funds. In our view, however, it falls far behind the need for additional deferred maintenance funding. Because funding is not available to support this increase, we recommend deleting these funds from the Budget Bill.
 - \$25 million for an educational technology initiative. At the time we prepared this analysis, we could obtain few details about the proposed initiative. The initiative was being prepared by the Governor's Council on Information Technology. This organization was unable to provide us with a plan for how the program would work. As we indicated in our discussion of the other education technology initiative contained in the Governor's Budget (see above), we believe any proposal is premature until the SDE completes its state technology plan under Goals 2000. We recommend deletion of these funds.
-

What If the Tax Cut is Not Approved?

We recommend the Legislature use any additional Proposition 98 funds that may be available for 1995-96 to (1) reduce the use of one-time funds for the COLA and increase funding for deferred maintenance and (2) use any remaining funds to increase support for the K-14 COLA.

It is possible that additional Proposition 98 funds above the level proposed in the Governor's Budget will be available. For example, General Fund revenues could increase from their predicted level if the economy proves stronger than expected. Similarly, if the Legislature chooses not to approve the proposed income tax reduction, an additional \$136 million would be available in Proposition 98 funds. Of this amount half (\$68 million) would go to increase support for the loan repayments, as required by existing statute. The other half would be available to meet the Legislature's ongoing K-14 priorities.

We recommend the Legislature use any additional funds for two purposes. First, we recommend that the highest priority for additional funds should be to reduce the amount of one-time funding that is used to support an increased K-14 COLA in 1995-96. We recommend using the first \$30 million in new funds for this purpose, which would cut in half the amount of one-time funds used to support ongoing activities. As we indicated above, we recommend this use of one-time funds because of the Legislature's emphasis on providing a full COLA. In our view, it represents the only practical way to substantially increase the inflation adjustment above the level proposed in the budget.

By reducing the amount of available one-time funding used for ongoing expenses, up to \$30 million in one-time funds would be available to support one-time activities. We recommend using the funds to increase support for deferred maintenance in 1995-96. As we discussed above, the needs in this program should be addressed if any one-time funds become available. We further recommend that any additional funding that becomes available should be used to further increase the COLA.

CATEGORICAL PROGRAM MEGA-ITEM

The budget proposes to make modest changes to (1) increase local flexibility over the allocation of funds among programs supported in the “mega-item” and (2) separately budget funding for four programs that were included in the 1994-95 mega-item.

The Governor's Budget proposes to fund 34 programs through a “mega-item”—Item 6110-230-001—which is structured similarly to items that were contained in the last three Budget Acts. Some of the major programs in the 1995-96 mega-item are Voluntary and Court-Ordered Desegregation (\$502 million), Economic Impact Aid (\$330 million), Home-to-School Transportation (\$340 million), and the School Improvement program (\$320.4 million).

The budget proposes to continue provisions in the 1994 Budget Act that govern the distribution of mega-item funds to districts. Specifically, the funds are distributed to programs in proportion to the total amount each program was allocated during the previous year (through the mega-item or in a separate appropriation). Program allocations are then distributed to school districts based on statutory provisions governing their distribution. For some programs, separate appropriations provide additional funds above the “base” amount included in the mega-item. For example, growth funding for the Partnership Academies program is provided through a separate appropriation.

The Governor's Budget proposes three significant changes to the mega-item in 1995-96:

- ***Increased Local Flexibility.*** The 1994 Budget Act permits local education agencies (LEAs) to redirect up to 10 percent of any programs's funding to another program. The current-year language also limits to 15 percent the amount any mega-item program could receive in redirected funds. The budget proposes to increase these caps to 15 percent and 20 percent, respectively.
 - ***Removal of Four Programs.*** The budget proposes to remove four programs from the mega-item, separately budgeting, support for the Adult Education, Adults in Correctional Facilities, Child Development and the School Law Enforcement/Partnership programs. According to the Department of Finance (DOF), the first three programs are proposed to be removed because they serve non-K-
-

12 populations (adults and pre-school-aged children). The Law Enforcement/Partnership program was removed as part of the Governor's school safety initiative.

- **Supplemental Grants "Roll-In."** The budget proposes to increase mega-item funding by \$31.3 million to reflect district decisions about how supplemental grant funds were "rolled in" to district funding allocations. Trailer legislation to the 1992 Budget Act required districts to choose which state funding programs (revenue limits or specified categorical programs) should be increased to compensate for the elimination of the supplemental grant program. Of the \$178.9 million in supplemental grants, \$31.3 million was added to categorical programs and \$147.6 million was added to revenue limits.

DISTRICTS USE FLEXIBILITY TO REDUCE ENCROACHMENT

A survey on how school districts used mega-item flexibility indicates that most redirected funds are used to reduce "encroachment"—that is, reduce the amount of general purpose funds that support categorical program activities. Use of the mega-item flexibility is much more common in large districts than in small or medium-sized districts.

The Supplemental Report of the 1994 Budget Act required our office to report to the Legislature on the use of the mega-item flexibility by school districts in 1994-95. The report also required SDE to survey a representative sample of districts to collect the data necessary for our report. During the fall of 1994, we worked with SDE and the Office of Child Development and Education on survey questions. The survey was sent to 100 school district of all sizes and types, representing all parts of the state. In total, 49 of the 100 districts surveyed responded to our questionnaire.

The discussion that follows is based on the information provided by these districts. Any conclusions are those of the Legislative Analyst's Office and do not reflect the opinions of agencies participating in the survey.

One-Third of Surveyed Districts Used Flexibility

Sixteen of the 49 responding districts, or 33 percent, used the mega-item flexibility in 1994-95. Of these 16 districts, there were four elementary districts, one high school district, and 11 unified districts. Of the 33 districts that did not use the flexibility, there were seven elementary

districts, four high school districts, and 22 unified districts. The type of district seemed to have little bearing on its use of the flexibility.

Use Concentrated in Large Districts. Large districts are much more likely to use the flexibility than small or medium-sized districts. Of the 14 districts with more than 25,000 average daily attendance (ADA), nine (64 percent) redirected funds between mega-item programs. Of districts between 10,000 and 25,000 ADA, three of seven districts surveyed (43 percent) used the flexibility. Districts with less than 10,000 ADA reported little use: only four of 28 smaller districts (14 percent) used the flexibility. No districts under 2,500 ADA used the flexibility.

Many Non-Users Want More Flexibility

For districts that did not use the mega-item flexibility (two-thirds of the total), we asked what barriers the existing mega-item posed in using the flexibility and whether the districts wanted more flexibility. District responses to these questions indicate:

- Many districts wanted more flexibility over the use of funds. Thirteen districts (41 percent) expressed the desire for more flexibility. Of these 13 districts, 54 percent suggested block grants, 38 percent wanted higher limits on funding redirections, and 8 percent (one district) felt “systemic” reform was needed.
- The most common reasons for not using the flexibility were (1) amounts to be redirected were too small to be meaningful (21 percent) and (2) redirecting funds from one program to another was “too disruptive” locally (15 percent). All districts reporting that the mega-item redirection limits were too small had an average daily attendance of under 6,000.
- Districts were evenly divided over the idea of making permanent any categorical funding flexibility provisions. Twelve of the 33 districts (36 percent) indicated that putting flexibility provisions in statute would provide districts the opportunity to do long-term planning needed to use funding flexibility. An additional 12 districts indicated that statutory provisions would not increase the likelihood of using the flexibility.

Many Use Flexibility For the First Time in 1994-95

Districts using the flexibility were generally happy with the mega-item flexibility. Many districts reported that the 1994-95 changes made it easier to compute district limits on flexibility. In addition, most districts reported taking advantage of the higher caps on funding redirections.

Whether or not these changes were responsible, more districts used the flexibility in 1994-95 than previously—6 of the 16 districts (37 percent) using the flexibility did so for the first time in 1994-95.

Flexibility Helps Districts Reduce Encroachment

The primary reason given for using the flexibility was to reduce “encroachment”—that is, the amount of district general purpose funding used to support categorical programs. Encroachment can occur for a number of reasons. In some programs, such as the Home-to-School Transportation and Miller-Unruh Reading programs, state funding is not intended to cover the full cost of services. In other programs, districts sometimes choose to increase the level of services above the level that state funding provides.

Thirteen of the 16 districts (81 percent) that used the flexibility reported reducing encroachment. Districts accomplished this by redirecting funds from low-priority categorical programs into ones receiving district general-purpose support. Rather than increasing the overall level of spending in the program, however, the districts “backed out” their own funds and used them for other purposes.

Only five districts reported using the redirected funds to satisfy unmet needs (two of these five also used the flexibility to reduce encroachment). This is a central finding of the survey. As we discuss later in this section, it was not the Legislature's intent that districts use the mega-item flexibility to reduce encroachment. The flexibility was included to help districts address high-priority categorical program needs that would otherwise not be funded.

Districts redirected funds to three main programs in order to reduce encroachment. Figure 13 displays the programs that funds were directed from and directed to by districts taking advantage of the mega-time flexibility. Transportation was the most common program receiving funds for this purpose—10 of the 13 districts (77 percent) reducing encroachment increased funding for Home-to-School Transportation (and reduced district general funds support accordingly). Reducing encroachment was also accomplished by redirecting funds to Instructional Materials and the Miller-Unruh program (23 percent each).

Districts using the mega-item flexibility to satisfy unmet needs reported using the funds primarily to increase support for EIA. The three districts that reported using the mega-item flexibility solely to meet district unmet needs directed the funds to EIA. One district also reported directing funds to satisfy unmet instructional materials needs as well.

Figure 13

Mega-Item Flexibility Survey^a
Number of Districts Using
Mega-Item Flexibility, 1994-95

	Number of Districts Redirecting Funds	
	From program	To program
School Improvement Program	13	0
Mentor Teacher Program	11	0
Home-to-School Transportation	0	10
School-Based Staff Development	8	0
Gifted and Talented Education	8	0
Economic Impact Aid	7	4
Tenth Grade Counseling	4	0
Instructional Materials	3	4
Miller-Unruh Reading Program	0	4
School Restructuring Grant Program	3	0
Adult Education	2	0
SB 65 Dropout Programs	2	0

^a A total of 16 out of 49 districts surveyed reported using the mega-item flexibility.

SIP and Staff Development Lose Funding

Districts reported that the School Improvement Program (SIP) and two staff development programs (Mentor Teacher and School-Based Staff Development) were most often the programs that lost funds through mega-item redirections. As Figure 13 illustrates, 13 districts (81 percent) reported using SIP, 11 districts (69 percent) used Mentor Teacher funds, and eight districts (50 percent) used School-Based Staff Development funding.

Almost all districts redirected funds from more than one program. One district reported redirecting funds from eight different programs. Commonly, districts reduced funding for four or five programs. In this way, districts could redirect a more substantial amount of funding than redirections from one program would permit.

When asked why the district chose to redirect funding from specified programs, almost all districts responded that these funding reductions would have the least harm to the classroom. Five districts reported that the funding reductions would have no serious program impact. Four other districts indicated that unspent prior-year balances permitted funding redirections without affecting new program allocations.

Make Permanent, Provide More Flexibility

Districts using the mega-item flexibility felt improvements are possible. Five of the 16 districts (31 percent) using the flexibility suggested increasing or eliminating the limits on funding redirections. Four districts (25 percent) wanted special education returned to the mega-item (prior to 1994-95, special education funding was included in the mega-item). In addition, eight districts (50 percent) felt that putting funding flexibility into statute would increase the district's use of the flexibility in the future.

SURVEY SUGGESTS NEW APPROACH IS NEEDED

We recommend that, for the coming year, the Legislature break the mega-item into four smaller items in order to improve control over how LEAs use funding flexibility provided in the Budget Bill. We further recommend the Legislature statutorily create block grants to replace three of these items on a permanent basis.

The Legislature originally created the mega-item to minimize the Governor's ability to make specific categorical program reductions through the use of line-item vetoes. The flexibility provisions were added as a way to help districts reallocate funding among programs in order to meet district needs. Specifically, the 1992 Budget Act reduced categorical program funding by 2.2 percent. The flexibility provision was designed to permit LEAs to restore funding to certain programs by redirecting funds from other mega-item programs.

During the first two years of its existence, however, anecdotal information became available suggesting that districts were redirecting funds into special education as a way of reducing encroachment and increasing general purpose funding. To end this practice, the Legislature removed special education from the mega-item in the 1994 Budget Act.

From this perspective, it is clear that the Legislature has viewed the mega-item flexibility as a way of helping districts address high-priority categorical program funding needs that would otherwise not be funded. The results of the mega-item survey, however, indicate that most districts do not use the flexibility provisions for that purpose. Instead, the flexibility is used to increase the amount of general purpose funding in the district. Based on these findings, we conclude that the mega-item flexibility has failed to achieve the Legislature's policy goals.

Categorical Reform Is Needed

In our *Analysis of the 1993-94 Budget Bill* and in a separate report entitled "Reform of Categorical Education Programs: Principles and Recommendations," we recommended the Legislature begin the process of restructuring categorical education programs by creating a number of categorical program block grants. Specifically, we called for establishing in statute at least two block grants as follows:

- *A School Improvement Block Grant*, which would provide support to individual schools for school-wide curricular and instructional improvement activities and one-time expenditures such as book and computer purchases. We recommended holding schools accountable for the use of these funds by collecting data on (1) the progress made by each site in increasing student achievement and (2) the level of student and parent satisfaction.
- *A High School "At-Risk" Block Grant*, which would consolidate funding from programs serving students at risk of dropping out of high school. This consolidation would provide districts more flexibility over the program model used to serve students. District performance would be measured by its success in improving graduation rates, college attendance and post-graduate employment of at-risk students.

We continue to believe that block grants of this type can provide targeted funds in support of specific objectives in a way that provides more flexibility to LEAs to achieve program objectives most effectively. In addition, block grants would help resolve two problems with the existing mega-item flexibility. First, total funding flexibility within a block grant would help those small districts that observed that the existing limits on redirecting funds among programs were too low to be helpful. Second, by eliminating the programs that are consolidated into the block grants, no local program would have a claim on block grant funds. For that reason, a block grant would permit districts to start with a clean slate, reviewing and justifying the effectiveness of existing programs funded by individual categorical programs. The money would not "belong" to any individual program.

Establish "Mini-Megs"

It would be difficult to enact legislation establishing new categorical block grants by July 1995. In addition, we believe that any effort to reform categorical programs should be done in concert with the state's implementation of the federal Goals 2000: Educate America Act. Under this program, participating states (1) establish specific goals for student learn-

ing and ways to measure whether that learning is taking place and (2) provide grants to LEAs to develop plans for meeting the state's student achievement goals. Since implementation of Goals 2000 is just beginning in California, we believe categorical reform will take more time than the budget process allows.

The Legislature can begin this restructuring process in the budget, however, by providing funding to similar types of programs—in a manner that achieves some of the advantages of the block grant approach. Specifically, we recommend the Legislature break-up the existing mega-item into four groups (or “mini-megs”), as follows:

- *A School Site Item*, which would include appropriations for SIP, Educational Technology, Instructional Materials, Class-Size Reduction, Tenth Grade Counseling, Partnership Academies, Vocational Education Equipment, Specialized Secondary Program Grants, and Demonstration Programs in Math and Science. In total, \$516 million would be appropriated in this item. We suggest providing districts with substantial flexibility to redirect funds from one program to another within the mini-item—30 to 40 percent of each program's funding.
 - *A Staff Development Item*, which would include appropriations for Mentor Teacher, School-Based Staff Development, New Teacher Support, and Bilingual Teacher Training. This item would provide \$92 million for staff development activities in 1995-96. As with the School Site Mini-Item, we recommend providing substantial funding flexibility among programs within the item.
 - *A Dropout/Alternative Program Item*, which would appropriate support for SB 65 Dropout programs, Opportunity Programs, Continuation Schools, and funding for non-adjudicated students attending county court schools. About \$67 million would be appropriated in this item. For more detail on this proposal, please see our discussion in a later section of this analysis.
 - *An Other Categorical Program Item*, which would contain funding for the remaining categorical programs that are included in the 1994-95 version of the mega-item. This item would still contain about \$2.4 billion in categorical program funding. The bulk of the funds is in five large programs—adult education, child development, desegregation, vocational education and Home-to-School Transportation—that cannot easily be consolidated. While we think the administration's proposal to remove adult education and child development from the mega-item has some merit, we recommend that the Legislature, instead, consider such changes as part of its broad statutory restructuring of categorical programs.
-

We view these mini-megs as temporary structures, ones that begin providing additional flexibility to LEAs to set local priorities over broad categories of programs. This budgetary approach does not address important issues in categorical program restructuring, however. For instance, districts would still be required to spend funds on the programs that comprise the mini-meg item. Over the long-run, we think LEAs should have more flexibility in the program approach and service delivery model used locally.

A long-term statutory solution would address a broader range of issues and permit a more flexible, dependable program structure for funding categorical programs. In the meantime, we recommend the Legislature create four mini-megs that would increase local flexibility over the funding among similar programs and reduce the use of mega-item flexibility to reduce encroachment on district general purpose funding.

SPECIAL EDUCATION

The Governor's Budget includes \$1.7 billion in General Fund support for special education in 1995-96. This is an increase of \$102.6 million, or 6.3 percent, above the revised current-year amount. The budget-year request reflects the following General Fund increases:

- \$58.7 million for growth in instructional units, infant programs, and other specified programs, an increase of 2.6 percent. This percentage change is based on the projected increase in K-12 average daily attendance (ADA).
- \$7.9 million for growth in nonpublic schools (\$4.1 million), extended-year programs (\$2.5 million), and regionalized and county incentive programs (\$1.4 million).
- \$58.1 million for a COLA for special education programs, an increase of 2.2 percent. The percentage increase is the same as that proposed for K-12 revenue limits.
- \$2.1 million augmentation for a federal special education early intervention program for infants and toddlers (Part H).

The budget also reflects the following funding adjustments offsetting the General Fund amounts:

- \$11.1 million increase in district and county revenue limits.
- \$6.1 million increase in county property taxes above the current-year revised amount.
- \$7.0 million increase in federal funds for special education.

In addition, the budget proposes a deficiency appropriation of \$9.4 million for the current year to offset a downward revision in the estimate of county property tax revenue in 1994-95.

NEW FUNDING MODEL FOR SPECIAL EDUCATION

The Current Special Education Program

Prior to the development of the Master Plan for Special Education (MPSE) in 1974, state funding for special education was primarily based on an amount per child that varied depending on the disabling condition (for example, the 1974 categories included "trainable mentally retarded,"

“emotionally disturbed,” “deaf,” and so on). At the discretion of local districts and county boards of education, taxes could be levied to supplement the state allowances. Development of the MPSE began in 1971 when the SDE conducted a series of conferences throughout the state with parents, teachers, and administrators to discuss every aspect of special education. Opinions gathered at these conferences were then developed into the MPSE in 1974 by the State Board of Education (SBE). In that same year, the Legislature enacted Ch 1532/74 (AB 4040, Lanterman), which provided for testing of the MPSE in a limited number of districts and counties. The Legislature provided for statewide implementation of the MPSE in 1980 with the enactment of Ch 797/80 (SB 1870, Rodda).

The MPSE predates the 1975 enactment of PL 94-142 at the federal level, which mandates states to provide a free and appropriate education to all individuals with disabilities. Special education must be provided in the least restrictive environment, and it must be based on individual needs, as determined by an individualized education program (IEP) team. This federal legislation has been amended several times, most recently in 1994 by PL 103-328, the Individuals with Disabilities Education Act. The next reauthorization is scheduled for 1995.

The MPSE requires an assessment of each child's unique educational and service needs and a consideration of many service delivery options for each eligible child. Under the MPSE, a child is assessed to determine if special education is necessary or if the child can be served within the regular classroom, with modification of the regular instructional program and related services. If specialized instruction or services are needed and the child meets eligibility guidelines, an individualized educational program (IEP) is written for the child that defines the services to be provided. The aim is to place the child in the least restrictive educational setting (environment) that will best meet the child's educational needs. The MPSE requires participation of parents as part of this process and establishes specific due process procedures to protect the rights of the child and parents.

The MPSE established special education local plan areas (SELPA) throughout the state (in 1994-95 there are 116 SELPAs statewide) that are required to provide a continuum of program options to meet the needs of pupils with disabilities. Generally, these options are provided in one of three basic education settings: (1) designated instruction and services (DIS) such as speech and language services, adapted physical education, or other specialized services; (2) resource specialist programs (RSPs), in which the child remains in the general education program and is served by a resource specialist teacher in the areas of need; and (3) special day classes or centers (SDCs) that provide special education services for a majority of the school day. Generally, these settings are for students

whose disabilities are less severe (DIS), of moderate severity (RSP), or more severe (SDC).

Within the MPSE, placement is also available in a nonpublic school if the child cannot be served appropriately in a public school setting. In addition to these settings, the state provides support for two schools for the deaf, one school for the blind, and three diagnostic centers.

Special Education Enrollment and Funding

The upper part of Figure 14 shows the number of children enrolled in special education by disability category, for selected years, from 1987-88 through 1993-94. According to the SDE, approximately 9.4 percent of all K-12 pupils were enrolled in special education in 1993-94 compared to 8.8 percent in 1987-88. The fastest growing disability category in this period was orthopedically impaired, which increased at an average annual rate of 6.8 percent. During our site visits this past fall, we were informed that one major cause for this growth was the reclassification of multihandicapped pupils to orthopedically impaired due to the financial incentives under the current funding model.

The lower part of Figure 14 shows the number of children enrolled in special education by placement, for the same period. Figure 14 shows that the fastest growing placement option during the period 1987-88 through 1993-94 was the nonpublic school option. These placements, which on average are more costly than public school programs, grew at an annual rate of 11 percent, more than twice the average of all other placements. As discussed later, we believe that the current funding formula may be a contributing factor in this growth.

Figure 15 shows the distribution of federal, state and local expenditures for special education. Figure 15 does not include expenditures for the state special schools, which totaled \$49 million in 1993-94. The state special schools are not included because they are funded outside the current funding model. Figure 15 was compiled from reports by local school districts (J-380/580 reports). In addition to costs that are directly attributable to operations of special education programs, these reports also include educational costs that are allocated to special education for accounting purposes, such as costs for instructional administration, instructional media, school administration, pupil services, central data processing, plant operations and maintenance, and lease/rent of facilities. The amounts exclude funding and expenditures on special education transportation and limit indirect charges to 4 percent.

Figure 14

**Special Education Enrollment
By Disability and Placement
1987-88 Through 1993-94 (April Count)**

	1987-88	1989-90	1991-92	1993-94	Average Annual Change
Disability					
Mentally retarded	28,302	28,694	31,002	30,937	1.5%
Hard of hearing	4,086	4,415	4,609	5,165	4.0
Deaf	3,277	3,462	3,483	3,618	1.7
Speech and language impaired	110,964	122,439	136,711	144,966	4.6
Visually impaired	3,018	3,512	3,787	4,153	5.5
Seriously emotionally disturbed	11,545	12,660	14,466	16,330	5.9
Orthopedically impaired	8,661	9,519	10,967	12,855	6.8
Other health impaired	14,044	14,884	15,143	13,811	-0.3
Specific learning disability	240,958	265,027	293,902	310,460	4.3
Deaf-blind	234	152	153	170	-5.2
Multihandicapped	7,469	7,822	7,392	7,051	-1.0
Autism	—	—	—	2,713	NA
Traumatic brain injury	—	—	—	467	NA
Not categorized (ages 0-2)	—	—	—	480	NA
Subtotals	(432,558)	(472,586)	(521,615)	(553,176)	(4.2%)
State special schools	912	1,021	1,150	1,211	4.8
Totals	433,470	473,607	522,765	554,387	4.2%
Placement					
Designated instructional setting	125,099	130,913	139,305	141,087	2.0%
Resource specialists program	169,744	191,455	216,837	236,928	5.7
Special day class	132,521	143,453	157,204	165,443	3.8
Nonpublic school	5,194	6,765	8,269	9,718	11.0
State special schools	912	1,021	1,150	1,211	4.8
Totals	433,470	473,607	522,765	554,387	4.2%

Figure 15 (see next page) shows that in 1992-93 the state provided 71 percent of total funding for special education services. State support includes allocated local property taxes. Local support constituted about 24 percent of total outlays in 1992-93. Local support is general-purpose funding that is used by districts for special education. Federal funding provides about 5 percent of total funding.

Figure 15

**Special Education Expenditures
Reported by Schools^a
1987-88 Through 1992-93**

(Dollars in Millions)

	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	Average Annual Current Change	Share
State	\$1,532.0	\$1,697.8	\$1,850.8	\$2,022.9	\$2,113.5	\$2,185.4	7.4%	71.2%
Federal	109.2	119.4	124.3	130.3	158.4	163.1	8.3	5.3
Local	420.2	459.3	566.2	639.6	680.4	722.3	11.4	23.5
Totals	\$2,061.4	\$2,276.5	\$2,541.3	\$2,792.7	\$2,952.3	\$3,070.8	8.3%	100.0%

^a Data based on J-380/580 reports by districts and counties. Indirect charges limited to 4 percent. Excludes special education transportation and state special schools.

Preliminary Proposal for a New Funding Model

In last year's *Analysis of the 1994-95 Budget Bill* we cited a number of major problems with the state's current special education funding formula. Among the major shortfalls cited were (1) unjustified funding variations among local education agencies (LEAs), (2) unnecessary complexity, (3) constraints on local innovation and response to changing requirements, and (4) inappropriate fiscal incentives.

Based on this analysis, the Legislature adopted language in the *Supplemental Report of the 1994 Budget Act* directing the State Department of Education (SDE), the Department of Finance (DOF), and the Legislative Analyst's Office (LAO) to jointly review the Master Plan for Special Education (MPSE) and propose a new funding model by May 31, 1995.

The Legislature directed that these three agencies consult with teachers, parents, and administrators of both regular and special education programs, members of the Advisory Commission on Special Education, and other interested parties in developing this new funding mechanism. The legislative language also directed that the funding mechanism shall include, but not be limited to, the following:

- "A method to ensure equity in funding between school districts and county offices of education that provides services to pupils with exceptional need.
- An elimination of financial incentives to place pupils in special education programs.
- A system that recognizes the interaction between funding for special education programs and services, revenue limits for school

districts, and funding for categorical programs.

- A proposal to phase in the newly developed funding formula on a gradual basis over two to five years, so as not to disrupt educational services to students enrolled in regular or special education programs.”

In fall 1994, staff of the three agencies met throughout the state with individuals and groups to discuss alternatives to the current funding model and see firsthand the array of programs offered for students with disabilities. To obtain the federal perspective, we met with the Assistant Secretary of the Office of Special Education and Rehabilitative Services in the U. S. Department of Education. To gain knowledge of the strengths and weaknesses of formulas in operation throughout the United States, we met with the directors of the federally sponsored Center for Special Education Finance in Palo Alto.

While the *Supplemental Report* did not request a preliminary report, the three agencies issued one in January 1995 to stimulate discussion as consultation continues throughout the state in winter and spring 1995. The preliminary report is based on the fall 1994 meetings and input from field visits, previous work by various agencies on both special and regular education, and review of the literature in special education finance.

The basic principles and assumptions that the three agencies used in developing the preliminary proposal are shown in Figure 16 (see next page).

The preliminary proposal for a new funding model is a population-based formula that allocates funding to SELPAs (Special Education Local Plan Areas) based on a uniform amount for each pupil residing in the SELPA. This approach has the following advantages over the state's current funding model: (1) it avoids “labeling” of pupils as needing special education, (2) it allows flexibility in provision of services, (3) it eliminates funding variations among SELPAs, and (4) it is straightforward and understandable.

The report indicates that a population-based formula may introduce fiscal incentives to underserve children with disabilities and, therefore, the preliminary proposal offers three safeguards to ensure that pupils with disabilities are assured access to a free and appropriate public education: (1) continuation of the due process safeguards available under current law, (2) modification of SDE oversight of special

education programs, and (3) retention of an existing requirement that special education funding be used for special education services. Figure 17 highlights these and other provisions of the preliminary proposal.

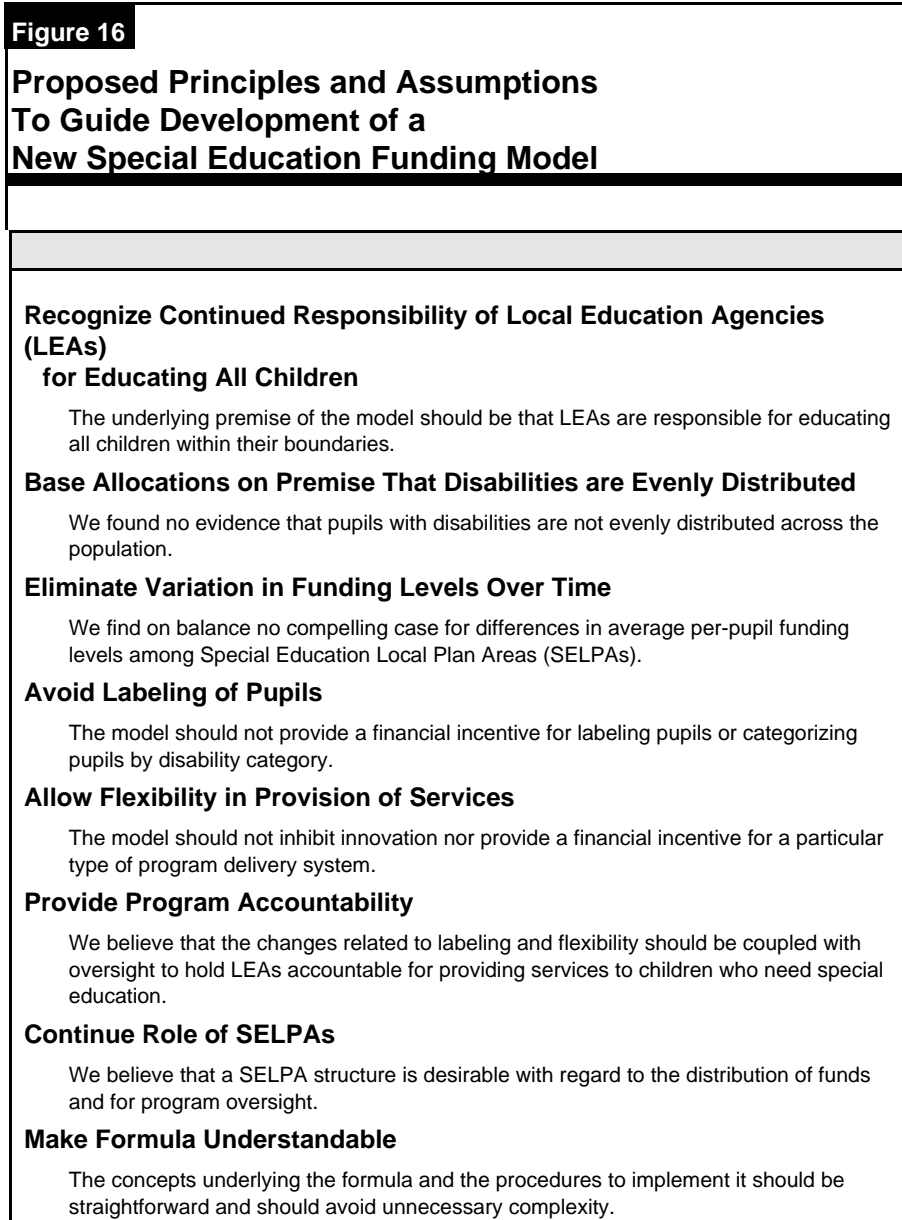


Figure 17**Highlights of Preliminary Proposal for
New Special Education Funding Model****LEAs Responsible For Educating All Children**

The state should reaffirm that LEAs are responsible for educating *all* children within their boundaries. This is necessary because the prevailing attitude in some LEAs is that special education is solely a state and federal responsibility.

Population-Based Allocation

We propose that special education funding be allocated to SELPAs on a per-capita basis. The per-capita amount would be uniform from SELPA to SELPA. Therefore, the funding level would not depend on the number of identified special education pupils. Ideally, the allocation should be based on the entire school population of the SELPA—both public and private.

Same Adjustments for Revenue Limit and Special Education

We propose that the special education per-pupil amount be adjusted on an ongoing basis in a manner consistent with revenue limit funding. Likewise, special education funding should be adjusted for declining enrollment consistent with the methodology used for revenue limits.

Phase-In to New Distribution of Funds

To minimize disruption of services to students, we propose a phase-in of the new formula over a two- to five-year period. During the phase-in period, our proposal (1) would provide most SELPAs an increase in special education funding and (2) would not reallocate existing funds—so no SELPA would experience a reduction. At a minimum, we propose all or a major portion of any funding provided for cost-of-living adjustments and growth be used to increase funding for the lowest-funded SELPAs.

Local Flexibility

Our proposal allows LEAs to tailor services based on local pupil needs and strengths of local staff. It allows LEAs to provide special education services to pupils who have not been identified as special education pupils, especially at the early grade levels, to prevent the need for being so identified later in their schooling.

Accountability

In moving to a population-based formula and removing restrictions on how services should be delivered, LEAs may have fiscal incentives to underserve pupils in need of special education services. To ensure that students in need have access to a free and appropriate public education, we propose to (1) continue existing due process safeguards, (2) modify SDE oversight of special education programs, and (3) retain the existing requirement that special education funding be used for special education services.

Continued

Nonpublic Schools/Agencies

We propose that state support for nonpublic school placements and nonpublic agency services be rolled into the base allocation along with other state support.

Low-Incidence Fund (LIF)

We propose continuing the LIF, which provides funds for specialized equipment needed by severely disabled pupils with low incidence disabilities.

Role of SELPAs

SELPA organizations play a central role in our proposal. We propose that state and federal funds, which represent about three-quarters of current support for special education, be allocated through SELPAs. In the current formula most funding flows to districts. We envision an expanded SELPA role, especially in multi-district SELPAs, in oversight of special education services.

Set Aside \$20 Million for Lowest-funded SELPAs

We recommend that the Legislature enact a new funding model for special education and we further recommend that \$20 million be set aside, above the amount proposed in the budget for special education, for possible allocation to the lowest-funded SELPAs to allow for the earliest possible phase-in of the new funding model.

As indicated above, the three agencies have issued a preliminary report recommending a new special education funding model. (The final report will be released in May.) We recommend that the Legislature enact a new funding model in the coming year, based on the final report. We also recommend that the new financing system for special education become effective with the 1996-97 school year, which would allow adequate time for the SDE to implement the new model.

Providing equal funding per pupil to all SELPAs will require increasing funding for some SELPAs and reducing funding for other SELPAs below what they otherwise would have received. These funding changes would be disruptive if implemented immediately. Accordingly, the supplemental report directed that any new funding formula be phased in on a gradual basis over two to five years, so as not to disrupt educational services to students enrolled in regular or special education programs.

The three agencies have not yet developed a detailed phase-in plan for the Legislature's consideration. Given the current disparities in special education funding, however, it may be difficult to achieve substantial uniformity of support within the given time frame. However, no matter what phase-in plan is ultimately recommended, the provision of an augmentation to the lowest-funded SELPAs will facilitate full phase-in at the

earliest possible time. In order to meet the Legislature's priority of achieving funding reform within a five-year time period, we recommend that \$20 million be set aside for allocation to the lowest-funded SELPAs for the 1995-96 school year. The final decision on the allocation of the \$20 million could be made during deliberations on special education funding reform legislation.

OTHER SPECIAL EDUCATION ISSUES

SDE Offers No Defense of Budget Act Language

We withhold recommendation on General Fund support for the Department of Education's (SDE) legal office pending information from the Attorney General and Legislative Counsel on the SDE's handling of current-year litigation on the 1994 Budget Act's cap on nonpublic school expenditures.

In the 1994 Budget Act the Legislature adopted a provision within the special education item (Provision 14 of Item 6110-161-001) that (1) capped the amount of funds available to school districts for placements of pupils in nonpublic schools (Provisions 14a) and (2) provided for a process to decertify nonpublic schools (NPS), if local school districts deemed as unjustified rate increases proposed by the NPS (Provision 14c).

Provision 14 was adopted in the Senate version of the budget bill and approved by the Legislature during the conference committee process. The SDE testified in opposition to this provision.

On August 4, 1994 a complaint for temporary restraint on Provision 14c was filed with the Los Angeles Superior Court. On that same day, the SDE agreed to terms of a preliminary injunction on Provision 14c and that injunction was filed by the Los Angeles Superior Court on August 4, 1994. Given that the SDE reached agreement on the same day that the suit was filed, it appears that the department offered no defense for the Budget Act language.

Subsequent to this preliminary injunction, the Senate Appropriations committee considered amendments to AB 1250 (Campbell). One set of amendments, sponsored by the SDE and others, would have deleted all of Provision 14. This amendment was not adopted by the committee.

In early December 1994, the SDE and the plaintiffs agreed to a permanent injunction on all of Provision 14. This permanent injunction was filed by the Los Angeles Superior Court on December 13, 1994. We found no

documents stating the basis for the department's agreement on the permanent injunction.

We met with staff of both the Legislative Counsel and Attorney General to outline the actions taken on Provision 14. We requested both of these offices to investigate the handling of the injunctions by the SDE legal staff. In our opinion, the SDE acted with a sole purpose to delete the NPS language from the Budget Act. We find no evidence that the SDE legal office offered any defense of the Budget Act language. The SDE should report on its actions on this matter during budget hearings. We withhold a recommendation on the General Fund budget (\$216,000) for the SDE legal office, pending the department's response and a review of information from the Legislative Counsel and Attorney General.

Additional Information Needed on Augmentation for Infants and Toddlers

We withhold a recommendation on the budget's request for \$2.1 million from the General Fund to augment the federally funded early intervention program for infants and toddlers, pending additional information from the Department of Finance.

The budget requests a \$2.1 million General Fund augmentation for a currently federally funded early intervention program for infants and toddlers. Chapter 945, Statutes of 1993 (SB 1085, Bergeson) enacted the California Early Intervention Services Act. The objective of this program is to provide appropriate early intervention services individually designed for infants and toddlers from birth through two years of age, who have disabilities or are at risk of having disabilities, to enhance their development and to minimize the potential for developmental delays. This program is administered under the shared direction of the Department of Education and the State Department of Developmental Services.

The budget proposes a General Fund augmentation to the SDE for expansion of this program. The DOF has informed us that, due to a technical error, the correct amount requested for the SDE may be \$2.5 million, depending on the availability of federal carryover funds. The Budget Bill also includes language directing the SDE to develop a new funding formula for this program by March 1, 1996.

Chapter 945, however, states that it is the intent of the Legislature that the state's participation in this program is contingent on receipt of sufficient federal funds. Chapter 945 further states that if lack of federal funding would require an increased contribution from the General Fund or a contribution from an LEA in order to fund required or supplemental

costs, that the state shall terminate participation in the program. The budget proposal makes no mention of this provision in Ch 945.

We are continuing to discuss this request with the DOF. We have requested information to justify General Fund support in consideration of Ch 945 and also requested information on the projected General Fund expenditures for this program beyond the budget year. We withhold recommendation on this augmentation pending receipt of this information.

SCHOOL SAFETY INITIATIVES

We recommend the Legislature reject the administration's proposals to create and expand various school safety programs because the proposals would exacerbate problems we have identified with the current system and would likely increase General Fund pressures to provide additional funding for the most costly educational settings. We recommend instead that the Legislature enact comprehensive reform of the state's school safety programs to increase local flexibility and improve system performance.

As shown in Figure 18, the Governor's Budget proposes a General Fund increase of \$12.3 million to support school safety initiatives in 1995-96.

Figure 18

School Safety Programs and Funding—Local Assistance

(In Millions)

	Current Year	Budget Year	Increase
Set-aside for school safety legislation	—	\$10.0	\$10.0
School/Law Enforcement Partnership (school climate)	0.6	1.8 ^a	1.2
Gang Risk Intervention Program (GRIP)	1.9	3.0	1.1
Totals	\$2.5	\$14.8	\$12.3

^a Does not include \$340,000 in supplemental grant funding for three districts in the budget year, which is not part of the Governor's school safety proposal.

\$10 million set-aside for pending school safety legislation. The budget sets aside \$10 million to pay for the half-year cost of proposed new “zero-tolerance” school safety policies. Specifically, the administration proposes to strengthen the suspension and expulsion requirements for pupils who commit certain weapon or drug-related offenses on school campuses. Students who are expelled from school for these offenses would be served in alternative education programs—primarily community schools operated by County Offices of Education (COEs). The set-aside money would pay for the costs of increased statewide enrollment in community schools

resulting from these school safety policies.

School/Law Enforcement Partnership Program. This program was created by Ch 1253/89 (AB 450, LaFollette). The Partnership provides (1) competitive matching grants of \$5,000 each for districts to implement school safety plans, and (2) funds for safe schools training at the local level. The Governor's Budget proposes to expand this program by providing (1) \$801,000 for a Conflict Resolution Program to train school district and county office of education (collectively referred to as local education agencies or LEAs) personnel in conflict resolution techniques and (2) \$433,000 for a School/Community Violence Prevention Program to provide statewide training to assist LEAs in establishing School Community Action Teams.

Gang Risk Intervention Program. This program was created by Ch 722/94 (AB 2516, Katz), to provide grants to LEAs for programs that reduce gang activity. In the current year, the program is funded from \$1.9 million in local assistance funds within the California Youth Authority (CYA). For the budget year, the Governor's Budget proposes to transfer this \$1.9 million from the CYA to the SDE and add \$1.1 million for program expansion.

In the discussion that follows, we present an overview of existing programs that support school safety efforts, discuss problems that we have identified with the current system, provide an overview of legislative actions to date, and make recommendations for achieving broader school safety reforms.

OVERVIEW OF EXISTING PROGRAMS

The state currently supports school safety efforts by LEAs through various categorical aid programs. These programs give LEAs resources to fund alternative educational settings for pupils, as well as crime and dropout prevention activities for pupils in the regular classroom. Figure 19 (see next page) displays these programs and the level of funding provided in the budget for each.

Alternatives to the Regular Classroom

LEAs run several programs that provide an alternative educational setting for pupils who have not been successful in a regular classroom setting, or would place other students at risk because of their behavior.

Continuation Programs. School districts must offer continuation schools or classes to serve pupils who cannot attend a regular high school program for reasons of health, employment, parenting responsibilities,

school disciplinary action, or juvenile court proceedings. These programs must provide the necessary academic program for high school graduation, supplemented by independent study, various school-to-work programs, and job placement services. An estimated 49,500 pupils will attend continuation schools in 1995-96. The budget provides \$25.5 million in supplemental funding for continuation schools in 1995-96.

Figure 19		
State-Funded Programs Related to School Safety		
(Dollars in Millions)		
	Estimated ADA 1995-96	Proposed Funding 1995-96
Alternatives to the regular classroom		
Continuation programs ^a	49,500	\$25.5
Opportunity programs ^a		1.2
Community schools— Type C ^b	16,500	103.5
Juvenile court schools	16,733	92.4
Other school safety and prevention programs		
SB 65 dropout prevention programs	Not applicable	\$12.5
Conflict resolution	Not applicable	2.3
SLE Partnership	Not applicable	2.2
GRIP	Not applicable	3.0
^a Displays supplemental funding only. In addition, school districts receive their regular revenue limit (general-purpose allocation per pupil) for pupils served in these settings.		
^b Community schools receive enhanced funding only for probation-referred pupils or pupils under a state-mandated expulsion. All other pupils are funded at the regular revenue limit (general-purpose funding per pupil) of their home district.		

Opportunity Programs. LEAs may offer opportunity programs or classes for pupils in grades 7-9 who are not benefiting from a school district's regular educational program because of truancy or discipline problems. These programs provide a setting in which pupils can continue their academic work while resolving their difficulties to the point that they can return to the regular program. The budget provides about \$1.2 million in supplemental funding for opportunity programs in

1995-96.

Community Schools. Community schools are operated by COEs as alternative instructional placements for about 17,700 pupils in grades 7-12 who, for various reasons, have not been successful in regular school programs or who have broken the law. These pupils generally share the characteristics and problems of pupils in school district alternative programs, including poor self-concept, failure to progress, habitual truancy and delinquent or criminal behavior. They are in community schools, however, because they have been (1) expelled from a district alternative program, (2) referred by a school attendance review board, (3) referred by the county probation department, or (4) homeless.

The specific characteristics of community school programs vary widely from county to county. In particular, differences exist in (1) the extent to which independent study is used, (2) the amount of time pupils spend in school (the minimum day is 4 hours), (3) class size, and (4) the type and intensity of supplemental services (counseling and various social services, for example) purchased for pupils.

Pupils who are referred to community schools by a county probation department or who are under mandatory expulsion—often termed “Type C” pupils—comprise about three-fourths of all community school pupils. Based on our site visits to various community school programs, we estimate that about half of all probation-referred pupils are wards of a juvenile court under the direct supervision of a probation officer. The remainder are under more informal forms of probation. The COEs receive funding for Type C pupils that is about \$1,200 per pupil higher than the average level of funding received by school districts. The DOF estimates that statewide spending for Type C community school pupils will total about \$86 million in 1994-95, and about \$103 million in 1995-96 (including the \$10 million set aside to accommodate increased community school enrollments due to proposed zero-tolerance legislation).

Juvenile Court Schools. The COEs are required by law to provide educational programs in secured juvenile detention facilities, such as county juvenile halls and camps. Pupils in these facilities have committed a violation of law that, in the judgment of a juvenile court, is sufficiently serious to require their supervision in a controlled institutional setting. The COEs may also offer educational programs in group homes and private residential facilities for juveniles, which for funding purposes are considered juvenile court schools. The budget provides about \$92 million in 1995-96 to serve an estimated 16,773 pupils in juvenile court schools.

Other School Safety and Prevention Programs

In addition to the school safety programs mentioned in our discussion of the Governor's initiatives, the state also provides the following programs.

SB 65 Dropout Prevention Programs. Chapter 1431, Statutes of 1985 (SB 65, Torres) established four related programs: Motivation & Maintenance, Educational Clinics, Alternative Education & Work Centers, and the Model Program Repository. The first three of these programs provide dropout prevention and recovery services to pupils at risk of dropping out in a limited number of schools across the state. The Model Program Repository disseminates information on successful program design, curriculum, and technique to schools which have not received SB 65 funding. The Governor's Budget proposes \$12.5 million for this program in 1995-96, the same level provided in 1994-95.

Conflict Resolution Program. This program, created by Ch 1022/94 (SB 1255, Hughes), provides grants to LEAs for conflict resolution programs. The program is funded from the Asset Forfeiture Fund, which the administration estimates will generate approximately \$2.3 million in revenues for this program in the budget year.

PROBLEMS WITH EXISTING PROGRAMS

We have identified a number of problems with the existing school safety programs:

- Community school Type C funding is not adequately controlled. Our site visits and subsequent analysis indicate that (1) counterproductive fiscal incentives may lead to inappropriate placement of pupils in this high cost setting, (2) too little service may be provided to appropriately placed pupils, and (3) wide variations in funding levels exist for no program-related reason.
- Other alternative placement and prevention programs do not do an adequate job of intervening on behalf of pupils who are at risk of dropping out or engaging in criminal activities.
- The existence of multiple school safety programs and policies, each with its own restricted purpose, limits the flexibility of LEAs to deal with these problems in locally appropriate ways.

We discuss these problems in detail below.

Community School Problems Remain Unresolved

Community schools play an increasingly large and costly role as classroom placements of last resort for pupils whose behavior has got them into trouble with their regular school or community. The Legislature has adopted legislation and budget control language over the past several years to restrict the use of the higher Type C funding level by community schools. Our review, however, indicates that significant problems continue to exist.

Counterproductive Fiscal Incentives. Figure 20 shows that community school enrollment from 1988-89 to 1993-94, grew five times as fast as enrollments in continuation schools and juvenile court or K-12 enrollments generally. As we discuss in detail below, many pupils in community schools have very similar characteristics to pupils generally served in school district alternative programs at a much lower cost. These observations indicate that the Type C funding level may inappropriately cause pupils to be placed in community schools.

Figure 20

**Community Schools and Related Programs
Average Daily Attendance (ADA)
1988-89 and 1993-94**

	1988-89	1993-94	Average Annual Growth
Community schools ADA	9,271	17,714	13.8%
Expelled/referred at local discretion	(1,353)	(3,883)	(23.5)
Probation referred/mandory expulsion ("Type C")	(7,918)	(13,621)	(11.5)
Homeless	—	(210)	NA
Juvenile court schools ADA	14,055	16,102	2.8
Continuation schools ADA	43,064	49,500	2.8
K-12 ADA (Proposition 98)	4,492,113	5,122,836	2.7

The variation in type of pupil and educational program funded at the Type C level makes it very difficult to characterize or summarize community school programs on a statewide level. Based on our site visits to community schools and our discussions with directors of these programs, however, it appears that community schools generally claim Type C funding for two major types of pupils: (1) juvenile offenders and pupils

under mandatory expulsion and (2) pupils who have dropped out or who are at risk of dropping out.

The first category includes pupils who are (1) wards of the juvenile court (Section 602 of the Welfare and Institutions Code [WIC]) and are actively and directly supervised in the community—in lieu of incarceration—by the county probation department, or (2) under mandatory expulsion for a serious offense (Subsections (a) and (b) of Section 48915 of the Education Code). They are considered temporarily unable to benefit from the regular or alternative instructional programs of a school district, or are deemed to require more intensive supervision than is generally available in district programs because of the risk they pose to other pupils.

The second category includes pupils who have dropped out or are deemed at risk of dropping out because of discipline problems and/or habitual truancy. Depending on local arrangements, these pupils are referred to the COEs by the county probation department as “status offenders” (Section 601 of the WIC) or as subject to “informal probation” (Section 654 of the WIC). They have not, however, committed an offense that is deemed by the county probation office to require either an appearance before a juvenile court judge or regular meetings with a probation officer. In most of the programs we observed, their contact with a probation officer was minimal or nonexistent after their initial referral.

Existing law permits COEs to claim Type C funding for pupils in the status offender or informal probation categories because of their initial referral by the county probation department. These pupils, however, do not have substantially different characteristics—at risk of dropping out because of chronic discipline or attendance problems—from those served in many school districts through opportunity or continuation programs. Pupils served in district alternative programs, however, are funded at a significantly lower level than Type C pupils. This inconsistency raises the issue of whether COEs should be able to claim the higher level of funding solely on the basis of involvement by a probation officer.

Insufficient Service Levels for Appropriately Placed Pupils. Under existing law, the minimum instructional day for community schools is four hours, about two hours shorter than the instructional day offered by most high schools. Thus, for Type C pupils, the state provides more funding per pupil, but requires less instructional time. This apparent inconsistency is at least partially explained when the higher per-pupil costs of the smaller class sizes offered by community schools are taken into account.

Another service level concern is the extent to which some community school programs serve a substantial proportion of their Type C pupils through independent study. In such cases, the state is providing the *higher* level Type C funding for *less* teacher contact time under independent study. This seems inappropriate since the discipline and attendance problems exhibited by Type C pupils appear to call for *more intensive* supervision, not less. While we understand that some flexibility to offer a community school independent study program is needed to accommodate pupils whose work and family obligations make a regular classroom schedule impractical, we believe an independent study program should be funded at the regular general-purpose funding level of the pupil's home school district, instead of the Type C level.

Type C Funding per Pupil Varies Widely Among Counties. In 1993-94, most COEs received total funding of between \$5,200 and \$5,500 per Type C pupil. One county received slightly less, and seven received up to \$2,300 per pupil more. These differences between counties are related to pre-Proposition 13 decisions about the level of local funds devoted to juvenile court schools, or—in sparsely populated counties—the number of juveniles who happened to be incarcerated at the time when the base level of per-pupil spending was determined. They bear no apparent relationship to economies of scale or program features.

District Prevention and Alternative Placement Efforts Need Improvement

During our site visits to community schools, as the similarities between some Type C pupils and pupils in less expensive district alternative placement and dropout prevention programs were identified, we began to ask why these pupils were in community schools instead of district programs. The answers we received from our visits and discussions with people in the field suggest that there are serious shortcomings in some programs operated by districts.

For example, we were told on many occasions that school districts either do not provide alternative placement programs or provide programs that are not effective. We heard from community school and school district staff that many districts do not operate opportunity programs because the level of supplemental funding is not sufficient to make them an effective tool for helping at-risk pupils. We heard from community school staff, and in one case from a representative of a large urban school district, that continuation schools are often not effective for pupils who are unsuccessful in a regular school district program. We also talked with community school pupils, who in many cases had previously attended one or more district alternative programs. We heard consistently that they were not motivated to succeed in district programs, but that staff in com-

munity schools took greater interest in them as individuals, encouraged them, and held them accountable.

Based on these observations, it appears that some school districts could be doing a better job of serving at-risk pupils. It is unfortunate that some school districts are not doing a better job, because it also appears that school district alternative programs can serve at-risk pupils more efficiently than community schools. The same level of funding currently devoted to Type C pupils in community schools could accomplish more for the same pupils in school district programs because funds would not need to be diverted to provide facilities or services already supported through categorical programs.

This cost-effectiveness argument may not apply to small school districts which may not have sufficient numbers of at-risk pupils to make a stand-alone program fiscally viable. Moreover, we recognize that some school districts may not currently consider serving these pupils a high priority. Consequently, it is important for any community school reform effort to provide flexibility for county offices to serve at-risk pupils in community schools when school district programs are not fiscally viable or continue to be ineffective.

Existing Programs and Policies Limit Local Flexibility

In our recent review of categorical education programs (*Reform of Categorical Education Programs*, April 1993), we point out that attempts by the state to encourage LEAs to achieve desirable outcomes through categorical programs, each with its own set of rules and restricted purposes, can be counterproductive. We concluded that state-imposed program rules restrict the effective implementation of programs at the local level by limiting the flexibility of school districts to craft solutions that address unique local circumstances.

This is especially true for some existing school safety categorical programs. School safety funding targeted for specific purposes may not meet all of the needs of districts because it offers little support for the unique local prevention strategies that districts may need to address their problems. In addition to conflict resolution, for example, districts may wish to implement programs that address substance abuse or reduce the availability of weapons on school campuses.

For especially dangerous or serious offenses, zero-tolerance policies may be necessary to preserve school safety. Such policies, however, can also limit local flexibility by requiring a specific disciplinary outcome (expulsion to a community school) for a specific offense. As a result, local school districts—who are responsible to local parents—lose discretion in the discipline of pupils who commit certain offenses. We believe local

discretion over disciplinary outcomes is generally desirable because special or mitigating circumstances can affect how pupils should be disciplined. In addition, individual school districts may be able to offer an alternative placement program that serves the needs of their students and the district better than a community school could.

LEGISLATIVE HISTORY OF THE GOVERNOR'S PROPOSAL

Last year, the Legislature considered a budget proposal for school safety that was very similar to the Governor's current proposal. The 1994-95 Governor's Budget also proposed a set-aside for school safety legislation, in the amount of \$20 million. The administration made its specific school safety proposals in AB 1045 (Allen). The bill originally proposed mandatory expulsions for a variety of offenses, including fighting, intoxication, and attempted robbery. It also proposed extending mandatory expulsions to pupils in grades 4-6 who were found to have committed these offenses. (Current law only permits mandatory expulsions for grades 7-12.) No final action was taken on the bill before work on the Budget Act was completed in June, and the set-aside money was appropriated for other purposes.

Legislature Took A Different Approach. In mid-August, the Legislature convened a school safety conference committee to examine a variety of proposals contained in five bills: SB 1645 (Hart), AB 1045 (Allen), AB 2728 (B. Friedman), AB 2978 (Napolitano), and AB 3114 (Murray). The conference committee approved and the Legislature passed a package of amended versions of these bills. These bills addressed some of the problems with existing school safety programs that we identified above. The amended version of AB 1045 required mandatory expulsion for (1) possessing, selling or otherwise furnishing a firearm; (2) causing harm to or threatening another person with a knife; and (3) selling a controlled substance. In the remaining legislation, the Legislature acted to:

- Preserve local discretion over discipline.
 - Give districts the flexibility to strengthen existing alternative placement and prevention programs, or create new ones.
 - Guarantee placements for all pupils under mandatory expulsion.
 - Reform community school funding by breaking the link between probation referral and Type C funding.
-

The two key bills of the school safety package (SB 1645 and AB 1045) were double joined—each required the other to be signed to take effect. The Governor signed AB 1045, but vetoed SB 1645, citing language in SB 1645 which (1) made implementation of AB 1045 and SB 1645 contingent on full funding of cost-of-living adjustments and enrollment growth for districts and county offices in 1995-96, (2) authorized two-hour-a-day independent study programs for selected expelled and probation-referred pupils rather than full-day programs, and (3) provided for an equalization mechanism for community schools that the Governor viewed as “overly generous.” Because SB 1645 was vetoed, neither bill took effect. Of the remaining legislation in the school safety package, the Governor signed AB 2728 (B. Friedman), which authorized schools to supervise suspended students in designated classrooms. This program, however, was dependent on the funding provided in SB 1645.

GOVERNOR'S NEW PROPOSAL DOES NOT ADDRESS EXISTING PROBLEMS OR LEGISLATURE'S CONCERNS

The budget proposal does not address problems with existing school safety programs or the concerns raised last year by the Legislature. Although the administration proposes to make community schools the centerpiece of its approach, details of its plan to address ongoing problems with community school funding were unavailable at the writing of this analysis. Moreover, the Governor's initiative does not significantly strengthen and improve district-based prevention and alternative placement programs. The budget proposal would limit, rather than increase, local discretion and flexibility by (1) broadening the circumstances under which districts must expel pupils, and (2) limiting placement options for pupils under mandatory expulsion.

ALTERNATIVE PROPOSAL TO ADDRESS EXISTING PROBLEMS AND LEGISLATURE'S CONCERNS

Instead of approving the Governor's school safety initiative, we recommend adoption of an approach that (1) gives local agencies significant discretion over which pupils are served, how, and in what settings, (2) provides a fiscal incentive to school districts to improve dropout prevention programs, (3) breaks the link between probation and enhanced funding for at-risk pupils, and (4) responds to the concerns raised in the Governor's SB 1645 veto message. Specifically, we recommend that the Legislature:

- Permit COEs to receive the Type C funding level only for pupils who are (1) under mandatory expulsion pursuant to state law—and for whom a district alternative placement is not available or prohibited by state law—or (2) are adjudicated wards of a juvenile court. COEs would no longer be able to claim Type C funding for other probation-referred pupils.
- Require the COEs to supervise the remaining Type C pupils for a minimum of six hours per school day, and prohibit Type C funding for community school pupils in independent study.
- Equalize Type C funding among COEs—move COEs with very high or very low levels toward the average.
- Create a Dropout Prevention/ Alternative Program item by consolidating funds from existing categorical programs for at-risk pupils, the \$10 million set-aside from the administration's school safety proposal, and funds that would no longer be required to support probation-referred pupils in community schools at the Type C level.
- Redirect \$2.3 million in augmentations for existing school safety programs to other, higher-priority uses discussed in our analysis of K-12 funding priorities.

Figure 21 (see next page) summarizes problems with existing school safety programs, as we have described them above, and shows our recommended approach to each. We discuss our recommendations in more detail below.

Restrict Type C Level of Funding to Mandatory Expulsions and Court Wards

In order to reduce the extent to which fiscal incentives inappropriately drive the placement of at-risk pupils in community schools, we recommend that the Legislature further restrict the type of pupil for whom COEs may claim the Type C level funding. Specifically, we recommend the adoption of legislation that allows COEs to claim the Type C level of funding only for pupils who are expelled by a school district as a requirement of state law or who are adjudicated wards of a juvenile court under Section 602 of the WIC. COEs, as a result, could no longer claim Type C funding for pupils under other forms of probation—about half of existing Type C pupils. We recommend that these changes be phased in over a period of three years to permit COEs to accommodate enrollment reductions with a minimum of disruption.

Figure 21	
School Safety Issues	
Summary of Legislative Analyst's Office	
Alternative Approach	
Issue	LAO Recommendations
Control community school funding	
Current system contains counterproductive fiscal incentives	Permits County Offices of Education (COEs) to receive Type C funding only for pupils who are: <ul style="list-style-type: none"> • under mandatory expulsion • adjudicated wards of a juvenile court.
Level of service too low for Type C pupils	Requires COEs to supervise Type C pupils for a minimum of six hours per day. Prohibits Type C funding for pupils in independent study.
Type C funding per pupil varies widely among counties	Reduces per-pupil funding over a three-year period in counties where it is highest.
Improve district programs	
Alternative placement and prevention programs in some districts are not effective.	Improves districts' ability to respond effectively by directing additional resources to programs for at-risk pupils <ul style="list-style-type: none"> • \$10 million from Governor's initiative • \$15 million from community schools.
Expand local flexibility	
Disjointed programs and policies limit districts' flexibility.	Increases district flexibility by consolidating funding of programs for at-risk pupils. Districts could: <ul style="list-style-type: none"> • serve pupils in an appropriate district program • reimburse COEs for the cost of serving them in a community school, or • intervene before an alternative placement becomes necessary.

As described below, we recommend that COEs still be permitted to serve "status offenders" or pupils under informal probation in a community school setting. Under our recommendation, however, services for these pupils in a COE setting would no longer be directly funded by the state, but would be supported through reimbursement of the COEs by the pupils' home districts on a contract basis.

Increase Level of Supervision For Remaining Type C Pupils

Under our proposal, community schools could continue to claim the Type C level of funding only for those pupils that have proven by their conduct in the school and community that they cannot be successful without considerable adult supervision. Thus we recommend that community schools be required to provide direct, on-site supervision of these pupils no less than 6 hours per day (2 hours longer than the current community school minimum day). We recommend that the COEs be given significant flexibility in determining the structure of the six hours to meet the specific needs of students and community.

We also recommend, based on our conversations with program managers in the field, that the Legislature continue to allow community schools to offer independent study programs where a student's employment or family circumstances do not permit attendance at a regular school day. Community schools, however, should not be permitted to claim the Type C revenue limit for pupils in independent study, because the reduced workload associated with these pupils does not justify the higher level of funding. For community school pupils in independent study, we recommend that the COEs be permitted to claim the level of general-purpose funding per pupil that would have been generated in the pupil's home district.

Reduce Type C Funding Variations

We recommend that the Type C revenue limit—to the extent that it continues to be used as a community school funding mechanism—be equalized over a three-year period. We suggest that, after that period, no COE receive a Type C revenue limit outside of an inflation adjusted range of \$5,200 to \$5,500—the range in which most counties' average Type C revenue limit currently falls. Moreover, we suggest that the Type C COLA be calculated in the same manner as school district revenue limit COLAs. This would result in a gradual narrowing of the range of Type C revenue limits around the statewide average.

Consolidate Funding of Programs for At-Risk Pupils

In order to give school districts incentives to improve programs for at-risk pupils, and to ensure that probation-referred pupils currently served in community schools are served either by their district or a COE, we recommend that the Legislature:

- Give the district of residence the option of (1) serving these pupils in an appropriate district program or (2) reimbursing COEs for the cost of serving them in a community school.
- Redirect the funds no longer required to support the Type C revenue limit and the \$10 million from the Governor's school safety proposal into a consolidated categorical program that will give districts more incentive and flexibility to address school safety issues and improve programs for pupils who are at risk of dropping out of high school or middle school.

In our analysis of the categorical program mega-item, we recommend that the Legislature create a single item consisting of five programs that serve at-risk pupils—continuation schools, opportunity programs, SB 65 dropout prevention programs, GRIP, and the School/Law Enforcement Partnership program—in order to give school districts more flexibility in serving these pupils. The funds no longer allocated to COEs through the Type C mechanism and the \$10 million from the administration's school safety set-aside would be appropriate additions to the mini-item.

In total, about \$67 million would be available for appropriation in this item in 1995-96, assuming a three-year phase-in of funds redirected from the COEs. We also recommend that districts be given substantial flexibility to redirect funds among the continuation school, opportunity, and SB 65, GRIP and Partnership programs. Finally, we also suggest that the funds redirected from the COEs and the administration's school safety proposal be allocated to districts to either (1) expand existing programs, (2) set up new programs for at-risk pupils, or (3) pay for pupil placement at COE community schools.

Redirect \$2.3 Million in Augmentations for Existing School Safety Programs

We recommend that the Legislature reject the administration's proposals to expand selected categorical school safety programs because the proposals would exacerbate problems we have identified with school districts' current lack of flexibility. We believe that the prevention needs intended to be served by the administration's proposed augmentations for the School/Law Enforcement Partnership Program and the GRIP would be met instead in a more comprehensive manner by our proposal to establish a Dropout Prevention/Alternative Program mini-item. This funding should therefore be redirected to other K-12 priorities.

CONCLUSION

The Governor's school safety initiatives fall significantly short of the comprehensive, reform-oriented approach to school safety taken last year by the Legislature. Our recommended approach attempts to address significant problems in existing school safety programs by giving districts the increased flexibility and resources necessary to improve their school safety and dropout prevention efforts.

GENERAL-PURPOSE FUNDING

Budget Funds Enrollment Growth, Partial COLA

The budget proposes to fund enrollment growth and a 2.2 percent COLA for school district and county office of education general-purpose spending.

General-purpose funding is the largest single source of revenue for school districts and county offices of education (jointly referred to as local education agencies or LEAs). These funds can be used by LEAs at their discretion with few restrictions. In contrast, LEAs must spend categorical program funds for the specific purposes of the state programs under which they are awarded. As shown in Figure 22, the budget proposes \$17.6 billion for general-purpose spending in 1995-96, including \$17.3 billion for school districts, and \$371.3 million for county offices of education. This is about three-fourths of the \$23 billion in total Proposition 98 funding proposed to support both general-purpose spending and categorical programs.

General-purpose funding is provided primarily through the revenue limit system. In this system, LEAs 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. State funding makes up the difference between each LEA's property tax revenues and its revenue limit. Each district has one general-purpose revenue limit. County offices of education may have several different revenue limits, each for a different program.

In crafting the 1994 Budget Act, the Legislature let revenue limit funding be determined according to statutory formulas subject to a provision that suspends the statutory cost-of-living adjustment (COLA) for 1994-95 but requires a full statutory COLA for 1995-96. Intent language in the 1994 education trailer bill—Ch 153/94 (AB 2480, Vasconcellos)—permits the Legislature to provide less-than-a-full COLA in 1995-96 if providing a full COLA would require the Legislature to (1) provide funds in excess of the Proposition 98 minimum guarantee or (2) reduce funding for categorical programs below 1994-95 levels.

School Districts. Figure 22 shows the budget estimate of required general-purpose funding for school districts in 1994-95 and the budget proposal for 1995-96. The revised estimate of total spending for 1994-95

is \$99.1 million less than the Budget Act estimate, due to slower-than-expected enrollment growth. However, the administration also estimates that school district property tax revenues will be \$306.1 million less than the Budget Act estimate. To maintain the required amount of spending, the budget reflects an increase of \$207 million in General Fund support. This increase will occur automatically as a result of statutory provisions that control revenue limit funding.

Figure 22

**K-12 General-Purpose Funding
School Districts and County Offices of Education
1994-95 and 1995-96**

(Dollars in Millions)

	1994-95 Final Budget	1994-95 Revised	1995-96	Change From 1994-95 Revised
School districts				
Revenue-limit funding	\$16,255.5	\$16,156.4	\$16,994.3	\$837.9
State appropriations	(7,813.2)	(8,020.2)	(8,625.0)	(604.9)
Local and other revenues	(8,442.3)	(8,136.2)	(8,369.3)	(233.1)
Supplemental grant roll-in	178.9	178.9	131.4	-47.5
Summer school/apprenticeships	145.3	145.3	150.9	5.6
Subtotals, school district funding	(\$16,579.6)	(\$16,480.5)	(\$17,276.6)	(\$796.1)
K-12 ADA (district apportionments)	5,215,683	5,178,483	5,313,083	134,600
General-purpose spending per ADA	\$3,179	\$3,182	\$3,252	\$69
County offices of education				
Revenue-limit funding	\$350.5	\$331.9	\$358.0	\$26.1
State appropriations	(122.2)	(111.8)	(131.9)	(20.1)
Local revenues	(228.3)	(220.1)	(226.1)	(6.1)
Safe schools initiative	—	—	10.0	10.0
Fiscal oversight (AB 1200 and AB 1708)	2.8	2.8	3.3	0.5
Subtotals, county office funding	(\$353.3)	(\$334.7)	(\$371.3)	(\$36.6)
Totals	\$16,933.0	\$16,815.2	\$17,647.9	\$832.7

Figure 22 shows that the budget proposes to provide \$17.3 billion in total school district general-purpose funding in 1995-96. This is an increase of \$796.1 million above the level of funding proposed for 1994-95. This increase consists of \$467 million in statutory enrollment growth and spending changes, \$377 million for a 2.2 percent COLA (a full COLA would be 3.35 percent, or about \$570 million), and a \$47.5 million reduc-

tion to reflect funding changes that result from rolling supplemental grant funds into revenue limits and categorical programs. The budget supports general-purpose funding of \$3,252 per pupil in 1995-96, \$69 per pupil above the level proposed for 1994-95.

County Offices of Education. Figure 22 also shows the budget estimate of required general-purpose funding for county offices of education in 1994-95 and 1995-96. The budget estimate of required spending for 1994-95 is \$18.6 million less than the Budget Act estimate. The budget, however, reflects a \$10.4 million reduction in General Fund support for the county offices, because a property tax revenue shortfall of \$8.2 million must be backfilled. This reduction will occur automatically as a result of statutory provisions that control revenue limit spending.

Figure 22 also shows that the budget proposes to provide \$371.3 million to support county office general-purpose spending in 1995-96. This is an increase of \$36.6 million from the revised 1994-95 estimate. Of this increase, \$17.1 million is necessary to fund statutory growth and \$9 million is necessary to fund a 2.2 percent COLA (a full COLA would be 3.35 percent, or about \$14 million). The remaining \$10.5 million is proposed to fund:

- The administration's school safety proposal—\$10 million. The administration advises that this represents the half-year cost of supporting increased enrollment in juvenile court and community schools that would result from its proposal.
- County office fiscal oversight—\$0.5 million. The budget proposes to increase support of statutorily required efforts by county offices to ensure that school districts operate in a fiscally responsible manner.

We discuss these proposals in greater detail later in the *Analysis*.

Time to Re-Bench the Statutory Calculation of Revenue Limit Funding

We recommend that (1) the Legislature establish actual funded 1995-96 revenue limits as the basis for statutory calculations of future revenue limit entitlements, and (2) the SDE report at budget hearings on the specific statutory changes necessary to accomplish this.

In current practice, the SDE calculates district and county office revenue limits—the total amount of general-purpose revenue to which an LEA is entitled—in a two-step process. First, it calculates revenue limit entitlements based on statutory formulas. The revenue limits calculated in this first step add up to a significantly larger amount of funding than

is actually available for general-purpose spending. This is because the formulas calculate revenue limits as if a full statutory COLA were provided in each prior fiscal year, even though the state last provided funding for a full statutory COLA in 1989-90. In a second step, the SDE reduces each revenue limit by the percentage necessary to accommodate available funding. The gap between statutory and actual funding is often referred to as “the deficit.” The DOF estimates that the 1995-96 gap for school districts will be 12 percent or about \$2.4 billion. The gap for county offices is estimated to be about 13 percent, or about \$57 million.

Deficit Unlikely to Be Backfilled. In past years, the SDE has reported the revenue limit deficit to (1) remind policymakers that K-12 general-purpose funding falls short of the statutory standard, and (2) argue for favorable budget treatment on that basis. In our view, however, the reporting of this gap no longer serves any useful purpose as a budgetary benchmark. The size of the gap has simply grown beyond any reasonable level that the state can backfill. Our analysis of projected state revenue growth for the period 1995-96 through 1998-99, assuming that the Governor’s proposed tax cut is implemented, indicates that the Proposition 98 minimum funding guarantee is likely to provide barely enough to fund annual enrollment growth and COLA. Even without the tax cut, growth of per-pupil spending funded by the Proposition 98 minimum spending requirement would not exceed inflation by much. Consequently, it appears highly unlikely that the Proposition 98 guarantee will generate sufficient support to fund current service levels, inflation, and backfill \$2.4 billion in unfunded prior-year COLAs. We believe that it would be more productive for the Legislature to view any future K-12 funding in excess of growth and COLA as an opportunity to fund program improvement and reform.

Deficit Unnecessarily Complicates Budgeting. Moreover, keeping two sets of numbers for revenue limits unnecessarily complicates the technical aspects of K-12 general-purpose budgeting. As illustrated below, it has turned what should be a relatively simple budgetary procedure—rolling supplemental grant program funds into district revenue limits—into a task that cannot be accomplished without either penalizing the districts involved, or resorting to artificial manipulation of funding amounts. The budget trailer bill for education now includes several technical sections that define what funding is and is not subject to being reduced by the revenue limit. These sections must be included to guide budgeting every year in which a deficit factor is applied.

In order to address these problems, we recommend that the Education Code be amended so that an LEA’s actual funded base revenue limit for 1995-96—as opposed to its “undeficited” statutory revenue

limit—becomes the basis for statutory calculation of future revenue limits. This action would have the effect of conforming statutory revenue limit funding to actual revenue limit funding for 1995-96. It would eliminate the statutory basis for accumulation of a revenue limit deficit over the period 1989-90 through 1995-96, but still provide for statutory COLAs in future years. Moreover, we recommend that the SDE report at budget hearings on the specific statutory changes that would be necessary to accomplish this.

Revenue Limit Deficit Reduces Supplemental Grant Roll-In

We recommend legislative action to prevent application of the revenue limit deficit to supplemental grant funds. In order to treat all supplemental grant districts in the same way, adoption of this recommendation would reallocate \$19.5 million of Proposition 98 funding to general-purpose spending.

The budget proposes a \$16.2 million reduction in funding for school districts that elected to add their supplemental grant program funds to their revenue limit. From 1989-90 through 1992-93, the supplemental grant program provided additional revenues for districts that had below-average revenue per pupil from general-purpose funding and certain categorical programs.

The 1992 education trailer bill—Ch 703/92, (SB 766)—ended supplemental grants as a separate program. Recipient districts were directed to add their supplemental grant allocation either to their base revenue limit (thereby increasing their general-purpose funding) or to their support of certain categorical programs. Of the \$178.9 million in total supplemental grant funding, districts have elected to use \$31.3 million for increased funding of categorical programs. For various reasons, legislation subsequent to Chapter 703 has delayed until 1995-96 the addition of the remaining \$147.6 million to revenue limits.

The budget proposes to add this \$147.6 million to revenue limits, then apply the statutory COLA (which increases the amount by \$5 million) and apply the revenue limit deficit factor (which reduces the total by \$21.2 million). As a result, the amount of revenue limit funding that affected districts will actually receive is \$131.4 million, a reduction of \$16.2 million from their 1994-95 level of spending.

This outcome, while technically consistent with existing law, treats districts that add supplemental grant funding to their revenue limit differently from those that add funding to categorical programs. The latter maintain the same level of funding from year to year, while the former experience reduced funding.

Application of the revenue limit deficit to the supplemental grant funds might make sense if there were a reasonable possibility that funding would eventually be available to restore the deficit—in that case, supplemental grant districts would eventually get their money back. As indicated in our discussion of re-benching revenue limits, however, we believe that restoration of the deficit is highly unlikely. Thus, the deficit-related reduction of the supplemental grant roll-in probably would represent a permanent loss of funding to affected districts. We do not believe that the Legislature intended to permanently reduce funding for these districts.

In order to avoid this loss, we recommend that the revenue limits of the affected districts be adjusted so that their revenue limit spending is increased in 1995-96 by \$147.6 million plus whatever COLA the Legislature decides to fund. If the Legislature were to fund the proposed 2.2 percent COLA, the appropriate amount would be \$150.9 million—a General Fund increase of \$19.5 million compared to the Governor's general-purpose spending proposal. The Legislature could accomplish the necessary adjustment in one of three ways (each of which would require budget trailer bill action):

- Eliminate the revenue limit deficit by designating revenue limits funded in 1995-96 as the new base for statutory calculation of revenue limit funding.
- Deem the amount of the supplemental grant roll-in to be \$163.5 million. The amount of funding *actually received* by districts after application of statutory COLA and deficit would be \$150.9 million. These amounts could be adjusted to be consistent with whatever COLA the Legislature actually funds.
- Increase total general-purpose spending for affected districts by \$150.9 million without rolling the increase into base revenue limits, which are subject to statutory adjustments for growth and COLA and the revenue limit deficit.

We recommend the first approach, not only because it treats all supplemental grant districts the same way, but for other reasons described in our discussion of re-benching revenue limits to 1995-96 actual spending. If the Legislature does not choose to re-bench revenue limit calculations, we recommend the second approach. It avoids a funding loss for affected districts, and, consistent with Legislative intent expressed in last year's budget hearings, allows the amount added to general-purpose spending to be automatically appropriated and adjusted in 1996-97 and subsequent years according to statutory formulas. The third approach is the least desirable. Contrary to legislative intent, funding in 1996-97 and subsequent years would have to be appropriated annually in the Budget Act.

DESEGREGATION

The Governor's Budget proposes \$505.1 million in General Fund support for school desegregation costs in 1995-96, a decrease of 6.6 percent from the current year. This funding includes \$415.4 million for court-ordered programs, and \$89.7 million for voluntary programs. The Governor's Budget reflects reductions of \$5.9 million in funding for prior-year deficiencies and \$30 million for current-year costs related to the settlement of a court case involving the Long Beach voluntary desegregation program.

REVIEW OF DESEGREGATION PROGRAMS

Our review of the state's desegregation programs indicates that there are several steps the Legislature can take to improve their effectiveness. We recommend that the Legislature (1) require reports on program outcomes and (2) direct the SDE and Department of Finance (DOF) to review new program funding requests.

In this section, we provide background on the court-ordered and voluntary desegregation programs, discuss programmatic and fiscal problems, and recommend actions the Legislature can take to improve the programs.

Background on the Programs

The state reimburses school districts for the costs of both court-ordered and voluntary school desegregation programs. Reimbursements are funded from the General Fund based on claims filed by school districts operating school desegregation programs. Historically, state law has specified claims reimbursement procedures and limits for school districts. More recently, state law has also limited the state's overall fiscal liability for desegregation programs. For court-ordered programs, districts receive reimbursement for 100 percent of base year costs, and 80 percent of the costs of program expansion. Districts that operate voluntary desegregation programs receive reimbursement for 80 percent of base year costs, but nothing for program expansion. Current law entitles districts to funding adjustments for both programs based on the cost of living and enrollment growth.

In recent years, ongoing state funding for desegregation programs has been part of the categorical program "mega-item." As a result, the programs' overall funding levels have been subject to statutory provisions specifying that the state's fiscal liability for mega-item programs is limited to the amount appropriated in the annual Budget Act.

Thirteen districts received funding for court-ordered desegregation programs in 1994-95, and 46 received funding for voluntary desegregation programs. Despite the greater number of districts that receive money for voluntary programs, most of the money for desegregation is spent on court-ordered programs. For 1994-95, the budget provides \$418.9 million for court-ordered programs, and \$122.1 million for voluntary programs, for a combined total of \$541 million.

The State Funding Process

State law requires school districts to file a desegregation plan with the Superintendent of Public Instruction and the State Controller's Office (SCO) prior to receiving reimbursement. Districts have great flexibility in developing their plans, as there are no official requirements or guidelines. They can, however, request technical assistance from the State Department of Education (SDE) or from the two federal desegregation assistance offices in California.

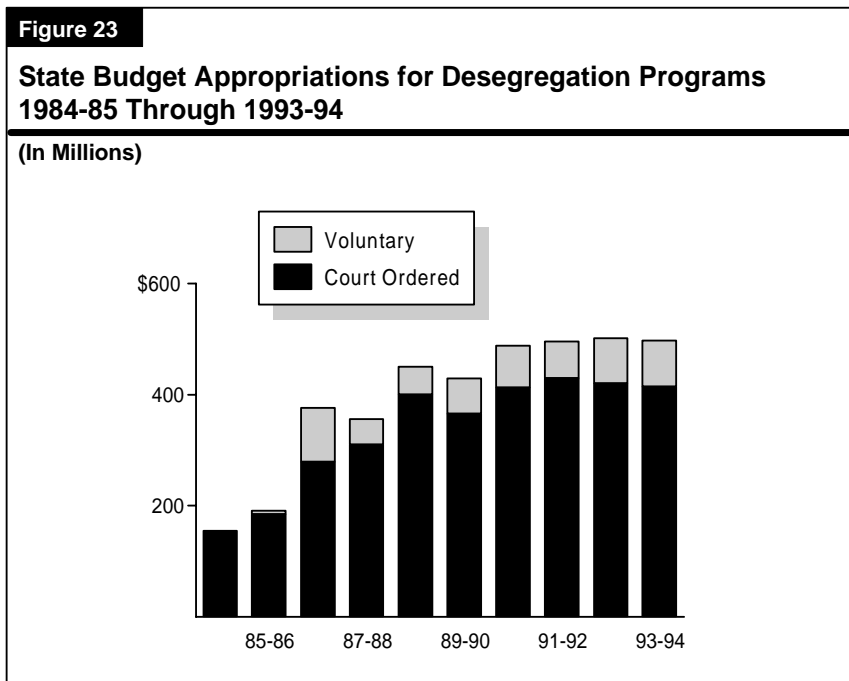
Districts with desegregation programs submit reimbursement claims to the SCO annually. The SCO is responsible for determining whether the costs claimed for reimbursement (1) are for purposes of desegregation or alleviation of the harmful effects of racial segregation, (2) exceed the district's expenditure levels of regular educational programs, and (3) are excessive or unreasonable. Additionally, expenditures for voluntary programs are limited to (1) voluntary pupil assignment or reassignment, (2) magnet schools, (3) pupil transportation, and (4) racially isolated minority school programs. We refer later to these restrictions as the SCO's "audit criteria."

Funding History

Figure 23 (see next page) shows state desegregation program funding levels over the past decade.

Overall funding for desegregation rose rapidly during the 1980s, primarily because of the growth in court-ordered program spending. Court-ordered desegregation funding grew at an average annual rate of 20 percent between 1984-85 and 1989-90. In comparison, funding for general-purpose revenue limits over this same period grew at an average annual rate of 7.1 percent. Much of the growth in desegregation funding was a result of the state's obligation to fund 80 percent of program expan-

sion costs for court-ordered programs. Since 1991-92, however, spending has actually declined. This is mainly because of the recent statutory limits placed on the state's fiscal liability for programs budgeted through the categorical "mega-item," discussed earlier. This has resulted in a difference between the total costs incurred by districts for these programs and the funding provided by the state. This amount has been growing, as shown in Figure 24.



The variety of unique desegregation strategies undertaken by districts has resulted in significant differences in program costs across the state. For voluntary programs, total 1992-93 costs reported by some larger districts we reviewed varied from \$30 to \$170 per average daily attendance (ADA). The variation in per-ADA costs in court-ordered districts was even greater—from \$150 to over \$800.

History of Legislative Action

A decade ago, the Legislature enacted Ch 180/85 (AB 38, Vasconcellos) to minimize large desegregation cost increases. That statute limited state reimbursement of court-ordered program expansion costs to 80 percent. It was generally expected that the 20 percent local share would provide a fiscal incentive for districts to limit program growth. However, overall costs

continued to grow rapidly in the 1980s (see Figure 23). As we indicated in our *Analysis of the 1988-89 Budget Bill*, the 20 percent local share does not appear to sufficiently limit program growth. This is because the state contribution to court-ordered program expansion costs (80 percent) still permits districts to afford large program expansions with a minimal commitment of local resources.

Figure 24

**Claims and Funding for
Desegregation Programs
1991-92 Through 1993-94^a**

(In Millions)

	1991-92	1992-93	1993-94
Court-Ordered Programs			
Funding ^b	\$428.9	\$420.3	\$414.7
Claims ^c	430.2	447.2	458.6
Difference	-\$1.3	-\$26.8	-\$44.0
Voluntary Programs			
Funding ^b	\$66.8	\$82.0	\$82.4
Claims ^c	69.6	78.8	89.3
Difference	-\$2.8	\$3.1	-\$6.9
Combined Programs			
Funding ^b	\$495.6	\$502.3	\$497.1
Claims ^c	499.7	526.0	547.9
Difference	-\$4.1	-\$23.7	-\$50.9

^a Detail may not add to totals due to rounding.
^b Includes funding in the Budget Act and subsequent budget adjustments.
^c Includes some estimated costs. Total actual costs may differ.

In 1991, the SDE submitted a report to the Legislature on desegregation funding options, as required by the *Supplemental Report to the 1990 Budget Act*. The report stated that the "state has never articulated desegregation goals. There is no uniform definition of what it means to be segregated, or desegregated." The SDE also found that desegregation "appears to have become a court of last (fiscal) resort for some districts to obtain compensatory education and transportation funding." The report's major recommendations included that the Legislature (1) consider restricting reimbursement to specific interventions and strategies and (2) express its intent regarding the use of specific desegregation strategies in order to guide the courts in fashioning future court orders and consent decrees.

While the Legislature did not take action to address the SDE's specific recommendations, it did enact additional cost control measures in Ch 66/93 (SB 399, Hart). Chapter 66 strengthened auditing requirements by requiring districts to submit audits of actual program costs to the SCO with their claims. The statute also prohibited desegregation reimbursement for school construction and the lease or purchase of land or facilities.

Concerns with State Desegregation Programs

We have identified several program oversight and fiscal issues which have been ongoing problems with the state's desegregation programs.

No Outcome Measures. Current law specifies that costs will be reimbursed only if they are for (1) desegregation, or (2) alleviation of the harmful effects of racial segregation. This has generally been understood to mean that the goals of desegregation programs are to (1) physically integrate students from various racial and ethnic groups and (2) improve the educational quality of schools serving students who have been or are segregated in order to improve the students' achievement levels. The state does not, however, have a way to tell in a reliable and accurate manner whether districts have succeeded in meeting the goals.

Although the SDE and SCO have available various programmatic and cost information for desegregation programs, the desegregation program audit criteria (listed earlier) do not assess the outcomes of district programs, and there is no state monitoring process for this purpose. Some district programs—particularly court-ordered programs—have an assessment or monitoring component, but the results generated from such activities are not collected or reviewed at the state level. As a result, there is little information available that links each district's program and cost information with its outcomes in the areas of student integration and achievement.

Future Potential Cost Growth. Since the creation of the categorical programs mega-item in 1992, desegregation cost growth has slowed. Currently, total funding for desegregation is limited through the mega-item, but this may be only a temporary cost control solution. In the event the statutory mega-item spending limit is eliminated, desegregation costs—and the state's funding obligation—could grow rapidly again.

Limited State Oversight. In addition to the concerns identified above, the two state agencies with oversight responsibilities for California's school desegregation programs, the SCO and the SDE, have limited authority to oversee and influence the direction of the programs. Practically, the SCO, which reviews district audits and pays desegregation reimbursement claims, has most of the authority for the programs. However, SCO oversight is limited to accounting for district desegregation cost claims, which limits its ability to evaluate the effectiveness of desegregation programs.

Other than providing technical assistance to some programs, the SDE has little or no active involvement in nearly all of the state's desegregation programs. This is because most of the SDE's funding for administration of desegregation programs comes from federal funds, and the USDE does not permit the use of these funds for program review or evaluation. (The SDE is actively involved in the court-ordered program in San Francisco, where it is a named party to the case.)

The SDE's limited involvement is largely a result of the repeal of various desegregation regulations in 1991. These regulations, intended by the State Board of Education to serve as guidelines for districts in their desegregation programs, were determined to be a reimbursable state mandate in a 1990 decision by the state Court of Appeal. The board repealed the regulations in order to avoid the costs associated with this mandate, and in doing so, reduced the role of the SDE in the state's desegregation programs to activities (primarily technical assistance) supported by federal funding or ordered by the courts.

Policy Recommendations

Our review of the state's desegregation programs indicates that there are several steps the Legislature can take to improve their effectiveness. Below, we recommend that the Legislature require: (1) districts to provide additional information on program outcomes, and (2) the SDE and DOF to review requests for new funding of programs before they are considered through the legislative budget process.

Require Reports on Program Outcomes. We believe that the state needs better information on the outcomes of district desegregation programs. We therefore recommend the Legislature adopt Budget Bill language requiring districts to periodically submit to the SDE specific outcome information on their programs, including the following:

- The programmatic strategies being used and related costs.
-

- The racial and ethnic distribution of students at each school funded with desegregation funds and how these have changed over time.
- Indicators of student achievement over time at each of these schools.
- The extent to which the district is meeting other specific goals articulated in the district's plan, court order, or consent decree.
- A determination, to the extent possible, of the direct effect of the district's desegregation programs on integration and student achievement.

Districts could seek funding for the costs of these reports as part of their desegregation reimbursement claims. We further recommend the Legislature direct the SDE to summarize information from the district outcome reports in a periodic report to the Legislature on the state's progress in desegregation.

Establish a Review Process to Limit Potential Cost Growth. Funding for the costs of new voluntary desegregation programs and for the expansion of court-ordered programs beyond current services should not be automatic. For the Legislature to exert greater control over the funding of desegregation programs, there should be a review process that evaluates the overall worthiness of new expenditures (as indicated by information on outcome measures) before they are funded. We therefore recommend that the Legislature adopt Budget Bill language requiring such requests to be reviewed and approved by the SDE and the DOF before they are considered through the legislative budget process.

Improve State Oversight. The current lack of statewide assessment of the effectiveness of desegregation programs has seriously hindered the Legislature's oversight ability on half a billion dollars of annual state funding. We recommended above two specific ways in which state oversight can be improved through (1) outcome measure summaries and (2) cost increase reviews. We will provide suggested Budget Bill language prior to legislative budget hearings.

In our review of other areas of K-12 program administration (such as Healthy Start), we have made recommendations that would potentially free up resources to assist the SDE in implementing the recommendations we make on desegregation programs.

CALIFORNIA'S ASSESSMENT PROGRAM

The Governor's Budget proposes to increase the state's assessment program by \$7.7 million in 1995-96. This is an increase of 123 percent from the current year amount of \$6.3 million. The increase is the result of three changes: (1) \$725,000 to increase support for the Golden State examinations, (2) \$1 million to develop a new statewide performance assessment program to replace the California Learning Assessment System (CLAS) and, (3) \$6 million as the first-year cost of a new program to provide incentive payments to school districts to encourage annual testing of students in grades 2 through 12. In this section, we discuss the Legislature's options in acting on these proposals.

Governor Vetoes CLAS Extension Bill

In 1991, Chapter 760 (SB 662, Hart) authorized the CLAS testing program. The CLAS tests differed from its predecessor—the California Assessment Program (CAP)—in two ways. The CLAS tests were intended to use performance testing, where tests measure student ability to accomplish a task, rather than answer multiple-choice questions. Second, the CLAS tests were designed to provide individual student scores—rather than school-level scores—in mathematics, reading, writing, science and social science in three grade levels (primarily grades 4, 8 and 10). The 1994-95 Governor's Budget proposed to spend \$33.7 million for the development and operation of the CLAS test and other examinations.

During the spring of 1994, CLAS became the center of two controversies. One focused on the propriety of the test questions used in the reading and writing portion of the tests. In some communities, parents objected to the personal nature of some of the questions.

The second controversy centered on the ability of the test to provide reliable student scores. The performance-based design of CLAS means that students often write short essays as responses, rather than pick from four possible answers, as in multiple choice tests. Scoring essays consistently for all students is difficult. Due to concern about this problem, a panel of statisticians reviewed the CLAS results and determined that the scoring was not sufficiently consistent to permit reliable individual scores. The school-level scores were judged to be reliable.

By the end of 1994-95, the state Department of Education had developed the reading, writing and mathematics examinations at all three grade levels. The tests were at different stages of implementation, however. The department was field testing the science and social science exams, which were not expected to be given to students statewide until 1995-96.

In July 1994, the Governor vetoed \$24 million that was included in the 1994 Budget Act for the CLAS test. In September, the Governor also vetoed SB 1273 (Hart), which would have extended the CLAS testing program for five years and provided funding needed to continue the program in 1994-95. In his veto message, the Governor reiterated his desire to have state performance tests provide reliable student scores. Senate Bill 1273 would have required SDE to calculate reliable school-level scores with the goal of developing reliable student scores by 1999.

With the Governor's veto, the SDE's CLAS activities did not completely end, however. During the spring of 1994, many thousands of students took the CLAS exams and the department scored the tests during 1994-95. Once the department completes its activities related to these tests, its existing CLAS duties will be concluded.

Other assessment activities are continuing. One component of the state's testing program is the Golden State examinations. These tests are designed and administered by SDE to serve as end-of course examinations. Students receive special recognition for exemplary performance on these tests. Currently, these tests are offered in seven subjects, including algebra, U.S. history, economics, and chemistry.

New Statewide Assessment Test to Replace CLAS

The Governor's Budget proposes to (1) terminate the CLAS program in favor of a new testing program that would generate school-level scores on performance exams in grades 4, 8, and 10 and (2) establish a new local testing incentive program to provide individual student scores in virtually all grades.

The 1995-96 budget proposes to replace the CLAS tests with a new testing program that would (1) result in school-level test scores for grades 4, 8 and 10 in the same five subject areas as were covered in the existing tests and (2) provide incentive funds (roughly \$5 per student) to districts that annually tested all students in grades 2 through 12.

To begin this new program, the budget proposes to set aside \$7 million for the first-year costs of the program. Of this amount, \$1 million would pay for the cost of hiring private testing companies to write new performance tests and the remaining \$6 million would be distributed to districts

that participated in the incentive program. These funds would be appropriated in legislation authorizing the new testing program. Below, we discuss these proposals in more detail.

New Performance Tests. The budget proposes to use the \$1 million in state funds to contract with a private testing firm to develop the performance-based exams that would generate school-level scores in grades 4, 8, and 10. In many ways, the new tests would be similar to the existing tests. For instance, both tests would:

- Provide school-level scores to help parents and other community members understand how their school compares with other similar schools across the state.
- Cover the same grades and the same subject areas.
- Score students based on a standard of what students should know. This is different from most commercial tests, which report each student's score relative to how a national sample of students scored.
- Use performance testing, where students must respond at length to test questions, rather than answer multiple choice questions.

Local Testing Incentive Program. The \$6 million in local incentive funding proposed in the 1995-96 budget would subsidize testing in grades 4, 7, and 10. The DOF advises that this program is designed to ensure that parents and teachers have annual student-specific testing information available to judge the academic progress of their children. Under the proposal, the program would be expanded to additional grades in future budgets until incentive funds are available for all students in grades 2 through 12.

To qualify for the incentive funding, school districts would be required to test all students with a commercially available test. The administration's proposal also would require these tests to be aligned with the state frameworks in the subject areas tested.

ASSESSMENT PROPOSAL RAISES SIGNIFICANT ISSUES

We recommend the Legislature reject the \$7.7 million proposed increase for the state assessment program. We further recommend the Legislature use \$1 million in unspent federal Goals 2000 funds to support the start-up costs for whatever statewide comparison assessment program the Legislature chooses.

At the time this analysis was prepared, the administration's proposal was still under development. While the broad outlines of the proposal were available, many details were not—such as a description of how the program would work, how the statewide comparison tests would be coordinated with the commercial tests of the incentive program, and the planned implementation timelines. In addition, the DOF could not provide us with any justification for the proposed costs of the statewide test.

Even though important details of the testing program are not available, sufficient information is available to understand the broad framework of the administration's proposal. The proposal raises significant policy questions about (1) what should be done with the CLAS tests and (2) the state's role in requiring testing of students. In addition, the proposal also raises fiscal concerns that we believe the Legislature should address. Below, we discuss these fiscal and policy issues.

Should CLAS Be Salvaged?

The 1995-96 Governor's Budget requests the Legislature to set aside \$1 million for the development costs of a new statewide assessment test that would permit comparison of student achievement among schools in California. According to DOF, these funds are intended to pay for the full cost of developing the new assessment. Despite the fact that the new tests would be essentially identical to the existing tests, the administration's proposal would not incorporate any of the CLAS tests in the new assessment. Instead, the CLAS exams would be set aside as “flawed” and entirely new tests would be developed. We have two concerns with this proposal.

Other Options Are Available. There are other options available that we think the Legislature should consider. There is no analytical reason, for instance, that the existing tests cannot be revised to make them acceptable as the statewide assessment that provides school-level scores. Most of the concerns about the propriety of CLAS questions revolved around a few of the English-language tests. The SDE, however, has written new English-language questions to replace the controversial elements of the previous tests.

The rest of the assessments—the writing, mathematics, science and social science exams—were not a source of concern. In addition, the department has also developed a Spanish version of the 4th-grade exam that provides results that are consistent with the English language CLAS test. The department estimates it would take about \$1 million in local assistance funds and two years to get the existing test (with a rewritten reading and writing component) ready for statewide implementation.

Alternatively, commercial tests containing performance elements also are currently available. These tests could be adopted with little development costs. Over the long-term, scoring and other costs would probably be similar to that of a state test. These tests would have some drawbacks, however. Unlike the state tests, almost no commercial tests grade student achievement based on standards of what students should know. Instead, they rank student achievement compared with a national sample of student work. In addition, commercial exams test a narrower range of subject area content than the state tests.

Costs Could Be Much Higher. Our second concern is that the \$1 million estimate proposed in the budget to create all new state assessments appears optimistic. Based on past test development costs, we think the actual development costs of the proposed test could be closer to \$3 million to \$5 million and could take two to three years to develop. Until the details of the administration's plan are known, we cannot estimate with any accuracy the size of development costs. Even if the costs are higher than \$1 million, however, the development costs probably would not be so large that it should be the determining factor as to which option the Legislature chooses.

The Legislature is faced with several options as it decides how to revive the state's assessment program. From an analytical perspective, there is no reason why the CLAS tests could not be revised to serve as the statewide assessment used to develop school-level performance information. Alternatively, the mathematics, science, and social science tests could be saved and new reading and writing tests developed by an outside contractor.

In short, there are several ways the substantial state investment in the tests could be salvaged. The question the Legislature needs to answer is: Is the state's test so flawed in the minds of the public that a thorough review of the test by a group of parents and educators could not assure the public that the test questions were fair and appropriate? There is no analytical way to address to this question. The issue will be resolved as legislation is discussed in the committees of the Legislature.

Goals 2000 Funds Should Support Assessment Costs. Additional funding will be needed to restart the state's assessment program—no matter which option the Legislature chooses. While the state General Fund has supported past assessment development and operational costs, the new federal Goals 2000: Educate America Act makes funds available to support a variety of activities, including state assessment. In 1994-95, California received \$5.9 million in Goals 2000 funding for state implementation activities. An additional \$3.6 million will be available in 1995-96.

Goals 2000 is an appropriate source of funding for assessment development costs because state performance assessments is an integral part of the federal program's design. Goals 2000 requires participating states to set student achievement goals in certain subject areas and then develop state assessments that measure whether students are meeting the state goals. State funding made available under Goals 2000 is intended to provide support for activities like assessment development.

In addition, there will be a substantial carryover of Goals 2000 state funding from 1994-95 that could be used to support the \$1 million in assessment costs requested in the budget. This carryover of federal funds could reach \$2 million to \$3 million depending on how quickly 1994-95 program implementation activities get underway.

By using the carryover funds to pay for the costs of developing a statewide assessment program, the Legislature can make \$1 million in General Fund support available for its other priorities. Therefore, we recommend the Legislature reject the use of General Fund monies for this purpose and add \$1 million in federal funds and Budget Bill language to Item 6110-001-890, earmarking Goals 2000 funds for the 1995-96 costs of developing a statewide assessment.

Incentive Program Not Justified

The budget proposes to spend \$6 million for the first-year costs of a testing incentive program. The funds would provide districts with about \$5 for each student that is tested each year. The administration intends to expand the program in future years to reach all students in grades 2 through 12. If all districts responded to the incentives, about 4.4 million students would be tested each year at a state cost of \$21 million.

The state role in testing has traditionally furthered two state policy interests. First, both the CLAS tests and the CAP tests were designed to provide school-level comparison data on student performance. With this information, parents and community members could compare with a statewide standard the success of local schools in educating their children.

Second, both state testing programs attempted to improve curriculum and instruction. The CAP tests provided extensive feedback to schools and teachers on specific areas of student performance. Mathematics scores, for example, would indicate how students fared in eight skill areas such as algebra, measurement, and problem solving. The CLAS tests were based on the state frameworks as a way to encourage teachers to design course curricula on the frameworks.

Student-Specific Data Not Essential. For these two state interests—school comparison data and improving curriculum and instruction, it is desirable—but not essential—to generate reliable student scores. While there are reasons to seek student scores (it gives students an incentive to do well on the tests and the scores can be useful to teachers and parents as another source of information on their children's progress in school), a statewide assessment score is probably less important to teachers and parents than other sources of feedback. This is because it is to be conducted only three times in a student's career. Consequently, it does not provide a history of each student's performance that can be tracked over time. Without a more complete history, it is difficult to determine, for instance, whether an individual student's poor performance on a test one year was due to poor instruction or because the student just had a bad day.

Proposal Would Create A New State Role. According to DOF, the budget proposal seeks to encourage districts to test students as a way of providing additional information on achievement to teachers and parents. In California, school testing policy and communicating with parents traditionally have been determined locally. Districts set policies regarding report cards, parent/teacher conferences, and district-wide testing.

Thus, the administration's testing proposal would establish a new role for the state: influencing the way districts communicate with parents. The administration, however, could supply no evidence that districts are doing an inadequate job of communicating with parents. As a result, we are not sure the proposal addresses a demonstrated need.

We also question whether the proposed incentives would result in districts testing a large number of additional students, for two reasons. First, more than half of all students are already tested with commercial exams each year. A 1993 SDE survey of major testing companies showed that 2.7 million students were tested during 1992-93— 55 percent of the students in grades 1 through 12. As a result, the incentive program could spend substantial funds to pay districts to continue existing testing practices.

Second, the administration could provide no evidence that the proposed subsidies would significantly influence the testing practices of districts that do not currently purchase commercial tests to measure student achievement. For districts that would like to use performance-based tests for instance, the \$5 per-student incentive would cover about half of the district's testing costs. As a result, the proposed incentives may not be large enough to change district testing policies.

Districts may also have other ways of assessing student work, and these districts may resist changing local assessment practices simply to qualify for incentive funding. Some districts have developed their own tests, for example. In fact, the state encouraged the development of local tests through the Alternative Assessment Pilot Project, which expired in July 1994. Other districts may prefer to use other forms of assessment, such as "portfolio" assessment, to measure student progress. As a consequence, the incentive program may not alter district decisions to use other forms of student assessment besides commercial tests.

Based on available information, we conclude that the testing incentive program does not appear to address a problem so critical that state intervention is warranted. In addition, because many districts already conduct the testing desired by the incentive program, it seems likely the proposal could prove expensive in terms of dollars for each additional student tested. For these reasons, we recommend the Legislature reject the proposed incentive program.

Deny Golden State Expansion Funds

The third element of the assessment budget proposal is \$725,000 to expand the Golden State Examination (GSE) program. The GSE offers to districts end-of-course tests in key high school subject areas to establish a standard of excellence and identify students who demonstrate exemplary achievement. Districts receive these tests free of charge.

The \$725,000 is proposed to implement two new exams and to expand the work on vocational course exams. We think the Legislature should delete the additional funding for two reasons. First, while we support the objectives of the program, there is not sufficient funding in our alternative plan for K-12 priorities in 1995-96 to fund this augmentation.

Second, the department could generate additional financial support for the proposed new activities by charging districts for part of the cost of administering the tests. Commercially available performance tests cost \$8 per student or more. Based on past district usage, the SDE could ask districts to pay a \$2 per student fee and collect \$700,000 for program expansion. The tests would still represent a bargain for participating districts.

For these reasons, we recommend deletion of the funds.

CHILD DEVELOPMENT

The 1995-96 Governor's Budget proposes \$452.5 million from the General Fund for child development programs. This represents an increase of \$20.2 million from the current-year level of funding for the program. The increase is the result of (1) a \$20 million half-year increase in state preschool programs and (2) a \$224,000 baseline adjustment. The budget also shows \$10 million in expenditures from state carryover funds in 1995-96.

STATE AND FEDERAL CARRYOVER FUNDS

In addition to new state and federal funding that is proposed to support child development programs in 1995-96, the budget also proposes to spend \$37 million in state and federal child care funds that have been carried over from previous years. Of this amount \$27 million is in unspent federal Child Development Block Grant funds and \$10 million is in General Fund carryover funds.

Federal Carryover Funds. In our analysis of the 1994-95 proposed budget, we identified about \$85 million in federal child development funds that would be carried over into the 1994-95 fiscal year. These funds had not been included in the proposed budget and the SDE had no plan for the expenditure of these monies.

The 1994 Budget Act included a plan to spend these funds over a three-year period for a variety of child development activities. The expenditure plan is displayed in Figure 25 (see next page). Under the federal law, funds are divided into two groups. Twenty-five percent of the funds (known as "25 percent" funds) are available for a wide range of activities including support for center-based child care and support for training and other quality improvement programs. The remaining 75 percent of the money must be used in support of voucher-based care. In California, the 75 percent funds are spent through the Alternative Payment program, which distributes the vouchers to low-income families. These families may then choose a child care provider from among those that are available in the community.

General Fund Carryover. State law also permits the SDE to carry over General Fund child development funds. According to the department, funds that are allocated for child care services may go unspent for a number of reasons—child care slots may go unfilled or certain costs may be disallowed by auditors, for instance. Section 8278 of the Education

Code permits the SDE to carry over General Fund support for child development activities for two years. Funds carried over may be respent on child development activities based on specific priorities described in statute.

Figure 25			
Three-Year Plan for the Use of Federal Child Care Carryover Funds 1994-95 Through 1996-97			
(In Millions)			
	1994-95	1995-96	1996-97
75 percent funds			
Increased Alternative Payment program services	\$26.0	\$22.1	\$18.1
25 percent funds			
Increased center-based services	2.9	2.9	2.9
Automation projects	2.0	2.0	1.0
Other	6.1	—	—
Totals	\$37.0	\$27.0	\$22.0

Carryover Language Weakens Legislative Control

We recommend the Legislature eliminate statutory authority that permits the SDE to carry over unspent General Fund child care funds for a two-year period.

The 1994 Budget Act assumed that \$7.5 million in state carryover funds would be available during the current year. In December, the department notified the Legislature that it would have an additional \$8 million in General Fund carryover to spend, for a total of \$15.5 million in 1994-95. The proposed 1995-96 budget estimates \$10 million in carryover funds will be available in 1995-96.

The proposed Budget Bill also contains language that would require the SDE to obtain approval from the DOF of an expenditure plan before state carryover funds could be spent in 1995-96. The language would not give the Legislature any opportunity for review and approval.

We believe the SDE's statutory authority to carry over funds results in inadequate legislative control over the use of unspent child care funds, for two reasons.

Lower-Priority Activities Funded. First, the statute restricts the use of the unspent funds to child development activities, which means that the monies cannot be spent in other education areas, which may be of higher priority. For instance, the SDE plan for the use of the 1994-95 carryover funds allocated \$3.4 million for one-time grants for the repair and renovation of nonprofit child care centers. The department could not provide data demonstrating the need for these funds or that the \$3.4 million was the amount required to meet local needs. By comparison, during deliberations on the 1994 Budget Act, the Legislature had included \$29.5 million in the K-12 budget for an augmentation to the deferred maintenance program for K-12 facilities. The need for additional deferred maintenance in schools is clear: districts estimate a \$2.5 billion backlog of deferred maintenance projects in school facilities. In addition, the deferred maintenance program requires that districts match state funding, thereby ensuring that funding supports high priority local projects.

During 1994 budget hearings, it was clear that the deferred maintenance augmentation was a legislative priority while the facility repair needs of child care centers were not discussed. Ultimately, because of budget constraints, the Legislature deleted the deferred maintenance augmentation from the budget. As a result of the statutory carryover language, however, the lower-priority child care grants will be funded while the high priority K-12 deferred maintenance needs will not.

If the carryover funds were treated like all other K-12 Proposition 98 expenditures, unspent child development allocations would revert to the General Fund to be available for other Proposition 98 purposes. The funds would then have to be appropriated in the budget or in another bill, thereby giving the Legislature an opportunity to determine the best use of the monies. This would allow the funds to be used to support *any* education activity, including child development.

SDE Reverses Legislative Decisions. In addition, the statutory authority gives the SDE undue budget flexibility. In some cases, the department has used this flexibility to circumvent the budget process or reverse explicit decisions made by the Legislature. The department's use of carryover funds in 1994-95 illustrates these problems:

- **SDE Initiated Ongoing New Programs Without the Legislature's Approval.** The SDE plan allocated \$400,000 to provide half-year funding for equalizing support among Resource and Referral agencies. This proposal was never discussed in budget hearings, yet the annual cost of this action if continued in 1995-96 is \$800,000. Thus, the statutory carryover authority gives the department the ability to start new programs without the Legislature's input. By this action, the SDE places the Legislature in a difficult

position when considering whether to fund this program in the budget year.

- ***SDE Altered a Legislatively Approved Budget Plan.*** The department used \$1 million in state carryover funds to replace \$1 million in federal carryover funds that the Legislature included in the 1994 Budget Act for quality improvement activities. By this action, the department freed-up federal funds that can be used for a broad array of child development activities in the current or future years. As a result, The SDE's action overruled a decision about the use of the federal funds that was made by the Legislature and instead, placed decision making authority over the use of these federal funds within The SDE. This provides The SDE undue budget flexibility. The Legislature sets its priorities in the budget process by the appropriation of funds for specific purposes. The statutory flexibility to carry over child care funds, however, permits The SDE to thwart the Legislature's intentions.

The Budget Bill proposal requiring The SDE to obtain DOF approval on an expenditure plan for the use of the funds does not go far enough. The proposal: (1) would not give the Legislature an opportunity to approve the expenditure plan and (2) limits the use of the funds to child development. We think broader flexibility is needed. Therefore, we recommend the Legislature eliminate the statutory carryover authority and, instead, appropriate the funds annually in the budget as it does with other K-12 funds that have reverted. As an alternative to a statutory change, the budget subcommittees could include a reversion item in the budget so that unspent funds return to the General Fund and are available in 1995-96 for any Proposition 98 activity.

Appropriate Prior-Year Funds

We recommend the Legislature appropriate \$10 million (General Fund) in prior-year funds that will revert if the statutory child development carryover language is deleted. We recommend the Legislature appropriate (1) \$2.6 million for one-time administrative costs to the Alternative Payment program and (2) \$7.4 million to provide additional support for deferred maintenance.

If the statutory carryover provision is eliminated, an estimated \$10 million in carryover funds will revert on July 1, 1995. These funds would be available for any K-12 purpose. We recommend the Legislature appropriate these funds as follows:

- \$2.6 million for administrative costs needed to spend federal funds that were transferred to the Department of Social Services (DSS) but were not spent. Without this augmentation of state funds, more than \$17 million in federal block grant funds can not be spent. This one-time expenditure is included as part of the Governor's Budget.
- \$7.4 million to increase the amount available for deferred maintenance. As we discuss in our K-12 Priorities section (see above), deferred maintenance is a program where the Legislature can spend one-time funds to meet severe local needs for additional funding.

Three-Year Carryover Plan in Jeopardy

We recommend the state Department of Education provide by April 1, 1995, specific information to the budget subcommittees on the status of the three-year plan for the use of federal child care carryover funds. We further recommend the department submit to the fiscal committees its proposal for revising the plan in line with the amount of funding expected to be available during the next two years.

The Governor's Budget for 1995-96 proposes an expenditure of federal carryover funds that is consistent with the second year of the three-year plan. Specifically, \$26.9 million is proposed as follows: (1) \$22.1 million is proposed to supplement the funding available for services under the Alternative Payment program, (2) \$2.9 million is requested to increase support for preschool and other center-based services and (3) \$2 million is included for the second-year costs of two proposed automation projects.

Insufficient 25 Percent Carryover. Our analysis of The SDE federal fund expenditures indicates that sufficient "25 percent" funds no longer exist to support the full three-year plan. The three-year plan calls for spending \$8.7 million in 25 percent funds in the next two years (\$4.9 million in 1995-96 and and \$3.9 million in 1996-97). The department's expenditure data, however, shows a total of \$4.7 million in carryover is available at the end of 1994-95, or \$4 million less than needed for the second and third year of the plan. Our review of this data shows that the department's expenditure of 25 percent funds in 1993-94 was far greater than anticipated when the plan for the use of carryover funds was under discussion. The department could not explain why 1993-94 expenditures were so high.

Other major changes to the spending plan occurred since the enactment of the 1994 Budget Act. First, The SDE withdrew its proposed plan for the automation of local child care programs, which had been under review by the state Office of Information Technology. The SDE indicated

it would be unlikely that any revised automation design would be available during 1994-95. In addition, The SDE could not advise us on its longer-term plan for this project. If the department decides not to go forward with this proposal in the future, \$1.5 million of the \$2 million set aside for automation in the 1994-95 plan would be available in 1995-96. The remaining \$3 million in automation expenditures planned for 1995-96 and 1996-97 also would become available (for a total of \$4.5 million over the two years).

Second, The SDE replaced \$1 million in federal carryover funds that were included as part of the planned 1994-95 expenditures with state carryover funds. Depending on whether The SDE redirects these freed-up federal funds for other activities in 1994-95, these funds also could be available to fund the three-year plan in 1995-96 and 1996-97. The department could not advise us on how these federal funds would be used.

Depending on the outcome of these two issues, The SDE may have up to \$5.5 million (\$2.5 million in 1994-95 and \$3 million in the subsequent two fiscal years) in available 25 percent funds. By redirecting these monies, the department could still support the activities contained in the three-year plan.

Unfortunately, additional information from The SDE is needed before we are able to recommend a course of action to the Legislature. Specifically, The SDE should advise the Legislature about: (1) why 1993-94 expenditures of 25 percent funds were so much higher than expected and whether some of those funds will become available later in the year, (2) future funding needs for the automation of local child care programs, and (3) its plan for the use of the \$1 million in federal funds freed-up as a result of using state carryover funds instead.

The Legislature needs to know the department's proposal in these areas in order to make an informed decision about the use of federal carryover funds in 1995-96. For this reason, we recommend the department provide to the subcommittees by April 1, 1995, the information described above. We also recommend the department advise the budget subcommittees of its revised proposal for the use of carryover funds that is consistent with the amount available during the next two fiscal years.

Additional Federal Funds May Be Available

We recommend the Legislature use any increase in the federal 25 percent portion of the state's federal Child Development Block Grant to help fund the three-year plan.

The three-year plan for the use of federal carryover funds assumed that federal funding would increase over time. As funding increased, the plan assumed that this new funding would replace activities supported by the one-time monies. In this way, activities supported by the one-time carryover funds would become part of the ongoing base budget, thereby minimizing service disruptions when the carryover funds are exhausted.

The 1995-96 budget proposes \$100.8 million in new federal child care funding, the same level as in 1994-95. According to The SDE, state allocations for 1995-96 have not been determined by the federal government. Based on the national appropriation for this program, however, California's federal allocation could increase by as much as \$4 million in 1995-96. This would increase the amount of 25 percent funds available by up to \$1 million.

These additional new funds could be used to increase support for the 1995-96 portion of the three-year plan. This would have two benefits. First, it would augment the amount available for the plan, which as we discussed above, appears to be in jeopardy due to insufficient funding. Second, it would incorporate into the base budget \$1 million of the ongoing services that are called for in the plan.

In our discussions with the department, The SDE was uncertain whether the state's allocation of federal funds would be known in time for budget deliberations. Therefore, we recommend the addition of Budget Bill language in Item 6110-101-890 requiring the department to use any increase in the 25 percent portion of the federal grant to support the 1995-96 portion of the three-year plan.

TECHNICAL ISSUE

Reimbursements Are Not Needed

We recommend reducing reimbursements from DSS by \$30 million for the federal "at-risk" child care program because the department will not claim the funds.

The department receives funding from DSS under the federal Title IV-A "At-Risk" child care program. Under this program, child care providers identify individuals who are on Aid to Families with Dependent Children (AFDC) or likely to go on AFDC. If the individuals are found eligible

under federal law, the state can claim federal funding for up to 50 percent of the person's child care cost. The budget proposes reimbursements of \$38.4 million in federal funds for this program.

The budget proposal greatly overstates the likely amount of reimbursements that The SDE will receive in 1995-96. In 1993-94, The SDE received \$4.1 million in federal funds through the DSS. Based on preliminary information, we estimate The SDE will receive about \$5 million in 1994-95. The department is taking steps to increase the amount of claiming in 1994-95, however, so The SDE expects the budget year figure to be somewhat higher.

To revise the The SDE budget to reflect what the department needs in reimbursement authority in 1995-96, we recommend a reduction of \$30 million from Item 6100-101-890. This would provide The SDE with \$8.4 million in reimbursement authority, which is sufficient to meet anticipated claims for federal funds in the budget year.

OTHER ISSUES

Volunteer Mentor Program

We recommend the Legislature delete \$5 million from the General Fund (non-Proposition 98) proposed for the Volunteer Mentor Program because it duplicates a new federal program with similar objectives. (Eliminate Item 0558-101-001.)

The Governor's Budget proposes \$5 million from the General Fund (non-Proposition 98) to implement the Volunteer Mentor Program, which was established by Ch 901/92 (SB 1114, Leonard). This program, to be administered by the Governor's Office of Child Development and Education (OCDE), is designed to fund local projects to recruit, screen, train, and place volunteers who want to act as mentors to children.

The administration also requested funding in the Governor's Budget in 1993-94 and 1994-95 to implement this program. The Legislature deleted the funds in both fiscal years, however, due to ongoing budget constraints.

Our review indicates that new funding has been granted to the state for the federal government's national service initiative, which has objectives similar to the Volunteer Mentor Program. Specifically, the federal AmeriCorps program is providing approximately \$13 million to the state in the current year for a variety of community service projects. At least \$9 million of this funding is for projects that have youth mentoring components. The Governor's Budget anticipates the state will receive a similar amount for the AmeriCorps program in the budget year.

Given the General Fund constraints facing the Legislature in the budget year, and the availability of new federal funding granted to the state for community service projects employing mentors, we believe there are higher-priority uses of \$5 million General Fund support than establishing the Volunteer Mentor Program. We therefore recommend deletion of this funding item.

Legislative Oversight: AmeriCorps

The federal government is providing the state approximately \$13 million in the budget year for the AmeriCorps program, part of the President's national service initiative. We recommend that the California Commission on Improving Life Through Service (CCLITS) report at budget hearings on its plans for the next federal funding cycle.

The AmeriCorps program was created by legislation signed by President Clinton in September 1993. The program allows individuals to earn money for their education in exchange for community service. AmeriCorps participants may earn, in addition to a living allowance, up to \$4,725 for the costs of post-secondary education. Funding is administered by the federal AmeriCorps corporation in formula and competitive grants to states, federal agencies, and national organizations. Approximately \$13 million in funding has been made available to the state in the current year, and the Governor's Budget anticipates a similar funding level in 1995-96.

The AmeriCorps program requires the state to establish a commission to (1) develop a state plan, (2) review and submit local funding proposals to the AmeriCorps corporation, and (3) oversee programs which are approved for funding. The Governor created the California Commission on Improving Life Through Service (CCILTS) in 1994 for this purpose. The CCILTS—whose members are appointed by the Governor—identified four general priorities for community service projects in the state plan: Education, Public Safety, Human Needs, and the Environment.

The grant money awarded by the AmeriCorps corporation supports primarily the costs of local agencies and organizations which provide community service opportunities to AmeriCorps participants. Agencies and organizations eligible to operate AmeriCorps programs include: nonprofit organizations, government entities, Indian tribes, higher education institutions, local school and police districts, and partnerships among any of the above. Agencies and organizations must provide matching funds for some of the program costs. The 23 programs funded in 1994-95 are implementing community service projects involving hundreds of AmeriCorps participants in a wide variety of activities across the state, including tutoring and mentoring for at-risk youth, environmental protection, delivery of basic health services, and school violence prevention.

Legislative Oversight Issues. We have not identified any serious concerns with the CCLITS spending plans. Generally, the projects appear to be worthwhile and the proposals are consistent with federal law.

We are concerned, however, with the lack of legislative involvement in the establishment of the commission and its earlier decisions. For example, the Legislature has had no role in reviewing the state plan or the Request for Proposals (RFP). This is not due to lack of interest; in fact, the Legislature has passed three bills in attempting to establish policies related to implementation of the national service program: AB 606 (Solis), AB 2080 (Vasconcellos), and AB 1104 (Archie-Hudson). Each of these bills was vetoed.

Given these concerns, we recommend that the commission report at budget hearings on its plans regarding the next federal funding cycle. This would assure that the Legislature has the opportunity to influence the decisions of the commission. Specifically, we recommend that the commission provide the following information at budget hearings:

- The draft RFP for the next funding cycle.
- Any proposed changes to the state plan.
- The number of sites that have applied for funding in the 1995-96 fiscal year.
- Information on AmeriCorps grant recipients in the current fiscal year, including the number of participants and the number of clients.

PERS Benefits Mandate Costs Overbudgeted

We recommend adoption of a technical budgeting action that would make available \$1.4 million in Proposition 98 funds to meet the Legislature's priorities in 1995-96. (Reduce Item 6110-295-001 by \$1.4 million.)

The Governor's Budget proposes \$2.9 million in Item 6110-295-001 to reimburse school districts for state mandated PERS benefits costs during the budget year. Our review indicates that the statute that created this mandate (Ch 1036/79, Sieroty) will expire January 1, 1996, but the budgeted amount is for the entire fiscal year. We estimate that the proposed reimbursement level for PERS benefits costs is therefore overbudgeted by \$1.4 million. This funding is no longer needed because the employer PERS contributions required by the statute have been fully funded. To make these funds available for other priorities, we recommend a reduction of \$1.4 million in Proposition 98 PERS benefits mandate costs.

School Crime Report

We withhold recommendation on \$800,000 proposed for the school crime report pending receipt of information on how long it would take the State Department of Education to resume administration of this program, and the associated costs.

For 1995-96, the Governor's Budget proposes \$800,000 in General Fund support (Proposition 98) for the costs of (1) school crime data collection and processing, and (2) continued development of an automated reporting system. This is roughly the same amount of funding provided for these activities in the current year. The budget also proposes \$929,000 for district costs of reporting the school crime data in 1995-96.

Chapter 1607, Statutes of 1984 (AB 2483, Stirling), and subsequent amendments require (1) school districts to submit reports of crimes on school campuses to the state and (2) the State Department of Education (SDE) to annually compile school district crime statistics and distribute them to local education agencies and other organizations.

In the past, the SDE experienced a number of difficulties in meeting this requirement. For example, districts used different definitions of crime categories and different data collection procedures, resulting in disparities in statistics for the same types of crime. Problems with compiling accurate and meaningful school crime statistics led the SDE in 1990 to suspend the program's operation. Districts were still required by the state mandate to collect this information, however.

In the 1994-95 Budget Act, the Legislature made the school crime reporting mandate optional for one year so that the report could be revised. The Legislature redirected \$799,500 of the estimated 1994-95 costs of the mandate to a contract with a county office of education to revise the report and also provided \$100,000 to the SDE to study the feasibility of an automated reporting system.

The Butte County Office of Education (BCOE), which was awarded the contract for revising the school crime report, has developed a new manual data reporting system. This system will be used beginning July 1, 1995, when the school crime reporting mandate is scheduled to be reactivated and schools will again be required to send data to the state.

The Legislature Intended Funding to be Temporary. In the past, the SDE had performed the data collection, processing, and distribution tasks required for the school crime report. The Governor's Budget, however, assumes that the BCOE will perform these tasks on an ongoing basis as a part of its contract. We believe the Legislature anticipated that these tasks would be resumed by the SDE after the report had been revised.

Language in the 1994 Budget Act made clear the Legislature's intention that the funding was to improve the report and not to support the ongoing functions of the program.

We have two major concerns regarding the BCOE's role in administering the school crime report. First, we believe that it will probably cost the state more to have the BCOE perform the data collection and processing tasks rather than the SDE. This is because supporting the program at the BCOE would likely require new expenditures for personnel and computers, which the SDE already has. Second, the BCOE would be performing essentially a state function in managing the program, which does not appear to be what the Legislature intended.

At present, however, it is unclear how soon the SDE could resume full support of the program. Recently, the SDE indicated that it would need as much as a year to prepare for the data collection and processing tasks necessary for the school crime report. Last fall, however, the SDE submitted a budget proposal to the administration outlining how it could resume these tasks sooner—by early 1996.

It is also unclear how much General Fund support (non-Proposition 98) SDE would need to operate the program, were it to resume the school crime report function. Currently available information does not provide sufficient detail on the one-time and annual costs of state management of the program.

We believe the Legislature needs additional information to decide (1) whether management of the school crimes reporting program should be returned to the SDE and (2) how much funding should be provided for the program. We have requested information from the SDE and the BCOE regarding:

- The estimated time needed to resume state responsibility for the school crime report, using the revised manual reporting system developed by the BCOE.
- The estimated time needed to develop and implement an automated reporting system at the state level.
- The estimated costs for these activities.

We withhold recommendation on the \$800,000 proposed for the school crime report pending receipt of this information.

Legislature Needs Plan For Federal Funds

We recommend the Department of Education submit to the Legislature a plan for the use of new federal funds under the Goals 2000: Educate America Act (Goals 2000) and Elementary and Secondary Education: Improving America's Schools Act (ESEA).

Recent federal education legislation has increased federal education funding to California and made significant changes to the structure of federal programs. Specifically:

- Goals 2000 will provide \$36.3 million in new funding for a variety of state and local activities. The act seeks "systemic" reform of the K-12 education system by (1) requiring states to establish specific goals for student learning and ways to measure whether that learning is taking place and (2) providing funds to local educational agencies to develop plans for meeting the state student achievement goals. The funding will provide \$3.6 million in support for state activities and \$32.7 million for local grants. In addition to the 1995-96 funds, we expect from \$2 to \$3 million of 1994-95 funds to carry over into the budget year and be available for expenditure.
- The reauthorization of the ESEA resulted in a new program structure and additional funds for some activities. For instance, California is expecting to receive an additional \$12.7 million in staff development funds in 1995-96, a 27 percent increase over current-year funding. In addition, ESEA now will provide California with a \$5.4 million allocation for state technical assistance activities. As part of a new ESEA program, California also will receive \$4.9 million for education technology activities.

These expenditures have not been included in the Governor's Budget for 1995-96. The Legislature needs to understand the department's proposal for the use of these funds. The new programs contain significant new funding and pose important policy issues for the state. For these reasons, we recommend the SDE report to the fiscal committees by April 1 its proposed expenditure plan for the use of funding provided as part of these new federal programs.

Federal Funds May Be Available

We recommend the department report to the budget committees by April 1, 1995 on (1) the extent to which adult education programs serve individuals who may be eligible for federal funding under the Greater Avenues for Independence (GAIN) or Non-GAIN Employment and Training (NET) program and (2) the additional costs resulting from claiming federal funds for services to these individuals.

As part of the Aid to Families with Dependent Children (AFDC) program, adults may participate in the GAIN or NET programs to acquire academic or occupational skills as a means of improving their chances of getting a job. School district administered adult education programs provide basic skills, English as a second language, and vocational education to GAIN and NET participants. (For more information about the GAIN program, please see our discussion in Section C of this *Analysis*).

These services are funded in two ways. First, districts support GAIN clients the same way as any other adult education student—with funding from each district's basic adult education grant (100 percent Proposition 98 General Fund support). To the extent that these funds cover a district's costs of serving GAIN and NET participants, no other funding is provided by the state.

Second, if the district exhausts its funding under the basic grant, SDE provides additional funding to adult education programs for services to GAIN participants—services that are supported by Proposition 98 funds (50 percent) and federal GAIN funds (50 percent). The budget proposes to spend \$17.5 million (\$8.7 million in Proposition 98 funds, matched with a like amount of federal funds), for additional GAIN and NET services in 1995-96.

Our analysis indicates that the state could claim additional federal matching funds for services provided to GAIN and NET participants by adult education programs. These additional federal funds could then be used to expand education and training services for AFDC recipients or to free-up General Fund monies that could be used for any Proposition 98 activity.

In our discussions with SDE on this issue, the department could not provide any data on the number of GAIN or NET clients who are served as part of an adult education program's basic grant. Without this information, we are unable to advise the Legislature of (1) the amount of federal funds that could be matched through K-12 adult education programs and (2) whether the cost of identifying and tracking services

provided by adult education to eligible individuals outweighs the likely additional funding that these activities would generate.

Therefore, to inform the Legislature about the costs and benefits of pursuing additional federal matching funds, we recommend SDE report to the Legislature by April 1, 1995, (1) an estimate of the amount of services that are provided to GAIN or NET participants by K-12 programs for which no matching federal funds are claimed and (2) the cost associated with identifying and tracking eligible individuals needed to claim the federal funds.

LIST OF FINDINGS AND RECOMMENDATIONS

Analysis
Page

Proposition 98 Issues

1. **Proposed Tax Cut Would Reduce Proposition 98 Funding.** E-18
The 1995-96 budget proposes a tax cut that would reduce Proposition 98 funding by \$136 million in the budget year. Over the long-term, the tax reduction would lower average annual increase in Proposition 98 funding to below the projected inflation rate.

K–12 Budget Priorities

2. **Fund Continuing Program Costs.** Recommend redirecting \$19.5 million to restore the full amount of supplemental grant funds to district revenue limits. Recommend approval of \$3.5 million for a new voluntary desegregation program. E-22
 3. **Pay Program Deficiencies and Other Funding Commitments.** Recommend the Legislature approve \$591 million for various program deficiencies, the settlement in the Long Beach court case, and prior-year loan repayments. E-23
 4. **Increase the COLA.** Recommend redirecting \$93 million to augment funding for the K–14 cost-of-living adjustment proposed in the Governor's Budget. This would result in a 2.55 percent COLA to school districts, county offices of education, community colleges, and for selected categorical programs. E-24
 5. **Support Reform Efforts.** Recommend the Legislature redirect \$36.9 million to high-priority K–12 reform efforts in the areas of special education, school-to-work, teacher recruit-
-

	Analysis Page
ment, and school safety.	
6. Reject Most Policy Initiatives. Recommend the Legislature delete \$133.9 million in policy initiatives proposed in the Governor's Budget and redirect these funds to higher-priority K-12 programs, as discussed above.	E-28
7. Minimize One-Time Funding for COLA. Recommend the Legislature use any additional Proposition 98 funds that may be available for 1995-96 to (1) reduce the use of one-time funds for the COLA and (2) increase support for the K-14 COLA.	E-32

Mega-Item

8. Mega-Item Needs Restructuring. Recommend the Legislature break the mega-item into four smaller items to better control LEA use of funding flexibility provided in the budget bill. Recommend the Legislature statutorily create block grants to replace three of these "mini-items" on a permanent basis.	E-38
---	------

Special Education

9. New Funding Model for Special Education. Recommend that the Legislature use the final report from the Legislative Analyst's Office, Department of Finance (DOF) and state Department of Education (SDE) as a basis for enacting a new funding model for special education finance in the coming year. Recommend that \$20 million be set aside, above the amount proposed in the budget for special education, for possible allocation to the lowest-funded SELPAs to allow for the earliest possible phase-in of the new funding model.	E-50
10. SDE Legal Actions on Nonpublic School Budget Cap. Withhold recommendation on General Fund support for the SDE legal office pending information from the Attorney General and Legislative Counsel on SDE's handling of special education litigation.	E-51

- | | Analysis
Page |
|--|--------------------------|
| 11. Additional Information Needed on Augmentation for the Infant and Toddler Program. Withhold recommendation on \$2.1 augmentation request, pending additional information from the DOF. | E-52 |

School Safety

- | | |
|---|------|
| 12. Reform School-Safety Policies and Programs. Recommend the Legislature reject the administration's proposals to create and expand various school safety programs. Recommend instead that the Legislature enact comprehensive reform of the state's school safety programs to increase local flexibility and improve system performance. | E-54 |
|---|------|

General-Purpose Funding

- | | |
|---|------|
| 13. Update Revenue Limit Calculations. Recommend the Legislature establish actual funded 1995-96 revenue limits as the basis for statutory calculations of future revenue limit entitlements | E-72 |
| 14. Restore the Supplemental Grant Roll-In. Recommend legislation to prevent the application of the revenue limit deficit to supplemental grant funds that are added to district base revenue limits in 1995-96. | E-74 |

Desegregation

- | | |
|--|------|
| 15. Stronger State Oversight of Desegregation Programs Needed. Recommend that the Legislature (1) require reports on district program outcomes and (2) direct the SDE and DOF to review new program funding requests. | E-76 |
|--|------|

California's Assessment Program

- | | |
|--|------|
| 16. Assessment Proposal Falls Short. Recommend the Legislature reject the \$7.7 million proposed increase for the state | E-85 |
|--|------|
-

assessment program. Recommend the Legislature use \$1 million in unspent federal funds to support the start-up costs of a statewide assessment program.

**Analysis
Page**

Child Development

- | | |
|---|------|
| 17. Carryover Language Weakens Legislative Control. Recommend the Legislature eliminate statutory authority that permits SDE to carry over unspent General Fund child care funds without legislative review. | E-92 |
| 18. Appropriate Prior-Year Funds. We recommend the Legislature appropriate the \$10 million in funds that would revert if the statutory carryover language is eliminated for (1) one-time administrative costs to the Alternative Payment program (\$2.6 million) and (2) increase support for deferred maintenance (\$7.4 million). | E-94 |
| 19. Federal Carryover Plan in Jeopardy. Recommend the SDE report to the budget committees on (1) the status of the three-year plan for the use of federal carryover funds and (2) a revised plan that is consistent with the amount of carryover funds SDE expects to be available during the next two years. | E-95 |
| 20. Additional Funds May Be Available. Recommend the Legislature add Budget Bill language requiring SDE to use any increase in the 25 percent portion of the federal child care grant to support the three-year carryover plan. | E-97 |
| 21. Reduce Reimbursements. Recommend reducing reimbursements from the Department of Social Services by \$30 million to reflect the actual amount of funding the SDE expects to receive in 1995-96. | E-98 |

Other Issues

- | | |
|--|------|
| 22. Volunteer Mentor. Eliminate Item 0558-101-001. Recommend the Legislature delete \$5 million from the General Fund (non-Proposition 98) proposed for the Volunteer | E-99 |
|--|------|
-

	Analysis Page
Mentor Program because it duplicates a new federal program with similar objectives.	
22. Federal Funding for National Service. Recommend that the California Commission on Improving Life Through Service (CCLITS) report at budget hearings on its plans for the next federal funding cycle for the AmeriCorps program.	E-100
23. Technical Budgeting Issue. Reduce Item 6110-295-001 by \$1.4 million. Recommend correcting a technical budgeting error, which would make available \$1.4 million in Proposition 98 funds to meet the Legislature's priorities in 1995–96.	E-101
24. School Crime Report. Withhold recommendation on \$800,000 pending receipt of information on the timing and costs associated with SDE resuming administration of this program.	E-102
25. Plan for Federal Funds Needed. Recommend the state Department of Education (SDE) submit to the Legislature a plan for the use of new federal funds under the Goals 2000: Educate America Act and the Elementary and Secondary Education: Improving America's Schools Act.	E-104
26. Federal Funds May Be Available. Recommend the SDE provide to the budget committees information needed to determine whether the state is maximizing federal funding for adult education services under the Greater Avenues for Independence (GAIN) program.	E-105
