



Estimate of K-12 Average Daily Attendance Higher Than Expected

In late February the State Department of Education (SDE) released estimates of 1998-99 school year average daily attendance (ADA) for all school districts and county offices of education (COEs) in the state. These estimates, reflecting enrollment through December 1998, exceeded expected ADA growth by between 60,000 and 90,000 ADA, for total year-to-year growth of over 3 percent. The projected growth for this period, as reflected in the Governor's budget, was almost 2 percent.

It is not unusual for February estimates of ADA to slightly exceed projections. In many cases, these estimates are subsequently revised downward when ADA data are collected later in the year. Increases of the magnitude observed this year, however, are unusual. The SDE has contacted the COEs to verify that ADA information was accurately reported. Based on those contacts, SDE staff believe that districts did accurately report ADA information.

Some of the reported increase may be due to unexpected enrollment growth. However, other factors probably are contributing as well. For

instance, charter schools and reduced class sizes may be attracting students who were formerly in private school or home study. In addition, school districts may be taking various steps, including using independent study or Saturday school, to increase actual attendance. This is because the state is now funding actual attendance and not excused absences. Finally, welfare reform efforts may have resulted in more enrollment and/or better attendance by students.

REVENUE LIMIT FUNDING WILL INCREASE

Funds for "revenue limits" (general purpose funding for schools) are continuously appropriated under current law. The State Controller makes revenue limit payments to school districts each month on the basis of ADA counts certified (and periodically revised) by SDE. Changes in the payment amounts resulting from ADA changes do not require approval by the Legislature or the administration. We estimate that the latest upward revision in ADA will require between \$225 million and \$335 million in additional funding for revenue limits in both

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the current year and budget year. The Governor's budget does not include funding for this unexpected growth in either year.

OPTIONS FOR THE LEGISLATURE

“No Action” Scenario. Without legislative action, the increase in revenue limits will be paid to school districts and COEs automatically. This would cause increases of between \$225 million and \$335 million in Proposition 98 appropriations in 1998-99 and 1999-00. (Proposition 98 establishes the minimum annual funding level for K-12 education and community colleges. The minimum funding level is affected, in part, by the amount appropriated for K-14 education in the prior year.)

Therefore, in the absence of any action by the Legislature, General Fund resources available for the state's other priorities would decline by roughly \$450 million to \$670 million over the two-year period.

Minimize the Net General Fund Effect. If the Legislature wanted to minimize the net General Fund impact of the increased ADA, it could use current-year Proposition 98 savings to help fund the increase in revenue limits. The Governor's budget identifies \$108 million in one-time Proposition 98 savings in the current year and proposes to spend these savings for various K-12 programs—including \$52 million for an increased current-year cost-of-living adjustment for special education and \$44 million for “digital high school” equipment purchases. These as-yet-uncommitted funds could be redirected to help fund increased revenue limit payments. In addition, other funds that have been appropriated, but remain unspent, could be considered for redirection. Thus, it is possible that a major part,

if not all, of the amount needed to pay increased revenue limits in the current year could be found through redirection of Proposition 98 funds.

Every dollar of the current-year obligation for increased revenue limits that can be met through redirection has a two-fold effect:

- It directly reduces, dollar-for-dollar, the General Fund resources that otherwise must be drawn from other state priorities.
- In addition, it decreases the *budget-year* General Fund impact by reducing the extent to which the Proposition 98 minimum funding requirement otherwise would increase in 1999-00. (This is because the 1999-00 funding requirement depends, in part, on the prior-year amount appropriated for Proposition 98 programs.)

In our *Analysis of the 1999-00 Budget Bill* we estimated that the minimum funding requirement for 1999-00 will be \$111 million higher than the Governor's budget estimate, due to a changed estimate in per capita personal income. The Legislature could apply this additional amount from the General Fund, which will be needed to satisfy Proposition 98 funding requirements regardless of changes in ADA, toward increased revenue limit payments in the budget year. If it does so, the remaining amount of General Fund monies that would be needed for revenue limit payments in 1999-00 would be about \$115 million to \$225 million.

Maintaining Proposition 98 Per-Pupil Spending in 1999-00. The General Fund implications of increased ADA would be higher if the

Legislature wants to maintain K-12 per-pupil spending at the level proposed in the *1999-00 Governor's Budget*. This is because spending on categorical programs, in addition to revenue limits, would need to be increased. The Governor's budget proposes \$5,944 per ADA in 1999-00 on K-12 Proposition 98 programs. Given an increase in ADA of 60,000 to 90,000, we estimate it would cost the General Fund an additional \$360 million to \$540 million in 1999-00 to maintain this per-pupil amount.

Other Considerations. One potential factor offsetting the General Fund exposure in the budget year is the probable overbudgeting for cost-of-living adjustments (COLAs) in the Governor's budget. Based on the latest price data, we estimate the state will need approximately \$100 million less in 1999-00 for COLAs than proposed by the budget.

Another factor offsetting the General Fund exposure is an anticipated revision in estimates of local property taxes available to school districts. Preliminary estimates from SDE indicate that an additional \$70 million of property tax revenues (above the Governor's budget) may be received by school districts in the current year. Generally, each dollar of additional property tax revenue received by school districts saves one dollar of state General Fund money. It is possible that even more property tax revenues for school districts may be identified by the May Revision. Between now and then we will continue to update the Legislature on developments pertaining to revenue limit payments and advise the Legislature on its many funding options.

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Update on Federal Funds for Education

The budget enacted by Congress and signed by the President for federal fiscal year (FFY) 1999 (October 1998 through September 1999) provides almost \$2 billion nationally for new federal programs for education. These funds will be available for schools, districts, and higher education institutions in the 1999-00 school year. California's potential share of these funds, however, is not reflected in the *Governor's 1999-00 Budget*. Presumably, it will be reflected in the May Revision. In any case, it is important for the Legislature to be aware of steps the state takes to obtain these federal funds, and how these new federal programs will be coordinated

with recent or new state efforts in areas such as class size reduction, improving student reading skills, after-school programs, and teacher training and quality improvement. The most significant federal initiative, in dollar terms, is the federal Class Size Reduction (CSR) program. California will receive an estimated \$129 million of the \$1.2 billion provided for class size reduction nationally.

The remainder of the new federal funds are for various grant programs requiring applications from either the Secretary for Education, Superintendent of Public Instruction, higher education

segments, the Student Aid Commission, the Commission on Teacher Credentialing, schools or school districts. Figure 1 displays the major new federal initiatives. Most of these federal initiatives are similar in purpose to state programs either currently under consideration by the Legislature or adopted by the Legislature in the last few years.

Federal Class Size Reduction

The major new education initiative of the enacted federal budget provides \$1.2 billion to school districts nationwide to help reduce class sizes in grades 1 through 3. California school districts will receive an estimated \$129 million of this total based on a formula combining overall student enrollment and number of students in poverty. Under the federal law, the funds are to be used to recruit and/or hire teachers in order to reduce class sizes in grades 1 through 3. Up to 15 percent of the funds may be used for staff development. The stated objective of the federal program is to reach a student/teacher ratio of 18 to 1. The federal law provides that if a district reaches this objective in grades 1 through 3, it may use the federal funds to reduce class size in other grades or fund programs to improve teacher quality. These funds must supplement, not supplant, California's CSR efforts.

Funding Across Districts Will Vary Widely.

The federal Department of Education has just released preliminary district level allocations based on enrollment and poverty counts. (The final allocation will not be available until the funds are actually allocated in July 1999.) District allocations range from \$116 for Casimilia

Figure 1

Major New Federal Initiatives

(Dollars in Millions)

Program	Amount Nationally^a	California's Potential Share
Class size reduction	\$1,200	\$129
Reading Excellence Act	260	31 ^b
Community learning centers (after school programs)	200	24 ^b
Gear-up (college access programs)	120	14 ^b
Improving teacher quality	75	9 ^b
Technology training	75	9 ^b
Bilingual education profession development	25	8 ^c
Total	\$1,955	\$224

^a Federal Fiscal Year 1999 (October 1, 1998 to September 30, 1999).

^b These estimates are based upon 12 percent of the federal funds, which is approximately California's historic share of federal funds.

^c This estimate is based upon California's prior ability to access bilingual education grants.

Elementary School District (a Santa Barbara County district with 25 students) to \$26 million for Los Angeles Unified School District. Figure 2 displays funding estimates for the largest school districts. (For a complete list of district estimates please go to our web page at www.lao.ca.gov.)

Problems Facing Small Districts and Schools. The federal CSR rules pose particular implementation problems for small districts and schools, as described below. The first affects small districts. The second affects small schools, regardless of district size.

- Based on our estimates, approximately 585 of the state's nearly 1,000 school districts would not receive enough funds under the federal rules to hire one addi-

Figure 2
Federal Class Size Reduction Funds by District^a

(Dollars in Millions)

District	Amount
Los Angeles Unified	\$26.3
San Diego City Unified	3.9
Long Beach Unified	2.7
Fresno Unified	2.9
Oakland Unified	2.1
San Bernardino City Unified	1.8
Sacramento City Unified	1.9
Compton Unified	1.6
San Francisco Unified	1.6
Santa Ana Unified	1.4
Stockton City Unified	1.4
Montebello Unified	1.2
Bakersfield City Element	1.1
Pomona Unified	1.0
Districts receiving:	
• Between \$500,000 and \$1.0 million (19)	12.9
• Between \$250,000 and \$500,000 (69)	24.6
• Between \$50,000 and \$250,000 (270)	31.5
• Less than \$50,000 (628)	9.2
Total	\$129.1

^a Federal Department of Education estimates.

Problems Facing Other Districts and Schools. There are some other difficulties that districts in California may encounter in using the new funds given (1) the restrictive nature of the federal initiative and (2) the fact that California already has implemented its own CSR program in grades 1 through 3. These problems include:

- Many districts already have serious facility and land constraints that impede further CSR. The federal funds, however, cannot be used for facilities.
- Further class size reductions, particularly in elementary grades, would exacerbate the already serious teacher supply problem in California.
- The current federal plan is to provide CSR funds for only a three-year period. Thus, in order to continue higher staffing levels beyond the three-year period, school districts would need to find alternative funding—increasing fiscal pressure on existing budgets.

tional teacher. (We assume a new teacher's salary plus benefits is \$40,000 per year.)

- Making the incremental change from the state-required 20 to 1 student/teacher ratio to the federal 18 to 1 ratio could be logistically difficult and costly in small schools which have few classes to divide into smaller classes of cost-effective size. For example, a school with one first-grade class of 20 pupils cannot be divided without creating at least one class with a ratio of 10 to 1, or less.

Seeking a Federal Waiver. For the reasons outlined above, further class size reductions in grades 1 through 3 probably is not the best use of the new federal funds in California. Last month the State Superintendent of Public Instruction submitted a waiver request to the U.S. Secretary of Education to seek a broader use of the federal funds in California. Under current federal law, districts that reduce average class sizes in grades 1 through 3 to an 18 to 1 ratio can do any of the following with their federal CSR funds:

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- Make further class size reductions in grades 1 through 3.
- Reduce class size in kindergarten or other grades.
- Carry out activities to improve teacher quality, including professional development.

The Superintendent, in consultation with the Governor and Secretary for Education, has requested that the trigger for allowing districts to use the funds for any of the three other purposes be changed from an 18 to 1 ratio to a 20 to 1 ratio. Since 92 percent of California's grades 1 through 3 students are already in classes with student/teacher ratios of 20 to 1 or less, most districts would be able to use the federal funds for these broader purposes if this waiver request is granted.

Because school districts may encounter the same problems in other grades that we outlined above in their efforts to use the federal funds for class size reduction in grades other than 1 through 3, we believe the Superintendent should seek additional uses of the new federal funds to give districts as much flexibility as possible. We have identified the following two additional uses for the federal CSR funds that appear to be consistent with the intent of the federal bill:

- Provide teacher signing bonuses. Signing bonuses can be an effective incentive to attract new teachers. By their one-time nature, signing bonuses do not require an ongoing commitment of funds. This would be advantageous given the uncertainty of future federal CSR funds.

- Hire more teachers for summer school or after-school programs.

We suggest that the Superintendent consider these additional uses in her ongoing conversations with the federal government.

Other Federal Initiatives

The other new initiatives in the enacted federal budget are outlined in Figure 3. The state's share of these funds will depend on the success of the grant applications.

Conclusion

The infusion of over \$200 million in federal funds will provide new opportunities for California schools. The usefulness to the state of the biggest portion of these resources—the class size reduction monies—may, however, depend on the state's ability to obtain greater flexibility over the use of those funds.

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Figure 3

Other New Federal Initiatives

Reading Excellence Act

- \$260 million nationwide for the following:
 - Tutoring programs (after school, summer school, or Saturday school).
 - Professional development for teachers in reading.
 - Family literacy programs.

21st Century Community Learning Centers (After-School Program)

- \$200 million nationally for after-school, child care, literacy and adult education programs.
- President has proposed increasing the funding in his federal fiscal year (FFY) 2000 budget to \$600 million.

Gear-Up (College Access Program)

- \$120 million nationally for college outreach programs.
- Grants to the states for efforts to promote early college preparation and awareness, including information dissemination, counseling, tutoring, college visit and summer school programs.
- Grants to educational partnerships link higher education institutes with high schools and middle schools in high-poverty areas to promote the option of going to college.

Improving Teacher Quality

- \$75 million nationally to support efforts at the state and local level to improve teacher quality.
- Supports state reforms in training, credentialing, recruiting, and rewarding teachers.
- Supports higher education and school district teacher training partnerships to reform pre-service and in-service staff development.
- Teacher recruitment grants provide scholarships to fifth-year education students who commit to teaching in high-poverty areas.

Technology Training

- \$75 million nationwide to institutes of higher education, state departments of education, schools and districts to improve training in the use of technology. Supports incorporation of technology into university teacher training programs, creation of digital schools and libraries, and teacher mentorship training programs.

Bilingual Education

- \$25 million (additional) nationwide to institutions of higher education for bilingual education staff development, and to college graduate students for bilingual education fellowships.

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