

The Economic Impact Aid Program: A Sunset Review

Office of the Legislative Analyst
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Introduction

Introduction

This report is submitted pursuant to the "sunset" review procedures enacted by Chapter 1270, Statutes of 1983 (Senate Bill 1155).

Chapter 1270 provided for termination of the Economic Impact Aid (EIA) program on June 30, 1986. Chapter 1318, Statutes of 1984 (Senate Bill 1858), which became operative on January 1, 1985, extended that date to June 30, 1987.

The EIA program provides funds to local school districts which have high concentrations of children who are poor, educationally disadvantaged, or have limited proficiency in English. These funds are used to (1) supplement educational services, particularly in basic skills, for children who have difficulty in reading, language development, or mathematics and (2) provide bilingual education programs (EIA-LEP) for children who are classified as limited English-proficient.

As part of the sunset process, Chapter 1270 requires the State Department of Education (SDE) to review the EIA program and submit its findings to the Legislature by September 15, 1985. The department submitted its report in March 1986. Chapter 1270 also requires the Legislative Analyst to review the department's report and submit her own findings, comments, and recommendations regarding the program to the Legislature.

Specifically, Chapter 1270 requires the SDE

and the Legislative Analyst to address as many of the following issues as possible:

- (1) The appropriateness of formulas used to identify children who have special needs.
- (2) The appropriateness of formulas used to allocate funds and the adequacy of funding levels for the program.
- (3) The effectiveness of the program.
- (4) The appropriateness of local control.
- (5) The appropriateness of state involvement in monitoring, reviewing, and auditing to assure that funds are being used efficiently, economically, and legally.
- (6) The appropriateness of the administrative costs of these programs.
- (7) The appropriateness of placing administration of these programs under SDE.
- (8) The interrelationships among state and federal categorical programs providing this type of assistance.
- (9) The characteristics of the target population being served by the program.
- (10) The need for the program.
- (11) The purpose and intent of the program.

The law also requires that the report submitted by the SDE include, but not be limited to, all of the following topics:

- (1) A description of the program, including a description of how the program is administered at the state and local level.
- (2) The history of the program and previous legislative action.
- (3) Relevant statistical data.
- (4) Related federal programs.
- (5) Whether there is an unmet need for the intended purposes of the program and, if any, an estimated cost of serving the unmet need.
- (6) Findings regarding the program, including comments on whether any identified problems are implementation issues, or issues that require revision of law or regulations.
- (7) Recommendations of ways to improve the program while maintaining its basic purposes.

The first chapter of this report provides a

program description and our findings and recommendations related to specific aspects of the program. Chapter II is divided into three sections: (1) the first section outlines the recommendations made by SDE with which we concur, (2) the second section contains recommendations made by the department with which we disagree, and (3) the third section contains a discussion of the recommendations made by SDE for which we are unable to make a recommendation because insufficient information is provided in the department's report.

This report, as specified by law, is based largely on our review of the SDE report. Some information that is provided in the SDE report, such as results of coordinated compliance reviews, is not repeated here. We suggest, therefore, that this report be read in conjunction with the SDE report in order to obtain a more complete understanding of the program and of our comments on the SDE's findings and recommendations.

This report was prepared by Sue Burr under the supervision of Ray Reinhard and Hal Geiogue. ❖

Executive Summary

Executive Summary

I. Legislative Analyst's Findings

- The sunset legislation specifies seven items that the State Department of Education's (SDE) sunset review report *must* address, and 11 items that it *may* address. Our review indicates that the department's report fails to respond fully to one of the required items: whether there is an unmet need for the program and an estimated cost of serving the unmet need. Our review also indicates that the department's report fails to address five of the 11 optional items, including a discussion of the appropriateness of formulas used to allocate funds and the adequacy of funding levels for the program.
- Neither the statement of legislative intent in the authorizing legislation nor SDE's sunset review report describes the goals of the Economic Impact Aid (EIA) program in terms that lend themselves to measurement of the program's success or failure. We believe that such a statement is necessary, in order to evaluate the program.
- Based on our review of (1) the statutes establishing EIA, (2) the factors used in determining "need" in the EIA funding formula, and (3) the statement of purpose provided by the department, we conclude that EIA is intended to provide school districts that are impacted with concentrations of disadvantaged students with the additional resources needed to provide enhanced educational opportunities for such students.
- None of the EIA evaluations conducted to date has focused on the cost-effectiveness of the program or measured its success in meeting its objectives. Moreover, it is unclear how accurately the method of determining "need" as specified in the EIA formula reflects actual needs of school districts for additional resources.
- For 1986-87, the Legislature appropriated \$197.0 million (after Governor's vetoes) for the EIA program. In addition, there is an estimated \$323.4 million in federal Education Consolidation and Improvement Act (ECIA) Chapter 1 funds available for compensatory education services in this year. Because each school district uses its own criteria for determining eligibility for compensatory education services, it is not known how many students are eligible to receive the services.
- Funding for EIA is distributed according to a primary and a secondary formula. The primary formula, which is used by SDE to allocate approximately 91 percent of EIA funds, involves a complex

multi-step process which (1) determines statewide and district shares of "gross need" and (2) allocates available resources based on (a) maintaining at least 85 percent of each district's prior-year funding level and (b) using any remaining funds to address "unmet need." The secondary formula provides for distribution of the remaining funds at the discretion of the Superintendent of Public Instruction, within defined parameters.

- The primary formula assumes that each school district's "need" for EIA funds varies based on (1) the *absolute* number of pupils in poverty within the district and (2) the district's *relative concentration* (compared to statewide averages) of pupils from three types of disadvantaged backgrounds (limited-English proficient (LEP); living in poverty; and transient). By using measures of poverty twice, in a multiplicative fashion, the formula gives extra weight to this factor as a measure of district "need."
- Based on information provided in the department's sunset review report, we are unable to determine (1) whether the total amount of "gross need" identified in the EIA funding formula accurately represents the *total* amount of compensatory education funds needed to enhance educational opportunities for disadvantaged students on a statewide basis or (2) whether the factors in the EIA funding formula accurately identify school districts' *relative* needs for compensatory education funds.
- In practice, the EIA funding formula places the highest priority on maintaining each school district's prior-year funding allocation. As a consequence, the allocation of EIA funds does not necessarily reflect districts' relative needs for funds as measured by the formula.
- In 1985-86, school districts received EIA funding amounting to widely varying percentages of their computed "gross need" amounts—from less than 10 percent to greater than 100 percent of "need." A majority of districts received sufficient EIA funding to meet less than 40 percent of their respective amounts of "gross need." While at first glance it would appear that state funds are meeting a relatively low level of "gross need," our analysis indicates that this measurement of "need" is misleading. This is because the original EIA funding formulas' estimate of "gross need" had been derived on the assumption that part of this "need" would be met with federal funds and part with state funds. Subsequent to the passage of the state legislation, however, federal regulations precluded taking account of the availability of federal funds in the state distribution formula. The state formula was amended to eliminate any reference to federal funds, but the calculation of "gross need" was not adjusted downward to reflect only that amount of "need" that was supposed to have been met by state funds. As a result, the formula appears to result in much lower levels of "gross need" being met than would be the case if the level of "gross need" were appropriately recalculated.
- Although each school district's "need" for EIA funds is based on (1) the number of pupils in poverty and (2) its impactation by three types of disadvantaged students (limited-English proficient (LEP); living in poverty; and transient), school districts are not required to use EIA funds to serve all such students.
- Instead, school districts have considerable discretion in determining which of their schools will receive compensatory education funding, the amounts allocated to each school, the academic criteria that will be used in determining which students are eligible for compen-

satory education services, and the types of services provided. This discrepancy between the factors used to measure "need" in the EIA funding formula and the ways in which these funds are actually spent at the local level further complicates the determination of whether the measures of need employed in the formula are, in fact, appropriate.

- Based on information provided in the department's report, we are unable to determine whether school planning processes constitute an effective mechanism, at the *local* level, to ensure coordination and eliminate duplication of services provided by other categorical education programs targeted at disadvantaged students.
- Our review indicates that, at the *state* level, coordination of the funding formulas for EIA and the federal ECIA Chapter 1 program should be strengthened because (1) the programs have similar goals and funding formulas, and (2) the original state EIA legislation envisioned that the availability of federal funds would be considered in determining allocations of state funds.
- Based on our review of the coordinated compliance review process, we believe that this is a reasonably effective audit

mechanism for ensuring that EIA funds are used in compliance with applicable state laws and regulations. We find little indication, however, that the process provides a sound basis for evaluating the effectiveness of districts' expenditures of EIA funds in enhancing the educational opportunities of disadvantaged students.

- The department's report contains no information on the level of state and local funding for overall administration of the EIA program. In the absence of this information, we are unable to comment on the appropriateness of amounts spent to administer the program.
- The department's report cites as evidence of program effectiveness the results of reading and mathematics achievement tests administered to compensatory education students. Our review, however, indicates that this evidence 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 different levels of EIA expenditures.

II. Legislative Analyst's Recommendation

We recommend that the State Department of Education conduct a comprehensive evaluation of the Economic Impact Aid (EIA) program, focusing on (1) the appropriateness of the EIA funding formula and (2) the effectiveness of the EIA program in improving the educational achievement levels of disadvantaged students. Pending the completion of such a review, we recommend that the sunset date for EIA be extended for two years only, to June 30, 1989.

We find that the department's report inadequately addresses several major issues including the following:

- The appropriateness of formulas used to allocate EIA funds; and
- The effectiveness of the EIA program in improving the educational achievement levels of disadvantaged students.

Our review further indicates that it is both possible—and necessary—to address these

issues, in order to provide an analytical basis for the Legislature to make a determination regarding continuation of the EIA program.

Accordingly, we recommend that the sunset date for the EIA program be extended for two years only (to June 30, 1989), pending the results of a more comprehensive review of the program. Specifically, we recommend that SDE develop a plan and funding proposal for consideration during hearings on the 1988-89 Budget Bill which would encompass (1) a comprehensive review of the EIA funding formula, addressing the findings

contained in this report and (2) an evaluation of the effectiveness of the EIA/State Compensatory Education (SCE) program. This latter evaluation should include an examination 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.
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Chapter I

Chapter I

Program Description and Legislative Analyst's Findings and Recommendation

This chapter contains a description of the Economic Impact Aid (EIA) program and our findings and recommendation on the topics specified for review in the sunset legislation.

The program description is based largely on information provided in the State Department of Education's (SDE) report. It should be noted that the sunset legislation specifies 11 items that the SDE's report *may* address and seven items that it *must* address. Of the 11 optional items, the department addresses only five. Of those which the department did not address, the most significant items include:

- The appropriateness of identification

formulas in determining which children have special needs;

- The appropriateness of formulas used to allocate funds and the adequacy of funding levels of the program;
- The appropriateness of amounts spent to administer this program; and
- The appropriateness of having the SDE administer this program.

Of the seven required items, the department fails to respond fully to one item—whether there is an unmet need for the program and an estimated cost of serving the unmet need, if any.

Purpose and Goals of the Program

The statute establishing the EIA program (Education Code Section 54000) states the intent of the program as follows:

"It is the intent of the Legislature to provide quality educational opportunities for all children in the public schools. The Legislature recognizes that a wide variety of factors such as low family income, pupil transiency rates, and large numbers of homes where a primary language other than English is spoken have a direct impact on a child's success in school and personal development, and require that different levels of financial assistance be provided

districts in order to assure a quality level of education for all pupils."

According to SDE, the purpose and goals of the Economic Impact Aid/State Compensatory Education (EIA/SCE) program are:

- To provide school districts extra funds to supplement their regular instructional services for disadvantaged students;
- To expand and improve the educational achievement of educationally disadvantaged students; and
- To hold local officials responsible for the education of the disadvantaged student.

(It should be noted that the EIA program, in eligible districts, attempts to provide funds for two subprograms—the bilingual education program which provides services only to limited-English proficient (LEP) pupils and the SCE program which provides services to all pupils in need of remediation. Our review of the bilingual program was presented in an earlier report—*The Bilingual Education Program, A Sunset Review*, issued in June 1986. The majority of this report, therefore, will cover the SCE program and the related EIA funding formula.)

Our review indicates that neither the Legislature's statement of intent nor the SDE's statement of purpose describes the goals of EIA in terms that lend themselves to measurement of the program's success or failure. (For example, it is not clear what level of "quality" is intended by the statement of legislative intent—or if the intent is to assure

the same level of quality for all students. Similarly, the SDE's statement of purpose does not indicate what standard should be used in judging the effectiveness of EIA in improving the educational achievement of disadvantaged students.) Such a statement is necessary, we believe, in order to evaluate the accomplishments of the program.

Based on our review of (1) the statutes establishing EIA and its predecessor, the Educationally Disadvantaged Youth (EDY) program, (2) the factors used in determining "need" in the EIA funding formula, and (3) the statement of purpose provided by the SDE, we conclude that EIA is intended to provide school districts that are impacted with concentrations of disadvantaged students with the additional resources needed to provide enhanced educational opportunities for such students.

History of Legislative Action

Although several pieces of legislation were enacted which complement the SCE program, the central laws leading up to the current program include the following:

- Mc Ateer Act (SB 115/1963)—This bill established a two-year pilot project in compensatory education for culturally disadvantaged students.
- Educationally Disadvantaged Youth (EDY) Act (SB 90/1972)—This program was the precursor to the current EIA program. The intent of the program was to provide quality educational opportunities for all children in California public schools by providing additional financial aid to schools with high concentrations of (1) pupils from families with low incomes, (2) LEP pupils, and (3) pupils whose families are transient.
- Economic Impact Aid program (AB 65/1977)—This bill modified the EDY funding formula, but the programmatic intent remained the same as in the previous EDY program.

Related Federal Legislation. In 1965, Congress enacted the Elementary and Secondary Education Act. Title I of this law provided school districts supplemental assistance for programs to develop basic skills to students from low-income areas who score below grade level on standardized tests. This law has been amended twice and is now known as Chapter 1 of the Education Consolidation and Improvement Act (ECIA), but the programmatic intent has remained the same. According to the department's report, state EIA funds are designed to complement grants received under the federal ECIA, Chapter 1 program. The SDE asserts that although the monies are designed to serve the same general population, they do not duplicate services because federal funding is generally insufficient to serve all eligible students. (As used in this report, the term "eligible student" refers to any student who scores below the 50th percentile on a state-approved assessment.)

Enrollment and Funding Summary

In 1986-87, the Legislature appropriated \$197.0 million (after \$4.2 million in Governor's vetoes) for the EIA program. In addition, there is an estimated \$323.4 million in federal ECIA, Chapter 1 funds available for compensatory education services in this year. Because criteria used to determine eligibility for compensatory education services vary from district to district, it is not known how many students are eligible to receive such services.

Table 1 provides a summary of the funding and participation rates for the SCE program from 1982-83 through 1984-85 (the most recent data available). The table shows that, over this period, the estimated total amount of funding used for the compensatory education program (including state and federal funding) has increased by almost 13 percent. This increase is almost double the rate of increase of the number of students served by the program.

Table 1
State Compensatory Education Program
Funding and Participation Rates
1982-83 through 1984-85
(dollars in thousands)

	<i>Number of Schools^a</i>	<i>Number of Students^b</i>	<i>Total Amount EIA—State Funds</i>	<i>Estimated EIA Allocated to SCE Program^c</i>	<i>Total Amount ECIA, Chapter 1 Federal Funds^d</i>	<i>Estimated Total Compensatory Education Funding^e</i>
1982-83	3,463	911,667	\$171,737	\$101,295	\$223,725	\$325,020
1983-84	3,535	938,549	182,041	99,434	247,874	347,308
1984-85	3,648	980,874	188,127	90,661	275,438	366,099
Change from 1982-83:						
Amount	185	69,207	16,390	(\$10,634)	\$51,713	\$41,079
Percent	5.3%	7.6%	9.5%	-10.5%	23.1%	12.6%

^a Schools which receive EIA/SCE and/or ECIA Chapter 1 funds.

^b Number of students served by EIA/SCE and/or ECIA Chapter 1 funds.

^c Economic Impact Aid also provides for funding to school districts for services to limited-English proficient (LEP) pupils. This column shows the *estimated* amount used by school districts for compensatory education. Actual expenditures which exclude EIA/LEP spending are not available.

^d This is the amount of Chapter 1 funds actually made available to schools, and does not include funds for migrant, neglected and delinquent, or handicapped children.

^e Funding for EIA/SCE (estimated) and ECIA, Chapter 1.

As Table 1 indicates, both the number of schools and the number of students served by the compensatory education program have increased moderately during the past three years. The total amount of EIA funding available for allocation to this program has also increased by 9 percent; however, the amount specifically allocated by school districts to students participating in the SCE program

has decreased by 10 percent during this time period. According to the department, this decrease is likely due to decisions on the part of local districts to allocate a greater share of the EIA funds to programs providing services to LEP pupils. The table also shows that federal funds made available to schools for compensatory education have increased by 23 percent during the period shown.

Funding Mechanism

EIA funds are distributed according to a primary and a secondary formula.

The primary formula, which is used by SDE to allocate approximately 91 percent of the EIA funds, involves a complex multi-step process which (1) determines statewide and district share of "gross need" and (2) allocates available resources based on (a) maintaining each district's prior year's funding level and (b) addressing "unmet need" as described in detail below:

STEP 1: SDE Determines a Statewide, Computational "Gross Need" Amount. In this step, the department computes a "gross need" amount by multiplying (1) a statewide count of school-aged children in poverty (based on specified indexes) by (2) an "average excess cost of education," statutorily defined as \$440 in 1979-80 and increasing by 6 percent annually thereafter.

STEP 2: SDE Allocates Shares of Statewide "Gross Need" Among School Districts. In this step, the department multiplies each school district's count of school-age children in poverty by an "impaction factor." The amount of statewide "gross need" is then divided among districts based on these weighted counts. The impaction factor is based on the district's *concentration*—relative to statewide averages for districts of similar size and type—of pupils who (1) have limited-English proficiency, (2) live in poverty, and (3) are transient. (A district with concentrations identical to the statewide average for all three factors would receive an impaction factor of 1.0.) Districts with impaction factors in excess of 2.0 are assigned a factor of 2.0. Thus, the formula assumes that each school district's "need" for EIA

funds varies based on (1) the *absolute* number of pupils in poverty within the district and (2) the district's *relative concentration* of pupils from disadvantaged backgrounds, as measured by the impaction factor. In addition, by using measures of poverty twice, in multiplicative fashion, the formula gives extra weight to this factor as a measure of district "need."

STEP 3: SDE Determines Each District's "Unmet Need." In this step, the department subtracts the amount of each district's prior-year grant from its share of statewide "gross need" and the difference, if positive, is deemed to be "unmet need." (That is, the formula assumes that each district will receive at least its prior-year grant amount, provided its "gross need" figure equals or exceeds this amount.) Districts with impaction factors of less than 0.35, however, are assigned an unmet need of zero.

STEP 4: SDE Determines Each District's Entitlement. In this step, the department apportions funds to the districts in the following priority:

- (1) Each district is assigned an amount equal to (a) its prior-year grant or (b) its share of statewide "gross need" (if less than its prior-year grant). In no event, however, may a district receive less than 85 percent of its prior-year grant. For the vast majority of districts, their respective shares of statewide "gross need" greatly exceed their prior-year grants. In practice, therefore, this provision results in the formula placing the highest priority on maintaining

each school district's prior-year funding allocation.

- (2) An inflation adjustment (if provided in the Budget Act) is then applied to the grants of all districts whose current-year grants equal those of the prior year.
- (3) Finally, any funds remaining from the current fiscal year appropriation are apportioned to districts for program expansion. This apportionment is made to each district in direct proportion to its amount of "unmet need."

The secondary formula, commonly known as the "bounce file," provides for funding distribution at the discretion of the Superintendent of Public Instruction, within defined parameters. This formula provides funding to districts whose primary entitlements would not yield sufficient funding to serve a "reasonable" (as defined in the annual Budget Act) portion of the population of students from families in poverty as described below:

- STEP 1: The department adds the most current (prior-year) estimates of (1) low-income pupils as measured by AFDC recipients and (2) LEP pupils by district to obtain a statewide total. The amount specified for the "bounce file" in the Budget Act—\$17,756,000 in 1986-87—is divided by this statewide total to obtain a potential per pupil allocation.
- STEP 2: Using the EIA base formula described above, the department assigns each district either (1) a minimum grant amount—defined in the Budget Act as \$6,028 in 1986-87, or (2) a formula-derived amount.
- STEP 3: The department performs a computer analysis to determine the per pupil amount needed to bring each district up to the minimum grant

level. The funds available for this purpose are then distributed. According to SDE, this amount is usually equivalent to \$100 per eligible pupil.

Needless to say, these are two of the more Byzantine formulas in school finance. Our review of their use indicates:

- *There is No Empirical Basis for "Gross Need" Computation.* We are unable to determine whether the total amount of "gross need" identified by the EIA funding formula accurately represents the amount of compensatory education funds needed to enhance educational opportunities for disadvantaged students.

In arriving at an estimated amount of statewide "gross need" for compensatory education funds, the EIA formula multiplies a statewide count of school-aged children in poverty by an "average excess cost of education," defined in statute as \$440 in 1979-80 and increasing by 6 percent annually thereafter. We know of no independent, analytically-based research that supports this dollar figure, or the assumption that it should increase by 6 percent annually—irrespective of actual increases in the cost of providing educational services. The SDE does not cite any research to support these amounts in its report.

- *There is No Empirical Basis for Calculating Districts' Relative Needs.* We are also unable to determine whether the factors in the EIA funding formula accurately identify school districts' relative needs for such funds.

Implicit in the EIA formula is the assumption that the amount of funding needed to provide enhanced educational opportunities for disadvantaged students among districts varies based on (1) the *absolute* number of pupils in poverty within a district, multiplied by (2) the district's *relative concentration* of pupils from three types of disadvantaged backgrounds (limited-English proficiency, poverty, and transiency).

Ignoring provisions for minimum and maximum amounts of "need," the formula generally provides that:

- If two districts have the same number of pupils in poverty, but the percentage of pupils from disadvantaged backgrounds (limited-English proficiency, poverty, and transiency) is twice as high in District A as in District B, then District A has twice as much "need" for additional funds as District B.
- If two districts have the same percentage of pupils from disadvantaged backgrounds, but the number of pupils in poverty in District C is twice that of District D, then District C has twice as much "need" for additional funds as District D.
- If District E has twice as many pupils in poverty *and* twice the concentration of pupils from disadvantaged backgrounds as District F, then District E has *four times* the "need" for additional funds as District F.

We know of no research that supports these relationships between the factors in the EIA formula and a district's need for additional compensatory education funds. The SDE does not cite any such research in its report; moreover, as noted previously, the department's report does not contain any discussion of the appropriateness of the factors which comprise the funding formula.

- ***The Allocation of Funds Does Not Reflect Need As Measured By Formula.*** In practice, the EIA funding formula places the highest priority on maintaining each school district's prior-year funding allocation. As a consequence, our analysis indicates that the allocation of EIA funds does not reflect districts' relative needs for funds as measured by the formula.

Chart 1 shows the distribution of the state's 1,029 school districts according to the percentage of "gross need" that was met by EIA funds in 1985-86. As the chart shows, districts

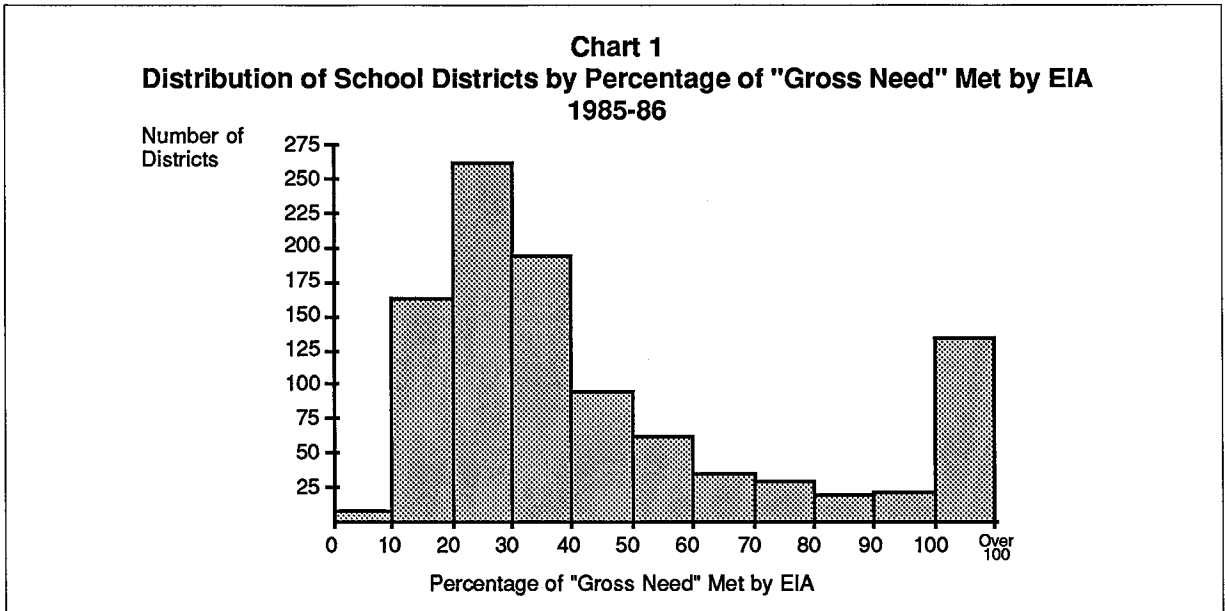
received funding amounting to widely varying percentages of their computed "gross need" amounts—from less than 10 percent of "need" to greater than 100 percent of "need."

Districts may receive EIA funding allocations that exceed their computed "gross need" amounts for either of the following reasons:

- The district's computed "gross need" amount has declined by more than the 15 percent maximum annual reduction in state aid permitted under the primary EIA funding formula; or
- The district receives aid through the secondary ("bounce file") formula.

In 1985-86, one district received an EIA allocation equal to 3,750 percent of its computed "gross need;" 10 districts received EIA funding despite having no "gross need."

Chart 1 shows that, in 1985-86, a majority of districts (approximately 60 percent) received sufficient EIA funding to meet up to 40 percent of their respective amounts of "gross need." While at first glance it would appear that state funds are meeting a relatively low level of "gross need," our analysis indicates that this measurement of "need" is misleading. This is because the original EIA funding formula's estimate of "gross need" had been derived on the assumption that part of this "need" would be met with federal Title I (later Chapter 1) funds and part with state funds. Subsequent to the passage of the state legislation, however, federal regulations precluded taking account of the availability of federal funds in the state distribution formula. The state formula was amended to eliminate any reference to federal funds, but the calculation of "gross need" was not adjusted downward to reflect only that amount of "need" that was supposed to have been met by state funds. As a result, the formula appears to result in much lower levels of "gross need" being met than would be the case if the level of "gross need" were appropriately recalculated.

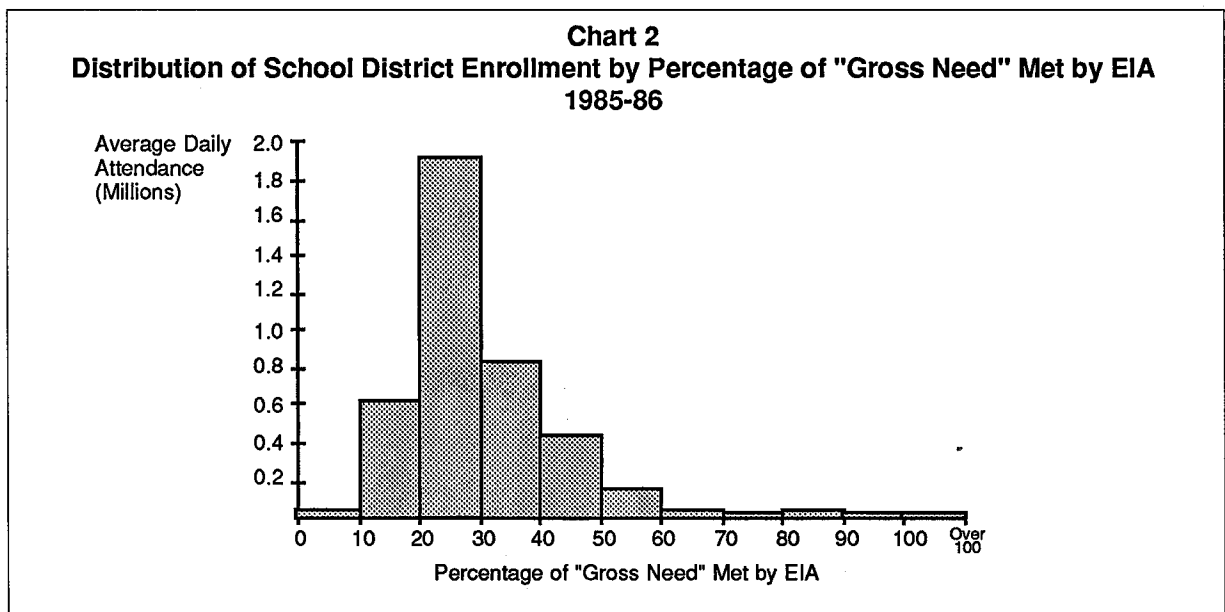


The relationships pictured in Chart 1 are somewhat altered when the percentages of "gross need" met are weighted to reflect the number of students within each school district as shown in Chart 2. Still, the fact remains that school districts have vastly different percentages of their "gross need" met through the state's distribution of EIA funds. Specifically, Chart 2 shows that:

- *Districts accounting for about 15 percent of statewide average daily attendance (ADA) received EIA funds meet-*

ing less than 20 percent of their "gross need;"

- *Districts representing about 46 percent of statewide ADA received between 20 percent and 30 percent of "gross need;"*
- *Districts having about 35 percent of statewide ADA received between 30 percent and 60 percent of "gross need;" and*
- *Districts having about 4 percent of statewide ADA received in excess of 60 percent of "gross need."*



The bias in the EIA funding formula toward protecting existing allocation levels is primarily due to the failure, noted earlier, to adjust the calculation of statewide "gross need" when it became clear that federal funds could not be counted toward meeting this need. As a result, for most school districts, "gross need" greatly exceeds the amount of available *state* funds. And, as long as a district's "gross need" exceeds its prior-year grant amount, it is entitled under the formula

to receive its prior-year amount plus a COLA.

While we concur that districts should be afforded some protection against abrupt changes (both increases and decreases) in funding levels, we question whether a system that places such a high priority on protecting districts' prior-year allocations results in the most cost-effective distribution of state funds in meeting the needs of disadvantaged students.

Funding Allocation at the Local Level

Once the statewide EIA allocation is made, districts have discretion to expend the funds for the programs described below.

Services to LEP Pupils. School districts determine what amount (if any) will be expended for services to LEP pupils. Districts are required, however, to justify spending above or below the "standard dollar" amount of EIA funds (determined by dividing the EIA grant by the number of students eligible for compensatory education services) for services to LEP pupils. (As noted earlier, the bilingual education program for LEP pupils is described in detail in a separate report.)

Services to Pupils Eligible for State Compensatory Education (SCE). The EIA funds which are not expended for services to LEP pupils are allocated by districts to *eligible schools* for SCE programs. Typically, districts receive both EIA funds and federal ECIA, Chapter 1 funds and may allocate either or both to eligible schools.

Although each school district's "need" for EIA funds is determined on the basis of (1) the number of its pupils living in poverty and (2) its impact by three types of disadvantaged students (limited-English proficient, living in poverty, and transient), school districts are not required to use EIA funds to serve all such students.

Instead, each school district must use its EIA funds, first, to ensure that all limited-

English proficient pupils receive enhanced educational opportunities. The district then allocates any remaining EIA funds (and, typically, its federal ECIA Chapter 1 funds) to its *schools*, according to their rank based on criteria selected by the district from choices specified in statute. Within these choices (which generally relate to the percentages of students in each school who are from low-income families, are LEP, or are low-achieving academically), the school district has considerable discretion in determining (1) how the criteria will be applied in identifying eligible schools and (2) the uniform amount of funding per pupil that each eligible school will receive. In general, however, a school must have a concentration of students that is above the districtwide average for the chosen criteria in order to be eligible to receive EIA/SCE funds.

Districts are required to use funds to meet fully the needs of the highest-ranking school before providing funds to the next-highest ranking school, with the "cutoff" point among schools determined separately by each district. A school district, however, may allocate funds to any school (even if its concentration of students for the chosen ranking criteria is *below* the districtwide average) in which the concentration of either LEP students or students from low-income families exceeds 25 percent, or the concentration of low-achieving students exceeds 50 percent.

Each school district chooses its own academic criteria for determining which students among those schools receiving compensatory education funds will be eligible for these services (districts may use any cutoff point below the 50th percentile on a state-approved test). Finally, the district has discretion in determining which types of educational services will be offered to eligible students.

Thus, under the existing statutes governing EIA, it is possible—and likely—that a school serving disadvantaged students (as defined in the EIA “need” formula) might qualify for compensatory education funds in one district, while a school with a similar composition of students in another district might not.

Even if both schools qualified for funding, the amount of funds each received would likely differ. Moreover, there would be no guarantee that both schools would use the same academic criteria in determining pupils’ eligibility for compensatory education services. Finally, the services themselves may differ between the two districts.

In sum, our review indicates that the factors used to measure “need” in the EIA funding formula may bear little relationship to the ways in which these funds are actually spent at the local level. This further complicates the determination of whether the measures of need employed in the formula are, in fact, appropriate.

Types of Services Provided

School Site SCE Programs. According to the department’s report, each school desiring to receive EIA funds is required to develop a three-year compensatory education program which addresses the assessed needs of students eligible to receive services. Pupil eligibility is determined annually by each school district, based on test data and teacher judgment. As noted earlier, districts may define student eligibility based on any cutoff score below the 50th percentile on a state-approved assessment.

Services provided to SCE students vary among schools. According to SDE, features frequently offered by schools include individualized instruction, use of teacher aides, learning laboratories in basic subjects, use of reading and/or mathematics specialists, and specialized materials and supplies. Each program is designed by the school principal and project director, in consultation with advisory councils, to meet the needs of the eligible pupils.

Coordination with Other Categorical Programs

Students eligible to receive SCE services are typically eligible for a variety of other categorically-funded programs including, but not limited to, the School Improvement Program, the Miller-Unruh Reading program, Indian education programs, and the federally-funded ECIA, Chapter 1 and 2 programs. In such cases, according to SDE, a planning process is instituted to coordinate the delivery of services in order to maximize the use of available funds and minimize program duplication.

Based on the information provided in the department’s report, however, we are unable to determine whether the planning effort is effective in achieving those goals.

Moreover, we believe that, at the *state* level, coordination of the funding formulas for EIA and the federal ECIA, Chapter 1 program should be strengthened for the following reasons: (1) the programs have quite similar goals (to provide additional resources to educationally disadvantaged students) and

ations—“sustained effects reports”—on student achievement in reading, mathematics, or language arts. Despite this requirement, SDE has made no effort to collect these data on a statewide basis. Consequently, this information is not available as a measure of effectiveness of compensatory education programs.

Finally, SDE cites the results of a recent federal study (the *Sustaining Effects Study*) that, in part, examined the relationship between the cost and the effectiveness of the federal Title I (later Chapter 1) program. According to SDE, “...the study found that there was no demonstrated relationship between the program costs of instruction students received and changes in academic achievement.” The department’s report indicates that ...[t]his finding was explained by the fact that the least able students received the most costly services; they were the ones least likely to improve academically.”

Our analysis indicates that the “explanation” cited by the department does not necessarily preclude the existence of a relationship between levels of education spending and changes in academic achievement. Instead, the study’s finding of no *gross* relationship between these two variables could be explained, in part, by a failure to control adequately for the achievement levels of students at the time they entered the Title I program. Specifically, the results cited in the department’s report are also consistent with the following scenario:

- For students overall, there is a negative correlation between cost of instruction and initial academic achievement level (that is, it costs more *on average* to provide educational services to low-achieving students); and
- For students with similar initial achievement levels, there exists a positive correlation between cost of instruction and changes in academic achievement (that is, higher levels of spending do result in greater gains in achievement—*other things being equal*).

Under these circumstances, if the study merely looked at the overall relationship between cost of instruction and change in academic achievement for all students (without controlling for important background variables such as initial achievement levels), it could be impossible to detect any relationship between these two variables. It would not be correct to conclude on the basis of such an analysis, however, that no relationship existed.

Unfortunately, we are unable to determine from the information provided in the department’s report the extent to which the federal study controlled for important background variables in arriving at its conclusion that educational spending levels “make no difference” in affecting academic achievement.

The department’s report goes on to note that another problem faced by evaluators of federally-funded compensatory education was that the Title I program “...was better defined as a funding program than as an educational treatment.” Thus, the results obtained through compensatory education programs may depend not only on the amount of funds spent by a school district, but also on *how* those funds are spent.

We believe that the state-funded EIA program may also be “...better defined as a funding program than as an educational treatment.” Unlike the SDE, however, we view the diversity in local practices as posing an *opportunity* for a well-designed evaluation to determine which uses of EIA funds are most cost-effective in increasing the academic achievement of various types of disadvantaged students. For example, an evaluation might examine differences in academic achievement among disadvantaged students attending schools just above and just below each district’s funding “cutoff” line—and relate these differences to the amount and type of compensatory education services provided. Another design might attempt to match schools with similar populations of disadvantaged students, from various dis-

similar funding formulas, and (2) the original state EIA legislation specified that federal funds should be taken into consideration

when determining allocations of state funds. We present a specific recommendation addressing this issue later in this chapter.

State Administration and Review

The SDE issues general rules, regulations and examples for determining the eligibility of schools for SCE. The department also provides technical assistance through visits, workshops and statewide conferences. In addition, the quality of the compensatory education program at the school site is reviewed on a three-year cycle through the department's "coordinated compliance review" process. Results of 219 reviews, conducted in 1984-85, are contained in the department's report. Districts found to be out of compliance with state laws and regulations are given a specific period of time—usually six months—to correct these deficiencies. During this time, SDE provides technical assistance to help districts attain compliance. If compliance is not achieved, SDE can recommend to the State Board of Education that the district's categorical funding be interrupted or eliminated.

Based on our review of the coordinated compliance review process, we believe that this is a reasonably effective audit mechanism for ensuring that EIA funds are used in compliance with applicable state laws and regulations. We find little indication, however, that the process provides a sound basis for evaluating the effectiveness of districts' expenditures of EIA funds in enhancing the educational opportunities of disadvantaged students.

We note that the department's report does not contain any information about the level of funding expended at the state or local level for overall administration of the program. In the absence of this information, we are unable to comment on the appropriateness of the program's administrative costs.

Effectiveness of the Program

Evaluation Results Do Not Substantiate Effectiveness. The department's report contains evaluation results for compensatory education students who were tested in reading and mathematics using a pre- and post-test method that measures the changes in achievement between these two points. The information shows that, in both reading and mathematics, students showed a gain, as measured by normal curve equivalents (NCE), in each year from 1979-80 through 1983-84 ranging from 0.7 to 2.1 NCE. (Please refer to SDE's report for specific results.) The report states that this information is used as the basis for the conclusion that the EIA program is effective.

Our review, however, indicates that the evidence presented by the SDE 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 funding for EIA.

Evaluations of Related Federal Program Inconclusive. The department's report also notes that schools receiving federal ECIA Chapter 1 funds are required by federal law to complete three-year longitudinal evalu-

tricts, and examine the relationship between (1) levels of academic achievement and (2) amount and type of compensatory education services provided.

In sum, our review indicates that the SDE report fails to cite any compelling evidence

regarding the effectiveness of the EIA program in improving the academic achievement of disadvantaged students. We believe, however, that it is possible—and necessary—to design an evaluation that would provide better information on the program's effectiveness.

Legislative Analyst's Recommendation

We recommend that the State Department of Education conduct a comprehensive evaluation of the Economic Impact Aid program, focusing on (1) the appropriateness of the EIA funding formula and (2) the effectiveness of the EIA program in improving the educational achievement levels of disadvantaged students. Pending the completion of such a review, we recommend that the sunset date for EIA be extended for two years only, to June 30, 1989.

As indicated by the findings presented in this chapter, our review indicates that the SDE's sunset review report is of little use to the Legislature in analytically determining whether the EIA program should be continued in its present form. Specifically, we find the report inadequately addresses the following major issues:

- Whether the calculation of "gross need" specified in the formula bears any reasonable relationship to the amount of compensatory education funding actually needed to enhance educational opportunities for disadvantaged students;
- Whether the factors specified in the formula accurately identify school districts' relative needs for such funds;
- The rationale for placing the highest priority on maintaining prior-year allocations of funds, rather than distributing funds to districts in proportion to their needs;

- The effectiveness of the EIA program in improving the educational achievement levels of disadvantaged students; and
- How the availability of federal funds for similar programs can be considered in allocating EIA funds, in order to provide a more equitable distribution of total resources available for compensatory education.

Our review further indicates that it is both possible—and necessary—to address these issues, in order for the Legislature to make an analytical determination regarding the long-term continuation of the EIA program.

Accordingly, we recommend that the sunset date for the EIA program be extended for two years only (to June 30, 1989), pending the results of a more comprehensive review of the program. Specifically, we recommend that SDE develop a plan and funding proposal for consideration during hearings on the 1988-89 Budget Bill which would encompass (1) a comprehensive review of the EIA funding formula, addressing the findings contained in this report and (2) an evaluation of the effectiveness of the EIA/SCE 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 EIA funding. ♦

Chapter II

Chapter II

Comments on Recommendations of the State Department of Education

This chapter is divided into three sections. The first section briefly describes the recommendation made by the State Department of Education (SDE) with which we concur and, therefore, recommend be adopted by the Legislature. The second section contains recommendations made by the department with which we disagree. Finally, the third section contains a discussion of the recommendations made by SDE for which we are unable to

make a recommendation because insufficient information is provided in the department's report.

A brief description of each recommendation and the corresponding rationale is listed below. For a more complete discussion of SDE's findings and recommendations, please refer to pages 25-29 of the department's report.

A. Finding and Recommendation Made by the State Department of Education With Which We Concur

In general, we believe that adoption of the following recommendation would assist school districts and individual schools in achieving the goals of the state compensatory education (SCE) program to improve the educational achievement of educationally disadvantaged students.

1. Program Review and Evaluation

The department states that it recognizes the importance of ascertaining whether the compensatory programs for students "are of sufficient quality." The department recommends additional funding to local education agencies (LEAs) for program quality reviews

and additional administrative funding to the department for follow-up.

Legislative Analyst's Comments. *We concur with the thrust of the department's recommendation that SCE programs need additional review and evaluation.* As we noted earlier, minimal data are available on a state-wide basis which identify those compensatory education programs deemed most effective. We believe this recommendation should be expanded, however, as described in the preceding chapter, to include a comprehensive evaluation of the funding formula and its relationship to program effectiveness.

B. Findings and Recommendations Made By the State Department of Education With Which We Disagree

This section briefly describes those recommendations made by SDE with which we disagree. In all cases, the department recommends additional funding for the EIA program. We believe these recommendations should be rejected because the department is unable to demonstrate that the current program is cost-effective or is achieving its goal, namely to expand and improve the educational achievement of disadvantaged students. In the absence of such justification, we do not believe that program expansion is warranted. A more detailed discussion of SDE's recommendations and our comments follows.

1. EIA Funding

The SDE recommends that the funding for EIA be increased annually to reflect the number of educationally disadvantaged and LEP students identified in local education agencies.

Legislative Analyst's Comments. *We believe this recommendation should be rejected, for three reasons.*

First, the department's recommendation is contrary to the methods currently used in determining a district's "need" for compensatory education funding in the EIA funding formula. As noted in Chapter I, under the current formula, the determination of a district's need for compensatory education funding is based on a complicated calculation of each district's share of statewide "gross need." The department has presented no evidence in its report that supports the appropriateness of this calculation. In the absence of such evidence, we believe it is premature to suggest that the total annual allocation of funds for EIA be based on a different indicator.

Second, by encouraging districts to adopt the most lenient standards of eligibility for compensatory education services, imple-

mentation of the department's recommendation could result in major (multimillion dollar) additional costs to the state General Fund. Under the current EIA program, school districts are required to "target" their available EIA funds by adopting locally-determined definitions of eligibility. (Districts may determine eligibility using any cutoff score below the 50th percentile on a state-approved test.) The number of students currently identified as eligible for such services, therefore, is considerably less than 50 percent of statewide enrollment. The department's recommendation, in contrast, would encourage all districts to identify the *maximum* number of students as "educationally disadvantaged," for no apparent programmatic reason.

Finally, as outlined in Chapter I, we believe the evidence of the effectiveness of the EIA program addressed by SDE is insufficient, because the evaluation results do not indicate what amount of the increase in academic achievement (if any) is attributable to expenditures on EIA. In the absence of evidence that EIA produces positive results for pupils currently participating in the program, we see no reason to expand the program.

2. Cost-of-Living Adjustments

SDE recommends that the COLA for EIA be statutorily established and be made equivalent to the COLA for revenue limits of large, unified school districts.

Legislative Analyst's Comments. We have consistently recommended against the establishment of *statutory* COLAs, because the existence of these entitlements tends to restrict the Legislature's flexibility to reorder priorities in times of fiscal stringency. For this reason, *we recommend that the Legislature not establish a statutory COLA for the EIA program.*

In addition, we make no recommendation regarding the level of discretionary COLA that the Legislature should grant this program. We believe that this is a decision that only the Legislature can make, based upon its priorities for the distribution of limited funds among competing programs.

3. EIA Administrative Funding

SDE states that the Coordinated Compliance Review System established and managed by the department is working well, according to evaluation reports; however, additional funds are needed for follow-up technical assistance. Therefore, the department recommends additional EIA administrative funds.

Legislative Analyst's Comments. As described in Chapter I, compensatory education programs are reviewed on a three-year cycle through the coordinated compliance review process. Districts found to be out of compliance with state law and regulations are given six months to correct their deficiencies. During that period, SDE provides technical assistance to help them achieve this goal.

The compliance reviews appear to be effective and adequately financed at current levels. Thus, we can find no basis—nor did the department sunset report suggest one—for concluding that current administrative funding levels are insufficient to conduct these reviews and provide any needed follow-up. In the absence of such justification, *we do not support the department's recommendation for additional administrative funding for the EIA program.*

(As previously stated, we concur, however, with the department's recommendation to provide additional funding for improved

evaluation of the compensatory education program.)

4. Staff Development

The SDE recommends that schools eligible for the Standard English Program (SEP) be funded for staff development and program assistance to ensure appropriate implementation of these program strategies.

Legislative Analyst's Comments. In the "rationale" section supporting this recommendation, the department notes that the State Board of Education has recognized the need to focus on oral and written language development for speakers of nonstandard English by establishing the SEP. The report also states that annual data show that the program has operated successfully in 14 districts and that staff development is a vital part of the effort. The report does not, however, provide data to demonstrate program effectiveness or specify how current programs are funded at the district level. Moreover, the recommendation does not specify how much additional funding should be provided for the SEP program or how the funding would be made available to school districts. In the absence of this information, *we recommend that the department's recommendation be rejected.*

We also note that a major evaluation of the current staff development funding system is being conducted by the California Postsecondary Education Commission to identify the statewide investment in staff development, review the administration of all staff development programs, and recommend changes to the system of delivering staff development services. We believe that this information should be reviewed prior to providing additional staff development funding for a specific program.

C. Findings and Recommendations Made by the State Department of Education for Which We Make No Recommendation

This section describes the majority of recommendations made by the department. We are unable to make a recommendation on these issues because the department provided little or no information to substantiate its recommendations. In the absence of such information, we are unable to advise the Legislature on these issues. Each recommendation is discussed in greater detail below.

1. Coordination

The SDE recommends that statutory provisions be strengthened to ensure that EIA services are coordinated with all other supplemental programs at the school in support of the base program.

Legislative Analyst's Comments. As noted in the previous chapter, pupils eligible for assistance under the EIA program are usually eligible for a variety of other compensatory education programs. The SDE currently requires districts to conduct school site planning processes in an effort to coordinate existing resources and reduce duplication of services wherever possible.

There are no current statutory requirements in this regard, however, nor are there any provisions requiring districts to provide compensatory services that relate directly to the core curricular program offered at the school site level.

The department did not provide any justification for this recommendation, nor did it provide any reason why this policy change should be made through statute.

2. Delivery System

The SDE recommends that (1) state law should allow use of SCE funds to help eligible students master the basic core curriculum and (2) services should remain supplemental to other core program findings.

Legislative Analyst's Comments. This recommendation is similar to the recommendation discussed above; however, it relates more specifically to the delivery system used to provide compensatory education services.

As the department points out, research indicates that "pull-out" programs (programs in which pupils are removed from their primary classroom to receive special instruction) are not successful if there is no relationship between the remedial services and the core curriculum. Conversely, when remedial services relate directly to the core curriculum, student achievement generally increases.

As noted in the previous recommendation, the department did not provide any rationale for placing this requirement in statute.

3. Advisory Council

The SDE recommends that the mandate of advisory councils for EIA be continued, so that funds can be used to provide assistance to compensatory education parents in support of the education of the students.

Legislative Analyst's Comments. Current law requires schools to maintain parent advisory councils to assist in the design and implementation of compensatory programs. A component of these councils includes parent training in home activities that will support the education of their children. According to SDE, research indicates that programs of this type have a strong record of success in increasing the achievement levels of individual students. The department's report, however, does not demonstrate that money is better spent on advisory councils than it is on program enhancement for pupils.

In the absence of more complete information relating to parent advisory councils, we are unable to make a recommendation on this issue.

4. Funding Continuing Services

The SDE recommends that monetary support be continued in schools that provide effective compensatory education services and, therefore, cease to be eligible for regular funding because they have successfully raised the achievement levels of the compensatory education students. The department further recommends that legislation be enacted providing for a maintenance period of two years comparable to the "continuing services" provision of ECIA, Chapter 1.

Legislative Analyst's Comments. We are unable to make a recommendation on this topic, because the department's report does not sufficiently (1) describe the current allocation system for "continuing services" or (2) document the need for additional funding for this purpose.

The "rationale" section supporting this recommendation states that a portion of the EIA funding "addresses the need to maintain SCE services for a period of time after the achievement level of the students exceeds the district-established criteria for eligibility. The provision is designed to support the continued academic success of educationally disadvantaged students." These statements imply that districts already have the financial ability to continue services to students who are achieving above the eligibility cutoff point. It is unclear, therefore, why legislation is needed to continue an existing practice. Moreover, if federal funding is available for this purpose through ECIA, Chapter 1, we find no analytical reason for providing additional state funding for the same purpose. The SDE should clarify this recommendation

by (1) explicitly documenting the need for legislative authorization for a "continuing services" provision and (2) demonstrating that federal funding is not sufficient for this purpose.

5. Services to Students Who Exceed Eligibility "Cut-Off"

The SDE recommends that the legal requirement be continued that provides a program for students who have scored above the district established criteria for eligibility.

Legislative Analyst's Comments. We are unable to make a recommendation on this issue because the department's report does not provide evaluative data on current programs serving this target group.

The department's report cites the University and College Opportunities (UCO) program as an example of a program that serves students scoring between the 50th and 90th percentile on standardized achievement tests and provides additional assistance in preparing these students for college. The report includes a general statement that data collected by the department demonstrates that students who have been in UCO programs experience greater academic success in college than do those of equal potential who were not included in the program. The report does not include the cited data, nor does it specify how the UCO program is currently funded. In the absence of this information, we are unable to advise the Legislature on the need for continuation of the provision which authorizes such programs. The SDE should clarify this recommendation by demonstrating the need for a special program for students in this target group. ♦