

DEPARTMENT OF EDUCATION

Item 6100 from the General

Fund and various funds

Budget p. E 1

Requested 1987-88	\$13,291,941,000
Estimated 1986-87	13,033,103,000
Actual 1985-86	12,216,246,000
Requested increase (excluding amount for salary increases) \$258,838,000 (+2.0 percent)	
Total recommended reduction	\$62,656,000
Recommendation pending	\$710,849,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6100-001-001—Main support	General	\$37,867,000
6100-001-178—School bus driver instruction	Driver Training Penalty Assessment	811,000
6100-001-305—Private postsecondary education	Private Postsecondary Administration	971,000
6100-001-344—School facilities planning	State School Building Lease-Purchase	1,090,000
6100-001-464—Drug & alcohol abuse prevention	First Offender Program Evaluation	13,000
6100-001-687—Donated food distribution	Donated Food Revolving	14,380,000
6100-001-862—Child care facilities	State Child Care Facilities	159,000
6100-001-890—Federal support	Federal Trust	37,759,000
6100-006-001—Special schools	General	38,618,000
6100-007-001—Special schools student transportation	General	425,000
6100-011-001—Library support	General	10,658,000
6100-011-890—Library federal support	Federal Trust	1,380,000
6100-015-001—Instructional materials warehousing and shipping	General	294,000
6100-021-001—Child nutrition administration	General	574,000
6100-101-001—School apportionments	General	8,050,630,000
6100-101-814—Lottery revenues	California State Lottery Education	492,951,000
6100-101-890—Federal block grant	Federal Trust	39,266,000
6100-102-001—Regional Occupational Centers/Programs	General	211,816,000
6100-106-001—County schools	General	99,043,000
6100-109-001—High school pupil counseling	General	7,603,000
6100-111-001—Home-to-school transportation	General	291,948,000
6100-113-001—Class size reduction	General	60,000,000
6100-114-001—Court-ordered desegregation	General	267,803,000
6100-115-001—Voluntary desegregation	General	55,815,000
6100-116-001—School Improvement Program	General	224,865,000
6100-117-001—Educational assistance	General	72,265,000
6100-118-001—Vocational education student organizations	General	500,000
6100-119-001—Specialized secondary schools/foster youth services	General	2,922,000
6100-120-001—Pupil dropout prevention	General	14,750,000
6100-121-001—Economic Impact Aid	General	106,157,000
6100-128-001—Intergenerational education	General	165,000

Item 6100

K-12 EDUCATION / 899

6100-128-890—Math & science teacher training grant	Federal Trust	5,448,000
6100-136-890—Federal ECIA Chapter 1	Federal Trust	294,266,000
6100-141-890—Migrant education	Federal Trust	79,817,000
6100-146-001—Demonstration programs in reading and mathematics	General	4,367,000
6100-151-001—American Indian Education Centers	General	861,000
6100-156-001—Adult education	General	223,449,000
6100-156-890—Federal adult education	Federal Trust	8,557,000
6100-158-001—Adults in correctional facilities	General	1,923,000
6100-161-001—Special education	General	1,049,586,000
6100-161-890—Federal special education	Federal Trust	113,917,000
6100-162-001—Alternatives to special education	General	640,000
6100-166-001—Vocational education	General	7,200,000
6100-166-890—Federal vocational education	Federal Trust	63,215,000
6100-167-001—Agricultural vocational education	General	3,000,000
6100-171-178—Driver training	Driver Training Penalty Assessment	[19,500,000]
6100-176-890—Refugee and immigrant programs	Federal Trust	20,340,000
6100-181-001—Educational technology	General	26,155,000
6100-181-140—Environmental education	Environmental License Plate	604,000
6100-183-001—Drug and alcohol abuse prevention	General	177,000
6100-183-464—Drug and alcohol abuse prevention	First Offender Program Evaluation	250,000
6100-186-001—Instructional materials, K-8	General	73,060,000
6100-187-001—Instructional materials, 9-12	General	22,418,000
6100-191-001—Staff development	General	89,397,000
6100-196-001—Child development	General	286,030,000
6100-196-890—Federal child development	Federal Trust	2,140,000
6100-201-001—Child nutrition	General	38,592,000
6100-201-890—Federal child nutrition	Federal Trust	426,420,000
6100-209-001—Commissions on professional competence	General	18,000
6100-211-001—Library local assistance	General	11,608,000
6100-211-890—Federal library local assistance	Federal Trust	12,000,000
6100-221-001—Public Library Foundation Program	General	20,000,000
6100-224-344—Alternatives to school construction	State School Building Lease-Purchase	15,000,000
6100-225-001—School/law enforcement partnership	General	150,000
6100-226-001—Cost-of-living adjustments	General	158,815,000
Reimbursements		56,544,000
—Prior-year balances available	General	1,000,000
—Unexpended balance, estimated savings	General	-1,000,000
—Loan repayments	General	-2,151,000
—Loan repayment	Special Account for Capital Outlay	-113,000
—Department administration	Special Deposit	1,173,000
—Local assistance	Special Deposit	1,100,000
—School apportionments	State School	12,500,000
—Driver training	State School	19,500,000
—Student tuition recovery	Student Tuition Recovery	470,000
Total		\$13,291,941,000
Funding Source:		
General		\$11,570,013,000
Special Account for Capital Outlay		-113,000
California Environmental License Plate		604,000

DEPARTMENT OF EDUCATION—Continued

<i>Driver Training Penalty Assessment</i>	811,000
<i>Private Postsecondary Administration</i>	971,000
<i>State School</i>	32,000,000
<i>State School Building Lease-Purchase</i>	16,090,000
<i>First Offender Program Evaluation</i>	263,000
<i>Donated Food Revolving</i>	14,380,000
<i>California State Lottery Education</i>	492,951,000
<i>State Child Care Facilities</i>	159,000
<i>Federal Trust</i>	1,104,525,000
<i>Special Deposit</i>	2,273,000
<i>Student Tuition Recovery</i>	470,000
<i>Reimbursements</i>	56,544,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

School Apportionments

1. **PERS Employer Contribution Rate. Reduce Item 6100-101-001(a) by \$26,100,000.** Recommend reduction of \$26.1 million in funding for school apportionments, to reflect an anticipated reduction in PERS employer contribution rates. Further recommend adoption of Budget Bill language to require adjustment of school district revenue limits to reflect the reduction in 1987-88. 921
2. **Basic Aid. Reduce Item 6100-101-001(a) by \$1,800,000.** Recommend adoption of Budget Bill language limiting the amount of "basic aid" provided to high-wealth districts, because provision of such aid is not necessary in order to comply with the requirements of the State Constitution. Consistent with this recommendation, recommend reduction of \$1.8 million in funding for basic aid. 923
3. **Summer School Funding.** Recommend adoption of Budget Bill language altering the funding formula for supplemental summer school programs, in order to accommodate demand for these programs more effectively. 928
4. **Continuation High Schools.** Recommend enactment of legislation establishing a separate revenue limit for continuation high schools, because such a funding system would be more rational and equitable than the existing system. 931
5. **Continuation High School Effectiveness.** Recommend adoption of supplemental report language directing the State Department of Education to evaluate the influence of instructional materials and curriculum on continuation high school programs, because data suggest that program quality is significantly affected by these factors. 934
6. **Apprenticeship Programs.** Withhold recommendation on \$2,721,000 requested from the General Fund for these programs, pending receipt of information on actual, current-year participation rates. 935
7. **Meals for Needy Pupils COLA. Reduce Item 6100-226-001(a) (3) by \$495,000.** Recommend (1) reduction in order to provide program with a cost-of-living adjustment 939

(COLA) equal to that provided for general purpose revenue limits and (2) adoption of corresponding Budget Bill language.

8. State Appropriations Limit Language. Recommend deletion of Budget Bill language specifying the amount of state revenue limit funding subject to the state's appropriations limit, because the provision is unnecessary. 939
9. Lottery Revenues Budget Update. Recommend that the Department of Finance provide new estimates of lottery revenues for the budget year, as part of the May Revision. 943

Program Relating to Classroom Instruction

10. *Class Size Reduction/Educational Assistance. Reduce Item 6100-113-001 by \$60,000,000 and Item 6100-117-001 by \$72,265,000.* Recommend rejection of the Governor's proposal to divert funding for specified categorical programs for the purpose of funding the reduction of class sizes in grade 1, because it fails to ensure that the state will continue to meet the specialized needs of identified groups of students. 946
11. School-Based Program Coordination. Recommend adoption of supplemental report language directing the State Department of Education to conduct a study to identify factors which are impeding school participation in the School-Based Program Coordination Act. 949
12. Institute of Computer Technology (ICT). Recommend adoption of Budget Bill language authorizing the ICT to use up to \$50,000 for the purposes of disseminating the computer technology curriculum that it developed pursuant to SB 356. (Ch 1516/85). 952

Programs Relating to Teaching and Administration

13. *Classroom Teacher Instructional Improvement Program (CTIIP). Reduce Item 6100-191-001(d) by \$1,300,000.* Recommend reduction because sufficient unused funds exist from prior year appropriations to fully support the program in the budget year. Consistent with this recommendation, recommend reappropriation of unused balances from specified years. 958
14. Bilingual Teacher Training Program. Recommend that Budget Bill language be amended to redirect an additional \$39,000 from CTIIP to fund a cost-effectiveness study of bilingual teacher training programs. 959
15. School Business Personnel Staff Development Program. Withhold recommendation on \$250,000 requested from the General Fund, pending receipt of a budget proposal for the program. 960

Special Education

16. Exemplary Special Education Programs Evaluation. Withhold recommendation on \$500,000 from the General Fund for an evaluation of these programs, pending submission by the State Department of Education of an initial, long-range evaluation plan. 965
17. Infant Programs. Withhold recommendation on a total of \$3 million requested from the General Fund and the Fed- 967

DEPARTMENT OF EDUCATION—Continued

- eral Trust Fund for expansion of infant programs, pending receipt of additional information on the degree of unmet demand for these programs.
18. **Infant Aides. Reduce Item 6100-161-001 by \$1,607,000.** 968
Recommend reduction in General Fund support for aides in handicapped infant programs, because the amount of funding proposed for this purpose exceeds the amount needed to meet statutory requirements.
 19. **Awareness Program. Reduce Item 6100-161-001 by \$500,000.** 970
Recommend deletion of funds for dissemination of the Awareness Program, because no data have been submitted documenting the program's effectiveness.
 20. **Low-Incidence Equipment. Reduce Item 6100-161-001 by \$5,200,000.** 971
Recommend (1) reduction of funds for equipment for pupils with low-incidence disabilities, in order to accurately reflect the ongoing needs for such funding and (2) adoption of Budget Bill language specifying that funds are primarily for maintenance of existing equipment inventories.
 21. **Special Education Funds Transfer.** 973
Withhold recommendation on Budget Bill language transferring \$8.1 million from special education to the Departments of Mental Health and Social Services, pending receipt of Auditor General's report on levels of local expenditures for noneducational services.
 22. **Model Transition Program.** 973
Withhold recommendation on \$1 million requested from federal funds for a special education "model transition program," pending receipt of a report on the program's accomplishments and proposed objectives.

Compensatory Education Programs

23. **Economic Impact Aid (EIA). Augment Item 6100-121-001 by \$90,795,000.** 977
Consistent with recommendation regarding Governor's proposed Class Size Reduction and Educational Assistance programs, recommend (1) continued funding for this program at its current level and (2) adoption of Budget Bill language consistent with that provided in the current year.
24. **EIA: State Compensatory Education.** 978
Recommend adoption of supplemental report language directing the State Department of Education to develop and submit a detailed plan and funding proposal for a comprehensive evaluation of the program.
25. **Bilingual Education Options.** 981
Recommend adoption of supplemental report language directing the State Department of Education to develop and submit a detailed plan and funding proposal for a comprehensive evaluation of the success and cost-effectiveness of various bilingual education program options.
26. **Miller-Unruh Reading Program. Augment new Item 6100-126-001 by \$19,869,000.** 983
Consistent with recommendation regarding Governor's proposed Class Size Reduction

- and Educational Assistance programs, recommend (1) continued funding for this program at its current level and (2) adoption of Budget Bill language consistent with that provided in the current year.
27. Miller-Unruh Reading Program Goals. Recommend adoption of supplemental report language directing the State Department of Education to develop rules and regulations and a system for allocating funds to ensure that the program focuses on the prevention and correction of reading disabilities. 985
 28. Miller-Unruh Reading Program Evaluation. Recommend adoption of supplemental report language directing the State Department of Education to develop and submit a detailed plan and funding proposal for a comprehensive evaluation of the program's effectiveness. 986
 29. *Native American Indian Education Program. Augment new Item 6100-131-001 by \$365,000.* Consistent with recommendation regarding Governor's proposed Class Size Reduction and Educational Assistance programs, recommend continued funding for this program at its current level. 987
 30. Native American Indian Education Program Evaluation. Recommend adoption of supplemental report language directing the State Department of Education to develop and submit a detailed plan and funding proposal for a comprehensive evaluation of the effectiveness of this program. 988
 31. Refugee and Immigrant Programs. Withhold recommendation on \$20,669,000 requested from federal funds for this program, pending receipt of a revised budget. 989
- School Desegregation**
32. Funding Requirements. Withhold recommendation on \$323,618,000 requested from the General Fund for reimbursement of court-ordered and voluntary school desegregation costs, pending completion of Department of Finance task force report. 991
- Other Specialized Education Programs**
33. *Gifted and Talented Education (GATE). Augment new Item 6100-124-001 by \$21,236,000.* Consistent with recommendation regarding Governor's proposed Class Size Reduction and Educational Assistance programs, recommend continued funding for this program at its current level. 995
 34. Specialized Secondary Schools. Recommend adoption of Budget Bill language allocating a portion of proposed funding to evaluation purposes. Further recommend that the State Department of Education submit an evaluation plan and budget proposal, in order to determine an appropriate amount to allocate for this purpose. 996
 35. Federal ECIA Chapter 2 Block Grant Funds. Withhold recommendation on a total of \$47,903,000 requested from federal funds, pending receipt of an expenditure plan. 997
 36. Driver Training. Withhold recommendation on \$19,500,- 998

DEPARTMENT OF EDUCATION—Continued

000 requested from the Driver Training Penalty Assessment Fund, pending review of (1) the program's current-year deficiency, and (2) new rules and regulations governing competency-based driver education programs.

Ancillary Support for K-12 Education

37. **Emergency Classrooms.** Recommend enactment of urgency legislation to increase from \$15 million to \$35 million the State Allocation Board's maximum authority to allocate funding resources for this program, in order to meet demand for emergency classrooms. 1006
38. **Year-Round School Incentive Payments. Reduce Item 6100-224-344 by \$8 million.** Recommend amendment of proposed Budget Bill language to (1) reduce the amount of incentive payment provided to school districts, because the payment level specified would exceed the costs avoided by the state and (2) clarify that funds are only for payment of incentives earned based on eligibility during 1987-88. Further recommend an \$8 million reduction in funding for year-round school incentive payments proposed from the State School Building Lease-Purchase Fund. 1009
39. **Alternative Financing Handbook.** Recommend adoption of supplemental report language directing Department of General Services to publish a revised version of the State Allocation Board's "Alternative Financing Handbook," because the current version is outdated. 1015
40. **Child Nutrition.** Withhold recommendation on \$39,335,000 requested from the General Fund for the State Child Nutrition and Pregnant/Lactating Minor Child programs, pending receipt of additional information on the projected number of meals and nutrition supplements to be served. 1017
41. **Child Nutrition COLA.** Recommend amendment of Budget Bill language to ensure the proper calculation of base level funding for the program in 1988-89. 1017

Non-K-12 Education Programs

42. **Child Care Services—GAIN Impact.** Withhold recommendation on \$252,353,000 requested from state and federal funds for child care local assistance, pending receipt of a revised estimate of the reimbursements expected from the Department of Social Services for child care services provided to GAIN participants. 1020
43. **Child Care Staffing Standards.** Recommend deletion of proposed Budget Bill language permitting center-based child care and development programs administered by the State Department of Education to operate pursuant to Title 22 regulations, because the language implements a major policy change that is more appropriately addressed through separate legislation. 1022
44. **Child Care Capital Outlay. Augment Item 6100-001-862 by \$53,000.** Recommend augmentation from the State Child Care Facilities Fund to support State Department of 1023

- Education administrative costs, in order to expedite processing of applications for child care facilities aid.
45. Adult Education Enrollment Growth. Recommend adoption of Budget Bill language (1) requiring districts receiving adult education growth funds to maintain existing enrollment levels in basic skills and ESL courses and (2) allowing growth funds to be shared with adult education programs operated by community college districts. 1029
46. Adult Education Priorities Study. Recommend adoption of supplemental report language requiring California Post-secondary Education Commission to conduct a review of the need for continued state funding in adult education in 11 instructional areas specified in current law. 1031
47. *Adult Education COLA. Reduce Item 6100-226-001(b) (1) by \$4,131,000 and Item 6100-226-001(b) (2) by \$37,000.* Recommend reduction in order to provide adult education programs with a cost-of-living adjustment (COLA) equal to that provided general purpose revenue limits. 1032
48. Adult Education—GAIN Issues. Recommend adoption of Budget Bill language and supplemental report language in Item 6100-156-001 and Item 6100-102-001 to address technical issues related to the GAIN program. 1033

State Department of Education

49. Management Study Implementation Status. Recommend that the department report during budget hearings on steps it is taking to implement management study recommendations relating to information resources management. 1037
50. Program Evaluations. Recommend enactment of legislation requiring outcome-based evaluations of K-12 programs to be performed by outside contractors, in order to ensure objectivity. Further recommend adoption of supplemental report language requiring the SDE to submit a proposed budget for its Program Evaluation and Research Division for consideration during annual budget hearings, in order to ensure that legislative priorities are adequately accommodated. 1040
51. *California Assessment Program (CAP). Reduce Item 6100-001-001 by \$198,000.* Recommend that funding for development of additional 6th and 12th grade tests be used instead to establish legislatively-required grade 10 test. 1045
52. CAP Contracting Procedures. Recommend adoption of (1) Budget Bill language requiring the SDE to award contracts for CAP test maintenance through an Invitations for Bids procedure, and (2) supplemental report language requiring SDE to develop criteria for determining which method it will use to evaluate contract proposals, because current procedures may not ensure the lowest feasible contract costs. 1046
53. *Golden State Examinations. Reduce Item 6100-001-001 by \$392,000.* Recommend that program be eliminated, because its costs far exceed its likely benefits, for a budget-

DEPARTMENT OF EDUCATION—Continued

year savings of \$392,000 and a potential future General Fund cost avoidance of \$11.7 million (one-time) and \$12.4 million (annually).

Reversions

- 54. *School Apportionment Funding. Reduce Item 6100-161-001 by \$12,949,000.* Recommend amendment of Budget Bill language relating to reversion of school apportionment funding to ensure that various education deficiencies will be funded in accordance with current law, prior to reversion. Further recommend deletion of \$12.9 million requested from the General Fund for the 1986-87 special education deficiency, because this deficiency will be funded from the current-year surplus in school apportionment funding. 1054

OVERVIEW OF K-12 EDUCATION ANALYSIS

Fiscal Impact of Recommendations. We recommend a net reduction of \$62.7 million in the appropriations proposed for K-12 education. These recommendations are summarized in Table 1.

Table 1
Summary of Legislative Analyst's
Recommended Fiscal Changes
1987-88

<i>Activity</i>	<i>General Fund</i>	<i>Special Funds</i>
School Apportionments—PERS Reduction	-\$26,100,000	
School Apportionments—"Basic Aid"	-1,800,000	
Meals for Needy Pupils COLA	-495,000	
Class Size Reduction	-60,000,000	
Educational Assistance Program	-72,265,000	
Classroom Teacher Instructional Improvement	-1,300,000	
Special Education Infant Aides	-1,607,000	
Special Education "Awareness Program"	-500,000	
Special Education Low-Incidence Equipment	-5,200,000	
Economic Impact Aid	+90,795,000	
Miller-Unruh Reading Program	+19,869,000	
Native American Indian Education	+365,000	
Gifted and Talented Education	+21,236,000	
Year-Round School Incentives		-\$8,000,000
Child Care Capital Outlay Administration		+53,000
Adult Education COLA	-4,168,000	
California Assessment Program	-198,000	
Golden State Examinations	-392,000	
Special Education Deficiency (1986-87)	-12,949,000	
Totals	-\$54,709,000	-\$7,947,000

As the table shows, we recommend \$54.7 million in net reductions from the General Fund and \$7.9 million in net reductions from special funds. The recommendations reflect our findings that the budget contains funds that are in excess of individual program needs. Any funds made available by adoption of these recommendations could be redirected by the Legislature to other education or noneducation priorities.

We are withholding recommendation on \$710.8 million in proposed appropriations of state and federal funds. Of this amount, we withhold

recommendation on \$707.1 million because more accurate data on funding needs will be available by the time of budget hearings. We are withholding recommendation on the remaining \$3.7 million because, at the time this analysis was prepared, the Department of Education and the Department of Finance had not provided the Legislature with the information needed to analyze the associated budget requests.

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

OUTLINE OF THE K-12 EDUCATION ANALYSIS

	<i>Item Number</i>	<i>Analysis Page</i>
GENERAL PROGRAM STATEMENT		910
OVERVIEW OF BUDGET REQUEST		911
1. K-12 Revenues		911
2. Significant Program Changes		912
3. Ten-Year Funding History		915
ANALYSIS AND RECOMMENDATIONS		918
I. Direct Support for K-12 Education		918
A. General Education Programs		918
1. General Purpose Revenue Limits	6100-101-001 and 6100-106-001	919
2. Urban Impact Aid/Meade Aid		940
3. Small School District Transportation Aid	6100-101-001 (c)	941
4. Lottery Revenues	6100-101-814	942
B. Specialized Education Programs		945
1. Programs Relating to Classroom Instruction		945
* School Improvement Program	6100-116-001	946
* Instructional Materials	6100-015-001, 6100-186-001, and 6100-187-001	946
* High School Pupil Counseling	6100-109-001	946
* Environmental Education	6100-181-140	946
* Intergenerational Education	6100-128-001	946
a. Class Size Reduction/Educational Assistance	6100-113-001 and 6100-117-001	946
b. School-Based Program Coordination		949
c. Educational Technology Program	6100-181-001	951
d. Institute of Computer Technology	6100-181-001	951
e. Demonstration Programs in Reading and Mathematics	6100-146-001	952
2. Programs Relating to Teaching and Administration		953
* Mentor Teacher Program	6100-191-001 (b)	954
* Teacher Education and Computer Centers	6100-191-001 (f)	954
* Administrator Training and Evaluation Program	6100-191-001 (a)	955
* School Personnel Staff Development	6100-191-001 (c)	955
* SDE/CSU Minority Underrepresentation and Teaching Improvement Program	6100-191-001 (h)	955
* California International Studies Project	6100-191-001 (i)	955
* Math and Science Teacher Training Grant	6100-128-890	955
a. K-12 Education Staff Development Study		956
b. Classroom Teacher Instructional Improvement Program	6100-191-001 (d)	957
c. Bilingual Teacher Training Program	6100-191-001 (e)	959
d. School Business Personnel Staff Development	6100-191-001 (g)	960
3. Special Education		961
* State Special Schools	6100-006-001	961
* Special Schools Transportation	6100-007-001	961
* Alternatives to Special Education	6100-162-001	961
a. Master Plan for Special Education	6100-161-001	962
b. Federal Public Law 94-142	6100-161-890	973
4. Vocational Education Programs		974

DEPARTMENT OF EDUCATION—Continued

* Regional Occupational Centers and Programs	6100-102-001	975
* Vocational Education Student Organizations.....	6100-118-001	975
* Specialized Vocational Education Programs	6100-166-001	975
* Agricultural Vocational Education Incentive Program	6100-167-001	975
* School-Based Programs.....	6100-166-890	975
* Federal Job Training Partnership Act/Project Work Ability	6100-166-001	975
5. Compensatory Education Programs		976
* ECIA Chapter 1	6100-136-890 and 6100-141-890	977
* American Indian Education Centers	6100-151-001	977
a. Economic Impact Aid.....	6100-121-001	977
b. Miller-Unruh Reading Program.....		983
c. Native American Indian Early Childhood Education Program		987
d. Refugee and Immigrant Programs	6100-176-890	989
6. School Desegregation.....	6100-114-001 and 6100-115-001	991
7. Other Specialized Education Programs		994
* Pupil Dropout Prevention and Recovery	6100-120-001	994
* Foster Youth Services	6100-119-001 (a)	994
* Drug and Alcohol Abuse Prevention Program	6100-001-464, 6100-183-001, and 6100-183-464	995
* School/Law Enforcement Partnership Program	6100-225-001	995
* Commissions on Professional Competence	6100-209-001	995
a. Gifted and Talented Education		995
b. Specialized Secondary Schools.....	6100-119-001 (b)	996
c. Federal Block Grant (ECIA Chapter 2)	6100-001-890 and 6100-101-890	997
d. Driver Training	6100-171-178	998
II. Ancillary Support for K-12 Education		999
A. Transportation		999
* School Bus Driver Instructor Training Program	6100-001-178	999
* Small School District Bus Replacement	6100-111-001 (b)	999
Home-to-School Transportation	6100-111-001 (a)	1000
B. School Facilities Programs		1000
1. School Facilities Aid		1001
2. Year-Round Schools/Alternatives to School Construction ..	6100-224-344	1008
3. School Facilities Planning Unit	6100-001-344	1015
C. Child Nutrition		1016
* Nutrition Education and Training Projects	6100-021-001	1016
* Federal Child Nutrition Program.....	6100-201-890	1016
State Child Nutrition Program.....	6100-201-001	1017
III. Non-K-12 Education Programs		1018
A. Child Development		1018
1. State Preschool Programs	6100-196-001 (a)	1018
2. Child Care Programs	6100-001-862, 6100-196-001 (b), and 6100-196-890	1018
B. Adult Education		1025
* Federal Adult Basic Education Act.....	6100-156-890	1025
* Adults in Correctional Facilities.....	6100-158-001	1025
State K-12 Adult Education Program	6100-156-001	1026
C. Office of Food Distribution	6100-001-687	1034
IV. State Department of Education		1035
A. Overview of the State Operations Budget.....	6100-001-001 and 6100-001-890	1035

B. Implementation of Management Study Recommendations.....		1037
C. Improving the Quality of Program Evaluations.....		1040
D. Pupil Assessment		1045
1. California Assessment Program.....		1045
2. Golden State Examinations.....		1048
E. Private Postsecondary Education Division.....	6100-001-305	1050
V. State Library.....	6100-011-001, 6100-011-890, 6100-211-001, 6100-211-890, and 6100-221-001	1051

* Asterisk denotes an item for which we recommend approval as budgeted and, accordingly, do not discuss in detail elsewhere in *Analysis*.

Table 2 displays total funding proposed in 1987-88 for each of the K-12 education categories shown in the outline. (As used in this analysis, the term "K-12 education" includes all programs shown in Item 6100, contributions to the State Teachers' Retirement System, and funding for school facilities.) The table shows that the Governor's Budget proposes \$19.8 billion in total funding for K-12 education—\$12.2 billion from the state General Fund, \$982 million from state special funds, \$5.3 billion from local revenues, and \$1.3 billion from federal funds.

The table also show that the \$19.8 billion is distributed as follows:

- **Direct Support for K-12 Education**—\$17.3 billion (88 percent of the total). General education programs (including school apportionments) account for \$13.8 billion of this amount, while specialized education programs (so-called "categorical" programs) account for the remaining \$3.5 billion.
- **Ancillary Support for K-12 Education**—\$1.8 billion (9 percent of the total). Programs in this category include transportation, school facilities, and child nutrition.
- **Non-K-12 Education Programs**—\$551 million (3 percent of the total). Programs in this category include child development, adult education, and the Office of Food Distribution within the State Department of Education.
- **State Department of Education** state operations (excluding the state special schools, the Office of Food Distribution, and the State Library)—\$81 million (less than 1 percent of the total).
- **State Library** operations and aid to local library districts—\$56 million (less than 1 percent of the total).

This table, and the expenditure tables which follow, have not been adjusted to reflect any potential savings in 1986-87 that may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

GENERAL PROGRAM STATEMENT

In 1987-88, approximately 4.7 million students will attend public elementary and secondary schools in 1,028 elementary, high, and unified school districts. Student attendance in these districts is expressed in terms of "ADA" (average daily attendance), which is defined as the average number of pupils that actually attend classes for at least the minimum school day, plus the average number of pupils having a valid excuse for being absent from school.

DEPARTMENT OF EDUCATION—Continued

Table 2
Total Revenues for K-12 Education
By Type of Expenditure
1987-88
(dollars in millions)

	State		Local	Federal	Total
	General Fund	Special Funds			
I. Direct Support for K-12 Education					
A. General Education Programs					
1. School and county revenue limits	\$8,277.9	\$13.5	\$3,165.4	—	\$11,456.8
2. Local miscellaneous revenues	—	—	1,246.8	—	1,246.8
3. Contributions to STRF & PERS	553.0	—	—	—	553.0
4. Other General Education Programs	—	493.0 ^a	—	\$57.1	550.0
Subtotals, General Education Programs	\$8,831.0	\$506.4	\$4,412.2	\$57.1	\$13,806.7
B. Specialized Education Programs					
1. Programs Relating to Classroom Instruction	\$493.7	\$0.6	—	—	\$494.3
2. Programs Relating to Teaching and Administration	89.4	—	—	\$5.4	94.8
3. Special Education	1,106.8	—	\$550.6	113.9	1,771.3
4. Vocational Education Programs	215.9	—	—	63.2	279.1
5. Compensatory Education Programs	107.0	—	—	394.4	501.4
6. School Desegregation	323.6	—	—	—	323.6
7. Other Specialized Education Programs ..	18.0	19.8	—	39.3	77.0
Subtotals, Specialized Education Programs	\$2,354.5	\$20.4	\$550.6	\$616.3	\$3,541.7
Subtotals, Direct Support for K-12 Education	\$11,185.5	\$526.8	\$4,962.8	\$673.3	\$17,348.4
II. Ancillary Support for K-12 Education					
A. Transportation	\$291.9	—	—	\$100.0	\$391.9
B. School Facilities Programs	93.8	\$436.2	\$359.1	13.5	902.6
C. Child Nutrition	39.3	—	—	426.4	465.8
Subtotals, Ancillary Support for K-12 Education	\$425.1	\$436.2	\$359.1	\$539.9	\$1,760.3
III. Non-K-12 Education Programs					
A. Child Development	\$286.0	—	—	\$2.1	\$288.2
B. Adult Education	239.3	—	—	8.6	247.8
C. Office of Food Distribution	—	\$14.4	—	—	14.4
D. Private Postsecondary Assistance	—	0.4	—	—	0.4
Subtotals, Non-K-12 Education Programs	\$525.3	\$14.8	—	\$10.7	\$550.8
IV. State Department of Education^b	\$38.7	\$4.3	—	\$37.8	\$80.8
V. State Library	\$42.3	—	—	\$13.4	\$55.6
TOTAL REVENUES FOR K-12 EDUCATION ..	\$12,216.9	\$982.1	\$5,321.9	\$1,275.1	\$19,795.9

^a Includes lottery revenues.

^b Excludes state special schools, Office of Food Distribution, and State Library.

Table 3 shows K-12, adult, county, and ROC/P attendance figures for the prior, current, and budget years. As the table indicates, the attendance level for 1987-88 is projected to be 2.1 percent *above* the 1986-87 level.

The state provides assistance to local education agencies through approximately 60 general and categorical aid programs. The K-12 education system is administered by the State Department of Education (SDE), 58 county offices of education, and 1,028 school districts. The department has 2,602.5 personnel years in the current year to staff departmental operations, the state special schools, and the State Library.

Table 3
K-12 Education
Annual Average Daily Attendance (ADA) in
California Public Schools
1985-86 through 1987-88

	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88	<i>Change</i> <i>from 1986-87</i>	
				<i>Amount</i>	<i>Percent</i>
Elementary	2,873,504	2,980,849	3,092,191	111,342	3.7%
High School.....	1,315,259	1,333,782	1,311,344	-22,438	-1.7
Adult Education.....	168,900	172,600	176,110	3,510	2.0
County	18,230	19,647	21,385	1,738	8.8
Regional Occupational Centers and Programs	96,230	97,850	99,480	1,630	1.7
Totals	4,472,123	4,604,728	4,700,510	95,782	2.1%

Source: Department of Finance.

Also includes estimates of ADA for supplemental summer school which is funded on an hourly basis.

OVERVIEW OF THE BUDGET REQUEST

1. K-12 Revenues

The budget proposes that \$19.8 billion be made available to support California's K-12 schools in 1987-88. This is an increase of \$477 million, or 2.5 percent, over the amount provided in the current year. Table 4 displays total revenues for K-12 education in the prior, current, and budget years.

Table 4
Total Revenues for K-12 Education
1985-86 through 1987-88
(dollars in millions)

	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88	<i>Change</i> <i>from 1986-87</i>	
				<i>Amount</i>	<i>Percent</i>
State:					
General Fund ^a	\$11,006.2	\$11,952.3	\$12,123.1	\$170.7	1.4%
Special funds ^b	48.8	50.7	52.9	2.2	4.3
Subtotals, State	\$11,055.0	\$12,003.0	\$12,176.0	\$172.9	1.4%
Local:					
Property tax levies ^c	\$3,194.7	\$3,434.6	\$3,716.0	\$281.3	8.2%
Subtotals, State and Local	\$14,249.7	\$15,437.7	\$15,891.9	\$454.3	2.9%
Other:					
Federal ^d	\$1,115.8	\$1,262.9	\$1,275.1	\$12.2	1.0%
State capital outlay ^e	552.4	682.4	530.0	-152.4	-22.3
Local debt service.....	391.3	378.7	359.1	-19.6	-5.2
Local miscellaneous	1,084.1	1,162.6	1,246.8	84.2	7.2
Lottery fund ^f	558.4	394.6	493.0	98.4	24.9
Subtotals, Other	\$3,702.0	\$3,881.2	\$3,904.0	\$22.8	0.6%
Totals	\$17,951.8	\$19,318.9	\$19,795.9	\$477.0	2.5%

^a Includes contributions to the State Teachers' Retirement Fund; excludes capital outlay.

^b Includes the State School Fund, Donated Food Revolving Fund, and others.

^c Includes state property tax subventions.

^d Includes Federal Impact Aid (PL 81-874) which is not shown in the budget.

^e Includes General Fund; Proposition 1, Proposition 26, and Proposition 53 bond funds; and tidelands revenues for capital outlay.

^f Governor's Budget estimates.

DEPARTMENT OF EDUCATION—Continued

The budget proposes that the General Fund provide \$12.1 billion in support for K-12 education, and that other state funds provide \$52.9 million. (These amounts do not include funds for capital outlay or revenues from the state lottery.) Thus, the total amount proposed *from state sources* for K-12 education in 1987-88 is \$12.2 billion—an increase of \$172.9 million, or 1.4 percent, over the current-year level.

Local property tax levies will provide \$3.7 billion for K-12 education in 1987-88—an increase of \$281.3 million, or 8.2 percent, over the current-year level. Thus, state and local revenue sources, combined, will provide a total of \$15.9 billion for the state's K-12 public schools in 1987-88—an increase of \$454.3 million, or 2.9 percent, over state and local revenues in 1987-88.

Other revenue sources are expected to contribute an additional \$3.9 billion to support K-12 programs in the budget year. This amount is composed of (1) \$1.3 billion in federal funds, (2) \$530 million in state funds for capital outlay, (3) \$359 million in local property taxes used to retire voter-approved indebtedness, (4) \$1.2 billion in miscellaneous revenues from the sale and rental of district property, interest earned on cash deposits, cafeteria income, and other local revenue sources, and (5) \$493 million from the lottery.

2. Significant Program Changes in 1987-88

Table 5 shows the components of the \$477 million net increase in total support proposed for California's K-12 public schools in 1987-88. The most significant changes include:

Table 5
K-12 Education
Proposed 1987-88 Budget Changes
(dollars in millions)

	Funding Sources				Totals
	General	Special ^a	Local ^b	Federal	
1986-87 Expenditures (Revised)	\$11,960.8	\$1,119.2	\$4,975.9	\$1,263.0	\$19,318.9
1. Changes Needed to Maintain Existing Base:					
ADA Increase (2.1 percent) ^c	261.4	—	—	—	261.4
Statutory enrollment growth:					
Adult education (2.5 percent)	5.3	—	—	—	5.3
Statutory inflation adjustments:					
K-12 apportionments (2.2 percent)	259.2	—	—	—	259.2
Other programs with statutory COLAs	65.8	—	—	—	65.8
Increase in local property taxes	-281.3	—	261.7	—	-19.6
Adjustment for apportionment "loan repayment" in 1986-87 (Ch 790/86) ..	33.7	—	—	—	33.7
Contributions to State Teachers' Retirement Fund	42.5	—	—	—	42.5
Decreased unemployment insurance cost	-14.4	—	—	—	-14.4
Fully fund school desegregation	50.5	—	—	—	50.5
Fully fund special education deficit	0.5	—	—	12.5	13.0
Year-round school incentives	-3.6	15.0	—	—	11.4
Funding for deferred maintenance	88.9	-89.9	—	—	-1.0

Item 6100

K-12 EDUCATION / 913

School facilities aid	—	-162.8	—	-88.8	-251.6
State lottery revenues	—	98.4	—	—	98.4
Local miscellaneous revenues	—	—	84.2	—	84.2
Elimination of one-time funding	-12.2	—	—	-3.0	-15.2
Other baseline changes	-16.8	0.3	0.1	-9.6	-26.1
Subtotals, Changes to Existing Base....	(\$479.5)	(-\$139.0)	(\$346.0)	(-\$88.9)	(\$597.5)
2. Program Change Proposals:					
Reduce statutory COLAs:					
K-12 apportionments	-129.6	—	—	—	-129.6
Other programs with statutory COLAs	-36.5	—	—	—	-36.5
Eliminate Urban Impact/Meade Aid.....	-43.3	—	—	—	-43.3
Reduce funding for other categoricals	-60.0	—	—	—	-60.0
Class size reduction in grade 1	60.0	—	—	—	60.0
Special education proposals	66.0	—	—	1.0	67.0
Fund 1986-87 special education deficiency in 1987-88	13.0	—	—	—	13.0
Additional targeted adult education growth funds	4.9	—	—	—	4.9
Vocational education JTPA match	4.6	—	—	—	4.6
Underfund school desegregation	-90.3	—	—	—	-90.3
Eliminate funding for education mandates	-21.0	—	—	—	-21.0
Schoolbus replacement	—	—	—	100.0	100.0
Other program change proposals.....	-1.1	1.9	0.1	0.1	1.0
Subtotals, Program Change Proposals....	(-\$233.3)	(\$1.9)	(\$0.1)	(\$101.1)	(-\$130.2)
3. Technical Budgeting Errors:					
School and county office of education ap- portionments	-6.1	—	—	—	-6.1
Special Education	16.0	—	—	—	16.0
Subtotals, Technical Budgeting Errors ..	(\$9.9)	—	—	—	(\$9.9)
1987-88 Expenditures (Proposed)	\$12,216.9	\$982.1	\$5,321.9	\$1,275.1	\$19,795.9
Changes from 1986-87:					
Amount	\$256.1	-\$137.1	\$346.0	\$12.2	\$477.1
Percent	2.1%	-12.3%	7.0%	1.0%	2.5%

^a Includes state lottery revenues.

^b Includes local miscellaneous revenues.

^c Excludes adult education, shown separately below.

- **Funding for the Growth in Average Daily Attendance.** An increase of \$271.6 million from the General Fund for new enrollment. Average daily attendance (ADA) statewide is expected to increase by a net 95,782 in 1987-88. This change reflects an increase of 111,342 ADA in grades K through 8, a decrease of 22,438 ADA in the state's high schools, an increase of 1,738 ADA in county offices of education, and an increase of 3,510 ADA in the state's adult education programs.
- **Funding for Cost-of-Living Adjustments (Item 6100-226-001).** An increase of \$158.8 million from the General Fund to provide statutory COLAs (2.2 percent for general education revenue limits and special education) beginning January 1, 1988. This amount includes (1) \$130.4 million for general education revenue limits of K-12 districts and county offices and (2) \$28.4 million for all other programs with statutory COLA's. (The amount required to provide a full-year 2.2 percent adjustment to all programs that receive statutory COLAs is \$325 million.)
- **Increase in Local Property Tax Revenues.** A net increase of \$281.3 million in property tax revenues, excluding levies for repayment of voter-approved indebtedness. This increase, however, does not result in additional revenues to school districts. Instead, it reduces

DEPARTMENT OF EDUCATION—Continued

the General Fund cost of funding general education revenue limits on a dollar-for-dollar basis. (Because debt levies are expected to decrease by \$19.6 million, *total* local property tax revenues show a net increase of only \$261.7 million.)

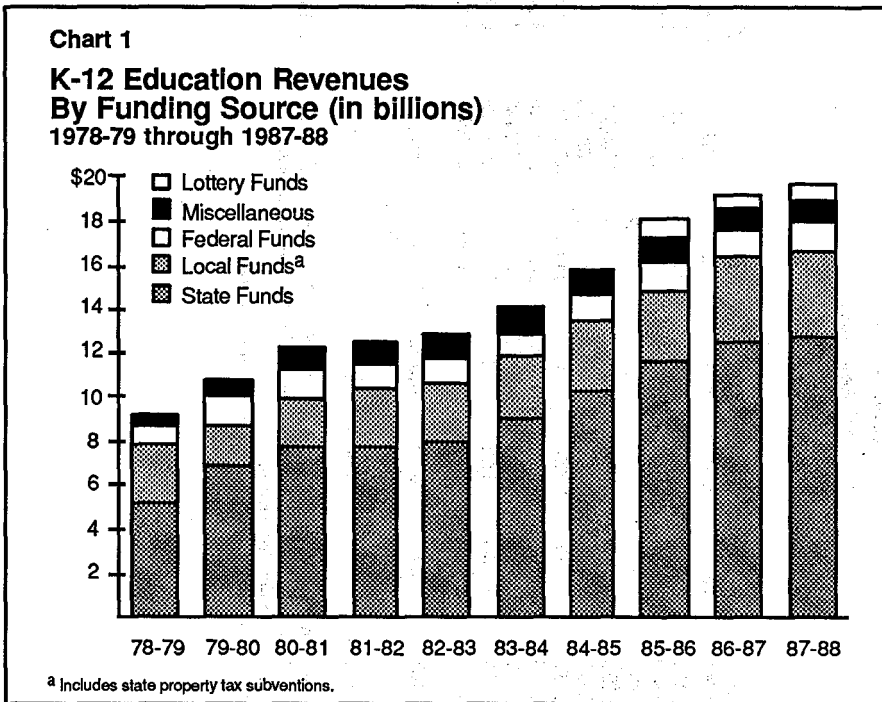
- **Baseline Adjustment for Repayment of School Apportionment "Loan."** An increase of \$33.7 million from the General Fund as a one-time adjustment to reflect a reduced General Fund obligation in 1986-87 resulting from repayment of the school apportionment "loan" provided in the 1985-86 deficiency bill, AB 3293 (Ch 790/86).
- **Increases for Special Education.** A net increase of \$93 million in state and federal funds for special education. This amount includes (1) \$26 million to fund a \$13 million current-year deficiency and \$13 million to restore the budget-year base, (2) \$42.9 million for program growth, (3) \$20 million to fully restore aide entitlements in special day classes and resource specialist programs, (4) \$2 million for infant programs, (5) \$500,000 each for the Awareness Program and for program evaluation, and (6) \$115,000 for the Early Intervention for School Success Program.
- **Decreases in School Desegregation Funding.** A decrease of \$39.8 million in General Fund baseline funding to reimburse school districts for the costs of court-ordered and voluntary desegregation. (We estimate that the amount proposed in the budget is \$97.4 million below the amount needed to fully fund desegregation.)
- **Elimination of Urban Impact Aid and Meade Aid.** A decrease of \$43.3 million in General Fund support for these programs, which provide additional general-purpose aid to eligible school districts to compensate them for the higher costs believed to be associated with their urban settings.
- **Funding Shift from Categorical Programs to Class Size Reduction/Educational Assistance Program.** A diversion, over a two-year period, of approximately \$132 million in funding from the Economic Impact Aid-State Compensatory Education, Miller-Unruh Reading, Native American Indian Education, and Gifted and Talented Education (GATE) programs to fund a class size reduction in grade 1. In 1987-88, \$60 million would be allocated for class size reduction, and \$72 million would be provided as one-time "educational assistance" grants, to be allocated by the Superintendent of Public Instruction to address high-priority needs of schools.
- **Elimination of Funding for Education Mandates.** A decrease of \$21 million from the General Fund related to proposed legislation that will repeal or make optional 9 education mandates.
- **Funding for School Buses.** An increase of \$100 million in federal funds from the Petroleum Violation Escrow Account for the purchase of school buses.
- **Increase in Lottery Revenues.** A \$98.4 million increase in state lottery revenues.
- **Other Changes.** Other changes affecting the overall level of support for K-12 education include (1) a net decrease of \$241.2 million in state and federal funding for school facilities programs (including incentives for year-round operations of schools), (2) an estimated increase of \$84.2 million in local miscellaneous revenues, (3) an increase of \$42.5 million in General Fund contributions to the State Teachers' Retirement Fund, (4) a decrease of \$15.2 million to reflect

the elimination of funding for various programs that was provided on a one-time basis in 1986-87, and (5) a decrease of \$14.4 million in funding for school districts' unemployment insurance in anticipation of a reduction in the employer contribution rate from 0.3 percent to 0.1 percent of total school wages.

3. Ten-Year Funding History

a. Total K-12 Revenues

Table 6 and Chart 1 display total funding for K-12 education, by source, for the 10 years 1978-79 to 1987-88. The principal funding sources identified in the table are:



- **Local Property Tax Levies**—revenues raised by the tax on real property.
- **State Property Tax Subventions**—funds provided by the state to school districts in order to replace property tax revenues foregone due to tax exemptions granted by the state, such as the homeowners exemption and (in years prior to 1983-84) the business inventory exemption.
- **State Aid**—revenues provided from the General Fund and state special funds.

Table 6
K-12 Total Revenues
1978-79 through 1987-88
(dollars in millions)

	Local		State			Total Funding	ADA	Total Funding		1978-79 Dollars ^d	
	Property Tax Levies ^a	State Property Tax Subventions	State Aid ^b	Federal Aid	Miscel- laneous ^c			Per ADA	Percent Change	Per ADA	Percent Change
1978-79.....	\$2,337.1	\$241.5	\$5,333.4	\$962.3	\$551.3	\$9,425.6	4,271,181	\$2,207	7.9%	\$2,207	-0.5%
1979-80.....	2,000.0	180.0	6,998.5	1,100.4	702.7	10,981.6	4,206,150	2,611	18.3	2,360	6.9
1980-81.....	2,166.2	243.5	7,866.4	1,154.5	910.6	12,341.2	4,214,089	2,929	12.2	2,415	2.3
1981-82.....	2,674.1	259.5	7,837.3	1,000.7	843.8	12,615.4	4,200,678	3,003	2.5	2,302	-4.7
1982-83.....	2,675.3	266.5	8,100.7	967.6	854.0	12,864.1	4,230,065	3,041	1.3	2,199	-4.5
1983-84.....	2,869.5	114.2	9,191.8	1,032.7	941.8	14,150.0	4,259,631	3,322	9.2	2,297	4.5
1984-85.....	3,192.9	112.4	10,400.7	1,096.2	1,010.9	15,813.1	4,351,416	3,634	9.4	2,386	3.9
1985-86 (estimated).....	3,482.3	103.7	11,607.4	1,115.8	1,642.5	17,951.8	4,472,123	4,014	10.5	2,520	5.6
1986-87 (estimated).....	3,708.0	105.3	12,685.5	1,262.9	1,557.2	19,318.9	4,604,728	4,195	4.5	2,553	1.3
1987-88 (budgeted).....	3,968.3	106.8	12,706.0	1,275.1 ^e	1,739.8	19,795.9	4,700,510	4,211	0.4	2,472	-3.2
<i>Cumulative Change</i>											
Amount.....	\$1,631.2	-\$134.7	\$7,372.6	\$312.8	\$1,188.5	\$10,370.3	429,329	\$2,004	—	\$265	—
Percent.....	69.8%	-55.8%	138.2%	32.5%	215.6%	110.0%	10.1%	90.8%	—	12.0%	—

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

^a Includes local debt.

^b Includes all General Fund and special fund monies in Item 6100, contributions to the State Teachers' Retirement System (STRS), and state capital outlay.

^c Includes lottery revenues, combined state/federal grants, county income, and other miscellaneous revenues.

^d Adjusted by the GNP deflator for state and local government purchases.

^e Includes funds from the Petroleum Violation Escrow Account for the replacement of school buses.

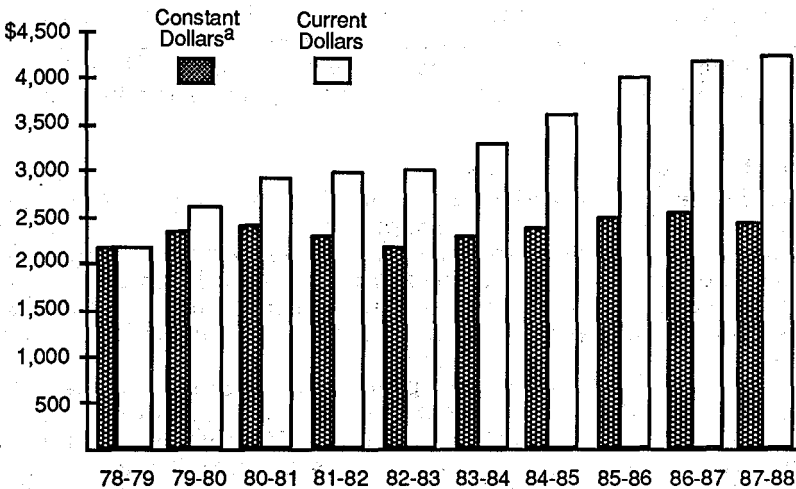
- **Federal Aid**—all revenues received from the federal government.
- **Miscellaneous Revenues**—lottery revenues (shown separately in Chart 1), combined state/federal grants, income from the sale of property and supplies, cafeteria revenues, interest income, and other revenues.

Table 6 shows total funding for California's K-12 public schools growing from \$9.4 billion in 1978-79 to \$19.8 billion in 1987-88—an increase of \$10.4 billion, or 110 percent, over the 10-year period. Since 1978-79, when Proposition 13 and the state's fiscal relief program established by AB 8 (Ch 282/79) first took effect, state aid from the General Fund and state special funds has grown by 138 percent.

The amount of support derived from local property taxes, in contrast, has increased by only 70 percent. Over this same period, state property tax subventions have declined by 56 percent. The significant reduction in state property tax subventions between 1982-83 and 1983-84 reflects the elimination of funding for the business inventory exemption subvention provided for in the 1983 Budget Act. (State apportionment aid to schools was increased by an amount equivalent to its share of this subvention, resulting in no net loss of revenue for K-12 education.) Of the five revenue sources, miscellaneous income has shown the greatest increase since 1978-79 (216 percent). This increase is due, in part, to the addition of state lottery revenues, beginning in 1985-86.

Chart 2

K-12 Education Funding Per Average Daily Attendance in Constant and Current Dollars 1978-79 through 1987-88



^a As adjusted by the GNP deflator for state/local government.

DEPARTMENT OF EDUCATION—Continued

Average daily attendance (ADA) over the 10-year period grew 10.1 percent, from 4,271,181 to 4,700,510. This growth results from (1) an upturn in the school-age population that began in 1982-83 and (2) expansion of the summer school program beginning in 1983-84, as authorized by SB 813.

b. Revenues Per ADA

Table 6 and Chart 2 display per-pupil funding levels during the 10-year period, in both current and constant dollars (that is, dollars that have been adjusted to reflect the effects of inflation on purchasing power). The table and chart show per-pupil funding in current dollars growing by 91 percent since 1978-79 (from \$2,207 to \$4,211).

If we adjust these expenditures for inflation, however, a different picture emerges. For 1987-88, the proposed per-pupil expenditure level, as measured in constant dollars, is \$2,472, or 12 percent, above the 1978-79 amount. Putting it another way, assuming enactment of the budget, the purchasing power of K-12 funding per pupil in 1987-88 will be 12 percent greater than it was in 1978-79. Under the budget proposal, however, funding on a constant dollar basis would actually decline from the amount provided in the current year—from \$2,553 to \$2,472 per pupil—a reduction of \$81, or 3.2 percent.

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

This section analyzes those programs which provide direct—as opposed to ancillary—support for K-12 education activities, including both general and specialized education programs. General education programs include revenue limit funding for school districts and county offices of education, Urban Impact Aid, and Meade Aid. Specialized education programs include (1) programs relating to classroom instruction (2) programs relating to teaching and administration, (3) the Special Education program, (4) vocational education programs, (5) compensatory education programs, (6) school desegregation, and (7) other specialized education programs.

A. GENERAL EDUCATION PROGRAMS

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

As shown in Table 7, the budget proposes total general education expenditures (consisting of revenue limit funding and other expenditures) of \$14.3 billion in 1987-88. This is an increase of \$567 million, or 4.1 percent, over the current-year amount, and is composed of a \$110 million increase in General Fund support, a \$358 million increase in revenues from local sources, a \$700,000 increase in support from the State School Fund, and a \$98 million increase in local funds from the state lottery.

Table 7
K-12 Education
General Education Expenditures
1985-86 through 1987-88
(dollars in millions)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
A. General Purpose Revenue Limits:					
K-12 districts ^a	\$10,361.4	\$11,263.4	\$11,660.6	\$397.2	3.5%
State	(7,349.3)	(8,027.2)	(8,160.4)	(133.2)	(1.7)
Local	(3,012.1)	(3,236.2)	(3,500.2)	(264.0)	(8.2)
County offices.....	190.2	209.3	219.2	9.9	4.7
State	(92.2)	(101.0)	(101.4)	(0.4)	(0.4)
Local	(98.0)	(108.3)	(117.8)	(9.5)	(8.8)
Subtotals.....	\$10,551.6	\$11,472.7	\$11,879.8	\$407.1	3.5%
State	(7,441.5)	(8,128.2)	(8,261.8)	(133.6)	(1.6)
Local	(3,110.1)	(3,344.5)	(3,618.0)	(273.5)	(8.2)
B. Other General Education:					
Meals for Needy Pupils, Apprentice- ship Programs.....	\$26.4	\$30.6	\$29.6	-\$1.0	-3.3%
Federal PL 81-874	57.1	57.1	57.1	—	—
Urban Impact Aid	75.4	38.1	—	-38.1	-100.0
Meade Aid	10.4	5.2	—	-5.2	-100.0
Small School District Aid	19.9	10.0	10.0	—	—
Transfer to State Teachers' Retirement Fund and STRS/PERS mandates	459.8	510.5	553.0	42.5	8.3
Education Mandates	17.9	21.0	—	-21.0	-100.0
Miscellaneous ^b	1,642.5	1,557.2	1,739.8	182.6	11.7
Subtotals.....	\$2,309.4	\$2,229.7	\$2,389.5	\$159.8	7.2%
Totals	\$12,861.0	\$13,702.4	\$14,269.3	\$566.9	4.1%
Funding Source:					
General Fund.....	\$8,032.6	\$8,730.9	\$8,841.0	\$110.1	1.3%
State School Fund.....	17.8	11.8	12.5	0.7	5.9
Federal funds.....	57.1	57.1	57.1	—	—
Local funds	4,194.2	4,507.1	4,864.8	357.7	7.9
California State Lottery Education Fund	558.4	394.6	493.0	98.4	24.9
Special Account for Capital Outlay	-0.1	-0.1	-0.1	—	—
Special Deposit Fund.....	1.0	1.0	1.0	—	—

^a This total includes school districts' local general fund contributions to special education and revenue limit funding for students in special education special day classes.

^b Includes lottery revenues (Governor's Budget estimates).

Within the total, the budget proposes \$11.9 billion in general purpose revenue limit funding for K-12 districts and county offices of education in 1987-88—an increase of \$407 million, or 3.5 percent, over the amount provided in 1986-87. State funds contribute 70 percent of this amount, while local property taxes account for 30 percent. The remaining general education expenditures are proposed at \$2.4 billion in 1987-88—an increase of \$160 million, or 7.2 percent, over the current-year level.

1. General Purpose Revenue Limits (Items 6100-101-001 and 6100-106-001)

Under California's system of financing schools, general education funding is allocated to school districts through a "revenue limit" system. Each school district has a specific revenue limit per unit of average daily attendance (ADA), which is based, in part, on the district's historical level of expenditures. The revenue limit represents the level of expenditures per

DEPARTMENT OF EDUCATION—Continued

ADA for which the district is funded through a combination of local property taxes received by school districts and state General Fund aid. In effect, the state provides enough funds to make up the difference between each district's property tax revenues per ADA and its revenue limit per ADA.

a. 1987-88 Budget Changes

Table 8 displays the changes from 1986-87 to 1987-88 in the amount proposed from state funds for the general purpose revenue limits of K-12 districts and county offices of education.

The table shows that in order to *maintain the existing program*, the budget requires (1) a \$253.3 million increase to fund additional ADA in district and county office of education programs, (2) a \$281.3 million reduction in General Fund costs resulting from an equivalent increase in local property tax revenues, (3) a \$259.3 million increase to provide a 2.2 percent statutory cost-of-living adjustment (COLA) for apportionments to K-12 districts (\$254.5 million) and county offices of education (\$4.8 million), (4) a \$33.7 million one-time adjustment to reflect a reduced General Fund obligation in 1986-87 resulting from repayment of the school apportionment "loan" provided in the 1985-86 deficiency bill, AB 3293 (Ch 790/86), (5) a \$700,000 increase to provide final-year equalization adjustments to juvenile hall program revenue limits pursuant to AB 75 (Ch 1597/85), and (6) a \$3.6 million increase due to a variety of other changes. These baseline changes yield a net increase in state funding of \$269.3 million.

Table 8
K-12 Education
General Purpose Revenue Limits
Changes Proposed for 1987-88
State Funding
(dollars in millions)

1986-87 Expenditures (Revised)		\$8,128.2
A. Changes Needed to Maintain Existing Base:		
ADA increase	\$253.3	
Increase in local property taxes	-281.3	
Statutory inflation adjustments	259.3	
K-12 districts	(\$254.5)	
County offices	(4.8)	
Adjustment for apportionment loan repayment 1986-87 (Ch 790/86)	33.7	
Juvenile hall equalization (Ch 1597/85)	0.7	
Other baseline changes	3.6	
Total, Changes Needed to Maintain Existing Program		\$269.3
B. Budget Change Proposals		
Reduce Statutory COLAs	-129.6	
Total, Budget Change Proposals		-\$129.6
C. Technical Budgeting Errors		
Underfund school district and county office revenue limits	-6.1	
Total, Technical Budgeting Errors		-\$6.1
1987-88 Expenditures (Proposed)		\$8,261.8
Change from 1986-87:		
Amount		\$133.6
Percent		1.6%

In addition to the baseline changes, the administration has made one significant *budget change proposal*. The budget proposes to provide COLAs for a *half year* only in 1987-88, thereby reducing the statutorily required amount by \$129.6 million, and the actual percentage increase to 1.1 percent.

In addition, the budget underfunds the amount required for school district and county office of education base revenue limits by an additional \$6.1 million. (The Department of Finance indicates that this results from technical errors and that it will make the required adjustments to the budget at the May Revision.)

The total change in state support for K-12 apportionments (baseline adjustments, program changes, and technical adjustments) is an increase of \$133.6 million, or 1.6 percent, over the 1986-87 level. This results in a total appropriation (General Fund and state special funds) in 1987-88 of \$8.3 billion.

We recommend approval of the proposed funding shown previously in Table 7 for the following program, which is not discussed elsewhere in this analysis:

- **County Offices of Education (Item 6100-106-001)**—\$101,425,000 from the General Fund for the general purpose revenue limits of county offices of education. The budget proposes a net total of \$219.2 million in state and local funds for the support of county offices in 1987-88. Included in this amount is the Governor's proposal to fully fund equalization of juvenile hall program revenue limits pursuant to AB 75 (Ch 1597/85).

b. Budget Fails to Recapture PERS Reduction "Windfall"

We recommend that the Legislature (1) reduce the General Fund appropriation for school apportionments by \$26.1 million to reflect an anticipated reduction in PERS employer contribution rates and (2) adopt Budget Bill language to require the adjustment of school district revenue limits to reflect the reduction in 1987-88. (Delete Provision 6 in Item 6100-101-001, adopt corresponding Budget Bill language, and reduce Item 6100-101-001 (a) by \$26,100,000.)

In 1982-83, pursuant to Ch 330/82 (SB 46), the Public Employees Retirement Board reduced employer contributions for PERS paid by school districts and county offices of education. In recognition of this cost reduction, the Legislature provided for a corresponding reduction in school district and county office revenue limits in the 1982 Budget Act. The Legislature has continued this reduction in subsequent Budget Acts or trailer bills and, until the 1986 Budget Act, had also required the adjustment of school district revenue limits to reflect any actual changes to the PERS contribution rate in the *prior year*. (For example, in 1985-86, school district revenue limits were adjusted to reflect any changes made to the PERS contribution rate during 1984-85.)

Last year, while the Legislature was deliberating the 1986 Budget Bill, the PERS Board announced a reduction in the employer contribution rate, to take effect July 1, 1986. In recognition of this reduction, the Legislature reduced funding for school district apportionments by \$38.1 million and adopted language requiring the adjustment of 1986-87 school district revenue limits to reflect changes made to the contribution rate in 1986-87. Under past practice, adjustments would only have been made to reflect changes to the contribution rate during 1985-86.

In 1987-88, the Governor's Budget proposes to reduce appropriations to

DEPARTMENT OF EDUCATION—Continued

various other state agencies to reflect another anticipated reduction in the PERS employer contribution rates, to take effect July 1, 1987. (This proposal is described in greater detail elsewhere in this *Analysis*, under Control Section 3.60.) The Governor's Budget *does not* propose, however, to recapture savings in 1987-88 that will accrue to school districts as a result of the rate reduction. Instead, the budget proposes to go back to the practice, used prior to 1986-87, of adjusting school district revenue limits only to reflect changes in the PERS rate during the prior year.

Under the Governor's proposal, therefore, school district revenue limits in 1987-88 would only be adjusted to reflect changes in the PERS rate through 1986-87, and would not reflect the July 1, 1987 PERS rate reduction. As a result, school districts would receive a one-time "windfall" in 1987-88 of approximately \$26.1 million.

Because the anticipated PERS rate reduction will result in real savings to school districts in 1987-88, we see no reason why the state should not adjust revenue limits and the budget-year appropriation for school apportionments to reflect school districts' reduced need for funding. Such a reduction is consistent with legislative policy established last year. The savings from this reduction could be directed to other high priority education or noneducation programs.

Therefore, we recommend that the Legislature reduce the amount provided from the General Fund for school apportionments by \$26.1 million and replace Provision 6 of Item 6100-101-001 with the following:

"Notwithstanding any other provision of law, the county superintendent shall reduce the total revenue limit computed pursuant to Section 42238 of the Education Code by the amount of the decreased employer contributions to the Public Employees' Retirement System resulting from enactment of Chapter 330 of the Statutes of 1982, adjusted for any changes in those contributions resulting from subsequent reductions in employer contribution rates.

The reduction shall be calculated as follows:

- (a) Determine the amount of employer contributions which would have been made in the 1987-88 fiscal year if the applicable Public Employees' Retirement System employer contribution rate in effect immediately prior to the enactment of Chapter 330 of the Statutes of 1982 were in effect during the 1987-88 fiscal year.
- (b) Subtract from the amount determined in paragraph (a) the actual amount of employer contributions made to the Public Employees' Retirement System in the 1987-88 fiscal year.
- (c) For the purposes of this provision, employer contributions to the Public Employees' Retirement System for any of the following shall be excluded from the calculation specified above:
 - (1) Positions supported totally by federal funds which are subject to supplanting restrictions.
 - (2) Positions supported by funds received pursuant to Section 42243.6 of the Education Code.
 - (3) Positions supported, to the extent of employer contributions not exceeding \$25,000 by any single educational agency, from a revenue source determined on the basis of equity to be properly excludable from the provisions of this subdivision by the Superintendent of Public Instruction with the approval of the Director of Finance.

- (d) For accounting purposes, the reduction made by this provision may be reflected as an expenditure from appropriate sources of revenue as directed by the Superintendent of Public Instruction."

c. Provision of "Basic Aid" Hinders Equalization Efforts

We recommend that the Legislature adopt Budget Bill language limiting the amount of "basic aid" provided to "high-wealth" districts, because (1) the provision of such aid is not necessary in order to comply with the requirements of the State Constitution; (2) providing basic aid is contrary to the state's policy of eliminating wealth-related disparities in education spending; and (3) basic aid funding is not, in general, critical to the annual operations of high-wealth school districts. Consistent with this recommendation, we further recommend that the Legislature reduce the amount of funding for basic aid by \$1.8 million. (Reduce Item 6100-101-001 by \$1,800,000.)

Under California's current system of financing schools, general purpose aid is allocated to school districts through a "revenue limit" system. Each school district has a specific revenue limit per unit of average daily attendance (ADA) which is based, in part, on the district's historical level of expenditures. The school finance system guarantees each school district an amount of general purpose funds equal to its revenue limit times its ADA, with this amount financed through a combination of local property taxes (together with other, specified local revenues) and state aid.

In addition, Section 42238.1 of the Education Code requires the Superintendent of Public Instruction to adjust the revenue limits of school districts to compensate for inflation. This annual cost-of-living adjustment (COLA) is determined by multiplying the average revenue limit for districts of similar type (elementary, high school, or unified) by a specified inflation index (the Implicit Price Deflator for State and Local Government Purchases). All districts of a similar type receive the same flat dollar amount as a COLA.

For most school districts, the amount of local property taxes received in a year is not sufficient to fund the revenue limit guarantee amount. Thus, the state provides these districts with sufficient funds to make up the difference between the guarantee and the amount of property taxes received by the district.

For 33 school districts, however, the amount of local property taxes received exceeds the revenue limit guarantee. The state does not recapture any of the excess amount—estimated by the Department of Finance to be \$26 million in 1987-88—and, in fact, adds to the excess by providing these districts with additional funding in the form of state "basic aid." The provision of basic aid derives from the Legislature's assumption that Article IX, Section 6 of the California Constitution requires that each school district receive *general-purpose apportionment aid* from the State School Fund in an amount equal to the greater of \$120 per ADA or \$2,400.

Our review indicates that:

- the provision of "basic aid," in the manner authorized by the Legislature, is not constitutionally required;
- the provision of basic aid is contrary to the state's policy of eliminating wealth-related disparities in education spending; and
- basic aid funding does not appear to be critical to the annual operations of high-wealth school districts.

For these reasons (which are discussed in more detail below), we have

DEPARTMENT OF EDUCATION—Continued

recommended in the two previous editions of our *Analysis of the Budget Bill* that the Legislature limit the amount of such aid provided to high-wealth school districts. We continue to recommend that the Legislature take this action.

Basic Aid Not Constitutionally Required. An opinion provided by the Legislative Counsel (No. 18721) concludes that basic aid, in the form provided by the Legislature, is not necessary in order to comply with the requirements of the State Constitution. In strict terms, the requirements of Article IX, Section 6 may be satisfied by the provision of at least \$120 per pupil (or \$2,400) in state aid of *any type*, including aid provided under categorical programs, that flows through the State School Fund.

Basic Aid Exacerbates Wealth-Related Disparities. Because school districts receiving basic aid clearly are able to raise large amounts of revenue from local sources, the provision of this aid tends to *exacerbate* wealth-related disparities in educational spending per pupil—and is thus contrary to the requirements of the 1974 decision in *Serrano v. Priest* and the state's equalization efforts since the *Serrano* decision. The State Department of Education reports that in 1985-86, 33 districts received basic aid payments. Table 9 compares the amounts of general purpose funds per ADA received by these districts in 1985-86 with the average revenue limit amounts for districts of a similar size and type.

As shown in the table, *each* of the 33 school districts receiving basic aid in 1985-86 had amounts of revenues per ADA that exceeded the statewide average revenue limit for comparable districts. General purpose revenues per ADA ranged from 106 percent (Fallbrook Elementary) to 559 percent (Belridge Elementary) of comparable statewide averages.

Moreover, because the growth of local revenues in many basic aid districts tends to exceed the statutory COLA amounts provided to districts of similar type, the provision of basic aid merely serves to widen the gap between a relatively small number of high-wealth districts and the remaining districts that are dependent upon state funding. For example, Table 9 shows that in 1984-85, large unified districts that received basic aid had average general purpose revenues per ADA of \$2,517—or 114 percent of the statewide average. In 1985-86, these districts' average general purpose revenues per ADA increased by \$548. Other, less wealthy, elementary districts that were dependent upon state revenue limit aid, however, received a COLA of only \$137.

Table 9
K-12 Education
Basic Aid Districts
Local Revenues per ADA
Illustrative Comparison of
Current Statute Versus Legislative Analyst Proposal
1985-86

	Per ADA			Dollar Change	
	1984-85 General Purpose Revenue	1985-86 General Purpose Revenue	1985-86 Revenue under LAO proposal	Current Statute	LAO Proposal
Small Elementary School Districts					
Mountain House Elementary	\$5,157	\$7,950	\$7,830	\$2,793	\$2,673 ^a
Silver Fork Elementary	8,730	9,470	9,170	740	440 ^a

Item 6100

K-12 EDUCATION / 925

Chawanakee Elementary	4,904	5,455	5,335	551	431 ^a
Beldridge Elementary	17,721	15,959	15,959	-1,762	-1,762
Elk Hills Elementary	4,996	6,044	5,924	1,048	928 ^a
McKittrick Elementary	19,874	10,139	10,139	-9,734	-9,734
Bass Lake Elementary	3,316	4,234	4,168	917	852 ^a
Ballard Elementary	6,461	6,803	6,683	342	222 ^a
Vista Del Mar Elementary	6,812	7,151	7,031	338	218 ^a
Pacific Elementary	3,801	4,007	3,929	206	128 ^b
Indian Springs Elementary	7,666	8,188	8,068	521	401 ^a
Winship Elementary	5,707	4,833	4,833	-874	-874
<i>Average, Small Elementary School Districts</i>	<i>\$8,466</i>	<i>\$7,915</i>	<i>\$7,833</i>		
<i>Statewide Average Revenue Limit and COLA for Size and Type of District.....</i>	<i>\$2,683</i>	<i>\$2,856</i>		<i>\$128</i>	
Large Elementary School Districts					
Pine Ridge Elementary	\$9,613	\$7,118	\$7,118	-\$2,495	-\$2,495
Midway Elementary	10,206	12,740	12,620	2,534	2,414 ^a
Standard Elementary	5,174	4,108	4,108	-1,066	-1,066
Del Mar Union Elementary	2,903	3,399	3,279	496	376 ^a
Fallbrook Union Elementary	2,229	2,342	2,342	113	113
Solana Beach Elementary	2,913	3,255	3,135	343	223 ^a
Goleta Elementary	2,620	2,537	2,537	-83	-83
Montecito Union Elementary	3,414	3,383	3,383	-31	-31
Orchard Elementary	3,371	4,573	4,453	1,202	1,082 ^a
<i>Average, Large Elementary School Districts.....</i>	<i>\$3,141</i>	<i>\$3,103</i>	<i>\$3,081</i>		
<i>Statewide Average Revenue Limit and COLA for Size and Type of District.....</i>	<i>\$2,069</i>	<i>\$2,204</i>		<i>\$128</i>	
Large High School Districts					
Taft Union High	\$6,950	\$6,535	\$6,535	-\$415	-\$415
Wasco Union High	3,279	4,878	4,758	1,599	1,479 ^a
Fallbrook Union High	2,953	2,916	2,916	-37	-37
<i>Average, Large High School Districts</i>	<i>\$4,034</i>	<i>\$4,195</i>	<i>\$4,170</i>		
<i>Statewide Average Revenue Limit and COLA for Size and Type of District.....</i>	<i>\$2,563</i>	<i>\$2,729</i>		<i>\$159</i>	
Small Unified School Districts					
Maricopa Unified	\$3,808	\$3,430	\$3,430	-\$378	-\$378
Middletown Unified	4,544	3,977	3,977	-567	-567
Mammoth Unified	3,269	3,110	3,110	-159	-159
Desert Center Unified	4,456	4,956	4,836	501	381 ^a
Cloverdale Unified	4,152	3,657	3,657	-495	-495
Geyersville Unified	5,408	4,514	4,514	-895	-895
<i>Average, Small Unified School Districts</i>	<i>\$4,178</i>	<i>\$3,728</i>	<i>\$3,725</i>		
<i>Statewide Average Revenue Limit and COLA for Size and Type of District.....</i>	<i>\$2,373</i>	<i>\$2,525</i>		<i>\$137</i>	
Large Unified School Districts					
Coalinga-Huron Unified	\$2,239	\$3,176	\$3,056	\$937	\$817 ^a
Carmel Unified	2,519	2,760	2,656	241	137 ^b
San Luis Coastal Unified	2,625	3,116	2,996	491	371 ^a
<i>Average, Large Unified School Districts</i>	<i>\$2,517</i>	<i>\$3,065</i>	<i>\$2,948</i>		
<i>Statewide Average Revenue Limit and COLA for Size and Type of District.....</i>	<i>\$2,207</i>	<i>\$2,344</i>		<i>\$137</i>	

^a These districts would have received no basic aid under the LAO proposal.

^b These districts would have received a partial reduction in basic aid under the LAO proposal.

Basic Aid Not Critical to School District Operations. We reviewed income and expenditure data submitted to the State Department of Education by basic aid districts in their Annual Financial and Budget Reports. Our analysis of these data indicate that, for the most part, funds provided

DEPARTMENT OF EDUCATION—Continued

as basic aid are not critical to the annual operations of the recipient school districts.

Table 10 compares the amount of basic aid received by each district in 1985-86 with (1) excess local general fund income over expenditures in each district for 1985-86 and (2) each district's local general fund ending balance. In 1985-86, 21 out of 33 basic aid districts had income from sources other than basic aid that exceeded their expenditures, and all districts but one had ending balances that exceeded their basic aid payments. As the table indicates, an elimination or reduction in basic aid funding would have had almost no impact on operations in basic aid districts.

Table 10
K-12 Education
Basic Aid Districts
Excess General Fund Income
Compared to Basic Aid Funding
1985-86

	<i>Total State Basic Aid</i>	<i>Local General Fund Annual Surplus</i>	<i>Local General Fund Ending Balance</i>
Mountain House Elementary	\$3,240	\$78,767	\$82,017
Silver Fork Elementary	2,400	10,141	20,065
Chawanakee Elementary	2,400	1,059	272,038
Belridge Elementary	8,160	639,604	1,642,030
Elk Hills Elementary	9,360	22,343	240,779
McKittrick Elementary	5,760	68,597	201,579
Bass Lake Elementary	11,520	-8,753	-20,006
Ballard Elementary	3,840	-1,891	83,796
Vista Del Mar Union Elementary	8,520	159,075	586,044
Pacific Elementary	7,560	25,379	83,893
Indian Springs Elementary	6,240	149,735	128,194
Winship Elementary	3,840	50,175	442,549
Pine Ridge Elementary	13,200	206,752	494,140
Midway Elementary	22,320	1,011,389	2,122,946
Standard Elementary	220,320	3,024,958	1,092,948
Del Mar Union Elementary	87,840	355,329	858,522
Fallbrook Union Elementary	471,480	-417,271	3,157,189
Solana Beach Elementary	108,600	101,311	374,512
Goleta Union Elementary	411,600	-176,353	1,752,840
Montecito Union Elementary	35,280	24,849	265,148
Orchard Elementary	33,720	219,784	893,240
Taft Union High	106,800	618,300	1,747,758
Wasco Union High	88,800	780,227	947,550
Fallbrook Union High	243,000	-171,443	626,374
Maricopa Unified	51,840	-815,563	560,819
Middletown Unified	117,480	526,434	506,988
Mammoth Unified	11,520	-13,492	568,115
Desert Center Unified	9,360	-246,285	543,445
Cloverdale Unified	138,240	1,498,248	138,912
Geyserville Unified	38,640	1,037,954	39,829
Coalinga-Huron Unified	341,760	2,559,851	2,728,348
Carmel Unified	260,040	-81,540	556,480
San Luis Coastal Unified	826,200	1,794,274	5,042,994

In addition, our analysis reveals that, overall, basic aid districts have a significantly larger amount of surplus funds than other school districts in

the state. We compared average 1984-85 general fund ending balances (as a percentage of expenditures) for basic aid districts to the average for all districts in the state. We found that while, overall, school districts had ending balances that equal approximately 7 percent of their 1984-85 general fund expenditures, basic aid districts had ending balances equal to approximately 16 percent of their general fund expenditures. In other words, basic aid districts had almost twice as much surplus funding—on a percentage basis—at the end of 1984-85 as regular school districts.

Recommendation. In order to address the inequities that are consequent to the provision of basic aid, we recommend that the amount of basic aid provided to eligible districts be limited. Specifically, we recommend that the Legislature adopt Budget Bill language providing that, to the extent a district's local general purpose revenues (including basic aid) per ADA would otherwise grow in excess of the statutory COLA amount provided similar districts, the district's basic aid entitlement shall be reduced. In no event, however, would a district receive less than the constitutionally-required amount of \$120 per ADA (or \$2,400) in aid from the State School Fund.

Table 9 (shown previously) indicates what the effect of this proposal would have been, had it been implemented in 1985-86 (the most recent year for which data are available). The table shows that, of the 33 districts receiving basic aid in 1985-86, 18 would have received reductions in their basic aid entitlements under our proposal. (Of these, 16 would have received no basic aid). No district that experienced a decline in total general purpose revenues per ADA in 1985-86, however, would have received any further reduction under our proposal.

The table also shows that many wealthy basic aid districts would have continued to receive substantial increases in local general purpose revenues per ADA under our proposal. Such increases, however, would have been due solely to increases in *local* revenues—and would not have been further aggravated through the addition of basic aid. Thus, Mountain House Elementary District, which experienced an actual increase in general purpose revenues per ADA of \$2,793 (a 54 percent increase) in 1985-86 would have had this increase cut to \$2,673 (a 52 percent increase) under our proposal.

The State Department of Education estimates that, in 1985-86, basic aid payments totalled \$3.8 million. Our analysis indicates that, under the provisions of our proposal, the total requirement for basic aid could have been reduced by \$1.8 million, resulting in an equivalent General Fund savings. We therefore recommend that the Legislature reduce Item 6100-101-001 by \$1.8 million and adopt the following Budget Bill language:

“Notwithstanding the provisions of Sections 41790 and 41800 of the Education Code, or any other provision of law to the contrary, the Superintendent of Public Instruction shall only allow to each district “basic state aid” according to the following provisions:

- (a) For the purpose of these provisions “basic state aid” is defined as state apportionment aid allocated to a district under the provisions of Sections 41790 and 41800 that is in excess of its total revenue limit.
- (b) Subtract the total amount of state aid of all types (exclusive of basic state aid) which the district receives from the State School Fund in 1987-88 from the greater of: (1) \$2,400 or (2) \$120 times the district's 1987-88 average daily attendance. If the result is negative, it shall be deemed equal to zero.

DEPARTMENT OF EDUCATION—Continued

(c) Compute the following:

- (1) Add the amount of basic state aid which the district would otherwise be entitled to receive in 1987-88 to the sum of the amount of total revenue limit apportionment aid received by the district in 1987-88 pursuant to Section 42238, plus the amount of local revenues received in that year, as computed pursuant to Section 42238(h). Divide this amount by the district's 1987-88 average daily attendance.
- (2) Add the amount of basic state aid received by the district in 1986-87 to the sum of the amount of total revenue limit apportionment aid received by the district in 1986-87 pursuant to Section 42238, plus the amount of local revenues received in that year, as computed pursuant to Section 42238(h). Divide this amount by the district's 1986-87 average daily attendance.
- (3) Subtract the amount computed in subdivision (c) (2) from the amount computed in subdivision (c) (1). If the result is negative, it shall be deemed equal to zero.
- (4) From the amount computed in subdivision (c) (3), subtract the district's 1987-88 inflation adjustment per ADA computed pursuant to Section 42238.1 of the Education Code. If the result is negative, it shall be deemed equal to zero.
- (5) Multiply the amount computed in subdivision (c) (4) times the district's 1987-88 average daily attendance.
- (6) From the amount of basic state aid which the district would otherwise be entitled to receive in 1987-88 pursuant to Sections 41790 and 41800 of the Education Code, subtract the amount computed in subdivision (c) (5). If the result is negative, it shall be deemed equal to zero.

The Superintendent of Public Instruction shall allow to each school district basic state aid in an amount equal to the greater of (b) or (c)."

d. Current Summer School Funding Formula Favors Unified School Districts

We recommend that the Legislature adopt Budget Bill language altering the funding formula for supplemental summer school programs in order to (1) more effectively accommodate demand for these programs and (2) ensure an equal opportunity for all school districts to meet summer school demand.

Senate Bill 813 (Ch 498/83) allows school districts to receive state support for summer instruction offered to students in math, science, and "other core academic areas designated by the Superintendent of Public Instruction." At present, the law limits the funded enrollment in these summer classes to 5 percent of a district's total enrollment for all grades. Schools are reimbursed at an hourly rate, for up to 120 hours per pupil. In 1986-87, funding was provided at a rate of \$1.78 per pupil-hour.

The Governor's Budget proposes \$46.4 million from the General Fund for supplemental summer school programs in 1987-88, \$1.8 million more than the current-year funding level. This increase provides for a projected increase in enrollments and a 1.1 percent COLA. The administration also proposes to continue Budget Bill language authorizing a minimum allocation of \$5,300 for supplemental summer school programs in those districts whose prior-year enrollment was less than 500 and that, in the 1987-88

fiscal year, offer at least 1,500 hours of supplemental summer school instruction.

Demand for Summer School Programs. This year, we analyzed enrollment and funding data collected by the State Department of Education for summer school programs operated by school districts in 1984, 1985, and 1986. We found that *demand for summer school programs is substantially greater in secondary grades (9-12) than in elementary grades (K-8), however, districts are in an unequal position to serve the demand.* Our analysis follows.

Table 11 shows the number of school districts, by type, that have operated supplemental summer school programs since 1984-85. As the table indicates, participation in supplemental summer school programs is significantly higher among high school and unified school districts than elementary school districts. The percentage of elementary school districts that operate supplemental summer school programs is less than three-quarters that for high school and unified school districts. Although the number of elementary school districts operating supplemental summer school programs rose sharply in 1986-87, we believe that this is a direct response to the 1986 Budget Act's appropriation of a minimum allocation to small school districts—most of which are elementary school districts—and we do not anticipate similar increases in future years.

Table 11
K-12 Education
Participation in Supplemental Summer School Programs
By Type of School District
1984-85 through 1986-87

Type of School District	Actual 1984-85	Actual 1985-86	Est. 1986-87
Elementary	364	281	410
Percent of Total Elementary Districts	56.4%	43.6%	63.6%
High School	98	96	106
Percent of Total High School Districts	87.5%	85.7%	94.6%
Unified	250	243	235
Percent of Total Unified Districts	92.3%	89.7%	86.7%
Totals	712	620	753
Percent of All School Districts	69.3%	60.3%	73.2%

Furthermore, high school districts are offering significantly more hours of summer school instruction to students than are either elementary or unified school districts. Table 12 shows, for 1984-85 and 1985-86, the maximum number of fundable hours for summer school instruction by type of district and the number of hours of instruction (funded and unfunded) provided by the districts. In 1985-86, elementary and unified school districts offered fewer hours of summer school instruction than the maximum authorized by current law, but high school districts *exceeded* their maximum hours of instruction by approximately 21 percent.

Finally, summer school enrollments in unified school districts have a much higher percentage of secondary students than do regular school year enrollments. Our review revealed that, although enrollment in grades 9-12 comprises approximately 31 percent of total enrollment in unified school districts, enrollment in these grades comprises approximately 49 percent of the summer school enrollment in these districts.

DEPARTMENT OF EDUCATION—Continued

Table 12
K-12 Education
Hours of Supplemental Summer School Instruction Offered
By Type of School District
1984-85 and 1985-86
(hours in thousands)

	<i>Elementary</i>	<i>High School</i>	<i>Unified</i>	<i>Total</i>
<i>1984-85</i>				
Maximum number of fundable instruction hours.....	4,081	2,635	16,221	22,936
Number of instruction hours reported.....	3,456	2,175	10,413	16,044
Actual reported hours as a percentage of maximum available hours	84.7%	82.6%	64.2%	70.0%
<i>1985-86</i>				
Maximum number of fundable instruction hours.....	4,198	2,709	16,639	23,546
Number of instruction hours reported.....	3,714	3,282	14,574	21,570
Actual reported hours as a percentage of maximum available hours	88.4%	121.2%	87.6%	91.6%

Funding Advantage to Unified Districts. Because unified districts have grades K-12, they can draw on unused summer school hours attributable to enrollment in elementary grades to provide extra instruction to students in *secondary grades* with no additional local costs. High school districts, which face similar demands for summer school instruction in secondary grades but have no reserve of unused elementary grade hours, must limit their instruction to 5 percent of their enrollment times 120 hours. We can find no analytical basis for allowing unified school districts this kind of significant advantage in providing summer school instruction to high school students.

Recommendation. In order to better accommodate the larger demand for summer school instruction in secondary grades, we recommend that the Legislature alter the supplemental summer school funding formula to provide a somewhat larger funding entitlement for grades 9 through 12 and a somewhat smaller funding entitlement for grades K through 8. We also recommend that the Legislature specify separate entitlement limits for student participation in elementary and secondary grades in order to ensure that all districts have an equal opportunity to meet their summer school demand.

Based on our analysis of summer school enrollment data for unified school districts, we estimate that participation in summer school programs is approximately twice as high among students in grades 9-12 as those in grades K-8. The current level of funding proposed in the Governor's Budget could better accommodate this demand for all school districts if summer school enrollment were limited to 4 percent of a school districts' prior-year enrollment in grades K-8 and 7 percent of their enrollment in grades 9-12. We believe that this is a reasonable trade-off and that it offers a cost-effective solution to meet the demand for summer school programs. To implement this solution, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-101-001:

"Notwithstanding Section 42239 of the Education Code, or any other provision of law to the contrary, a school district's maximum entitlement for pupil attendance in summer school programs offered pursuant to paragraph (2) of subdivision (d) of Section 42239 shall be as follows:

(a) For pupils in grades kindergarten through 8, an amount equal to 4

percent of the district's enrollment in grades kindergarten through 8 for the prior fiscal year times 120 hours, times the hourly rate for the current fiscal year determined pursuant to subdivision (c) of Section 42239. Funding from entitlements calculated pursuant to this subdivision shall only be used to support summer school enrollment in grades kindergarten through 8.

- (b) For pupils in grades 9 through 12, an amount equal to 7 percent of the district's enrollment in grades 9 through 12 for the prior fiscal year times 120 hours, times the hourly rate for the current fiscal year determined pursuant to subdivision (c) of Section 42239. Funding from entitlements calculated pursuant to this subdivision shall only be used to support summer school enrollment in grades 9 through 12."

e. Continuation High Schools

We recommend that legislation be enacted which establishes a separate revenue limit for continuation high schools, because such a funding system would be more rational and equitable than the existing system.

Current law requires unified and high school districts to maintain one or more continuation high schools (or classes) for students, age 16 and over, as an alternative to the regular instructional program. Continuation high schools are intended: (1) to provide students with academic or behavioral problems an opportunity to complete the required academic course of study, and/or (2) to allow students to work while attending school. These schools served a total of 41,906 ADA in 1985-86.

Funding Mechanisms. The Governor's Budget proposes \$118.6 million for these schools in 1987-88. Program funding is allocated to school districts in two different ways.

First, all districts operating continuation high schools receive funds based on the average daily attendance (ADA) in these schools, multiplied by the district's revenue limit. These funds are received as part of each district's base apportionment, and are adjusted annually for workload changes and inflation.

Second, districts which established continuation high schools subsequent to 1978-79 receive *additional* funds pursuant to a special "small school" funding formula. Specifically, the formula provides additional funds based on the school's attendance level and staff size *in the year in which it was established*. This funding level remains fixed in subsequent years, and is not adjusted for workload changes or inflation.

Only schools that, at the time of their establishment, had ADA levels of 300 or fewer are eligible to receive small school funds. At this time, however, *all* schools established after 1978-79 meet this criterion.

The funding schedule for the small school adjustment is designed so that, for schools eligible for funding, the smallest schools receive, on average, more funds per ADA than do the larger schools. As is shown in Table 13, for instance, a school with 20 ADA and 3 certificated employees would receive a grant of \$86,760, or \$4,338 per student, while a school with 150 ADA and 11 employees would receive a grant of \$100,490, or only \$670 per student.

The rationale for providing greater per-pupil subsidies to the smallest schools is that these schools must spend a proportionately greater amount (per pupil) on such fixed items of expenditure as capital outlay, curriculum development, and administration. Larger schools, on the other hand, may be able to achieve economies of scale in these areas, thus

DEPARTMENT OF EDUCATION—Continued

reducing per pupil costs. The larger schools are therefore provided with a proportionately smaller grant.

Table 13
Funding for Continuation High Schools
of Selected Sizes
1985-86

ADA	Number of Certificated Employees	Schools Established After 1978-79			Schools Est. Before 1979-80
		Total Small School Funding	Small School Funding Per ADA	Total Funding Per ADA ^a	Total Funding Per ADA
20	3	\$86,760	\$4,338	\$6,968	\$2,630
50	5	93,350	1,867	4,497	2,630
100	8	96,920	969	3,599	2,630
150	11	100,490	670	3,300	2,630
200	13	81,820	409	3,039	2,630
250	14	40,910	164	2,794	2,630
Statewide				\$5,890 ^b	\$2,630
Average:					

^a Includes both small school and revenue limit funds. For purposes of illustration, table assumes revenue limit funding of \$2,630 per ADA—the statewide average for districts operating continuation high schools that receive no small school funding.

^b Actual statewide average funding provided to districts that receive small school funding.

Of the \$118.6 million contained in the Governor's Budget for continuation high schools, \$8.6 million would be provided under the small school formula, while the remaining \$110 million would be apportioned through the revenue limit system. Approximately 98 schools, or 23 percent of the 423 continuation high schools in the state, would receive small school funds in addition to revenue limit funds. The remaining schools (established before 1979-80) would receive only the revenue limit amount.

It should be noted that current law does not require districts to expend the full amount received for continuation schools on those schools. As a result, the amount of funding actually received by a continuation school may be less than the total amount of revenue generated under the funding formula.

Discrepancies in Funding Rates. Because only those districts with continuation schools established after 1978-79 receive small school funds, considerable discrepancies exist in the amount of funding received by various schools. As shown previously in Table 13, schools which received small school funds in 1985-86 received an average of \$5,890 per ADA, while the other continuation schools received an average of only \$2,630 per ADA. Our data also indicate that schools in the first group tend to be much smaller in size than the others, averaging only 41 units of ADA as compared to 101 units of ADA for schools which do not receive small school funding.

Reason for Funding Discrepancies. The discrepancies in funding rates for the two groups of schools are a result of major changes which were made to the state's school finance system in the wake of Proposition 13 of 1978.

Prior to Proposition 13, small school funds were provided to *all* districts operating continuation high schools. The Legislature instituted the small

school funding formula in 1965 to encourage the formation of additional small, continuation schools; as a result, approximately 325 additional continuation schools were established in the state between 1965-66 and 1978-79.

In 1979, the Legislature, in response to the restrictions imposed by Proposition 13 on the levying of local property taxes, enacted AB 8 (Ch 282/79), the local government "bail-out" bill. This measure provided in part that any district which had small school entitlements in 1978-79 which exceeded the amount to which it would otherwise be entitled under the revenue limit system would have the amount of this excess permanently "built into" its per-pupil revenue limit. The Legislature also recognized, however, that the revenue limit amount would not reflect the costs of any new school established *after* 1978-79 and, for this reason, continued the use of the small school funding formula for any district which established a new school. As a result, the current system of providing funding for continuation schools through two separate mechanisms—the revenue limit and the small school funding formula—was established.

The use of two separate funding mechanisms has resulted in large differences in the amount of funding received by different schools. Data provided by the Department of Education for the 1984-85 fiscal year confirm that financial support for continuation schools established subsequent to 1978-79 is greater than support for schools established previously. Specifically, the data indicate that districts with schools in the first category spent an average of \$5,508 per ADA on continuation schools, while districts with schools in the latter category spent an average of only \$4,220 per ADA.

Based on discussions with staff at the Department of Education, we believe that these funding inequities were unanticipated consequences of the technical changes made to the funding system subsequent to Proposition 13, and were not intended by the Legislature.

Other Consequences of the Funding System. There are two other features of the existing funding system which also result in funding inconsistencies between the two categories of districts.

First, as noted earlier, the current system provides for funds generated through the revenue limit system to be annually adjusted for inflation and workload changes. No such adjustments, however, are applied to small school funds.

Second, under current law, a district receiving small school funds for a school established after 1978-79 will lose these funds if it discontinues operation of the school. However, a district which discontinues operation of a school that was established prior to or during 1978-79 will experience no reduction in funding, because funding associated with the school had been included in the district's revenue limit.

Since there are no inherent differences between the funding needs of schools established prior to Proposition 13 and those established subsequently, we see no analytical basis for these inconsistencies. We therefore believe it would be better to use one, uniform funding formula for all schools, rather than to utilize two separate formulas.

An Alternative Funding System. Last session, the Legislature considered several alternative funding systems. Specifically, both AB 1886 and AB 1928 proposed to create a special revenue limit for continuation high schools, based on the amount of funding per ADA, including small school funding, currently received for these schools by each district. These measures also proposed to level-up revenue limits to the prior-year statewide average, over a three-year period. Neither was enacted.

DEPARTMENT OF EDUCATION—Continued

While we have no analytical basis to recommend a particular level of funding for "equalization," we believe that there is merit to the idea of establishing separate revenue limits for continuation high schools. Such a system would be simpler, more uniform, and potentially more equitable than the existing funding approach. Although a continuation high school revenue limit would not explicitly account for school size, the additional costs resulting from the small size of these schools could be reflected in a higher revenue limit rate for them, as compared to the revenue limit rate for regular schools.

In addition, we believe that any new system should require that any funding provided through a continuation high school revenue limit must be expended exclusively on these schools, as is currently the case with adult education programs. This would prevent any funds provided for these schools from being "siphoned-off" and used for other district activities.

Recommendation. For these reasons, we recommend that legislation be enacted which establishes separate revenue limits for continuation high schools.

Effectiveness of Continuation High Schools Requires Further Review

We recommend that the Legislature adopt supplemental report language directing the Department of Education to evaluate the influence of instructional materials and curriculum on continuation high school programs, because data exists which suggest that program quality is significantly affected by these factors.

While, as discussed in the previous section, there may be some justification for the Legislature to "equalize" continuation high school funding rates on general grounds of equity, we believe that, *no matter what level of funding is established for continuation schools*, the Legislature should also make sure that the funds apportioned to these schools are expended effectively.

Most observers agree that there are large discrepancies in the quality and effectiveness of different continuation schools throughout the state. Many, however, attribute these variations in quality to both the size and funding-levels of different schools, believing that continuation schools that are smaller and receive more funding can provide students with a better program than can larger schools. Advocates of continuation schools therefore often argue that the effectiveness of continuation schools could be improved *simply* by providing more revenues to schools with low funding rates. Available data, however, do not support this contention.

Using data on graduation and attendance rates as measures of school "effectiveness"—under the assumption that students in better programs would be more likely to come to school and earn credits toward graduation—we found that there are indeed large variations in the quality of different continuation high schools in the state. Specifically, we found that students attended these schools between 55 and 100 percent of the time for which they were enrolled, and from 0 percent to 30 percent remained through graduation. We found *no relationship*, however, between these measures of school effectiveness and school size or funding levels.

On the other hand, our review revealed that one important factor which *does* affect school quality is the amount spent on books and supplies. Specifically, our analysis of the data indicates that—other things being

equal—an increase in spending for books and materials of \$500 per ADA is associated with a 5 percent improvement in graduation and attendance rates. (Currently, expenditures for books and supplies vary among continuation schools from \$4 to \$819 per ADA; on average, however, these schools spend only about \$100 per ADA.)

We do not know for sure why higher levels of spending for books and supplies enhances the quality of continuation schools. We suspect, however, that schools which report high levels of expenditures for books and materials may be developing or purchasing innovative curriculum materials which may enhance these schools' effectiveness. Further evaluation is required to confirm this.

Under current law, the department is required to submit to the Legislature every two years an evaluation of the continuation high school program. The next report is due on December 1, 1987. We believe that, in view of our findings, this report should address the issue of why expenditures for instructional materials influence the effectiveness of continuation high schools. Such information would better enable the Legislature to determine how the effectiveness of these schools could be improved.

Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6100-101-001, which requires the State Department of Education to evaluate in its next biennial report the influence of instructional materials purchases on continuation high schools:

"It is the intent of the Legislature that the Department of Education assess the effect of instructional materials purchases on the effectiveness of continuation high schools, through a combination of both statistical analysis and case studies. Case studies prepared by the department should attempt to ascertain (1) the degree which schools with high graduation or attendance rates and high levels of expenditures for books and materials utilize innovative curricula and instructional techniques not employed by other continuation schools, and (2) the nature of any such curricula. The department's findings shall be included in the report prepared pursuant to Section 48443 of the Education Code."

f. Apprenticeship Funding Not Based on Program Needs

We withhold recommendation on \$2,721,000 proposed in Item 6100-101-001 (e) for K-12 apprenticeship programs, pending receipt of information on actual participation rates in the current year.

In California, those seeking to learn a skill or trade may receive on-the-job training through apprenticeship programs. These programs offer on-site instruction in various trades such as carpentry, plumbing, welding, and nursing. Once selected for an apprenticeship, an individual is expected to work full-time under the supervision of a journeyman in the trade. The apprentice usually receives a salary equal to 50 percent of the journeyman's salary or an amount specified through collective bargaining.

As part of the program, the individual is expected to complete 144 hours of "related and supplemental instruction" for each year of the apprenticeship. In general, this component of the program provides the apprentice with textbook instruction which could not be provided effectively on the job site. This instruction can be provided by the direct sponsors of the apprentices, or the sponsors can contract with a local educational agency, principally a school or community college district, to provide the instruction.

School and community college districts receive, as part of their state

DEPARTMENT OF EDUCATION—Continued

apportionments, reimbursement for each hour of related and supplemental instruction provided to each apprentice. In 1986-87, their reimbursement rate is \$3.76 per hour.

Section 8154 of the Education Code also allows, upon agreement of the Superintendent of Public Instruction (SPI) and the Chancellor of the California Community Colleges, the transfer of state apprenticeship funds from one agency to another, in order to eliminate or equalize deficiencies in apprenticeship programs. This provision has been nullified in recent years by Budget Act language, first introduced in the Budget Act of 1984, limiting the amount provided for apprenticeship programs at each agency, to the amounts appropriated in their individual Budget Act items. This language also prevents the equalization of any apprenticeship deficiency with other apportionment deficiencies.

History of Apprenticeship Deficiencies. Table 14 shows the entitlements for K-12 apprenticeship funding for 1984-85 through 1986-87 and the amount of funding provided through Budget Act appropriations and other legislation. As the table shows, total entitlements in 1985-86 were \$5.6 million, while the amount appropriated in the Budget Act to fund them was only \$2.7 million. Thus, the program's requirements were more than double the amount originally appropriated. Part of the deficiency was funded by an appropriation in AB 3263 (Ch 1124/86). SDE now informs us that an additional \$1.5 million will be required to fully fund all 1985-86 entitlements.

Table 14
K-12 Education
Entitlements and Funding for
Hours of Related and Supplemental Instruction in
Apprenticeship Programs
1984-85 through 1986-87
(dollars in thousands)

	Actual 1984-85	Actual 1985-86	Est. 1986-87
Entitlements	\$3,782	\$5,577	\$8,052 ^a
Budget Act appropriation	3,411	2,663	2,721
Deficiency	\$371	\$2,914	\$5,331
Appropriations for deficiencies	371 ^b	1,443 ^b	—
Remaining unfunded entitlements	—	\$1,471	\$5,331

^a State Department of Education estimate.

^b Funding provided by AB 3263 (Ch 1124/86).

Moreover, these deficiencies are expected to grow in the next two years. Based on a limited survey of the field, SDE is projecting a shortfall in apprenticeship funding of \$5.3 million in 1986-87. Thus, if this survey is accurate, the program's funding requirements will have grown to a level that is almost *three times* the amount appropriated to fund them in the current year. In addition, based on the Governor's proposal for 1987-88 (which maintains the current-year funding level), SDE estimates a \$7.3 million deficit in apprenticeship programs for 1987-88.

In a report on the apprenticeship deficiency, SDE cites three reasons for this situation.

First, the SPI has no control over the number of apprenticeship

hours that current law requires the K-12 system to fund. By contrast, Budget Act language since 1984-85 has prohibited the use of apprenticeship funds for instruction hours in new or expanded programs at community colleges without the approval of the Chancellor.

Second, in 1985-86, the California Firefighter Joint Apprenticeship Committee (CFJAC) Academy Training Program was administratively transferred from the community colleges to K-12 education. Senate Bill 167 (Ch 12/85)—enacted *prior* to the program transfer—requires that the state reimburse local education agencies that provide hours of related and supplemental instruction to apprentices in this program at a rate of \$5.75 per hour—approximately 45 percent higher than the rate for regular apprentices. The bill also (1) appropriated \$150,000 to the community college budget item to fund the difference between the firefighter apprenticeship rate and the standard apprenticeship rate and (2) authorized the Chancellor to reduce the reimbursement rate if the funding proved inadequate.

When the CFJAC program was transferred, however, the K-12 education budget received no additional funding: neither a budget augmentation to support the additional hours generated by the CFJAC program, nor the \$150,000 provided by SB 167 to fund the higher firefighter rate. Moreover, the authorization to reduce the rate was not transferred from the Chancellor to the Superintendent of Public Instruction. Consequently, K-12 education has been forced to provide reimbursement for the CFJAC program with *no* additional funding and no means of reducing entitlements. SDE estimates that, in 1985-86, the CFJAC apprentices resulted in additional program costs of \$570,000.

In addition, SDE informs us that the CFJAC is the fastest growing apprenticeship program in the state. The department estimates that hours of instruction in this program will grow *175 percent* between 1986-87 and 1987-88.

Third, the Budget Act language prohibiting the transfer of apprenticeship program funds between the K-12 education and community college budgets has left SDE unable to take advantage of surpluses that have been available in community college apprenticeship programs in 1984-85 and each year thereafter. The department speculates that these community college surpluses have occurred because a number of apprenticeship programs have transferred from community colleges to local school districts. We note that, in 1987-88, the Governor's Budget proposes to reduce funding for community college apprenticeship programs by \$2.7 million, but proposes no increase for K-12 apprenticeship programs.

Budget Proposal. The Governor proposes \$2.7 million for K-12 apprenticeship programs in 1987-88. This amount maintains the level of funding provided in the 1986 Budget Act. In addition, the Budget Bill contains language that would:

- Prohibit school districts from using apprenticeship funds to offer new or expanded programs without the approval of the Superintendent of Public Instruction (this is similar to language in the community college apportionments item);
- Require the SPI to report in detail to the Department of Finance and the Legislature on expenditures for, and hours offered, in apprenticeship programs in 1986-87; and
- Make school districts' apportionments of apprenticeship funding contingent upon their providing the SPI with the information required to complete his report.

DEPARTMENT OF EDUCATION—Continued

This language addresses the need of the Department of Finance and SDE for better information on participation in apprenticeship programs, so that they can more accurately estimate future funding needs. In addition, requiring the SPI to approve new or expanded programs will allow SDE to more closely monitor and control apprenticeship programs and, thus, avert future deficiencies. We believe that these are important and necessary steps in solving the apprenticeship deficiency problem, and we support their adoption.

The amount proposed for 1987-88, however, fails to provide for the level of entitlements that exist in the *current year*, and based on past experience is likely to be inadequate for the program's needs in the budget year. Because the Governor's Budget also proposes to continue the Budget Bill language blocking the transfer of any surplus funds from community college programs, the K-12 apprenticeship programs would have no alternative source of funds in the case of an almost certain deficiency.

Better Data Needed. Given the large growth in apprenticeship entitlements since 1984-85, we believe that the budget-year appropriation should be developed using information on current-year entitlements. Data on the participation in apprenticeship programs in 1986-87 will be available at the First Principal Apportionment in February 1987, thereby permitting a means to estimate funding requirements for 1987-88 more accurately. Accordingly, we withhold recommendation on the amount requested for apprenticeship programs, pending review of data on actual participation rates.

g. Meals for Needy Pupils (Item 6100-101-001(d))

The Meals for Needy Pupils adjustment provides additional general state aid to compensate eligible districts for local property tax revenues which they lost as the result of Proposition 13 of 1978. In order to be eligible for funding, a district must have (1) levied a permissive property tax "override" for meals for needy pupils in 1977-78 and (2) after Proposition 13, elected to receive state compensation for the loss of these tax revenues as a separate revenue limit adjustment. (Other school districts elected to incorporate the compensation into their base revenue limits.)

Each eligible district receives a historically-fixed rate of reimbursement per meal, increased annually for inflation, times the number of free or reduced-price meals served. There is no requirement, however, that this aid be spent on meals for needy pupils, and it may be used for a variety of other purposes. The State Department of Education reports that 395 districts receive such adjustments.

The Governor's Budget proposes \$26.8 million for Meals for Needy Pupils adjustments in 1987-88, \$782,000 more than the current-year funding level. The increase provides for a 6 percent, half-year COLA.

Meals for Needy Pupils Funding Merits Additional Review. As noted, Meals for Needy Pupils adjustments were first implemented in 1979-80. Since that time, significant changes have occurred in school finance, including (1) equalization of school district revenue limits and (2) changes in the scope of the state's child nutrition program. Because of these changes, we believe that the current distribution of Meals for Needy Pupils funding may no longer be directly related to the need for such funding. In addition, we have concerns that the provision of such funding may be inequitable and/or duplicative. Insufficient data were available at the time of this analysis to propose specific action. During the coming

months, we will continue to review the program and present recommendations to the Legislature, as appropriate.

Six Percent COLA for Meals for Needy Pupils Not Warranted

We recommend that the Meals for Needy Pupils program be provided the same percentage cost-of-living adjustment as provided for general purpose revenue limits. (Reduce Item 6100-226-001 (a) (3) by \$495,000, delete Provision 3 in Item 6100-226-001, and adopt corresponding Budget Bill language.)

Under current law, the reimbursement rates for the Meals for Needy Pupils adjustment are increased 6 percent annually for inflation. This amount differs from the COLA prescribed in law for school district revenue limits, which is tied to the percentage change in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services. Based upon estimates of this index, school districts would be entitled to receive a 2.2 percent adjustment to their revenue limits in the budget year.

As mentioned, the Governor's Budget proposes to provide statutorily prescribed COLAs beginning January 1, 1988. Thus, under the Governor's proposal, revenue limits will receive a 2.2 percent half-year COLA, while Meals for Needy Pupils will receive a 6.0 percent half-year COLA.

We can identify no characteristic of Meals for Needy Pupils funding that would justify a COLA nearly *three times* that provided for regular school district revenue limits in the budget year. Because funding derived from Meals for Needy Pupils adjustments may be spent at the discretion of local school districts and is very similar to general revenue limit aid, we believe that the COLA adjustments for this program should be increased by the same index that determines the statutorily-prescribed revenue limit COLA.

Recommendation. Accordingly, we recommend that the Legislature delete \$495,000 from the COLA provided for this program. Consistent with this recommendation, we further recommend that the Legislature delete Provision 3 of Item 6100-226-001 and adopt the following Budget Bill language:

"Notwithstanding any other provision of law, the inflation adjustment calculation pursuant to Section 42241.2 of the Education Code is deemed to be 2.2 percent for the 1987-88 fiscal year with an effective date of January 1, 1988."

Adoption of this language will also eliminate a technical error that we have identified relating to the determination of the program's base funding level for the 1988-89 fiscal year.

h. Language Relating to State's Appropriations Limit Is Unnecessary

We recommend the deletion of Budget Bill language specifying the amount of state revenue limit funding subject to the state's appropriations limit because the provision is unnecessary. (Delete Provision 8 of Item 6100-101-001.)

Article XIII B of the California Constitution, as established by Proposition 4 of 1979, places a limit on the year-to-year growth in tax-supported appropriations by the state and individual local governments. For the purposes of this article local governments include "any city, county, city and county, school district, special district, authority, or other political subdivision of or within the state." Senate Bill 1352 (Ch 1205/80) imple-

DEPARTMENT OF EDUCATION—Continued

mented the appropriations limit and established the method for determining the proportions of education funding that are to be applied against the state's and local school districts' appropriations limits.

In brief, a school district's appropriations limit is based on the total, in 1978-79, of its "foundation program" (a dollar figure that is the same for all school districts of similar type), proceeds of taxes in its beginning balance, interest proceeds, and 50 percent of "miscellaneous funds." This amount is adjusted in subsequent years for changes in inflation and average daily attendance (ADA).

The proceeds of local school district taxes (primarily property taxes) are first applied against the district's appropriations limit. Next, any state revenue limit funding that the district receives—up to the amount of the foundation program—is defined as a "subvention" and is also applied against the district's limit. Any additional state revenue limit funding aid, and all categorical aid, above this amount must be applied against the state's appropriations limit.

The Governor proposes Budget Bill language specify the amount of the General Fund appropriation for school district revenue limit funding that is subject to the state's appropriations limit (approximately \$1.8 billion out of a total \$8.0 billion appropriation). We believe that this provision is inappropriate because it is purely informational and has absolutely no bearing on the determination of school district revenue limits or the allocation of state revenue limit funding. Therefore, it is unnecessary. Consequently, we recommend that the provision be deleted.

2. Urban Impact Aid and Meade Aid

Urban Impact Aid (UIA) and Meade Aid provide support to qualifying school districts to compensate for the higher costs believed to be associated with their urban settings. Program funds are not appropriated to serve any specific purpose or group of pupils, as are the funds provided under other categorical aid programs. Instead, they may be used for any educational purpose and, thus, are similar to general revenue limit aid. At present, 125 districts receive UIA, and 256 districts receive Meade Aid. Fifty-six districts receive support from both programs.

Current-Year Funding. Although the Governor provided \$86.6 million for UIA and Meade Aid in his proposed 1986-87 budget, he subsequently deleted these funds from the final Budget Act because the Legislature failed to enact legislation sought by the Governor that would have reduced employer contributions to the Public Employees' Retirement System (PERS) in 1986-87.

Senate Bill 759 (Ch 891/86) restored the total amount of funding for both programs. Only part of the funding, however, would have come from reduced PERS contributions. Consequently, the Governor reduced the bill's appropriation by half, leaving \$38.1 million for UIA and \$5.2 million for Meade Aid in the current year. The Governor has indicated a willingness to restore the vetoed funds if additional PERS funds are utilized; as of this writing, such funds have not been provided.

Budget-Year Proposal. The Governor proposes to eliminate all funding for UIA and Meade Aid in 1987-88. Although the Governor claims that UIA and Meade Aid have been incorporated into his Class Size Reduction/Education Assistance proposal (discussed elsewhere in this K-12 analysis), the funding from these programs has not been added to other funding provided for class size reduction.

Current Allocation of UIA and Meade Aid Not Necessarily Based on Need. UIA entitlements for unified school districts are based on the following measures for each district: (1) the 1975-76 measure of average daily attendance (ADA) and of children from families that received Aid to Families with Dependent Children (AFDC) and (2) data used to compute the 1976-77 allocations for the Economically Disadvantaged Youth (EDY) program (the predecessor of the current Economic Impact Aid programs). Entitlements to UIA among nonunified districts are based on similar criteria, using data from 1982-83 and 1983-84. Meade Aid entitlements are based upon data used to compute the 1975-76 EDY allocations.

In 1985, at the direction of the Legislature, we reviewed the allocation of UIA in order to reassess the purpose and rationale for UIA funding. In our study, titled *The Allocation of Urban Impact Aid: A Review*, we were unable to confirm that the factors used in the UIA formula are good measures of higher costs in urban areas—and, hence, of need for UIA. Moreover, we were unable to determine how well UIA compensates districts for costs associated with unusual needs, or the provision of compensatory education. Finally, we found that, even if one assumes that the factors employed in the UIA formula are reasonable measures of need, there is no reason to base UIA allocations on values of these factors from 1975-76. These same conclusions apply to Meade Aid.

Since we are unable to confirm that either UIA or Meade Aid achieves its intended purpose, we have no analytical basis for recommending an augmentation to restore funding for these programs. Nevertheless, the Legislature has provided support for these programs in the past and may wish to continue them as a matter of public policy.

In the event that the Legislature chooses to provide funding for UIA and Meade Aid, we recommend that it consider the following:

- Merging UIA and Meade Aid into a single program, using a hybrid formula as the basis for allocation;
- Requiring that the need indicators used in the formula be updated annually to reflect the most recently available data; and
- Requiring that school district entitlements be adjusted annually, using a three-year moving average of need indicators.

We believe that, to the extent that the factors used in the UIA and Meade Aid formulas are valid measures of needs, funding could be better targeted if more recent data were utilized in the distribution formula. Adoption of these changes would keep aid tied to fairly current data, while allowing districts the opportunity to plan their budgets several years at a time.

3. Small School District Transportation Aid (Item 6100-101-001(c))

We recommend approval.

Small School District Transportation Aid provides additional general state aid to school districts that (1) had fewer than 2,501 units of average daily attendance in 1978-79 and (2) incurred transportation costs equal to more than 3 percent of their total local general fund education expenses in 1977-78. The purpose of the program is to compensate small school districts for excess transportation costs that are believed to be associated with their small size. There is no requirement, however, that this aid be spent on transportation, and it may be used for a variety of other purposes. The State Department of Education reports that 552 districts (54 percent of all districts, statewide) receive Small School District Transportation Aid.

DEPARTMENT OF EDUCATION—Continued

Current-Year Funding. In his 1986-87 budget, the Governor provided \$20.1 million for Small School District Transportation Aid. He subsequently deleted these funds from the final Budget Act because the Legislature failed to enact legislation sought by the Governor that would have reduced employer contributions to the Public Employees' Retirement System (PERS) in 1986-87. Chapter 891 restored the total amount of funding for Small School District Transportation Aid. The Governor, however, reduced the bill's appropriation by half (on the same basis as the reduction of Urban Impact Aid and Meade Aid), leaving \$10 million for the program in the current year.

Budget-Year Proposal. The budget proposes \$10 million for Small School District Transportation Aid in 1987-88. This amount continues the current-year level of funding.

Like Urban Impact Aid and Meade Aid, the allocation of Small School District Transportation Aid is based on outdated measures of need—in this case, measures that are ten years old. In addition, since the establishment of the program, significant changes have occurred in school finance, including (1) the removal of transportation funding from school district revenue limits (and subsequent equalization of revenue limits) and (2) the establishment of a state home-to-school transportation program. For these reasons, we believe that the measures used for allocating Small School District Transportation Aid probably are no longer reliable indicators of these districts' need for additional, general-purpose funding. Consequently, we have no analytical basis for recommending any change in the amount proposed for this program.

Transportation Study. Assembly Bill 1024 (Ch 1440/85) directs the Legislative Analyst to contract for a study on school transportation costs in the state. The contract for the study has been awarded on a competitive bid basis to the firm of Deloitte, Haskins and Sells. It requires that the final report be completed by March 31, 1987. Among other issues, the study will address (1) the factors that influence home-to-school transportation costs in districts with diverse characteristics and (2) alternative transportation aid formulas that take these factors into account. This study may lead to recommendations for changes in the home-to-school transportation funding formula that would reduce or obviate the need for additional assistance through the Small School District Transportation Aid program. We will review the study and present recommendations to the Legislature, as appropriate.

4. Lottery Revenues (6100-101-814)

The California State Lottery Act—Proposition 37 of 1984—and subsequent legislation provide that at least 34 percent of total lottery revenues shall be allocated to public school districts serving grades K-12 and community colleges, county superintendents of schools, the University of California (UC), the California State University (CSU), the Hastings College of the Law, and the California Maritime Academy (CMA). In addition, Assembly Bill 3145 (Ch 1362/86) authorizes the allocation of lottery funds to the California Youth Authority (CYA) as of January 1, 1987. These funds are distributed based on enrollment—average daily attendance (ADA) in the case of school districts, county superintendents, community colleges and CYA and full-time equivalent (FTE) students for all others.

Table 15 shows the estimated distribution of lottery revenues for public

education as displayed in the Governor's Budget. We review lottery expenditures in the budget analysis for each separate segment, as appropriate.

Table 15
Distribution of Lottery Revenues
1985-86 through 1987-88
(total dollars in thousands)

Segment	Actual 1985-86	Est. 1986-87	Est. 1987-88	Change from 1986-87	
				Amount	Percent
K-12 Education	\$558,437	\$394,574	\$492,951	\$98,377	24.9%
Community colleges	85,423	55,205	72,445	17,240	31.2
California State University	31,331	21,952	27,022	5,070	23.1
University of California	17,256	12,110	15,081	2,971	24.5
California Youth Authority	—	— ^a	434	434	—
Hastings/CMA	249	152	192	40	26.3
Totals.....	\$692,696	\$483,993 ^b	\$608,125	\$124,132	25.6%
Lottery Revenues per Student.....	\$129	\$88	\$108	\$20	22.7%

^a AB 3145 (Ch 1362/86) authorizes the allocation of lottery funds to the California Youth Authority (CYA) beginning January 1, 1987. The Department of Finance estimates that CYA will receive approximately \$154,000 in lottery revenues in the current year. However, because CYA has no expenditure authority for these funds in the current year, they are not displayed in the Governor's Budget. In addition, the current-year amounts for other educational segments have not been adjusted to reflect diversion of revenues to CYA.

^b The allocations shown for each segment reflect those shown in the Governor's Budget. The sum of these components (\$483,993), however, exceeds the total shown in the budget by \$845,000.

Lottery Revenues Uncertain. The Lottery Commission estimates that lottery revenues for education will be \$484 million in 1986-87 and \$608 million in 1987-88. (These estimates assume that the Lottery Commission will retain 16 percent of total lottery revenues—the *maximum* amount allowable by law—for its administrative expenses. To the extent that these expenses were to be reduced, lottery revenues for education would increase by an equivalent amount.)

Based on these estimates, the various educational segments should receive approximately \$88 per student in the current year and \$108 in the budget year. However, in our analysis of the Lottery Commission's budget (please see Item 0850) we review the assumptions used by the commission and indicate that, unless average weekly per capita sales for on-line ("Lotto") games improve above their current level, lottery revenues may be revised *downward* in the current year. In addition, to the extent that Lotto sales do not improve, total lottery revenues could be *several hundred million dollars lower* than projected for the budget year. We are unable to estimate the magnitude of the decline, but we note that the amount transferred to education will decline by \$340,000 for each \$1 million drop in anticipated sales.

Budget Update Needed for Lottery Revenues

We recommend that the Legislature direct the Department of Finance to provide new estimates of lottery revenues for the budget year as part of the May Revision.

Although the projected revenues in the Governor's Budget are currently the Lottery Commission's best estimates, the commission will not finalize its budget for 1987-88 until late spring. In the process of developing

DEPARTMENT OF EDUCATION—Continued

its budget, the commission will consider (1) introduction of new lottery games and (2) the progress of current-year sales. Both these items could have a significant impact on revenue projections in the budget year.

In early May, the Department of Finance revises various budget items to reflect more refined estimates of workload and inflation—factors that are often uncertain when the Governor's Budget is first released in January. We believe that there is similar uncertainty about lottery revenues and that a new estimate in May would provide valuable information to lottery fund recipients. The Lottery Commission has indicated to us that it should be able to provide revised budget-year projections at that time. Consequently, we recommend that the Legislature direct the Department of Finance to provide revised estimates of lottery revenues for each educational segment as part of the May Revision.

Report on K-12 Lottery Expenditures. In accordance with Control Section 24.60 of the 1985 Budget Act, the State Department of Education (SDE) has prepared a report summarizing lottery expenditures by K-12 local education agencies (LEAs—including school districts and county offices of education) in 1985-86 and LEAs' proposed expenditures for 1986-87. SDE's review is based upon reports received from 1,081 K-12 LEAs that have 95 percent of the state's K-12 ADA. The department's review reveals the following major findings:

- LEAs spent \$121 million, or 24 percent, of the lottery funds available to them during 1985-86. Over 30 percent of the LEAs carried all of their 1985-86 lottery funds forward to the 1986-87 fiscal year.
- At the time their reports were submitted, LEAs had completed expenditure plans for \$503 million, or almost 60 percent, of the K-12 lottery funds expected to be available during 1986-87, including 1985-86 carryover balances.
- In 1985-86, 30 percent of LEAs reported using a total of approximately \$50 million in lottery revenues for salaries of certificated personnel (generally, teachers and administrators). This amounts to 41 percent of the lottery funds spent by LEAs in that year. Almost 49 percent of LEAs have budgeted a total of \$134 million in certificated salaries in 1986-87—an amount equal to 27 percent of total lottery funds they have budgeted in the current year.
- In both 1985-86 and 1986-87, more than half of the LEAs spending lottery funds on certificated salaries granted raises on the salary schedule to their employees, and these raises appear to be in the salary wage base for subsequent fiscal years. Fewer LEAs granted similar increases to non-certificated (classified) employees.
- While K-12 lottery funding budgeted for salaries in 1986-87 is two-and-one-half times the amount expended in 1985-86, the amount budgeted for books, supplies, other services, and capital outlay increased six-fold over this period.
- When the actual expenditures for 1985-86 are combined with the proposed budgets for 1986-87, *the majority of K-12 lottery expenditures are for nonrecurring costs.*

B. SPECIALIZED EDUCATION PROGRAMS

Specialized education programs—sometimes referred to as “categorical programs”—are intended to address particular educational needs or to serve specific groups of students. Funding provided for these programs may be used only for the purposes specified in law and may not be used to support a district’s general education program. For purposes of our analysis, we group specialized education programs into seven categories: (1) programs relating to classroom instruction, (2) programs relating to teaching and administration, (3) Special Education, (4) vocational education programs, (5) compensatory education programs, (6) school desegregation, and (7) other specialized education programs.

1. Programs Relating to Classroom Instruction

Table 16 summarizes local assistance funding from the General Fund and state special funds for the programs relating to classroom instruction. In total, the classroom instruction budget requests \$494.1 million for these programs in 1987–88—an increase of \$137.2 million, or 39 percent, over current-year expenditures. The major portion of this increase—\$132 million—is for two new programs that are proposed by the Governor. These are (1) the Class Size Reduction program for grade 1 (\$60 million) and (2) the Educational Assistance program (\$72 million). We note, however, that these increases do not represent additional resources to the overall K–12 education system, because the Governor’s Budget proposes to fund these new programs by redirecting funds from other existing programs. This redirection proposal is discussed in detail later in this analysis.

Table 16
K–12 Education
Support for Programs Relating to Classroom Instruction
Local Assistance
1985–86 through 1987–88
(dollars in thousands)

Programs	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Change from 1986–87	
				Amount	Percent
School Improvement Program	\$214,531	\$224,865	\$226,981	\$2,116	.9%
Instructional Materials	95,770	92,605	96,209	3,604	3.9%
High School Pupil Counseling	7,337	7,603	7,603	—	—
Environmental Education	604	604	604	—	—
Intergenerational Education	165	165	165	—	—
Education Improvement Incentive Program	14,300	—	—	—	—
Curriculum on Birth Defects	500	500	—	–500	–100.0%
Class Size Reduction Program	—	—	60,000	60,000	“
Educational Assistance Program	—	—	72,000	72,000	“
Educational Technology Program	27,865	25,817	25,817	—	—
Institute of Computer Technology	468	338	338	—	—
Demonstration Programs in Reading and Math	4,240	4,367	4,367	—	—
Totals	\$365,780	\$356,864	\$494,084	\$137,220	38.5%
Funding Source:					
General Fund	\$357,676	\$356,260	\$493,480	\$137,220	38.5%
Environmental License Plate Fund	604	604	604	—	—
Federal Outer Continental Shelf Lands Act	7,500	—	—	—	—

“ Not applicable.

DEPARTMENT OF EDUCATION—Continued

We recommend approval of the proposed funding shown in Table 16 for the following programs relating to classroom instruction, which are not discussed elsewhere in this analysis:

- **School Improvement Program (Item 6100-116-001)**—\$227 million from the General Fund for the School Improvement Program (SIP). This amount includes (1) \$194.5 million for grades K-6 and (2) \$32.4 million for grades 7-12. The Governor's Budget proposes to increase funding for grade K-6 SIP by \$2.1 million for a half-year, 2.2 percent COLA. The proposed funding for SIP in grades 7-12 is the same as is provided in the current year.
- **Instructional Materials (Items 6100-186-001, 6100-187-001, and 6100-015-001)**—\$96.5 million from the General Fund for instructional materials local assistance and warehousing and distribution. This amount includes (1) \$73.8 million in Item 6100-186-001 for grades K-8 local assistance, (2) \$22.4 million in Item 6100-187-001 for grades 9-12 local assistance, and (3) \$294,000 for state warehousing and shipping (not shown in Table 16). The Governor's Budget proposes to increase grades K-8 instructional materials by \$2.6 million for enrollment growth and by \$731,000 for a half-year, 2 percent COLA. The budget also proposes to increase grades 9-12 instructional materials by \$245,000 for enrollment growth. The proposed amount for state warehousing and shipping is the same as is provided in the current year.
- **High School Pupil Counseling (Item 6100-109-001)**—\$7.6 million from the General Fund for supplemental counseling services for pupils who have not reached the age of 16 or the end of tenth grade. This is the same level of support as is provided in the current year.
- **Environmental Education (Item 6100-181-140)**—\$604,000 from the Environmental License Plate Fund to provide grants to local education agencies, other governmental agencies, and nonprofit organizations to plan and implement education programs related to the environment, energy, and conservation. This is the same level of funding as is provided in the current year.
- **Intergenerational Education (Item 6100-128-001)**—\$165,000 from the General Fund for programs that provide for the involvement of senior citizens in public elementary and secondary schools. This is the same level of funding as is provided in the current year.

Our concerns and recommendations regarding the funding for the remaining individual classroom instruction programs are discussed below.

a. Class Size Reduction/Educational Assistance (Items 6100-113-001 and 6100-117-001)

We recommend that the Legislature reject the Governor's proposal to divert funding from the Miller-Unruh Reading, Economic Impact Aid, Gifted and Talented Education, and Native American Indian Education programs for the purpose of funding the reduction of class sizes in grade 1, because it fails to ensure that the state will continue to meet the specialized needs of identified groups of students. (Reduce Item 6100-113-001 by \$60,000,000 and Item 6100-117-001 by \$72,265,000.)

The Governor proposes, over a two-year period, to eliminate approximately \$132 million in funding for four categorical education programs (Economic Impact Aid-State Compensatory Education, Miller-Unruh Reading, Native American Indian Education, and Gifted and Talented Education (GATE)), and use these funds instead to reduce class sizes in grade 1.

Specifically, in 1987-88, the Governor proposes to reduce funding for the four categorical programs by \$60 million and transfer this amount to a new Class Size Reduction program (Item 6100-113-001). He also proposes to combine the remaining funds from these programs (approximately \$72 million) into a new Educational Assistance program (Item 6100-117-001). Budget Bill language in this item indicates that funding for the Educational Assistance program would be allocated by the Superintendent of Public Instruction to fund "priority needs." (The Governor also proposes to eliminate *all* funding for Urban Impact Aid and Meade Aid. The funding from these programs, however, has not been incorporated into his Class Size Reduction/Education Assistance proposal.)

In 1988-89, the Governor proposes to divert the remaining \$72 million from the Educational Assistance program—plus any funds available from other, unspecified sources—for use in further reducing class sizes. He estimates that the total two-year amount of funding is sufficient to reduce average class sizes in grade 1 from 28 to 22.

Class Size Reduction May Have Merit. The Legislature and numerous education interest groups have made class size reduction a high priority. In response to this interest, we reviewed in last year's *Analysis* the most current literature available on the benefits of class size reduction and discussed various issues related to the implementation of a class size reduction program. We concluded that, while reducing class size has the potential to yield many benefits, the available research indicates that (1) the most significant impacts are on teachers' morale and attitudes towards students and (2) the most significant improvements in student achievement appear to require class sizes that are smaller than 20 students.

Furthermore, the need for any class size reduction program must be designed so as to address the underlying causes of California's large class sizes. We believe that an appropriate program design is critical, in order to (1) avoid exacerbating the current school facilities shortage and (2) prevent an inequitable or inefficient distribution of funding.

As a follow-up to last year's review, we are currently working with the staff of Policy Analysis for California Education (PACE) to identify the major factors—such as level of general purpose funding or average teacher salaries—that are most closely associated with a district's average class size. We believe that the findings of this research will be important, because the prominence of certain factors in determining class size will suggest types of programs that may be most effective in reducing class size. We anticipate final results in the early spring and will present our findings to the Legislature as appropriate.

Governor's Proposal Leaves Neediest Students Without Specialized Support. Although class size reduction, in general, may have merit, and the Governor's proposal may result in a modest enhancement of the average educational experience and improve teaching conditions in grade 1, our analysis indicates that it fails to ensure that the continuing specialized requirements of the state's neediest pupils will be met.

Just four years ago, in SB 813 (Ch 498/83), the Legislature stated—with the concurrence of the Governor—its belief that schools should "ensure

DEPARTMENT OF EDUCATION—Continued

that the specialized needs of identified groups of students are met by effective use of categorical aid funding." In addition, despite historically large class sizes (in 1969-70, the average class size in grades 1-3 was 27.8), attention to students' specialized learning needs has been a high priority of the Legislature, and a number of programs have been developed to accommodate those needs.

GATE is scheduled to "sunset," on June 30, 1988, while the other three programs sunset earlier on June 30, 1987. As part of the sunset evaluation process, we have reviewed the Miller-Unruh Reading, Economic Impact Aid, and Native American Indian Education programs. Our review indicates that all of these programs suffer—to a greater or lesser degree—from a lack of a comprehensive evaluation. Consequently, the Legislature cannot determine the extent to which they succeed in meeting the goals set out for them in statute. In addition, we have identified various ways in which the implementation or design of these programs could be changed, in order to improve their effectiveness (these ideas are discussed elsewhere in this analysis). We do not find, however, that the basic needs that prompted the Legislature to create these programs have disappeared. Thus, while we believe that these programs can and should be improved, we do not conclude that they should be eliminated. Accordingly, we recommend that all three programs be continued.

The Governor's proposal, in contrast, would eliminate funding for these programs, which currently serve over one million students, statewide. As a result, the special needs that were recognized by the Legislature in establishing these programs would no longer be specifically addressed.

Class Size Reduction Does Not Eliminate Need for Categoricals. Statements made by the Governor indicate that he has chosen to eliminate these particular programs because they provide benefits—such as the provision of more individualized attention which helps students to take part in a school's regular core curriculum—that are similar to those commonly associated with class size reduction. The Governor apparently believes that class size reduction will, thus, significantly reduce or eliminate the need for these categorical programs. We believe that this conclusion is incorrect, for three reasons:

First, there is little conclusive evidence that class size reduction, to the level proposed by the Governor, results in significant improvement in overall student achievement. Class size reduction, *by itself*, will probably not help students overcome learning difficulties.

Second, there is evidence that teachers do not necessarily change their teaching methods in small classes. Consequently, there is little assurance that students will receive needed specialized attention, even if they are in smaller classes.

Third, class size reduction in grade 1 will not address the current needs of students in the higher grades. The programs which the Governor proposes to eliminate provide services to students at a number of grade levels. If these programs are eliminated, school districts would no longer be held accountable for serving these students, and their special needs may remain unmet throughout their entire education in California schools.

No Consideration of Immediate Consequences. Finally, our review indicates that the Governor's proposal could result in immediate, adverse consequences including: (1) lower academic performance among students that currently receive support from compensatory education pro-

grams, (2) layoffs of specialized teachers and aides whose salaries are funded under the current programs, and (3) aggravation of the current shortage of elementary-grade teachers. These consequences are not addressed in the budget.

Conclusion. In sum, the state has a long-standing policy of giving high priority to serving students with special educational needs and has developed programs to serve those students. Although we believe that reducing the state's class sizes may have merit, class size reduction in grade 1 cannot substitute for the benefits of the special-needs programs that the Governor proposes to eliminate. Because the Governor's proposal fails to ensure that the state will continue to meet the legitimate and specialized needs of identified groups of students, we recommend that it be rejected and that the Legislature instead restore funding to the Miller-Unruh Reading, Economic Impact Aid—State Compensatory Education, GATE, and Native American Indian Education programs. (These programs are discussed separately elsewhere in this analysis.)

b. School-Based Program Coordination

We recommend that the Legislature adopt supplemental report language in Item 6100-001-001 directing the State Department of Education to conduct a study to identify factors which are impeding school participation in the School-Based Program Coordination Act.

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

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

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

Legislative Analyst Report. Current law requires the Legislative Analyst to report annually in the *Analysis of the Budget Bill* regarding the implementation of programs operated pursuant to this program, with particular reference to the effects on those children who are intended to be served by the categorical programs included under the act.

Chapter 1270, Statutes of 1983, repealed requirements that school districts submit to the State Department of Education (SDE) school site plans for the implementation of school-based coordinated programs. Instead, plans are reviewed and maintained by each local school district. They are reviewed by SDE only (1) during on-site visits and compliance reviews, which are conducted in each district every three years, and (2) when there is a complaint regarding any of the categorical programs at a particular school. As a result of this change in the law, neither we nor SDE have been able to obtain any comprehensive, detailed information on the implementation of school-based coordinated programs. Based on the information that SDE has been able to provide us, however, one fact

DEPARTMENT OF EDUCATION—Continued

is clear: the reported level of participation under the act is extremely low, and has been declining precipitously.

Participation Declining. As Table 17 shows, only 175 schools and 98 school districts report using provisions of the School-Based Program Coordination Act in the current year. These figures represent only 10 percent of the total number of school districts and less than 3 percent of the total number of schools statewide. The table further shows that the number of schools reporting participation in the act has declined by over 65 percent in the past two years.

Table 17
K-12 Education
Reported Participation in School-Based
Program Coordination Act
1984-85 through 1986-87

	1984-85	1985-86	1986-87	Change from 1984-85	
				Amount	Percent
Schools.....	512	372	175	-337	-65.8%
Districts.....	191	129	98	-93	-48.7

It is not immediately apparent why schools have been opting out of the coordination program. Last year, SDE indicated that the decline from 1984-85 may have been due to more careful administrative review to ensure that districts' reported levels of participation were accurate. This year, SDE reports that the program application was added as an addendum to the consolidated application, and may have been overlooked by schools which usually participate in the program. Our own review indicates that there is considerable confusion, at both the local and state levels, about how this measure is to be implemented. We believe that this fact—as much as any other cited by SDE—may account for the extremely low levels of program participation.

If the Legislature is to achieve the goals of the School-Based Program Coordination Act, it must first determine whether the current impediments to participation are actually caused by features of current law, or are merely the result of program implementation. The information that is currently available from SDE provides an insufficient basis for making this determination. We believe, however, that an analysis of the plans which are currently maintained by school districts (in conjunction with surveys or interviews, as needed) would provide the necessary information.

Recommendation. We therefore recommend that the Legislature direct the department to conduct a detailed study of those factors which are impeding program participation. Once these factors are identified, both the department and the Legislature will be able to determine what additional actions need to be taken, in order to promote effective implementation of coordinated programs. Specifically, we recommend that the following supplemental report language be adopted in Item 6100-001-001 (the department's main support item):

“The State Department of Education shall conduct a detailed study of factors that are impeding school district participation in the School-Based Program Coordination Act. This report shall identify specific administrative and legislative actions that should be taken in order to

further the goals of the act, and shall be submitted to the legislative budget committees by November 15, 1987.”

c. Educational Technology Program (Item 6100-181-001)

We recommend approval.

The Educational Technology program, as amended by Ch 1133/83 (AB 803), provides support for the use of technology in the classroom. Specifically, AB 803 authorizes the expenditure of program funds for a variety of uses, including grants to schools to support the acquisition of computer hardware and software, the purchase of statewide software and instructional television (ITV) licenses, and various resource and support services and projects that support the use of technology in the classroom.

The Governor's Budget proposes to appropriate \$25.8 million for the program in 1987-88. This is the same level of funding as provided in the current year, and will support approximately the same level of services. The majority of program funds are used to fund district "adoption and expansion" matching grants. Over the three years of the program, a total of approximately 2,600 elementary and 1,500 secondary schools have received such grants.

Long-Range Plan Inadequate. Supplemental report language to the 1986 Budget Act required the State Board of Education, by November 30, 1986, to adopt a long-range plan for the Educational Technology program. In the *Analysis of the 1986-87 Budget Bill*, we noted that such a long-range plan is needed to enable the Legislature to (1) determine whether the program is effective, (2) judge the appropriateness of the program's expenditures, and (3) determine a proper funding level.

The State Department of Education (SDE) developed, and the State Board of Education adopted a long-range plan for the Educational Technology program. We have reviewed this document and find that it *does not meet* the Legislature's needs. The plan does not contain specific, measurable goals and objectives, or an implementation strategy and timeline for meeting the goals of the program given the current level of funding.

We expect that these concerns will be addressed in the department's upcoming sunset report on the Educational Technology program. Current statute requires (1) the State Board of Education to transmit to the Legislature a sunset report on the Educational Technology program by *March 1, 1987*, and (2) the Legislative Analyst, within 90 days, to review the report and make recommendations to the Legislature. Based on the recommendations made in these reports, the Legislature must enact legislation to continue the program, which otherwise will sunset on June 30, 1989.

d. Institute of Computer Technology (ICT) (Item 6100-181-001)

The Institute of Computer Technology (ICT) was established, pursuant to Ch 1528/82, by three school districts in Santa Clara County—Sunnyvale Elementary, Fremont Union High School, and Los Gatos Joint Union High School. The ICT provides education and training in computer technology for pupils in grades K-12 and adults.

The budget proposes a General Fund appropriation of \$338,000 for this program in 1987-88. This amount, which is equal to current-year funding, will support approximately 100 ADA.

DEPARTMENT OF EDUCATION—Continued**Curriculum Dissemination Authorization Needed**

We recommend that the Legislature adopt Budget Bill language authorizing the Institute of Computer Technology to use up to \$50,000 for the purposes of disseminating the computer technology curriculum that it developed pursuant to SB 356.

Senate Bill 356 (Ch 1516/85) appropriated \$200,000 to the ICT for use in developing and testing a computer technology curriculum in 1985-86 and 1986-87. In the 1986 Budget Act, the Legislature also increased the ICT allocation by \$67,000 to fund the 100 ADA that the ICT estimated would be necessary in order for it to properly develop and test the curriculum.

The development and testing of the curriculum is on schedule. The ICT anticipates that the curriculum will be ready for dissemination in the budget year, provided that it is validated by the field tests and meets quality standards established by the State Department of Education. Our analysis indicates, however, that the ICT does not have the explicit statutory authority to use the funds appropriated in the Budget Act for dissemination activities.

Our review indicates that it would be appropriate for the ICT to use a portion of the \$67,000 augmentation it received in the 1986 Budget Act for dissemination activities. This is because this amount was originally provided in order to fund an enrollment level that would allow the ICT to properly develop and test the curriculum. Since the ICT will not be developing a new curriculum in the budget year, we believe that it would be appropriate for the ICT to use these funds to disseminate the curriculum it has developed.

Based on experience from educational technology program disseminating activities, the ICT estimates that \$50,000 would be needed to disseminate the curriculum. The ICT also plans to recover a portion of these costs by charging fees to cover the costs of duplicating and shipping the materials. We concur with this proposed plan for funding the ICT's dissemination activities.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-181-001:

“Of the amount specified in Provision 1 of this item for the Institute of Computer Technology, an amount not to exceed \$50,000 may be used for the purposes of disseminating curriculum developed pursuant to Chapter 1516, Statutes of 1985.”

e. Demonstration Programs in Reading and Mathematics (Item 6100-146-001)

We recommend approval.

Demonstration programs in reading and mathematics were established to provide cost-effective, exemplary reading and math programs in grades 7 through 9, using innovative instructional techniques. The enabling legislation for the demonstration programs specifies that they are intended to (1) develop new approaches to the teaching of reading and mathematics, (2) provide information about the successful aspects of the projects, and (3) encourage project replication in other schools. The legislation further requires that the programs be ranked annually according to evaluation results, with state support withdrawn from the lowest-rated programs. The program currently serves 30 schools in 18 districts.

The Governor's Budget proposes an appropriation of \$4.4 million from the General Fund for the demonstration programs in 1987-88. This is the same level of support as is provided in the current year.

During budget hearings last year, some members of the Legislature expressed an interest in demonstration program evaluations, especially longitudinal evaluations, that attempt to identify and measure long-term program effects. In response to this interest, we have conducted a review of demonstration program evaluations, which follows.

Program Evaluation. As indicated above, each demonstration program is evaluated annually to determine its cost-effectiveness (based on program cost per unit of improvement on a standardized test). Annual evaluations tend to show substantial increases in test scores between fall and spring.

We have identified and reviewed one longitudinal evaluation of a demonstration program, which was conducted by the Long Beach Unified School District. This study compared the short- and long-term achievement gains of 130 demonstration program students with the gains of 130 non-demonstration program students who were matched according to sex, language proficiency, reading comprehension, and mathematics ability. Results show that program participants realized greater immediate gains on standardized tests, and continued to score higher than non-participants into senior high school. In addition, a greater number of program participants took elective mathematics courses in high school.

Although these results are impressive, we have identified a problem with the selection of the comparison group students that may reduce their validity. Specifically, it is likely that a high rate of student mobility existed among students in the comparison group, but not in the demonstration program group. Student mobility may have a negative impact on academic performance by disrupting the continuity of instruction. In addition, a high rate of mobility may reflect an unstable family background that can further impair academic performance. Accordingly, the results of this study may partly reflect the advantages of stability over instability, in addition to the superiority of the demonstration program over the regular district programs.

Nevertheless, there is no reason to believe that the demonstration program did not contribute—at least partly—to the observed improvements. Because of the apparent effectiveness of the program, and because our review indicates that it is being implemented in accordance with legislative intent, we recommend that the funding be approved as budgeted.

2. Programs Relating to Teaching and Administration

Table 18 summarizes General Fund and federal fund local assistance funding in the prior, current, and budget years for the programs relating to teaching and administration. All of these programs are either staff development programs, have staff development components, or relate in some way to teacher education and training.

As the table shows, the budget requests over \$89 million from the General Fund for these programs in 1987-88. This is an increase of 4.1 percent over current-year expenditures, and primarily reflects a \$4 million augmentation for the Mentor Teacher Program—the only General Fund staff development program proposed to receive an increase in the budget year.

DEPARTMENT OF EDUCATION—Continued

Table 18
K-12 Education
Support for Programs Relating to Teaching and Administration
Local Assistance^a
1985-86 through 1987-88
(dollars in thousands)

Program	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
General Fund:					
Mentor Teacher Program	\$44,750	\$45,750	\$49,750	\$4,000	8.7%
Teacher Education and Computer Centers..	12,461	12,586	12,586	—	—
Administrator Training and Evaluation Program	4,124	4,233 ^b	4,202	-31	-0.7
School Personnel Staff Development Program	3,609	3,645	3,645	—	—
SDE/CSU Minority Underrepresentation and Teaching Improvement Program	—	542	542	—	—
Ca. International Studies Project	—	480	480	—	—
Pilot Project to Improve Administrative Personnel	—	250	—	-250	-100
K-12 Staff Development Study	—	100 ^c	—	-100	-100
Classroom Teacher Instructional Improvement Program	16,900	17,200 ^d	17,100	-100	-0.6
Bilingual Teacher Training Program	834	842	842	—	—
School Business Personnel Staff Development Program	250	250	250	—	—
Subtotals, General Fund	\$82,928	\$85,878	\$89,397	\$3,519	4.1%
Federal funds:					
Math and Science Teacher Training Grant ..	\$5,523	\$2,405	\$5,448	\$3,043	126.5%
Totals	\$88,451	\$88,283	\$94,845	\$6,562	7.4%

^a The table does not include staff development programs funded from federal Education Consolidation and Improvement Act (ECIA), Chapter 2 funds.

^b This amount includes \$31,000 reappropriated from 1985-86.

^c This amount was transferred from Item 6100-191-001 (d)—Classroom Teacher Instructional Improvement Program, to Item 6420-001-001—California Postsecondary Education Commission (CPEC)—to supplement the \$200,000 provided in CPEC's budget for the purpose of contracting for a study on K-12 staff development programs.

^d This amount includes \$200,000 reappropriated from 1985-86.

We recommend approval of the proposed funding shown in Table 18 for the following programs relating to teaching and administration, which are not discussed elsewhere in this analysis:

- **Mentor Teacher Program (Item 6100-191-001 (b))**—\$49.8 million from the General Fund to provide \$4,000 stipends and \$2,000 support cost allowances for 8,292 mentor teachers, which represent approximately 4% of the state's eligible teachers. This request, which is an increase of \$4 million (8.7%) above the current-year amount, supports as mentors the same percentage of the state's eligible teachers that is supported in the current-year.
- **Teacher Education and Computer Centers (Item 6100-191-001 (f))**—\$12.6 million from the General Fund to support 17 Teacher Education and Computer Centers (TECCs) in 1987-88. This amount is equal to current-year funding and will support the TECCs in their new mission of providing regional staff development services for strengthening curriculum and instruction in K-12 classrooms across *all* subjects. In the current year, the TECC appropriation also supports seven

- Curriculum Implementation Centers (\$1.5 million), Instructional Materials Display Centers (\$145,000), a software clearing house (\$135,000), the Math/Science Retraining Center (\$120,000), and the California Mathematics Initiative (\$141,000).
- **Administrator Training and Evaluation Program (Item 6100-191-001 (a))**—\$4.2 million from the General Fund to support the Central Institute and 11 regional administrator training centers of the California School Leadership Academy (CSLA), which develops curricula and provides intensive training to school administrators in the area of instructional leadership. This is the same level of funding as provided in the current-year.
 - **School Personnel Staff Development Program (Item 6100-191-001 (c))**—\$3.6 million from the General Fund to support grants to K-12 schools to implement locally-developed staff development programs. This amount is equal to funding provided—and will support approximately the same number of grants as—in the current year.
 - **SDE/CSU Minority Underrepresentation and Teaching Improvement Program (Item 6100-191-001 (h))**—\$542,000 from the General Fund to support the State Department of Education's (SDE) share in the second year of a joint program with the California State University (CSU) to improve teacher education and address the problem of minority underrepresentation in higher education. This budget request, which is equal to the current-year amount, will provide continued support for three components of the program: (1) Intermediate School Program to Improve College Readiness, (2) Comprehensive Teacher Institutes, and (3) Retention of New Teachers in Inner City Schools.
 - **California International Studies Project (Item 6100-191-001 (i))**—\$480,000 from the General Fund to continue support for the project, which provides curriculum and staff development in international studies for K-12 teachers, in collaboration with colleges and universities. This budget request, which is equal to the current-year amount, will support the six regional centers established in the current year. It will not, however, support the establishment of six new centers, as specified in the authorizing legislation, AB 2543 (Ch 1173/85).
 - **Math and Science Teacher Training Grant (Item 6100-128-890)**—\$5.4 million from the federal Education for Economic Security Act, Title II (PL 98-377) grant program which provides funds to improve teacher training and retraining in the fields of mathematics and science. The SDE anticipates that it will receive the grant in the budget year at approximately the same level that was received in 1985-86, the first year of the program.

Our concerns and recommendations with the funding for the remaining individual teaching and administration programs are discussed below. In the current year and through part of the budget year, the Legislature has funded a \$300,000 study (described more fully below) to examine the state's K-12 staff development system, of which all of these programs are a part. Because this comprehensive study will likely result in recommendations for major changes in the delivery and funding of staff development services, we believe it would not be appropriate for us to recommend any *programmatic* changes in the individual programs at this time. Accordingly, our analyses and recommendations of the individual staff development programs are limited to issues that are *technical* in nature.

In addition, in a separate report (87-5), we analyze the cost-effective-

DEPARTMENT OF EDUCATION—Continued

ness of the Teacher Trainee program, created by SB 813 (Ch 498/83). Based on our finding that the Teacher Trainee program can be a cost-effective approach to training teachers, we outline various options that the Legislature may wish to consider to expand the program.

a. K-12 Education Staff Development Policy Study

Over the past ten years, the number of special staff development programs and the amount of funding—particularly state funding—devoted to such programs has increased dramatically, from four programs costing roughly \$1.6 million in 1978-79 to 20 programs costing over \$100 million in 1986-87. This increase in funding, along with evidence that the current system is not a cohesive, well-coordinated one, prompted legislative concern that staff development funds are not being spent in the most cost-effective manner. In order to address this concern, the Legislature provided \$300,000 to the California Postsecondary Education Commission (CPEC) in the 1986 Budget Act, for the purposes of contracting for a study of the state's K-12 staff development programs.

In response to this directive, CPEC convened an advisory committee composed of legislative staff and representatives from the Department of Finance, the Commission on Teacher Credentialing, the Department of Education, the teacher unions, and other interested parties. With input from this committee, CPEC solicited bids for the study and selected Far West Laboratory for Educational Research and Development, in conjunction with Policy Analysis for California Education (PACE) to conduct the study.

Study Highlights. Far West Laboratory and PACE have begun working on the study and are proceeding in a timely manner. The study consists of six main data collection activities:

- **State and federal programs**—current state staff development policy will be described through an inventory and analysis of state and federal staff development programs;
- **Local patterns of use**—current local staff development policies and practices will be assessed through an in-depth examination of a representative sample of 32 districts and 8 staff development “regions;”
- **“Lighthouse” examples**—an understanding of what makes local staff development programs successful will be gained from a detailed examination of two counties and two school districts that have widespread reputations for well-organized and effective staff development programs;
- **Teacher and administrator views**—teacher and administrator views of, and preferences for staff development will be assessed through a statewide survey of a random sample of 1,200 teachers and 200 administrators;
- **Provider views**—the broad picture of how staff development resources are used will be completed from a statewide survey of all school districts, county offices of education and state-funded regional service providers; and
- **Staff development in other states**—information on alternative state-level approaches to staff development funding, policy, and programs will be gathered from a survey of approximately 20 other states.

From the data collected, the researchers will (1) describe how staff development “works” in the state, and (2) estimate how much is being

spent on staff development. Based on what appears to be operating effectively, the study will develop alternative staff development models, simulate the cost of the different models, and make recommendations for the Legislature's consideration.

Far West Laboratory will submit a preliminary report of research findings by October 15, 1987 and a final report of findings and conclusions by December 15, 1987. Following submission of the preliminary report CPEC will convene an advisory group to develop policy recommendations and will then submit recommendations to the Legislature by January 15, 1988.

b. Classroom Teacher Instructional Improvement Program (CTIIP) (Item 6100-191-001 (d))

The Classroom Teacher Instructional Improvement Program (CTIIP), established by SB 813, was created as a means for encouraging classroom teachers to improve the quality of instruction. Under the program, the Superintendent of Public Instruction awards each applicant school district funds equal to \$2,000 times 5 percent of the number of permanent, full-time teachers in the district (excluding teachers in adult education, child care, and regional occupational programs). Teachers employed by these districts may in turn apply for grants of up to \$2,000 for use in improving the quality of classroom instruction.

The grants are awarded by district governing boards, based on recommendations made by the district's instructional improvement committee. The committee, which is composed primarily of teachers, reviews all proposals and develops an overall plan for allocating the district's entitlement. The district may also request reimbursement for administrative costs in an amount not to exceed 5 percent of its entitlement for funds. In the current year, approximately 930 of California's 1,028 school districts are participating in CTIIP. These districts employ approximately 99 percent of the total number of eligible teachers in the state.

Table 19
K-12 Education
Classroom Teacher Instructional Improvement Program
Funding History
1984-85 through 1987-88
(dollars in thousands)

	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88
Budget Act Appropriation	\$17,100	\$17,100	\$17,100	\$17,100
Reappropriation	—	-200	200	—
Redirection	—	—	-100	-11
Total Available.....	\$17,100	\$16,900	\$17,200	\$17,089
Estimated Maximum Entitlements	16,732	17,179	16,785 ^a	17,268 ^b
Total Dollar Amount Claimed by School Districts	15,992	16,850	N/A ^c	N/A ^c
Balance Available (appropriation less amount claimed)	1,108	50	415 ^d	-179 ^d

^a In 1986-87 the entitlement calculation methodology was modified, which had the effect of reducing the entitlement amount.

^b Legislative Analyst's projection, based on a 2.9 percent projected growth in the number of eligible teachers.

^c Not Available.

^d Appropriations less maximum entitlements.

DEPARTMENT OF EDUCATION—Continued

Table 19 summarizes the funding history for the CTIIP program. As the table shows, the program has been funded at a level of \$17.1 million since 1984-85, the first year of the program. In the current year, a total of \$17.2 million is available for the program, because (1) \$200,000 was reappropriated from the 1985 Budget Act, and (2) \$100,000 was transferred on a one-time basis from the CTIIP program to fund a CPEC staff development study in the current year.

Budget Proposal. In 1987-88, the Governor proposes to (1) appropriate \$17,100,000 for the CTIIP, and (2) redirect \$11,000 of this amount to provide partial funding for a cost-effectiveness study of bilingual teacher training programs (discussed later in this analysis), leaving a total of \$17,089,000 available for the program.

Proposed Funding Level Does Not Account for Available Balances

We recommend that the \$17.1 million proposed from the General Fund for the Classroom Teacher Instructional Improvement Program be reduced by \$1.3 million, because sufficient unused funds exist from prior year appropriations to fully support the program in the budget year. Consistent with this recommendation, we recommend that the Legislature reappropriate in Item 6100-490, the unused balances from specified years. (Reduce Item 6100-191-001 (d) by \$1,300,000.)

Our analysis of the Governor's proposal for CTIIP indicates that it would provide at least \$1.3 million more than is needed to fully fund the program. This is because the budget (1) fails to take account of at least \$1.5 million in unused balances from 1984-85 and 1986-87 that could be used to fund the program in 1987-88 and (2) provides insufficient funding for the estimated maximum level of program entitlements during the budget year, thereby underfunding the program by up to \$179,000.

\$1.5 Million in Unused Balances Available. Table 19 shows that, of the \$17.1 million appropriated for CTIIP in 1984-85, only \$16 million was actually claimed by participating school districts, leaving an unexpended balance of \$1.1 million. These funds may only be used to reimburse school districts for grants awarded in 1984-85. If they are not claimed or reappropriated for expenditure in the budget year, they will revert to the General Fund at the end of 1986-87.

The table also shows that, in 1986-87, school districts' *maximum* entitlements to CTIIP funding are estimated to total only \$16.8 million, leaving a balance of *at least \$400,000* that will not be needed in the current year. (As the table shows, the actual amount claimed by school districts that have chosen to participate in the program, has always been less than the maximum amounts to which they were entitled.) If these funds are not used, they will not revert to the General Fund until the end of 1988-89.

Baseline Funding Requirements May Be Underestimated. As noted, the budget proposes a total of \$17,089,000 for the CTIIP in 1987-88. We estimate, however, that the maximum entitlements for the budget year will total approximately \$17.3 million. This is based on a projected 2.9 percent growth in the number of eligible teachers, which is similar to Department of Finance projections for average daily attendance (ADA) growth. The budget, therefore, understates the program's baseline funding requirements by up to \$179,000.

Recommendation. Our analysis indicates that, if the balances from the 1984-85 and 1986-87 appropriations are reappropriated for use in 1987-88, a total of \$18.6 million will be available for the CTIIP in the budget year. Since we estimate the program's funding requirement in this

year to be no more than \$17.3 million, this leaves a balance of \$1,344,000 that will not be needed in the budget year. Accordingly, we recommend that the Legislature reduce the appropriation for the CTIIP program by \$1,300,000. (In our analysis of the Bilingual Teacher Training program which follows, we recommend that the Legislature use \$39,000 of the remainder to fund a legislatively-required study of the program's cost-effectiveness.)

Consistent with this recommendation, we further recommend that the Legislature adopt the following Budget Bill language reappropriating the balances from the 1984-85 and 1986-87 Budget Acts in Item 6100-490, to fund the CTIIP in 1987-88:

"() The undisbursed balance of subschedule (f) of Item 6100-191-001 of the Budget Act of 1984, and the unencumbered balances of subschedule (d) of Item 6100-191-001 and paragraph (4) of Item 6100-490 of the Budget Act of 1986, for the purposes of funding the Classroom Teacher Instructional Improvement Program pursuant to Chapter 3.3 (commencing with Section 44700) of Part 25 of the Education Code, in 1987-88."

c. Bilingual Teacher Training Program (BTTP) (Item 6100-191-001 (e))

Chapter 1169, Statutes of 1981, established the Bilingual Teacher Training Program (BTTP), to provide training for teachers who are seeking certification as bilingual instructors and have been granted temporary waivers of the certification requirements. In the current year, the State Department of Education (SDE) is providing grants to ten training sites, which together provide training for approximately 2,000 of the over 5,000 teachers on bilingual waiver.

The teachers that are not served by one of the ten state-funded sites are required to attend either (1) a Commission on Teacher Credentialing-approved bilingual credential program offered at a postsecondary institution, or (2) a school district program. The majority of waived teachers who are not in state programs attend school district programs. These programs receive no specific, direct state support; however, they must meet the standards and criteria established by the SDE.

The budget proposes \$842,000 from the General Fund for the BTTP in 1987-88. This funding level is equal to the current year amount and will support approximately the same level of services.

Cost-Effectiveness Study Underfunded

We recommend that the Legislature redirect an additional \$39,000 from the Classroom Teacher Instructional Improvement program (Item 6100-191-001 (d)) to fund a cost-effectiveness study of state and local bilingual teacher training programs, because the \$39,000 in carry-over state operations funds that the Governor's Budget proposes to use to fund the study will not be available in the budget year.

Supplemental report language to the 1986 Budget Act required the SDE to develop a proposal to study both the state Bilingual Teacher Training Program and school district sponsored bilingual training programs, and to submit this proposal to the Department of Finance for consideration and inclusion in the Governor's Budget for 1987-88. In response to this directive, the SDE submitted a Budget Change Proposal (BCP) requesting \$50,000 for the study.

The Governor's Budget proposes to fund the study from (1) \$39,000 in state operations funds, carried over from previous years, that were first

DEPARTMENT OF EDUCATION—Continued

appropriated in the legislation that authorized the BTTP (Ch 1169/81), and (2) \$11,000 redirected from the Classroom Teacher Instructional Improvement Program (CTIIP)—Item 6100-191-001 (d).

Our review of the SDE's study proposal finds that it is reasonable and should meet the Legislature's needs for additional information regarding the cost-effectiveness of various bilingual teacher training programs. Our review also indicates, however, that the \$39,000 in carry-over funds proposed to fund the study will be used in the current year to support BTTP state operations costs and will not be available in the budget year. We also find that the Budget Bill language relating to the study, (1) does not fully reflect the intent of the supplemental report language adopted by the Legislature, and (2) fails to specify a due date for the report.

If our recommendation relating to CTIIP (discussed earlier in this analysis) is adopted, there will be sufficient funds available from the CTIIP appropriation to *fully* fund CTIIP and the cost-effectiveness study. (If our recommendation relating to CTIIP is not adopted, however, any funds diverted from CTIIP to fund the study would result in further underfunding of the CTIIP.) Accordingly, in order to fully fund the study, and to ensure that the Legislature's information needs are met in a timely manner, we recommend that the Legislature amend the Budget Bill language in Provision 5 of Item 6100-191-001, as follows:

"5. Notwithstanding any other provision of law to the contrary, of the amount appropriated in subschedule (d) of this item, ~~\$11,000~~ \$50,000 shall be used to study the cost-effectiveness and characteristics of the *different types* of state and school district bilingual teacher training programs and based on the findings develop alternative strategies for training teachers on bilingual waiver. The Superintendent shall, submit the report to the Legislature, by December 1, 1988. The amount remaining shall be the maximum amount allocated for the purposes of Chapter 3.3—Classroom Teacher Instructional Improvement Program (commencing with Section 44700) of Part 25 of the Education Code."

d. School Business Personnel Staff Development Program (Item 6100-191-001 (g))

We withhold recommendation on \$250,000 requested from the General Fund for the School Business Personnel Staff Development Program, pending receipt of a budget proposal.

The School Business Personnel Staff Development Program, a new program established by Senate Bill 62 (Ch 1149/85), is a five-year program to provide in-service training for school business personnel in the skills that are necessary to carry out the business operations of county offices of education and school districts. Last year, SDE contracted with the firm of Arthur Young to assess these fiscal management training needs. This assessment identified over 100 areas that should be addressed through staff development, and estimated the cost of developing and delivering a program in each identified area of need.

SDE decided that it is not possible or practical, given the limited resources of the program, to develop training curricula and provide training in each of the 100 areas of training need. In view of this problem, the SDE convened a meeting of representatives from the educational community to discuss how the many needs identified in the report could be best addressed within the program's existing funding level. Based on input

from this conference, the SDE is now in the process of developing the program for both the current and budget years.

The budget proposes \$250,000 for the School Business Personnel Staff Development Program in the budget year, which is equal to the current-year amount. At the time this analysis was written, SDE had not prepared a proposal on which we could base our analysis of the funding request. The department indicates, however, that this information will be available prior to budget hearings. Pending receipt of the budget proposal, we withhold recommendation on this item.

3. SPECIAL EDUCATION (Items 6100-006-001, 6100-007-001, 6100-161-001, 6100-161-890, and 6100-162-001)

The main elements of the Special Education program include (1) the Master Plan for Special Education, (2) state administration, and (3) the state special schools. In 1986-87, the program will serve approximately 379,000 students (excluding those in state special schools) who are learning, communicatively, physically, or severely handicapped.

Table 20 shows the expenditures and funding for the Special Education program in the prior, current, and budget year. During 1987-88, total support is proposed at approximately \$1.8 billion—\$1.3 billion from the General Fund (including amounts budgeted in revenue limit apportionments that support special education), \$354 million from local funds, and \$121.1 million from federal funds.

As shown in the table, the total amount proposed for the Special Education program (\$1.8 billion) represents an increase of \$106 million (6.3 percent) over the current-year level of expenditures. This increase includes (1) \$17.5 million for a 2.2 percent cost-of-living increase effective January 1, 1988, (2) \$22.4 million to eliminate program deficiencies, and (3) \$66 million to expand or evaluate existing programs.

In addition, the budget overfunds the amount required for school district and county office of education base entitlements by \$16.3 million. (The Department of Finance indicates that this results from technical errors and that it will make the required adjustments in the May Revision.)

We recommend approval of the proposed funding shown in Table 20 for the following program elements, which are not discussed elsewhere in this analysis:

- *State Special Schools (Item 6100-006-001 and 6100-007-001)*—\$43 million from the General Fund for the six state special schools serving the blind, deaf, and neurologically handicapped. This amount includes (1) \$42.5 million for operation of the schools, and (2) \$425,000 for transportation. SDE estimates that the schools will serve a total of 1,436 students in 1987-88.
- *Alternatives to Special Education (Item 6100-162-001)*—\$640,000 from the General Fund for programs designed to reduce the need for placing children in the Special Education program. Within this category, funding for the Early Intervention for School Success program will increase by \$115,000, in order to (1) implement the program in 31 additional sites, and (2) fund one additional clerical position.

Our concerns and recommendations with the remaining budget for the Special Education program are discussed below.

DEPARTMENT OF EDUCATION—Continued

Table 20
K-12 Education
Special Education Program
1985-86 through 1987-88
(dollars in thousands)

<i>Expenditures</i>	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88	<i>Change From</i> 1986-87	
				<i>Amount</i>	<i>Percent</i>
1. State Operations ^a					
State Administration.....	\$6,230	\$7,372	\$7,384	\$12	0.2%
Clearinghouse Depository.....	570	636	636	—	—
Southwest Deaf-Blind Center	18	149	149	—	—
Special Schools.....	40,484	42,989 ^b	42,522 ^{b,c}	-467	-1.1
Special Schools Transportation ..	529	429	425	-4	-0.9
Alternative Programs.....	39	50	50	—	—
Subtotals	\$47,870	\$51,625	\$51,166	-\$459	-0.9%
2. Local Assistance					
Support for Local Programs.....	\$1,480,002	\$1,610,020	\$1,713,863 ^d	\$103,843	6.4%
(General Fund).....	(878,659)	(981,583)	(1,067,103)	(85,520)	8.7
(Federal funds).....	(81,692)	(85,757)	(96,239)	(10,482)	12.2
(Local funding (Excluding Revenue Limits) ^e).....	(250,026)	(256,300)	(264,141)	(7,841)	3.1
(Revenue Limit funds) ^f	(269,625)	(286,380)	(286,380)	—	—
Federally-funded Programs	15,487	15,678	17,678	2,000	12.8
Alternative Programs.....	105	525	640	115	21.9
(School Success Program)	(105)	(315)	(430)	(115)	36.5
(Hyperactivity Pilot Project) ..	—	(210)	(210)	—	—
Subtotals	\$1,495,594	\$1,626,223	\$1,732,181	\$105,958	6.5%
Totals	\$1,543,464	\$1,677,848	\$1,783,347	\$105,499	6.3%
Funding Source:					
<i>General Fund</i> ^g	\$1,105,862	\$1,223,123	\$1,308,247	\$85,124	7.0%
<i>Federal funds</i>	103,288	108,564	121,098	12,534	11.5
<i>Local</i> ^h	330,914	342,214	350,055	7,841	2.3
<i>Reimbursements</i>	3,401	3,947	3,947	—	—

^a Except for the state special schools, the table does not reflect the impact, if any, of the Governor's proposed one percent reduction.

^b Excludes amount for SDE administration.

^c Amount shown has been reduced from figure in Governor's Budget to reflect Governor's proposed one-percent reduction in 1987-88.

^d Includes \$13 million to fund estimated current-year deficiency.

^e Includes county property taxes, computed local general fund contribution, and net negative entitlements.

^f Revenue limit funding calculated for use in special education.

^g Includes estimated state funding share of revenue limit (70 percent).

^h Includes estimated local funding share of revenue limit (30 percent).

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

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

School districts and county offices of education receive state reimbursement for their special education program costs, based on (1) the current level of services provided, (2) costs incurred in 1979-80, adjusted for inflation, (3) local general fund contributions to the program, (4) federal funds, and (5) local property taxes. Regional services are funded at a uniform reimbursement rate per pupil served.

Students Served. Currently, MPSE programs serve approximately 379,000 students with learning and/or physical disabilities, through one of four instructional settings:

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

Table 21 displays the distribution of special education students, by general disability and instructional setting, as of December 1, 1985.

Table 21
K-12 Education
Special Education Enrollment
December 1, 1985

Placement	<i>Disability</i>				<i>Totals</i>
	<i>Communi- cation</i>	<i>Learning</i>	<i>Physical</i>	<i>Severe</i>	
Designated Instruction and Services (DIS)	90,222	6,061	12,137	1,717	110,137
Resource Specialist Program (RSP)	1,854	141,416	1,941	1,135	146,346
Special Day Class (SDC)	10,177	63,949	8,315	36,014	118,455
Nonpublic Schools (NPS)	139	671	137	2,853	3,800
Totals.....	102,392	212,097	22,530	41,719	378,738

Additional Funding Proposed for Special Education

The budget proposes \$66 million from the General Fund to expand or evaluate existing programs as follows:

- **Program Growth**—\$42.9 million for further program growth in order to serve increasing levels of enrollment;
- **Restoration of Aides**—\$20 million to fully restore aide entitlements in special day classes and resource specialist programs (\$16.8 million was provided to partially restore the entitlements in the current year.) These entitlements were reduced in 1981 by SB 769 (Ch 1094/81) in an effort to reduce program costs;
- **Program Evaluation**—\$500,000 for an evaluation, by the University of California, of exemplary special education programs;
- **Infant Programs**—\$2 million to establish new, or expand existing, programs serving handicapped infants; and
- **Awareness Program**—\$500,000 for dissemination of the Awareness Program, which is intended to increase awareness among nonhand-

DEPARTMENT OF EDUCATION—Continued

icapped children of the problems encountered by the handicapped.

Our review of the first two proposals listed above indicates that the requested funding is warranted. Accordingly, we recommend that the amounts requested be approved as budgeted. Our analyses of the remaining three proposals are discussed later in this section.

Results of Sunset Review

Under current law (Ch 1270/83), the statutes and regulations governing the special education program will cease to be operative on June 30, 1988, unless legislation is enacted to extend or repeal this date. This "sunset" provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of the program's effectiveness.

As part of the sunset review process, Chapter 1270 required the State Department of Education (SDE) to review the special education program and report to the Legislature by September 15, 1986. The legislation further required the Legislative Analyst to review the department's report and submit findings, comments, and recommendations.

We received the department's report in November 1986 and submitted our findings and recommendations to the Legislature in December 1986 in a report titled, *Special Education in California: A Sunset Review*.

In this report, we identify four major problems with the current program which, in our judgment, should be addressed as a condition of the program's reauthorization.

First, there are serious flaws with the program's current system of evaluation. Under this system, each SELPA is allowed to choose the specific topic it would like to assess in any given year, and to develop its own research design. This system, in our view, does not provide valid and relevant information to state policymakers on the effectiveness of special education programs, because the system (1) yields local findings which are not generally applicable to the entire state, (2) consists of studies of widely varying quality, and (3) does not tend to address topics of state-level concern.

Second, the effectiveness of resource specialist programs needs further examination. Several recent reports have questioned whether the resource room approach is the most effective one for dealing with problem learners. These reports suggest that resource teachers should be used more to enhance the capacity of *regular* classroom teachers to respond effectively to the needs of students with learning problems, rather than used simply to provide remedial "drill and practice" instruction in an isolated setting.

Third, further review of the program's eligibility criteria is warranted, especially in the area of learning disabilities. Several studies have identified problems with the current criteria's lack of validity and their flexibility. At least one study has gone so far as to suggest that, under existing criteria, almost *any* low-achieving students whom teachers and administrators may wish to remove from the regular classroom—for whatever reason—could be diagnosed as learning handicapped and placed in special education. In addition, the existing eligibility criteria contribute to the assessment process often being viewed as exceedingly time-consuming and costly.

Finally, there is a widespread lack of effort to coordinate special education with other educational programs. Under the terms of AB 777 (Ch

100/81), as well as other provisions of current law, school districts may provide, at the school-site level, for the coordination of special education with other educational programs (including the regular program). As of 1985-86, however, only 1.2 percent of all the schools in the state had included special education in AB 777 coordination plans. The data thus indicate that the participation rate of special education in coordination efforts is extremely low.

Long-Range Evaluation Plan Needed. In order to address these four problem areas, we recommended in our report that, as a condition of the program's reauthorization, the SDE be required to develop a long-range evaluation plan which provides for all of the following:

- Development of a standard methodology for evaluating special education programs on a statewide basis;
- Pilot-testing on a large scale basis alternative models for delivering services to problem learners;
- Analysis of problems with the program's existing eligibility criteria, including the design—within the limits prescribed by federal law—of several different options for improving these criteria; and
- An examination of barriers to participation in the School-Based Program Coordination Act (AB 777).

Subsequent to the release of our report, the Governor submitted his own evaluation proposal, as part of the 1987-88 budget. As is discussed in more detail below, we believe that the merits of the Governor's proposal need to be examined in light of SDE's long-range evaluation plan. For this reason, we recommend that the department submit at least a *portion* of its evaluation plan, along with a funding proposal, prior to hearings on the 1987-88 Budget Bill.

Governor's Evaluation Proposal Requires Further Specificity

We withhold recommendation on \$500,000 requested from the General Fund for an evaluation of exemplary special education programs pending submission by the Department of Education of an initial, long-range evaluation plan.

In his budget, the Governor has proposed \$500,000 for the State Department of Education (SDE) to contract with the University of California for a study of "exemplary" special education programs. The aim of the proposed study would be to determine (1) the educational benefits of these programs, and (2) whether the programs can be replicated in other school districts.

Our analysis indicates that there are two problems with this evaluation proposal.

First, the proposal does not specify which programs would be evaluated and, as a result, we cannot be sure that further evaluation of these "exemplary" programs is necessary. We believe that the programs which would be evaluated should be specified in advance, so that the Legislature can review (1) whether there is a need to evaluate the specific programs in question, and (2) whether there may be other programs or issues which it would be more worthwhile to evaluate on a priority basis. In particular, further review of the topics to be evaluated is needed to ensure that the proposed evaluations would address, to the maximum extent feasible, the following four areas:

- Effectiveness of existing programs;
- Alternative models for delivering services to problem learners;

DEPARTMENT OF EDUCATION—Continued

- Appropriateness of special education eligibility criteria; and
- Improving the coordination of special education with other educational programs.

Second, it is not clear why the evaluation contract should be awarded to the University of California, rather than to some other organization. Most contracts of this nature are awarded by the state through a competitive bid process, and we believe that the proposed evaluation should be awarded in this manner as well. By requesting proposals from a variety of organizations, the Legislature would be better able both to select the issues which would be evaluated, and to review the methodology to be utilized. Using a request-for-proposal approach would also allow the state to procure contracts, if necessary, on several different topics.

Funding for Evaluations Should be Provided in Light of SDE's Long-Range Evaluation Plan. In order to help the Legislature better determine what the specific content, scope, and nature should be of the studies for which to solicit proposals, we recommend that the Department of Education submit a portion of its long-range evaluation plan during hearings on the 1987-88 Budget Bill, and that the Governor's proposal be evaluated in light of the department's plan. We further recommend that the plan submitted by the department be developed with the advice and assistance of the Advisory Commission on Special Education and address all of the following:

- Major questions requiring further research, which, if answered, would provide the Legislature with information on how the effectiveness of the special education program could be significantly improved;
- Any research which has been conducted on these questions to date (including a brief summary of findings);
- For each topic, whether the proposed issue could best be evaluated by the SDE, the Advisory Commission on Special Education, or an independent contractor;
- The scope, probable duration, and cost of each evaluation;
- The potential policy implication of each study;
- Recommendations regarding whether the scope of the evaluation(s) proposed in provision 14 of Item 6100-161-001 of the 1987-88 Budget Bill should be modified; and
- Recommendations regarding whether the amount proposed in the 1987-88 Governor's Budget for program evaluation should be increased.

Once the SDE evaluation plan has been submitted, the Legislature may wish to modify or expand the Governor's evaluation proposal. For this reason, we are withholding recommendation on the \$500,000 requested in Item 6100-161-001 for program evaluation pending receipt from the SDE of specified components of a long-range evaluation plan.

New Federal Early Intervention Legislation

Congress recently enacted PL 99-457, which establishes new federal grant programs for expanding special education services provided to handicapped children under the age of five. This measure could have major policy and fiscal implications for California, since any state accepting PL 99-457 funds would be required to serve all handicapped children in this age group by 1990-91 or 1991-92. For a discussion and our analysis of the new federal law, please see our companion document, *The 1987-88 Budget: Perspectives and Issues*.

Expansion Funding for Infant Programs

We withhold recommendation on \$3 million requested from the General Fund (\$2 million in Item 6100-161-001) and the Federal Trust Fund (\$1 million in Item 6100-161-890) for expansion of infant programs, pending receipt of additional information on the degree of unmet demand for these programs.

The state currently spends \$17 million to serve approximately 4,000 handicapped infants, age two and under, in 78 home-based and center programs.

Infant programs are not available statewide. If the program is not available, parents are usually referred to another local education agency (LEA) or to a regional center operated by the Department of Developmental Services.

In both 1985-86 and 1986-87, the Legislature increased funding for LEA programs by \$5 million annually. The 1987-88 budget proposes an augmentation of \$3 million—\$2 million from the General Fund, and \$1 million from federal funds—for infant programs.

Demand for Program Expansion Has Been Less Than Expected. Our review indicates that the demand for additional infant funds has been less than was originally expected. Of the \$5 million in expansion funds for the current year, for instance, the SDE only used \$2.9 million to expand programs. Of the remainder, \$1.4 million was used to fund additional aides, and at the time this *Analysis* was written, \$700,000 remains unallocated.

The department indicates that, despite the current year situation, it has recently received additional requests for expansion funds. It was unable, however, to provide us with data on the magnitude of these unmet requests. Without such data, we have no way of knowing how much, if any, program expansion is warranted in 1987-88.

The department informs us that it will be able to provide these data by the time of budget hearings. We therefore withhold recommendation on the \$3 million proposed for infant program expansion, pending review of the department's data.

Report on Infant Service Delivery Models

Services to handicapped infants may be delivered using either a "center-based" model, where services are provided in one central location, or a "home-based" model, where teachers travel to each infant's home to deliver services. In last year's *Analysis*, we observed that, compared to other states, California appears to operate an unusually high number of center-based programs, and that these programs are significantly more expensive to operate than home-based programs. We further noted that the department had gathered little data which could be used (1) to document the cost-effectiveness of utilizing center-based over home-based instruction, or (2) to develop program standards regarding caseloads and frequency of services for both types of programs. In response to our analysis, the Legislature directed the department to conduct a study of these issues.

The department's report, submitted on October 29, 1986, is based on two studies conducted in California by private consultants. The report concludes that center-based programs enhance social and communication skills by providing older infants an opportunity to interact with other children. The report, however, does not proceed to compare the benefits

DEPARTMENT OF EDUCATION—Continued

associated with center-based services to those of home-based programs, nor does it attempt to relate its findings regarding program benefits to any discussion of program costs. For these reasons, the report, in our judgment, provides little useful information concerning the cost-effectiveness of utilizing one type of service delivery mechanism over the other and, accordingly, is not responsive to the Legislature's directive.

The implications of the department's findings regarding program case-loads and frequency of services are discussed later in this analysis.

Reduced Funding for Infant Aides Warranted

We recommend that the Legislature (1) reduce General Fund support for aides in handicapped infant programs by \$1,607,000, because the amount of funding proposed for this purpose exceeds the amount needed to meet statutory requirements, and (2) adopt corresponding Budget Bill language. (Reduce Item 6100-161-001 by \$1,607,000.)

Funds for infant programs are allocated to local education agencies (LEAs) pursuant to the same funding formula which is used to apportion funds to special education programs serving children ages 3 through 21. Under this formula, LEAs receive funds on the basis of the number of "instructional personnel service units" operated, where each unit corresponds to one special education teacher and up to two aides. Center-based models serving handicapped infants which are operated as "Special Day Class" (SDC) units generally receive funding for two aides.

The *Supplemental Report of the 1986 Budget Act* required the Department of Education to report on the staffing requirements of infant programs, including the need for aides. According to the department's report, aides are needed in center-based infant programs in order to provide an adult to child ratio of one to four, as required by the Education Code. While the department's report does not specifically explain the basis for the statutory ratio, the department staff have informed us that its purpose is mainly to satisfy health and safety regulations.

Our analysis indicates that the one to four adult-child ratio can be maintained with a teacher and one, rather than two, aides, as discussed below.

Infants Served in Shifts. Although each SDC unit is required to provide services to at least 12 infants, the infants will usually receive services in several different shifts. As a result, the total number of infants served at any particular time generally will be less than 12. According to one study submitted by SDE, prepared by Planning Associates, center-based programs tend, on average, to serve infants in groups of eight. (We discuss later programs which serve infants in groups larger than eight.) Our analysis therefore indicates that, for most infant programs, only two staff members need to be present at any given time in order to meet the statutory 1:4 staff-student ratio. Consequently, these programs only need to be funded for one aide position, in addition to one teacher, in order to provide two staff members per unit.

Infants Served for Less than a Full School Day or Week. The SDE's rationale for funding two full-time aides per SDC also is flawed because, unlike special day classes for older children, infant programs do not generally provide group instruction for a full school day, five days a week. Rather, infants only receive services for several hours per week. This factor further diminishes the need for two aide positions.

Our analysis indicates that infant units could be funded for one aide

position and still easily meet the statutory 1:4 staffing ratio. The data we used to derive this conclusion are shown in Table 22.

Table 22
Special Education Infant Programs
Aide Staffing Requirements
Per SDC Unit Per Week

	Units With Average Levels Of Service	Maximum Levels of Service	
		Scenario	Scenario
		One	Two
Number of infants served ^a	12-16	16	16
Size of groups	8	8	16
Average number of groups	2	2	1
Hours of service per group	5.75 ^b	9 ^c	9 ^c
Total duration of group services	11.5	18	9
Portion of hours of full-time position ^d	38.3%	60%	30%

^a Education Code Section 56728.8 requires a minimum of 12 infants per unit; Provision 5 of Item 6100-161-001 of the 1986 Budget Act specifies that programs with 16 or more infants per unit may receive additional units.

^b Based on 23 hours of service per month per infant. (Source: State Department of Education, *Review of Early Education Services*.)

^c Based on 3 hours of services per day, 3 days per week, as specified in Section 56426.2 of the Education Code and Section 12 of Ch 1296/86.

^d Assuming one FTE aide position = 30 hours.

The first column of the table illustrates our argument for infant programs providing an "average" level of service. The table assumes that each infant unit serves between 12 and 16 infants. Since infants, on average, receive services in groups of eight, a unit of 12 to 16 infants will tend to provide services to infants in two separate groups, as is indicated in the table. Since other data presented in the SDE's report indicate that *each* group receives on average 5.75 hours of weekly instruction, we estimate that one SDC infant unit would provide a *total* of 11.5 hours of weekly group instruction. This amount of time is equal to only 38 percent of the weekly period in which one full-time aide would be employed. Our review therefore indicates that a SDC infant unit could be funded for one aide position and still easily meet the statutory adult-child ratio.

The same conclusion will hold, however, even if a program provides an *above-average* level of service. Table 22 shows two possible scenarios for an LEA which provides center-based services to infants for nine hours per week, which, according to standards specified in existing law, reflects the *maximum* number of hours that infants should receive group services.

The first scenario presents the case of an LEA which serves infants in average size groups of eight. The table shows that such an LEA would only require an aide for 18 hours per week, or 60 percent of the weekly period in which one full-time aide would be employed. This demonstrates that the LEA could again still easily meet the statutory adult-child ratio with funding for only one aide position.

Under the second scenario, the LEA serves infants in one large group of 16, rather than in two groups of eight; in this case, the LEA could require as many as *three* aides in order to meet the statutory ratio, but, as shown in the table, it would need to utilize each aide only one-third of the time. Consequently, the LEA would still only require funding for one position.

DEPARTMENT OF EDUCATION—Continued

These examples show that, even when programs providing a maximum level of service are considered, there are no situations in which an LEA would require funding for more than one aide position.

Use of Support Staff and Parent Volunteers. Finally, SDE's argument for two aide positions overlooks the fact that (1) in addition to aide funding, all infant programs receive a large amount of funding (between \$20,000 and \$28,000 per unit) to hire a variety of professional staff, such as nurses and psychologists, and (2) some programs also utilize parent volunteers. Both of these factors will increase the adult-to-child ratio in these programs, thus further diminishing the need to hire two full-time aides.

Funding Should Be Restricted To One Aide Position. Given these various considerations, we believe that infant programs would suffer no adverse consequences if they were funded for one aide position, rather than two. In fact, during the prior fiscal year, the SDE funded 60 percent of all SDC units operated with only one aide, thus further suggesting that programs could operate adequately with one aide position.

For these reasons, we recommend that infant units be funded for *at most* one aide position each. This recommendation would result in annual savings to the General Fund of \$1.6 million. These funds, in turn, could be used to serve a greater number of infants (assuming there is sufficient demand for expansion among program operators), or to fund other high-priority, legislative programs.

In order to implement this recommendation, the Legislature should (1) reduce Item 6100-161-001 by \$1.6 million, and (2) adopt in this item the following Budget Bill language:

"Notwithstanding any other provision of law to the contrary, all state-funded instructional personnel service units for children with exceptional needs younger than three years of age which are operated as special day classes or centers shall be supported by a maximum of one aide per unit. The Superintendent of Public Instruction shall make all necessary adjustments to local special education entitlements in order to implement this requirement."

Dissemination of Awareness Program Premature

We recommend that \$500,000 requested from the General Fund for dissemination of the Awareness Program be deleted, because no data have been submitted to the Legislature which document that this program is effective. (Reduce Item 6100-161-001 by \$500,000.)

Chapter 1677/84 established a three-year pilot program in six school districts, in order to increase awareness among nonhandicapped students of the problems encountered by the handicapped. The measure required participating districts to develop and implement curriculum materials and activities, including small group and multimedia presentations, designed to help make students more aware of their own attitudes and prejudices towards disabled individuals. In addition, the measure required the Superintendent of Public Instruction to develop a process for evaluating the programs, which are scheduled to sunset in the budget year. Presumably, it was the Legislature's intent in establishing the pilot programs for the awareness curriculum materials to be disseminated statewide, if the pilots proved successful.

Since 1984-85, the Legislature has annually appropriated \$200,000 for

the program. For the budget year, the Governor is requesting \$500,000 from the General Fund to disseminate information about the programs to other local education agencies (LEAs) which are in the process of "mainstreaming" severely handicapped pupils into their regular programs.

We agree that the goal of increasing student awareness of the problems faced by individuals with disabilities is a desirable one, especially if this would facilitate the acceptance by other students of handicapped individuals. The Department of Education, however, has not provided the Legislature with any data indicating that the curriculum materials to be disseminated would, in fact, be effective in facilitating such acceptance. The department has contracted for an independent evaluation of the program, but the results of this evaluation will not be available until the end of the current fiscal year.

Given the large amount of funds being requested for dissemination (\$500,000), we believe that it is incumbent upon the department to provide some evidence that the program is likely to have some effect on student behavior. Absent such evidence, our analysis indicates that providing these funds would be premature. Accordingly, we recommend deletion of the \$500,000 proposed for dissemination. Once the department's evaluation of the program is completed, the Legislature will be in a better position to determine whether such funding is warranted in 1988-89.

Funding for Low-Incidence Equipment Should Be Reduced

We recommend that \$7 million requested from the General Fund for equipment for pupils with low-incidence disabilities be reduced by \$5.2 million, in order to accurately reflect the ongoing needs for such funding. (Reduce Item 6100-161-001 by \$5,200,000.) We further recommend that the Legislature adopt Budget Bill language in Item 6100-161-001 to specify that these funds are primarily for maintenance of existing equipment inventories.

For the 1985-86 fiscal year, the Governor proposed, and the Legislature appropriated, \$5 million from the General Fund for the purpose of providing specialized equipment and materials to "handicapped students with low-incidence disabilities" (which, as defined in statute, refers to students who are blind, deaf, or orthopedically handicapped). The Legislature appropriated a total of \$7 million for this equipment in the current year.

Examples of equipment which local education agencies (LEAs) can acquire with these funds include such devices as speech synthesizers or mobility aids. Current law provides that any specialized equipment purchased must relate to objectives in students' individualized education program (IEP) plans.

The Governor's Budget proposes to continue the current-year level of funding for this equipment—\$7 million.

Report on Continued Need for Equipment Funds. As LEAs acquire the needed equipment, the total amount of state funds required for equipment purchases should decrease to the level necessary only to fund the ongoing costs of equipment maintenance and replacement. In order to determine the most appropriate level of special state funding for this equipment, the Legislature adopted supplemental report language to the 1985 Budget Act directing the State Department of Education (1) to conduct a study of the amount of funding needed (a) on a one-time basis in order to provide LEAs with an appropriate inventory of equipment, and (b) on an ongoing basis in order to maintain and replace this inventory; and (2) to develop *need-based* criteria for determining what consti-

DEPARTMENT OF EDUCATION—Continued

tutes a "shortage" of such equipment.

Report Findings. The department submitted its report to the Legislature on December 15, 1986. In preparing the report, the department collected data from each Special Education Local Plan Area (SELPA) on the equipment needs of students with low-incidence disabilities. Based on these data, the department's report estimates that the amount of funding needed on a one-time basis is \$5.6 million. In addition, the report indicates that \$2.4 million is needed on an annual basis to maintain and replace the equipment. (The department has subsequently informed us, however, that the latter figure is a typographical error—and should instead be \$4.4 million.)

Our review indicates that the report submitted by the department probably significantly *overstates* the true need for this equipment, because it presents no criteria which specify what would constitute a "shortage" of specialized equipment, as was required by the supplemental report language. Because of the lack of such criteria, the SDE was unable to distinguish between cases where LEAs have a critical *need* for additional specialized equipment and cases where LEAs only *desire* this equipment in order to enrich their programs. Rather, the determination of need was left to local program administrators.

Reduced Funding Warranted. Even if one assumes that SDE's measures of need are not overstated, however, the figures presented in SDE's report indicate that the level of funding proposed for specialized equipment in 1987-88 should be reduced, for two reasons.

First, the data indicate that the need for funding to eliminate "shortages" of equipment will be met in the current year. As of the beginning of the current-year, the report documents a need for additional, one-time funding of \$5.6 million. LEAs, however, will receive \$7 million in equipment funds during 1986-87 and, as a result, the need to increase the statewide supply of specialized equipment will have been met. Consequently, on this basis, equipment expenditures should be limited primarily to maintenance and replacement costs.

Second, our analysis indicates that an annual funding level of only \$1.8 million for specialized equipment would be warranted. Although SDE claims that \$4.4 million is required on an ongoing basis to maintain and replace equipment, our analysis indicates that this amount is overstated. This is because SDE's figure is based on annual outlays for equipment and materials made by LEAs which includes expenditures to increase—as opposed simply to maintain—existing equipment inventories. Other data in SDE's report, however, refute its conclusion and suggest that the ongoing amount of funding needed for equipment maintenance should be about 15 percent of total equipment costs. Although this estimate is based on data from a very limited sample of SELPAs, the department's report provides us with no other information upon which to determine a reasonable level of equipment funding. Based on the total amount that has been appropriated for low-incidence equipment since 1985-86 (\$12 million), therefore, we estimate ongoing funding needs of approximately \$1.8 million annually.

Recommendation. For these reasons, we recommend that the total amount of funding proposed for specialized equipment and materials be reduced by \$5.2 million, in order to reflect the estimated amount of funding needed on an ongoing basis. We further recommend that the Legislature adopt the following Budget Bill language in Item 6100-161-001 (in lieu

of provision 9), in order to specify that this funding is for *maintenance* of LEAs' existing stock of equipment:

- "9. \$1,800,000 of the funds appropriated in category (a) of this item are available for the purchase, repair, and maintenance of specialized equipment, books, and materials for pupils with low-incidence disabilities, as defined in Section 56026.5 of the Education Code. Other provisions of law notwithstanding, these funds are intended primarily to maintain existing supplies of these items."

Transfer to Departments of Mental Health and Social Services

We withhold recommendation on Budget Bill language that would authorize \$8.1 million to be transferred from special education to the Departments of Mental Health and Social Services, pending receipt of a report from the Auditor General on levels of local expenditures for noneducational services.

AB 3632 (Ch 1747/84) and AB 882 (Ch 1274/85) set forth the roles and responsibilities of various state agencies related to the provision of services to pupils in special education. Under these measures, which took effect in the current year, the State Department of Mental Health (DMH) has been given responsibility for providing psychotherapy, and the Department of Social Services (DSS) has been given responsibility for providing residential care when appropriate.

In order to implement the transfer of responsibilities, AB 882 mandated a corresponding reallocation of funds among these various agencies. Accordingly, the 1986 Budget Act included language providing for \$8.1 million in the current year to be transferred from SDE to the other two state agencies—\$2.7 million to the DMH, and \$5.4 million to the DSS. The amounts were based on estimates of (1) levels of prior-year LEA expenditures for noneducational services, and (2) the number of emotionally-disturbed pupils who may require services.

To get better data for the future, the Budget Act also provided for (1) the SDE to conduct a survey of LEAs and (2) the Auditor General to review the accuracy of this survey, and report his findings and recommendations to the Legislature by February 1, 1987.

For the budget year, the Governor has proposed language which would again authorize \$8.1 million to be transferred from the SDE special education appropriation to the other state agencies. In the absence of the Auditor General's report, we have no basis for determining whether the amount proposed is reasonable. Accordingly, we withhold recommendation on provisions 11 and 12 of Item 6100-161-001, pending receipt of the Auditor General's report on levels of prior-year, LEA expenditures.

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

We withhold recommendation on \$1 million proposed for a model transition program, pending receipt of a report on the program's accomplishments and proposed objectives.

The Education for All Handicapped Children Act (P.L. 94-142), established and funded the right of such pupils to a "free and appropriate public education." The budget estimates that California will receive \$121.1 million—an increase of \$12.5 million—in federal funds in 1987-88 under P.L. 94-142 (and other federal programs) consisting of (1) \$96.2 million for direct assistance to local programs, (2) \$17.7 million for a variety of specialized programs, and (3) \$7.2 million for state operations.

DEPARTMENT OF EDUCATION—Continued

Of the increase, the budget proposes to use (1) \$1 million to expand programs serving handicapped infants (discussed previously), (2) \$1 million to fund a model transition program to assist handicapped students adjust to adult life (this program is being supported with state funds in the current year), and (3) \$10.5 million to fund local entitlements.

As discussed in our analysis of Item 6100-161-001, we are withholding recommendation on the augmentations for infant programs pending submission by the Department of Education of data which documents the degree of unmet demand for these programs.

We are also withholding recommendation on the \$1 million requested for the transition program pending submission of a report in March 1987, required by the 1986 Budget Act, describing the program's accomplishments and proposed objectives.

4. VOCATIONAL EDUCATION PROGRAMS

Table 23 summarizes funding for all vocational education programs, including Regional Occupational Centers and Programs (ROC/Ps). In total, the vocational education budget requests approximately \$303 million for these programs in 1987-88—a net decrease of \$3.5 million, or 1.1 percent, from the current-year level of expenditures. This decrease primarily reflects a projected reduction in federal funds for vocational education of \$9.5 million, which would be partially offset by increased expenditures from the General Fund for (1) the Greater Avenues for Independence (GAIN) program (\$4.6 million) and (2) ROC/Ps (\$1.8 million).

Table 23
K-12 Education
Funding for Vocational Education Programs
1985-86 through 1987-88
(dollars in thousands)

Programs	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change From 1986-87	
				Amount	Percent
Regional Occupational Centers/Programs	\$199,894	\$209,981	\$211,816	\$1,835	0.9%
Student Organizations	425	500	500	—	—
Specialized Programs:					
GAIN Matching Funds	—	2,000	6,600	4,600	230.0
Peninsula Academies	600	600	600	—	—
Agricultural Education	3,130	3,000	3,000	—	—
School-Based Programs	63,157	72,710	63,215	-9,495	-13.1
Reimbursements:					
Federal JTPA	7,260	15,666 ^a	15,244 ^a	-422	-2.7
Work Ability	2,106	2,000	2,000	—	—
Totals	\$276,572	\$306,457	\$302,975	-\$3,482	-1.1%
Funding Source:					
General Fund	\$204,049	\$216,081	\$222,516	\$6,435	3.0%
Federal funds	63,157	72,710	63,215	-9,495	-13.1
Reimbursements	9,366	17,666	17,244	-422	-2.4

^a Includes \$76,000 in reimbursements from the Employment Training Panel.

We recommend approval of the proposed funding in Table 23 for the following vocational education programs, which are not discussed elsewhere in this analysis:

- **Regional Occupational Centers and Programs (ROC/Ps) (Item 6100-102-001)**—\$211.8 million from the General Fund to support vocational training provided to high school pupils and adults in ROC/Ps. The proposed amount reflects increased funding for ROC/Ps of \$1.8 million, and consists of (1) an increase of \$3.3 million to fund enrollment growth of 2.0 percent, and (2) a decrease of \$1.5 million resulting from offsetting changes in local revenues.
- **Vocational Education Student Organizations (Item 6100-118-001)**—\$500,000 from the General Fund for vocational education student organizations. This is the same level of support as is provided in the current year.
- **Specialized Vocational Education Programs (Item 6100-166-001)**—\$7.2 million from the General Fund for specialized vocational education programs. Of the proposed amount, \$6.6 million will be used to provide remedial education services as part of the Greater Avenues for Independence (GAIN) program. This represents an increase of \$4.6 million over the current-year level, and reflects an expansion in the budget year in the number of counties which will be participating in GAIN. (As noted below, the Governor's Budget proposes \$6.6 million in federal matching funds provided under the Job Training Partnership Act (JTPA), thus providing a total of \$13.2 million in this item for GAIN.) The amount requested in this item also includes \$600,000 to provide grants to local school districts to replicate special programs ("Peninsula Academies") for educationally disadvantaged youth. (These programs were originally established in San Mateo County by the Sequoia Union High School District.) The proposed amount reflects the same level of funding as is provided in the current year.
- **Agricultural Vocational Education Incentive Program (Item 6100-167-001)**—\$3 million from the General Fund for grants to local school districts to improve the quality of approved agricultural vocational education programs. This is the same level of funding as is provided in the current year.
- **School-Based Programs (Item 6100-166-890)**—\$63.2 million from the Federal Trust Fund for local assistance to vocational education programs which are provided as part of the regular school curriculum. The amount proposed reflects a decrease of \$9.5 million from the current-year level, resulting from a one-time federal grant in the current year which will not be available in the budget year.
- **Federal Job Training Partnership Act/Project Work Ability (Item 6100-166-001—reimbursements)**—\$17.2 million in reimbursements, primarily from the Employment Development Department (EDD). Of this amount, \$15.2 million is from the federal Job Training Partnership Act—of which (1) up to \$6.6 million would be used for GAIN, and (2) \$8.6 million would be used to support state and local training projects. The remaining \$2 million is for a program serving handicapped youth known as Project Work Ability. The total amount shown for reimbursements reflects a decrease of \$422,000 from the current-year level, resulting from elimination of a one-time reimbursement from the Department of Social Services to develop educational assessment instruments related to the GAIN program.

Elsewhere in this analysis, we discuss our concerns and recommendations regarding the GAIN program, established by Ch 1025/85. (Please see

DEPARTMENT OF EDUCATION—Continued

analyses of Items 5180-151 and 6100-156-001.)

5. Compensatory Education Programs

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

Table 24
K-12 Education
Funding for Compensatory Education Programs
Local Assistance
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
General Fund:					
Economic Impact Aid.....	\$195,627	\$197,577	\$106,157	-\$91,420	-46.3%
Miller-Unruh Reading Program.....	19,290	19,869	—	-19,869	-100.0
Indian Education:					
Native American Indian Education Program	852	861	861	—	—
Indian Education Centers	361	365	—	-365	-100.0
Subtotals.....	\$216,130	\$218,672	\$107,018	-\$111,654	-51.1%
Federal Funds:					
ECIA Chapter 1.....	\$365,407	\$374,083	\$374,083	—	—
Refugee and Immigrant Programs ...	18,554	20,340	20,340	—	—
Subtotals.....	\$383,961	\$394,423	\$394,423	—	—
Totals.....	\$600,091	\$613,095	\$501,441	-\$111,654	-18.2%

Table 24 summarizes local assistance funding from the General Fund and federal funds for compensatory education programs in the prior, current, and budget years. The budget proposes that (1) federal funds will total approximately \$394 million—the current year level, and (2) state funds will total approximately \$107 million—a reduction of \$112 million, or 51 percent, below the current year.

The major portion of the reduction—\$111 million—is associated with the elimination of funding for Economic Impact Aid (state compensatory education portion), the Miller-Unruh Reading Program, and the Native American Indian Early Childhood Education Program. We note, however, that the elimination of funding for these programs does not result in a reduction in resources to the overall K-12 education system, because the Governor proposes to redirect these funds to help fund two new programs—the Class Size Reduction program for grade 1 (\$60 million) and the Educational Assistance program (\$72 million). This redirection proposal is discussed in detail elsewhere in this analysis.

We recommend approval of the proposed funding shown in Table 24 for the following compensatory education programs, which are not discussed elsewhere in this analysis:

- **Education Consolidation and Improvement Act—Chapter 1 (Items 6100-136-890 and 6100-141-890)**—\$374.1 million from the Federal Trust Fund, composed of (1) \$294.3 million to provide compensatory education services to educationally disadvantaged students and (2) \$79.8 million to provide supplementary educational and health services to children of migrant and formerly migrant workers. This is the same level of funding as is provided in the current year.
- **Indian Education Centers (Item 6100-151-001)**—\$861,000 from the General Fund to support twelve Indian Education Centers which serve as regional educational resource centers to Indian students, parents, and schools. This is the same level of funding as is provided in the current year.

Our concerns and recommendations with the funding for the remaining individual compensatory education programs are discussed below.

a. Economic Impact Aid (Item 6100-121-001)

Consistent with our recommendation regarding the Governor's proposed Class Size Reduction and Educational Assistance programs, we recommend that the Legislature continue funding for Economic Impact Aid at its current level. (Augment Item 6100-121-001 by \$90,795,000.) We further recommend that the Legislature adopt Budget Bill language in Item 6100-121-001 consistent with that provided in the current year.

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

Governor's Proposal. Table 24 shows that the Governor's Budget proposes to reduce funding by \$91.4 million for Economic Impact Aid in the budget year, and allocate the remaining funds (\$106.2 million) exclusively for bilingual education. The major portion of this reduction (\$90.8 million) is part of a plan to eliminate, over a two-year period, approximately \$132 million in funding for selected categorical programs, and use these funds instead to reduce class sizes in grade 1. (In 1987-88, \$60 million would be used for the Class Size Reduction program and \$72 million would be used for one-time grants under a new Educational Assistance program.)

Recommendation. Elsewhere in this analysis, we recommend that the Legislature reject the Governor's proposed Class Size Reduction and Educational Assistance programs (please see page 946 for our discussion of this issue) because it fails to ensure that the state will continue to meet the special needs of students currently served by selected categorical programs, including the EIA program. (Although our preliminary review of EIA indicates that it suffers from a lack of a comprehensive evaluation, the basic needs that prompted the Legislature to create this program have not disappeared. Thus, we do not conclude that it should be eliminated.)

Consistent with this recommendation, we recommend that the Legislature continue funding for Economic Impact Aid at its existing level by augmenting Item 6100-121-001 by \$90,795,000.

We further recommend that the following technical Budget Bill language, which is consistent with language governing the allocation of Eco-

DEPARTMENT OF EDUCATION—Continued

conomic Impact Aid funds in the current year, be adopted in lieu of provision 1 of Item 6100-121-001:

“Funds appropriated by this item for the Economic Impact Aid Program are for transfer by the State Controller to Section A of the State School Fund for direct disbursement by the Department of Education, for the purposes of the Economic Impact Aid Program, pursuant to Chapter 1 (commencing with Section 54000) of Part 29 of the Education Code. \$17,756,000 of the funds in excess of \$177,246,000 shall be allocated by the Superintendent of Public Instruction, pursuant to Section 54041 of the Education Code, to a limited number of districts with high concentrations of limited- and non-English speaking pupils and other Economic Impact Aid pupils that receive insufficient funds through the Economic Impact Aid formula. The dollar amounts specified in the immediately preceding sentence shall be adjusted appropriately to reflect any additional funding provided in Item 6100-226-001 for a cost-of-living adjustment. No district receiving funds for the Economic Impact Aid Program shall be allocated less than \$5,000, adjusted annually and cumulatively from 1980-81 by the same percentage adjustment for cost-of-living as the Economic Impact Aid Program received.”

Economic Impact Aid Evaluation

We recommend that the Legislature adopt supplemental report language directing the State Department of Education to develop and submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance a detailed plan and funding proposal for a comprehensive evaluation that reviews the EIA funding formula, the program's effectiveness, and the relationship of the program's effectiveness to EIA spending levels.

Under current law (Ch 1270/83), the Economic Impact Aid (EIA) program is scheduled to “sunset” on June 30, 1987, unless legislation is enacted to extend or repeal this date. Even if the Legislature does not continue the EIA program beyond its sunset date, the program does not actually terminate. Instead, the statute provides that funding “shall continue for the general purposes of [the] program as specified in the provisions relating to the establishment and operation of the program.” The statute further provides that such funds shall be used for the intended purposes of the program, but all relevant statutes and regulations governing the program (with specified exceptions) shall cease to be operative.

The “sunset” provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of the program's effectiveness. As part of the sunset review process, Chapter 1270 required the State Department of Education (SDE) to review the EIA program and report to the Legislature on its appropriateness and effectiveness. This report was submitted in March 1986. The legislation further requires that, based on a review of the report, the Legislative Analyst is to submit findings, comments, and recommendations regarding the program. Our sunset review report on EIA will be issued this spring. Based on our preliminary review of the department's report, we make the following findings regarding the EIA program:

- It is not possible to measure how effectively EIA achieves its intended purpose, because (1) it is unclear how accurately the calculation of “need” specified in the EIA formula reflects districts' actual needs for

additional resources, and (2) it is not known what effect these additional resources have on improving the educational achievement of disadvantaged students—or how these effects vary among school districts.

- Based on information provided in the department's report, we are unable to determine whether the total amount of "gross need" identified in the EIA funding formula (1) bears any reasonable relationship to the amount of compensatory education funding actually needed to equalize educational opportunities for disadvantaged students or (2) accurately identifies school districts' *relative* needs for compensatory education funds. In practice, the formula places the highest priority on maintaining each school district's prior-year funding allocation, rather than distributing funds to districts in proportion to their needs.
- Evidence cited by SDE (the results of reading and mathematics achievement tests administered to compensatory education students) is insufficient to determine the effectiveness of the EIA program. Specifically, the results do not indicate (1) how the students tested might have been expected to perform in the absence of the EIA program, (2) what amount of the achievement increase (if any) is attributable to services provided through EIA, and (3) how such increases are related to levels of spending on EIA.

Our review indicates that these problems primarily stem from the failure of the SDE to conduct any comprehensive evaluation of the EIA program which the Legislature could use to determine the extent to which the program has succeeded in meeting its goals. These problems, however, do not necessarily reflect an inherently flawed program or a lack of need for the program. For these reasons, therefore, we do not believe that the EIA program should be eliminated. Our review indicates further that it is both possible—and necessary—to address the above issues, in order to assist the Legislature in its deliberations regarding program continuation and improvement.

Recommendation. Should the Legislature decide to provide funding for the EIA program, we recommend that the SDE conduct a comprehensive evaluation of the program focusing on its effectiveness in improving the educational achievement levels of EIA students. To achieve this, the SDE should first develop a detailed evaluation plan, including the estimated cost and timeframe for conducting such an evaluation. The plan should be submitted to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1987 to be considered as part of the deliberations on the 1988-89 Budget Bill.

Based on the results of such an evaluation, the Legislature will be better able to determine the overall need and cost to adjust the statutory goals or requirements of the program. Accordingly, we recommend that the Legislature, should it decide to provide funding for the EIA program, adopt the following supplemental report language in Item 6100-121-001:

"The State Department of Education shall submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1987, a detailed plan, including the associated costs and time frame, for conducting a comprehensive evaluation of the effectiveness of the EIA program. The plan shall reflect a proposed evaluation which at a minimum encompasses (1) a comprehensive review of the EIA funding formula and (2) an evaluation of the effectiveness of the EIA/State Compensatory Education

DEPARTMENT OF EDUCATION—Continued

program. This latter evaluation should include an examination of both of the following:

- The specific impact of the EIA program in improving the educational achievement levels of disadvantaged students, and,
- How increases in achievement (if any) are related to levels of spending on EIA.”

Economic Impact Aid: Bilingual Education

Current state law—the Bilingual Education Improvement and Reform Act (Ch 1339/80)—requires that limited-English proficient (LEP) pupils be provided a basic bilingual education program consisting of (1) an English language development component and (2) a primary language component for instruction in basic skills until the LEP pupil makes a transition to English. Current law also authorizes a limited number of experimental bilingual education programs.

School districts are required to provide special services to LEP pupils through whatever resources are available to them, including the general purpose revenue limit funds generated by each LEP student. State funding for bilingual education programs is provided primarily under Economic Impact Aid. Additional funding for bilingual education services may also be provided by the following state categorical programs: the School Improvement Program (SIP); Demonstration Programs in Reading and Mathematics; the Miller-Unruh Reading Program; Urban Impact Aid; and Meade Aid. Federal programs, including ECIA Chapter 1, Migrant Education, the Transition Program for Refugee Children, and the Emergency Immigrant Education Assistance Program, also serve LEP pupils.

Because of the multiplicity of programs and funding sources for bilingual education, we cannot accurately determine how much California spends for services to LEP pupils.

Annual Census of LEP Pupils. Current state law requires that all school districts conduct an annual census to determine the home language of each pupil enrolled in the district, and to assess the language skills of those pupils whose primary language is other than English. Based on this assessment, students are classified as limited English-proficient (LEP) or fluent English-proficient (FEP). In the most recent language census (conducted in the spring of 1986), school districts identified 567,564 LEP students who are eligible to receive bilingual education services.

Table 25
Number of K-12
Limited English Proficient Pupils
Selected Years
1980 through 1986

Language	1980	1984	1985	1986	Increase 1986 Over 1980	
					Number	Percent
Spanish	257,033	355,650	380,375	413,224	156,191	60.8%
Non-Spanish.....	68,715	132,185	143,707	154,340	85,625	124.6
Vietnamese	(14,018)	(29,535)	(29,990)	(30,592)	(16,574)	118.2
Cantonese	(10,174)	(18,139)	(19,118)	(19,784)	(9,610)	94.5
Korean	(6,599)	(8,993)	(9,249)	(9,927)	(3,328)	50.4
Pilipino	(6,658)	(10,941)	(12,145)	(13,450)	(6,792)	102.0
All Others	(31,266)	(64,577)	(73,205)	(80,587)	(49,321)	157.7
Totals.....	325,748	487,835	524,082	567,564	241,816	74.2%

As shown in Table 25, the total number of LEP students in California increased by 74 percent between 1980 and 1986. Of the total LEP population, 73 percent have Spanish as their primary language. The number of LEP students whose primary language is not Spanish, however, has more than doubled since 1980. The LEP students now constitute approximately 13 percent of all public school enrollment in the state. However, because nearly half of all LEP students are in grades K-3, these students represent an even larger share of enrollment in the early grades. Nearly one-fourth (23 percent) of the students who were in kindergarten in 1986 were classified as LEP.

Bilingual Education Sunset Review. The bilingual education program will "sunset" on June 30, 1987, unless legislation is enacted to extend or repeal this date. Even if the Legislature does not continue the bilingual education program beyond its sunset date, the program does not actually terminate. Instead, the statute provides that funding "shall continue for the general purposes of [the] program as specified in the provisions relating to the establishment and operation of the program." The statute further provides that such funds shall be used for the intended purposes of the program, but all relevant statutes and regulations governing the program (with specified exceptions) shall cease to be operative.

The "sunset" provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of the effectiveness of California's bilingual education programs. As part of the sunset review process, Chapter 1270 required the State Department of Education (SDE) to review the bilingual education program and report on its appropriateness and effectiveness. The legislation further requires that, based on a review of the report, the Legislative Analyst is to submit findings, comments, and recommendations regarding the program.

Our review of the program was submitted to the Legislature in June 1986. We found that the state must continue to offer bilingual education programs, in order to comply with a federal mandate affirmed by the U.S. Supreme Court in the case of *Lau v. Nichols*. This decision prohibited educational practices in which "students who do not understand English are effectively foreclosed from any meaningful education."

While we recommend that bilingual education be continued, we concur with several SDE recommendations which would give school districts additional flexibility in meeting current law requirements. These recommendations, as well as our suggestions for further program modifications for bilingual education, are contained in our sunset review report (for details please see *The Bilingual Education Program: A Sunset Review*).

Our review also identified several areas in which the use of bilingual education funds could be improved. One of these recommendations is particularly relevant to the Legislature's consideration of the budget request for bilingual education in 1987-88 and, for this reason, we present it here.

Measure the Success of Various Bilingual Education Options

We recommend that the Legislature adopt supplemental report language directing the State Department of Education to develop and submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance a detailed plan and funding proposal for a comprehensive evaluation of the success and cost-effectiveness of various bilingual education program options.

Currently, each school district can select from several program options

DEPARTMENT OF EDUCATION—Continued

to determine the type of educational program to provide to LEP pupils. Because there has been no comprehensive evaluation of the various program options, however, districts do not have any factual basis for selecting a particular program or determining whether the one chosen is the most effective.

At the state level, the evaluation component of the bilingual education program needs significant improvement. While SDE collects some data on pre- and post-test scores for LEP pupils, the data collected are not based on a random sample of LEP students and measure only a small portion of the LEP population. Consequently, the data provide no reliable basis for determining the effectiveness of bilingual education programs for all LEP students. The department's data also fail to distinguish between the types of LEP students and the different types of bilingual education programs. Thus, the data cannot be used to determine which types of bilingual programs are most effective.

In its sunset report, SDE acknowledges that very little "hard" data is available on the effectiveness of bilingual programs and services. We believe data limitations are a serious deficiency. Despite the fact that the statutory requirements for bilingual programs have been in effect since 1976, SDE has not completed a comprehensive evaluation to determine (1) bilingual education program effectiveness, by program option or (2) whether the primary goal of current law—to develop a child's fluency in English as effectively and efficiently as possible—is being met.

In our sunset review report, we recommended that SDE develop a plan for measuring the success of bilingual education programs for consideration during the 1987-88 budget hearings, and that an expenditure tracking mechanism be put in place by June 1988. This recommendation would have given the department at least seven months to develop the plan, and two years to implement the expenditure tracking mechanism. The department, however, was under no legislative directive to develop such a plan.

The department requested \$3 million in 1987-88 to carry out a longitudinal (year-to-year) study of bilingual education programs, but provided no details regarding how these funds would be used. Thus, the request provided no analytical basis for determining an appropriate level of funding required to evaluate the success of bilingual education programs and was not, in fact, included in the Governor's Budget.

Recommendation. Should the Legislature decide to provide funding for bilingual education programs (which we believe must be offered in order to comply with the mandate affirmed in the case of *Lau v. Nichols*), we recommend that the SDE conduct a comprehensive evaluation of the program, focusing on its success and cost-effectiveness. To achieve this, we recommend that the SDE develop a detailed evaluation plan, including the estimated cost and time frame for conducting such an evaluation. The plan should be submitted to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1987 to be considered as part of its deliberations on the 1988-89 Budget Bill.

Based on the results of such an evaluation, the Legislature will be better able to determine the overall need and cost to adjust the statutory goals or requirements of the program. Accordingly, we recommend that the Legislature, should it decide to continue funding for bilingual education, adopt the following supplemental report language in Item 6100-121-001:

"The State Department of Education shall submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1987, a detailed plan, including the associated costs and time frame, for conducting a comprehensive evaluation of the effectiveness of bilingual education programs. The plan shall reflect a proposed evaluation which *at a minimum* (1) encompasses an accountability plan to measure success at the state, district and school level in meeting the program objectives of the Bilingual Education Reform and Improvement Act, (2) contains model evaluation designs for use at the district and school level, including provision for pre- and post-testing of all LEP pupils enrolled in both classroom programs and individual learning programs, and (3) provides a process for identifying exemplary programs and disseminating information about these programs to all school districts. The evaluation design should include academic assessment methods for all LEP pupils and the data collected should be aggregated by the type of program in which each pupil is enrolled.

The plan should also propose a method for annually tracking bilingual education program expenditures, by program option, in order to determine which bilingual education programs are the most cost-effective."

b. Miller-Unruh Reading Program

Consistent with our recommendation regarding the Governor's proposed Class Size Reduction and Educational Assistance programs, we recommend that the Legislature continue funding for the Miller-Unruh Reading Program at its current level. (Augment new Item 6100-126-001 by \$19,869,000.) We further recommend that the Legislature adopt Budget Bill language in Item 6100-126-001 consistent with that provided in the current year.

The Miller-Unruh Reading Program provides a state subsidy for specified reading specialist positions that are intended to help prevent and correct "reading disabilities at the earliest possible time in the educational career of the pupil." In the current year, the state will allocate \$21,762 per full-time reading specialist—an amount equal to approximately 78 percent of the average salary paid to elementary school teachers statewide. School districts must pay for the remainder of the specialist's salary.

Table 26
K-12 Education
Miller-Unruh Reading Program
Participation and Funding
1980-81 through 1986-87

	Number of Districts Participating	Number of Positions Funded	Total Appropriation	Funding Level Per Position
1980-81	165	992	\$15,265,796	\$15,389
1981-82	161	964	16,181,744	16,786
1982-83	157	948	16,182,000	17,070
1983-84	152	919	17,152,920	18,665
1984-85	149	918	18,166,000	19,789
1985-86	148	914	19,290,000	21,105
1986-87	147	913	19,869,000	21,762
Change from 1980-81 through 1986-87				
Amount	- 18	- 79	\$4,603,204	\$6,373
Percent	-10.9%	-8.0%	30.2%	41.4%

DEPARTMENT OF EDUCATION—Continued

Table 26 shows program participation and funding from 1980–81 through 1986–87. As the table indicates, the number of reading specialist positions has declined by 8 percent since 1980–81, while the funding level per position has increased by over 40 percent.

Governor's Proposal. As shown previously in Table 24, the budget proposes to eliminate funding for the Miller-Unruh Reading Program in the budget year. This is part of a plan to eliminate, over a two-year period, approximately \$132 million in funding for selected categorical programs, and use these funds instead to reduce class sizes in grade 1. (In 1987–88, \$60 million would be used for the Class Size Reduction program and \$72 million would be used for one-time grants under a new Educational Assistance program.)

Recommendation. Elsewhere in this analysis, we recommend that the Legislature reject the Governor's proposed Class Size Reduction and Educational Assistance programs (please see page 946 for our discussion of this issue) because it fails to ensure that the state will continue to meet the special needs of students currently served by selected categorical programs, including the Miller-Unruh program. (Although our review of the Miller-Unruh program indicates that it (1) could be designed and implemented more effectively and (2) should be comprehensively evaluated, the basic needs that prompted the Legislature to create this program have not disappeared. Thus, we do not conclude that it should be eliminated.)

Consistent with this recommendation, we recommend that the Legislature establish Item 6100-126-001 in the Budget Bill to continue funding for the Miller-Unruh Reading Program at its existing level. This item should also contain the following current Budget Act language which establishes procedures for accepting applications and allocating funds for the program:

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

Results of Sunset Review

Under current law (Ch 1270/83), the Miller-Unruh Reading Program will "sunset" on June 30, 1987, unless legislation is enacted to extend or repeal this date. Even if the Legislature does not continue the Miller-Unruh program beyond its sunset date, the program does not actually terminate. Instead, the statute provides that funding "shall continue for the general purposes of [the] program as specified in the provisions relating to the establishment and operation of the program." The statute further provides that such funds shall be used for the intended purposes of the program, but all relevant statutes and regulations governing the program (with specified exceptions) shall cease to be operative.

The "sunset" provision is intended to provide the Legislature with an

opportunity to conduct a comprehensive review of the program. As part of the sunset review process, Chapter 1270 required the State Department of Education (SDE) to review the Miller-Unruh program and report to the Legislature on its appropriateness and effectiveness. The legislation further requires that, based on a review of the report, the Legislative Analyst is to submit findings, comments, and recommendation regarding the program.

Our review of the program was submitted to the Legislature in December 1986. We found that, as implemented by the SDE, the program has not focused on its original objective of preventing and correcting reading disabilities. Instead, the program has been directed toward improving the reading ability of below-average (though not necessarily disabled) readers.

We also found that the SDE has not developed a definition of "reading disability." Therefore, there are no measures of the incidence of reading disability among primary grade pupils in California, nor are there any measures of the program's effectiveness in preventing and correcting reading disabilities. Finally, without a definition of reading disability, the department is unable to establish a standard of need that can be used to select participating districts and to allocate Miller-Unruh funds among them.

In our report, we emphasized that these problems relate to the current *implementation* of the program, and do not necessarily reflect an inherently flawed program design. We did not, therefore, recommend that the Miller-Unruh program be eliminated. Instead, we recommended that the program be continued, provided that the problems were eliminated in order to (1) bring the program into alignment with legislative objectives and (2) improve program effectiveness and efficiency.

Two of our recommendations for addressing the implementation problems we identified are relevant to the Legislature's consideration of the budget request for the Miller-Unruh program in 1987-88, and we present them here.

Direct SDE to Focus on Program's Statutory Goals

We recommend that the Legislature adopt supplemental report language directing the State Department of Education to develop rules and regulations and a system for allocating funds to ensure that the Miller-Unruh program focuses on the prevention and correction of reading disabilities.

As implemented by the SDE, the Miller-Unruh program has been directed toward improving the reading ability of below-average (though not necessarily disabled) readers. Furthermore, although current law requires that funds be allocated to districts according to the percentage of pupils having reading difficulties and the ability of the district to pay for special instructional assistance, the SDE now gives first priority to districts that currently receive state funding, without regard to measures of district need. In addition, when districts discontinue their participation in the program, the department has, until the current year, used the funds that thereby become available to increase the state subsidy for the remaining specialists, rather than to fund new positions in new districts.

We believe the Miller-Unruh program should address its statutory objective, which is to prevent and correct reading disabilities at the earliest possible time in a pupil's educational career. To accomplish this, the department should first develop a definition of "reading disability." Specifi-

DEPARTMENT OF EDUCATION—Continued

cally, the definition should discriminate between reading disability and low reading achievement, because, while reading disability may be manifested in low reading achievement, low reading achievement is not necessarily an indication of reading disability.

After developing a definition of reading disability, the SDE can determine which districts have the greatest need for Miller-Unruh funds. Specifically, the department should (1) establish eligibility criteria to ensure that funds are allocated to the districts having the greatest need (as determined partly by the incidence or rate of reading disability in the primary grades, and partly by the ability of the district to pay for special instructional assistance) and (2) establish rules and regulations to ensure that—within funded districts—services are provided to the target population.

Recommendation. Accordingly, we recommend that the Legislature, should it decide to continue funding for the Miller-Unruh program, adopt the following supplemental report language in new Item 6100-126-001:

“The Department of Education shall develop and adopt rules and regulations by December 31, 1987 to ensure that the Miller-Unruh Reading Program focuses on the prevention and correction of reading disabilities, as distinguished from low reading achievement. The Department of Education shall also develop and submit to the legislative fiscal committees by December 31, 1987 a proposed system for allocating funds according to need as determined by (1) the incidence of reading disabled pupils in the district and (2) the district’s ability to pay for supplemental services.”

Evaluate Miller-Unruh Reading Program Based on its Objectives

We recommend that the Legislature adopt supplemental report language directing the State Department of Education to develop and submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance a detailed plan and funding proposal for a comprehensive evaluation of the effectiveness of the Miller-Unruh Reading Program.

Although the statutory objective of the Miller-Unruh Reading Program is to prevent and correct reading disabilities, no studies have attempted to evaluate the effectiveness of the program, or even the *need* for the program, on that basis.

Past evaluations of the program have attempted to use the average reading scores of all pupils within the Miller-Unruh schools to measure the program’s success. These scores are irrelevant, however, when we are concerned only with the performance of students with reading disabilities. Any evaluation of the program should focus only on the reading performance of those students who have been identified, using standard criteria, as having an existing or potential reading disability. Specifically, the evaluation should focus on the effectiveness of the program in preventing, correcting, or overcoming the effects of reading disabilities among affected pupils.

We believe that such an evaluation should be done by a direct assessment of pupils who are identified as having a reading disability, and by comparing the ability of pupils that have received Miller-Unruh services with the ability of similar pupils that have not.

To achieve this, we recommend that the SDE develop a detailed plan,

including a funding proposal, to conduct a comprehensive evaluation of the program. The plan should be submitted to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1987 and should specifically include the estimated cost and time frame for conducting such an evaluation. This plan would be available for the Legislature to consider as part of its deliberations on the 1988-89 Budget Bill.

Recommendation. Based on the results of such an evaluation, the Legislature should be able to determine the overall need and cost to adjust the statutory goals or requirements of the program. Accordingly, we recommend that, should the Legislature continue funding for the Miller-Unruh program, it adopt the following supplemental report language in new Item 6100-126-001:

“The Department of Education shall submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1987, a detailed plan, including the associated costs and time frame, for conducting a comprehensive evaluation of the effectiveness of the Miller-Unruh Reading Program in preventing, correcting, or overcoming the effects of reading disabilities among affected pupils. The plan shall reflect a proposed evaluation which at a *minimum* (1) focuses on the reading performance of those students who have been identified, using standard criteria, as having an existing or potential reading disability and (2) compares the reading ability of pupils that have received Miller-Unruh services with the reading ability of similar pupils that have not received such services.”

c. Native American Indian Early Childhood Education Program

Consistent with our recommendation regarding the Governor's proposed Class Size Reduction and Educational Assistance programs, we recommend that the Legislature continue funding for the Native American Indian Early Childhood Education program at its current level. (Augment new Item 6100-131-001 by \$365,000.)

The Native American Indian Early Childhood Education program, also known as “the AB 1544/77 program,” is directed to (1) improve the educational accomplishments of specified Native American Indian students and (2) establish projects in Native American Indian education which are designed to develop and test educational models which increase competence in reading and mathematics. The program is restricted to pre-kindergarten through grade 4 students in schools which (1) have 10 percent or more Native American Indian students, and (2) are located in rural school districts which receive equalization aid.

In 1986-87, 11 rural school districts will receive a total of \$365,000 in General Fund support under this program for 23 schools serving approximately 1,130 students. On average, these schools receive \$306 for each student enrolled. In 1986-87, SDE will spend approximately \$90,000 to support portions of two positions in the Bureau of Indian Education, which administers this program.

Governor's Proposal. The Governor proposes to eliminate funding for the Native American Indian Early Childhood Education program in the budget year. This is part of a plan to eliminate, over a two-year period, approximately \$132 million in funding for selected categorical programs, and use these funds instead to reduce class sizes in grade 1. (In 1987-88, \$60 million would be used for the Class Size Reduction program and \$72

DEPARTMENT OF EDUCATION—Continued

million would be used for one-time grants under a new Educational Assistance program.)

Elsewhere in this analysis, we recommend that the Legislature reject the Governor's proposed Class Size Reduction and Educational Assistance programs (please see page 946 for our discussion of this issue) because it fails to ensure that the state will continue to meet the special needs of students currently served by selected categorical programs, including the Native American Indian Early Childhood Education program. (Although our preliminary review of the program indicates that it suffers from a lack of a comprehensive evaluation, the basic needs that prompted the Legislature to create this program have not disappeared. Thus, we do not conclude that it should be eliminated.)

Consistent with this recommendation, we recommend that the Legislature establish Item 6100-131-001 in the Budget Bill to continue funding for the Native American Indian Early Childhood Education program at its existing level.

Sunset Review Inconclusive: Comprehensive Evaluation Needed

We recommend that the Legislature adopt supplemental report language directing the State Department of Education to develop and submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance a detailed plan and funding proposal for a comprehensive evaluation of the effectiveness of this program.

Under current law, the Native American Indian Early Childhood Education program will "sunset" on June 30, 1987, unless legislation is enacted to extend or repeal this date. Even if the Legislature does not continue this program beyond its sunset date, the program does not actually terminate. Instead, the statute provides that funding "shall continue for the general purposes of [the] program as specified in the provisions relating to the establishment and operation of the program." The statute further provides that such funds shall be used for the intended purposes of the program, but all relevant statutes and regulations governing the program (with specified exceptions) shall cease to be operative.

The "sunset" provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of the program's effectiveness. As part of the sunset review process, Ch 1270/83 required the SDE to review the program and report to the Legislature by September 15, 1985 on its appropriateness and effectiveness. The legislation further requires the Legislative Analyst to review the department's report and submit findings, comments, and recommendations regarding the program.

Our preliminary review of the department's report indicates that it provides little analytical assistance to the Legislature in determining program continuation and improvement (our detailed report will be available in the spring). Specifically:

- It is unknown if the program as a whole has increased the academic achievement levels of its participants because there is no existing evaluative process, and the last (and only) evaluation of student achievement in this program was conducted over 10 years ago.
- Although current law specifies that it is the intent of the program to establish projects which develop and test models which increase competence in reading and mathematics, this is not being done.

- Current funding allocation practices do not allow for new—and possibly improved—projects to be funded, until an existing project terminates its program participation.
- Although current law directs this program to pre-kindergarten through grade 4 students, no pre-kindergarten programs have been funded.

Our review indicates that these problems relate to the current *implementation* of the program, and do not necessarily reflect an inherently flawed program or a lack of need for the program. For these reasons, therefore, we do not believe that the Native American Indian Early Childhood Education program should necessarily be eliminated.

Recommendation. We recommend that the program be continued. We further recommend, however, that the SDE conduct a comprehensive evaluation of the program focusing on the effectiveness of the program in improving the educational achievement levels of Native American students. To achieve this, we recommend that the SDE develop a detailed plan, including a funding proposal, to conduct a comprehensive evaluation of the program. The plan should be submitted to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance by September 15, 1987 and should specifically include the estimated cost and time frame for conducting such an evaluation. This plan would be available for the Legislature to consider as part of the deliberations on the 1988-89 Budget Bill.

Based on the results of such an evaluation, the Legislature should be able to determine the overall need and cost to adjust the statutory goals or requirements of the program. Accordingly, we recommend that, if the Legislature decides to continue funding for the program, it adopt the following supplemental report language in new Item 6100-131-001:

“The State Department of Education shall submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1987, a detailed plan, including the associated costs and time frame, for conducting a comprehensive evaluation of the effectiveness of the Native American Indian Early Childhood Education program. The plan shall reflect a proposed evaluation which *at a minimum* focuses on (1) the effectiveness of the program in increasing the educational accomplishments of its program participants, and (2) the need to establish in pre-kindergarten through grade 4, specified model projects which increase competence in reading and mathematics.”

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

We withhold recommendation on \$20,669,000 in federal funds requested for refugee and immigrant programs, pending receipt of a revised budget from the State Department of Education.

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

Transition Program for Refugee Children (TPRC). The TPRC provides federal funds to school districts which have experienced heavy enrollments of refugee students—primarily Indochinese, Cuban, and Haitian children. Grants are allocated to school districts based on the number of

DEPARTMENT OF EDUCATION—Continued

refugee children in grades K-6 who have been in this country no longer than two years, and those in grades 7-12 who have been in this country for no more than three years. Funds are used to provide a variety of services including:

- Bilingual education/English language development;
- Community and school orientation;
- Development of curriculum and materials;
- Liaison activities between families, school personnel, and refugee assistance agencies; and
- Testing, assessment, and placement of incoming pupils.

Emergency Immigrant Education Assistance Program (EIEAP). The EIEAP provides financial assistance to school districts in which at least 500 students (or, alternatively, 3 percent of the district's enrollment) are immigrant children who have been attending schools in the United States for less than three years. These funds may be used to meet the costs of:

- Supplementary educational services for immigrant children (including bilingual or English language instruction);
- Additional basic instructional services which are directly attributable to the presence of immigrant children in the school district (including capital outlay or transportation costs); and/or,
- In-service training for staff who will be teaching immigrant children.

Budget Proposal. Table 27 displays the aggregate funding for these two programs in the prior, current, and budget years. As the table shows, the budget proposes to allocate \$329,000 for state administration and approximately \$20 million in local assistance for the two programs—the same level of funding as it estimates will be received in the current year.

Table 27
K-12 Education
Refugee and Immigrant Programs
Federal Funds
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87 ^a	Prop. 1987-88 ^a	Change from 1986-87	
				Amount	Percent
State Administration	\$308	\$329	\$329	—	—
Local Assistance	<u>18,554</u>	<u>20,340</u>	<u>20,340</u>	—	—
Totals	\$18,862	\$20,669	\$20,669		
Personnel-years	3	3.5	3.5	—	—

^a Governor's Budget estimates.

Our review indicates that the budget display in the Governor's Budget document is inaccurate. Specifically, the budget does not reflect recent information about the 1986-87 grant levels for TPRC and EIEAP that became available after the Department of Finance had completed its baseline estimates. As a result, the 1987-88 budget proposal, which is based on these grant levels, is also in error. The Department of Education indicates that it will submit a revised estimate of 1987-88 funding levels prior to budget hearings. Pending receipt of this information, we withhold recommendation on this item.

6. School Desegregation (Items 6100-114-001 and 6100-115-001)

We withhold recommendation on a total of \$323,618,000 proposed for reimbursement of court-ordered and voluntary school desegregation costs, pending completion of the Department of Finance task force report, because recommended changes may result in a change in the funding requirements for school desegregation.

State reimbursement of school desegregation costs is not required by the California Constitution. Under the provisions of current law, however, the state reimburses school districts for the cost 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.

As shown in Table 28, the Governor's Budget proposes \$323.6 million from the General Fund for school desegregation programs—\$267.8 million for court-ordered programs and \$55.8 million for voluntary desegregation programs in 1987-88. This amount is \$27 million less than the current year funding level, due to a proposed reduction in the funding for the voluntary programs. The proposed funding for court-ordered programs is the same as in the current year.

Funding versus Claims. Table 29 shows the relationship between funding and claims for both court-ordered and voluntary desegregation programs from 1985-86 to 1987-88. This table shows that the proposed appropriation falls short of estimated budget-year claims by a total of \$42.4 million. This is composed of an estimated \$0.9 million shortfall for voluntary programs and an estimated \$41.5 million shortfall for court-ordered programs. When added to prior year shortfalls, this yields a cumulative deficit of \$97.7 million (\$78.5 million for court-ordered programs and \$19.2 million for voluntary programs) in 1987-88.

Table 28
K-12 Education
General Fund Appropriations for School Desegregation Programs^a
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
A. Court-Ordered Desegregation					
Budget Act	\$184,416	\$267,803	\$267,803	—	—
Ch 180/85	22,006	—	—	—	—
Ch 209/86	2,130 ^b	—	—	—	—
Subtotals.....	\$208,552	\$267,803	\$267,803	—	—
B. Voluntary Desegregation					
Budget Act	\$7,000	\$82,815	\$55,815	-\$27,000	-32.6%
Ch 180/85	73,351	—	—	—	—
Subtotals.....	\$80,351	\$82,815	\$55,815	-\$27,000	-32.6%
Totals	\$288,903	\$350,618	\$323,618	-\$27,000	-7.7%

^a This table shows appropriations by fiscal year. It does not show actual expenditures by fiscal year, which are different, due to carryovers.

^b Reflects an appropriation of \$3.2 million and a current-year reversion of \$1.0 million. The reverted funds are from monies that were appropriated specifically for San Jose Unified School District, and cannot be used for payment of other claims.

DEPARTMENT OF EDUCATION—Continued

Table 29
K-12 Education
Funding for School Desegregation Claims^a
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Est. 1987-88
A. Court-Ordered Desegregation Claims	\$222,383	\$268,955	\$309,299
Funding	186,546 ^b	267,803	267,803
Deficit	\$35,837	\$1,152	\$41,496
Cumulative Deficit	\$35,837	\$36,989	\$78,485
B. Voluntary Desegregation Claims	\$53,085	\$54,992	\$56,763
Funding	7,000 ^c	82,815	55,815
Deficit (Surplus)	\$46,085	(\$27,823)	\$948
Cumulative Deficit	\$46,085	\$18,262	\$19,210
C. Total Claims	\$275,468	\$323,947	\$366,062
Funding	193,546	350,618	323,618
Deficit (Surplus)	\$81,922	(\$26,671)	\$42,444
Cumulative Deficit	\$81,922	\$55,251	\$97,695

^a This table shows funding for claims by fiscal year. It does not show expenditures by fiscal year, which are different, due to carryovers.

^b Excludes \$22 million appropriated by AB 38 (Ch 180/85) for payment of prior year claims.

^c Excludes \$73.4 million appropriated by AB 38 (Ch 180/85) for payment of prior year claims.

Under current law, districts operating court-ordered programs may be reimbursed for an amount equal to their prior-year approved claims, as adjusted for inflation and enrollment growth, plus 80 percent of any additional cost increases. Accordingly, our estimate of court-ordered claims for the budget year assumes a 15 percent increase over current-year claims. This assumption is based on our analysis of recent increases in court-ordered claims.

On the other hand, current law limits the reimbursement for voluntary programs to prior-year approved costs as adjusted for inflation and enrollment. Any additional cost increases are not reimbursable. Our estimate of voluntary claims in 1987-88, therefore, reflects a half-year 2.2 percent COLA and a projected enrollment growth of 2.12 percent.

Department of Finance Task Force Report. Pursuant to the *Supplemental Report of the 1986 Budget Act*, the Department of Finance (DOF) has convened a task force, consisting of representatives of DOF, the Legislative Analyst, the State Controller, legislative committees, the Department of Education, and school districts with court-ordered and voluntary school desegregation programs, to review the implementation of current law relating to the reimbursement process for school desegregation claims.

Specifically, the purpose of the task force is to (1) review allowed and disallowed costs (including the reasons for disallowances and the extent to which allowed costs overlap or duplicate existing state-funded programs), (2) recommend guidelines to assist the State Controller in performing audits, and (3) submit the recommended guidelines to the Joint Legislative Budget Committee no later than March 1, 1987.

The DOF task force is reviewing several issues related to the reimbursement of school desegregation costs. Most issues under review by the DOF task force fall into two categories: (1) audit problems and (2) cost control.

Audit Problems. Audit problems stem primarily from a lack of statutory specificity regarding which type of expenditures are eligible for reimbursement. As a result, numerous disagreements have arisen between state auditors and school district officials over the payment of claims for some programs. For example, school districts—as a part of their overall school desegregation efforts—commonly spend funds on child care, bilingual education, “magnet schools,” and facilities, among a variety of other activities. In many cases, it is difficult for the state auditors to determine whether such expenditures are necessary components of a desegregation program, or whether they primarily serve other purposes, such as the alleviation of overcrowding or general educational enrichment.

Despite the difficulty of making such determinations in the absence of statutory or administrative guidelines, the auditors must do so in order to complete an audit, and have, in fact, disallowed many costs. In a few cases, more than half of a district’s total claim has been disallowed, leading to substantial fiscal disruption in the affected districts. Currently, there are no provisions for appealing the State Controller’s decisions to another agency or body, except the courts.

Cost Control. The problem of cost containment appears to be related to the absence of state guidelines for identifying cost-effective desegregation programs. In the absence of such guidelines, districts have implemented (and received reimbursement for) a wide variety of costly programs. Three problems result from this condition.

First, there is substantial disparity among districts in the cost of delivering similar programs. For example, a gifted and talented education program (operated—and, therefore, funded—as part of a desegregation program) costs as little as \$8 per pupil in one district, but nearly \$700 per pupil in another.

The second, and related, problem is that there are no cost standards that apply to programs operated as a part of a desegregation effort. If a district wishes to use desegregation funds for facilities, for example, none of the state standards that govern the use of state funds for facilities apply. In such cases, districts may use state desegregation funds to obtain facilities that provide more square feet per pupil than would be allowed if state facilities funds were used.

The third problem is the growing total cost of desegregation programs. Claims for both court-ordered and voluntary programs have grown from \$199.2 million in 1983–84 to an estimated \$338.1 million in 1986–87—an increase of 70 percent over the four-year period. Part of this increase is due to the addition of two new districts and to the expansion of existing programs. Even among existing districts with stable programs, however, claims have grown 50 percent to 60 percent during this time. This compares with an increase of 39 percent in school district general purpose revenue during the same period.

Conclusion. The task force is giving this program a fundamental review and its recommendations to address the program’s problems may affect the amount of funding that would be required for the reimbursement of claims in the budget year. Accordingly, we withhold recommendation on these items pending the completion of the task force report on March 1, 1987.

DEPARTMENT OF EDUCATION—Continued

7. Other Specialized Education Programs

This section analyzes those specialized education programs which do not fit into any of the six categories discussed above. These programs include Pupil Dropout Prevention and Recovery; Gifted and Talented Education; specialized secondary schools; foster youth services; the Drug and Alcohol Abuse Prevention Program; the School/Law Enforcement Partnership; Commissions on Professional Competence; driver training; and the ECIA Chapter 2 federal block grant. Table 30 summarizes local assistance funding from the General Fund and state special funds for these specialized programs.

Table 30
K-12 Education
Support for Other Specialized Education Programs
Local Assistance
1985-86 through 1987-88
(dollars in thousands)

Program	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
Pupil Dropout Prevention and Recovery	\$2,700	\$13,650	\$14,750	\$1,100	8.1%
Foster Youth Services	813	821	821	—	—
Drug and Alcohol Abuse Prevention.....	427	427	427	—	—
School/Law Enforcement Partnership	150	150	150	—	—
Commissions on Professional Competence.....	18	18	18	—	—
Youth Suicide Prevention	312	315	—	-315	-100.0
Gifted and Talented Education.....	20,034	21,236	—	-21,236	-100.0
Specialized Secondary Schools.....	2,080	2,101	2,101	—	—
Federal Block Grant (ECIA Chapter 2)..	40,444	40,444	39,266	-1,178	-2.9
Driver Training	19,004	19,500	19,500	—	—
Totals	\$85,982	\$98,662	\$77,033	-\$21,629	-21.9%
Funding Source:					
General Fund.....	\$26,284	\$38,468	\$18,017	-\$20,451	-53.2%
Federal funds.....	40,444	40,444	39,266	-1,178	-2.9
Special funds.....	19,254	19,750	19,750	—	—

We recommend approval of the proposed funding shown in Table 30 for the following programs, which are not discussed elsewhere in this analysis:

- **Pupil Dropout Prevention and Recovery Programs (Item 6100-120-001)**—\$14.8 million from the General Fund for programs designed to reduce the number of students dropping out of school and to deliver services to students who have already dropped out. The Governor proposes to increase funding by \$2.5 million for additional “outreach consultants” to assist with the implementation of programs in 62 additional sites. This increase would be offset, however, by a reduction of \$1.4 million due to the elimination of planning grants for schools wishing to enter the program in the future. The budget therefore proposes a net increase of only \$1.1 million.
- **Foster Youth Services (Item 6100-119-001(a))**—\$821,000 from the General Fund for special services to foster children in four school districts (Elk Grove, Mount Diablo, Sacramento City, and San Juan Unified.) This is the same level of funding as is provided in the current year.

- ***Drug and Alcohol Abuse Prevention Program (Items 6100-001-464, 6100-183-001, and 6100-183-464)***—\$427,000 to support the third and final year of a pilot project designed to curtail drug and alcohol abuse among children, which includes \$177,000 from the General Fund and \$250,000 from the First Offender Program Evaluation Fund. In addition, the budget proposes a total of \$13,000 for state operations which reflects a \$10,000 reduction in General Fund support for the state operations portion of the program.
- ***School/Law Enforcement Partnership Program (Item 6100-225-001)***—\$150,000 from the General Fund to disseminate model programs that, based on an evaluation due on January 1, 1988, are found to be effective in improving school safety. (The budget also proposes \$175,000 from the General Fund in the department's state operations item to provide technical assistance to schools and fund conferences on school safety.)
- ***Commissions on Professional Competence (Item 6100-209-001)***—\$18,000 from the General Fund to reimburse school districts for the costs of commissions on professional competence, pursuant to current law. This is the same level of funding as is provided in the current year.

a. Gifted and Talented Education (Item 6100-124-001)

Consistent with our recommendation regarding the Governor's proposed Class Size Reduction and Educational Assistance programs, we recommend that the Legislature continue funding for the Gifted and Talented Education program at its current level. (Augment new Item 6100-124-001 by \$21,236,000.) We further recommend that the Legislature adopt Budget Bill language in Item 6100-124-001 consistent with that provided in the current year.

The Gifted and Talented Education (GATE) program was established by Ch 774/79, to supersede the Mentally Gifted Minor program. Districts which operated a mentally gifted minor program during 1978-79 are eligible to receive GATE funds. In addition, a limited number of districts have been admitted to the program to replace districts which have withdrawn from GATE since 1979. For the current school year, GATE is providing funds to 428 school districts which serve approximately 220,000 students identified as gifted or talented.

Each district which operates a GATE program must establish criteria and a method for identifying students that are gifted or talented. Typically, the local selection process is complex, and may utilize standardized test scores, teacher or parent referrals, course grades, pupil projects, and a review by a school psychologist or other professional.

The design of each district's GATE program is determined locally, in accordance with state guidelines. All programs are required to provide unique educational opportunities for high-achieving and underachieving gifted and talented pupils, including those in the upper range of intellectual ability, while ensuring the participation of children from disadvantaged and varying cultural backgrounds.

Governor's Proposal. As shown in Table 30, the Governor's Budget proposes to eliminate all local assistance funding for GATE in the budget year. As mentioned previously, this is part of a plan to eliminate, over a two-year period, approximately \$132 million in funding for selected categorical programs, and use these funds instead to reduce class sizes in grade 1. (In 1987-88, \$60 million would be used for the Class Size Reduction

DEPARTMENT OF EDUCATION—Continued

program and \$72 million would be used for one-time grants under a new Educational Assistance program.)

Elsewhere in this analysis, we recommend that the Legislature reject the Governor's proposed Class Size Reduction and Educational Assistance programs. In addition, as we note below, the sunset review of GATE has not been completed. We believe it would be premature to discontinue funding for this program prior to completion of the review process. Accordingly, we recommend that the Legislature establish Item 6100-124-001 in the Budget Bill to continue funding for the GATE program at its existing level. This item should also contain the following language, which is consistent with language contained in the 1986 Budget Act:

"Funds appropriated by this item are for transfer by the Controller to Section A of the State School Fund, in lieu of the amount which would otherwise be appropriated for the 1987-88 fiscal year pursuant to Section 14002 of the Education Code."

Sunset Review Report Overdue

Under current law, the statutes and regulations governing GATE cease to be operative on June 30, 1988, unless legislation is enacted to extend or repeal this date. This sunset provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of the program.

To assist the Legislature in its review, current law required the Department of Education to submit a sunset report on GATE to the Legislature by September 15, 1986. The law further requires the Legislative Analyst to submit findings, comments, and recommendations regarding the programs within 90 days after receiving the department's report.

At the time this analysis was prepared, the department had not submitted the required sunset report. In accordance with current law, we will review the report when it is available and submit our findings and recommendations within 90 days after receiving it.

b. Specialized Secondary Schools (Item 6100-119-001(b))

Senate Bill 813 (Ch 498/83) authorized school districts, beginning in 1984-85, to apply to the Superintendent of Public Instruction for funds to establish high schools with specialized curricula in the fields of mathematics, science, visual and performing arts, and computer technology. The objective of these specialized secondary schools is to provide talented students with specialized learning experiences and training in these areas and to promote the development of specialized curricula for other school districts. Funding may be used for "start-up" costs associated with the establishment of a new specialized secondary school or a new program in an existing school. The Governor's Budget proposes \$2.1 million for this program in 1987-88. This is the same level of funding as is provided in the current year.

Evaluation Needed

We recommend that the Legislature adopt Budget Bill language to allocate a portion of the proposed funding for the specialized secondary schools program to the State Department of Education (SDE) for an evaluation of the schools that have been established and the curricula that have been developed under this program. We also recommend that the

Legislature require the SDE to submit an evaluation plan and budget for consideration during budget hearings in order to determine an appropriate amount to allocate for this purpose.

As of the end of 1985-86, 11 specialized secondary schools in 11 school districts had been established. In 1986, the State Department of Education (SDE) submitted two evaluation reports to the Legislature on these schools. The first report (required by Ch 498/83) was an evaluation of model curricula that have been developed for specialized secondary schools, and the second one (required by the *Supplemental Report of the 1984 Budget Act*) was an evaluation of the extent to which the specialized secondary schools provide advanced instruction and enhanced learning opportunities for students.

Although the evaluations' findings were generally favorable, neither evaluation was satisfactory, because (1) not enough time had elapsed between the initiation of the specialized secondary schools and the date the reports were due, (2) no funding was provided to obtain subject-matter experts and other resources that would have strengthened the evaluations, and (3) many curriculum materials were still in the development stage at the time of the evaluation.

The resulting uncertainty regarding the merits of this program justifies a cautious approach to further funding. For this reason, we believe that at least a portion of the proposed funding for this program would be better spent on evaluating the existing schools than on establishing new ones. Because this program is intended to provide support for only start-up (and not on-going) costs, local programs are not dependent on continued state support for their existence. Consequently, *existing specialized secondary schools would not be affected by a reduction in local assistance funding.*

Accordingly, we recommend that the Legislature adopt Budget Bill language to allocate a portion of the proposed funding amount to the SDE for an evaluation of the specialized secondary schools and curricula. We further recommend that the Legislature require the SDE to submit an evaluation plan and budget for consideration during budget hearings in order to determine an appropriate amount to allocate for this purpose.

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

We withhold recommendation on \$39,266,000 requested in Item 6100-101-890 and \$8,637,000 requested in Item 6100-001-890, pending review of an expenditure plan for federal ECIA Chapter 2 block grant funds.

Chapter 2 of the Education Consolidation and Improvement Act (ECIA) provides a block grant for state and local education programs. Federal law requires that at least 80 percent of the block grant be allocated to local school districts—as general revenue—according to an enrollment-based formula, and prohibits the state from specifying how these funds will be used by local school districts. The balance of Chapter 2 funds may be used for state operations or to finance discretionary grants for specific programs.

An advisory committee appointed by the Governor makes recommendations regarding (1) the formula used to allocate Chapter 2 funds to the local school districts and (2) the allocation of funds used for state discretionary purposes.

Expenditure Plan Not Provided. As of January 1987, the SDE had not developed its expenditure plan for 1987-88. We are informed by the

DEPARTMENT OF EDUCATION—Continued

department, however, that the plan will be available in time for budget hearings. Accordingly, we withhold recommendation on the proposed expenditures in Items 6100-101-890 and 6100-001-890, pending receipt of the department's expenditure plan.

d. Driver Training (Item 6100-171-178)

We withhold recommendation on \$19,500,000 requested from the Driver Training Penalty Assessment Fund for the driver training program, pending a review of (1) the program's current-year deficiency and (2) the State Department of Education's new rules and regulations concerning program requirements for competency-based driver education programs.

This program, administered by SDE, authorizes school districts to provide driver education through both a laboratory component (behind-the-wheel training) and a classroom component. Districts offering the laboratory driver training component are reimbursed for their actual costs in the prior fiscal year, up to a maximum of \$80 per nonhandicapped pupil and \$247 per handicapped pupil. In addition, school districts may receive reimbursement for the cost of replacing vehicles and simulators that are used exclusively in the laboratory phase of the program. Program funding is derived from the Driver Training Penalty Assessment Fund (DTPAF), which receives its revenues from traffic fines.

Table 30 displays funding for driver training in the prior, current and budget years. The Governor's Budget proposes to continue the current-year funding level of \$19.5 million for driver training local assistance.

On January 12, 1987, we received notification from the Department of Finance of a \$635,950 current-year deficiency in the driver training program. At the time this analysis was written, we had been unable to determine the extent to which this deficiency may represent a need for increased funding for the program in 1987-88.

In addition, during last year's budget hearings, SDE requested that the Legislature increase the maximum allowable reimbursement rates per student in order to reflect an increase in school districts' reported costs. In response, the Legislature, in the *Supplemental Report of the 1986 Budget Act*, declared its intent that no increase be made to reimbursement rates until the Superintendent of Public Instruction adopted rules and regulations concerning program requirements for competency-based driver education programs. According to SDE, the required rules and regulations will be available in March.

After we have reviewed (1) the program's current-year deficiency situation and (2) the new rules and regulations, we will be able to determine more accurately the program's funding requirements for the budget year. Pending completion of this review, we withhold recommendation on the funding requested for this program.

Transfer to the General Fund—Control Section 24.10

We recommend approval.

Control Section 24.10 of the Budget Bill transfers to the General Fund the unencumbered balance in the Driver Training Penalty Assessment Fund on June 30, 1988. This amount represents the surplus in the DTPAF after the driver training program and related programs have been funded for the budget year. The estimate of General Fund revenues contained in the Governor's Budget includes \$21.5 million attributable to this control

section. This amount could change depending on legislative action related to the driver training program or other programs that derive funding from the DTPAF.

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

II. ANCILLARY SUPPORT FOR K-12 EDUCATION

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

A. TRANSPORTATION

There are three elements to this program—the home-to-school transportation program, the School Bus Driver Instructor Training program, and the Small School District Bus Replacement program.

Proposed funding for the programs is shown in Table 31. We note that the Governor's Budget also proposes to appropriate \$100 million from federal Petroleum Violation Escrow Account (PVEA) funds in Item 3360-011-853 for a project to field test the fuel efficiency of different types of school buses. Our discussion of this proposal appears in our analysis of the California Energy Commission budget (Item 3360-011-853).

Table 31
K-12 Education
Transportation Aid
1985-86 through 1987-88
(dollars in thousands)

Program	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
Home-to-School Transportation.....	\$286,161	\$288,797	\$288,797	—	—
Small School District Bus Replacement Program.....	3,120	6,151	3,151	-\$3,000	-48.8%
Totals	550	633	811	178	28.1
Totals	\$289,831	\$295,581	\$292,759	-\$2,822	-1.0%
Funding Source:					
General Fund.....	\$289,281	\$291,948	\$291,948	—	—
Driver Training Penalty Assessment Fund.....	550	633	811	\$178	28.1%
Federal Outer Continental Shelf Lands Act.....	—	3,000	—	-\$3,000	-100.0%

We recommend approval of the proposed funding shown in Table 31 for the following programs, which are not discussed elsewhere in this analysis:

- **Small School District Bus Replacement (Item 6100-111-001 (b))**—\$3.2 million from the General Fund to provide aid for school districts with fewer than 2,501 ADA to replace or recondition school buses. This is the same level of General Fund support as is provided in the current year. The budget, however, also reflects a \$3 million reduction in federal funds, reflecting a one-time allocation of Outer Continental Shelf Lands Act funds for bus replacement in 1986-87.
- **School Bus Driver Instructor Training Program (Item 6100-001-178)**—\$811,000 from the Driver Training Penalty Assessment Fund for a

DEPARTMENT OF EDUCATION—Continued

program that prepares school bus drivers to instruct classes for other prospective drivers. This is an increase of \$178,000, composed of \$150,000 and 2 personnel-years to provide two additional field coordinators to assist districts with the operation of local school bus driver training programs, plus \$28,000 for the accompanying increased pro rata charge (charges for services provided by the Department of Education).

The budget proposal for the home-to-school transportation program is discussed below.

Home-to-School Transportation (Item 6100-111-001 (a))

We recommend approval.

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

Under current law, a district's home-to-school transportation apportionment is determined on the basis of two factors—(1) the district's total approved expense and (2) the district's prior-year allowance. Specifically, if a district's total approved expense for the current year is at least 95 percent of its transportation allowance received in the prior year, that district's allowance for the current year will be the prior-year allowance plus the COLA (if any) provided in the Budget Act. If, on the other hand, a district's total approved expense drops below 95 percent of its prior-year allowance, the district will receive an apportionment equal to its actual prior-year expense, plus the COLA, plus 5 percent. The additional 5 percent is intended to provide an incentive for districts to economize by allowing them to capture a portion of the savings.

School Transportation Cost Study Pending. Pursuant to Ch 1440/85, we have contracted with the firm of Deloitte, Haskins and Sells (DHS) through an open bid process for a study of home-to-school transportation costs in California. Based on an analysis of factors that contribute to the cost of home-to-school transportation in districts with diverse characteristics across the state, DHS will develop and submit recommendations regarding the following:

- Advantages and disadvantages of school district-operated versus private contractor-operated transportation services;
- Advantages and disadvantages of consolidating school district transportation systems; and
- Alternative formulas for allocating state transportation aid.

The study's final report is due by March 31, 1987. We will report to the Legislature on the findings and recommendations, as appropriate.

Because the study is to recommend alternative funding formulas that can be implemented within the current funding level, we recommend that the Legislature approve the amount requested as budgeted.

B. SCHOOL FACILITIES PROGRAMS

School facilities programs include:

- Construction, reconstruction, modernization or deferred maintenance of school facilities;

- Emergency portable classrooms;
- Incentive payments to districts for the use of year-round schools or alternatives to the construction of new school facilities;
- The School Facilities Planning Unit within the Department of Education; and
- The School Facilities Asbestos Abatement program (discussed in Item 6350, later in this *Analysis*);

Funding for the first two of these activities is provided through statutory appropriations, while funding for the latter three is included in the annual Budget Act. The allocation of funds under these programs is determined by the State Allocation Board (SAB), which includes four members of the Legislature and one representative each from the Departments of Finance, Education, and General Services.

1. School Facilities Aid

Funding for the construction, reconstruction, modernization or deferred maintenance of school facilities is provided through the following three major statutory appropriations, each of which is available for expenditure irrespective of fiscal year:

- **Proceeds from bond sales.** The voters have authorized the state to raise funds for the construction, reconstruction and modernization of school facilities by approving the State School Building Lease-Purchase Bond Act of 1984 (Proposition 26) and the Greene-Hughes School Building Lease-Purchase Bond Law of 1986 (Proposition 53). The former authorized the sale of \$450 million in bonds, of which at least \$250 million is to be used for new construction. These funds have been fully allocated. Proposition 53 authorized the sale of \$800 million in bonds—\$400 million to be available effective December 1, 1986, and the remaining \$400 million to become available on December 1, 1987. None of these funds have yet been allocated. The SAB, however, estimates that all of the first \$400 million will be fully committed by the end of the current fiscal year.
- **Tidelands oil revenues.** Current law appropriates \$150 million of these revenues annually in 1987-88 through 1990-91 for the school construction program. (As discussed below, the Governor proposes to eliminate the statutorily-required appropriation for 1987-88.)
- **General Fund (school district "excess repayments").** Excess repayments represent the amount by which school district principal and interest payments on State School Building Aid loans exceed debt service requirements on state school construction bonds. These payments, which are estimated at \$89.2 million in the budget year, are initially deposited in the General Fund and then transferred to the State School Deferred Maintenance Fund to be used primarily to fund school district deferred maintenance projects. Any remaining amount is used to fund new construction. (As discussed below, the Governor proposes to revert to the General Fund the \$90.3 million in current-year excess repayment revenues and, instead, fund the current-year deferred maintenance program from the State School Building Lease-Purchase Fund.)

Table 32 shows the total amount of revenues authorized under current law for school facilities aid during the prior, current, and budget years, as well as the revised allocation proposed by the Governor's Budget. We note that actual expenditures under the SAB-administered programs in a given

DEPARTMENT OF EDUCATION—Continued

year may not equal the revenues to the State School Building Lease-Purchase Fund or the State School Deferred Maintenance Fund because (1) prior-year reserves may be used to finance project grants, and (2) the SAB may choose not to allocate all revenues that become available during any one year.

Table 32
K-12 Education
Revenues Available for School Facilities Aid^a
Under Current Law and Governor's Proposed Allocation
1985-86 through 1987-88
(dollars in millions)

	Actual 1985-86	Est. Current Law		Est. Governor's Proposal	
		1986-87	1987-88	1986-87	1987-88
State School Building Lease-Purchase Program (construction, reconstruction, and modernization):					
Tidelands oil revenues.....	—	\$235.0 ^b	— ^c	\$145.1 ^{b,d}	—
Greene-Hughes School Building Lease-Purchase Bond Law of 1986 (Proposition 53)	—	400.0	400.0	400.0	400.0
State School Building Lease-Purchase Bond Act of 1984 (Proposition 26)	\$450.0	—	—	—	—
School building aid bonds (Ch 764/84)	—	—	40.0	—	—
Lease-purchase rental revenues	2.1	2.1	2.2	2.1	2.2
Federal funds ^e	—	28.5	—	28.5	—
Subtotals, State Building Program	\$452.1	\$665.6	\$442.2	\$575.7	\$402.2
Deferred Maintenance Program					
Tidelands oil revenues.....	—	—	—	\$89.9 ^f	—
General Fund ("excess repayments")	\$87.3	\$89.9	\$88.9	—	\$88.9
Emergency Classroom Program:					
Tidelands oil revenues.....	7.5	15.0	15.0	15.0	15.0
Rental revenues.....	1.9	2.0	4.0	2.0	4.0
Year-Round School Incentives:					
Tidelands oil revenues.....	—	—	15.0	—	15.0
General Fund.....	3.6	3.6	—	3.6	—
Asbestos Abatement Program	—	24.8 ^g	—	24.8 ^g	4.9 ^h
Child Care Facilities ^e	—	36.5	—	36.5	—
Child Care Capital Outlay ^e	—	7.3	—	7.3	—
Air Conditioning	—	30.0 ⁱ	13.5 ^e	30.0 ⁱ	13.5 ^e
Totals	\$552.4	\$874.7	\$578.6	\$784.8	\$543.5

^a This table illustrates only the revenue sources provided by current statutes. This is not a fund condition statement and, accordingly, does not include any beginning balances.

^b These funds were appropriated but not spent in 1984-85 and 1985-86 and, consequently, have been carried over to 1986-87.

^c Although current law provides for a \$150 million appropriation, revenue projections for the budget year indicate that there will be insufficient revenues to support this appropriation.

^d Excludes \$89.9 million proposed by the Governor to replace reverted Deferred Maintenance funds.

^e One-time federal settlement funds received pursuant to Section 8 (g) Outer Continental Shelf Lands Act.

^f Assumes enactment of Governor's proposal to revert the statutorily-required General Fund appropriation and, instead, use tidelands oil revenues.

^g \$19.9 million from the Special Account for Capital Outlay (SAFCO) and \$4.9 million from the General Fund; the \$19.9 million was carried over from prior year appropriations.

^h General Fund.

ⁱ Federal PVEA (Petroleum Violation Escrow Account) funds pursuant to Ch 1339/86.

Budget Proposal. The Governor's Budget proposes to allocate a total of \$543.5 million for school facilities aid during 1987-88 as follows:

- **\$400 million from Proposition 53 bonds.** Of this amount, the budget indicates that \$200 million will be from funds made available on December 1, 1986 and \$200 million will be from funds made available on December 1, 1987. (The SAB, however, indicates that there will be no carryover funds from the December 1, 1986 funds, and that the \$400 million available during 1987-88 will be entirely from funds that become available on December 1, 1987.)
- **\$88.9 million from the General Fund ("excess repayments").** These funds would be used to finance deferred maintenance projects.
- **\$4.9 million from the General Fund.** This amount would be transferred to the Asbestos Abatement Fund for apportionment to school districts during 1987-88. (Although the budget identifies \$5 million for asbestos abatement projects, \$100,000 of these funds are proposed to reimburse the Department of Industrial Relations for site monitoring of local projects and, consequently, would not be available to local schools.)
- **\$19 million from rental income generated from portable/relocatable classrooms (\$4 million) and unexpended tidelands oil revenues (\$15 million).** These funds would be used to finance the construction and installation of portable classroom facilities under the Emergency Classroom program.
- **\$15 million from unexpended tidelands oil revenues.** These funds would be used to provide incentive payments to school districts operating year-round schools because of overcrowding.
- **\$13.5 million from unexpended federal funds.** These funds, received pursuant to a settlement related to Section 8(g) of the Outer Continental Shelf Lands Act, would be used to purchase and install air-conditioning and insulation materials in school facilities used for year-round education programs.
- **\$2.2 million from lease-purchase rental revenues.** These funds would be deposited in the State School Building Lease-Purchase Fund, to be made available for any of the programs operated under the State School Building Lease-Purchase program.

The Governor's Budget does not propose the statutorily-required \$150 million appropriation from tidelands oil revenues for use in 1987-88; Control Section 11.50 of the Budget Bill would repeal this statutorily-required appropriation for 1987-88. (Our analysis indicates that, given current statutory priorities for the use of tidelands funds, there would be insufficient revenues from this source to provide any funding for school facilities—even in the absence of the proposed control section.) The budget indicates that the administration will propose legislation to restore these funds through a bond measure to be placed on the 1988 ballot.

In addition, the Governor's Budget does not identify \$40 million in revenue available for loans to districts pursuant to Ch 764/84, from unsold State School Building Aid bonds. Information from the SAB indicates that these bonds will be sold and the proceeds available during the budget year.

The budget also proposes to revert to the General Fund the *current year* statutory transfer of \$90.3 million in excess repayments (\$89.9 million in local assistance and \$348,000 for state operations) that would otherwise be transferred to the State School Deferred Maintenance Fund. The budget proposes that these reverted funds be replaced with proceeds

DEPARTMENT OF EDUCATION—Continued

from the State School Building Lease-Purchase Fund, thereby reducing the amount of funds available for school building aid by an equivalent amount. We discuss this proposal in greater detail in Item 6350-495, later in this *Analysis*.

In sum, the net effect of the Governor's Budget proposal is to reduce the amount of funding that would be available under current law for school facilities programs in 1986-87 and 1987-88 by \$125 million, through the following actions:

- Fund the current-year appropriation for deferred maintenance with \$89.9 million in tidelands oil revenues, reducing funds available for school building aid by an equivalent amount;
- Delay the sale of \$40 million in School Building Aid bonds; and
- Provide an increase of \$4.9 million for asbestos abatement projects.

a. State School Building Lease-Purchase Program

Through the State School Building Lease-Purchase program, the SAB apportions funds to local school districts for (1) acquisition and development of school sites, (2) construction, reconstruction or modernization of school buildings, and (3) purchase of equipment for newly-constructed buildings.

Rental Agreement. School districts "rent" newly-constructed, reconstructed, or modernized facilities from the state under a long-term, lease-purchase agreement that transfers title to the facility from the state to the district within 40 years. In most cases, rent is paid to the state at the rate of \$1 per year, plus (1) specified revenues from the sale of surplus school sites, and (2) any interest earned on state funds deposited in the county school lease-purchase fund on behalf of the district. Because this rental amount usually is nominal in comparison to the amount of state aid provided, the state is essentially providing a grant to the districts for school construction, reconstruction, or modernization.

Revenue Raising Authority Restored to School Districts

Prior to the passage of Proposition 13 in 1978, school districts financed the construction of school facilities either by issuing local school construction bonds, or by obtaining a loan from the state under the State School Building Aid Program. In either case, district voters first had to approve the borrowing by a two-thirds vote. Funds borrowed by a district were repaid using property tax revenues. In order to provide adequate security for the bonds or loans, the district-borrower found it necessary to levy an additional property tax.

Proposition 13 eliminated the ability of local school districts to impose special property taxes of the type previously used to pay off indebtedness. In response, the Legislature revised the State School Building Lease-Purchase Act so that the state no longer provides loans to school districts; instead, as described above, it essentially provides school districts with a grant to construct, reconstruct, or modernize a school facility.

Proposition 46 on the June 1986 ballot, however, restored to school districts the ability to issue school construction bonds and levy a temporary property tax increase—again subject to a two-thirds voter approval—in order to finance school facilities. The restoration of this authority has the potential of providing districts with the ability to raise needed revenues *locally* for school facilities and thereby reduce the need for the state to

provide these funds. At the time this analysis was written, two districts had attempted to pass local school construction bonds subject to the new authority; both succeeded. Three more districts will be presenting such proposals for voter approval in March 1987.

Recent Legislation

During the 1985-86 Session, the Legislature enacted SB 327 (Ch 886/86) and AB 2926 (Ch 887/86), which expanded the eligibility criteria and imposed a local matching fund requirement for school districts electing to participate in the State School Building Lease-Purchase program. Specifically, these measures (along with two clean-up measures) made the following major changes to existing law:

- **Eligibility.** Established as an alternative to an existing process, a simplified and more generous method of determining a district's eligibility for state aid including increasing square footage allotments by approximately 10 percent, and providing alternative enrollment projection periods.
- **Match.** Required districts to provide a variable local matching contribution based on a complex calculation related to a maximum level of revenue that could be generated if the district imposed a developer fee, as specified.
- **Developer Fee.** Authorized school districts to impose developer fees, subject to specified limitations, on residential and commercial/industrial construction (under previous law, only cities and counties had such authority), and prohibited cities and counties from issuing a building permit absent certification from the district that any required developer fee had been paid.
- **Year-Round School Incentive Payments.** Provided an allocation of up to \$125 per unit of average daily attendance (ADA) in schools operated year-round because of overcrowding. Current law also provides for an allocation of \$25 per ADA in such districts—thereby bringing the maximum amount of incentive payments available to eligible districts to \$150 per ADA.
- **Tidelands Oil Revenues.** Extended for two additional years (from 1988-89 to 1990-91), the \$150 million annual appropriation of tidelands oil revenues to the State School Building Lease-Purchase Fund. (The Governor's Budget, however, proposes to eliminate the \$150 million appropriation for 1987-88.)

Evaluation of Facilities Aid Administration. One of these measures (Ch 886/86) appropriated \$150,000 from the State School Building Lease-Purchase Fund for the Office of the Legislative Analyst, in consultation with the Office of Local Assistance and the State Department of Education, to contract for an independent evaluation to "study and develop recommendations to simplify and shorten the time to complete the administrative processes related to state funding for school facilities."

In response to this directive, we convened a 14-member advisory committee, composed of legislative and departmental staff familiar with the school facilities aid program and, through a competitive bid process, awarded the contract to the firm of Price Waterhouse. The project is currently underway. We anticipate that the final report will be concluded by the statutory deadline of January 10, 1988.

DEPARTMENT OF EDUCATION—Continued**b. Deferred Maintenance**

The State Allocation Board apportions funds from the Deferred Maintenance Fund on a dollar-for-dollar matching basis to school districts for local deferred maintenance projects. The maximum amount of this apportionment is limited to an amount equal to 1 percent of a district's total local general fund budget (excluding capital outlay).

Funding for the Deferred Maintenance Fund is provided from the General Fund, based on the amount by which school district payments on State School Building Aid loans exceed the amount needed to service state school construction bonds issued under that program.

The budget indicates that, in 1987-88, these "excess repayments" will total \$89.2 million. The budget proposes that the entire amount be transferred to the State School Deferred Maintenance Fund and that the bulk of it (\$88.9 million) be used as matching funds for local deferred maintenance projects. The remainder (\$300,000) would be used to finance state administrative costs.

The budget also proposes that the *current-year* transfer of excess repayments revert to the General Fund and that current-year deferred maintenance projects instead be financed with proceeds from the State School Building Lease-Purchase Fund. This proposal is discussed later in this *Analysis* in Item 6350-495.

c. Emergency Classrooms

Through the Emergency Classroom program, the State Allocation Board (SAB) allocates funds for the acquisition and installation of relocatable classroom facilities, including furnishings, to be rented to districts with overcrowded schools. The SAB estimates that it will have approximately 2,000 of these classrooms available for rental at the close of the current year. The classrooms may be relocated to another school site when they are no longer needed because of declining enrollments or the availability of new facilities. Districts rent these portable classrooms, on a year-to-year basis (districts already renting such classrooms must requalify each year), at an annual cost of \$2,000 per building. Rental income, which will total approximately \$4 million in 1987-88, is used by the SAB for the construction and installation of additional emergency classrooms.

In addition to the rental income, recently enacted legislation (Ch 887/86) authorizes the SAB to allocate *up to* \$15 million from other available resources for the purchase of portable classrooms. In accordance with this authority, the budget proposes that \$15 million from the State School Building Lease-Purchase Fund be transferred to the State School Building Aid Fund for the Emergency Classroom program in 1987-88, bringing total available funding for this program to \$19 million in the budget year. It currently costs approximately \$38,000 to construct and install each classroom. Based on this cost, funds proposed for the budget year will be sufficient to purchase and install on-site approximately 500 classrooms.

Backlog and Time Lag Reduce Program Effectiveness

We recommend the enactment of urgency legislation to increase from \$15 million to \$35 million the State Allocation Board's maximum authority to allocate funding resources for this program.

As of December 30, 1986, the Board had on file approved requests for

approximately 460 classrooms *in excess of the number that can be provided with funding available in the current year*. Of these, 47 were requested in 1985-86 for delivery by September 1986; the remaining 413 were requested during the current year for delivery by September 1987. In addition, the office of Local Assistance (OLA) indicates that approved requests for emergency classrooms are growing by approximately 25 per week. At this rate, the \$19 million in proposed funding for 1987-88 will have been fully exhausted by *current-year* requests made through the end of January 1987, leaving districts which submit applications after this date to wait, at the earliest, until the 1988-89 school year for delivery of these facilities.

In our *Analysis of the 1986-87 Budget Bill*, we discussed the failure of OLA and the Department of General Services (DGS) to issue the purchase orders for these classrooms expeditiously; however, our recent review of the program indicates that these delays have largely been eliminated. Nonetheless, it currently takes between four and seven months from the time a purchase order is issued by DGS until classrooms are delivered and installed on-site. As a result, if classrooms are purchased in July 1987 with funds authorized in the 1987 Budget Act, they will not be delivered to school sites until approximately February 1988, or 5 months after the school year has commenced.

Our analysis indicates that the Emergency Classroom program can potentially provide a quick and cost-effective solution to overcrowding in schools. We see no justification, therefore, for limiting the SAB's funding authority to a level that results, at best, in districts having to wait between 2 and 5 months after the beginning of the school year for delivery of the needed classrooms (other districts will have to wait until 2 to 5 months after the commencement of the *subsequent* school year).

We estimate that a total of \$41 million is needed in the current year, in order to eliminate the existing backlog and fully fund all anticipated requests for emergency classrooms through the remainder of 1986-87. The total level of funding authority currently available to the SAB, however, totals only \$17 million: \$2 million from rental revenues and a statutory maximum of \$15 million from "any funds available to the board"—which generally means tidelands oil revenues. To the extent that the SAB uses tidelands oil revenues to purchase emergency classrooms, the availability of these revenues for other school facility needs will be reduced.

Our analysis indicates that, if the Legislature were to raise the SAB's maximum annual funding authority (from nonrental sources) from \$15 million to a new level of \$35 million, the board would have sufficient authority to (1) fully fund all approved requests for emergency classrooms that had been received through January 1987 and (2) fund \$9 million of the \$15 million in anticipated additional eligible requests that will be received through the end of the current year. The board could then fund the remaining \$6 million in requests in 1987-88, leaving approximately \$33 million (\$4 million in rental revenues and \$29 million in funding authority from other available revenues) available to fund any additional requests that might be received during the budget year.

Recommendation. Accordingly, we recommend the enactment of urgency legislation authorizing the board to allocate, from any school facilities aid funds available, up to \$35 million annually for the purchase of emergency classrooms. Such increased spending authority would provide the board with (1) the flexibility to allocate an appropriate level of funding for this program and (2) the ability to provide these classrooms

DEPARTMENT OF EDUCATION—Continued

at the beginning of the school year, when they have been requested and are needed by school districts.

**2. Year-Round School Incentives/Alternatives to School Construction
(Item 6100-224-344)**

In 1987-88, school districts that accommodate overcrowding through the use of year-round schools may be entitled to receive incentive funds through two state programs: the "SB 813" program and the "SB 327" program. These programs provide eligible districts with additional general purpose aid, which may be spent for any purpose the district chooses. Both programs also allow school districts to remain "in line" for state school construction aid to accommodate these pupils, while receiving the incentive funds. (A third program, established by Ch 684/83, also provides incentives for districts using alternatives to school construction; however, this program expires on January 1, 1988 and no districts have ever applied for funding under its provisions.) A description of the two programs follows:

- **Senate Bill 813 (Ch 498/83).** SB 813 authorizes a flat rate payment of \$25 per pupil, for every pupil in a school which is operated on a year-round basis because of overcrowding. The payments are not available to districts that use means other than year-round operations to relieve overcrowding (such as running double sessions).
- **Senate Bill 327 (Ch 886/86).** SB 327 authorizes a payment of up to \$125 (adjusted annually for inflation) for every pupil in a school which is operated on a year-round basis because of overcrowding, *in addition to the \$25 payment provided by SB 813*. The exact per-pupil amount a district may receive is based on a complicated formula which considers both (1) the amount it would have cost the state to acquire a site and construct a new school of sufficient size to house the students accommodated through year-round operations and (2) the extent to which the district succeeds in increasing available capacity to a target level of 15 percent.

Budget Proposal. The budget proposes \$15 million from the State School Building Lease-Purchase Fund for incentive payments to school districts under these programs in 1987-88. This is an increase of \$11.4 million—or 312 percent—over the current-year funding level. This increase is primarily due to additional costs associated with the new SB 327 payment. In the current year, support for these incentive payments is provided from the General Fund, rather than from the Lease-Purchase Fund.

The Budget Bill also includes language which: (1) provides that a district may receive either (a) the Chapter 684 payment or (b) the SB 813 and SB 327 payments, but not both; (2) limits the amount of incentive payment which may be claimed by districts receiving state reimbursement for the costs of operating year-round schools pursuant to a court-ordered or voluntary desegregation program; and (3) revises both substantively and technically the formula for determining the level of payment a school district can receive under the SB 327 program.

Incentive Payments Exceed "Savings" to State Taxpayers

We recommend that the Legislature amend proposed Budget Bill language relative to the SB 327 year-round school program to (1) reduce the amount of incentive payment provided to school districts, because the payment level specified would exceed the costs avoided by the state and (2) clarify that funds are only for the payment of incentives earned based on eligibility during 1987-88. Consistent with this recommendation, we further recommend that the \$15 million proposed for year-round school incentive payments from the State School Building Lease-Purchase Fund be reduced by \$8 million. (Amend Provision 4 of Item 6100-224-344 and reduce Item 6100-224-344 by \$8,000,000.)

The additional incentive payments available under the SB 327 program are intended to be provided at a level such that both the state and the affected school districts share in the "savings" resulting from avoiding the costs of constructing a new school. As mentioned, the incentive funds are provided under a complicated formula that provides districts an incentive to increase attendance in year-round schools to at least 15 percent in excess of these schools' existing capacity under a traditional academic calendar.

Under the terms of the law, districts meeting this target may annually receive incentive funding equal to 10 percent of the amount it would cost the state (in total, excluding interest costs) to purchase a site and construct a school of sufficient size to serve the excess students accommodated through year-round education. The total amount of funding provided to a district under this program is reduced proportionately if the district fails to meet the target level of 15 percent excess capacity accommodated, and increased proportionately if it exceeds this level.

Because this incentive amount is recalculated annually, based on the prevailing cost of construction and land acquisition, the amount of the incentive funds provided keeps pace with inflationary increases in these costs. The law provides, however, that in no case shall the total amount of the incentive payment per ADA attending the eligible year-round schools exceed \$125, increased annually for inflation based on a specified cost of construction index.

Governor's Proposed Formula. The Governor proposes the adoption of Budget Bill language specifying the formula by which the amount of the incentive payments under the SB 327 program would be calculated. This language is nearly identical to the existing formula with one significant exception—the Governor's proposal would reduce from 10 percent to 7 percent the amount of the state's total "savings" (from not building a facility) that is shared annually with eligible districts.

Based on current participation levels in the SB 813 incentive payment program, we estimate the additional cost of the SB 327 program—under the Governor's proposal—to be approximately \$20 million in 1987-88. Table 33 shows our cost estimates for the SB 813 program and our projected costs under the new SB 327 program.

Table 33 indicates that the combined state cost of providing incentive payments to local districts operating year-round schools because of overcrowding will be over \$24 million in 1987-88. To the extent that participation levels and/or the costs of land and construction increase, the annual cost of providing these incentive payments will also increase.

Table 33
Estimated Costs of Year-Round School
Incentive Payments Under Governor's Proposal
(SB 813 and SB 327 Programs)
1987-88

<i>District</i>	<i>County</i>	<i>SB 813</i>	<i>SB 327^a</i>	<i>Total</i>	<i>Percent of Total</i>
Apple Valley Elementary	San Bernardino	\$88,200	\$282,240	\$370,440	1.5%
Hesperia Elementary	San Bernardino	117,175	374,960	492,135	2.0
Lennox Elementary	Los Angeles	98,775	316,080	414,855	1.7
Los Angeles Unified	Los Angeles	3,365,700	16,828,500	20,194,200	83.4
Oxnard Elementary	Ventura	276,975	886,320	1,163,295	4.8
Rialto Unified	San Bernardino	93,075	297,840	390,915	1.6
Santa Ana Unified	Orange	283,875	908,400	1,192,275	4.9
Totals		<u>\$4,323,775</u>	<u>\$19,894,340</u>	<u>\$24,218,115</u>	100.0%

^a As modified by Governor's proposal to reduce the sharing ratio from 10 percent to 7 percent. Except for Los Angeles, costs are based on the statewide average cost of this payment per eligible ADA under the Governor's proposal (\$80). Due to its exceptionally high cost of land, Los Angeles is expected to receive the maximum payment (\$125).

As the table shows, only seven of the state's 1,028 school districts currently participate in the SB 813 program. Under the Governor's proposed reimbursement formula for SB 327, we estimate that one school district—Los Angeles Unified would generate eligibility for approximately 85 percent of the total amount of year-round school incentive funds. To the extent that participation in the program were to increase, of course, the district's relative share of total statewide entitlements would be reduced.

Our review of the Governor's proposed formula indicates that although it would reduce the amount of incentive payment for this program from the level provided under current law, *the formula would still provide excessively high payments that would, in many cases, exceed the costs of acquiring a new facility.* In addition, the language would allow the 1987-88 appropriation to be used for the payment of incentives earned based on the operation of year-round schools during 1986-87, leaving no funds available for budget-year claims.

Excessive Funding Rate. We support the concept of providing incentive payments to encourage school districts to operate year-round education programs. By encouraging school districts to use existing facilities more intensively, the state avoids the costs of having to construct new facilities. As a result, limited state resources for school facilities may be used to meet more districts' needs. Ultimately, the state's taxpayers benefit from a reduction in the total level of funding requirements for state school facilities.

The determination of how much of the "savings" from avoiding construction should be shared with districts operating year-round schools is essentially a policy decision. Providing districts with an amount equal to one-half of the annual costs avoided by the state would strike a reasonable balance between (1) providing districts sufficient compensation to encourage their participation in the program and (2) enabling the state to use the "savings" to assist other districts with their school construction needs. Whatever the sharing ratio, however, we can find no analytical basis for providing school districts with incentive payments that would exceed the costs to taxpayers of building a new school.

Our analysis indicates that the Governor's proposal would provide a level of payment to school districts that would exceed the costs of constructing a new facility. Table 34 presents the data we used to derive this conclusion.

The table compares, for a hypothetical school district, the costs of constructing a new school facility (financed over a 20-year period) to the costs of providing an incentive payment to districts under the following alternatives:

- **Alternative 1 (Governor's Proposal).** The school district receives incentive payments through the SB 327 program (with the Governor's proposed formula changes), plus the additional SB 813 payment of \$25 per pupil.
- **Alternative 2.** The school district receives 50 percent of the state "savings," through the SB 327 program, plus the additional SB 813 payment of \$25 per pupil.
- **Alternative 3 (Legislative Analyst's Proposal).** The school district receives the greater of: (1) 50 percent of the state "savings," through the SB 327 program or (2) the SB 813 payment of \$25 per pupil.

Table 34
Costs of Building a New School
Compared to Costs of Providing Specified Year-Round Incentive Payments For a Hypothetical School District
(total dollars in thousands)

Year	TAXPAYER COST OF INCENTIVES FOR YEAR-ROUND OPERATION											
	TAXPAYER COST OF SCHOOL FACILITY^a			Alternative 1			Alternative 2			Alternative 3		
	Per Pupil	Total Cost	PDV ^b	(Governor's Budget)			(2.5% Sharing Ratio + \$25)			(LAO Recommendation)		
				Per Pupil	Total Cost	PDV ^b	Per Pupil	Total Cost	PDV ^b	Per Pupil	Total Cost	PDV ^b
1.....	\$161.09	\$3,705	\$3,491	\$113.88	\$2,619	\$2,531	\$56.74	\$1,305	\$1,261	\$31.74	\$730	\$705
2.....	157.00	3,611	3,176	118.33	2,721	2,455	58.33	1,342	1,210	33.33	767	691
3.....	152.91	3,517	2,887	122.99	2,829	2,382	60.00	1,380	1,162	35.00	805	678
4.....	148.83	3,423	2,622	127.89	2,941	2,312	61.75	1,420	1,116	36.75	845	664
5.....	144.76	3,329	2,380	133.04	3,060	2,245	63.58	1,462	1,073	38.58	887	651
6.....	140.69	3,236	2,159	138.44	3,184	2,181	65.51	1,507	1,032	40.51	932	638
7.....	136.63	3,142	1,956	144.11	3,315	2,119	67.54	1,553	993	42.54	978	626
8.....	132.57	3,049	1,772	150.06	3,451	2,060	69.67	1,602	956	44.67	1,027	613
9.....	128.52	2,956	1,603	156.32	3,595	2,003	71.90	1,654	921	46.90	1,079	601
10.....	124.47	2,863	1,448	162.88	3,746	1,949	74.24	1,708	888	49.24	1,133	589
11.....	120.43	2,770	1,308	169.78	3,905	1,896	76.71	1,764	857	51.71	1,189	577
12.....	116.40	2,677	1,179	177.02	4,071	1,846	79.29	1,824	827	54.29	1,249	566
13.....	112.37	2,584	1,062	184.62	4,246	1,797	82.01	1,886	798	57.01	1,311	555
14.....	108.34	2,492	956	192.60	4,430	1,750	84.86	1,952	771	59.86	1,377	544
15.....	104.33	2,400	859	200.98	4,623	1,705	87.85	2,021	745	62.85	1,446	533
16.....	100.32	2,307	770	209.78	4,825	1,661	90.99	2,093	720	65.99	1,518	522
17.....	96.31	2,215	690	219.02	5,037	1,619	94.29	2,169	697	69.29	1,594	512
18.....	92.32	2,123	617	228.72	5,260	1,578	97.76	2,248	674	72.76	1,673	502
19.....	88.33	2,032	551	238.90	5,495	1,539	101.39	2,332	653	76.39	1,757	492
20.....	84.35	1,940	490	249.60	5,741	1,501	105.21	2,420	633	80.21	1,845	482
		\$56,372	\$31,976		\$79,096	\$39,126		\$35,641	\$17,988		\$24,141	\$11,743
LESS Value of:												
Facility		\$14,020	\$3,541		—	—		—	—		—	—
Land		19,900	5,026		—	—		—	—		—	—
NET TOTAL COST		\$22,453	\$23,408		\$79,096	\$39,126		\$35,641	\$17,988		\$24,141	\$11,743

^a Assumes: (1) a per-pupil construction cost of \$7,000 and land cost of \$2,500; (2) a facility depreciation rate of 2 percent, and a land appreciation rate of 5 percent; (3) a 7 percent interest rate; (4) 23,000 pupils attending eligible year-round schools where 15 percent excess capacity is accommodated; and (5) a 5 percent annual increase in construction costs.

^b Present discounted value at 7 percent.

In constructing the table, we have made the following assumptions:

- 23,000 pupils attend eligible year-round schools in the hypothetical district, and these schools are accommodating the target level of 15 percent excess capacity.
- Constructing a new school to house the 3,000 "excess" pupils costs \$28.5 million: \$7.5 million for the site and \$21 million for the facility.
- The value of the facility depreciates 2 percent annually over a 20-year period, and the value of the land appreciates 5 percent annually over this same period.
- Construction costs increase by 5 percent annually.
- State school construction bonds are sold at a 7 percent interest rate.

Table 34 indicates that, under the Governor's proposal (Alternative 1), the state's taxpayers would pay a total of \$79 million in combined SB 813 and SB 327 incentive payments, over the 20-year period that a facility is typically financed, for a facility that would have cost approximately \$56 million (in principal and interest payments on bonds) to construct. The table further shows that, if we subtract out the value of the site and facility at the end of this period and express costs in terms of their "present discounted value," the state would pay \$39.1 million in incentive payments to avoid only \$23.4 million in costs to provide a new facility. (A "present discounted value" calculation expresses future costs in terms of their equivalent value at the present, by taking into account the interest rate at which funds may be borrowed—in this case, a 7 percent "discount rate" is assumed.)

Alternative 2 displays the costs of equally sharing the state's "avoided costs" while also providing the \$25 flat rate SB 813 payment. Our analysis indicates that annually sharing 2.5 percent of the total cost avoided, rather than the 7 percent factor proposed by the Governor, best approximates an equal sharing of the "savings" between the state and the school district. The table shows that using a 2.5 percent factor, while also providing the \$25 flat rate payment would result, in present discounted value, in the state providing \$18.0 million in incentive payments to avoid net costs of \$23.4 million to provide a new school facility.

Under Alternative 3, the school district would receive the greater of the SB 327 incentive payment (calculated using the same 2.5 percent factor noted above), or the \$25 SB 813 payment. The table shows that, under this alternative, the state would provide a total of \$11.7 million in incentives to avoid net costs of \$23.4 million which results in a 50:50 sharing of the avoided costs.

Recommendation. A 50:50 sharing ratio strikes a reasonable balance between (1) providing districts sufficient compensation to encourage their participation in the program and (2) enabling the state to use the "savings" to assist other districts with their school construction needs. We therefore recommend that districts operating year-round schools because of overcrowding be entitled to receive the greater of: (1) the SB 813 incentive payment of \$25 per pupil, or (2) the SB 327 payment, calculated annually based on 2.5 percent—rather than 7 percent—of the state's total avoided costs.

We estimate that adoption of this recommendation would result in program costs of approximately \$7 million in 1987-88, for a savings of \$8 million from the level of support provided in the Governor's Budget. The \$8 million that is not needed for year-round school incentive payments would be available either to assist other school districts that are eligible for state school facilities aid, or to be used for other priorities.

DEPARTMENT OF EDUCATION—Continued

Extended Eligibility Period. As mentioned, the Governor's Budget proposes a \$15 million appropriation from the State School Building Lease-Purchase Fund to finance the costs of providing incentive payments under the SB 813 and SB 327 programs. Because this appropriation is made available without regard to fiscal year, our analysis indicates that funds provided in the budget year could be used to pay for incentive payments requested in 1986-87.

In enacting the SB 327 program, the Legislature specifically provided no funding support in the legislation, with the understanding that the Governor's Budget would provide support for these new incentive payments beginning in 1987-88. The Office of Local Assistance indicates, however, that it anticipates processing and funding *current year* requests for SB 327 incentive payments. Our analysis indicates that funding the SB 327 incentive program for the *current year* alone would cost approximately \$19.9 million—or \$4.9 million more than the Governor is proposing for the budget year. (The costs of the SB 813 program in the current year will be approximately \$4.3 million, bringing the total cost of providing year-round school incentive payments in 1986-87 to \$24.2 million.) As a result, all of the \$15 million proposed for the budget year would be used to fund current-year requests, leaving no funds available to fund budget-year requests. We do not believe that this was the Legislature's intent.

Therefore, in order to ensure that funds appropriated for year-round school incentives will be used only to fund entitlements earned during the budget year, we recommend that the proposed Budget Bill language be amended to limit the provision of the SB 327 payment to claims made based on eligibility in 1987-88.

Recommendation Summary. In order to provide a reasonable incentive payment that more evenly shares "savings" between the state and eligible districts operating year-round schools, and to ensure that the budget year funding is available only for entitlements earned during 1987-88, we recommend that the Legislature (1) reduce the amount of funding provided for this program by \$8 million and (2) amend Provision 4 of Item 6100-224-344 as follows:

1. Delete the initial paragraph and replace with the following: "Notwithstanding subdivision (b) of Section 42250.3 of the Education Code, a school district that meets all the criteria described in subdivision (a) of Section 42250.3 shall receive based only on year-round school operations during 1987-88, the greater of the amount calculated pursuant to Section 42250.3 or the amount calculated as follows:"
2. In subsection (e), change the reference to paragraph "(a)" to paragraph "(d)".
3. In subsection (g), change ".07" to ".025".

Alternative Financing Handbook Outdated

We recommend that the Legislature adopt supplemental report language directing the Office of Local Assistance in the Department of General Services to publish a revised version of the State Allocation Board "Alternative Financing Handbook," because the current version is outdated.

The *Supplemental Report of the 1983 Budget Act* required the Department of General Services to develop and publish a handbook detailing options available to school districts for (1) getting the maximum use out of existing school facilities and (2) financing the costs of school construction projects. The department complied with this language and published the required handbook in December of 1983.

The handbook is intended to provide a better understanding of options available for alleviating overcrowding in school facilities, and identifying financing alternatives available at the local level. School districts are required (1) to consider the options outlined in the handbook prior to applying for state school construction funds and (2) to indicate on each application for such funds why none of the various options outlined in the handbook are suitable alternatives.

Our review indicates that this handbook can serve an important role in assisting districts to determine viable financing options, while at the same time promoting the highest and best use of existing state school construction funds. This handbook, however, has not been updated since its initial publication in 1983. Since that time, there have been several significant changes in the financing options available to school districts, including (1) the restoration of the authority to issue general obligation bonds, (2) the authority to levy limited developer fees, and (3) an increase in the level of financial incentives provided to districts that operate year-round schools to accommodate overcrowding (all of these changes are discussed in greater detail elsewhere in this analysis). For these reasons, we recommend that the Legislature (1) direct the Office of Local Assistance to update and re-issue the alternative financing handbook, and (2) adopt the following supplemental report language in Item 6100-224-344:

"The Office of Local Assistance shall revise and re-issue by December 1987, the Alternative Financing Handbook, detailing the current options available to school districts for: (1) getting the maximum use out of existing school facilities, and (2) financing the costs of school construction, reconstruction and modernization projects. This handbook shall be revised and republished as necessary to correctly portray current financing options available to school districts."

3. Department of Education—School Facilities Planning Unit (Item 6100-001-344)

We recommend approval.

The budget includes \$1.1 million from the State School Building Lease-Purchase Fund for support of the School Facilities Planning Unit (SFPU) in the Department of Education. This is an increase of \$375,000, or 52 percent, above estimated 1986-87 state expenditures for this purpose. This increase reflects (1) funding support for three additional two-year limited-term positions, and (2) up to \$100,000 for consultant services for the purpose of assisting the SFPU in reviewing and approving school sites and

DEPARTMENT OF EDUCATION—Continued

plans. The budget also includes proposed Budget Bill language requiring the Department of Education to report quarterly to the Office of Local Assistance on the activities supported by this appropriation.

Our analysis indicates that the amount proposed in the budget is needed to support the ongoing responsibilities of the SFPU.

C. CHILD NUTRITION

The department's Office of Child Nutrition Services administers the State Child Nutrition and Pregnant/Lactating Minor Child programs and also supervises the federally-funded National School Lunch and Breakfast programs and the Child Care Food program. These programs assist schools in providing nutritious meals to pupils, with emphasis on providing free or reduced-price meals to children from low-income households.

Funding for Child Nutrition Programs. Table 35 summarizes funding for child nutrition programs in the prior, current and budget years.

Table 35
K-12 Education
Funding for Child Nutrition Programs
1985-86 through 1987-88
(dollars in thousands)

	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88	<i>Change</i> <i>From 1986-87</i>	
				<i>Amount</i>	<i>Percent</i>
State Operations:					
General Fund	\$1,591	\$1,520	\$1,521 ^a	\$1	0.1%
Federal funds	6,090	6,649	6,707	58	0.9
Subtotals	\$7,681	\$8,169	\$8,228	\$59	0.7%
Local Assistance:					
General Fund	\$31,315	\$38,592	\$38,592	—	—
Federal funds	400,418	426,420	426,420	—	—
Subtotals	\$431,733	\$465,012	\$465,012	—	—
Totals	\$439,414	\$473,181	\$473,240	\$59	—

^a Does not reflect the impact, if any, of the Governor's proposed 1 percent reduction.

The table shows that child nutrition programs are supported primarily by federal funds. The budget proposes an increase of \$59,000—or 0.7 percent—for state operations, and the same amount for local assistance as is provided in the current year. These changes are explained later in this analysis.

We recommend approval of the proposed funding for the following two programs, which are not discussed elsewhere in this analysis.

- **Nutrition Education and Training Projects (NETP) (Item 6100-021-001)**—\$574,000 from the General Fund for grants to local educational agencies and child care agencies to implement nutrition education programs for the classroom. The program also provides nutrition education for food service personnel. The level of funding proposed for the budget year is \$6,000 less than the level of support provided in the current year as a result of the Governor's 1 percent General Fund Special Adjustment.
- **Federal Child Nutrition Programs (Item 6100-210-890)**—\$433.1 million from the Federal Trust Fund (\$6.7 million for state operations,

and \$426.4 million in local assistance) to provide nutrition subsidies to participating schools and eligible child care institutions under the following four programs: (1) National School Lunch, (2) School Breakfast, (3) Special Milk, and (4) Child Care Food. This amount represents a 1 percent increase in state operations funding, and maintains the level of funding provided in the current year for local assistance.

State Child Nutrition and Pregnant/Lactating Minor Child Programs (Item 6100-201-001).

We withhold recommendation on \$39,335,000 requested from the General Fund for the State Child Nutrition and Pregnant/Lactating Minor Child programs, pending receipt of additional information on the projected number of meals and nutrition supplements to be served.

The State Child Nutrition program provides a basic subsidy from the General Fund for each meal served by public schools, private not-for-profit schools, and child care centers to pupils from low-income households eligible for free and "reduced-price" meals. The Pregnant/Lactating Minor Child program provides a fixed-rate reimbursement to participating school food authorities for daily nutrition supplements served to pregnant or lactating students.

Nutrition. The budget requests \$39 million for the State Child Nutrition subsidy in 1987-88. This represents a 2 percent increase over the current-year funding level. This amount (1) is sufficient to provide a subsidy for the same number of meals served in 1987-88 as in the current year, and (2) funds 6 months of the 3.9 percent statutory COLA, which is based on the "food away from home" component of the Consumer Price Index for San Francisco and Los Angeles.

Pregnant Minors. The budget requests \$300,000 to reimburse participating schools for providing nutrition supplements to pregnant and lactating minors. This is a 2 percent increase over the current-year funding level, and represents half-year funding of the statutory COLA.

Better Data Needed. The Department of Education indicates that additional information on the number of meals and nutrition supplements served during the current year will be available in May 1987. This information will provide a better basis for estimating the number of eligible meals and nutrition supplements that will be served in 1987-88. We will review this information and report during the budget hearings on its implications for these two nutrition programs.

Technical Error in COLA Budget Bill Language

We recommend that Budget Bill language in the COLA item be amended to ensure the proper calculation of base level funding for the Child Nutrition program in 1988-89. (Delete Provision 4 of Item 6100-226-001 and adopt corresponding Budget Bill language.)

The Governor's Budget proposes to provide the statutory COLA for the State Child Nutrition and Pregnant/Lactating programs for a *half year only*. In effect, the program will receive only half of the COLA funding required under current law. The Department of Finance indicates, however, that it will adjust the program's base funding for the 1988-89 fiscal year (which will be used to determine its 1988-89 COLA) to reflect a *full-year* COLA in 1987-88. This adjustment would ensure that the proposed reduction of the COLA is a temporary measure and that its effects would not be carried forward into future years.

DEPARTMENT OF EDUCATION—Continued

Our review of the Budget Bill language to implement this adjustment indicates that the language is flawed and would probably result in the program base being increased for only half the 1987-88 statutory COLA. In other words, the base funding in 1988-89 would include only the *actual* amount of COLA funding received in 1987-88. In order to correct this error, we recommend that the Legislature delete the existing provision and replace it with the following Budget Bill language:

“Notwithstanding any other provision of law, the inflation adjustment calculation pursuant to Section 49536 of the Education Code is deemed to be 3.85 percent for the 1987-88 fiscal year, with an effective date of January 1, 1988.”

III. NON-K-12 EDUCATION PROGRAMS

This section analyzes those programs administered by the Department of Education which are not a part of the K-12 education system. These include Child Development, Adult Education, and the Office of Food Distribution.

A. CHILD DEVELOPMENT PROGRAMS (Items 6100-196-001, 6100-196-890, and 6100-001-862)

The Child Development Division (CDD) within SDE administers a variety of subsidized child care and educational programs which are targeted to low-income families and those with special needs. The major goals of these programs are to (1) enhance the physical, emotional, and developmental growth of participating children, (2) assist families to become self-sufficient by enabling parents to work or receive employment training, and (3) refer families in need of medical, family support, or child care services to appropriate agencies.

Funding. Table 36 summarizes funding in the prior, current, and budget years for child development programs. For 1987-88, the budget proposes a total funding level of \$319.5 million for child development local assistance—a reduction of \$3.7 million, or 1.1 percent, from estimated current-year expenditures. It also requests \$4.9 million for state operations—a reduction of \$169,000, or 3.3 percent. The changes primarily reflect:

- A decrease of \$3.7 million in local assistance and a decrease of \$276,000 in state operations related to various programs which will terminate in the current year; and
- An increase of \$159,000 for state administration related to processing child care capital outlay applications.

Table 36
K-12 Education
Child Development Programs
Expenditures and Funding
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
State Operations:					
State Preschool.....	\$367	\$438	\$438 ^a	—	—
Child Care.....	4,285	4,651	4,482 ^a	-\$169	-3.6%
Subtotals, State Operations.....	\$4,652	\$5,089	\$4,920	-\$169	-3.3%

Item 6100

Local Assistance:					
State Preschool.....	\$35,125	\$35,817	\$35,817	—	—
Preschool Scholarship Incentive Program	(231)	(276)	(276)	—	—
General Child Care.....	204,707	206,786	200,704	-6,082	-2.9%
Campus children's centers	6,113	6,205	6,205	—	—
High school age parenting	5,886	6,668	6,668	—	—
Migrant day care	8,529	8,756	8,756	—	—
Special allowance for rent.....	420	424	424	—	—
Special allowance for handicapped....	704	711	711	—	—
Alternative Payment Program	20,707	25,999	32,081	6,082	23.4
Resource and referral.....	7,243	7,335	7,335	—	—
Campus child care tax bailout	3,986	4,026	4,026	—	—
Protective services.....	1,009	1,027	1,027	—	—
Child Care Employment Act	1,408	2,500	—	-2,500	-100.0
Child care capital outlay (carryover)	15	185	—	-185	-100.0
California Child Care Initiative (Ch 1299/85)	100	250	250	—	—
Before/After School Program Incentives (Ch 1440/85).....	—	1,000	—	-1,000	-100.0
Extended Day Care (Ch. 1026/85)	4,201	15,476	15,476	—	—
Subtotals, Local Assistance	\$300,153	\$323,165	\$319,480	-\$3,685	-1.1%
Totals.....	\$304,805	\$328,254	\$324,400	-\$3,854	-1.2%
Funding Source:					
General Fund	\$301,108	\$290,843	\$290,791	-\$52	—
Federal funds	2,119	3,140	2,140	-1,000	-31.8%
Special Account for Capital Outlay	20	246	—	-246	-100.0
State Child Care Facilities Fund	—	—	159	159	100.0
Reimbursements	1,558	34,025	31,310	-2,715	-8.0

^a Does not reflect the impact, if any, of the Governor's proposed 1 percent reduction.

Participation. Table 37 summarizes the scope of SDE-administrated child development services in each of the eight major types of programs which are funded on the basis of daily enrollment. During the current fiscal year, over 500 public and private agencies will provide subsidized child care services for an average daily enrollment of approximately 53,000 children from low-income families. These agencies will receive reimbursements for each day an eligible child is enrolled in a child care program. The maximum amount of reimbursement to be provided to each agency is established between the agency and SDE.

Additional child care services are provided by (1) county welfare departments and extended day care ("Latchkey") programs (which are reimbursed on an hourly basis), (2) school districts participating in the School Age Parenting and Infant Development (SAPID) program, (3) respite and handicapped child care programs, and (4) child care programs which contract with local private industry councils to provide services to participants in federal job training programs.

We recommend approval of the proposed funding shown in Table 36 for the following program, which is not discussed elsewhere in this analysis:

- **Preschool Programs (Item 6100-196-001 (a))** \$35.8 million from the General Fund to provide educational and related services in part-day programs for pre-kindergarten children from low-income families. This is the same level of support as is provided in the current year. Our discussion of the remaining child development programs follows.

DEPARTMENT OF EDUCATION—Continued

Table 37
K-12 Education
Child Development Services
Participation
1986-87

Program:	Number of Agencies	Average Days of Service ^a	Average Daily Enrollment ^b
Center Program—Public	112	246	28,297
Center Program—Private	178	245	11,310
Center Program—Title 22.....	47	249	1,755
Family child care homes	22	247	1,146
Campus child care	51	182	2,059
State migrant	27	171	2,133
Federal migrant.....	2	148	280
Alternative payment.....	74	251	6,400
Totals	513	-	53,380

^a Weighted average.

^b Average daily enrollment: The average number of full-time equivalent children enrolled in a program on any given day of operation.

Additional Information Needed on GAIN Participation Rates

We withhold recommendation on \$252,353,000 requested from state and federal funds for child care local assistance (Items 6100-196-001 (b) and 6100-196-890), pending receipt of a revised estimate of the reimbursements expected from the Department of Social Services for child care services provided to GAIN participants.

Chapter 1025, Statutes of 1985, created the Greater Avenues for Independence (GAIN) program. This program provides employment and training services to Aid to Families with Dependent Children (AFDC) recipients to help them become financially self-sufficient. All AFDC recipients must participate in GAIN unless they have a child under six years of age or meet other criteria, in which case they can volunteer for the program. (Please see our companion document, *The 1987-88 Budget: Perspectives and Issues*, for further discussion of GAIN).

Chapter 1025 requires the Department of Social Services (DSS) and the Department of Education (SDE) to enter into an interagency agreement for the purpose of obtaining federal matching funds for child care services provided to GAIN participants. Chapter 1025 also provides that SDE will be "held harmless" from any deficiency that may result from this transfer.

Background. Last year, in anticipation of the federal match, the Governor's Budget proposed a reduction in General Fund expenditures for child care services of \$31 million, assuming that this amount would be fully offset by reimbursements from federal funds. This proposal was based on the Department of Finance's estimate that the SDE would spend \$62 million during 1986-87 providing day care to GAIN participants, of which 50 percent would be reimbursed by the Department of Social Services (DSS) using federal funds.

In our *Analysis of the 1986-87 Budget Bill*, we raised several concerns about the methodology used to estimate this reimbursement figure. We further questioned how SDE would be "held harmless" (as required by Chapter 1025), should there be a deficiency in the child care budget. In

response to these concerns, the Legislature adopted the Governor's reimbursement estimate in the 1986 Budget Act, but also adopted Budget Act language which authorized the Director of Finance to provide a General Fund augmentation of up to \$31 million to the child care budget should a deficiency occur.

Budget Proposal. The Governor's Budget again assumes that \$31 million in federal reimbursements will be received on behalf of GAIN participants, and reduces the level of General Fund support for child care services by an equivalent amount. The budget also proposes to continue the 1986 Budget Act deficiency language which authorizes the Director of Finance to augment the child care appropriation as needed.

Analysis. Our analysis indicates that little has changed to alter our initial skepticism regarding the actual level of federal reimbursements that may be received by SDE child care programs. In fact, the SDE recently projected that, because of a shortfall in actual reimbursements, the current year's appropriation may require an augmentation of up to \$29 million. It is unclear how much of this shortfall is due to the faulty assumptions behind the reimbursement estimate, and how much is due to GAIN implementation delays (these delays do not change the total funding requirements for state-subsidized child care services, but simply result in a lower proportion of SDE child care clients being eligible for federal reimbursement). Nevertheless, we continue to have the following major concerns with the reimbursement proposal:

- **The estimate of participation in GAIN is too high.** The budget assumes that all AFDC recipients who currently are receiving SDE child care services will participate in GAIN. This assumption alone may result in a large overestimate of federal reimbursements, because 80 percent of the children served in SDE child care programs (except for the Latchkey program) are under the age of six, and parents of children in this age group are not required to participate in GAIN. Moreover, SDE has been advised by DSS that only 15 percent of such families are expected to volunteer for GAIN.
- **The budget base from which the estimate was derived is too high.** The Department of Finance used as a base the proposed budget amounts for the general child care, campus child care, alternative payment, extended day care ("Latchkey"), and state preschool programs. We believe that preschool programs should be eliminated from the base, because they are unlikely to serve GAIN participants—they operate for a maximum of 3.5 hours per day, and require parent participation.
- **The estimate incorrectly assumes that the federal government will pay for 50 percent of all SDE child care needed by GAIN participants.** In general, federal reimbursements will apply to the job search, but not to the training segments of GAIN. Since the job training and remedial education portions of GAIN may be lengthy, it is likely that the federal government will not reimburse SDE for a significant portion of the child care needed by GAIN participants.

Given these concerns, we believe the budget proposal should be revised based on forthcoming information. The Auditor General will certify the level of AFDC participation in SDE child care programs this spring. In addition, we anticipate that DSS will be able to provide more accurate information about the portions of SDE child care which will be eligible for federal reimbursement, and the extent to which counties will implement GAIN in 1987-88. This information (in conjunction with estimates of how

DEPARTMENT OF EDUCATION—Continued

many AFDC recipients who use SDE child care will participate in GAIN) will enable the Legislature to revise the proposed level of federal reimbursements and make corresponding changes in the proposed General Fund appropriation. Accordingly, we withhold recommendation on the child care local assistance request pending the availability of the additional information.

Staffing Ratios and Minimum Qualifications Are Policy Issues

We recommend that the Legislature delete proposed Budget Bill language which provides that center-based child care and development programs administered by the Department of Education may operate pursuant to Title 22 regulations, because the language implements a major policy change that is more appropriately addressed through separate legislation. (Delete Provision 11 of Item 6100-196-001.)

Currently, California has a dual system for setting teacher qualifications and staffing ratios for child care programs. Most state-subsidized programs are governed by standards contained in Title 5 of the Education Code, while unsubsidized programs must comply with standards set by Title 22 of the California Administrative Code. With a few exceptions, Title 22 standards are less stringent than Title 5 standards.

The Governor proposes Budget Bill language in Provision 11 of Item 6100-196-001 which would allow state-subsidized child care programs to operate under Title 22 regulations. The budget, however, does not propose any changes in the level of funding for state-subsidized child care programs based on this language.

Significant Policy Implications. Our review of the proposed language indicates that it has significant policy implications regarding the quantity and quality of state-subsidized child care. For example, with regard to the use of Title 22 staffing ratios, the language could result in either of the following outcomes (or a mixture of both):

- Child care agencies could decide to reduce their staffing levels, and could then utilize any funds made available by doing so to augment the salaries of remaining personnel; this would result in (1) somewhat higher salaries for child care staff, (2) increased numbers of children per staff person, and (3) no expansion in the numbers of children served; or
- Child care agencies could decide to use the same staffing levels to serve additional children; this would result in (1) no salary increase for child care staff, (2) increased numbers of children per staff person, and (3) moderate expansion in the numbers of children served.

In either case, the language would result in an unspecified trade-off between the quantity and quality of child care services, while having no impact on the programs' funding needs in 1987-88. Thus, we believe that it would be more appropriate to consider this issue through separate legislation, rather than through the budget process. (The Governor's Budget, in fact, indicates that the administration plans to introduce legislation to implement this proposal). This would give the legislative policy committees the opportunity to review the implications of allowing state-subsidized child care centers to operate pursuant to Title 22 regulations.

Accordingly, and without prejudice to the merits of the proposal, we recommend that the Legislature delete Provision 11 of Item 6100-196-001.

Expedited Child Care Capital Outlay Process Needed

We recommend that support for Department of Education administrative costs be augmented by \$53,000 from the State Child Care Facilities Fund, in order to expedite the processing of applications for child care facilities aid. (Augment Item 6100-001-862 by \$53,000.)

Chapter 1026, Statutes of 1985 transferred \$36.5 million in federal funds to a newly-established State Child Care Facilities Fund for capital outlay for the School Age Community Child Care ("Latchkey") program. (Of this amount, \$22.5 million is for programs which have developed a plan to serve children of GAIN participants). These funds may be used for (1) purchasing relocatable facilities, (2) renovating facilities, and (3) program administrative costs. In addition, Chapter 1440, Statutes of 1985 appropriated \$7.25 million in federal funds to establish a child care facility loan program for other state-subsidized child care programs.

The Legislature approved both Chapter 1026 and Chapter 1440 as urgency measures, and indicated its intent that the implementation of these programs be expedited. The measures required (1) the SDE to determine the eligibility of child care agencies for state facilities aid and (2) the State Allocation Board (SAB) to subsequently acquire, provide, and lease relocatable facilities, approve renovations, and provide loans to qualifying agencies. While both acts require the SDE to carry out certain activities, neither bill allocated funds to the department for its associated administrative costs.

Budget Proposal. The budget proposes to use \$159,000 from the State Child Care Facilities Fund to add 2.8 personnel-years to the department's Child Development Division (CDD) in 1987-88 for administration of these programs. The CDD estimates that the process of accepting, reviewing and approving applications for child care facilities funds will require two years to complete. The State Allocation Board, in turn, estimates that its duties might not be completed for up to a year after the last application is received from CDD. Thus, under this schedule, final implementation of child care facilities provisions contained in Chapters 1026 and 1440 might not be completed until late in 1989-90, four years after passage of these measures.

Analysis. Our review indicates that this process could be expedited. According to CDD, the applications process will take two years to complete partly because Los Angeles County and a few, small counties have indicated that they do not want to submit applications for child care facilities funding until the child care needs of GAIN recipients can be better estimated. Even if these applications were delayed until 1988-89, however, the CDD has provided no reason why the remaining applications (for approximately two-thirds of the funding) could not be completed by the middle of 1987-88, if sufficient staff were available to do so.

Extending the CDD approval process for child care facilities evenly over a period of two years will not result in any savings to the program. In fact, the costs of providing child care facilities would increase as a result of inflation in the costs of acquiring facilities, construction work for renovations, and administration. The appropriated funds would therefore support a lower level of service than if the department completed most of its duties during the first half of 1987-88.

Given the increased costs that would occur as a result of delaying the full implementation of the child care facilities programs, and the Legislature's interest in providing these facilities as quickly as possible, we recommend that the budget be augmented to provide the CDD the necessary

DEPARTMENT OF EDUCATION—Continued

personnel to complete approximately two-thirds of the applications process (based upon the assumption that the applications for Los Angeles and a few smaller counties will not be able to be processed until 1988-89) by December 1, 1987. Accordingly, we recommend that an additional \$53,000 (one-third of the \$159,000 which CDD estimates will be needed during 1988-89 to complete the applications process) be provided from the State Child Care Facilities Fund in 1987-88 for this purpose.

Implementation Status of the Extended Day Care ("Latchkey") Program

Under the School Age Community Child Care program established by Ch 1026/85, the State Department of Education (SDE) contracts with child care providers to provide state-subsidized child care services before and after school for children in kindergarten through grade 9. These services are commonly known as extended day care or "Latchkey" child care. The Governor's Budget proposes to allocate \$15.5 million for the Latchkey program during 1987-88—the same as its 1986-87 level.

Currently, 172 child care agencies are serving approximately 13,198 children under the Latchkey program. An additional 20 agencies that contracted with SDE to provide extended day care have since dropped out of the program.

Evaluation Underway. Chapter 1026 requires the Office of the Legislative Analyst to contract for an independent evaluation of the Latchkey program, and appropriates \$175,000 for this purpose. In response to this directive, we convened a 12-member advisory committee, composed of legislative and departmental staff familiar with the Latchkey program and, through a competitive bid process, contracted with MPR Associates, Inc. to conduct the study. The final report will be presented to the Legislature by the statutory deadline of December 1, 1987.

Child Care and Employment Act

Chapter 1292, Statutes of 1983 established the Child Care and Employment Act (CCEA). The measure appropriated \$6 million in federal Title XX funds (Social Services Block Grant funds) for the purpose of expanding the provision of no-cost child care services to eligible participants of the various job training programs operated pursuant to the federal Job Training Partnership Act (JTPA).

As of December 31, 1986, approximately \$4.3 million of these Title XX funds had been committed by contract to child development agencies, and \$350,000 had been allocated for state administrative costs, leaving approximately \$1.4 million unallocated. Further, of the \$4.3 million committed by contract with child development agencies, only \$2.5 million had been spent.

The Governor's Budget proposes no funding support for this program in 1987-88 (any unexpended Title XX funds at the close of the current year will revert to the Department of Social Services).

Evaluation Requirement. Chapter 1066, Statutes of 1986 appropriated \$50,000 from available CCEA program funds for the Office of the Legislative Analyst to contract for an independent evaluation of the CCEA program.

In response to this directive, we convened a 15-member advisory committee, composed of legislative and departmental staff familiar with the JTPA and CCEA programs, and issued a Request for Proposals to bidders on January 13, 1987. Proposals are due on February 18, 1987. We will

choose a contractor based on the proposals' technical merit as rated by our advisory group. We anticipate that the final report will be presented to the legislature by the statutory deadline of January 1, 1988.

B. ADULT EDUCATION

The Office of Adult, Alternative, and Continuation Education Services is responsible for managing (1) state- and federally-funded programs for adults and (2) general education development (GED) testing. In 1986-87, adult education ADA is estimated to be 172,600 in K-12 schools and 67,000 in the community colleges.

Table 38 shows the state operations and local assistance funding for adult education in the prior, current, and budget years. (The Governor's Budget proposal for community colleges is discussed in Item 6870-101-001 of the *Analysis*.)

Table 38
K-12 Education
Adult Education Funding
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
State Operations:					
General Fund	\$182	\$211	\$220 ^a	\$9	4.3%
Federal funds	867	982	982	—	—
Special Deposit Fund	153	169	259	90	53.3
Subtotals	\$1,202	\$1,362	\$1,461	\$99	7.3%
Local Assistance:					
General Fund	\$196,447	\$219,823	\$232,674	\$12,851	5.8%
(School districts)	(194,762)	(217,938)	(230,693)	(12,755)	5.9
(Correctional facilities)	(1,685)	(1,885)	(1,981)	(96)	5.1
Federal funds	7,725	8,557	8,557	—	—
Subtotals	\$204,172	\$228,380	\$241,231	\$12,851	5.6%
Totals	\$205,374	\$229,742	\$242,692	\$12,950	5.6%
Personnel-Years	14.9	16.3	16.5	0.2	1.2%

^a Does not reflect impact, if any, of Governor's proposed 1 percent reduction.

We recommend approval of the proposed funding shown in Table 38 for the following adult education programs, which are not discussed elsewhere in this analysis:

- **Federal Adult Basic Education Act (Item 6100-156-890)**—\$8.6 million from the Federal Trust Fund for local assistance in adult education. The proposed amount reflects a continuation of the current-year level of funding.
- **Adults in Correctional Facilities (Item 6100-158-001)**—\$2 million from the General Fund for education of adults in correctional facilities. This is a \$96,000 increase over the current-year funding level. It includes \$58,000 for a half-year, 6 percent (statutory) COLA, and \$38,000 for enrollment growth of 2 percent, in lieu of the 2.5 percent increase specified in current law.

Our concerns and recommendations with the funding for adult education programs offered in school districts are discussed below.

DEPARTMENT OF EDUCATION—Continued**State K-12 Adult Education Program (Item 6100-156-001)**

The budget proposes a General Fund appropriation of \$231 million for adult education local assistance (excluding adults in correctional facilities) in 1987-88. This represents a net increase of \$13 million, or 5.9 percent, over estimated expenditures in the current year.

The proposed increase for 1987-88 includes (1) \$6 million to provide additional English as a Second Language (ESL) instruction, (2) \$4.2 million to fund remedial education services associated with the Greater Avenues for Independence (GAIN) program, (3) \$6.5 million to fund a 6 percent (statutory) COLA beginning January 1, 1988, and (4) \$720,000 to continue providing equalization aid pursuant to SB 813 (Ch 498/83). Partially offsetting these increases is a reduction of \$4.7 million, reflecting the elimination of one-time funding for ESL, GAIN, and other high-priority instructional areas, that was provided in the current year.

Trends in Average Daily Attendance

School districts receive funds for state-mandated adult education programs based on the average daily attendance (ADA) of adults in these programs. In the case of K-12 school districts, the amount of ADA which the state will fund is limited to the level funded in 1980-81, adjusted annually by 2.5 percent. In the case of community college districts, state-funded enrollment growth for both noncredit adult education and credit programs is limited to the percentage change in the adult population of the district. Both school and community college districts may generate ADA in excess of the levels authorized for funding purposes, but will generally receive no reimbursement from the state for any such "excess" ADA. In 1985-86 (the most recent year for which data are available), 132 K-12 districts generated 6,965 units of excess, unfunded ADA; in the current year, community colleges will generate an estimated 6,500 units of excess ADA.

For both education segments, state funding of adult education courses is restricted to the following 11 areas:

- elementary basic skills
- high school basic skills
- English as a Second Language (ESL)
- programs for older adults
- home economics
- citizenship
- parent education
- classes for substantially handicapped persons
- health and safety education
- short-term vocational education courses with high employment potential
- apprenticeship training

Courses provided in subject areas outside these eleven categories must be supported by student fees and other local revenues.

Trends in Enrollment and Demand for Courses. Over time, demographic changes in the state's adult population have caused relative shifts in enrollment patterns among the various eleven mandated areas. These trends are shown in Table 39. (The table only shows K-12 data for the prior two years, because ADA data were not reported by subject area prior to this time; multi-year data are not available for community colleges.)

Table 39
Adult Education
K-12 School Districts
Changes in Average Daily Attendance
By Program Area^a
1984-85 and 1985-86

<i>Program Area</i>	<i>Actual 1984-85</i>	<i>Actual 1985-86</i>	<i>Percent Change</i>
Elementary Basic Skills	8,828	8,164	-7.5%
High School Basic Skills	14,519	16,775	15.5
English as a Second Language	57,531	66,055	14.8
Programs for Older Adults	14,860	16,609	11.8
Home Economics	1,495	1,532	2.5
Citizenship	777	787	1.3
Parent Education	7,492	7,427	-0.9
Substantially Handicapped	27,245	27,402	0.6
Health and Safety Education	1,916	1,597	-16.6
Vocational Programs	40,611	29,210	-28.1
Totals	175,274	175,558	0.2%

^a Data for apprentice programs not available.

As can be seen from the table, ADA levels appear to be growing the most rapidly in the areas of: (1) high school basic skills (15.5 percent), (2) ESL (14.8 percent), and (3) programs for older adults (11.8 percent).

In the following sections, we review additional data on the degree of unmet demand in these three "growth" areas.

English as a Second Language (ESL). ESL courses provide English-language instruction to nonnative speakers. Demand for ESL courses has grown over the last several years, due primarily to high rates of foreign immigration into California, and is expected to increase in the future.

While the unmet demand for ESL is believed to be large, little dependable data exist which can provide an indication of the exact extent of the problem. Estimates of the number of individuals turned away from adult education programs due to enrollment limitations range from 28,000 adults statewide (in a survey conducted by the Department of Finance) to 40,000 in the Los Angeles area alone (reported in the Los Angeles Times).

Since many programs do not maintain complete waiting lists of individuals seeking services, these figures are based mostly on conjecture by local program operators on the total number of individuals denied services, and are somewhat unreliable. Consequently, it is difficult to determine exactly what amount of additional funding would be needed to fully meet the excess demand for ESL. More specific information on this issue may become available in the spring, once the Department of Education completes a study on the statewide need for additional ESL services.

Basic Skills Instruction. This area encompasses both elementary and high school basic skill training. Elementary basic skill programs involve rudimentary instruction in reading, mathematics, and language arts, while high school basic skill programs include courses in various subject areas leading to a high school diploma or its equivalent.

As is shown in Table 39, enrollment in high school basic skill courses has been increasing, due primarily to the increased recognition of the value of a high school diploma among adults. In addition, increased academic rigor in high schools resulting from new state graduation requirements has

DEPARTMENT OF EDUCATION—Continued

encouraged many high school students to utilize adult schools as alternative means of meeting these requirements.

In contrast to the growing demand for *high school* basic skill instruction, ADA levels in *elementary* basic skill programs, as shown in Table 39, are both low—enrollment in these courses constituted only 5 percent of total statewide ADA in 1984–85—and are declining. These low levels of enrollment appear to indicate that native adults who are poorly educated or illiterate do not tend to enroll in these courses. (Some of these adults may receive educational services, however, from other state programs, such as the California Literacy Campaign administered by the State Library.)

Demand for Basic Skill Instruction/ESL Growing Due to GAIN. In the future, demand for both elementary and high school basic skill instruction and ESL is expected to increase dramatically due to the Greater Avenues for Independence (GAIN) program, established by Ch 1025/85. Chapter 1025 specifies that all GAIN participants who are deficient in basic skills or lack a high school diploma (or its equivalent) must work towards a general education development (GED) certificate. Thus, not only is the number of adults who will require adult education services likely to increase in the future but, in addition, the amount of instruction which will be needed by some individuals in order to obtain (or work towards) a GED could be substantial.

The Department of Social Services (DSS) estimates that as many as 43,000 GAIN participants might require remedial education in the budget year, at a cost of \$39 million. The budget proposes to fund these costs from a variety of sources.

Our analysis indicates that these costs could easily *double* in the budget year, because the DSS estimates do not account for participants who may need (1) extended remediation, or (2) remediation subsequent to GAIN's job search component. As a result, we believe that the budget may significantly understate the need for GAIN-related remedial education services.

Issues associated with the funding of both remedial education and other components of the GAIN program are examined in greater detail in Item 5180-151 of this *Analysis*, and in our companion document, *The 1987–88 Budget: Perspectives and Issues*.

Programs for Older Adults. Programs for older adults encompass a wide variety of subject areas, including nutrition, creative writing, real estate, and art. While targeted at older adults including those in nursing homes, these courses are open to students of all ages, since participation in adult education programs cannot be restricted on the basis of age.

Demand for classes for older adults appears to be increasing, due to both the general aging of the adult population, as well as to the increasing variety of courses in this category which some districts are able to offer.

It should be noted that unlike courses in ESL and basic skills, which may result in benefits to the state in the form of lower welfare costs and greater assimilation of individuals into society, the provision of classes for older adults may result in benefits primarily only to individuals. Therefore, even though there appears to be increasing demand for growth in this area, it may be a lower priority for expansion compared to ESL and GAIN services.

Adult Education Enrollment Growth

We recommend that the Legislature adopt Budget Bill language which (1) requires districts receiving adult education growth funds to maintain existing levels of average daily attendance (ADA) in basic skills and ESL courses, and (2) allows growth funds to be shared with adult education programs operated by community college districts.

In last year's *Analysis*, we recommended that funding for enrollment growth in adult education be tied to indicators of need. Specifically, we recommended that (1) the amount budgeted for enrollment growth should, as a technical matter, be determined by the statewide growth rate in the adult population, and (2) funds should be targeted to districts with unmet needs for adult education in high-priority areas, such as ESL or basic skills.

In response to these recommendations, the Legislature chose to (1) provide adult education programs with enrollment growth of 2.5 percent, as specified in statute, and (2) target funds in excess of the adult population growth rate (1.9 percent) to high-priority areas, as determined by the Superintendent of Public Instruction (SPI). The total amount which the Legislature made available for targeting was \$1.2 million; the amount, however, was reduced by the Governor to \$689,000.

In addition, the Legislature adopted supplemental report language to the 1986 Budget Act which (a) directed the SPI, by November 15, 1986, to develop and report to the legislative fiscal committees proposed criteria for allocating adult education growth funds on the basis of need and (b) required the Legislative Analyst to review the allocation of these funds.

Review of Criteria for Allocating Growth Funds. The Superintendent submitted his report to the Legislature on December 24, 1986. It indicated that growth funds provided by the Legislature for the purpose of meeting high-priority needs in adult education will be allocated by the department during the 1986-87 fiscal year to districts with ADA in excess of their adult ADA "cap." The funds will be apportioned to districts on a pro rata basis, regardless of any program considerations.

The department chose to allocate funds in this manner because it did not find it feasible to establish any explicit statewide priorities. More recently, the department indicated that the districts receiving these funds probably have unmet needs for ESL, although no evidence of this was provided.

Our analysis indicates that there are at least two problems with the department's procedure for "targeting" growth funds.

First, districts are allowed to use these fund to expand services in any of the eleven authorized subject areas. As a result, there is no guarantee that districts will use these funds to expand services in high-priority areas.

Second, the department's approach of allocating funds only to districts generating unfunded ADA is inequitable. Some districts may have an unmet need for growth funds in high-priority areas but may not have adequate financial reserves to serve additional ADA above their funded level. Consequently, these districts will not be eligible for any of the additional funds.

For these reasons, we believe that the department's method for allocating growth funds is flawed and should not be used again.

Governor's Growth Proposal. The Governor's Budget proposes an alternative approach for allocating growth funds in 1987-88. Specifically, the budget proposes \$10.2 million from the General Fund to fund a 4.8 percent increase in enrollment in adult education, of which \$6.0 million

DEPARTMENT OF EDUCATION—Continued

(or 2.8 percent) would be provided exclusively to districts with documented, unmet needs for ESL, and \$4.2 million (or 2 percent) would be targeted specifically to districts providing basic skills instruction as part of GAIN. The budget specifies, however, that these funds would not become part of districts' ongoing funding entitlements.

The budget does not detail how the funds would be allocated among eligible districts. Presumably, they would be allocated through an application process.

Our analysis indicates that the Governor's proposed approach for allocating growth funds is superior to the method developed by SDE, because (1) the receipt of funds would be tied directly to the expansion of services in high-priority areas, and (2) all districts with sufficient need would have access to these funds.

Technical Problems with Governor's Proposal. Our analysis indicates, however, that there are two technical problems with the Governor's proposal for allocating growth funds.

First, while the proposal requires districts to use growth funds only in high-priority areas (ESL and basic skills), it does not require districts to maintain *existing* levels of service in these areas. As a result, some districts might simply supplant existing funds now being used for ESL or basic skills training to other purposes, and use growth funding received from the state only to replace the diverted revenues. Were this to occur, no expansion of services in high-priority areas would result.

In order to prevent growth funds from being used to supplant existing services, we recommend that the Legislature require districts to maintain existing levels of ADA in the areas of ESL and basic skills as a condition of receiving growth funds.

Second, while the Governor's Budget provides funding to K-12 adult education to meet high-priority needs, it provides no such funding to the community colleges which also conduct these programs. Our review indicates that some community college districts also have unmet needs associated with ESL or GAIN. We therefore recommend that the Legislature permit funds proposed for high-priority adult education needs to be allocated to community colleges as well as to K-12 school districts.

Recommendation. In order to address these problems, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-156-001:

- “(a) As a condition of receiving funds appropriated in this item for (1) extraordinary needs in adult education programs in English as a second language, pursuant to provision 4, and (2) remedial education services for GAIN participants, pursuant to provisions 5 and 6, districts shall certify to the Superintendent of Public Instruction that levels of annual average daily attendance in the 1987-88 fiscal year (1) in programs for (a) English as a second language and (b) elementary and high school basic skills, and (2) which are used to compute block entitlements, shall be maintained at or above levels funded in either the 1985-86 or the 1986-87 fiscal year, which ever are higher, for each of these two areas. The Superintendent shall, at the time of the annual apportionment, reduce funding by the corresponding amount to any district which fails to generate certified levels of average daily attendance.
- (b) Funds appropriated pursuant to provisions 4 and 5 of this item

may be apportioned to community college districts, pursuant to an agreement between the Superintendent of Public Instruction and the Chancellor of the California Community Colleges.”

Study Needed of Adult Education Priorities

We recommend that the Legislature adopt supplemental report language requiring the California Postsecondary Education Commission to conduct a review of the need for continued state funding in adult education of the various eleven instructional areas specified in current law.

In an attempt to control program costs, state funding for K-12 adult education programs is limited to 11 instructional areas while community college programs are limited to 10.

Since the time the list of instructional areas was originally established by the Legislature eight years ago, the state has not conducted any type of review to determine the continued need for funding in each of the various instructional categories. As noted by the Commission on the Study of the Master Plan for Higher Education in its report, *The Challenge of Change*, statewide needs may have changed substantially since the time the list of categories was originally established, due to both changing demographics and other factors. The report recommends that “the California Postsecondary Education Commission [CPEC]. . . conduct a study of the current and projected need for and funding of noncredit adult education, including the various state-funded instructional areas, in the community colleges and public school system, in light of the state’s changing demographics.”

In order to ensure that existing adult education funds in school and community college districts are spent in a manner reflecting statewide needs and priorities, we recommend that the Legislature direct CPEC to conduct such an in-depth review of the instructional areas, and determine whether any areas should be added, eliminated, or modified. This review should include an examination of (1) the degree of unmet demand in each area, (2) the benefits to the state of providing instruction in each area, including some attempt to measure these benefits, and (3) whether the manner in which the various instructional areas are defined in statute is adequate or requires improvement.

Recommendation. In order to provide for such a review, we recommend that the Legislature adopt the following supplemental report language in Item 6420-001-001:

“The California Postsecondary Education Commission, in consultation with the Board of Governors of the California Community Colleges and the State Board of Education, shall conduct a study of the current and projected need for, and funding of, noncredit adult education, including the various state-funded instructional areas, in the community colleges and public school system, in light of the state’s changing demographics. This study shall include, but shall not necessarily be limited to, an examination of (1) the degree of unmet demand in each instructional area, (2) the benefits to the state of providing instruction in each instructional area, including some attempt to measure these benefits, (3) whether the manner in which the various instructional areas are defined in statute is adequate or requires improvement, and (4) whether any area should be added, modified, restricted, or eliminated. The Commission shall submit its findings and recommendations to the Legislature by October 1, 1988.”

DEPARTMENT OF EDUCATION—Continued

Reduced Funding for Adult Education COLA Warranted

We recommend that adult education programs be provided with a cost-of-living adjustment equal to the COLA used for school apportionments. (Reduce Item 6100-226-001 (b) (1) by \$4,131,000 and 6100-226-001 (b) (2) by \$37,000, and adopt corresponding Budget Bill language.)

Under current law, K-12 adult education programs are entitled to receive an annual cost-of-living adjustment (COLA) of 6.0 percent. This amount differs from the COLA prescribed in current law for school apportionments, which is tied to the percentage change in the "Implicit Price Deflator for State and Local Government Purchases of Goods and Services." Based upon estimates of this index, school districts would be entitled to receive a cost-of-living adjustment to their revenue limits of 2.2 percent in the budget year.

The Education Code also prescribes COLAs for a number of other educational programs. In almost all cases, these COLAs are directly tied to the school apportionments COLA or to some other variable index of inflation. We note also that community college adult education programs do not receive any differential treatment—they receive the same COLA as the regular community college and K-12 ADA, based on the state and local government purchases index.

COLAs Differ. The Governor's Budget proposes to provide all K-12 education programs with statutory COLAs with the statutorily-prescribed amount, beginning January 1, 1988. Thus, the budget proposes a 6.0 percent (half-year) COLA for adult education, while it only proposes a 2.2 percent (half-year) COLA for school apportionments, as well as for other, specified education programs. In fact, adult education programs would be provided with a larger percentage COLA than *any other* K-12 education instructional program.

We see no analytical reason why K-12 adult education programs should be given a higher COLA than that given community college adult education programs or any other education program. The types of goods and services used by K-12 adult programs are similar in nature to those purchased by most other education programs. Thus, there is no reason to assume that the costs faced by K-12 adult programs would tend to rise more rapidly than in other education programs. For this reason, we believe that these programs should receive the same COLA which is provided to other K-12 education programs.

Recommendation. Accordingly, we recommend that the Legislature provide K-12 adult education programs with only a 2.2 percent (half-year) COLA in the budget year. Adoption of this recommendation would result in corresponding savings to the state of \$4.2 million. The Legislature could choose to use these savings either to fund other high-priority needs in adult education (such as the basic skills component of GAIN), or to fund other high-priority education or noneducation programs.

In order to implement this recommendation, the Legislature should (1) reduce the amounts requested in Item 6100-226-001 (b) (1) by \$4,131,000 and Item 6100-226-001 (b) (2) by \$37,000, and (2) adopt the following Budget Bill language in lieu of provision 3:

"Notwithstanding any other provision of law, the inflation adjustments calculated pursuant to Sections 41841.5 and 52616 of the Education Code are deemed to be 2.2 percent for the 1987-88 fiscal year with an effective

date of January 1, 1988. This provision applies to the appropriations contained in schedules (b) (1) and (b) (2)."

Technical Error in COLA Budget Bill Language

As noted above, the Governor's Budget proposes to provide the statutory COLA for this program for a *half year only*. In effect, the program will receive only half of the COLA funding required under current law. The Department of Finance indicates, however, that it will adjust the program's base funding for the 1988-89 fiscal year (which will be used to determine its 1988-89 COLA) to reflect a *full-year* COLA in 1987-88. This adjustment would ensure that the proposed reduction of the COLA is a temporary measure and that its effects would not be carried forward into future years.

Our review of the Budget Bill language to implement this adjustment indicates that the language is flawed and would probably result in the program base being increased for only half the 1987-88 statutory COLA. In other words, the base funding in 1988-89 would include only the *actual* amount of COLA funding received in 1987-88. The language proposed above addresses this technical error.

Greater Avenues for Independence (GAIN)—Technical Issues

We recommend that the Legislature adopt Budget Bill language and supplemental report language in Items 6100-156-001 and 6100-102-001 to address technical issues related to the Greater Avenues for Independence program.

As noted previously, a large number of adult education programs will need to provide remedial instruction to welfare recipients as part of the Greater Avenues for Independence (GAIN) program. We present in this section two technical recommendations related to GAIN:

- **Allow Participants to Earn Diplomas.** The program's authorizing legislation (Ch 1025/85) requires participants who lack a high school diploma or its equivalent to work towards a general educational development (GED) certificate. In some cases, however, participants will have sufficient high school credits to earn a high school diploma, rather than simply a GED. Since there is some evidence which suggests that individuals who have diplomas may have more success in the job market and in postsecondary institutions than individuals with GEDs, we recommend that the Legislature adopt the following supplemental report language which clarifies that GAIN participants may earn a high school diploma in lieu of a GED certificate:

"It is the intent of the Legislature that participants in the Greater Avenues for Independence (GAIN) program may receive remedial education instruction pursuant to Section 11320.5(b) (c) (6) of the Welfare and Institutions Code in order to obtain a high school diploma rather than a general education development certificate. The Superintendent of Public Instruction shall take all appropriate measures to inform local education agencies and county welfare offices of this policy."

- **Cash Flow.** Under the current school apportionment system, adult education programs (as well as regional occupational centers/programs) are not reimbursed for actual units of ADA generated until several months into the fiscal year. This policy has caused problems for some school districts wishing to apply for additional ADA-funding

DEPARTMENT OF EDUCATION—Continued

from the state in order to serve GAIN participants. These districts claim that they need “up front” monies in order to hire additional teachers and to operate classes, and therefore without such advanced funding, cannot participate in the GAIN program. In order to remedy this problem, we recommend that the Legislature adopt the following Budget Bill language, in both Items 6100-156-001 and 6100-102-001, to allow the Department of Education to advance sufficient funds to school districts and regional occupational centers/programs to enable them to participate in the GAIN program:

“Notwithstanding any provision of law to the contrary, funds appropriated in this item for average daily attendance (ADA) generated by participants in the Greater Avenues for Independence Program established by Chapter 1025, Statutes of 1985, may be apportioned on an advanced basis to local education agencies based on expected units of ADA, provided that a prior application for such additional ADA funding has been approved by the Superintendent of Public Instruction.”

GAIN Appropriation—Control Section 22.00

Control Section 22.00 of the Budget Bill appropriates \$40 million from the General Fund to the Department of Finance (DOF) to support unspecified GAIN program costs. Our concerns and recommendations with this control section can be found in our analysis of Item 5180-151.

C. OFFICE OF FOOD DISTRIBUTION (Item 6100-001-687)*We recommend approval.*

The Office of Food Distribution (OFD) administers the Surplus Food program. Under this program, the OFD receives surplus food commodities donated from the United States Department of Agriculture (USDA) and distributes them to schools, child care centers and food programs for the elderly. Local agencies that receive commodities under the Surplus Food program are assessed processing and handling charges (\$2.50 per unit of donated food) that are sufficient to cover 100 percent of the office's costs.

The OFD also administered the Temporary Emergency Food Assistance program (TEFAP). Under this program, agricultural commodities are distributed to food banks, charitable institutions and other nonprofit agencies. Administrative responsibility for this program, however, was transferred to the Department of Social Services (DSS) effective October 1, 1986. Accordingly, expenditures and activities related to this program are reflected in the DSS portion of this *Analysis* (Item 5180).

Table 40 shows the value of food distributed, as well as the costs of administering the Surplus Food program, from 1985-86 through 1987-88.

Table 40 shows that, during the budget year, the OFD will distribute an estimated \$96 million in donated food commodities—a decrease of \$21.8 million due to a large one-time food purchase expenditure in 1986-87.

Table 40 also shows an expenditure of \$14.4 million for administrative costs in 1987-88—an increase of \$950,000, or 7 percent—over estimated 1986-87 expenditures due primarily to the purchase of a prefabricated refrigeration unit for the program's Southern California warehouse. The decrease in personnel-years reflects the transfer of the positions associated with TEFAP to the Department of Social Services.

Our analysis indicates that this program is meeting its intended purpose.

Table 40
Department of Education
Office of Food Distribution—Surplus Food Program^a
Distribution Activity and Administrative Costs
1985-86 through 1987-88
(dollars in thousands)

	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88	<i>Change From</i> 1986-87	
				<i>Amount</i>	<i>Percent</i>
Total value of food distributed ^b	\$92,409	\$117,724 ^c	\$95,966	-\$21,757	-18.5%
Number of agencies participating	2,850	2,950	3,000	50	1.7
State administrative costs ^d	\$8,437	\$13,428	\$14,380	\$952	7.0%
Personnel-years	87.5	96.0	91.0	-5.0	-5.2

^a Donated Food Revolving Fund.

^b Includes "bonus" food commodities.

^c Includes \$21.8 million from one-time dairy herd buyout.

^d The state is reimbursed for these costs through fees charged to local agencies.

IV. STATE DEPARTMENT OF EDUCATION

This section discusses the overall administrative budget for the State Department of Education (SDE), as well as those administrative activities which are not tied to a particular local assistance program, such as the California Assessment Program (CAP) and the Private Postsecondary Education division. Administrative issues related to particular local assistance programs are discussed in connection with the programs themselves. Issues related to the State Library, the state special schools, and the Office of Food Distribution within SDE are discussed elsewhere in this analysis and are not treated here.

A. OVERVIEW OF THE DEPARTMENT'S BUDGET FOR 1987-88 (Items 6100-001-001 and 6100-001-890)

Table 41 shows state operations expenditures for the State Department of Education (excluding the State Library, state special schools, and Office of Food Distribution) in the prior, current, and budget years. These expenditures are proposed at \$80.8 million in 1987-88, of which \$38.7 million is requested from the General Fund, and \$37.8 million is requested from federal funds. The General Fund amount is \$109,000, or 0.3 percent, below the current-year support level. (The table has not been adjusted to reflect any potential savings in 1986-87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.)

Significant General Fund Changes in 1987-88

Table 42 shows the components of the net \$109,000 decrease in General Fund support proposed for the State Department of Education in the budget year. As the table shows, the budget proposes (1) a total reduction of \$1,246,000 to the existing budget, and (2) a total increase of \$1,137,000 to fund various program changes in the budget year.

DEPARTMENT OF EDUCATION—Continued

Table 41
Department of Education
State Operations Funding^a
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change From 1986-87	
				Amount	Percent
Department of Education Funding:					
General Fund	\$37,586 ^b	\$38,844 ^c	\$38,735	-\$109	-0.3%
Federal funds	36,235	37,956	37,759	-197	-0.5
Special Account for Capital Outlay	4	61	0	-61	-100.0
Driver Training Penalty Assessment	513	632	811	179	28.3
Private Postsecondary Administration	936	923	971	48	5.2
State School Building Lease Purchase	483	715	1,090	375	52.4
First Offender Program Evaluation	1	13	13	—	—
State Child Care Facilities	—	—	159	159	N/A
Special Deposit	613	1,088	1,173	85	7.8
State Instructional Materials	-38	—	—	—	—
Student Tuition Recovery	58	50	50	—	—
Subtotals	\$76,391	\$80,282	\$80,761	\$479	0.6%
Reimbursements	\$3,477	\$5,073	\$4,062	-\$1,011	-19.9%
Totals	\$79,868	\$85,355	\$84,823	-\$532	-0.6%

^a Excludes state special schools, Office of Food Distribution, and State Library.

^b Includes \$300,000 for the College Admission Test Preparation Pilot Project (Ch 1210/85), displayed in the Governor's Budget as a local assistance expenditure.

^c Includes a total of \$990,000 for (1) the California Assessment Program (\$690,000) and (2) the College Admission Test Preparation Pilot Project (\$300,000), that was, in the current year, appropriated in a local assistance item (6100-107-001) and transferred to the state operations item.

Table 42
Department of Education
Proposed 1987-88 General Fund Changes
State Operations^a
(dollars in thousands)

1986-87 Expenditures (Revised)	\$38,844 ^b
Changes to Existing Budget:	-\$1,246
Elimination of one-time funding in 1986-87	-\$688
Special Adjustment	-369
Transfer of Temporary Emergency Food Assistance Program (TEFAP) to the Department of Social Services	-150
Public Employees' Retirement System rate reduction	-38
Other changes	-1
Program Change Proposals:	1,137
California Assessment Program—6th grade test	\$400
California Assessment Program—12th grade test	400
Greater Avenues for Independence—staff support	136
Financial Management Advisory Committee—project support	64
Continue Micro Computer Advisory Committee (Ch 1150/86)	40
Continue Special Education Task Force	40
Continue teacher salary data base	40
School crime reporting (Ch 1607/84)	17
1987-88 Expenditures (Proposed)	\$38,735
Change from 1986-87:	
Amount	-\$109
Percent	-0.3%

^a Excludes state special schools, Office of Food Distribution, and State Library.

^b Includes a total of \$990,000 for (1) the California Assessment Program (\$690,000) and (2) the College Admission Test Preparation Pilot Project (\$300,000), that was, in the current year, appropriated in a local assistance item (6100-107-001) and transferred to the state operations item.

The \$1,246,000 reduction to the baseline budget primarily reflects (1) the elimination of one-time funding in 1986-87 (-\$688,000), (2) a one percent special adjustment reduction (-\$369,000), and (3) the transfer of the administration of the Temporary Emergency Food Assistance Program (TEFAP) to the Department of Social Services (-\$150,000). The \$1,137,000 increase in program change proposals primarily reflects augmentations for (1) the development of additional 6th and 12th grade subject matter tests in the California Assessment Program (\$800,000 and 5.2 personnel years), and (2) the department's activities relating to the Greater Avenues for Independence (GAIN) program (\$136,000 and 2.9 personnel years).

Personnel. The budget proposes a total of 1,296 personnel years (PYs) supported from all funds in 1987-88—an increase of 16.6 PYs, or 1.3 percent. This increase is composed of (1) an increase of 8.1 PYs, supported from the General Fund, for the programs described above and (2) increases, supported from special funds, of 3.8 PYs for school facilities programs, 2.8 PYs for child care capital outlay programs, and 1.9 PYs for the School Bus Driver Instructor Training program.

B. IMPLEMENTATION OF MANAGEMENT STUDY RECOMMENDATIONS

We recommend that the State Department of Education be prepared to report during budget hearings on the steps it is taking to implement the Price Waterhouse recommendations relating to the department's information resources management.

In the 1985 Budget Act, the Legislature directed the Legislative Analyst to contract with a firm to study and develop recommendations concerning the management of the State Department of Education (SDE). Based on a competitive bid process, the firm of Price Waterhouse was selected to conduct the management study which was completed on June 18, 1986.

The Price Waterhouse report makes four major recommendations in the areas of (1) human resources management and development, (2) comprehensive management information, (3) fiscal information, and (4) information resources management. In addition, the report makes nine other individual recommendations that deal with more specific problem areas. For each of the recommendations, the report details specific action steps for its implementation, and provides a timeline and estimated implementation costs.

In our review which follows, we find that, in general, the SDE is taking the appropriate steps to implement the recommendations. With respect to the area of information resources management, however, we find that the department is lagging in its implementation of several recommendations.

1. Human Resources Management and Development. The report commends the department's efforts to improve the management and development of its personnel resources, and recommends that these efforts continue. With the exception of one specific recommendation—to provide a formal training program for managers and supervisors—the report estimates that any changes in this area can be implemented within the department's existing resources. The report estimates that a formal training program would cost between \$40,000 and \$100,000 depending upon the extent to which outside contractors, State Training Center resources, or departmental staff are used.

DEPARTMENT OF EDUCATION—Continued

In response to these recommendations, the department is (1) developing a fiscal training package for managers and supervisors, (2) requiring that each employee receive a performance review each year, (3) requiring each branch to develop annual training plans based on the performance reviews, and (4) exploring ways to implement a "tour of duty" concept, in order to meet limited-term needs for personnel with expertise in specific areas of education. The SDE also requested \$100,000 to fund a formal management training program; this request, however, was not included in the Governor's Budget. Therefore, if the SDE is to provide this training in the budget year, it will have to be done through redirection of existing resources.

2. ***Comprehensive Management Information.*** The report recommends that the SDE develop and implement an operational and budgeting information system that is designed to record the amount of time spent by staff, the amount of other costs incurred, and the volume of work performed in meeting established objectives of the department, completing major projects, and/or performing major routine activities. The report recommends a five-year time frame for the implementation of this recommendation, and specifies that during 1986-87, the SDE should develop management policy, strategy and objectives with regard to the need for, and application of, management information.

Currently, the department is assessing its existing systems to determine whether better coordination of these existing systems can produce the needed management information.

3. ***Fiscal Information.*** The report recommends that the SDE develop and implement immediately a program to improve the timeliness and accuracy of expenditure reporting.

To implement this recommendation, the department is (1) developing a training program on expenditure reporting, (2) continuing efforts to monitor availability of federal funds and reporting such balances for budgetary use, (3) evaluating the existing Program Cost Account/Index structure for improvement, and (4) developing a division-level budget report for state operations.

4. ***Information Resources Management.*** The report recommends that the SDE develop, implement, and maintain a long-range plan for information resources management that supports the department's overall strategic direction and priority programs, and guides current efforts to take advantage of new technologies. The report strongly stresses that the department *must* recognize that planning must take place on a coordinated, department-wide basis, with the proper involvement and influence of data users. The study further finds that the absence of a long-range plan has led to a fragmented approach to information management, which has resulted in a system that is characterized by many independent systems that cannot share common data.

Our experience in requesting information from the department is generally consistent with this finding. For example, the department is unable to provide information on the total amount of funding each school district receives from all state-funded general purpose and categorical programs. While we acknowledge that the provision of this information now may require a significant effort in integrating data from diverse sources throughout the department, we believe that it is *basic* information that the department should be able to provide. Certainly, proper planning and coordination initially could have made such data integration possible.

In an "information intensive" organization such as SDE, effective information management can contribute significantly to the overall effectiveness of the organization in its mission of improving the quality of education in California. Price Waterhouse finds that the key to effective information management is planning that takes place on a coordinated, department-wide basis with significant involvement of data users. Accordingly, the report presents recommendations that, if acted upon, would move the department in this direction.

Our review finds, however, that the department does not appear to be actively moving in the desired direction. Examples of specific recommendations where the department's implementation efforts appear to be lagging include the following:

a. **Strengthen the authority of DPAC.** The report recommends that the Data Processing Advisory Committee (DPAC), (which is made up of data users) be given the authority for making department decisions regarding data processing policy standards and major acquisitions so that the users have significant influence on the data processing activities upon which they depend. Currently, the deputy superintendents have this authority. The department indicates that it is "evaluating" this recommendation.

b. **Develop a long range plan.** The report recommends that DPAC establish a Long Range Plan Committee, composed of users from each of the staffs of the DPAC members, to develop a long range plan that includes an assessment of how information systems can support departmental missions and goals. The report indicates that this committee should (1) by August 1986, establish a process for widespread user, management, and technical staff involvement to ensure support for, and authorship in, the plan, (2) by December 1986, complete a draft report, and (3) by February 1987, complete the final report. By mid-January 1987, the Information Systems and Services (ISS) division had completed a preliminary *work plan* for developing the long range plan. The work plan indicates that the long range plan will be completed by April 15, 1987.

We have reviewed this work plan, and find that it is quite thorough. Our primary concern, however, is that data users do not appear to be participating in a significant way in the development of the long range plan. With a few exceptions, the plan will be developed by ISS staff. Input from data users will come from (1) selected interviews conducted by ISS staff, and (2) DPAC review of sections of the plan as they are completed (the work plan, however, does not indicate whether the DPAC will review, discuss, modify and approve these sections).

c. **Appoint a Data Administrator.** The report recommends that the SDE should appoint a Data Administrator to direct departmental efforts to decide what information it needs, how to collect it, and how to promote its coordinated use. The report further recommends that the Data Administrator should be a high-level professional from within the department who has an in-depth understanding of the sources and uses of education information. In response, the department requested one position and funds to support a Data Administrator. The Governor, however, did not approve this request and the department has not indicated whether this position is of high enough priority to redirect an existing position to fill the slot.

DEPARTMENT OF EDUCATION—Continued

Conclusion. In conclusion, our review finds that overall, the SDE is implementing the recommendations made in the Price Waterhouse report in a timely manner, and we commend the department for its efforts. As described above, however, we are concerned that the department is not moving as actively as desired in the directions intended in the area of information resources management. Because the management study and the implementation of the resulting recommendations are of particular interest to the Legislature, we recommend that the department be prepared to report during budget hearings on the steps it is taking to implement the Price Waterhouse recommendations relating to information management.

C. IMPROVING THE QUALITY OF PROGRAM EVALUATIONS

We recommend the enactment of legislation to require that all evaluations focusing on outcomes of K-12 education programs be performed through an open bid process by outside contractors under contract to the State Department of Education (SDE), or other appropriate state agency, in order to ensure objectivity. We further recommend that the Legislature adopt supplemental report language to require the SDE to submit a proposed budget for its Program Evaluation and Research Division (PERD) for consideration during annual budget hearings, in order to ensure that legislative priorities are adequately accommodated.

In our review of evaluation reports prepared by the State Department of Education (SDE), we have become concerned with a frequent lack of quality and relevance of those reports to legislative needs. Specifically, evaluations often either (1) lack the methodological rigor that is necessary to draw confident conclusions from the results or (2) fail to address important policy issues regarding the impact of the program being evaluated. In the following discussion, we describe these problems and their possible causes, and make recommendations for improving the evaluation process.

The Purpose of Evaluation. In the most general sense, the purpose of most evaluations is to determine the "value" or worth of a program. In making this determination, the evaluator must attempt to ascertain the degree to which a program's objectives are being met and the extent to which the achievement of objectives is attributable to the program (as opposed to other, outside influences).

If the evaluator is successful in obtaining accurate measures of a program's worth, this information can be used to plan program improvements and to help establish funding priorities among programs. Specifically, evaluation results can help policy makers to decide whether a program should be continued in its present form, modified, or abandoned. The results of evaluation can also help policy makers in allocating funds among different programs and to determine which ones are worthy of (or could benefit from) additional funding.

Evaluators often differentiate between two different kinds of evaluation—formative and summative—that serve different purposes. Formative evaluation focuses on implementation and attempts to determine how a program is actually administered. Summative evaluation focuses on outcomes, and attempts to determine the degree to which program goals are being achieved.

Both types of evaluation are important for policy analysis. For example, if a summative evaluation shows that a program's objectives are not being

met, a formative evaluation may help to explain why. It may show, for example, that the program has not been implemented as designed. In this case, the failure of the program to achieve its objectives may not be solely attributable to a faulty design or plan, but may instead reflect poor implementation. A corrective policy change, therefore, might focus on improving implementation, rather than on program redesign.

Limits of Evaluation. Although evaluations can inform policy decisions, there are limits to the kinds of answers that policy makers can expect from evaluation. The most important (and frustrating) limitation for policy makers is that evaluations rarely—if ever—provide definitive answers to questions of program effect. The primary reason for this is that most evaluations of education (and other social) programs take place in natural, or “real world” settings, instead of in controlled, experimental settings, such as laboratories.

In a typical evaluation design, the effect of a particular program, or treatment, is assessed by comparing a treatment group with a control group (a group that receives no treatment or an alternative treatment). In a laboratory setting, all outside factors that may influence the outcome of the experiment can be eliminated or tightly controlled, so that the results can be attributed to the treatment with a high level of confidence. In a natural setting, on the other hand, outside influences are always present and are not easily controlled.

For example, in attempting to determine the impact of a new reading program on reading achievement, an evaluator may compare the reading scores of a group of students who participated in the new program with the scores of similar students who did not. But in a natural setting, the presence or absence of a reading program will not be the only factor that influences differences in reading scores. Other contributing factors would include student desire to improve, family background, and physical health, among other things.

Evaluators have developed methods to attempt to control for these “outside” influences, but these methods involve a number of assumptions about actual relationships that are often tenuous and sometimes unjustified. In addition, there may be additional influencing factors that are not recognized by the evaluator, and are therefore not accounted for in the evaluation methodology. For these reasons, evaluations of education programs are often inconclusive.

In addition, much evaluation is a subjective process—as implied by its root word, “value.” The elements of subjectivity can be reduced, but they cannot be entirely eliminated. Sometimes, for example, the desired effect of a program is not directly measurable. In such cases, evaluators must measure a related effect, or phenomenon, that is assumed to be a “proxy” for the phenomenon in question. Program evaluation, therefore, often tends to be more of an “art” than a “science.” While this results in limits to the contribution that evaluation can make to policy making, it should not—in our opinion—preclude properly designed evaluations from fulfilling an influential role.

Who Decides What to Evaluate. Most evaluations of statewide K-12 education programs in California are performed by the SDE, or by public- or private-sector contractors under contract to the SDE, the Legislative Analyst’s Office, or another state agency, such as the California Post-secondary Education Commission. Studies that are done under contract are usually required by specific legislation, which typically identifies the questions to be addressed and appropriates funds for the evaluation. Stud-

DEPARTMENT OF EDUCATION—Continued

ies done by the SDE are usually done by the Program Evaluation and Research Division (PERD), which is the department's centralized data collection, analysis, and evaluation unit.

Evaluations performed by the Department of Education generally fall into three categories:

- Annual or other periodic evaluations required by statute, such as the annual consolidated programs evaluation, sunset reports, and the annual evaluation of demonstration programs in reading and mathematics;
- One-time evaluations required by specific legislation, such as the evaluation of pilot programs; and
- Evaluations required by department management, such as school performance reports.

Most evaluations and reports produced by the SDE are periodic reports required by statute.

Evaluations required by department management include special studies, for which the Legislature has provided a generic authorization (Education Code 33406). Special studies may focus on educational programs, school management practices, information dissemination activities, staff development, and evaluation improvement.

In planning for special studies, the SDE is required by statute to submit to the State Board of Education and the Legislature, by each February 15, a proposal for the continuance or initiation of special studies for the succeeding fiscal year. The statute further requires the proposal to specify the resources to be devoted to each study and the date by which the study shall be reported. This proposal could provide a useful vehicle for inserting legislative priorities into planned evaluation activities. In recent years, however, the SDE has not complied with the requirement to submit it to the Legislature.

Problems with SDE Evaluations. The inherent limitations of evaluation (described above) are often problematic, especially if expectations of the results of an evaluation are unreasonably high. Many evaluations, however, fail to fulfill even the most modest expectations. Some evaluations falling into this category fail to address the relationship between a program's outcomes and its objectives. Others are poorly designed, so that the results are not meaningful. Both types of poor-quality evaluations fail to provide meaningful information on fundamental policy questions related to a program's effectiveness.

We find many of the SDE's evaluations to be of poor quality. The department's sunset review evaluations of categorical programs are of particular concern in this regard. The problem is not that these evaluations fail to provide definitive answers to questions of program success, but that some provide scarcely any meaningful and useful information at all. Specifically, most of the department's sunset review evaluations fail to:

- Articulate the program's goals in measurable terms;
- Analyze the degree to which the program achieves its goals;
- Diagnose program weaknesses (areas of needed improvement); and
- Discuss the policy implications of the findings.

Instead, the department's sunset reports typically provide a description of the program (based on legislative and administrative requirements rather than on actual implementation), information regarding the achievement of students in the program (but with no attempt to relate achieve-

ment to program participation), and a recommendation that the program be continued and/or expanded. Other department evaluations, such as a recently-completed evaluation of specialized secondary schools, also appear to be a *pro forma* fulfillment of a legislative requirement, and not a serious attempt to identify a program's strengths and weaknesses with respect to its objectives.

A final problem is posed, not by poor evaluation, but by the absence of any evaluation at all. Evaluation often entails some risk and uncertainty, and program administrators are sometimes reluctant to expose their programs to those conditions. Accordingly, evaluations of state programs usually do not occur unless required by legislation. Sometimes, such a requirement is absent.

Reasons for the Poor Quality of SDE Evaluations. We have identified several possible explanations for the poor quality of many SDE evaluations. These include:

- **Evaluators misunderstand the desired product of evaluation.** Evaluators sometimes assume, for example, that legislators are more interested in formative than summative evaluation. Accordingly, reports will contain information on how a program has been implemented, but not on program impact.
- **Evaluators are "too close" to a program.** Evaluations are sometimes done by those who are responsible for the management or implementation of a program. Such individuals, rightfully, have an investment in the program and are committed to its success. It is difficult for them, therefore, to assume the level of objectivity and independence that is necessary to perform a disinterested, critical program review. Even the "independent" evaluators in PERD may be unable to detach themselves from the SDE's commitment to the programs being evaluated.
- **Sufficient departmental resources are not provided for a high-quality evaluation.** Evaluations that are deemed by the department to be of low priority get "last take" of available resources. We have identified several instances, for example, of legislatively-required evaluations that are identified in department budget documents as "unfunded objectives." Departmental resources are not directly allocated to these evaluations. Instead, they are performed in conjunction with other projects, as "slack" resources become available.
- **Evaluators are not properly trained.** This is particularly likely when the evaluation is performed by a program administrator, instead of by an independent evaluator. In such cases, the person conducting the evaluation is unlikely to be trained in evaluation design, statistical analysis, or other important facets of evaluation.

Solutions. We believe that there are two fundamental steps that the Legislature can take to improve the quality of K-12 evaluations and to make the evaluations more relevant to policy making. These are (1) to require that all summative evaluations be done by evaluators under contract to the SDE or another state agency, and (2) to require the SDE to submit its PERD budget and proposed evaluation activities to the Legislature for consideration during budget hearings each year.

Earlier in this analysis, we described the difference between formative and summative evaluation. We believe that the SDE, through PERD, is the appropriate agency to perform *formative* evaluations, because it has primary responsibility for the collection and analysis of statewide education data. The performance of these functions, along with the SDE's coor-

DEPARTMENT OF EDUCATION—Continued

minated compliance review, technical assistance programs, and other ongoing activities, gives the department the information base and expertise needed for performing high-quality formative evaluations.

Summative evaluations, or evaluations of a program's impact, are best performed by evaluators outside of the SDE, however, in order to ensure independence and objectivity. These outside evaluators may serve under contract to either the SDE or another state agency, such as CPEC, as the Legislature deems appropriate. Accordingly, we recommend the enactment of legislation that requires that formative evaluations (as defined) of K-12 education programs be done by PERD, while summative evaluations (as defined) be done by an outside contractor. We further recommend that the legislation (1) require that contracts for summative evaluations be awarded on the basis of an open, competitive bidding process, (2) that appropriate legislative and executive branch staff be involved in developing requests for proposals (RFPs) and in reviewing proposals, and (3) specify standard components of an evaluation report, including all of the following:

- A summary of the study's objectives and assumptions;
- A description of problems encountered during the study, the strengths and weaknesses of the study design, the limits of the data, the limitations of study techniques, and an assessment of the reliability of study findings;
- An explanation of study findings, together with a summary of possible alternative explanations and an assessment of their probable validity;
- A discussion of the meaning and implications of study findings, presenting alternative possible conclusions, together with the preferred conclusions of the report's authors; and
- Where an evaluation is tied to a specific policy decision, a policy recommendation based on the evidence developed in the report, an explanation of alternative policies and their expected consequences, or a statement that the evidence is not sufficient to support a recommendation, together with a description of what additional information is needed.

By involving legislative staff in the RFP process for evaluations, and by identifying the standard components of evaluation reports, the Legislature will greatly increase the likelihood that these reports will provide useful, policy-relevant information.

In addition to taking these steps, we believe that the Legislature should exercise stronger oversight of PERD. To accomplish this, we further recommend that the Legislature adopt the following supplemental report language in Item 6100-001-001, requiring the SDE to submit its proposed PERD budget for legislative review during budget hearings:

"It is the intent of the Legislature that, no later than January 15, the State Department of Education shall annually submit a proposed budget for its Program Evaluation and Research Division (PERD) for the following fiscal year. The budget shall include (1) a description of how PERD resources are proposed to be allocated among the various division objectives; (2) a listing in priority order, of PERD evaluation and reporting activities and their associated funding levels; and (3) the special studies proposal required by Section 33406 of the Education Code."

D. PUPIL ASSESSMENT

Current law authorizes three statewide pupil assessment programs—the California Assessment Program (CAP), the Golden State Examination (GSE) program, and the California High School Proficiency Examination (CHSPE). Two of these programs—CAP and GSE—are discussed in detail below.

1. California Assessment Program

We recommend that the Legislature reduce the proposed General Fund appropriation for CAP by \$198,000 and adopt Budget Bill language directing the Department of Education to allocate \$602,000 for the development of a basic skills test in grade 10, in order to meet legislative priorities at that grade level prior to expanding the testing program at other grade levels. (Reduce Item 6100-001-001 by \$198,000.)

The California Assessment Program (CAP) is designed to provide information regarding K-12 student performance. Under this program, standardized achievement tests are currently administered to all public school students in grades 3, 6, 8, and 12. The results are reported on a schoolwide and districtwide basis.

Budget Proposal. The budget proposes \$5.7 million for CAP in 1987-88. As shown in Table 43, this funding is derived from two sources: (1) a General Fund appropriation of \$4.4 million in the department's main support item (6100-001-001), and (2) a federal fund appropriation of \$1.3 million from ECIA Chapter 2.

Table 43
Department of Education
Funding for the California Assessment Program
1985-86 through 1987-88
(dollars in thousands)

Funding Source	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change from 1986-87	
				Amount	Percent
General Fund	\$3,371 ^a	\$3,447	\$4,415	\$968	28.1%
Chapter 2 (Federal)	1,144	1,251	1,251	—	—
Totals	\$4,515	\$4,698	\$5,666	\$968	20.6%

^a Includes reappropriation of \$600,000 from 1984-85.

The proposed General Fund amount represents a significant increase of \$968,000 (28 percent) over the current-year funding level. This increase consists of the following components:

- \$168,000 for increased contract costs for test maintenance;
- \$400,000 (and 2.6 personnel years) for the first year of development of a history/social science exam and a science exam in grade 6; and
- \$400,000 (and 2.6 personnel years) for the first year of development of a history/social science exam and a science exam in grade 12.

Current Status of Testing Program. Prior to the enactment of SB 813 (Ch 498/83), CAP tests were administered only to students in grades 3, 6, and 12. The subject matter tested was limited by statute to "basic skills," such as reading, writing, and basic mathematics. Senate Bill 813 expanded the program to require the testing of students in grades 8 and

DEPARTMENT OF EDUCATION—Continued

10. It also required the State Board of Education to expand the range of subject matter tested to include higher-level "content courses," such as literature, history, and science. In addition, SB 1889 (Ch 1697/84) required that an expanded grade 12 CAP test be available for use beginning with the 1985-86 school year, and be updated every three years thereafter.

In response to these requirements, the Department of Education has implemented a basic skills test for grade 8 and will implement the revised grade 12 test (also covering the basic skills areas) during the 1987-88 school year. In addition, it has implemented tests of (1) higher-level content courses in grade 8, and (2) basic skills in reading, written expression, and mathematics in grades 3, 6, 8, and 12. The department has *not*, however, developed the required tests for grade 10.

No Funding for Grade 10 Test Development. As noted, the Governor's Budget proposes to provide an additional \$800,000 to extend the range of subject matter tested in grades 6 and 12 (where CAP tests are currently administered), but proposes no funds to begin development of a basic skills CAP test in grade 10. The Department of Education indicates that the development of a grade 10 test in the budget year would require \$602,000 and 2.6 personnel-years.

Ideally, if funds were available, the state should develop both the higher-level tests in grades 6 and 12 and a basic skills test in grade 10. With limited funds, however, we believe that it is a higher priority to develop the statutorily required grade 10 basic skills test *first*, before adding to *existing* tests in grades 6 and 12. In this manner, the Legislature would have information on levels of student performance in grades 3, 6, 8, 10, and 12. The budget proposal, in contrast, would result in an "information gap" between grades 8 and 12.

Recommendation. Furthermore, because development of the grade 10 basic skills test is less expensive than development of the higher-level tests in grades 6 and 12, a secondary benefit of this alternative approach is that the CAP budget can be reduced by \$198,000 and 2.6 personnel years. We therefore recommend the adoption of the following Budget Bill language in Item 6100-001-001:

"Of the funds appropriated in this item for the California Assessment Program, \$602,000 shall be allocated for the development of the basic skills test (including reading, written expression, and mathematics) for implementation in grade 10."

CAP Contracting Procedures Need Revision

We recommend that the Legislature (1) adopt Budget Bill language requiring the Department of Education to award contracts for CAP test maintenance through an Invitations for Bids procedure; and (2) adopt supplemental report language requiring the Department of Education to develop criteria for determining which method it will use to evaluate contract proposals, because contracting procedures currently used by the department may not ensure the lowest feasible contract cost.

The cost of the California Assessment Program (CAP) has increased by 51 percent since 1983-84. Part of this rise is associated with the cost of adding the required tests in additional subject matter areas and grade levels. A substantial portion of this increase, however, is associated with costs of administering *existing* tests. In 1984-85, for example, it cost \$515,359 to administer the basic skills test in grade 3. In the current year, it is

costing \$690,000 to administer the same test—an increase of 34 percent in two years.

According to the Department of Education (SDE), much of the overall increase in the cost of CAP is attributable to increases in the costs of contract services. In the current year, approximately three-fourths of CAP's \$4 million budget is allocated for such services, related to both test development and test maintenance. Test development functions include the development of test questions and scoring guides, as well as field testing and analysis. Test maintenance activities include the design, printing, packaging, distribution, and collection of testing materials; scoring of the tests; analysis of the data; and preparation and distribution of preliminary and final reports. Contracts are awarded via a competitive bidding process, and most are for a one- or two-year duration.

The SDE further attributes increases in the cost of contract services to changing market conditions. Specifically, more states are establishing or expanding testing programs, increasing the demand for specialized services. At the same time, the number of providers of these services has declined. The combined effect of increased demand and reduced supply has contributed to the higher cost of contract services.

We agree with the department's assessment of the market conditions in this area. These conditions, however, only underscore the need to employ contracting procedures that promote maximum cost control. Unfortunately, the procedures followed by the department may, instead, exacerbate the problem.

SAM Requirements. The State Administrative Manual (SAM) describes two methods of procuring contracts through a competitive bidding process: Invitations for Bids (IFBs) and Requests for Proposals (RFPs). IFBs set forth specific requirements for the accomplishment of a given objective. The evaluation of proposals received from IFBs requires only a simple determination of whether all requirements have been met, and the contract must be awarded to the lowest responsible bidder meeting these requirements. RFPs, on the other hand, describe a problem to be solved or issue to be addressed, and require the *bidder* to describe the approach that will be taken.

There are two methods, described by SAM, for evaluating RFPs.

The first method requires that proposals be reviewed to determine which ones meet the basic requirements of the RFP and that the contract be awarded to the lowest-price bidder meeting those requirements.

The second method involves a review of proposals by a committee according to criteria specified in the RFP. This procedure does not require that the contract be awarded to the lowest-price bidder, but it does require that the price offered by the bidder be given "significant weight" in the scoring formula. That is, only if other things were equal would low-cost proposals be given more weight than high-cost proposals. Under this system, the contract is awarded to the bidder with the highest point total generated by the scoring formula. According to SAM, this latter method is to be used only "in those rare instances when agencies seek a unique solution to a specified problem which will not necessarily be resolved by the lowest bidder." This method, however, is routinely used by CAP for *all contracts*.

Recommended Budget Bill Language Related to Test Maintenance. Based on our review of SAM guidelines, our analysis indicates that services relating to test maintenance would be more appropriately procured through IFBs, rather than RFPs. This is because the requirements of test

DEPARTMENT OF EDUCATION—Continued

maintenance are well-known and do not change significantly from year to year. Moreover, because the process of contracting through IFBs requires the department to contract with the lowest responsible bidder, and because potential bidders are familiar with that requirement, we believe that this system would result in lower bids and lower contract costs for CAP. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6100-001-001:

“Of the funds appropriated in this item for the California Assessment Program, none shall be expended for new contracts for test maintenance, unless those contracts have been procured through the Invitation for Bids procedure, as described in Section 1210 of the State Administrative Manual.”

Recommended Supplemental Language Related to Test Development. Our analysis also indicates that the RFP procedure used by CAP (the second method described above) may not always be appropriate for test development. Specifically, the department has developed several new tests over the past few years. Usually, this involves developing tests in similar subject areas, but at different grade levels. As a result of this experience, we believe that the department has acquired the knowledge that is necessary to develop RFPs that contain highly specific requirements and standards for test development. The bids that are generated by such RFPs can be evaluated (using the first method described above) on the basis of whether they meet those basic requirements and standards, with the contract awarded to the lowest bidder that does.

Recommendation. We recognize, however, that in some cases, such as the development of a totally new test, the department may need to employ a method that is flexible with respect to cost. This should be the exception, however, rather than the rule. Accordingly, we recommend that the Legislature adopt supplemental report language in Item 6100-001-001 to require the Department of Education to develop and submit criteria to use in determining which proposal review method to use in evaluating bids for test development. Specifically, we recommend adoption of the following language:

“It is the intent of the Legislature that, to the extent possible, the State Department of Education (SDE) implement a policy of awarding contracts for the development of California Assessment Program tests to the lowest bidder, and that proposal review procedures that do not require that the lowest bidder be awarded a contract be used only by exception. Accordingly, the SDE shall establish written criteria for determining when it will employ either of the two proposal review methods described in Section 1213 of the State Administrative Manual by September 1, 1987.”

2. Golden State Examinations

We recommend that funding for the Golden State Examination program be eliminated, because the program's costs far exceed its likely benefits, for a General Fund savings of \$392,000 and a potential future General Fund cost avoidance of \$11.7 million (one-time) and \$12.4 million (annually). (Reduce Item 6100-001-001 by \$392,000.)

The Golden State Examination program was authorized by Senate Bill 813 (Ch 498/83) to recognize the achievement of high school students in specified academic areas. When the program is fully implemented, stu-

dents in participating school districts will be eligible to take a variety of academic subject matter examinations. A student attaining a qualifying score will receive an honors designation in the tested subject, which will be affixed to his or her diploma. The Department of Education is required to develop a test in each of the following areas:

- English literature and composition,
- Mathematics,
- Laboratory sciences,
- United States history,
- Foreign language, and
- Health sciences.

In addition, the Superintendent of Public Instruction may designate other areas.

As shown in Table 44, the superintendent has expanded the program to encompass 18 individual tests.

Table 44
State Department of Education
Planned Golden State Examination Subject Area Tests

<i>Legislative Requirement</i>	<i>Department of Education Objective</i>
ENGLISH LITERATURE AND COMPOSITION	Level I Level II
MATHEMATICS.....	Beginning Algebra Geometry Advanced Algebra Math Analysis
LAB SCIENCE	Biology Chemistry Physics Earth Science.
HISTORY/SOCIAL SCIENCE	U.S. History World History/Culture Economics Government/Civics
FOREIGN LANGUAGE.....	Spanish French German
HEALTH SCIENCES	Health Sciences

The department has completed the development of two exams—beginning algebra and geometry—and has begun development of a third—U.S. history.

Costs of Test Development and Maintenance. As shown in Table 45, the department currently estimates a cost of \$394,000 to develop each test for the Golden State Exam program. This amount represents a cost of \$197,000 per year for a two-year development period. The department further estimates a cost of \$317,000 *per test* for the initial implementation and an annual cost of \$690,000 *per test* for maintenance. For the 18 planned tests, this comes to a total cost of \$7.1 million for development; \$5.7 million for implementation; and \$12.4 million per year for maintenance. (These projected costs are in *current* dollars, and make no allowance for inflation-related cost increases which are likely to occur.)

DEPARTMENT OF EDUCATION—Continued

Table 45
State Department of Education
Funding Requirements for the Golden State Exam Program
(dollars in thousands)

	<i>Cost per Test</i>	<i>Total Cost 18 Tests</i>
Development ^a	\$394	\$7,092
Implementation ^a	317	5,706
Maintenance ^b	690	12,420

^a One-time cost.^b Annual cost.

Golden State Exam Fails Cost-Benefit Test. Our review indicates that there are no state or student benefits of a magnitude sufficient to justify the cost of this program. Because it is an optional test, and addressed only to above average students, the program will not produce any information on the overall achievement levels of students in California. This is because the test results of a self-selected sample of students cannot be used to make inferences about the ability of California high school students in general, or even about above average students in particular.

By offering the opportunity to earn an honors designation on one's high school diploma, the program may encourage some students to enroll—and do well—in higher-level academic courses. This incentive exists, however, in other programs. For example, students who wish to enter the University of California or the California State University must take a specified number of designated academic courses in high school. In addition, many college-bound high school students opt to take one or more College Board Advanced Placement tests in order to earn exemption from certain freshman level college courses. For such students, the incentive to take and do well in academic courses is not likely to be increased by the existence of a Golden State Exam.

Even if we assume a marginal benefit, the program is extremely costly—much more costly than originally conceived by the Legislature. Senate Bill 813, for example, appropriated \$128,000 to develop *two* exams—a process that now costs \$788,000, or more than six times the original anticipated cost. We can find no evidence that the Legislature envisioned a \$12.4 million annual cost for maintenance of the program. By comparison, the current maintenance cost of the entire California Assessment Program (a total of 15 exams at four grade levels) is \$4 million.

Recommendation. In order to avoid incurring future costs for a program of limited value, we recommend that the funding for the Golden State Exam program be eliminated, for a General Fund savings of \$392,000. By eliminating funding at this time, we estimate a future cost avoidance of \$11.7 million for further development and implementation costs and \$12.4 million annual savings for maintenance costs.

E. PRIVATE POSTSECONDARY EDUCATION DIVISION (Item 6100-001-305)

We recommend approval.

The Private Postsecondary Education division within the State Department of Education regulates private schools in the state, and is the administrative arm of the Council for Private Postsecondary Educational

Institutions. The division is self-supporting, and derives its revenues from (1) federal reimbursements, (2) fees charged to private schools seeking state licensure, and (3) charges assessed to the Student Tuition Recovery Fund. (The Student Tuition Recovery Fund reimburses students enrolled in private postsecondary schools for a portion of their tuition payments when schools close before the students have completed their instructional program.)

The budget requests \$2.2 million for the division's state operations in 1987-88, including \$971,000 from the Private Postsecondary Education Fund (Item 6100-001-305), \$1.2 million from the Federal Trust Fund, and \$50,000 from the Student Tuition Recovery Fund. The total state operations budget request represents a \$48,000 (2 percent) increase over current-year expenditures, which primarily reflects increased funds to reimburse the California Postsecondary Education Commission (CPEC) for its participation on the division's program evaluation teams. The budget also requests \$420,000 from the Student Tuition Recovery Fund for local assistance expenditures—an amount equal to estimated current-year expenditures. Our analysis indicates that, based on the division's anticipated workload, the amounts requested are reasonable.

V. STATE LIBRARY

We recommend approval.

The California State Library (1) maintains reference and research materials for state government, (2) provides support to local public libraries, and (3) provides library services to the blind and physically handicapped in Northern California.

The state operations budget for the State Library supports the maintenance of various library collections (law, reference, Sutro, government document publications, etc.), the provision of consultant services to public libraries, and the administration of the California Library Services Act (CLSA) and the Public Library Foundation Program. The local assistance component consists of state and federal grants to public libraries and library agencies, and support of local resource sharing through the creation and maintenance of a data base covering California public library materials.

Total funding for the California State Library in the prior, current, and budget years is displayed in Table 46.

Table 46
California State Library
Expenditures and Funding
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Est. 1986-87	Prop. 1987-88	Change From 1986-87	
				Amount	Percent
State Operations:					
Reference for the Legislature and state agencies	\$1,020	\$2,351	\$2,423	\$72	3.1%
Statewide library support and development	2,770	3,106	3,092	-14	-0.5
Special clientele services.....	1,737	1,714	1,714	—	—
Support services	4,973	4,814	4,928	114	2.4
Special adjustment, 1 percent reduction			-106	-106	—
Subtotals	\$10,500	\$11,985	\$12,051	\$66	0.6%

DEPARTMENT OF EDUCATION—Continued

Local Assistance:

Statewide library support and development	\$38,263	\$43,608	\$43,608	—	—
Totals	\$48,763	\$55,593	\$55,659	\$66	0.1%

Funding Source:

General Fund	\$38,284	\$42,215	\$42,266	\$51	0.1%
Federal funds	10,466	13,365	13,380	15	0.1
Reimbursements	13	13	13	—	—

As Table 46 shows, the budget requests a total of \$55.7 million for the State Library in 1987-88—an increase of \$66,000, or 0.1 percent, over the current-year level. The requested amount consists of \$42.3 million in General Fund support—an increase of 0.1 percent; \$13.4 million in federal funds—an increase of 0.1 percent; and \$13,000 in reimbursements.

Summary of Changes

Table 47 shows that the total baseline adjustments to support the State Library result in an expenditure reduction of \$343,000. The adjustments reflect the elimination of one-time expenditures (—\$237,000) and the Governor's proposal for a 1 percent "Special Adjustment" reduction in state operations funding (—\$106,000).

Table 47
California State Library
Summary of Proposed 1987-88 Budget Changes
By Funding Source
(dollars in thousands)

	General Fund	Federal Funds	Reimburse- ments	Totals
1986-87 Expenditures (Revised)	\$42,215	\$13,365	\$13	\$55,593
A. Baseline Adjustments				
1. One-time adjustments	—115	—122	—	—237
2. Special adjustment	—106	—	—	—106
Subtotals, baseline adjustments	—\$221	—\$122	—	—\$343
B. Budget Change Proposals				
1. Shelving	\$169	—	—	\$169
2. Local history collection development	—	\$137	—	137
3. Online reference databases	53	—	—	53
4. Price increase for books	50	—	—	50
Subtotals, change proposals	\$272	\$137	—	\$409
1987-88 Expenditures (Proposed)	\$42,266	\$13,380	\$13	\$55,659
Change from 1986-87:				
Amount	\$51	\$15	—	\$66
Percent	0.1%	0.1%	—	0.1%

Table 47 also shows that budget change proposals submitted for the State Library total \$409,000. The funding increases include:

- **Shelving**—\$169,000 from the General Fund for installation of compact book storage systems;
- **Local History Collection Development**—\$137,000 from federal funds to purchase historical and genealogical materials in microform or reprint format;
- **Online Reference**—\$53,000 from the General Fund for increased costs of online reference; and

- **Price Increase for Books**—\$50,000 from the General Fund for increased costs of books and periodicals.

The components of the State Library's budget are described briefly below:

- **State Library Support (Items 6100-011-001 and 6100-011-890)**—\$10.7 million from the General Fund and \$1.4 million in federal funds for the State Library's operations. The Governor's Budget proposes to increase funding for state operations by \$409,000 to provide for the budget change proposals described above. The budget also proposes to continue \$1.3 million in General Fund support, for the second year of a four-year program to automate basic library services.
- **California Library Services Act (Item 6100-211-001)**—\$11.6 million from the General Fund for support of public libraries and regional library cooperative systems. This is the same level of support as is provided in the current year.
- **Library Services and Construction Act (Item 6100-211-890)**—\$12 million in federal funds for grants to local libraries to carry out locally-initiated service projects. This is the same level of support as is provided in the current year.
- **Public Library Foundation Program (Item 6100-221-001)**—\$20 million from the General Fund to supplement local funding for public libraries. This is the same level of support as is provided in the current year.

DEPARTMENT OF EDUCATION—REAPPROPRIATION

Item 6100-490 from the General
Fund

Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to reappropriate the following amounts on July 1, 1987:

- the undisbursed balance (\$3,579,000) of Item 6100-119-001 (b), Budget Act of 1986, for the expansion of Opportunity Classes and Programs;
- the unencumbered balance of Item 6100-146-001, Budget Act of 1986, for evaluation of the Demonstration Programs in Reading and Mathematics;
- the unencumbered balance (\$35,000) of funds appropriated by Sections 16 and 17, Chapter 1131, Statutes of 1985, for activities related to the California State Summer School for the Arts.

Our analysis indicates that these proposed reappropriations are justified and, accordingly, we recommend that they be approved as budgeted.

DEPARTMENT OF EDUCATION—REVERSION

Item 6100-495 from the General
Fund

Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

The budget proposes four reversions of funding appropriated for K-12 education programs. The first three of these revert to the General Fund on June 30, 1987, the unencumbered balances of the appropriations made in the following acts:

- Chapter 1222, Statutes of 1985, for the purpose of developing a model curriculum on the inhumanity of genocide;
- Chapter 209, Statutes of 1986, Section 2, for the purpose of reimbursing claims submitted by school districts for costs associated with court-mandated desegregation programs; and
- Chapter 1299, Statutes of 1985 for expansion of alternative payment programs for child care services.

Our analysis indicates that these reversions are justified, and, accordingly, we recommend that they be approved.

Language Reverting 1986 School Apportionment Funding is Problematic

We recommend that the Legislature amend Budget Bill language relating to the reversion of school district and county office of education apportionment funding to ensure that various education deficiencies will be funded in accordance with current law, prior to the reversion. We further recommend that the Legislature delete \$12.9 million requested from the General Fund for the 1986-87 special education deficiency because current law provides for the funding of this deficiency from the current-year surplus in school district apportionment funding. (Reduce Item 6100-161-001 by \$12,949,000.)

The budget also proposes language that, on June 30, 1987, would revert to the General Fund any unexpended school and county office of education apportionment funding for 1986-87, as approved by the Director of Finance, following a review of apportionment entitlements at the 1986-87 Second Principal Apportionment in June.

Under current law, funds from a Budget Act appropriation can be committed for expenditure in the year of appropriation and actually expended in a three-year period following the appropriation. After this time, the unexpended balance of the appropriation reverts to the fund from which it was appropriated. The language proposed in the Budget Bill would allow the Department of Finance (DOF) to recapture a large anticipated surplus in 1986-87 school district and county office of education apportionment funding (\$38.4 million, as currently estimated by DOF), at the end of the current fiscal year. This surplus is due primarily to higher than anticipated property taxes—which, in turn, reduce the amount required from the General Fund for apportionments.

We believe that the Governor's proposal to recapture surplus funds that would otherwise be unavailable for two more years is a reasonable one. Our analysis of the language and how it relates to current school finance policy, however, indicates that it would potentially give the Director of Finance undue authority to supersede legislatively-established priorities for ensuring that specified education programs are fully funded, prior to

reverting any surplus to the General Fund.

Specifically, the language appears to give the Director of Finance the authority to recapture any school apportionment funding that he deems to be surplus, *prior* to the Superintendent of Public Instruction's certification of the amount needed at the Second Principal Apportionment to fund the requirements of existing law. This, in turn, would potentially result in the creation of funding deficits in the special education program and other programs. (Under current law, the Superintendent of Public Instruction is required to use any surplus school apportionment funding to eliminate deficiencies—including prior-year deficiencies—in the following programs, in order of precedence: (1) school district and county office of education revenue limits, (2) special education, (3) home-to-school transportation, and (4) special education transportation.)

Impact on Special Education. The budget, in fact, appears to contemplate just this scenario. Specifically, the budget proposes that an anticipated \$12.9 million, current-year deficiency in special education be funded *in the budget year*. The only way that this could occur, however, would be if the deficiency were not eliminated at the Second Principal Apportionment, pursuant to the provisions of existing law (described above), using part of the surplus funds identified in the budget.

We believe that it would be more appropriate for the Legislature to ensure that all remaining deficits are funded in accordance with the requirements of existing law, prior to reverting any remaining surplus to the General Fund. Accordingly, we recommend that the Legislature amend Provision 4 of Item 6100-495 as follows:

“Notwithstanding any other provision of law, the amount of the reversion in the following schedule shall be the unexpended balance approved by the Director of Finance following ~~a review~~ *the certification by the Superintendent of Public Instruction* of the School Apportionment entitlements ~~computed by the Superintendent of Public Instruction~~ at the 1986-87 Second Principal Apportionment.

001 General Fund:

- (1) Item 6100-101-001 (a) through (f), Budget Act of 1986, School Apportionments.
- (2) Item 6100-106-001, Budget Act of 1986, School Apportionments for the purposes of Sections 1909, 2553.5, and 2558 of the Education Code.”

Consistent with this recommendation, we further recommend that the Legislature eliminate \$12.9 million requested in Item 6100-161-001 to fund the 1986-87 special education deficiency, because this need will automatically be addressed through the operation of current law. (This, in turn, will reduce the amount of the 1986-87 surplus in school apportionments funding by \$12.9 million, compared to the amount shown in the Governor's Budget.)

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND

Item 6300 from the General Fund

Budget p. E 44

Requested 1987-88	\$507,385,000
Estimated 1986-87	464,843,000
Actual 1985-86	398,451,000
Requested increase (excluding amount for salary increases) \$42,542,000 (+9.2 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
Education Code Sections 23401 and 23402:	General	\$383,170,000
Unfunded Liability Payments		
6300-111-001—State Teachers' Retirement System:		124,215,000
Cost-of-Living Adjustments		
Total		\$507,385,000

GENERAL PROGRAM STATEMENT

The state appropriates funds to the State Teachers' Retirement Fund (STRF) for two purposes. First, Sections 23401 and 23402 of the Education Code (as added by Ch 282/79—AB 8) appropriates funds for the state's annual contribution to the STRF. These contributions are intended to reduce the unfunded liability of the State Teachers' Retirement System (STRS). Second, as provided by Ch 1606/82, the state also appropriates funds for supplemental cost-of-living adjustments (COLAs) to STRS retirees.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total General Fund contributions to the STRF of \$507,385,000 in 1987-88. This is \$42,542,000, or 9.2 percent, more than estimated current-year expenditures. Table 1 shows the components of state contributions to the STRF for the past, current, and budget years.

Table 1
State General Fund Contributions to the State Teachers' Retirement Fund
1985-86 through 1987-88
(dollars in thousands)

	Actual 1985-86	Estimated 1986-87	Proposed 1987-88	Change from 1986-87	
				Amount	Percent
<i>AB 8 Contributions:</i>					
Base Contribution.....	\$226,237	\$234,155	\$243,170	\$9,015	3.8%
Incremental Contribution.....	100,000	120,000	140,000	20,000	16.7
Subtotals	(\$326,237)	(\$354,155)	(\$383,170)	(\$29,015)	(8.2%)
<i>COLA Funding</i>	72,214	110,688	124,215	13,527	12.2%
Totals	\$398,451	\$464,843	\$507,385	\$42,542	9.2%

Payments Toward Unfunded Liability. As Table 1 indicates, the budget proposes \$383.2 million as the state's statutory AB 8 contribution to the State Teachers' Retirement Fund in 1987-88. This amount is \$29 million, or 8.2 percent, greater than current-year expenditures. The increase is due to: (1) the required inflationary adjustment to the "base" contribution (\$9 million), and (2) growth in the AB 8 "incremental" contribution (\$20.0 million).

In past years, the state's contribution toward the unfunded liability was appropriated in the Budget Act. In 1985-86, however, the budget document began showing the contribution as a statutory appropriation. This reflects the 1984 state appellate court's decision in *California Teachers' Association (CTA) v. Cory*, which held that the state must make the full contribution to the STRF called for by current law. In fiscal years 1980-81 through 1983-84, the Budget Act had provided in lieu appropriations which were less than what AB 8 required. The state restored these "short-falls" in 1985-86 by transferring \$127.4 million from the General Fund to the STRF.

COLA Payments. The budget proposes a General Fund appropriation of \$124,215,000 to the STRF in 1987-88 to pay for supplemental COLAs for those STRS retirees who have been most adversely affected by inflation. This amount is \$13,527,000, or 12.2 percent, greater than current-year expenditures.

ANALYSIS AND RECOMMENDATIONS

Supplemental Cost-of-Living Adjustments

We recommend approval.

The budget proposes a General Fund appropriation of \$124.2 million to the State Teachers' Retirement Fund to fund supplemental cost-of-living adjustments (COLAs) for STRS retirees under the provisions of Ch 1606/82 (SB 1562). This is an increase of \$13.5 million, or 12.2 percent, over current-year expenditures. This COLA is provided to those STRS retirees whose pensions have been most eroded by inflation. The payments do not become part of the pension base.

CALIFORNIA STATE COUNCIL ON VOCATIONAL EDUCATION

Item 6320 from the General
Fund and Federal Trust Fund

Budget p. E 44

Requested 1987-88	\$293,000
Estimated 1986-87	293,000
Actual 1985-86	281,000
Requested increase (excluding amount for salary increases): None	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6320-001-001—SCOVE, support	General	\$70,000
6320-001-890—SCOVE, support	Federal Trust	223,000
Total		\$293,000

CALIFORNIA STATE COUNCIL ON VOCATIONAL EDUCATION—Continued**GENERAL PROGRAM STATEMENT**

The federal Vocational Education Act of 1984 requires the state to establish an advisory council on vocational education and specifies the council's membership and duties. In order to comply with this requirement, the California State Council on Vocational Education (SCOVE) was established by Ch 164/85.

The SCOVE consists of 13 members appointed by the Governor, and has planning, oversight, and evaluative functions. In the current year, the SCOVE is staffed at a level of 4.1 personnel-years.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes expenditures totaling \$293,000 from state and federal funds for support of the SCOVE during 1987-88, which represents a continuation of the current-year level. Of this amount, \$223,000 would be provided from federal funds, and \$70,000 would be provided from the General Fund.

The proposed level of federal funding for the SCOVE represents a decrease of \$12,000 over the current-year level, due to the existence of federal carryover funds in the current year which will not be available in the budget year. To compensate for this decrease in federal funding, the budget proposes to augment General Fund support for the council by an equivalent amount. Thus, the *total* amount of funding requested for the council in the budget year would remain unchanged.

Our analysis indicates that the program is serving its intended purpose and, accordingly, we recommend that the amount requested be approved.

CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 6330 from the Federal
Trust Fund

Budget p. E 45

Requested 1987-88	\$103,000
Estimated 1986-87	348,000
Actual 1985-86	113,000
Requested decrease (excluding amount for salary increases) \$245,000 (-70.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Occupational Information Coordinating Committee (COICC) was established by Chapter 972, Statutes of 1978, pursuant to a requirement contained in the federal Vocational Education Act of 1978. The committee is responsible for the development of the California Occupational Information System, which provides occupational planning and guidance information to educational institutions, the Employment Deve-

lopment Department, and private industry. This committee has two authorized personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of \$103,000 from the Federal Trust Fund for support of the COICC in 1987-88. This is a decrease of \$245,000—or 70 percent—below estimated current year expenditures.

The majority of this reduction (80 percent) reflects the elimination of \$197,000 in reimbursements from COICC's member agencies to fund a project regarding the supply of skilled labor in local labor markets. The COICC expects to complete this project in the current year. The remaining portion of the decrease (20 percent) is due to (1) the termination of a one-time grant of \$38,000 from the National Occupational Information Coordinating Committee (NOICC) for special projects, and (2) the elimination of \$10,000 for publication of materials.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

During 1987-88, COICC plans to continue its efforts to develop an occupational information system for California. These efforts will include the development of methods for measuring local labor market supply and demand for use by local education agencies, career counselors, economic developers, and employment and training planners. Our review indicates that COICC is serving its intended purpose and its current staffing level is reasonable.

SCHOOL FACILITIES ASBESTOS ABATEMENT

Item 6350 from the General

Fund	Budget p. E 47
Requested 1987-88	\$5,000,000
Estimated 1986-87	4,950,000
Actual 1985-86	10,000,000
Requested increase \$50,000 (+1.0 percent)	
Total recommended reduction	4,900,000

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6350-201-001—Asbestos Abatement: transfer to Asbestos Abatement Fund	General	\$5,000,000
6350-201-973—Asbestos Abatement: Local Assistance	Asbestos Abatement	(4,900,000)
Total		\$5,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. *Additional Asbestos Abatement Funds. Reduce Item 6350-201-001 by \$4,900,000 and Item 6350-201-973 by \$4,900,000. Recommend reduction because sufficient funds currently*

*Analysis
page
1061*

SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued

exist for this program and the need for an augmentation of funds has not been substantiated. Further recommend that the Director of General Services report during budget hearings on barriers preventing districts from using funds.

GENERAL PROGRAM STATEMENT

The State Asbestos Abatement program was established in 1984 for the purpose of providing matching grants to school districts for asbestos abatement projects. The State Allocation Board (SAB), which is staffed by the Office of Local Assistance in the Department of General Services, is the administrative agency responsible for administering the program and allocating the funds to school districts.

Hazardous asbestos materials are those which are “friable”—loose, crumbling, flaking or dusting—and thus make it possible for asbestos fibers to be released into the air. Exposure to airborne asbestos fibers has been linked with a number of serious diseases, including cancer, which primarily affect the lungs and digestive system.

Current federal law requires each school district to (1) *inspect* all school facilities for asbestos, and (2) *notify* parents and employees of any hazardous asbestos materials found in school buildings. Neither state nor federal law, however, requires the containment or removal of asbestos materials which are found in schools.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes to appropriate \$5 million from the General Fund to the Asbestos Abatement Fund in 1987–88. This represents an increase of \$50,000, or 1 percent, over the amount provided in the current year. Of this amount, \$4,900,000 is to be allocated by the SAB to local school districts for asbestos abatement, and \$100,000 is to reimburse the Department of Industrial Relations (DIR) for increased workload associated with monitoring asbestos abatement projects.

Table 1 displays the funding history for the Asbestos Abatement program since its inception.

Table 1
Asbestos Abatement Funding
1984–85 through 1987–88
(dollars in thousands)

	Appropriation			Fund Source
	Local Assistance ^a	State Operations ^b	Total	
1984–85	\$10,000	—	\$10,000	SAFCO ^c
1985–86	9,900	\$100	10,000	SAFCO
1986–87	4,850	100	4,950	General
Subtotals	\$24,750	\$200	\$24,950	
1987–88	4,900	100	5,000	General
Totals	\$29,650	\$300	\$29,950	

^a State funds available for matching grants to local school districts.

^b State funds provided to the Department of Industrial Relations for asbestos abatement health and safety monitoring.

^c Special Account for Capital Outlay.

Table 1 indicates that, to date, a total of nearly \$25 million in state funds has been made available for matching grants to local school districts for asbestos abatement projects. In addition, the federal government has appropriated funds to provide loans or matching grants (up to 50 percent of project costs) to local public or private schools for asbestos abatement. A total of approximately \$660,000 in federal funds—which are distributed directly to qualifying schools and are not reflected in the state budget—have been provided for asbestos abatement projects in California schools in 1984–85 and 1985–86. At the time this analysis was prepared, it was unclear whether federal funds would continue to be made available for asbestos abatement projects in California schools during 1986–87 and 1987–88.

ANALYSIS AND RECOMMENDATIONS

Additional Abatement Funds Not Justified

We recommend that no additional funds be appropriated for asbestos abatement projects in 1987–88, because sufficient funds are currently available and the need for additional funds has not been substantiated. We further recommend that the Director of General Services report at the time of budget hearings on (1) the barriers preventing school districts from using existing asbestos abatement funds, and (2) remedies for removing such barriers. (Reduce Item 6350-201-001 by \$4,900,000 and Item 6350-201-973 by \$4,900,000.)

From the inception of the Asbestos Abatement program to December 1, 1986, the SAB had received applications from 137 school districts requesting a total of approximately \$16 million in state assistance for 759 asbestos abatement projects (a district may be conducting more than one abatement project). The SAB has reviewed and approved funding requests for approximately 600 of these projects, for a total cost of approximately \$13.7 million. Of the \$13.7 million approved by the board, however, only \$1.3 million of these funds actually has been provided to and spent by school districts. Table 2 shows that, of the nearly \$25 million appropriated to this program since its inception in 1984, \$23.5 million was available for funding local asbestos projects as of December 1, 1986.

Table 2
Funds Available for Local Asbestos Abatement Projects
1984–85 through 1986–87
(dollars in thousands)

	<i>Actual</i> <i>1984–85</i>	<i>Actual</i> <i>1985–86</i>	<i>Est.</i> <i>1986–87^a</i>
Prior Year Balance	—	\$10,000	\$19,600
Budget Act Appropriation	\$10,000	9,900	4,850
Funding Approved by SAB	—	(10,600)	(13,400)
Distributed to School Districts	—	—300	—1,000
Unexpended Balance	\$10,000	\$19,600	\$23,450

^a As of December 1, 1986.

^b Data not available.

Additional Funding Support Not Warranted at This Time. As mentioned, the Governor's Budget proposes to provide an additional \$4.9 million for local asbestos abatement projects in 1987–88, which would bring the total amount available for these projects to \$29.7 million. Our

SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued

review indicates that additional funding support for asbestos abatement is not warranted at this time, for three reasons.

First, the total amount of funding currently available greatly exceeds current requests for asbestos abatement funds. As noted, at the time this analysis was written, the SAB had received only \$16 million in requests for state funding assistance. Even if all of these requests were approved *in full*, \$8.8 million would still be available to fund new requests.

Second, the amount of funds currently available for new requests exceeds projections of funding requests through 1987–88. Over the past 12 months, the board has received an additional 131 requests for project funding (from a total of 628 requests on December 1, 1985 to 759 requests on December 1, 1986). A review of SAB-approved funding requests indicates that, on average, districts are requesting approximately \$25,000 in state assistance per project. Based on this, the remaining \$8.8 million would be sufficient to fund an additional 350 projects, or about two-thirds more than the 210 additional project requests we estimate the SAB is likely to receive from December 1, 1986 through June 30, 1988.

Finally, to the extent that new funding requests received in 1987–88 exceeded \$8.8 million, it is unlikely that these funds would be needed before the summer of 1988. Most districts conduct asbestos abatement work during the summer months, when teachers and students are not present in the facilities. Our review indicates that it is unlikely that any new requests received could be processed by OLA, approved by the SAB, and bid by the district in time for the project to be conducted during summer 1987. The earliest new project requests are likely to be conducted in summer 1988. Consequently, should the number and amount of project requests exceed the existing \$8.8 million reserve currently available in the Asbestos Abatement Fund, additional funding support could be provided as part of the 1988–89 Budget Bill and still enable the districts to conduct the projects during the summer 1988 vacation.

For these reasons, our analysis indicates that the current fund balance available in the Asbestos Abatement Fund is sufficient to finance current and projected new applications, and that additional funding support is not needed for 1987–88. Accordingly, we recommend that the Legislature delete the \$4.9 million requested from the General Fund for this purpose.

Unidentified Barriers Impede Schools From Obtaining Funds. As mentioned, to date, the SAB has approved \$13.7 million in funding requests from school districts to offset a portion of the districts' costs of conducting asbestos abatement projects. Of this amount, \$10.6 million had been approved by April 1986, several months before the summer 1986 vacation, when districts were most likely to conduct their projects. Despite the fact that districts apparently could have used these funds, however, only \$1.3 million has actually been provided to—and spent by—school districts, and *none of these funds are for projects that have been conducted since this program began.* (The asbestos abatement program allows districts that fully funded and completed local projects prior to its establishment in 1984 to receive retroactive funding support from the state; all of the \$1.3 million received by districts has been for these types of projects.)

Our analysis has been unable to identify the barriers preventing districts, once project funding requests have been approved by the SAB, from obtaining these funds. For this reason, we recommend that during budget hearings, the Director of General Services advise the Legislature

on (1) the barriers preventing school districts from utilizing the funds available through this program, and (2) remedial action needed to correct these problems and enable the funds to be provided to—and spent by—districts.

SCHOOL FACILITIES AID PROGRAM—REVERSION

Item 6350-495 from the General
Fund

Budget p. E 47

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to revert to the General Fund on June 30, 1987, the amount appropriated in the 1986-87 fiscal year for the State School Deferred Maintenance program (estimated to be \$90,259,000.) The budget further specifies that, in the event that such funds have been transferred to the State School Building Lease-Purchase Fund and the State School Deferred Maintenance Fund prior to June 30, 1987, the State Controller is directed to transfer a like amount from the State School Building Lease-Purchase Fund to the General Fund.

Deferred Maintenance Program. The State Allocation Board (SAB) apportions funds to school districts from the State School Deferred Maintenance Fund, on a dollar-for-dollar matching basis, for deferred maintenance projects. The maximum amount of any one apportionment to a school district is limited to an amount equal to one percent of the district's total local general fund budget (excluding capital outlay). Funding for the Deferred Maintenance Fund is provided from the General Fund, based on the amount of school district payments on State School Building Aid loans that exceed the amount needed to amortize state school construction bonds issued under that program.

Governor's Proposal. The budget proposes in this item to revert to the General Fund the \$90.3 million in current-year "excess repayments" and, instead, to finance current-year deferred maintenance projects with proceeds from the State School Building Lease-Purchase Fund.

The Lease-Purchase Fund, which supports the State School Facilities Aid program, is primarily composed of proceeds from (1) voter-approved bond acts, and (2) tidelands oil revenues. Because these bond proceeds cannot be used for this deferred maintenance program, any replacement funds from the Lease-Purchase Fund would have to come from the approximately \$235 million in tidelands oil revenues that the budget estimates will be available in 1986-87.

Table 1 shows the level and source(s) of funding for the deferred maintenance program under both the Governor's proposal and current law.

Table 1 indicates that, under the Governor's proposal, there would be no change in the overall level of funding for the deferred maintenance program, only a one-time shift in the current-year funding source from the General Fund to the State School Building Lease-Purchase Fund. Further, under the Governor's proposal, the funding source for this program would shift back to the General Fund in the budget year.

SCHOOL FACILITIES AID PROGRAM—REVERSION—Continued

Table 1
Deferred Maintenance Program Funding Sources
1985-86 through 1987-88
(dollars in thousands)

Fund	Actual 1985-86	Est. 1986-87		Prop. 1987-88
		Current Law	Governor's Proposal	
General	\$87,667	\$90,259	—	\$89,246
Lease-Purchase ^a	—	—	\$90,259	—
Total	\$87,667	\$90,259	\$90,259	\$89,246

^a From tidelands oil revenues.

Our analysis indicates that, if authorized, this proposal would not result in any program reductions for the deferred maintenance program because any funds reverted from this program would be replaced with proceeds from the Lease-Purchase Fund. Moreover, because of the availability of additional bond proceeds to the Lease-Purchase Fund effective December 1, 1987, and from any subsequent school construction bond acts approved by the voters, the reduction in funds available for school construction would, at most, have the effect of delaying apportionments of state aid by 2 to 3 months.

In sum, because the Governor's budget proposal is predicated on the reversion of these "excess repayments" to the General Fund, and the effects of such a reversion on the school facilities construction program would be minimal, we recommend approval of this item.

COMMISSION ON TEACHER CREDENTIALING

Item 6360 from the Teacher
 Credentials Fund

Budget p. E 51

Requested 1987-88	\$9,073,000
Estimated 1986-87	7,978,000
Actual 1985-86	6,758,000
Requested increase (excluding amount for salary increases) \$1,095,000 (+13.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Commission on Teacher Credentialing (CTC) is responsible for (1) developing standards and procedures for credentialing teachers and administrators, (2) issuing and revoking credentials, (3) evaluating and approving programs of teacher-training institutions, (4) developing and administering "legislatively-mandated" competency exams, and (5) establishing policy leadership in the field of teacher preparation. The commission, which is supported by the Teacher Credentials Fund, has 116.6 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget, as shown in Table 1, proposes an appropriation of \$9,073,000 from the Teacher Credentials Fund for support of the commission in 1987-88. This is an increase of \$1,095,000, or 13.7 percent, above estimated current-year expenditures.

Table 1
Commission on Teacher Credentialing
Budget Summary
1985-86 through 1987-88
(dollars in thousands)

	<i>Actual</i> 1985-86	<i>Est.</i> 1986-87	<i>Prop.</i> 1987-88	<i>Percent</i> <i>Change</i> <i>From 1986-87</i>
Credential issuance and information	\$2,276	\$2,424	\$2,386	-1.6%
Certification standards and program approval	606	647	627	-3.1
Program monitoring and evaluation.....	590	626	651	4.0
Examinations	1,611	2,207	2,946	33.5
Professional standards.....	1,675	1,788	2,011	12.5
Administration	1,617	1,749	1,915	9.5
Distributed administration	-1,617	-1,463	-1,463	—
Total Expenditures	\$6,758	\$7,978	\$9,073	13.7%
Personnel-years.....	95.1	116.6	113.4	-2.7%

The budget also proposes a reduction of 3.2 personnel-years from the commission's staffing level in the current year. This reduction primarily results from the elimination of temporary help positions that were authorized in the current year for the purpose of reducing to 60 days the average amount of time needed to award a credential to an applicant.

Table 2
Commission on Teacher Credentialing
Proposed 1987-88 Budget Changes
(in thousands)

1986-87 Expenditures (revised).....		\$7,978
Proposed Changes:		
A. Changes to Maintain Existing Budget:.....		84
1. Nonrecurring expenditures	-\$558	
2. Reduction in PERS contribution rate	-48	
3. California Basic Educational Skills Test (CBEST) administration..	457	
4. Fingerprint clearance processing	223	
5. Professional growth manuals (SB 813)	10	
B. Budget Change Proposals:.....		1,011
1. Automation—second-year funding	452	
2. Examination validation	282	
3. Credential application workload.....	182	
4. Teacher supply and demand system study	70	
5. Evaluation team training	25	
1987-88 Expenditures (proposed)		\$9,073
Change from 1986-87:		
Amount.....		\$1,095
Percent.....		13.7%

Table 2 shows the changes in the commission's budget proposed for the

COMMISSION ON TEACHER CREDENTIALING—Continued

budget year. As the table shows, the amount needed to maintain the commission's existing level of service will increase by a net of \$84,000. Funding requirements will decrease by \$606,000 as a result of (1) non-recurring expenditures in the current year, and (2) a reduction in the commission's contributions to the Public Employees' Retirement System (PERS) on behalf of its employees. Offsetting this reduction are increases amounting to \$690,000 which are needed to fund increases for (1) California Basic Educational Skills Test (CBEST) administration due to an increase in the number of applicants, (2) fingerprint clearance processing expenditures due to an increase in the number of teacher credential applicants, and (3) publication of professional growth manuals for credential applicants, as required by SB 813 (Ch 498/83). The increased expenditures for CBEST administration and fingerprint clearance processing will be offset by increased fee revenue.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

Table 2 also shows that budget change proposals would increase expenditures by \$1,011,000 in 1987-88. We recommend approval of these increases, which are proposed for:

- **Automation**—\$452,000 to fund the second year of the commission's credentialing automation project which has been previously approved by the Legislature;
- **Examination Validation**—\$282,000 to revalidate existing subject matter examinations for credential candidates, in order to comply with (1) commonly-accepted standards for the proper use of examinations and (2) the administrative regulations adopted by the California Fair Employment and Housing Commission, which has jurisdiction over the fair use of licensing examinations;
- **Temporary Help for Credential Application Processing**—\$182,000 to hire personnel on a temporary basis to provide the commission with sufficient staff for the projected 1987-88 credential application workload. While application workload will likely remain high in the next few years, permanent full-time staff is not proposed because automation will result in reduced licensing staff by the end of the third year of the project;
- **Teacher Supply and Demand System Study**—\$70,000 to study the feasibility of establishing and maintaining a teacher supply and demand data collection and reporting system which relates to recent interest in teacher supply; and
- **Program Evaluation Team Training**—\$25,000 to provide comprehensive training for all members of evaluation teams involved in granting commission approval to teacher training programs—currently only the team leader receives training.

Credential Fee Level Recommendation

Chapter 572, Statutes of 1986, (AB 3843) requires, as part of the annual budget review process, the Department of Finance and the Legislative Analyst to recommend to the Legislature a credential fee level that will generate sufficient revenues to support the operating budget of the commission plus a "prudent reserve", (defined by the Department of Finance as 21 percent of expenditures). A reserve is necessary because of a history

of substantial annual fluctuations in revenues. The Governor's Budget proposes to maintain the credential fee at the current level of \$50. Our analysis indicates that this fee level will provide for (1) a \$1.5 million (24 percent) "prudent reserve" balance in the Teacher Credentials Fund at the end of 1987-88, and (2) a \$1.1 million balance in the Test Development and Administration Account. We concur with the appropriateness of this fee level.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

Item 6420 from the General
Fund and Federal Trust Fund

Budget p. E 59

Requested 1987-88	\$5,340,000
Estimated 1986-87.....	5,859,000
Actual 1985-86	7,034,000
Requested decrease (excluding amount for salary increases) - \$519,000 (-8.9 percent)	
Total recommended reduction	None

1987-88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6420-001-001—Main support	General	\$3,261,000
Reimbursements	—	905,000
Subtotal		\$4,166,000
6420-001-890—Program administration	Federal	\$91,000
6420-101-890—Local assistance	Federal	1,083,000
Total		\$5,340,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. University of California Student/Faculty Workload Formula Study. Recommend the Legislature adopt supplemental report language directing CPEC to examine and report on the student/faculty workload formula used by the University of California.

1069

GENERAL PROGRAM STATEMENT

The California Postsecondary Education Commission (CPEC) is composed of 15 members. It is an advisory body to the Legislature and the Governor, and has responsibility for postsecondary education planning, evaluation, and coordination. No one who is regularly employed in any administrative, faculty, or professional position by an institution of public or private postsecondary education may be appointed to the commission; however, representatives of postsecondary institutions provide advice to the commission through a special advisory committee.

The commission is budgeted 51.7 personnel-years in the current year.