1. Reduce the state's legal liability—includes projects to correct life threatening security/code deficiencies and to meet contractual obligations.
2. Maintain the current level of service—includes projects which if not undertaken will lead to reductions in revenue and/or services.
3. Improve state programs by eliminating program deficiencies.
4. Increase the level of service provided by state programs.
5. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of less than five years.
6. Increase the cost efficiency of state operations—includes energy conservation projects and projects to replace lease space which have a payback period of greater than five years.
7. Other projects—includes noncritical but desirable projects which fit none of the other categories, such as projects to improve buildings to meet current code requirements (other than those addressing life-threatening conditions), utility/site development improvements and general improvement of physical facilities.

Individual projects have been assigned to categories based on the intent and scope of each project. These assignments do not reflect the priority that individual projects should be given by the Legislature.

The Youth Authority minor projects ($289,000) fall under category seven.

DEPARTMENT OF EDUCATION

Item 6100 from the General
Fund and various funds — Budget p. E 1

Requested 1983–84	$7,806,652,000
Estimated 1982–83	7,669,743,000
Actual 1981–82	7,400,756,000
Requested increase (excluding amount for salary increases) $136,909,000 (+1.8 percent)	
Total recommended reduction	$68,629,664
Recommendation pending	$464,149,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount	*Analysis page*
6100-001-001	Main support	General	$25,706,000	1439
6100-001-140	Environmental education administration	Environmental License Plate	101,000	1446
6100-001-178	School bus driver instruction	Driver Training Penalty Assessment	254,000	1359
6100-001-305	Private postsecondary education	Private Postsecondary Administration	986,000	1447
6100-001-344	School capital outlay	State School Building Lease-Purchase	495,000	1439
6100-001-680	Surplus property agency	Surplus Property Revolving	26,337,000	1404
6100-001-890	Federal support	Federal Trust	(31,297,000)	1439

DEPARTMENT OF EDUCATION—Continued

6100-006-001—Special schools	General	30,547,000	1402
6100-011-001—Library support	General	6,845,000	1450
6100-011-890—Library federal support	Federal Trust	(1,039,000)	1456
6100-015-001—Instructional materials warehousing and shipping	General	238,000	1372
6100-020-001—Vocational education student organizations	General	500,000	1375
6100-101-001—School apportionments	General	5,178,300,000	1318
6100-101-890—Federal block grant	Federal Trust	(34,838,000)	1350
6100-101-945—Child nutrition	State Child Nutrition	(26,057,000)	1422
6100-106-001—County schools	General	65,290,000	1326
6100-111-001—Transportation	General	156,024,000	1359
6100-114-001—Court and federal mandate reimbursement	General	140,454,000	1385
6100-136-890—Federal ECIA Chapter I	Federal Trust	(252,776,000)	1343
6100-141-890—Migrant education	Federal Trust	(63,442,000)	1351
6100-151-001—American Indian Education Centers	General	750,000	1381
6100-156-001—Adult education	General	147,505,000	1375
6100-156-890—Federal adult education	Federal Trust	(9,288,000)	1375
6100-161-001—Special education	General	691,380,000	1388
6100-161-890—Federal special education	Federal Trust	(81,912,000)	1398
6100-166-001—Federal Job Training Partnership Act	Federal Trust	(—)	1375
6100-166-890—Vocational education	Federal Trust	(53,221,000)	1373
6100-177-044—Driver training	Motor Vehicle Account, State Transportation Fund	17,844,000	1356
6100-176-890—Transition program for refugees	Federal Trust	(7,637,000)	1343
6100-181-140—Environmental education	Environmental License Plate	399,000	1446
6100-196-001—Child development	General	248,546,000	1410
6100-196-890—Federal child development	Federal Trust	(1,957,000)	1410
6100-201-001—Child Nutrition	General	26,057,000	1422
6100-201-890—Federal child nutrition	Federal Trust	(296,709,000)	1423
6100-206-001—Urban Impact Aid	General	67,103,000	1337
6100-211-001—Library local assistance	General	5,520,000	1450
6100-211-890—Federal local assistance	Federal Trust	(5,216,000)	1456
6100-218-001—State block grant	General	425,612,000	1338
6100-226-001—Cost-of-living increase	General	543,859,000	1272
Total		$7,806,652,000	
Funding Source			
General		*7,760,236,000*	
Federal Trust		*839,332,000*	
Environmental License Plate		*500,000*	
Driver Training Penalty Assessment		*254,000*	
Private Postsecondary Administration		*986,000*	
State School Building Lease-Purchase		*495,000*	
Surplus Property Revolving		*26,337,000*	
State Child Nutrition		*26,057,000*	
Motor Vehicle Account		*17,844,000*	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Special Adjustment for Low-Wealth Districts. Recommend that the Department of Education report prior to budget hearings on how it will allocate $34.7 million to low-wealth districts and the need for the additional funds because the budget does not provide adequate information on the request to permit legislative review. We further withhold recommendation on this appropriation pending receipt of this information. 1320
2. ***In-Lieu Revenue Guarantee. Reduce Item 6100-101-001 by $20,000,000.*** Recommend deletion of $20,000,000 provided in lieu of funds for the 100 percent revenue guarantee because the Department of Education has not justified the special appropriation. 1321
3. Single Session Kindergarten. Recommend enactment of urgency legislation to repeal the Education Code provisions which limit the use of kindergarten teachers. 1323
4. Physical Education Mandate. Recommend enactment of urgency legislation to repeal the Education Code provisions which require (1) students to participate in physical education programs and (2) districts to provide physical education as part of the curriculum because this mandate denies districts and students the opportunity to substitute academic coursework for P.E. as a means of increasing academic achievement. 1325
5. San Francisco County Office of Education. Recommend enactment of legislation to eliminate state portion of the San Francisco County office operations revenue limit and "Other Purpose" apportionment, effective 1984–85, because the services supported by these allocations can be funded by the county's only school disctrict from its own revenue limit. 1326
6. County-Operated Juvenile Hall Programs. Recommend adoption of Budget Bill language to allocate inflation allowances for juvenile hall programs according to an equalization mechanism, in order to reduce the unwarranted disparity among existing revenue limits and equalize resources for these programs. 1327
7. Enrollment Growth in Regional Occupational Centers and Programs (ROC/Ps). Recommend the Department of Finance submit justification for the proposed 10 percent growth in enrollment for ROC/Ps, and relate this proposal to the administration's policy toward growth in adult education and community college programs. Further recommend enactment of legislation to establish a procedure for allocating funding deficits caused by excessive growth of ROC/Ps, in order to apply such deficits only to those ROC/Ps that exceed the authorized level of growth. 1329
8. ***Targeting ROC/P Training. Reduce Item 6100-101-001 by $12,647,000 and reduce Item 6100-226-001 by $379,000.*** Recommend adoption of Budget Bill language, and enactment of legislation, prohibiting ROC/P enrollment of pupils in grades 9 and 10, because high school pupils do not 1330

DEPARTMENT OF EDUCATION—Continued

require the type of job-specific training provided by ROC/Ps until they are within two years of graduation.

9. ROC/P and Adult Education Course Approval. Recommend adoption of supplemental language directing the department to develop new course approval criteria, based on skill level, wage level, and degree of labor market shortage, in order to ensure that state-funded employment training is effective and responsive to the needs of the labor market. 1331
10. Block Grant Funding for ROC/Ps. Recommend adoption of Budget Bill language directing the Department of Education to establish a pilot program to fund up to five ROC/Ps on a block grant basis, in order to assess the effect of a new funding model on the quality of the ROC/P curriculum. 1332
11. Equalization of Regional Occupational Centers and Programs (ROC/Ps). Recommend adoption of Budget Bill language to allocate inflation allowances for ROC/Ps according to an equalization mechanism, in order to eliminate the unwarranted disparity among existing revenue limits and equalize resources for these programs. 1334
12. ROC/P Administrator-Teacher Ratio. Recommend adoption of Budget Bill language applying to ROC/Ps the same statutory ceiling on the ratio of administrators to teachers that now applies to districts, in order to control administrative costs. 1334
13. Institute for Computer Technology Recommend adoption of Budget Bill language to fund the Institute for Computer Technology as an exemplary project under the Investment in People program, rather than from the ROC/P appropriation, because the institute's activities are within the scope of the Investment in People program, and the institute's role differs from that of ROC/Ps. 1336
14. ***Urban Impact Aid. Reduce Item 6100-226-001 by $2,013,000.*** Recommend elimination of cost-of-living adjustment because such an adjustment is not jusitifed for a program that does not support a specific type of service. 1337
15. State Educational Block Grant. Recommend provision of information, by April 1, 1983, by the Department of Education in order to allow the Legislature to review adequately the advantages and disadvantages of the proposed block grant. Pending receipt of this information, withhold recommendation on the proposed block grant local assistance funding of $425.6 million. 1339
16. Economic Impact Aid. Recommend adoption of Budget Bill language requiring Economic Impact Aid funds to be allocated based on a formula that uses the statewide district count of Limited English Proficient pupils, rather than a count of Spanish and Asian surnamed and American Indian pupils, in order to more effectively target funds. Further recommend enactment of legislation to amend the Education Code to reflect this change in the formula. 1342
17. Translation of Forms. Recommend adoption of supple- 1345

mental language requiring the Department of Education to provide to school districts a translation of forms which the district is required to distribute to non-English speaking parents in order to reduce district costs for these translations.

18. Miller-Unruh Reading Program. Recommend adoption of Budget Bill language requiring the department to reallocate Miller-Unruh Reading program funds based on California Assessment Program reading scores and district revenue limits, in order to meet legislative intent that funds be allocated to districts that have the greatest need and the fewest resources. 1348

19. Migrant Education in Los Angeles County. Recommend that the Department of Education report on (1) why it has not implemented a Migrant Education program to serve all eligible Los Angeles County pupils, and (2) the level of funding provided for projects intended to identify and recruit eligible pupils. 1352

20. Mini-Corps Stipends. Recommend adoption of supplemental language directing the Director of Finance to review and approve, prior to implementation, the 1983–84 Mini-Corps service agreement because the current service agreement does not comply with a legislative directive. 1353

21. Mini-Corps Campus Coordinators. Recommend adoption of supplemental language directing the Department of Education to reduce 16 full-time school year Mini-Corps campus coordinator positions to eight full-time equivalent positions to reflect workload requirements. 1354

22. Migrant Education External Evaluation. Recommend the Department of Education report during budget hearings on the status of the external evaluation. 1355

23. ***Driver Training Overbudgeting. Reduce Item 6100-171-044 by $508,000.*** Recommend $508,000 reduction in the amount budgeted for driver training local assistance because of declining enrollment in the program. 1357

24. ***One-Time Funding for Teacher Education and Computer (TEC) Centers. Reduce Item 6100-218-001 by $247,741.*** Recommend deletion of one-time "bonus" funding provided to three TEC centers in 1982–83 because these funds were intended to cover consolidation costs in the current year and are no longer needed. 1365

25. ***San Francisco Teacher Education and Computer (TEC) Center. Reduce Item 6100-218-001 by $154,250.*** Recommend that (1) TEC region 5 (San Francisco) be merged with region 8 (Santa Clara) in order to achieve economies of scale and provide for more efficient operations, and (2) funding be reduced to reflect these economies. 1365

26. ***State Operations for Staff Development. Reduce Item 6100-001-001 by $250,000.*** Recommend elimination of 3.0 positions and related operating expenses for administration of the Investment in People program, because workload does not justify these staff and expenditures. 1366

27. ***Mathematics, Engineering, Science Achievement (MESA) Program. Reduce Item 6440-001-001 by $198,000; reduce*** 1367

DEPARTMENT OF EDUCATION—Continued

Item 6610-001-001 by $273,000; reduce Item 6100-218-001 by $880,000; and establish new Item 6100-005-001 in the amount of $1,351,000. Recommend consolidation of all state support for MESA in the budget for the Department of Education, in order to facilitate administration and review of the program.

28. *Instructional Materials. Reduce Item 6100-001-001 by $60,000.* Recommend adoption of Budget Bill language requiring publishers to pay a fee of $100 for each instructional materials item adopted by the state, because publishers whose textbooks are adopted benefit from the adoption process and should therefore help to support it. 1371
29. Work Experience Education. Recommend adoption of Budget Bill language prohibiting General Work Experience Education from counting toward the minimum school day required to qualify for state apportionments, because this program (1) comes at the expense of, and does not contribute to, the pupil's academic preparation and (2) generally is not related to the pupil's occupational goals. 1374
30. *Adult Education. Reduce Item 6100-001-001 by $386,000.* Recommend elimination of General Fund support for state operations in adult education because under existing law workload for which these funds have been provided in the past will terminate on June 30, 1983. 1377
31. *Authorized Courses in Adult Education. Reduce Item 6100-156-001 by $14,160,000 and reduce Item 6100-226-001 by $133,000.* Recommend adoption of Budget Bill language to delete home economics and health and safety education from the list of adult education subjects which may be state-funded, because most courses in these areas are either recreational or can be taken elsewhere. 1377
32. Adult Education Attendance Reporting. Recommend adoption of supplemental language requiring the department to collect and report average daily attendance data for adult education so as to show ADA in each of the subject areas authorized for state funding, in order to facilitate legislative review of the adult education program. 1378
33. *AB 1544 Native American Indian Education Programs. Reduce Item 6100-218-001 by $318,000 and Item 6100-001-001 by $78,000.* Recommend elimination of the Native American Indian Education program and related state operations because the compensatory education needs of Native American pupils can be met through other existing state and federal programs. 1380
34. Unfunded Legislation—Chapter 472, Statutes of 1982 (SB 818). Recommend Department of Finance explain why funds have not been requested to reimburse districts for costs mandates by Ch 472/82, and what action the administration proposes to take with regard to the constitutional requirement that these costs be reimbursed because the constitution requires reimbursement of state mandated costs of local agencies. 1384
35. Physical Performance Test. Recommend enactment of 1384

legislation to repeal the physical performance test mandate because the results of the test are not used for any statewide purpose.

36. ***Special Education Cost-of-Living Adjustment. Reduce Item 6100-226-001 by $10,683,000.*** Recommend $10,683,000 reduction in the amount budgeted for special education local assistance COLA to correct for overbudgeting. 1396
37. ***Pre-Kindergarten Grant Allocation. Reduce Item 6100-001-890 by $71,000 and increase Item 6100-161-890 by $71,000.*** Recommend adoption of supplemental directing the Department of Education to allocate federal funds for special education preschool and infant programs on a per capita basis because this method of allocating funds is more efficient and would leave more money available for services to children. Further recommend deletion of a federally-funded consultant position and the redirection of these funds to local assistance because the position would be unnecessary if funds are allocated on a per capita basis. 1400
38. Special Education Resource Network (SERN). Recommend adoption of supplemental language directing the Department of Education to submit a report on the feasibility and potential cost savings that would result from consolidating SERN and the Teacher Education and Computer Centers (TECs). 1401
39. Diagnostic Schools for the Neurologically Handicapped. Recommend adoption of supplemental language directing the Department of Education to submit a report on the availability of assessment services from other public and private institutions and the cost of the services, because there may be less costly alternatives to the state's present system of diagnosing the needs of students with neurological disorders. 1403
40. Inaccurate Budget Display. Recommend Department of Finance submit prior to the budget hearings a more accurate budget request for the Office of Surplus Property. 1405
41. Excess Reserves. Recommend adoption of supplemental language directing the Office of Surplus Property to reduce excess reserves in the Surplus Property Revolving Fund by refunding $3.9 million to recipient agencies through lower service and handling charges, because the current level of reserve is excessive. 1406
42. Fullerton Warehouse. Recommend Department of Education submit the Southern California warehouse remodeling project to the Legislature for review and approval because this is a major capital outlay project of the type normally reviewed by the Legislature. 1406
43. ***Sacramento Warehouse. Reduce Item 6100-001-680 by $264,700.*** Recommend $264,700 reduction in the budget for the Office of Surplus Property to reflect cost savings resulting from the conversion of existing warehouse space to cool storage. 1407
44. SLAMM Report. Recommend the Department of Education report prior to the budget hearings on the estimated net savings which will result from the implementation of 1407

DEPARTMENT OF EDUCATION—Continued

each of the recommendations made in the SLAMM report prepared per prior legislative directive.

45. ***Shipping Rates. Reduce Item 6100-001-680 by $137,523.*** Recommend $137,523 reduction in the budget for the Office of Surplus Property (OSP) to reflect anticipated savings in commercial shipping costs associated with the state's exemption from minimum Public Utilities Commission mandated shipping rates. 1408
46. Data Processing. Recommend the Department of Education report prior to the budget hearings on the estimated personnel savings which will result from implementation of a new data processing system in the Division of Child Development and Nutrition Services. 1409
47. ***Overbudgeting. Reduce Item 6100-196-001 by $3,832,000.*** Recommend $3,832,000 reduction in the budget for child care local assistance because local child care agencies have been unable to earn this amount in the past, and therefore it is not needed in the budget year to maintain current service levels. 1415
48. Child Care-"Excused Absences". Recommend adoption of Budget Bill language and enactment of legislation stipulating that state reimbursement shall not be provided for excused absences in excess of five days per child per year unless they are due to specified reasons, because absences currently are not well controlled. 1416
49. Eligibility Standards and Parent Fee Schedule Review. Recommend (1) enactment of legislation repealing the exemption from parent fees granted by existing law to AFDC and SSI/SSP recipients receiving state-subsidized child care services, and (2) report by the Office of Child Development, prior to the budget hearings, on the fiscal and programmatic effects of using the Current Population Survey issued by the U.S. Bureau of the Census in establishing future family fee schedules, because the U.S. census data is more accurate and because there is no analytical basis for excluding AFDC and SSI/SSP recipients from paying parent fees. 1417
50. Proposition 1 Clarification Needed. Recommend enactment of legislation to clarify the provisions of Proposition 1 regarding (1) the local district share of school construction project costs, and (2) the requirement that surplus school sites be sold. Further recommend that prior to the budget hearings, the Department of Finance identify the amount and source of funds needed to pay the 1983–84 debt service on Proposition 1 bonds sold in the current fiscal year. 1428
51. Hardship Waivers. Recommend enactment of legislation amending the Education Code to delete the requirement that the State Allocation Board adopt a hardship waiver regulation, because such a regulation is no longer needed. 1429
52. Constitutional Amendment. Recommend enactment of legislation placing a constitutional amendment on the next general election ballot authorizing local voters to assess 1430

special property tax rates to fund debt service on local school construction bonds, in order to increase the amount of funding available to meet school facility needs, and to assure that those who benefit from school facility construction bear a larger share of the cost of this construction.

53. Alternative Eligibility Standards. Recommend adoption of supplemental language directing the State Allocation Board (SAB) to require each applicant for state school construction aid to demonstrate that specified alternatives for (1) mitigating the need for school construction and (2) financing school construction, which minimize the demand for limited state funds, cannot be used. Further recommend the publication by the Departments of General Services and Education of a handbook for distribution to school districts detailing available alternative financing options for school construction, which also discusses strategies for implementing these options, in order to provide more information to school districts on this subject. 1432

54. Conservation of Existing School Construction Funds. Recommend enactment of legislation substituting a sliding scale for the required 10 percent school district match that now applies to the cost of school construction projects, in order to strengthen incentives for reducing the cost of assisted projects. Further recommend adoption of supplemental language directing an amendment to the current method of paying for architectural services, in order to conserve state school construction funds. 1433

55. Nonuse Payments for Surplus School Sites. Recommend enactment of legislation increasing the nonuse payment for surplus school sites charged to local school districts, in order to return these sites to the property tax rolls and thereby reduce state costs. 1435

56. Priority Points. Recommend adoption of supplemental language directing the State Allocation Board to establish the minimum number of priority points needed by school construction applications before they can be considered for funding in the budget year, so as to assure that available funds are used to fund projects for which the greatest need exists. 1436

57. Developer Fees. Recommend enactment of legislation to authorize the assessment of SB 201 fees to finance the cost of permanent school construction, so that more funds can be made available to meet the unmet need for school facilities. 1438

58. State Administration—State Educational Block Grant. Withhold recommendation on the proposed $3,859,000 reduction in state administration associated with the State Educational Block Grant proposal pending receipt of additional information. 1444

59. Serrano Defense Attorney Fees. Recommend (1) $525,000 requested for the state's defense in the Serrano case be identified in the budget, and (2) the expenditure of these funds be subject to the approval of the Director of Finance, to ensure that any unneeded funds are not reallocated. 1444

DEPARTMENT OF EDUCATION—Continued

60. California High School Proficiency Examination (CHSPE). Recommend the Departments of Finance and Education submit a plan for funding the deficit in the CHSPE program. 1445
61. *California Library Service Act—System Reference Centers. Reduce Item 6100-211-001 by $1,446,000.* Recommend elimination of California Library Services Act funding for system reference centers because these services (1) serve no statewide interest, (2) can be provided locally, and (3) can be supplemented as necessary by federally funded reference centers. 1451
62. California Library Services Act—Interlibrary Loan. Recommend adoption of Budget Bill language directing the State Librarian to require a $1 processing fee for interlibrary loan requests handled under the California Library Services Act in order to (1) reduce the net cost of handling these loans and (2) discourage consumers from making unnecessary loan requests. 1453
63. *California Library Services Act—Federal Fund Offset. Reduce Item 6100-211-001 by $900,000.* Recommend unbudgeted federal funds be used to replace state support for California Library Services Act in order to increase the Legislature's fiscal flexibility in funding its priorities. 1454
64. *California Library Services Act System—Advisory Boards. Reduce Item 6100-211-001 by $36,000.* Recommend elimination of state support for System Advisory Boards because library systems would continue to receive public input without these boards. 1455
65. *State Special Schools' Unexpended Balance. Reduce Item 6100-006-001 by $354,450.* Recommend a 1 percent reduction in the appropriation for the state special schools because historically the schools have had an unexpended balance exceeding 1 percent of their appropriation. 1457
66. *Career Education Incentive Act. Reduce Item 6100-001-001 by $78,000.* Recommend funds requested to match federal funds under the Career Education Incentive Act be deleted because the program no longer exists. 1457
67. *Instructional Materials Data Processing. Reduce Item 6100-001-001 by $35,000.* Recommend reduction to eliminate overbudgeting. 1458
68. Expenditure Authority for Instructional Materials Program. Recommend adoption of Budget Bill language to permit expenditure of funds recovered from publishers in legal proceedings because these funds currently cannot be spent. 1458
69. Surplus Property Revolving Fund Condition. Recommend adoption of supplemental language directing the Department of Finance to include in the budgets for future years, a complete fund condition statement for the Surplus Property Revolving Fund. 1458
70. Budget Format for Local Assistance Summary by Object. Recommend adoption of supplemental language directing the Department of Finance to provide more detail in the 1459

Department of Education's Summary by Object for Local Assistance because the current level of detail excludes information needed for legislative oversight.

Summary of Legislative Analyst's Recommended Fiscal Changes

Activity	*General Fund*	*Other State Funds*
In-Lieu Funding for Revenue Guarantee	–$20,000,000	
Regional Occupational Centers and Programs	–13,026,000	
Urban Impact Aid COLA	–2,013,000	
Driver Training		–$508,000
Teacher Education/Computer (TEC) Centers	–247,741	
San Francisco TEC	–154,250	
Staff Development Administration	–250,000	
Mathematics, Engineering, Science Achievement program	471,000	
Instructional Materials Publishers' Fee	–60,000	
Adult Education Administration	–386,000	
Adult Education Courses	–14,293,000	
Native American Indian Education program	–396,000	
Special Education COLA	–10,683,000	
Office of Surplus Property Warehouse		–264,700
Office of Surplus Property Shipping Rates		–137,523
Child Care Local Assistance	–3,832,000	
State Library System Reference Services	–1,446,000	
State Library Federal Funds Offset	–900,000	
Library System Advisory Boards	–36,000	
Special Schools' Unexpended Balance	–354,450	
Career Education Incentive Act	–78,000	
Instructional Materials Data Processing	–35,000	
Totals	–$67,719,441	–$910,223

OVERVIEW

We recommend a net reduction of $68.6 million in the proposed appropriations for K–12 education. This amount consists of $67.7 million in reductions from the General Fund and $0.9 million in reductions from other state funds. The recommendations for reductions reflect our analysis of where the budget contains funds which are in excess of individual program needs. Any funds released by these recommendations would be available for redirection by the Legislature to other education or noneducation programs.

Additionally, we withhold recommendation on the proposed State Educational Block Grant local assistance item (Item 6100-218-001) of $425.6 million and the proposed state operations reduction of $3.9 million associated with the block grant.

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

OUTLINE OF THE K–12 EDUCATION ANALYSIS

DEPARTMENT OF EDUCATION—Continued

GENERAL PROGRAM STATEMENT

In 1983–84, approximately 4.2 million students will attend public elementary and secondary schools in 1,044 elementary, high, and unified school districts. This attendance is referred to as ADA (average daily attendance), and is defined as the average number of pupils either actually attending classes for at least the minimum school day, or having a valid excuse for absence. The state provides assistance to local district programs for these students through a number of general and categorical aid programs. Table 1 shows K–12 attendance figures for the past, current, and budget years.

The attendance level projected for 1983–84 is 0.5 percent above the 1982–83 level.

Table 1
Annual Average Daily Attendance (ADA) in California Public Schools

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Percent Change*
Elementary	2,703,143	2,726,600	2,739,900	0.5%
High School	1,245,380	1,216,100	1,213,900	−0.2
Adult Education	168,876	157,200	157,200	0.0
County	14,125	14,300	14,200	−0.7
Regional Occupational Centers and Programs (ROC/Ps)	82,183	89,800	98,800	10.0
Totals	4,213,707	4,204,000	4,224,000	0.5%

Source: Department of Finance midrange projection of October 14, 1982.

The K–12 education system is administered by the State Department of Education (SDE), 58 county offices of education, and 1,044 school districts.

DEPARTMENT OF EDUCATION—Continued

For the SDE, the Governor's Budget proposes a total appropriation of $124.3 million to support 2,734.3 positions and related operating expenses. This proposed appropriation level includes $63.8 million from the General Fund, $32.3 million from federal funds, and $28.2 million from other state funds. Later in our analysis of K-12 education we present the specific detail of the budget's proposals.

ANALYSIS AND RECOMMENDATIONS

1. K-12 Revenues

The budget proposes that $13,531.9 million be made available for K-12 education in 1983-84. This is an increase of $457.3 million, or 3.5 percent, over the amount provided in 1982-83. Table 2 displays total revenues for K-12 education in the past, current, and budget years.

Under the proposed budget, the state's General Fund provides $8,086.4 million to support K-12 education in 1983-84, an increase of $164.0 million, or 2.1 percent, over the current-year level. In addition, 13 state special funds provide $268.2 million for K-12 education. Thus, total state support for K-12 education in the budget year is proposed to be $8,354.6 million, or 62 percent, of the total amount anticipated.

Federal funds for K-12 education in 1983-84 are estimated at $839.2 million, or 6.2 percent, of the total. This is a decrease of $16.5 million, or 1.9 percent, from the current-year level.

Local revenue for K-12 education from all sources is expected to be $4,338.1 million in 1983-84, an increase of $333.6 million, or 8.3 percent, over the 1982-83 level. Local property tax levies are expected to generate a little over half ($184.5 million) of the additional funds, while miscellaneous local revenues, which include cafeteria income, interest, fees, and income from the sale of property and bonds, are expected to account for a little less than half ($149.1 million) of the increase. In total, local revenues are expected to account for 32 percent of all K-12 funding.

Table 2
Total Revenues for K-12 Education
(in millions)

	Actual 1981-82	*Estimated 1982-83*	*Proposed 1983-84*	*Change Amount*	*Change Percent*
State:					
General Fund	$7,697.2	$7,922.4	$8,086.4	$164.0	2.1%
Special Funds [a]	82.3	292.0	268.2	−23.8	−8.2
Subtotals, State	$7,779.5	$8,214.4	$8,354.6	$140.2	1.7%
Federal [b]	$882.4	$855.7	$839.2	−$16.5	−1.9%
Local:					
Property Tax Levies	$2,598.7	$2,439.3	$2,623.8	$184.5	7.6%
Debt Service	461.0	461.0	461.0	—	—
Miscellaneous [c]	974.9	1,104.2	1,253.3	149.1	13.5
Subtotals, Local	$4,034.6	$4,004.5	$4,338.1	$333.6	8.3%
Totals	$12,696.5	$13,074.6	$13,531.9	$457.3	3.5%

[a] Includes the California Environmental License Plate Fund, State School Fund, Surplus Property Revolving Fund, and others.
[b] Includes Federal Impact Aid (PL 81-874) which is not shown in the budget.
[c] Includes sale of property and supplies, cafeteria revenues, interest income, bond funds, and other revenues.

Significant Program Changes in 1983-84

Table 3 shows the components of the $457.3 million net increase in total revenues available for the state's K-12 education system in 1983-84. The most significant General Fund changes are:

(1) inflation adjustments for K-12 apportionments ($447.0 million), and other local assistance programs ($62.2 million),

(2) elimination of the 100 percent revenue guarantee (−$217.2 million),

(3) increases needed to fund ADA growth ($83.9 million),

(4) elimination of one-time funding for K-12 apportionments provided by SB 1326 (−$50.0 million),

Table 3

Proposed 1983-84 Budget Changes (in millions)

	Funding Source				
	General	*Special*	*Local*	*Federal*	*Total*
1982-83 Base	$7,922.4	$292.0	$4,004.5	$855.7	$13,074.6
1. Changes to Maintain Existing Base:					720.6
ADA increase	83.9	—	—	—	
Increase in local property taxes	−184.5 [a]	—	184.5 [a]	—	
Financial legislation	−13.7	—	—	—	
One-time special education deficiency	−35.0	—	—	—	
Statutory inflation adjustments:					
K-12 apportionments	552.3	—	—	—	
Other programs with statutory COLAs	133.1	—	—	—	
2. Program Change Proposals:					−268.0
Elimination of one-time K-12 funds (SB 1326)	−50.0	—	—	—	
Elimination of 100 percent guarantee	−217.2	—	—	—	
One-time adjustment in-lieu of 100 percent guarantee	20.0	—	—	—	
Adjustments to statutory inflation amounts:					
K-12 apportionments	−105.3	—	—	—	
Other programs with statutory COLAs	−85.3	—	—	—	
Discretionary programs inflation	14.4	—	—	—	
Deferred Maintenance Fund	16.3	—	—	—	
State Teachers' Retirement Fund	−3.2	—	—	—	
Capital outlay funds	—	−25.0	—	—	
Federal funds	—	—	—	−16.5	
Miscellaneous local revenues	—	—	149.1	—	
Special adjustment for low-wealth districts	34.7	—	—	—	
3. All other changes	3.5	1.2	—	—	4.7
Subtotals					
Total Change:					$457.3
Amount	$164.0	−$23.8	$333.6	−$16.5	
Percent	2.1%	−8.2%	8.3%	−1.9%	3.5%
1983-84, as proposed	$8,086.4	$268.2	$4,338.1	$839.2	$13,531.9

[a] This represents a change in funding source.

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(5) elimination of one-time funding for the 1981–82 special education deficiency (–$35.0 million),

(6) a one-time increase for low wealth districts ($34.7 million), and

(7) a one-time increase in-lieu of 100 percent guarantee ($20.0 million).

In addition to these changes, the budget proposes to consolidate nine state-funded, local assistance categorical aid programs into the State Educational Block Grant at a proposed funding level of $425.6 million.This proposed funding level is the same as the current year funding for the nine programs. Later in this *Analysis* we present a separate discussion of the proposed block grant.

a. ***Cost-of-Living Adjustments (Item 6100-226-001).*** The budget provides $543.9 million for cost-of-living adjustments (COLAs) in 1983–84. This amount includes: (1) $34.7 million designated as a special adjustment for low-wealth districts, (2) $447.0 million for general aid apportionments to K-12 districts (base revenue limits), (3) $36.2 million for special education local assistance, (4) $11.6 million for all other programs having statutory COLAs, and (5) $14.4 million for programs that do not have a statutory cost-of-living adjustment.

In essence the budget provides:

- a 6 percent COLA for general aid apportionments, in-lieu of the statutory 7.48 percent COLA;
- a 3 percent COLA for special education, in-lieu of the statutory 7.44 percent COLA;
- a 3 percent COLA for all other local assistance programs, regardless of whether they have statutory COLAs.

We discuss these specific proposals elsewhere in this *Analysis.* In *The 1983–84 Budget: Perspectives and Issues,* which accompanies this *Analysis,* we discuss the general issue of cost-of-living adjustments and how these increases affect the budget.

b. ***Elimination of the 100 Percent Revenue Guarantee.*** Each school district receives state apportionment aid in an amount equal to its base revenue limit per ADA multiplied by its ADA. In the absence of any funding adjustments, a school district's revenue, excluding categorical aid, would be determined primarily by changes in ADA. Chapter 282, Statutes of 1979 (AB 8), however, provides that no district shall receive less than 102 percent of its prior-year revenues, regardless of the change in a district's ADA. Thus, even when a district experiences a significant loss of ADA, this provision calls for the district to receive an increase in state apportionment aid.

The 1982 Budget Act reduced the revenue guarantee to 100 percent for 1982–83.

The statutory provision establishing the 102 percent revenue guarantee is scheduled to expire on June 30, 1983. The budget does not propose an extension in the guarantee and contains no funding for the guarantee in 1983–84.

The General Fund savings realized by the elimination of the revenue guarantee depends on the size of any cost-of-living adjustment granted to local school districts. This is because a COLA on the revenue limit reduces the amount needed to guarantee a district the same or an increased level of revenues. Elimination of the revenue guarantee in 1983–84 would reduce funding requirements for K–12 apportionments as follows:

Size of COLA	Savings From Elimination of (in millions) 100 Percent Guarantee	102 Percent Guarantee
0%	$217.2	$328.9
3	133.9	192.7
6	86.8	123.3

c. ***One-Time Adjustment In-Lieu of 100 Percent Guarantee.*** The budget proposes a special appropriation of $20.0 million to provide funds to those school districts that will be adversely affected by the elimination of the 100 percent revenue guarantee. This one-time appropriation would be allocated by the Superintendent of Public Instruction to school districts with the most urgent need.

d. ***Elimination of One-Time Funds for Special Education Deficiency.*** The 1982 Budget Act appropriated $35.0 million to fund part of the 1981–82 deficit in special education. Because this was a one-time cost, the 1983–84 budget shows a reduction of $35.0 million between the current and budget years.

e. ***Elimination of Other One-Time K–12 Funds (SB 1326).*** Senate Bill 1326, (Ch 327/82), the trailer bill to the 1982 Budget Act, provided $50.0 million in 1982–83 to school districts for the purpose of enhancing local programs. Expenditure of these funds was restricted to items other than salaries and employee benefits. Because this was intended as a one-time increase in revenues to districts, the 1983–84 budget shows a $50.0 million reduction in funding between the current year and budget years.

f. ***Increase in Local Property Taxes.*** The budget estimates an increase in property tax revenues of $184.5 million for 1983–84. This increase in local revenues, however, does not result in a corresponding increase in revenues to school districts. This is because the current school finance system guarantees each district a certain amount of revenue per ADA. Consequently, any increase in local property tax revenue simply offsets, dollar-for-dollar, the amount of state aid needed to fund the revenue limit. Consequently, the $184.5 million increase in local revenues is offset by a reduction of $184.5 million in General Fund support.

The budget assumes that 1983–84 taxable property that has not changed ownership or been newly constructed will be valued at 2 percent over the current year value. The Board of Equalization, however, estimates that for 1983–84 the increase in assessed value for this property may be less than 2 percent because latest data suggest that the California CPI could be significantly less than 2 percent for the current year. If the increase is in fact less than 2 percent, the amount of property tax revenues available to schools and the proposed General Fund appropriation for K–12 funding could be insufficient to fund the budget's proposal. More accurate information will be available in May.

g. ***Special Adjustment for Low-Wealth Districts.*** The budget provides an additional $34.7 million for low-wealth districts. These funds are to be allocated to districts whose per-pupil revenue limit is $20 below the statewide average for comparable districts (elementary, high school, or unified).

In 1976, the state Supreme Court ruled in the *Serrano v. Priest* case that California's system of school finance was unconstitutional and upheld a lower court ruling that wealth-related disparities in educational expenditures per pupil had to be reduced to "considerably less than $100 per pupil" by 1980. The Department of Finance estimates that with the special adjustment, 96 percent of the state's K–12 students will be enrolled in

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districts with base revenue limits that are within $100 of the statewide average. Currently, approximately 72 percent of the state's students are enrolled in districts that meet the $100 requirement.

h. ***Miscellaneous Local Revenue.*** School districts' miscellaneous local revenues include revenue generated from the sale of property and supplies, cafeteria revenue, interest and lease income, income from the sale of bonds, and other income. We estimate that revenues from these sources will increase $149.1 million in 1983–84, or 13.5 percent, from the estimated current year level of $1,104.2 million.

i. ***Other Changes.*** Other changes affecting the overall level of support for K–12 education include: (1) an increase of $16.3 million from the General Fund for deferred maintenance, (2) a reduction of $3.2 million for contributions to the State Teacher's Retirement System, (3) a reduction of $25.0 million in school construction revenues from Proposition 1 bond funds, and (4) a loss of $16.5 million in federal aid.

j. ***State Educational Block Grant.*** The Governor's budget also proposes to establish a State Educational Block Grant. This proposal does not include a change in the $425.6 million program level between the current and budget years for the nine state-funded local assistance categorical aid programs that are proposed for inclusion in the block grant. Later in this *Analysis*, we present a separate discussion of the proposed block grant.

I. OVERVIEW OF K–12 FISCAL AND POLICY ISSUES AND OPTIONS

Background

In recent months, there has been much legislative and public discussion about (1) California's expenditures for K–12 education, relative to the level of expenditures by other states and (2) the need for education reform. Concerns have been raised about (1) the level of expenditures for education by the state as a percentage of the state's personal income, (2) student achievement, (3) teacher competence, (4) the rigorousness of the curriculum, (5) the length of the school day and school year, (6) faculty tenure, and (7) the impact of collective bargaining on the performance of public schools.

To date, however, no clear consensus has emerged as to what action, if any, should be taken. Because this debate appears certain to continue, we begin this analysis with a review of the major fiscal and program issues facing the Legislature in 1983. This discussion is divided into two sections:

A. ***Fiscal issues and options,*** which includes a discussion of (1) trends in expenditures for education in California, (2) education expenditures by the 50 states, (3) alternative sources of revenues for financing additional K–12 expenditures, (4) alternative systems for allocating K–12 funding, and (5) K–12 school facility needs.

B. ***Policy issues and options,*** which includes a discussion of (1) categorical education aids and their place in the state's system of school finance, (2) the adequacy of the state's educational curriculum and alternatives for improving it, (3) the supply of teachers relative to the state's needs, now and in the future, (4) vandalism and violence at the school site, and (5) the impact of state mandates on local districts and students.

A. FISCAL ISSUES AND OPTIONS

In this part of the overview, we examine the level of funding provided for K–12 education in California, as well as the major funding issues faced by the Legislature.

1. Total K–12 Revenues, 1974–75 to 1983–84—Has Inflation Eroded K–12 Support?

Table 4 and Chart 1 display total funding for K–12 by source, for the 10 years 1974–75 to 1983–84. The principal funding sources identified in the table are as follows:

- *Local Property Tax Levies*—revenues raised by the tax on real property.
- *State Property Tax Subventions*—funds provided by the state to school districts to replace property tax revenues foregone due to tax exemptions granted by the state, such as the homeowners exemption and the business inventory exemption. (In Chart 1, state property tax subventions are included with local property tax levies.)
- *State Aid*—K–12 revenues provided from the General Fund and state special funds.
- *Federal Aid*—all K–12 education funds received from the federal government.
- *Miscellaneous Revenues*—combined state/federal grants, sale of property and supplies, cafeteria revenues, interest income, and other revenues.

As shown in Table 4, total funding for K–12 education in California is proposed to increase from $7,210.5 million in 1974–75 to $13,532.0 million in 1983–84, an increase of $6,321.5 million or 88 percent. Of the five revenue sources, aid from the state has increased most significantly since 1974–75 (255 percent), while support from the property tax and state property tax subventions has actually declined, due to the combined effects of Proposition 13 and the state's fiscal relief program established by AB 8 (Ch 282/79).

Average daily attendance (ADA) over this same period dropped 10.4 percent, from 4,714,154 to 4,224,000. This decline of 490,154 in the number of students is explained by (1) a decline in the number of 5–17 year olds residing in the state and (2) a reduction in summer school ADA. The reduction in summer school ADA reflects the withdrawal of state funds for most summer school students, following the passage of Proposition 13 in 1978. This caused total ADA to decline sharply between 1977–78 and 1978–79.

Table 4 and Chart 2 also show that funding per pupil, expressed in current dollars (that is, dollars that have not been adjusted to reflect the effects of inflation on purchasing power), increased almost 110 percent since 1974–75, rising from $1,530 to $3,204. If, however, we adjust per pupil expenditures for the significant inflation that occurred during this period, a different picture emerges. In constant dollars, using 1972–73 as the base year, per pupil funding was $1,290 in 1974–75. For 1983–84, per pupil funding is proposed at $1,411 in constant dollars. This is an increase of $121

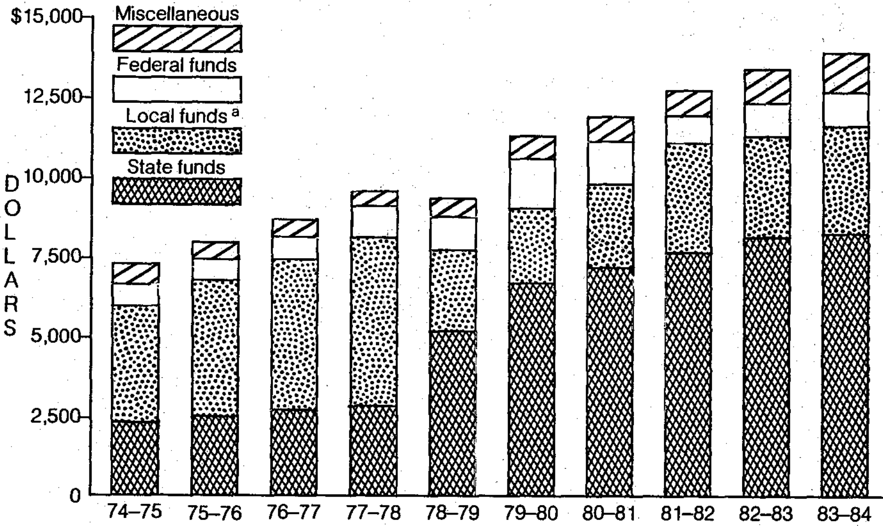
Table 4
K–12 Total Revenues
(in millions)

Year	Local Property Tax Levies[a]	State Property Tax Subventions	State Aid	Federal Aid	Miscellaneous[b]	Total Funding	ADA	Total Funding: Per ADA	Total Funding: Percent Change	1972–73 Dollars[c]: Per ADA	1972–73 Dollars[c]: Percent Change
1974–75	$3,348.2	$430.8	$2,356.7	$550.4	$524.4	$7,210.5	4,714,154	$1,530	8.8%	$1,290	−0.6%
1975–76	3,795.2	485.6	2,594.4	591.6	391.1	7,587.9	4,760,966	1,650	7.8	1,287	−0.2
1976–77	4,256.1	494.0	2,764.6	644.4	495.6	8,654.7	4,718,800	1,834	11.2	1,342	4.3
1977–78	4,728.6	516.0	2,894.9	891.5	485.6	9,516.6	4,652,486	2,045	11.5	1,397	4.1
1978–79	2,337.1	241.5	5,333.4	962.3	551.3	9,425.6	4,271,181	2,207	7.9	1,398	0.1
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	1,525	9.1
1980–81	2,195.5	257.4	7,348.9	1,064.7	866.3	11,732.8	4,214,089	2,784	6.6	1,497	−1.8
1981–82 (estimated)	2,814.6[d]	245.1	7,779.5	882.4	974.9	12,696.5	4,213,707	3,013	8.2	1,504	0.5
1982–83 (estimated)	2,655.0	245.2	8,214.4	855.7	1,104.2	13,074.5	4,204,000	3,110	3.2	1,460	−2.9
1983–84 (budgeted)	2,839.0	245.9	8,354.6	839.2	1,253.3	13,532.0	4,224,000	3,204	3.0	1,411	−3.4
Cumulative Change											
Amount	−$509.2	−$184.9	$5,997.9	$288.8	$728.9	$6,321.5	−490,154	$1,674	—	$121	—
Percent	−15.2%	−42.9%	254.5%	52.5%	139.0%	87.7%	−10.4%	109.4%	—	9.4%	—

Source: *Financial Transactions of School Districts*
[a] Includes local debt.
[b] Includes combined state/federal grants, county income, cafeteria fees, and other miscellaneous revenues.
[c] Total funding as adjusted by the GNP deflator for state/local government.
[d] The growth in property tax levies is primarily due to the one-time allocation of $363.8 million in 1978–79 unsecured property taxes.

Chart 1

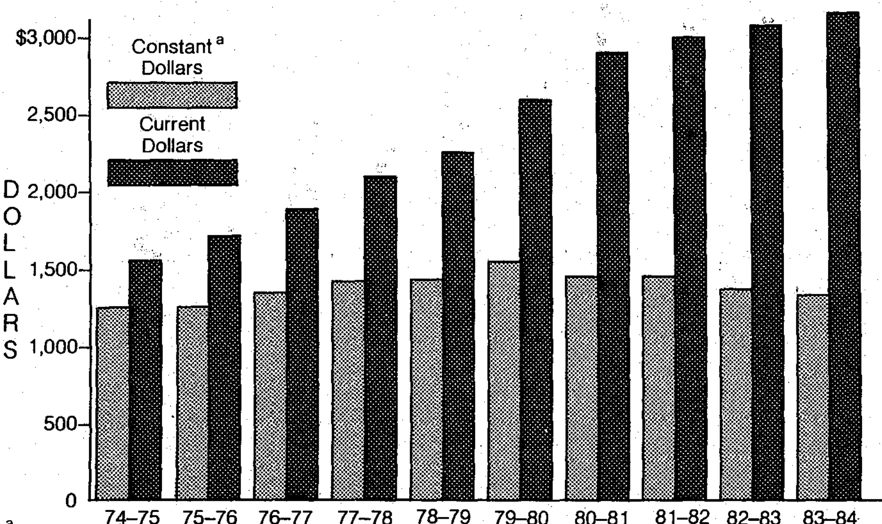
K–12 Education Revenues by Funding Source (in millions)



[a] Includes state property tax subventions.

Chart 2

K–12 Education Funding Per Pupil in Constant and Current Dollars



[a] As adjusted by the GNP deflator for state/local government. 1972–73 base year.

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per pupil, or 9.4 percent. Put another way, assuming enactment of the Governor's Budget, the purchasing power of K–12 funding per pupil in 1983–84 will be a little less than 10 percent greater than what it was in 1974–75. Since 1979–80, however, funding on a constant dollar basis has actually declined from $1,525 per pupil, a reduction of $114, or 7.5 percent, per ADA.

2. Expenditures for Education—California Compared With Other States

Does California spend less on K–12 education relative to other states?

The National Education Association (NEA) recently published a document entitled *Ranking of the States, 1982.* This document presents data for each of the 50 states and the District of Columbia on population, school attendance, faculty, government finance, school revenues, and school expenditures. The statistic in the NEA report which has received the most public attention is the one that ranks California 50th out of 50 states and the District of Columbia in terms of the amount of revenue provided to public schools *as a percent of state personal income* in 1980.

Interpreting this ranking should be done with caution. On the one hand, the state's low ranking indicates that California is devoting less of its income to education than other states, and thus probably has the *ability* to provide more revenues to public schools than it is now providing. On the other hand, however, the statistic says nothing about either the *adequacy* of existing K–12 funding levels or the schools' *need* for additional revenues. The NEA ranking addresses only the input side of the K–12 equation (that is, funding level); it provides no information on the output of the public schools—the extent to which students are receiving an adequate education. In evaluating the product of public education, spending levels don't tell the whole story.

a. *An Analysis of the NEA Rankings.* The NEA indicates that in 1980 public school revenues in California amounted to 3.69 percent of the state's personal income. This places California just ahead of Nevada among the states, and well below the national average of 4.80 percent. This statistic can be interpreted in two different ways. First, it can be taken to mean that public school revenues in California are "low" relative to public school revenues in the rest of the nation. Second, it can be taken to mean that personal income in California is "high", relative to the income of other states. In fact, both interpretations are valid.

The reason why public school revenues in California are low can be explained, in part, by the demographic characteristics of the state. For example, the percentage of persons in the school-age population group—age 5 years to 17—is lower in California than it is in most other states. In fact, according to the U.S. Bureau of Census, California ranked 48th among the states in terms of the percentage of its 1980 population in this age group. Thus, other things being equal (they are not, of course), we would expect California to be near the bottom of the ranking in terms of K–12 education expenditures as a percentage of state personal income.

The low ranking is also explained, in part, by factors that are not related directly (and may not be related at all) to educational considerations. According to the NEA, California spends relatively less money on school administration and transportation than do other states, when measured on a per-pupil basis. In these expenditure categories, California ranked 45th and 50th, respectively, for 1978–79. In other words, to the extent school districts in California are more efficient than those in other states, or have less of a need for funds because of the state's greater urbanization, they require relatively less of the state's personal income to fund K-12 education services than do other states.

California also enjoys a higher per capita personal income than most other states. For 1980, the NEA ranks California fourth in the nation, with a per capita income of $10,938. The per capita income for the nation as a whole was $9,521, meaning that in 1980 California was 15 percent above the median. Again, the age distribution of California's population provides a partial explanation for the state's higher income. In 1980, the state ranked seventh in the proportion of its population in the 17-65 year old age group. With a larger share of its population in the working age group, we would expect California to have a relatively high per capita income.

The fact that California has a higher per capita income than most other states means that it can *afford* to spend more on education, in absolute terms, than other states. The state might *choose* to use its greater wealth in this manner. The fact it is wealthier, however, does not mean that it *needs* to spend more.

Taken together, these factors explain, in part, why we would expect California to rank relatively low in terms of public school revenue as a percent of personal income. In saying this, however, we do not mean to imply that the level of funding provided for K-12 education in the state is adequate. Rather, the point of this discussion is simply that the state's low ranking, *by itself*, does not provide a basis for concluding that California needs to spend more for education.

b. ***Other Measures of Education Funding.*** The NEA publication includes various measures of state support for K-12 education. Some are expressed in dollars, while others are on a per pupil or per capita basis. Each provides a different view of education funding in California as compared with funding in other states.

For 1980-81, the NEA reports that California provided $2,382 per average daily attendance (ADA). This amount was $365, or 13 percent, below the national average of $2,747. On this basis, California ranks 37th among the states and the District of Columbia. Because the state provides funds to school districts based upon the district's ADA, many accept this measure as an accurate reflection of the state's financial commitment to education.

In contrast, the NEA ranks California 20th in terms of per capita state and local expenditures for local schools during 1979-80, with Californians providing $421.14 per capita compared to the national average of $410.28. This amount includes funds for capital outlay.

For 1981-82, the NEA reports that local governments in California provided 19 percent of the revenue going to public elementary and secondary schools. This is considerably below the national average of 43 percent. As a result, the NEA ranks California local governments 46th in terms of their contribution to public K-12 education. Because California state government, on the other hand, provided 74 percent of the funds for public K-12 education, it ranked 5th among the states in this category.

The NEA rankings illustrate an important point. There are many ways to measure education funding. A single statistic, by itself, is unlikely to provide a reliable basis for assessing the adequacy of specific funding levels, and may give an impression that, in fact, is very misleading.

In addition, we have some concern about the reliability of the NEA data. The NEA's primary sources of information are the U.S. Bureau of the

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Census, the U.S. Bureau of Economic Analysis, and the NEA data bank. Although we have not examined the Census data for K-12 revenues and expenditures, we believe that a word of caution is in order. We recently examined Census data collected for California's expenditures on higher education and found that the reported data did not accurately reflect the state's financial commitment. In some cases, relevant data were omitted, and in others, untimely data were included, which in turn understated the total contribution of California taxpayers to higher education. These findings suggest that there may be similar problems with the K-12 data. However, as of this time, we are unable to independently verify this point.

3. Achievement Test Results—What Has Been the Impact of Changes in K-12 Funding Levels on School Performance?

Although the level of funding provided in California for public elementary and secondary education increased in real terms during the 1974-75 through 1977-78 period and decreased in subsequent years, a direct relationship between funding and achievement cannot be found in a comparison of national and California's achievement levels during this period.

a. *California Assessment Program (CAP) Test Results.* For the past eight years, the scores from the basic skills achievement tests given to California students in grades 3 and 6 have been increasing. Basic skills achievement in grade 12, however, decreased through 1979-80, and has either remained constant or has increased slightly since then, depending on the content area tested.

b. *Scholastic Aptitude Test (SAT) Results.* Table 5 compares California and national SAT scores for the years 1971-72 through 1981-82. Since 1971-72, the SAT verbal scores of California students have declined from 464 to 425—a drop of 39 points, or 8.4 percent. These students' math scores have declined from 493 to 474—a drop of 19 points, or 3.8 percent. Most of this decline, however, occurred during the 1971-72 through 1977-78 period. Since 1977-78, mathematics scores have generally increased, and there has been only a slight reduction in verbal scores.

Table 5

California and National SAT Scores
1971-72 through 1981-82

	Verbal			*Mathematics*		
Year	*California*	*National*	*Difference*	*California*	*National*	*Difference*
1971-72	464	452	12	493	484	9
1972-73	452	445	7	485	481	4
1973-74	450	444	6	484	480	4
1974-75	435	434	1	473	472	1
1975-76	430	431	−1	470	472	−2
1976-77	427	429	−2	470	470	—
1977-78	427	429	−2	466	468	−2
1978-79	428	427	1	473	467	6
1979-80	424	424	—	472	466	6
1980-81	426	424	2	475	466	9
1981-82	425	426	−1	474	467	7

c. *Curriculum.* The percentage of college-bound seniors taking the so-called rigorous courses is lower in California than it is nationally. Specifically, the results of questionnaires given to students taking the SAT indicate that a smaller proportion of California college-bound seniors take:

- four or more years of English or mathematics;
- three or more years of a foreign language; or
- two or more years of physical science courses.

In recent years, however, the difference between these percentages has been decreasing in all areas except the physical sciences, as California students take more classes in these categories. While California students are taking more physical sciences courses, the increase has been less than what it has been nationally.

In summary, our analysis has not identified a strong link between achievement test results and curriculum on the one hand, and the amount of purchasing power (that is, "real" dollars) provided for K–12 education, on the other hand. The basis for this conclusion is that:

- Grade 3 and 6 test scores have continued to increase in recent years, even though the amount of real dollars per ADA had decreased.
- Grade 12 test scores have stablilized or increased during the past two years, even though K–12 purchasing power has decreased during these years.
- SAT mathematics scores are higher in 1981–82 than they were in 1977–78, the year prior to Proposition 13's passage, while verbal scores are only slightly lower.

Student academic achievement, however, is only one measure of the performance of public schools. Other measures, such as improved intergroup relations and the self-image of pupils and the level of school-related crime, also affect the quality of school performance. Data on these other measures, however, are not available at the same level of detail as academic achievement. Consequently, we have used only the achievement data for this analysis of whether increased funding results in improved schools.

With this as background, we now turn to a discussion of those fiscal issues facing the Legislature.

4. General Aid Apportionments, 1979–80 to 1983–84—Has the Level of General Support Been Adequate?

General purpose aid is allocated to school districts in California through a revenue limit system. Revenue limits were established by SB 90 (Ch 1406/72) to control the rate of growth in school revenues. Each district's revenue limit was based on actual revenues in 1972–73. Under this system of financing K–12 education, the amount of state general aid funds allocated to individual school districts is equal to the districts' revenue limit less an amount equal to the district's local property tax revenues. Funds provided under the revenue limit are intended to cover each district's general operating expenses.

Trends in General Aid Apportionments. Table 6 displays general aid apportionments to school districts for each of the five years from 1979–80 to 1983–84. ("General aid funds" includes only local property tax levies and state aid provided through the revenue limit mechanism. Funding for categorical education programs is not included in this category of support.)

The table shows that general aid apportionments are expected to increase from $6,984 million in 1979–80 to $8,116 million in 1983–84, an increase of $1,132 million, or 16 percent. During this period, local revenue is expected to increase 51 percent, while state funding is expected to increase 5.1 percent.

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Table 6
General Aid Apportionments
1979–80 to 1983–84
(in millions)

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Four Year Change Amount*	*Four Year Change Percent*
Local	$1,694.0	$1,884.6	$2,533.4	$2,375.3	$2,554.9	$860.9	50.8%
State	5,290.2	5,365.7	5,413.6	5,430.6	5,561.2	271.0	5.1
Totals	$6,984.2	$7,250.3	$7,947.0	$7,805.9	$8,116.1	$1,131.9	16.2%
ADA[b]	4,054,720	4,043,035	4,044,831	4,046,800	4,066,800	12,080	0.3%
Revenues per ADA							
Current dollars	$1,722	$1,793	$1,965	$1,929	$1,996	$274	15.9%
Constant dollars[a]	$1,722	$1,651	$1,679	$1,551	$1,504	−$218	−12.6%

[a] As adjusted by the GNP deflator for state/local government.
[b] Excludes adult ADA.

Average Daily Attendance (ADA), excluding Adult ADA, in the budget year is projected to be 4,066,800, 0.3 percent above the 1979–80 level. As the table shows, the greatest change is expected in 1983–84, when ADA is projected to grow by 20,000.

When allowances are made for changes in ADA, the level of general aid apportionments proposed for 1983–84 is still higher than it was in 1979–80.

If the actual and proposed apportionment levels are further adjusted to reflect the declines in purchasing power brought about by inflation, the apparent increase in general aid apportionments becomes a reduction. As Table 6 shows, per pupil funding adjusted for inflation is projected to be $218 lower in 1983–84 than it was in 1979–80, a decline of 13 percent. In fact, "real" general aid apportionments per ADA show a decline from the prior year in three of the four years covered by the table.

School Finance Litigation—Serrano v. Priest and *Serrano v. Riles case still active.* In 1976, the State Supreme Court ruled in the *Serrano v. Priest* case that California's system of school finance was unconstitutional. Specifically, the court ruled that certain California school children were being denied equal protection under the State Constitution because educational expenditures per pupil varied widely from district to district due to differences in the property wealth among districts. The court upheld a lower court ruling that wealth-related disparities had to be reduced to "considerably less than $100 per pupil" by 1980.

In response to the court's ruling, the Legislature adopted AB 65 (Ch 894/77). This measure established a new school finance mechanism designed to equalize state aid and local property tax revenues. The *Serrano* provisions were to become effective on July 1, 1978; however, in June of that year, voters approved Proposition 13. AB 65 was rendered moot with the adoption of the property tax initiative.

As a result of Proposition 13's passage, school districts experienced a significant decline in the amount of local property tax revenues they received beginning in 1978–79. This was because Proposition 13 limited property tax rates statewide to 1 percent of fair market value (exluding amounts for servicing voter-approved debt).

To provide some financial assistance to local governments in light of this loss of revenues, the Legislature adopted SB 154 (Ch 292/78). This measure was considered a short-term "bail out" bill. It provided to school districts, on average, 90 percent of the revenue limit they would have been entitled to under AB 65. In July 1979, AB 8 (Ch 287/79) was adopted as a long-term school finance measure. The act established the current system of school finance which provides for the equalization of education revenues to meet the *Serrano* directive.

The plaintiffs in the *Serrano* case have once again challenged the constitutionally of the state's school finance mechanism, and the court has agreed to consider their challenge. Opening statements in the *Serrano v. Riles* case were heard on December 6, 1982, by the Superior Court in Los Angeles. The issue before the court is whether the state's current system of financing K–12 education is in substantial compliance with the 1976 ruling.

In 1976, the court found that four features of the state's school finance system were unconstitutional:

- The basic aid payments of $125 per pupil to high wealth school districts.
- The right of voters of each district to approve tax overrides and raise additional revenues.
- The fact that identical tax rates in different school districts yield different levels of revenues for schools because of wealth-related factors.
- Wealth-related disparities between school districts in per pupil expenditures.

Two of the four issues addressed by the court in 1976 are now moot, due to the limitation on property tax rates imposed by Proposition 13.

In response to the plaintiff's challenge, the state maintains that the issue before the court is: Have wealth-related expenditure differences been reduced to insignificant levels?

A final decision by the lower court is expected in the late spring of 1983.

5. Increasing K–12 Revenues—What Is the Impact on the State's General Fund?

The Governor's Budget proposes that the General Fund contribute $8,086 million to support the state's K–12 education system in 1983–84. A 10 percent increase in General Fund support above the Governor's Budget would require an additional $809 million in state tax revenues or a redirection of a like amount from other programs supported by the General Fund. This increase would provide an additional $192 per pupil to school districts statewide.

In 1979–80, support for K–12 education totaled $2,611 per pupil. In the budget year, total funding per pupil is proposed at $3,204. Over this period, however, the state has experienced significant inflation, and it would cost an additional $151 per pupil in 1983–84 to maintain the purchasing power of 1979–80. If we multiply this added cost by the projected ADA for 1983–84 (4,224,000), we find that the total cost of maintaining the purchasing power of 1979–80 would be $639 million. This amount would be in addition to the $544 million already provided in 1983–84 budget for a cost-of-living adjustment (COLA).

These examples are provided to illustrate the fact that increasing K–12 revenues to all districts in the state requires a substantial increase in General Fund costs. Even a modest increase of $10 per student would cost the General Fund $42.2 million. Because K–12 education is allocated 37 percent of General Fund expenditures in the budget, the Legislature may wish to consider alternative revenue sources to provide more funds for

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education rather than to provide a nominal percentage increase in school support at significant General Fund costs.

6. Potential Sources of Additional Revenue for K-12 Education—What Alternative Revenues Can Be Provided to School Districts?

School districts currently receive funds to cover their general operating expenses from three primary sources: (1) the state General Fund; (2) local property taxes, and (3) federal grants. For the most part, the district has no control over the amount it receives from these three sources. This is because the amount of funding provided through the revenue limit funding mechanism is determined by the state through a mathematical formula designed to equalize funding on a per-pupil basis statewide.

Districts may receive additional revenue from the sale of property, equipment and bonds, cafeteria and other fees, and interest earned on invested cash. Some of these revenue sources are under the direct control of the school district, while others are controlled at the state or federal level.

Even so, there is relatively little opportunity for a district to increase the amount of revenues it can spend in any meaningful way. Because of the tax rate limitations imposed by Proposition 13, no district can increase revenue from the local property tax in order to provide more funds for its schools. In any event, such an increase would not result in an increase in education revenues available to the district because the amount of state funds provided through the revenue limit would be reduced by a corresponding amount. Furthermore, under current state law, school districts are not authorized to impose any other taxes to supplement their revenues.

Given their inability to raise funds locally, even when consensus exists at the local level that additional funds should be made available for education, districts have no choice except to turn to the Legislature in order to secure additional funds. These requests for additional funds usually seek larger cost-of-living adjustments (COLA) to *all* districts' revenue limits as a way of providing more funds for education. Such an approach, however, fails to differentiate among districts with respect to their relative needs.

One possible source of funds to finance additional expenditures by local districts is the state's General Fund. Given the condition of the General Fund at the present time, however, the chances of providing significant additional funding from this source are small in the absence of a tax increase. For this reason, the Legislature may wish to consider alternative sources of revenue for augmenting local education expenditures.

In the discussion that follows, we identify four general areas in which additional revenues for K-12 education could be found. In evaluating each of the possible sources of funds, we believe the Legislature should consider the following:

- ***Will the source provide a sufficient amount of revenues to make a difference at the local level?*** A funding source capable of producing only modest amounts of additional revenue would not provide meaningful discretion at the local level, and might not make any noticable difference in terms of performance. Furthermore, a source that is not available to all districts could run afoul of the *Serrano* requirements.
- ***Is the method of collecting the additional revenue easily administered?*** If, for example, imposition of a new tax or fee required the

creation of a new bureaucracy, or a significant expansion of an existing bureaucracy, the additional revenue generated might not be commensurate with the costs incurred.

- ***Will the method of collection create unintended or undesirable side effects?*** Tax policies or fee programs that can be easily circumvented may result in inefficient allocation of resources, or merely shift problems from one jurisidiction to the next.
- ***Will the revenue source yield different amounts for the same level of effort, due to wealth-related factors?*** The state Supreme Court ruled in *Serrano* that the state's school finance system was unconstitutional because it linked school district revenues to district wealth. This ruling, however, does not prevent the state from adopting an allocation system that equalizes a district's *ability* to raise tax revenues, even if the value of the revenue base across districts is different.

These considerations should be kept in mind in evaluating each of the four potential revenue sources described below.

a. ***Reallocate Existing Resources From Other Local Entities to Schools.*** One option available to the Legislature is to reallocate a larger share of local property tax collections from cities, counties, and special districts to school districts. These funds, of course, would have to be provided outside of the revenue limit if the amount of money available to districts is to increase. The inevitable result of this option is that other local programs now supported from the property tax would have to be reduced.

b. ***Educational Foundations.*** Many school districts have established educational foundations to raise additional revenues for their schools. How these additional dollars are spent is determined by local officials or by the foundation's governing board. Many of the foundations provide money to school districts without any strings attached, while others limit the use of funds such as by stipulating that no funds may be spent to increase employees' salaries. In some districts, the foundation provides funds directly to classroom teachers.

Currently, there is no state policy on educational foundations.

c. ***Fees.*** The collection of fees for particular services is another source of revenue for K–12 education. Some districts have established fee schedules for extra curricula activities such as band and sports. Others have levied a fee for transportation services. The revenue from these fees flow directly to the district, and are not offset by reductions in state aid under the revenue limit.

There is, however, some question about the legal authority of school districts to levy fees. On November 4, 1982, the Second District Court of Appeal in Los Angeles ruled that the Santa Barbara High School District could not levy an extracurricular activity fee on its students. This decision has prompted some districts to rescind similar activity fees. The Legislature could authorize districts to levy fees for specified activities and services, thus clarifying the districts' authority to avail themselves of this potential revenue source.

d. ***Local Taxing Authority.*** Another source of revenue for K–12 education could be provided if the Legislature authorized school districts to levy and collect a tax for the general purposes of the district. This would allow districts in need of supplemental funds to secure these funds from those persons that stand to benefit from higher expenditures most directly—the local taxpayers—rather than from the state. Thus, in addition to reducing demands on the General Fund, local taxing authority would allow a greater match between a district's desires for educational revenues and tax effort.

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The Legislative Counsel has opined that a school district's governing board may levy and collect a tax, other than an ad valorem property tax, for the general purposes of a district *only if authorized to do so by the Legislature.* Counsel cautions, however, that the form such a tax could take might be limited by the principles set forth in the court's *Serrano v. Priest* decision. This decision held that wealth-related expenditure variations among districts is unconstitutional. In making this ruling, the court adopted assessed valuation per average daily attendance as the measure of wealth. Counsel is uncertain whether a court would approve a local tax imposed on something other than real property on the basis that it was not wealth-related.

7. Alternative School Finance Allocation Systems—How Should Revenues Be Allocated to School Districts?

In the previous section we discussed some of the revenue sources other than the state's General Fund that could be tapped to provide additional funds to school districts. In this section, we identify some alternative mechanisms for distributing revenues to school districts that the Legislature might wish to consider. These systems could be used either in place of or along with the current revenue limit system for distributing funds. Which allocation system is best depends on the goals that the Legislature wishes to achieve.

The primary purpose of any school finance allocation system is to allocate revenues to school districts. Beyond this purpose, however, the Legislature might wish to achieve other objectives, such as the following:

- ***Compensate for Differences in the Wealth of the Districts.*** School finance systems designed to minimize expenditure differences attributable to differences in district wealth can be divided into two categories: those that equalize a district's *ability to generate* educational revenues and those that equalize *actual* educational revenues. The systems in the first category accommodate different preferences for education by providing different funding levels, depending upon the willingness of the local residents to tax themselves. Systems in the second category insure that each district receives an equal amount of funding, regardless of local preferences.
- ***Compensate for Differences in District Costs.*** This policy objective recognizes that different types of districts incur different levels of costs in providing educational services. For example, a school district located in a sparsely populated rural area may incur significantly higher transportation costs than a district located in an urban area. Similarly, a high school district offering a full complement of laboratory science courses may incur significantly higher costs than an elementary district. A school finance system responsive to this policy objective would provide relatively more money to those types of districts that, for reasons beyond their control, incur higher costs, while providing relatively less money to those types of districts whose circumstances allow them to operate at a lower cost.
- ***Provide for Students With Unique Needs.*** A school finance system which seeks to achieve this objective would provide additional funds to school districts having students with special needs, on the basis that these students require services above and beyond general education in order for them to realize their full educational potential. The additional funds could

be provided either as part of the district's general revenues or separately as a categorical grant. In either case, however, provision of the additional funds would depend on proper identification of those students with unique needs. Consequently, some form of eligibility criteria, either statewide or local, would be required if this policy objective were to be served.

• ***Encourage Particular Educational Outcomes.*** Though seldom viewed as a means of encouraging desirable educational outcomes, school finance systems can be designed in such a way as to reward districts for exemplary performance in teaching students particular subjects. Districts whose students, say, perform better than the statewide average on standardized tests, or show substantial improvement in terms of their test scores over time, could receive a supplemental award. This reward would act as an incentive for other districts to improve their programs.

School finance systems generally incorporate features designed to achieve many of these educational policy objectives. This usually results in a very complex school finance system. In the following section, we discuss California's current school finance system, and the ways in which it seeks to achieve the goals identified above.

a. ***California's Allocation System.*** General purpose aid is allocated to school districts through a revenue limit system. This system provides to each district a combination of state General Fund money and local property tax revenues. These funds are intended to cover the general operating expenses of the district.

The primary objective of this system is to allocate funds to school districts in such a way as to comply with the Supreme Court's directive in the *Serrano* case: that expenditure differences stemming from district wealth be reduced. The system provides for differential cost-of-living adjustments (COLA) to each district's per pupil revenue limit, depending upon the relative level of the district's revenue limit in the previous year. Districts whose revenue limits are above the statewide average receive a smaller COLA than those below the statewide average. Over time, all school districts are brought closer to the statewide average.

The revenue limit system, however, also recognizes differences in the costs incurred by different types of districts. Because a high school district is more costly to operate than an elementary district serving the same number of students, the state's revenue limit system provides additional funds to the former. Similarly, small school districts are usually more costly to operate than large school districts, because they are unable to exploit fully the economies of scale. Again, the state's revenue limits reflect this difference.

California's school finance system also provides for students with unique needs. Additional funds for these students are distributed not through the revenue limit, but rather through categorical programs. For example, handicapped students receive services through the Master Plan for Special Education. This program has a separate funding system that is based upon historical expenditure rates and current services level. Students who require additional language instruction receive services through the state's bilingual program which obtains some of its funding through the Economic Impact Aid program.

While California does not have a direct fiscal mechanism designed to encourage particular educational outcomes, there are programs which are designed to improve skills in certain subject areas. For example, the state provides funds for reading specialists under the Miller-Unruh reading program, and funds are provided to develop the vocational skills of stu-

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dents through Regional Occupational Programs and Centers.

b. *Options for New Allocation Systems.* We have identified four alternative systems that could be used, either instead of or in addition to the current system, to allocate funds for K-12 education. These alternatives are:

- program funding,
- pupil weighting,
- vouchers, and
- district power equalizing

Program Funding. Under this alternative, a model school expenditure program would be used to allocate education revenues. The system would allocate funds based on the costs of individual program components, such as instruction, administration, maintenance, and materials. For example, the funding mechanism for instruction would be tied to a model approved by the Legislature that specifies (1) the length of school day and the school year, (2) the school curriculum, (3) the average class size, and (4) teacher salary. Factors such as differences in teacher seniority among districts and the needs of some districts for reduced class size to serve pupils with special needs could then be used to adjust the model in order to determine individual district allocations. If this type of model were used, some categorical aid funding could be consolidated into a single allocation to individual districts, since adjustments in the curriculum or class size components would compensate for the relative needs of each district.

The main advantage of a program funding model is that the Legislature could specify how increased funding should be allocated. The main disadvantages would be the complexity of the system and the potential loss of flexibility by school district officials and employee representatives in the collective bargaining process.

Pupil Weighting. A pupil weighting system recognizes differences in the costs of providing services to pupils with differing needs. In general, the "average" pupil would have a weight of 1.0, and the amount of revenues provided for the education of this pupil would be equal to this factor multiplied by the base funding level. Weights would then be added to the 1.0 factor, to reflect the added cost of providing services to different types of students in different settings. For example, the 1.0 factor might correspond to a regular education student in an elementary district. The differential for a high school student might equal .25, thus bringing the high school factor to 1.25. The cost of providing special education to a student might warrant a special education factor of 2.0. Under this system, the district would be required to identify all students that qualify for the additional weights, and would receive state aid based on the total weighted pupil count and the average base funding level.

The main advantage of a pupil weighting system is that the Legislature could consolidate all categorical aid programs into a single allocation. The main disadvantages are that (1) it would establish incentives for districts to misclassify students in order to obtain greater state aid, and (2) it would be difficult to audit the use of funds to ensure that any additional funds provided on account of additional weights were actually spent on increased services to the target pupils.

Vouchers. A voucher program would allow the child and parent to choose among various educational offerings, and use the voucher as payment for the child's educational services. This program could be implemented on a statewide basis covering both public and private schools, or it could be restricted to public schools alone. The choice could be restricted even further to allow for a choice only among specified classes, such as music, art, and drama. This system could be designed to meet the special needs of each student by providing vouchers having different values. For example, handicapped students could receive vouchers having a higher value than those provided to nonhandicapped students, in recognition of the higher cost of providing special education services. In addition, vouchers could be used to encourage students to take additional classes in particular subject areas. Thus, this system could accommodate consumer preferences while providing incentives. A school system, however, might have planning problems if a significant part of its revenue were dependent upon choices made under a voucher system. In some years, a district would have to dismiss staff to reflect decreased interest in certain subjects, and at the same time hire new staff to provide for new interests.

District Power Equalizing. A District Power Equalizing (DPE) program would equalize the *ability* of each school district to raise educational revenues, but would not equalize the *actual* amount of revenues received. Under a DPE system, the state would guarantee each district a predetermined amount of revenues per pupil for a given tax rate, regardless of the tax base of the district. (In most states using a DPE program, the tax is levied on real property, but the system would work for any object of taxation.) The districts, however, would not be required to levy the same tax rate. Those with a higher preference for education would be permitted to levy a higher tax rate and raise more revenues, while others would be able to spend less on education and tax themselves at a lower rate.

Because the state would guarantee that equal tax rates would yield equal revenues, those districts whose tax base is inadequate to raise the revenues specified by the guarantee would receive additional funds from the state. Conversely, districts whose tax base was able to provide funds in excess of the guarantee would lose the excess revenues to the state. In most states using DPE, recapture of excess funds is not required.

The primary advantage of this system is that it allows school district residents to affect the level of educational revenues available to the district. On the other hand, this system would not accommodate preferences of the Legislature as to how these funds should be expended.

If additional revenues are provided for K–12 education or the Legislature decides to modify the current allocation system, these four alternative school finance allocation systems could be used to allocate the new revenues or reallocate existing funds.

8. School Facilities Funding—Should Alternative Funding Sources be Provided for K–12 School Construction?

a. *Background.* Prior to the passage of Proposition 13 on the June 1978 ballot, local school districts financed the construction of elementary and secondary school facilities by either issuing school construction bonds, or by obtaining a loan from the state under the State School Building Aid program. In either case, district voters had to approve the borrowing beforehand.

Funds borrowed from the state or private sources were to be repaid from property tax revenues. Generally, this meant that the district borrower had to levy an additional property tax, in order to provide adequate security for the bonds or loans. Proposition 13, however, eliminated the

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ability of local school districts to levy additional special property tax rates of the type previously used to pay off indebtedness. Consequently, school districts can no longer issue construction bonds or participate in the State School Building Aid program.

Because of this, the Legislature revised the State School Building Lease-Purchase Act so that districts could continue to receive state aid in financing needed school facilities. Under the act, the state no longer provides loans to school districts; instead, it provides what are "quasi-grants". Specifically, the state funds the construction of new school facilities and rents them for a nominal fee to local school districts under a long-term lease-purchase agreement that calls for title to the facility to be transferred to the district no later than 40 years after the rental agreement is executed. In most cases, the rent paid to the state consists of one dollar a year, plus any interest earned on state funds deposited in the county school lease-purchase fund on behalf of the district. Because this amount is usually nominal in comparison to the amount of state aid provided, the state essentially is providing a grant for school construction, rather than a loan, to school districts.

The School Building Lease-Purchase program currently provides most of the financing for school construction in the state. Some districts, however, are using various alternative financing techniques, discussed later, to provide part of the funding for some school facilities.

b. ***Five-Year Funding.*** Under the old State School Building Aid program, the state sold more than $2.35 billion of general obligation bonds over a 26 year period to fund school construction through loans made to local school districts.

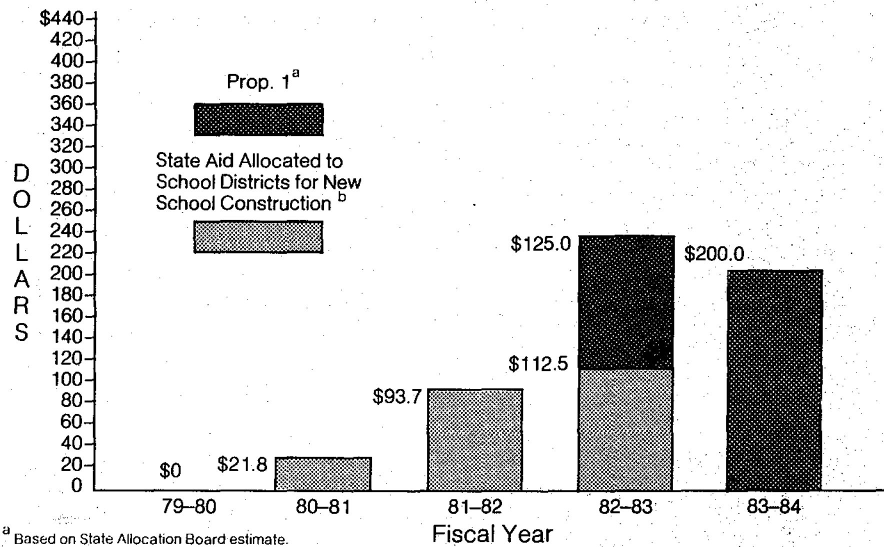
The State School Building Lease-Purchase program began funding school construction projects during 1980–81, utilizing tidelands oil and General Fund revenues. In November 1982, the voters acted to supplement this program by approving the sale of $500 million in state bonds to finance school construction (Proposition 1).

Chart 3 shows the past and projected dollar amount of state allocations to school districts for school construction. The chart shows that from 1979–80 through 1983–84, approximately $228.0 million authorized by current statute will be allocated to school districts, with an additional $325.0 million of the $500 million in Proposition 1 bond funds to be used for this purpose in the current and budget years. (The remaining $175 million in bond funds will be available in 1984–85.) thus, by the end of 1983–84, allocations from this program since its inception will total approximately $553.0 million.

c. ***The Need for School Construction.*** At the present time, there is no reliable estimate of the state's long-term need for school construction which the Legislature can use as a basis for establishing legislative priorities. This is particularly true with respect to the need to renovate existing school facilities and the backlog of deferred maintenance.

What is available are statistics on requests from school districts for state aid to build new school facilities. As of November 1982, 286 school construction funding applications were on file with the Office of Local Assistance (OLA), seeking $380.8 million. Of the projects covered by these applications, 109 ($132.3 million) were for projects that were ready to begin construction. The remaining projects were still in the planning stage.

Chart 3
State School Building Aid Allocations to School Districts (in millions)



[a] Based on State Allocation Board estimate.

[b] 1980–81, 1981–82 and 1982–83 allocations to school districts are based on the State Controller's records. The $125.0 and the $200.0 million in 1982–83 and 1983–84 respectively, represent *additional* funds which could be made available for school construction under the provisions of Proposition 1. Therefore, total allocations for school construction in 1982–83 could be $237.5 million.

For the current and budget years combined, the Department of General Services' Office of Local Assistance (OLA) estimates the aggregate need for new school construction to be approximately $1.0 billion. While our review indicates that this estimate is reasonable, the estimate also assumes that all of the forecasted construction need will be submitted to the State Allocation Board for funding in either the current or budget year. This forecast, however, is an estimate of the aggregate need for school construction at one point in time, and therefore, some of these projects may not be submitted for state aid until sometime after 1983–84, and would therefore be funded from future resources appropriated for this purpose.

Table 7 shows that approximately $437.5 million is expected to be available for meeting the OLA's estimate of needs, leaving approximately $564.7 million to be financed. If the proceeds from all of the remaining bond sales authorized by Propostion 1 ($175.0 million) are used to fund these projects, the unfinanced balance of the need identified by OLA would be $389.8 million.

d. ***Proposition 1 Issues—Should Proposition 1 Bond Revenues be Subject to the Same Requirements as Tidelands Oil Revenues?*** As mentioned earlier, the voters at the November 1982 election approved Proposition 1, which authorizes the sale of $500 million of general obligation bonds for the purpose of financing K–12 school construction. The proposition specifies that no more than $150.0 million of these funds can be used for the rehabilitation of existing school facilities. Consequently, between $350 million to $500 million will be available for new school construction.

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Table 7

Projected Need For and Funding of New School Construction (in thousands)

	1982–83	*1983–84*	*Totals*
1. New School Construction needed, as estimated by OLA	$485,287	$516,930	$1,002,217
2. Projected funding available for school construction			
A. Governor's Budget	112,496		112,496
B. Proposition 1	124,985	199,985	324,970
Total Funding	$237,481	$199,985	$437,466
3. Balance for which funding is not available in current and budget years	$247,806	$316,945	$564,751
Unused borrowing authority available under Proposition 1			$175,000
4. Remaining Unfunded Balance			$389,751

Our analysis indicates that the approval of Proposition 1 by the voters has raised several important issues which need to be resolved by the Legislature. These issues are as follows: (1) will districts be required to contribute an amount equal to 10 percent of a project's cost, (2) what funding source will be used for servicing the school construction bonds, and (3) will districts be required to sell surplus school sites prior to receiving state aid.

The 10 Percent Match. Under the current Lease-Purchase law, school districts are required to contribute either 10 percent of a project's costs in the first year, or 1 percent of its cost per year for 10 years. The law which established this requirement, however, was applicable only to those projects financed from tidelands oil revenues, and will not be applicable to projects financed using Proposition 1 bond funds. We find no analytical basis for exempting certain projects from the 10 percent local district match requirement solely because they are being funded from the proceeds of bond sales, rather than from tidelands oil revenues. In our analysis of K–12 school construction, we recommend that legislation be enacted requiring a local contribution toward all projects financed with Proposition 1 funds.

Debt Service. The second issue raised by Proposition 1 relates to the source of funds for paying off the bonds issued under the measure.

The proposition specifies that funding to service these bonds shall come from the State School Building Lease-Purchase Fund (SSBLPF). Originally, the bill placing the measure before the electorate was double-jointed with AB 3005, which provided an additional allocation of tidelands oil revenues to the SSBLPF to cover the cost of servicing the bonds. AB 3005, however, failed passage. Moreover, the Governor's Budget provides no funds (other than the proceeds from bond sales) to the SSBLPF, leaving the fund without the resources needed to pay the interest and part of the principle on the $125.0 million in Proposition 1 bonds to be sold during the current year. Consequently, the Legislature will have to appropriate additional money to the SSBLPF or use State School Deferred Maintenance funds to fund the debt service on the bonds in 1983–84.

e. ***Alternative Funding Options for School Facilities—Should State Law***

be Amended to Provide Certain Additional Alternatives for the Funding of School Construction? There are a number of options for increasing the amount of funds available for school construction in 1983–84.

For example, local school districts could, under existing law:

- Sell, lease, or exchange existing surplus school sites.
- Establish nonprofit corporations to sell school construction bonds (commonly referred to as the Poway Plan).
- Impose special taxes such as those authorized by Article XIIIA of the Constitution.
- Use private financing for new school facilities.

Additional options could be made available to local school districts through statutory or constitutional changes. For example, the Legislature could:

- Ask the voters to approve an amendment to the Constitution authorizing a special property tax for the purpose of funding debt service payments on bonds issued to finance school construction.
- Authorize the use of tax increment financing by school districts.
- Authorize increased use of developer impaction fees to raise needed funds.
- Authorize increased utilization of existing school facilities.

In the following sections, we describe the various options for increasing the amount available for school construction, beginning with those options having greatest potential to generate additional funding. Following this discussion we identify alternatives for making the amount available for school construction go farther by reducing the cost of individual projects so that a larger number of districts can receive funding.

Property Taxes. The first option for raising additional revenues to support school construction would require that the electorate approve an amendment to the state constitution authorizing special property tax assessments to generate the money needed to service school construction bonds. As stated earlier, Proposition 13 effectively eliminated the ability of local school districts to issue bonds or borrow from the state under the State School Building Aid program. By amending Article XIIIA of the State Constitution, this ability could be restored.

This option has several advantages. First, it would provide local school districts with an opportunity to raise substantial amounts of new construction money within a short period of time. This would allow them to finance a substantial portion of their unfunded school construction needs. Second, it provides districts with much more flexibility, by allowing them either to construct new facilities or to rehabilitate existing facilities, depending on the costs and benefits of each alternative. Third, it would reduce administrative costs by eliminating the paperwork associated with the filing of applications for state School Building Aid funds. Fourth, it would avoid having some communities subsidize others by providing for the beneficiaries of school construction projects to pay the cost of these projects themselves. In contrast, under the current funding mechanism, every Californian pays the cost for school facilities which benefit only the residents of the local school districts receiving state school construction aid. Fifth, this option would free tidelands oil funds for other uses. Sixth, it would make local school districts more accountable to those they serve, since voter approval is necessary before bonds can be sold.

The one potential drawback to this option is that the courts might strike it down as a violation of the *Serrano v. Priest* decision. Specifically, the

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courts might hold that the new property taxes raised are subject to equalization among school districts. This would tend to reduce or eliminate some of the advantages identified above.

Our analysis of this option indicates that it offers far more advantages to the public and state government than disadvantages. For this reason, in our analysis of K–12 school construction we recommend that the Legislature enact legislation placing such a constitutional amendment on the next statewide ballot.

Tax Increment Financing. A second option for increasing school construction funds is to authorize school districts to use tax increment financing to service school construction bonds.

Tax increment financing has been used by cities and counties for more than 30 years to rehabilitate physically deteriorated neighborhoods and to revitalize city centers. Generally, land is assembled through eminent domain to provide the infrastructure needed to support development such as streets, lights, and sewers. When these projects are begun, the property tax base is "frozen", and the incremental tax revenues resulting from increased property values and new construction are used to fund the interest and principle on the bonds which were initially issued to finance these projects. Pre-existing government entities, such as counties, cities, special districts, and school districts, continue to receive property tax revenues from property owners in the area where the assessed valuations have been "frozen", based on the level of assessed values at the time when the construction projects were launched.

Once all loans and bonds issued to provide the initial financing for the construction projects are repaid, all property tax revenues (including the increment) revert to the regular taxing entities, and the projects are effectively concluded.

Under this option, school districts would be given the statutory authority to use tax increment financing for the purpose of constructing new school facilities; and the tax increment would be shared with the locally affected city or county to repay them for the cost of constructing necessary adjacent projects such as streets, sewers, and lighting.

Specifically, a local school board would be given the authority to use tax increment financing only where vacant land is being subdivided for the first time, and only in the specific attendance area whose children will benefit from the construction of the new school. Prior to the use of this financing technique, the school board would be required to have completed: (1) the final plans and cost estimate for the school facility to be constructed and (2) an agreement with the affected city or county for the sharing of the tax increment so that infrastructure projects adjacent to the new construction—such as sewers and streets—can be financed.

After the debt service for the specific school construction project has been fully funded, the authority to use tax increments financing would automatically terminate. To enforce these provisions, the Legislature may wish to require State Allocation Board approval of the initial construction plans and of any changes thereof; and/or the Legislature may want the State Allocation Board to oversee the local school board's use of the tax increment financing option.

The principal advantage of this option is that it would enable certain school districts to raise substantial amounts of new construction money in a short period of time. The main disadvantage of this option is that it would result in increased initial costs to the state's General Fund. In effect, a portion of the property tax revenues that school districts would have collected in the absence of the use of tax increment financing (for example, the revenues attributable to the annual increase in assessed valuation) would be redirected from the district to the school construction project. Under current law, the state would have to replace these redirected funds, increasing costs to the General Fund. These costs, however, could be offset, in part or in whole, by the costs avoided in not having to fund new school construction or rehabilitation.

Once the project is complete and the use of tax-increment financing terminated, the larger property tax base which would result in the area—in part due to the construction of the new school—would result in savings to the state because the increased revenues accruing to the school district would offset an equal amount of state aid. To assure that these savings are realized, the Legislature would need to include in any new legislation provisions which require the termination of tax increment financing once debt service for the specified school construction project has been completed.

This option would be feasible only in those areas where vacant land is available for residential development, such as on the fringes of cities. This is because Proposition 13 placed limitations on the reassessment of real property, and sufficient tax revenues from the increment would be generated only where vacant land is being developed.

Developer Impact Fees. Another option for increasing school construction funds would be to make greater use of developer impaction fees. Some school districts now receive developer impaction fees pursuant to the provisions of either SB 201 of 1977 (Government Code Section 65974), a local ordinance, or the California Environmental Quality Act (CEQA).

Under SB 201, a city or county may adopt an ordinance requiring developers to dedicate land or pay fees to mitigate the impact of their housing developments. The proceeds from these fees must be used to finance temporary elementary and secondary school facilities which are used until construction of permanent facilities is completed. These fees typically range from several hundred dollars to $3,000 per house.

Under CEQA, an environmental impact report (EIR) is required on any project that may have a significant effect on the environment. If the EIR indicates that a particular development will cause a negative impact on service areas of a city or county, the developer is obligated to remedy the impact by either mitigating or avoiding the adverse effects. In cases where a school district will be adversely affected, an unofficial agreement between the developer and the impacted school district to mitigate the effects usually is reached. This agreement typically calls for a fee to be levied on each parcel of property within the development and/or the dedication of land for classrooms and related facilities for elementary or secondary schools. Mitigation fees are paid directly to the school district, and can be used to fund either interim or permanent school facilities.

The assessment of mitigation fees has been criticized by the building industry on the basis that they add to the cost of housing, and that the amounts of these fees have differed widely between school districts. On the other hand, imposition of these fees can be justified on the basis that the residents of the new housing development are the ones responsible for the school overcrowding, and the ones who benefit from the construction of new facilities designed to eliminate crowding.

The Legislature may wish to authorize greater use of developers' fees as a means of raising the revenue needed to finance school construction.

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This could be accomplished through legislation which (1) allows the assessment of SB 201 fees for permanent as well as temporary facilities, (2) authorizes school districts to assess fees or take other appropriate measures to mitigate the adverse effects of development as part of the California Environmental Quality Act. In our analysis of K-12 school construction, we recommend that legislation be enacted to authorize expanded use of these fees.

Sales of Sites. One option for increasing school construction funds that is already available to local school districts is for a district in need of additional facilities to sell, lease, or exchange existing surplus school sites.

A survey by the Office of Local Assistance in the spring of 1981 indicates that there are 682 unused school sites in the state, comprising at least 9,072 acres. Some of this acreage is (or soon will be) needed for school construction purposes. Other sites may have negligible market value. Many of these sites, however, could be sold to yield significant revenues. Furthermore, sites which may be needed for school construction in the future could be leased until such time as they are needed.

Existing law implicitly recognizes this source of financing for school construction. It prohibits state funding of school construction projects in cases where the district is holding surplus land the need for which cannot be established. Existing law also requires that non-use fees be charged in cases where a school site is not being used. Furthermore, in cases where the state has an interest in the surplus property, the district frequently is authorized to retain the proceeds from sale or lease of the state's interest when these funds will be used to finance new capital outlay or deferred maintenance projects in compliance with state standards.

The provision of existing law that requires the sale of a surplus site applies only to those district projects which are funded from tidelands oil revenues. It does *not apply* to projects funded from the proceeds of Proposition 1 bond sales. The Legislature may wish to extend this provision to projects funded from Proposition 1 and require districts (where possible) to consider the rezoning of property to maximize its sale/lease or exchange value in order to maximize the effectiveness of this alternative financing option. Also, the Legislature may wish to require districts to sell or lease all unjustified surplus schools. In our analysis of K-12 school construction, we recommend that the provisions of existing law regarding the sale of surplus school sites be applied to projects financed from Proposition 1 bond funds.

Increased Utilization of Construction Funds. An additional option for meeting the facility needs of more districts is to increase the utilization of the school construction funds that are already available, thereby allowing additional projects to be funded. One alternative for accomplishing this involves the determination of architectural fees.

The fees paid architects for designing school facility projects are equal to a percentage of the projects' incremental cost. Because of the way architectural fees are determined, architects have a strong incentive to design facilities which utilize the full amount of the construction budget allowed under State Allocation Board regulations. Although school districts are required to finance either 10 percent of a project's cost in the first year, or pay 1 percent of project costs each year over a 10-year period, our field observations suggest that this matching requirement does not provide sufficient incentive for districts to construct the most cost-effective buildings.

One way to make existing state construction funds go farther, would be to provide additional incentives for reducing the cost of supported construction. This could be done by (1) placing the required district matching percentage of project cost on a sliding scale and (2) providing additional compensation to architects to the extent they design projects costing less than the amount allowed by the State Allocation Board. For example, the required district matching percentage of project cost could be based on a sliding scale such that the district match would range from 5 percent of the project's cost when it is 85 percent of the State Allocation Board construction cost allowance, to 15 percent when the cost reaches 100 percent of the allowance. Presently, school districts must provide 10 percent in matching funds. This sliding match option essentially rewards districts for constructing more cost-effective buildings.

As a second example, architects could be paid an additional 2 percent over their marginal percentage fee for the amount of cost savings their project designs achieve from the State School Building Aid cost allowance; with the additional fee being paid out of the state share of the resulting construction cost savings amount. By encouraging less-costly construction, these steps would allow the state to fund additional school construction projects.

Because of the significant advantages to be gained from these options, we recommend in our analysis of K–12 school construction that they be implemented.

Other Plans. Other alternatives for increasing the amount of money available for school construction include:

- The Poway Plan—Under this plan, a nonprofit corporation is established to sell bonds and build school facilities. The corporation then leases the completed facility to the school district. The bonds are financed through owners' development liens or property assessments that are based on the size, rather than the value, of real property in the district.
- Special Taxes—Article XIIIA of the Constitution allows local districts (with the approval of two-thirds of the voters), to impose special taxes, provided these taxes are not based on the value or transfer of real property. One school district in California has been authorized by the voters to impose a special tax for the purpose of financing interim school facilities. This authority could be extended statewide for school construction.
- Private Financing of School Facilities—School districts can obtain financing for school construction by entering into either a sale-lease-back with purchase option agreement, or a lease with purchase option agreement with (1) private lending institutions; (2) limited partnerships comprised of attendance area residents, or possibly (3) a nonprofit leasing corporation established by the state. Under this option, title to the facility would be retained by the private investors until either the lease term is completed or the purchase option is exercised.

In summary, we believe the following options offer the greatest potential for providing additional school construction funding:

- Authorize special property tax assessments for the purpose of servicing school construction bonds.
- Use tax increment financing to raise additional revenues.
- Increase the use of developer impaction fees.
- Sell, lease, or exchange surplus school sites.

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- Reduce the cost of school facility projects now funded by the state so that more projects can be funded.

We believe that use of the Poway plan, special taxes, and private financing for school facilities, while feasible, have less potential for raising significant amounts of new school construction funding.

Although several of these options have been used by some school districts, they have not been utilized as widely as they could be. Discussions with district officials indicate that many of them are simply not aware of these options. This could be corrected if either the Department of Education or the Department of General Services prepared a handbook describing these options and how they can be implemented.

f. ***Alternative Eligibility Standards—Should State Allocation Board Eligibility Standards Require the Prior Investigation of Alternative Funding Options Before Projects are Eligible for State Aid?*** Another approach to addressing the facility needs of local school districts—one that does not require additional funds—is to make greater use of existing facilities.

For example, the need for new school facilities could be mitigated if school districts either instituted year-round school sessions, or, where feasible, entered into agreements with adjacent school districts to place pupils in underutilized schools of the adjacent district.

Currently, there is no requirement for districts to seriously investigate these types of options before applying to the state for school construction aid. This tends to result in greater, and sometimes unnecessary, demands being placed on the State School Building Aid program by local district officials, and also reduces the amount of state funds available for essential projects. Consequently, the Legislature may wish to require that districts be required to show why none of the options for: (1) financing school facility construction locally or (2) expanding the use of existing district or neighboring district facilities, are feasible when applying for state aid. This would result in the maximum conservation and leveraging of existing State School Building Aid funds, the maximum utilization of existing school facilities, and contribute to increased cost-effectiveness in the way public funds are used.

B. POLICY ISSUES AND OPTIONS

In this part of the overview, we review policy issues and options facing the Legislature in 1983. Specifically, we discuss:

- categorical education aids and their place in the state's system of school finance;
- the adequacy of the state's educational curriculum and means for improving it;
- collective bargaining and the supply of teaching personnel;
- violence and vandalism at the school site; and
- the impact of state mandates on local districts and students.

1. Categorical Aid Programs—How Can Categorical Aid Programs be Most Effective?

One policy issue that the Legislature will be faced with during this session is: how can categorical aid programs be modified to (1) increase services to eligible students, (2) make expenditures more effective, (3) increase district flexibility in allocating these revenues, and (4) ensure legislative goals are met?

Our discussion of this issue is divided into four parts: (1) what levels of funding have been provided for state categorical aids since 1979–80? (2) should categorical aid programs be consolidated? (3) should school districts be given greater flexibility in administering categorical programs? and (4) should the Legislature establish a performance bonus under categorical aid programs?

a. ***State-Funded Categorical Education Programs—How Funding Has Changed.*** Federal and state funds frequently are provided to local school districts under programs intended to achieve specific educational objectives or goals. Typically, these categorical programs are used to fund (1) the cost of specific activities, such as child nutrition or (2) the cost of specific academic services, such as resource specialists in special education.

The 1983–84 Governor's Budget proposes $1.83 billion in state categorical aid to K–12 districts. This amount excludes (1) $807 million in federal categorical assistance, which is allocated through the State Department of Education and (2) federal funds which are allocated directly to school districts.

Table 8 displays the funding history for *state* categorical local assistance during the 1979–80 through 1983–84 period. The table indicates that categorical assistance is expected to increase by approximately 30 percent during this period. The largest program expansions are in Special Education, Child Care, Staff Development, and State Mandates. Funding for these activities is proposed to increase by $278.5 million, $50.2 million, $10.6 million, and $11.0 million, respectively. Increases in the other categorical programs primarily reflect inflation adjustments, rather than program expansions. The only large reduction is in Child Nutrition, which is expected to decline by $11.7 million during this five-year period.

Table 8
Five Year Funding for State Categorical Education Programs—Local Assistance (in millions)

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Budgeted 1983–84*	*5 Yr Change Amount*	*5 Yr Change Percent*
Court and Federal Mandates	$141.9	$150.9	$128.7	$128.7	$140.4	–$1.5	–1.1%
School Improvement	135.3	152.4	162.7	162.7	162.7[a]	27.4	20.2
Economic Impact Aid	142.6	161.5	171.7	171.7	171.7[a]	29.1	20.4
Miller-Unruh	14.0	15.3	16.2	16.2	16.2[a]	2.2	15.7
Native-American Education	0.3	0.3	0.3	0.3	0.3[a]	—	—
Demonstration Programs	3.0	3.2	3.6	3.6	3.6[a]	0.6	20.0
American Indian Centers	0.6	0.7	0.8	0.8	0.8	0.2	33.3
Adult Education	141.7	148.9	158.4	148.0	149.3	7.6	5.4
Special Education	449.1	639.5	712.5	727.2	727.6	278.5	62.0
Curriculum Services	1.1	1.1	0.9	0.9	1.0[a]	–0.1	–9.1
Instruction Materials	38.4	42.3	40.9	40.9	40.7[a]	2.3	6.0
Staff Development	2.1	3.1	2.5	12.7	12.7[a]	10.6	504.8
Child Care (Includes Federal Funds)	176.5	207.3	220.3	220.2	226.7	50.2	28.4
Child Nutrition	38.6	33.8	25.4	26.1	26.9	–11.7	–30.3
Urban Impact Aid	62.1	63.4	58.0	67.1	69.1	7.0	11.3
State Mandates	3.3	43.4	23.7	27.4	14.3[b]	11.0	333.3
Gifted & Talented	13.7	15.5	16.8	16.8	16.8[a]	3.1	22.6
Driver Training	17.2	18.3	17.3	17.8	17.8	0.6	3.5
Preschool	25.8	28.5	30.1	30.3	32.2	6.4	24.8
Totals	$1,407.3	$1,729.4	$1,790.8	$1,819.4	$1,828.9	$421.6	30.8%

[a] Proposed for inclusion in the State Educational Block Grant.
[b] Funds included in item 9680-101-001

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b. ***Consolidating Categorical Aid Programs—Should Categorical Aid Programs Be Consolidated?*** In recent years, there has been much debate over how funds for K–12 education should be provided to local districts. Some of those involved in this debate favor the categorical approach. Others favor a block grant funding system. A third group, midway between the first two, favors consolidation of selected categorical programs. Generally, this group advocates combining related categorical programs into a single broader categorical program in order to provide districts with more flexibility in the use of state aid.

The Legislature has established a process for considering on a regular basis whether state-funded educational programs should be continued unchanged, consolidated with other programs, or eliminated. It did this by setting "sunset dates" for various programs in AB 8 (Ch 282/79). Table 9 lists the programs subject to this process and the sunset date for each.

Table 9

Sunset Dates for Categorical Education Programs

Termination date of June 30, 1983:
- Driver training
- Instructional television
- Environmental education
- Adult education
- Career guidance centers
- Transportation

Termination date of June 30, 1984:
- Miller-Unruh Basic Reading Act of 1965
- Demonstration programs in reading and mathematics
- School improvement program
- Professional development centers and staff development centers
- Economic impact aid

Termination date of June 30, 1985:
- Urban impact aid
- Bilingual education
- Child care and preschool programs
- Instructional materials

Termination date of June 30, 1986:
- Indian education centers
- Indian early childhood education
- Gifted and talented education

Termination date of June 30, 1987:
- Special education for individuals with exceptional needs

Existing law stipulates that the programs listed in Table __ will terminate on the sunset date if the Legislature does not enact legislation to continue the program. If the Legislature should decide not to extend a program beyond its sunset date (1) all relevant statutes and regulations governing the program become inoperative except for those related to parent advisory committees and school site counsels, (2) all funds available under the program are required to be disbursed according to existing formulae, and (3) the SDE is required to apportion and monitor the funds.

Under the present system, most programatic decisions of local school boards are subordinate to the Legislature because through categorical funding, the Legislature has directed (1) what type of pupils will be served through categorical programs, (2) the instructional methodologies to be used, (3) the level of resources to be allocated to the program statewide, and (4) the distribution of the resources among school districts.

Under a full *block grant,* programs such as Economic Impact Aid (EIA), would no longer be restricted to specific activities nor targeted to pupils needing compensatory and/or bilingual education as the Legislature currently directs. Instead, a block grant would simply allocate to school districts, for any use, the amount of funds previously appropriated through EIA. This approach provides the maximum amount of district flexibility but results in the Legislature having no ability to target the funds for statewide priorities. Rather the Legislature's priorities would be subordinate to the local districts' priorities.

If the Legislature wants to provide greater program flexibility to school districts, however, sunset provisions could be used to effect a partial "block grant" approach without surrendering all legislative direction. Under such a system, state assistance would be targeted for pupils and/or educational goals, but districts would be allowed to mix various funding sources and determine how each pupil would be served. Although this approach would lessen legislative and SDE oversight of the funds, there would still be a greater degree of state control than under a complete block grant. This alternative approach of not extending programs beyond their sunset dates would exempt school districts from restrictions on the types of activities which could be funded. Legislative direction that funds continue to serve specific pupils and that the funds be allocated to certain school districts would, however, remain in effect.

c. ***Flexibility in School District Decision Making—Should School Districts Be Given Greater Flexibility?*** Funding for many state and federal categorical education programs is allocated directly to individual schools. Short of the partial or full block grant approach previously discussed, the Legislature may want to consider granting school districts flexibility in implementing specific portions of some categorical education programs. In order to grant this type of flexibility, the Legislature would need to adopt legislation changing individual portions of the law relating to each program.

Inability to Transfer Categorical Funds Between Schools. Although a few programs targeted to specific categories of students allow funds to "follow the student" in the event he/she changes schools, generally the ability of district administrators to shift school-based funds from one school to another when the school's needs or pupil population change is limited. For this reason, district administrators frequently complain that the mandated allocation of funds to specific school sites under programs such as the School Improvement Program (SIP) and Economic Impact Aid for State Compensatory Education (EIA-SCE) is inefficient.

The issue of mandated allocation can best be seen in connection with the Economic Impact Aid program. Funding under the EIA-SCE component is targeted to specific schools, regardless of whether pupils enrolled at the beginning of the year transfer to other schools. This means that individual pupils in need of compensatory education may not be served if they enroll in a non-EIA-SCE school. This is not the case, however, under the Economic Impact Aid for Limited English Proficient Pupils (EIA-LEP) component. These funds can be allocated to schools by districts, based on an approximation of the number of LEP pupils at each school.

Problems with program funding rigidity are more acute under the Federal ECIA Chapter I program. This program provides funds only to identified Chapter I schools. Again, this means that certain pupils in need of compensatory education are excluded from compensatory education programs because of the school they attend. Furthermore, our field interviews indicate that these funding rigidities discourage school districts from rearranging school service area boundaries to achieve economies or improve educational services, because if a Chapter I pupil is transferred to a non-Chapter I school, the pupil will lose Chapter I services.

Clearly, the Legislature is not able to change federal program restrictions. On the other hand, the Legislature could restructure some of the state's categorical education programs so that districts are given greater flexibility. Specifically, districts could be given the flexibility either to (1) allocate funds to only some *schools* having the greatest need for each type of program to serve all pupils on a school-wide basis, or (2) allocate funds to all schools to serve only those pupils identified as warranting assistance under the program (as is done in EIA-LEP and federally-funded Migrant Education). Such an action could, however, significantly change the implementation and the goals for a program from the original legislative intent because in the first case some pupils not meeting current eligibility standards could be served and in the second case there could be a reduction in funds for highly impacted schools but more students being served.

Inability to Waive Prescriptive Program Requirements. In creating new categorical education programs, the Legislature has sought to encourage innovation and experimentation by providing school districts with a procedure for obtaining a conditional waiver of portions of the Education Code. Chapter 1310, Statutes of 1982, for example, authorizes experimental bilingual education programs in up to 300 classrooms during 1982–83, and in up to 700 classrooms during 1983–84 and thereafter. Along with waiver provisions pertaining to specific programs, Ch. 1298/82 and Ch. 100/81 authorize any school with a variety of programs to seek a waiver allowing it to coordinate these programs through the School-Based Program Coordination Act.

Our analysis indicates that the authorization for districts to apply for waivers has done little to increase the districts' program flexibility. Although the Legislature authorized up to 300 experimental bilingual education classes during 1982–83, no experimental classes are being offered. Although 21 districts were interested in offering an experimental bilingual education class, only one district's plan was approved. Even that district is not offering experimental classes because of a dispute with the SDE over evaluation techniques.

While a significant number of districts are seeking waivers through the School-Based Program Coordination Act, our analysis indicates that in few, if any, cases has the waiver provided significant educational program flexibility capable of leading to innovation and experimentation. Of the 89 School-Based Program Coordiation waivers approved by SDE for 1981–82, over 90 percent pertained to either Driver Education or the date of the Veteran's Day holiday.

Why have so few educational innovations been sought by districts? Our field interviews suggest that it may be because of the way in which the SDE has implemented the waiver procedures. Several district administrators have indicated to us that in the case of bilingual education (1) the SDE gave districts too little time—only 20 days—to submit a letter of intent setting forth its proposed plan, (2) the 10-phase application process was so complex and required so much information that it discouraged applications, and (3) the SDE made approval of a waiver plan contingent upon adoption by the district of some additional program components which some districts considered too costly.

Other factors that may discourage innovation on the part of the districts are:

- collective bargaining requirements, which prevent some aspects of a district's educational program, such as class size, from being changed without the concurrence of the employees, and
- the parent advisory councils that are mandated by some of the categorical programs, which may be unwilling to approve programmatic changes.

d. ***Performance Bonus Plan—How Can Improved Schools Be Rewarded?*** State and federal categorical aid programs almost always provide funding for either (1) specific activity costs—such as school transportation, driver training, and child nutrition—or (2) specific academic services—such as special education, compensatory education, and gifted and talented education. Categorical funding for academic services is almost always based on pupil characteristics, such as mental or physical handicaps, socioeconomic status, or language proficiency. The intent of the funding is to increase education services in order to overcome deficiencies and thereby provide equal opportunity for academic achievement. Under most categorical programs, however, funding for these services continues, regardless of whether academic achievement increases or decreases relative to expected achievement. Consequently, no additional funding or reward is provided if one school succeeds in significantly increasing pupil achievement compared to other schools with the same pupil characteristics.

In order to provide a greater incentive for school success, a new categorical aid program could be established for rewarding schools whose performance is better than what would be expected given the characteristics of students attending these schools.

Standards for Performance Bonuses. A performance bonus categorical aid program would operate as follows:

- The performance level to be rewarded and the measurement process would be clearly identified. This would ensure that all schools had adequate knowledge of what they must accomplish in order to be rewarded.
- All schools which accomplish the specified performance level would be rewarded with the same predetermined funding amount. This would provide schools with a clear picture of what the financial payoff would be for success.
- The performance bonuses would be provided each year. This would require all schools to earn the reward each year rather than being able to receive funds for prior success.
- The performance level would be determined on the basis of relative achievement growth compared to similar schools. This would ensure that (1) schools with a history of high performance are compared with similar schools, and would have to demonstrate even higher performance in order to receive rewards and (2) schools with a history of low peformance could also receive a performance bonus if they were able to significantly increase their performance, even though their absolute performance level might continue to be below the statewide average.

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Implementation Issues. Prior to implementing a performance bonus categorical aid program, the following questions would have to be answered:

- What types of student performance should be tested as the basis for awarding the bonus? Only basic skills and achievement could be tested, or other factors, such as pupil self-image or improvement of the school environment in the form of reduced school crime could be measured as well.
- How should the different factors be weighted in determining overall performance?
- How should school comparison groups be determined? One option would be to use the California Assessment Program's expected range of achievement for each school as the basis for grouping schools.
- How much of a performance increase should be achieved before a school could receive a bonus? Either the increase in the average number of correct answers on the standardized test, or a relative measure such as the change in percentile ranking, could be used.
- How much should the bonus be and how should the bonus be calculated? The bonus would have to be small enough to be affordable, and large enough to provide an incentive. A bonus of $100 per school probably would not be an effective incentive to raise performance. A bonus of $100 per ADA probably would be an effective incentive, but it would cost $40 million if schools with 10 percent of the state's ADA qualified for the bonus.
- Who at the school could determine how the bonus will be spent? The funds could be given either to the site council or the principal for expenditure.
- Should restrictions be placed on how the bonus could be spent? The state could allow the funds to be spent as teacher salary bonuses, or instead could limit expenditure to specified items, such as deferred maintenance or equipment.

Time Required for Implementation. Because of (1) the number of issues that would have to be resolved before a performance bonus categorical aid program could be established, and (2) the time needed by schools to prepare for it, the program could not be implemented quickly. Rather, implementation would probably require at least a year of planning and test development after the issues identified above had been resolved through authorizing legislation. Even more time would be needed to implement the program at secondary schools, because of the more diverse curriculum of these schools. Consequently, if the Legislature decides to implement a performance bonus categorical aid program for 1984–85, the planning and development for the program would have to start in 1983–84.

2. Curriculum Issues—How Can the School Curriculum be Improved?

Earlier in this analysis (see Table __), we presented Scholastic Aptitude Test data on scores showing that California's high school seniors score about the national average in verbal aptitude and slightly above the national average in mathematics aptitude. In addition, the data show that average scores, both nationally and in California, have declined significantly during the past ten years.

In this section, we discuss possible means to increase student achievement through (1) increasing graduation requirements, (2) requiring increased proficiency standards, (3) increasing the school day and year, (4) increasing summer school programs, and (5) lowering class size. In addition, we discuss high school employment training programs and how these programs relate to the academic curriculum.

a. ***Graduation Requirements—Should Requirements be Stregthened?***

State Graduation Requirements. Under current law, the state specifies that in order to receive a high school diploma, students must (1) meet a locally developed basic skills proficiency standard and (2) have completed coursework in English, American history, American government, mathematics, science, and physical education. The state, however, does not have rigorous content standards for any of these courses. Furthermore, the state does not prescribe any amount of time that must be spent on the required subjects, other than physical education, in order to meet the graduation requirement. Consequently, both the time requirements for, and content of, the specific courses that a student needs in order to qualify for graduation are determined by local school district governing boards.

Local Graduation Requirements. During Spring 1982, the State Department of Education conducted a sample study of high school curriculum graduation requirements established by local school boards. Table 10 displays the results of that sample study for selected subject areas.

Table 10

Years of Courses Required for Graduation for Selected Subject Areas

	Average in all Districts	*Maximum in any District*	*Minimum in any District*
English	3.14	4.00	2.00
Mathematics	1.30	2.00	1.00
Science	1.13	2.00	0.75
Social Studies	2.78	4.00	1.50
Foreign Language	0.03	0.50	0.00
Physical Education	2.54	4.00	1.00

As shown in Table __, the average graduation requirements for mathematics and science are approximately half the average requirements for social studies and physical education.

If a high school were to offer only the statutory minimum day of four periods, the average student would have to devote 70 percent of his/her school time over four years to meet the graduation requirements, leaving 30 percent available for electives. Assuming an average day consisting of 5.7 periods (as found in the study), students would have to spend approximately half of their school time in required classes while the remaining half would be available for electives. Other results from this sample study indicate that based on total units required for graduation, approximately 40 percent are in mathematics, English, science, and social studies, approximately 16 percent are in nonacademic areas such as physical education, and the remaining 44 percent are from elective courses which can include additional academic courses as well as job training and work experience education.

State Board of Education Graduation Model. The State Board of Education is currently discussing a model high school graduation curriculum that would encourage school districts to increase their graduation requirements. Table 11 compares the average requirements found in the SDE

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study with the model being considered by the state board for selected subject areas.

Table 11

Comparison of Course Year Graduation Standards for Selected Subject Areas

	Average Found in SDE Study	*State Board of Education Model*[a]	*Increase Proposed by the State Board*
English	3.14	4.00	0.86
Mathematics	1.30	3.00	1.70
Science	1.13	2.00	0.87
Social Studies	2.78	3.00	0.22
Foreign Language	0.03	2.00	1.97

[a] In addition to these courses, the board includes a year of visual and performing arts and a semester of computer literacy in their model requirements.

As shown in Table 11, the state board's model would significantly increase graduation requirements in all of these subject areas except social studies.

In order to implement the board's model, school districts would have to either reduce elective graduation units or increase total graduation units and the amount of time students spend in school. Because increasing total student time in school would require additional revenue, the most likely result, if schools were to adopt the model standards, would be a reduction in elective course units required for graduation.

Issues in Graduation Requirements. If the Legislature determines that high school graduation requirements should be increased or made more rigorous, the following issues will have to be addressed:

- Is there an adequate number of qualified teachers to staff the courses that students will need in order to graduate?
- Should content or competency standards be used to improve the curriculum, rather than increased course time?
- Should increased academic graduation standards be funded by funding increases or by redirections from either (1) existing nonacademic courses, such as physical education or (2) existing elective courses such as vocational education?
- Should increased academic graduation standards be mandates or guidelines?
- Would increased standards result in increased student absenteeism or higher drop-out rates?

We have no analytical basis for addressing some of these issues. The question of whether funding should come from new revenues or a redirection of existing revenues, for example, is a policy issue, as is the question of whether increased or more rigorous standards should be mandated or simply adopted as guidelines. Additionally, we have no data that would enable us to estimate the potential effects of increased or more rigorous standards on student absenteeism and drop-out rates. We do, however, have data on some of the other issues, which are discussed below.

Teacher Supply. Our analysis of the supply and quality of mathematics and science teachers indicates that unless (1) the productivity of existing teachers is increased through either increased class sizes or requiring them to teach additional classes, (2) teachers choose to continue teaching beyond the normal retirement age, and (3) more teachers become qualified in these subject areas, there will be a shortage of mathematics and science teachers within the next 10 years, even if graduation course requirements in these subject areas are not increased.

Course Time. Research conducted by SDE and others shows that, in general, increased student time on task in a subject area leads to increased achievement in the subject area. This general conclusion, however, does not apply directly to general subject area graduation requirements. This is because course *title* does not always explain course content. For example, the University of California (UC) has in the past used the titles of courses taken in high school by those seeking admission in determining whether a course met entrance requirements. UC has discovered, however, that title is not a sufficiently accurate description of content, and has started to require specific course content before it will recognize a course as meeting entrance requirements. Other than the standards UC is developing, however, there is no statewide content standards for high school courses in California. Consequently, if the Legislature intends to increase student competence by either requiring specific course time or providing additional funds for additional academic coursework, this goal might not be achieved unless course content and student mastery of that content is specified.

b. ***State Proficiency Standards—Are District Standards Sufficient to Meet the State's Interest to Ensure that Students Have Adequate Academic Skills Before Graduating From High School?*** As discussed above, the state could either specify the amounts of coursework required in specific subject areas or specify content mastery, in order to improve graduation standards. Currently, as a means of promoting competence in communication and computation skills, the state requires that (1) local school districts establish their own basic skills proficiency standards and (2) students meet these standards before they are eligible to receive a high school diploma.

Our analysis indicates that there are wide differences in the minimum proficiency standards adopted by different districts. As a result, students having the same proficiency often are treated differently at the end of their senior year. Some (those in districts with relatively lax standards) are permitted to graduate, while others (those in districts with more rigorous standards) are denied a diploma. More importantly, the absence of any *statewide* standards leaves the Legislature with no means to ensure that the state's goal of promoting the specified skill competence is being fulfilled.

We believe that both the state's interest and local districts' interest in promoting pupil proficiency can be promoted most successfully if the Legislature (1) establishes a state minimum proficiency standard for high school graduation and (2) allows local school districts to set standards that are higher than the state minimum, whenever such higher standards are desired. The state standard would be used as the basis for awarding high school diplomas, while the local standard could be used for ensuring that local school districts are accountable to the district's residents.

Furthermore, as the Legislature identifies new proficiency needs, such as computer literacy, standards designed to assure proficiency in these areas could be incorporated into the statewide graduation requirement without the need for the Legislature to specify whether one year or one semester of additional coursework was required.

c. ***Lengthening the School Day and the School Year—Will More School Time Improve Achievement?*** Currently, the amount of time California

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students attend school is less than the national average, in terms of both the length of the school day and the number of days in the school year. For 1980–81, the average school day in grades 1–12 nationwide was 325 minutes and the average school year was 178.5 days. In California, the average school day was 296 minutes, and the school year averaged 176 days. This difference results in the average California student spending nearly 100 *fewer* hours per year in school than the average student nationwide. (Actually, the difference is even larger than this because California tends to pull the national average down. The average school day/school year for the other 49 states exceeds 325 minutes/178.5 days.)

It is generally agreed that additional instructional time is likely to result in increased achievement. We do not believe, however, that adding additional class time to a number of courses, such as by lengthening each class by five to ten minutes, would prove effective. Rather, our analysis of recent California Assessment Program (CAP) data indicates that any additional time added to the school day would make the greatest contribution to student achievement if it were devoted to a single subject area. For example, the annual CAP report on student achievement shows that at the sixth grade level, an additional hour per day of writing and language instruction results in (1) a 4.8 percent increase in correct answers on the CAP reading test items and (2) a 4.5 percent increase in correct answers on the written language test items. Significant increases were also found to result from additional hours of instruction per day in mathematics, science, and social studies instruction.

d. ***Increasing Summer School Programs—Should Summer School Programs Be Expanded?*** Increasing the scope of summer school programs is another means of increasing the amount of time students spend receiving instruction in a specific subject area. Currently, the state requires school districts with any of the grades between 7 through 12 to offer summer school programs to students who (1) have not met proficiency standards or (2) are graduating high school seniors who lack sufficient units to graduate.

While it is difficult to predict how the additional time gained from increasing the school day and school year would be used, the Legislature could exert a considerable degree of influence over how the time gained from a more extensive summer program would be used. For example, if the Legislature determined that not enough eighth grade students have the opportunity to take the prerequisites needed to satisfy the UC's entrance requirements during high school, it could authorize summer school for eighth grade students needing those prerequisites.

Expanding summer school programs would, of course, result in increased costs. We estimate that for 1983–84, each 1 percent of grade 1–12 ADA participating in a 30-day summer school program would cost approximately $7.4 million.

e. ***Reducing Class Size—Is It Practical To Reduce Average Class Size?*** Past research has indicated that another means for increasing student achievement is to significantly reduce class size, so as to increase student-to-teacher interaction time.

According to the National Education Association, during 1980–81 California had the second largest average class size in the nation. Reducing average class size, however, is extremely costly. For example, if California reduced its average class size from 22.17 students per teacher (the average in 1980–81) to 15.13 students per teacher—the ratio in the state with the 12th smallest average class size—it would increase operating costs *alone* approximately $1.43 billion. In addition, there would be significant one-time costs to provide additional classroom space.

We believe that it might not be necessary to reduce the statewide average class size by this much in order to increase the level of achievement statewide to the national average.

Targeting Class Size Reductions. Based on the results of the California Assessment Program, the achievement of California's elementary students is equal to the national average. It is in grades 7 through 12 that the achievement of the state's students suffers relative to students nationwide. By 12th grade, students are achieving at a level well below the national average. If, as is indicated by the data, the deficiencies in the state's educational program are primarily in grades 7 through 12, it is in these grade levels that reductions in class size would have the greatest potential payoff in terms of closing the gap between California and the rest of the nation.

Furthermore, it would not be necessary to reduce the size of *all* classes in these grades in order to secure gains in achievement since the reductions in class size for physical education, work experience, and the performing arts, while perhaps desirable, would have little or no effect on basic academic skills achievement. Therefore, if the Legislature wishes to increase basic academic skills achievement, it might wish to consider class size reductions for mathematics, science, and English classes in grades 7 through 12.

Based on SDE estimates, the current grade 9 through 12 average class size ratios for mathematics, science, and English are 27.6, 27.3, and 26.4, respectively. Assuming that these averages also prevail in grades 7 and 8, the state would need approximately 2,100 additional mathematics teachers, 1,200 additional science teachers, and 3,500 additional English teachers in order to reduce each of these ratios by five students per teacher. The total annual cost of reducing the average class size in these areas would be approximately $102 million.

We note, however, that even if current class sizes are maintained, there will be a shortage of qualified mathematics and science teachers within the next ten years. Lowering class size, therefore, is not a feasible option for increasing grade 7 through 12 basic academic skills achievement until a significant number of additional mathematics and science teachers become available.

f. ***Employment Training Programs—Are they Effective, and Do they Complement Academic Preparation?*** The state will spend in excess of $1 billion in K–12 and community college districts on employment training programs in 1982–83. These public school vocational education programs may be classified into the following four categories:

- ***Secondary School-Based Vocational Education Courses.*** These are typically basic introductory courses, such as wood shop, auto shop, metal shop, typing, and home economics. They are funded by revenue limits (an estimated $291 million in state and local funds in 1981–82) and federal Vocational Education Act (VEA) funds ($33 million).
- ***Regional Occupational Centers and Programs (ROC/P) Courses.*** These provide job-related training in a variety of occupational areas for high school pupils and adults. There are 67 ROC/Ps in the state. They are funded on the basis of revenue limits, at a cost to the General Fund of $153.6 million in 1982–83.

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- *Adult Education Vocational Courses.* These courses, administered by K-12 school districts, provide training for adults in a variety of occupational areas. They are funded on the basis of revenue limits at an estimated cost of $40 million in 1982-83.
- *Community College Vocational Courses.* These provide training for adults in a variety of occupational areas. They are funded on the basis of revenue limits at an estimated cost to the state and districts of $567 million in 1981-82, supplemented by federal VEA funds ($25 million).

Effectiveness of School Vocational Training. In spite of the high rate of unemployment, California currently is experiencing labor market shortages in several occupations, such as electronics assembly, data processing, and the machinist trades. This serves to indicate the importance of reviewing the public school vocational education curriculum in the context of the demand for, and supply of, labor in the marketplace.

Our review has identified serveral issues in connection with vocational education programs which the Legislature may wish to consider:

- Should the school-based vocational education program be eliminated in favor of the ROC/Ps in order to make vocational education more relevant to the labor market? The school-based program consists largely of general introductory courses, such as wood shop and metal shop, whereas ROC/P courses tend to be more closely tied to specific occupations and to job opportunities. On the other hand, the school-based courses enable the pupil to acquire fundamental vocational skills which can serve as a basis for more specific job-related training.
- Does the state have adequate control over the vocational education curriculum to ensure that it is responsive to the needs of the labor market? Our review indicates that there is a need for new criteria governing ROC/P and Adult Education course approval. Our analysis of ROC/Ps contains a recommendation to address this problem.
- Does the state funding system operate in a manner which is consistent with the goal of ensuring that vocational training courses are responsive to the requirements of the labor market? Our review indicates that certain characteristics of the funding system for ROC/Ps may preclude the achievement of legislative goals. Consequently, we include in our analysis of ROC/Ps a recommendation to establish a pilot project to evaluate a different method of funding.

Vocational Education and Academic Preparation. Critics of school-based vocational programs have argued that pupils having low academic achievement frequently are channeled into vocational education prior to acquiring competency in the basic academic skills. Although we have no analytical basis to determine the extent to which vocational education inhibits, or acts as a substitute for, academic preparation, we believe this issue warrants legislative review. Specifically, the Legislature may wish to address the following two issues:

- Should successful completion of a high school pupil proficiency examination be a prerequisite for taking vocational education courses? This would ensure that schools concentrate on providing pupils with a minimum level of academic skills prior to providing them with vocational education. Fundamental academic skills facilitate vocational training, and are generally necessary for occupational success regardless of one's vocational skills.
- Should Work Experience Education be accepted as part of the mini-

mum school day? General Work Experience Education typically consists of a job during "after-school" hours, with no requirement for related classroom instruction. In our analysis of vocational education, we recommend elimination of the statutory provision which permits this component of Work Experience to satisfy the minimum school day requirement.

3. School Personnel—Do Current School Personnel Procedures Meet the Legislature's Goals?

In this section, we discuss two of the more significant issues affecting school personnel: accountability under collective bargaining and teacher supply and quality.

a. ***Collective Bargaining—Is Accountability and Responsibility for Collective Bargaining Appropriately Located?*** The current system of collective bargaining for public school certificated and classified employees was established by the Rodda Act—Ch. 961/75. Implementation of the Rodda Act, together with subsequent interpretations and extensions by the Public Employees Relations Board (PERB), has resulted in major changes in the nature of employer-employee relations. The Governor's Budget requests $9,493,000 to reimburse school districts for the costs they will incur in 1983–84 as a result of the duties imposed on them by the Rodda Act.

A primary impact of the Rodda Act was to change the decision-making process for personnel policies from a unilateral (school district) to a bilateral (school districts and exclusive represenitives of employees) process. The process, however, is not a "pure" collective bargaining process because *existing* employee benefits and protections have been codified, and are therefore excluded from the scope of collective bargaining. The effect of this policy has been one-sided, in that it tends to favor employees at the expense of management (the local school districts). While it requires management to negotiate on issues involving salary and benefits levels, it prevents management from seeking changes in certain other conditions of employment that would seem to be legitimately subject to the bargaining process. These conditions of employment include tenure and timing of notice of layoffs.

At the time the Rodda Act was implemented, school districts revenues were determined primarily by the districts themselves. As a result, the districts were responsible for raising the funds needed to pay for the salary and benefit increases they granted. Often, this would require a local tax increase. Thus, the primary responsibility for determining wages, benefits, and working conditions rested with the same level of government responsible for funding the cost of the package.

Passage of Proposition 13, however, changed this dramatically. While districts were still required to negotiate with their employees, they found themselves with no fiscal discretion as a result of the proposition's limit on the property tax rate. In effect, the districts' ability to fund the increased costs resulting from mandated negotiations was taken away. As a result, districts still negotiate over issues such as salaries and benefits, but have no responsibility for financing the consequences of the negotiations.

This tends to put pressure on the state's General Fund to cover—either directly or indirectly—the increasing personnel costs incurred by school districts through the collective bargaining process. In effect, the employee organizations come to the Legislature to meet and confer on the funds that will be available for wages, benefits, and working conditions. And while the Legislature can respond to this pressure by increasing school

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apportionments, it cannot control the allocation of these funds at the local level.

In our judgment, this arrangement is unsatisfactory, in that *accountability to the public* is weakened. Residents of a local school district cannot hold the Board of Education accountable for decisions regarding salaries, benefits, and working conditions since decisions on these matters are shaped by action taken at the state level. The residents, however, are not able to hold their legislative representatives accountable either, since the actual agreements are negotiated locally.

To restore greater accountability, we believe more responsibility for financing collective bargaining agreements needs to be returned to the school district level.

For this to happen, of course, the schools would have to be given access to new revenue sources at the local level. In our earlier analysis of fiscal issues and options facing the Legislature, we identify alternative revenue sources which the Legislature could make available to school districts.

b. ***Teacher Supply and Quality—How Can an Adequate Supply of Qualified Teachers be Guaranteed?***

Supply. More and more, school districts are finding that there is a shortage of qualified mathematics, science, bilingual, and special education teachers. Although some existing teachers are responding to these shortages by switching to these specialities, the shortages are expected to continue and are likely to become acute during the next 10 years as public school enrollments increase and teachers retire or leave the profession.

A recent State Department of Education (SDE) report on school district professional staff characteristics shows that approximately 14 percent of the professional staff is age 55 or older. Assuming all of these employees retire in the next 10 years, there will be a need to fill over 27,000 positions to maintain professional staffing at current levels without regard to new staff that may be needed as a result of increased enrollment or reductions in average class size.

In the areas of mathematics and science, the report indicates a need for approximately 1,400 mathematics subject area teachers and 640 science subject area teachers to replace retiring teachers during the next 10 years. In contrast, the University of California and the California State University report that 174 public university students currently are in science teacher-training programs and 97 students are in mathematics teacher-training programs. Consequently, unless (1) more people become qualified and are willing to teach in these subject areas, (2) current teachers choose to continue teaching beyond normal retirement age, or (3) the teaching loads of current teachers are increased either by increasing class sizes or increasing number of classes that they must teach, there will be a shortage of qualified mathematics and science teachers in the next 10 years.

Quality. At the same time that teacher supply in various subject areas is becoming a problem, the quality of those entering the teaching profession is being brought into question. Nationally, the average verbal and mathematics scores for those college-bound high school seniors who take the Scholastic Aptitude Test (SAT) and indicate that they intend to pursue education as an area of study are 394 and 419, respectively, (399 and 424 in California), while the averages for all those taking the text are 426 and 467, respectively. In fact, average scores of students intending to study education are among the lowest for students in any intended area of study.

Although test scores of college-bound seniors do not measure the quality of students who eventually become teachers, the scores indicate that lower aptitude students tend to choose education as their intended area of college study.

In response to concerns over teacher quality, the Legislature recently enacted Ch. 1136/81 and Ch. 206/82. These acts require all new teachers to pass competency examinations prior to receiving a teaching credential. *If* less-than-fully competent teachers have been credentialed in the past, the examination requirement will tend to decrease the supply of teachers by denying credentials to some who otherwise would have become teachers.

Quality and quantity are directly related. The higher the quality standard that new or existing teachers must meet, the fewer the number of potential teachers.

Increasing both Quality and Quantity. During last year's legislative hearings on the Governor's Investment in People initiative, witnesses stated that one way to increase both the quality *and* quantity of teachers in California is to make teacher salaries more nearly equal to salaries in private industry.

The use of higher salaries alone, however, may not be effective as a means for increasing both the quality and quantity of teachers, even though it can serve this purpose in the private sector. Private industry usually offers competitive salaries in order to attract more individuals into a given field. Quality is then controlled through personnel decisions, such as those involving promotion or dismissal. Unlike private industry, which can use the quantity of goods produced or the level of profit earned as a measure of quality and make salary and promotional decisions based on this measure, elementary and secondary education uses no readily definable output or productivity measures in adjusting salaries. Elementary and secondary teacher salaries are not determined by (1) the number of students taught, (2) the amount of material learned by those students, or (3) academic rank of the teachers. Rather, salaries generally are determined by factors having nothing to do with output or productivity—seniority and education credits or degrees earned. Consequently, unless the private industry quality control tools are made available to local school districts, the higher salaries may serve to increase the quantity of teachers but not teacher quality.

Determining whether teacher salaries are competitive with those in private industry is difficult. Simply comparing what a person graduating from the college can earn in private industry (say, $20,000 per year) with what a beginning teacher can earn (say, $12,000 per year) does not tell the whole story. Such a comparison does not consider the amount of time worked. For example, assuming overtime requirements are the same in both jobs and that the average teaching day is 6 hours for 176 days, versus 8 hours for 234 days in private industry, the hourly wages for the private industry person earning $20,000 per year and the beginning teacher earning $12,000 per year are $10.68 and $11.36, respectively. This might argue for teachers being given an oportunity to work more hours at their current hourly wage rate, rather than for increased hourly rates, as a means for increasing their annual salaries. Increasing the number of hours that teachers can work could be accomplished by either expanding the number of authorized summer school programs, or by greater use of year-round school programs. The latter option would allow students to be in school for only nine months a year while teachers worked 12 months a

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year. Both options would also lessen the need for new teachers by more intensive use of existing teachers.

4. School Environment/Campus Safety—How Can the School Environment Be Improved for Greater Safety of Teachers and Students?

Numerous reports have identified a high rate of school-related crime, both in California and throughout the nation. The seriousness of the problem has been measured in economic terms, such as the cost of repairing school vandalism and by the number of acts of school-related crime and violence.

For example, schools in Los Angeles County alone spent $9,448,080 in 1981–82 to repair the damage caused by vandalism. In addition, a preliminary State Department of Education report states that there were 105,328 acts of school-related crime or violence in the fall semester of 1980. The economic cost of violence and vandalism does not tell the whole story, however. According to the 1981 report of the State Commission on Crime Control and Violence Prevention, the fear of crime and violence in school, not just its actual occurrence, is disabling to pupils, and adversely affects teachers and administrators. The commission reported that this situation results in the social withdrawal of pupils, poor academic performance, and/or delinquent behavior.

Our field visits and interviews with students, parents, school administrators, and law enforcement agencies found widespread agreement that schools cannot successfully serve their students if the school environment is unsafe or is perceived to be unsafe.

a. ***Need for SDE Report on School-Related Crime Data.*** Faced with limited funds, school districts are forced to divert resources from educational programs to cover the cost of crime control activities and the repair of damage to school sites and equipment. This same diversion occurs at the state level, as well. Funds that otherwise could be made available for building needed new facilities or deferred maintenance must be used instead to rebuild or rehabilitate school buildings damaged through vandalism or arson.

It is difficult to know how serious is the problem of school-related crime, and what the trends are over time, because we lack reliable data on the problem. Consequently, our estimates of the problem's magnitude tend to be shaped by reporting of specific incidents in the media.

Recognizing this problem, the Legislature enacted Ch 1206/79, which required school districts to report twice annually to the State Department of Education on the incidence of school crime and violence. In addition, the act required the SDE to utilize this information to publish an annual statewide report.

A School Environment and Safety Unit within the SDE was funded in both 1980–81 and 1981–82 for the purposes of compiling the data on school crime and violence, and developing an analysis of school-related crime reduction techniques. At the time this analysis was prepared, the SDE had not issued either its 1980–81 report or its 1981–82 report.

We believe the information called for by Chapter 1206 would be useful to the Legislature in assessing the degree and types of school-related crime, and would aid it in developing corrective policies.

b. ***State Efforts in Dealing With School-Related Crime.*** At the present time, several state efforts designed to address the issue of school-related crime are underway. These include the following:

The Office of Intergroup Relations. The State Department of Education's Office of Intergroup Relations (OIR) provides technical assistance in the areas of desegregation, multicultural education, conflict management, and equal employment, when requested to do so by school districts. Within the area of conflict management, OIR seeks to prevent disruptive conflict and provide intensive training for school administrators in techniques designed to improve the human environment of schools. OIR is primarily involved in conflict management in connection with integration activities.

School Safety Center. The School Safety Center was established in the Department of Justice to provide leadership, support, and direction to school districts in preventing school-related crime. One of the center's primary activities is the publication of "Campus Strife", which highlights successful school crime and vandalism control programs. The center also provides training for school and law enforcement officials and serves as a school crime control information clearinghouse.

c. ***Local Efforts in Dealing With School-Related Crime.*** In recent years, many school districts have had to employ additional personnel to (1) assist school administrators and teachers in maintaining discipline, (2) counsel gang members and coordinate the reduction of racial and gang tensions, (3) patrol school sites during and after the school day in an attempt to prevent vandalism, (4) provide immediate law enforcement, and (5) coordinate student, parent, and community crime prevention programs.

School Peace Officers. Some school districts have created their own police or security departments because they have (1) determined that local police agencies are unable to keep up with the demand for their services and (2) perceived a need for personnel with unique qualifications relating to the school environment. Currently, more than 88 school districts employ over 1,000 peace officers as part of a district security or police department. These peace officers have the same authority and responsibilities as the peace officers employed by local police departments, and in many cases are uniformed and armed.

School districts which have created their own police departments, of course, incur major additional costs for training and maintaining the departments. Recently legislation was enacted authorizing the inclusion of school district peace officers within the minimum standards established and maintained by the Commission on Peace Officer Standards and Training (POST). This will allow school districts to receive state reimbursement for some costs associated with obtaining POST certification.

Security Aides. Our field visits indicate that many districts are relying on part-time security aides to improve the school environment. In most cases, these aides report to the school principal, and perform such functions as patrolling school hallways and restricting entry to school grounds by unauthorized persons. Some school districts also employ private security companies to provide patrol services. Most of the districts we visited indicate that there is a need for the development of minimum qualifications covering and better training programs for their security aides.

Other School Crime Control Measures. Many districts have developed innovative programs to prevent or respond to school-related crime. These districts report that besides improving the school environment, the programs tend to reduce maintenance and insurance costs. For example:

- Huntington Beach Union High School District has installed a computerized monitoring system which includes a (1) security alarm system,

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(2) fire detection system, and (3) energy monitoring devices. The system includes 1,200 individual alarm sensors at nine sites. The district estimates that the cost of the system—$240,000, paid for from district funds—was recovered within four months through savings because of reduced vandalism, reduced energy usage, and reduced need for security personnel.

- Pomona Unified School District has attempted to reduce school vandalism and obtain reimbursement for repair costs by seeking restitution for damages through the small claims courts, and by holding parents responsible for their children's actions through recovery efforts aimed at the parents' homeowner's insurance. The district, together with the city police department and probation department, has also instituted a policy of making restitution a condition of probation for juveniles who commit crimes against schools.
- Los Angeles Unified School District encourages pupils and the community surrounding individual schools to take responsibility for their campuses and discourage vandalism. Monies saved by the district through reduced vandalism repair are returned to the school site for educational and extracurricular activities.

d. ***Expanding State Efforts.*** We believe that the Legislature should consider two additional options that have the potential to help control school-related crime.

Program to Encourage Exemplary Programs. First, we believe the Legislature should consider authorizing a program aimed at developing exemplary techniques for dealing with school-related crime. Such a program could be administered by either the Department of Justice or the Department of Education, and would provide grants through a competitive process to districts or schools with innovative proposals for combatting school-related crime. Successful projects would then be publicized by the School Safety Center for possible replication statewide.

Plan Review for New School Construction Projects. Second, the role of the SDE's School Facilities and Planning Unit could be expanded to include advising schools on how to construct new buildings that discourage school-related crime. Under current procedures, plans for new school construction are contracted for directly by individual school districts. Preliminary drawings are reviewed by the SDE's School Facilities and Planning Unit, which provides advice to districts on selecting school sites and building design. Final plans are submitted to the State Architect so that he may verify that the plans comply with state regulations such as those setting forth earthquake safety standards.

Law enforcement officials advise that some school crime problems are compounded by security flaws in the physical layout of some schools. These flaws include improper fencing, secluded alcoves, and entrances to school buildings which are not readily observable. The costs to mitigate these flaws in *existing* buildings is significant. These flaws, however, could be avoided if greater care were given to the design of new school construction, at little or no increased cost.

5. State Mandates—Are Mandates Accomplishing Their Intended Purpose?

The budget proposes an appropriation of $14,322,000 from the General Fund to reimburse districts for the cost of complying with nine state mandates in the education area during 1983–84 (see Table 34). These reimbursements are provided because current law requires the state to fund the costs of new programs or increased levels of services mandated by a statute enacted after January 1, 1973, or by an Executive Order issued after January 1978. In the following section, we discuss several mandates pursuant to which either the state or local districts are incurring costs, and some unintended consequences that result from these mandates.

a. ***Types of Mandates.*** State mandates for K-12 education can be divided into three general categories:

- Mandates covering personnel matters, such as (1) granting tenure, (2) requiring certificated personnel to be notified by March 15 if they are not to be rehired, and (3) requiring that a specified percent of the current expense of education be spent on classroom teacher salaries.
- Mandates governing management procedures, such as (1) requiring annual audits of school district funds, (2) requiring the publication of the school district budget, and (3) requiring maintenance of inventory documentation.
- Mandates aimed at educational quality, such as those requiring that (1) certificated personnel supervise any class which claims state aid average daily attendance, (2) schools operate at least 175 days, and (3) elementary school classes which have more than a specified number of students receive reduced state aid.

b. ***Unintended Consequences of Mandates.*** Mandates allow the state to assure that local districts' efforts are directed at high priorities statewide. By definition, however, mandates build a certain amount of inflexibility into the educational process that may thwart the achievement of state priorities when circumstances change. Consequently, the effect of a mandate may result in unintended and undesirable consequences, even though the original goals of the mandate may continue to be desirable. Two mandates which can have unintended and undesirable consequences are discussed below.

Teacher Dismissal Notification. By March 15 of each year, teachers must be notified if the district intends *not* to hire them for the next school year. If a teacher is not notified of dismissal by this date, he or she is automatically rehired for the next school year.

Invariably, schools do not know what their revenues for the following school year will be on March 15. This is because almost all school funding is subject to actions in the annual Budget Act which is not finalized until July. Under this circumstance, the requirement set forth in this mandate can result in the following undesirable consequences:

- districts notify a larger number of teachers than necessary that they will be dismissed;
- districts do not notify sufficient teachers that they are dismissed, forcing them to reduce expenditures for classified personnel and/or for items such as maintenance or supplies.

The first consequence (too many notifications) appears to run counter to the original intent of the mandate—that is, to lessen certificated staff uncertainty about rehiring. The second consequence (too few notifications) runs counter to other state priorities such as providing adequate funding for school maintenance.

It is not clear that this mandate is still necessary, given the fact that certificated employees are now covered by collective bargaining laws. If this mandate were repealed and dismissal notification requirements were instead left to the collective bargaining process, school districts could be

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given more flexibility to adjust to uncertainties regarding the level of school funding, without sacrificing the interests of school employees.

Physical Education. Current law requires schools to include as a high school graduation requirement a specified minimum of course work in physical education. Because (1) funding for schools has decreased in real dollars since 1977–78, and (2) enrollment has been declining in junior and senior high schools, some school districts have had to reduce the number of classes offered and the length of the school day. Because of the state mandate, however, these reductions must be made in the academic curriculum. Neither the districts nor the students themselves substitute academic courses for physical education during a shortened day.

Consequently, the physical education mandate may result in (1) districts not being able to maintain a curriculum consistent with the desires of community residents and (2) students not being able to take academic coursework rather than physical education. For these reasons, later in our analysis of K–12 education, we recommend that the physical education mandate be repealed.

II. LOCAL ASSISTANCE

A. GENERAL EDUCATION PROGRAM

We define general education support funds as those funds which can be used at the local district's discretion, and which are not associated with any specific pupil services program. These funds generally will be used to provide services for all students, and include school apportionments, Urban Impact Aid, local revenues for debt service, and other miscellaneous funds such as school meal charges, federal PL 874 revenues, and state contributions to the State Teachers' Retirement Fund.

1. School Apportionments (Item 6100-101-001)—General Education Expenditures

As shown in Table 12 the budget proposes *total general education expenditures* (consisting of apportionments and other expenditures) of $10,322.7 million in 1983–84. This is an increase of $475.4 million, or 4.8 percent, over the current-year amount, and is composed of a 2.5 percent increase in General Fund support and an 8.3 percent increase in revenues from local sources. Support from other state funds and the federal government is expected to be maintained at the 1982–83 level.

The budget proposes $8,116.1 million in *general education apportionments* for K–12 districts and county offices of education in 1983–84. This is an increase of $310.2 million, or 4.0 percent, over the amount provided in 1982–83. The state General Fund contributes 69 percent of the total, while local property taxes account for 31 percent.

Other general education expenditures are expected to be $2,206.6 million in 1983–84, an increase of $165.2 million, or 8.1 percent, over the current-year level.

a. 1983–84 Budget Changes.

Table 13 displays the changes from 1982–83 to 1983–84 in the amount proposed from the General Fund for general education apportionments. (Both the 1982–83 base and the 1983–84 General Fund apportionment include $20.0 million in contributions from the State School Fund.) The

Table 12
General Education Expenditures
(in millions)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
A. General Education Apportionments					
K–12 Districts	$7,654.2	$7,664.2	$7,964.6	$300.4	3.9%
State [a]	(5,198.3)	(5,365.0)	(5,491.5)	(126.5)	(2.4)
Local	(2,455.9)	(2,299.2)	(2,473.1)	(173.9)	(7.6)
County Offices	292.8	141.7	151.5	9.8	6.9
State [a]	(215.3)	(65.6)	(69.7)	(4.1)	(6.3)
Local	(77.5)	(76.1)	(81.8)	(5.7)	(7.5)
Subtotals	$7,947.0	$7,805.9	$8,116.1	$310.2	4.0%
State	($5,413.6)	($5,430.6)	($5,561.2)	($130.6)	2.4%
Local	(2,533.4)	(2,375.3)	(2,554.9)	(179.6)	7.6
B. Other General Education					
ROC/Ps [a]	N/A	$153.6	$173.0	$19.4	12.6%
Federal PL 874	$35.0	20.0	20.0	—	—
Urban Impact Aid [a]	58.0	58.0	58.0	—	—
Ch 323/77 Aid [a]	9.2	9.1	9.1	—	—
Transfer to State Teachers' Retirement Fund [a]	235.5	235.5	232.2	−3.3	−1.4
Local Debt Service	461.0	461.0	461.0	—	—
Miscellaneous [b]	974.9	1,104.2	1,253.3	149.1	13.5
Subtotals	$1,773.6	$2,041.4	$2,206.6	$165.2	8.1%
Totals	$9,720.6	$9,847.3	$10,322.7	$475.4	4.8%
General Fund	*$5,667.2*	*$5,866.8*	*$6,013.5*	*$146.7*	*2.5%*
State school fund	*49.1*	*20.0*	*20.0*	—	—
Federal funds	*35.0*	*20.0*	*20.0*	—	—
Local funds	*3,969.3*	*3,940.5*	*4,269.2*	*328.7*	*8.3*

[a] General Fund.
[b] Includes sale of property and supplies, cafeteria revenues, interest income, bond funds, and other revenues.

table shows that *to maintain the existing program,* the budget reflects (1) a $69.6 million increase for additional district, county office, and adult ADA; (this amount excludes $14.3 million to fund increases in ROC/P ADA), (2) a $179.7 million reduction in recognition of the increase projected in local property tax revenues, and (3) a $562.5 million increase to provide the statutory COLA for K–12 district apportionments ($552.3 million) and county offices of education ($10.2 million). These baseline changes yield a net increase in funding of $452.4 million.

In addition to the baseline adjustments, the budget proposes five significant budget change proposals. These changes included: (1) a $50.0 million reduction to eliminate a one-time appropriation from SB 1326 (Ch 327/82), (2) a $217.2 million reduction to eliminate funds for the 100 percent revenue guarantee, (3) a $20.0 million increase for a one-time adjustment in-lieu of the 100 percent guarantee, (4) a $34.7 million increase for a special adjustment for low-wealth districts, and (5) a $111.1 million reduction to provide for a COLA in-lieu of various statutory COLAs; for district revenue limits, this yields a net COLA of 6 percent ($447.0 million), and for county offices of education this yields a net COLA of 3 percent ($4.4 million). The net result of the five budget change proposals is to *reduce* general education apportionments by $321.8 million.

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Table 13
General Education Apportionments
Summary of Changes From 1982-83 Budget
State General Fund [a]
(in millions)

1982-83 General Fund Budget		$5,430.6
A. To Maintain Existing Program		
ADA Change	$69.6	
Increase in Local Property Taxes	−179.7	
Inflation Adjustment		
K-12 Districts	552.3	
County Offices	10.2	
Total, changes to maintain existing program		452.4
B. Budget Change Proposals		
One-Time K-12 Funds (SB 1326)	−50.0	
Elimination of 100 Percent Guarantee	−217.2	
One-Time Adjustment In-Lieu of 100 Percent Guarantee	20.0	
Special Adjustment for Low Wealth Districts	34.7	
Inflation Adjustment		
K-12 Districts	−105.3	
County Offices	−5.8	
Other	1.8	
Total, budget change proposals		−321.8
Total Change:		
Amount		$130.6
Percent		2.4%
1983-84 General Fund Budget		$5,561.2

[a] Includes State School Fund.

The total change (baseline plus program changes) proposed in the General Fund contribution to K-12 apportionments is a $130.6 million, or 2.4 percent, increase above the 1982-83 base budget. The total General Fund appropriation proposed for general education apportionments in 1983-84 is $5,561.2 million.

b. 1982-83 Deficiency Appropriation.

The budget reflects a proposed $64.8 million deficiency bill appropriation for 1982-83. This deficiency results from (1) an estimated $52 million shortfall in property tax revenues and (2) an estimated $12.8 million base adjustment for ROC/P average daily attendance in 1981-82. The proposed 1983-84 appropriations would provide sufficient funds to continue full funding for these costs in the budget year.

c. Special Adjustment for Low-Wealth Districts Needs Justification

We recommend that the Department of Education report to the fiscal committees prior to budget hearings on (1) the fiscal impact on low-wealth districts of providing them with a $34.7 million special adjustment, and (2) the need to accelerate the Serrano "leveling-up" process for base revenue limits. Furthermore, we withhold recommendation on this appropriation pending receipt of this information.

The Governor's Budget proposes an augmentation of $34.7 million for K-12 general aid apportionments to low-wealth districts. These funds would be allocated to districts with revenue limits per ADA that are more than $20 below the statewide average revenue limit. The budget indicates that these funds generally would be allocated to districts with a base revenue limit per ADA which is substantially below the statewide average base revenue limit for districts of comparable size and type. The proposal calls for the revenue limits of these districts to be brought up to within $20 of the statewide average during 1983–84.

In 1976, the state Supreme Court ruled in the *Serrano v. Priest* case that California's system of school finance was unconstitutional and upheld a lower court ruling that wealth-related disparities in educational expenditures per pupil had to be reduced to "considerably less than $100 per pupil" by 1980. The Department of Finance estimates that with the proposed special adjustment, 96 percent of the state's K–12 students will be enrolled in districts with base revenue limits that are within $100 of the statewide average for each type of district (large or small elementary, high, or unified). Currently, approximately 72 percent of the state's students are enrolled in districts that meet the $100 requirement.

The state's current school finance system is designed to comply with the court's ruling in the *Serrano* case. The system provides for a gradual "squeezing" of base revenue limits toward the statewide average for the six categories of districts. Districts with base revenue limits above the statewide average are granted smaller cost-of-living adjustments (COLAs) than districts below the average. Under current law, districts substantially below the statewide average receive an additional adjustment of $25 per pupil each year until their base revenue limit is above a specified minimum level. Over time, the base revenue limit of each district draws closer to the statewide average. Low-revenue districts with below-average base revenue limits are brought up to the average while high-revenue districts with high base revenue limits are brought down.

Because the state's system of funding K–12 education is designed to comply with the court's ruling in the *Serrano* case and because the impact of providing an additional $34.7 million to low-wealth districts is unknown, we recommend that the Department of Education report prior to budget hearings on how this special adjustment would affect the revenues of districts receiving the extra funds. We note that in addition to these funds, low-wealth districts would also share in the funds proposed for a 6 percent COLA for K–12 general aid apportionments and 3 percent COLAs for the remaining categorical programs. Consequently, the Legislature should review the *overall* increase in revenues to recipient districts.

Furthermore, the department should identify (1) the justification for providing the special adjustment at this time, (2) the need to provide additional funds to low-wealth districts above and beyond the amount provided through the revenue limit funding mechanism, and (3) nature of the adjustment—on-going or one-time. Until the department provides this information, we withhold our recommendation on this budget proposal.

d. In-Lieu Revenue Guarantee Not Justified

We recommend that the $20.0 million provided in-lieu of funds for the 100 percent revenue guarantee be deleted for a General Fund savings of $20.0 million because the Department of Education has not justified the special appropriation. (Reduce Item 6100-101-001 by $20,000,000).

On June 30, 1983, the provision of Ch 282/79 which authorizes the 102 percent revenue guarantee will expire. Under the provision, all districts

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were guaranteed at least a 2 percent increase in revenues for both 1981–82 and 1982–83. The 1982 Budget Act, however, provided funds to support only a 100 percent revenue guarantee in 1982–83. The Governor's Budget does not continue the revenue guarantee in 1983–84.

The General Fund savings to be realized from eliminating the revenue guarantee depends on the size of the COLA for K–12 apportionments: the larger the COLA, the smaller the savings. Assuming no cost-of-living adjustment (COLA) for K–12 support, elimination of funding for the 100 percent revenue guarantee would result in a General Fund savings of $217 million. Assuming a 6 percent COLA, as the budget proposes, the net savings from eliminating the 100 percent or 102 percent revenue guarantee are $87 million and $123 million, respectively.

In-lieu of the 100 percent revenue guarantee, the budget provides a one-time special appropriation of $20 million. These funds are to be allocated by the Superintendent of Public Instruction to school districts with "the most urgent need". The Department of Education, however, has not provided any information which justifies the special appropriation. The Legislature, by including the sunset provision in Ch 282/79, specified that the 102 percent revenue guarantee was to expire on June 30, 1983, and any extension of the guarantee beyond the sunset date should be justified and subject to legislative review.

Pending adequate justification and review, we can find no analytical basis for providing school districts special revenues in addition to current law allocations when their workload, based on the number of pupils served, is declining.

Under the current school finance system, a school district receives state aid based on its per pupil revenue limit and its ADA. An increase in ADA results in an increase in total revenues, while a decrease in ADA yields a reduction in revenues. The state, however, already recognizes that school districts experiencing significant declines in ADA may not be able to adjust expenditures commensurately, consequently, the school finance formulas provide for a declining enrollment adjustment. Under the declining enrollment adjustment, school districts receive 75 percent of their per pupil revenue limit for the first year drop in ADA and 50 percent of the revenue limit for the second year of the reduction. This adjustment makes it easier for a district to reduce the size of its program over time.

The special funding proposed in the budget, however, provides school districts funds in excess of the amount that could be justified strictly on the basis of the service level. Excluding the effects of inflation, the budget proposal reduces the incentive for districts to cut back the size of their program, because state aid is no longer a function of ADA.

Finally, the special funds for the revenue guarantee are proposed without specifying the criteria for determining the particular needs of the districts. Most funding provided in addition to the base revenue limit is designed to alleviate fiscal difficulties that stem from (1) the particular conditions facing the districts, or (2) the cost of serving students with particular needs. For example, districts receive additional funds for providing language programs for students requiring bilingual instruction, and additional funds are provided for special education programs for the handicapped. Small school districts are provided additional funds because they are generally faced with higher per pupil costs than large districts.

Districts which could receive funds from the budget proposal, however, do not necessarily face higher costs than other districts nor are they any more likely to be serving a disproportionate share of students with unique educational needs. Instead, these districts would receive the additional funds because their ADA has dropped below a level that would maintain a specified percentage of prior-year revenues.

For these reasons, we find no analytical basis for the budget proposal for this special funding. Consequently, we recommend that the $20 million proposed for special funding be deleted. If the Department of Education presents information to justify this proposed appropriation, we will be prepared to analyze the department's information. The information should specify (1) how the department intends to allocate the $20 million proposed in the 1983–84 budget in-lieu of funds for the 100 percent revenue guarantee, (2) the criteria which will be used to establish district need, and (3) the level of support that the $20 million will provide to the recipient districts.

e. Single Session Kindergarten

We recommend that urgency legislation be enacted to repeal the Education Code provisions requiring school districts to limit the use of their kindergarten teachers to the instruction of one kindergarten class daily.

Under current law, a school district is required to meet the following three conditions in order to receive state apportionments for kindergarten average daily attendance (ADA):

- A class must meet at least 180 minutes (3 hours) but no more than 240 minutes (4 hours) per day.
- The teacher must be assigned to only one session of kindergarten.
- The teacher must be employed on a full-time basis.

Chapter 100, Statutes of 1981 (AB 777), requires the kindergarten teacher to be *available* for assistance or assignment in the instructional program of the primary grades (other than kindergarten) when not involved in the teacher's own kindergarten program. It does not, however, *require* school districts to assign kindergarten teachers to non-kindergarten duties, nor does it permit one kindergarten teacher to conduct two kindergarten sessions.

The provisions of current law originally were adopted in order to give kindergarten teachers more time to meet with the parents of students, and to prepare materials for class. It was anticipated that this would reduce remedial problems that otherwise would have to be addressed in later grades. The restrictions that apply to kindergarten teachers do not apply to teachers at other grade levels.

As a result of current law, school districts must pay kindergarten teachers for a full school day, even though a kindergarten teacher spends only between three and four hours a day in a kindergarten class. The remaining hours in the work day are set aside for class preparation and for meetings with parents, unless the teacher is assigned to some other primary grade level duties. In contrast, a primary grade teacher spends up to six hours in class and has only two hours to prepare assignments, correct homework and examinations, meet with parents, and perform other duties.

Mandate Does Not Produce Benefits Commensurate With Its Cost. Resolution Chapter 62, Statutes of 1980 (SCR 58), required our office to evaluate and make recommendations on various specified local mandated programs. The requirement that kindergarten teachers be limited to a single kindergarten class is one of the mandates we were directed to review. In our report on state-mandated local programs (Report 82-2), we noted that:

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- ***No evidence is available to show that student performance has been improved*** by limiting the amount of time that kindergarten teachers spend in class.
- ***There is no reason to believe that kindergarten teachers should spend less time in the classroom*** than teachers at other grade levels.
- Relative to teachers at other grade levels, ***kindergarten teachers probably need to spend less time*** preparing and correcting homework and examinations.
- ***The mandate may encourage districts to increase the size of certain kindergarten classes.*** Existing law requires that school districts receive only 3 percent of full ADA money for each kindergarten student enrolled in a class with over 33 students. In some cases, however, it may be less costly for districts to pay the class size penalty than to hire an additional kindergarten teacher when it has more than 33 kindergarten students. For example, a school district with 40 kindergarten students could either include all 40 students in the same class and incur penalties of $12,000, or hire another full-time kindergarten teacher for a second kindergarten session. Given the requirement that a kindergarten teacher must be a full-time employee, in this case it would be less costly to the districts to pay the class-size penalty.
- In those cases where districts choose not to increase class size when confronted with more than 33 kindergarten students per class, ***this mandate results in a more expensive education system.*** Without this mandate, the district in the example discussed above would have other options for accommodating the 40 students: it could either assign one teacher to teach two three-hour kindergarten sessions of 20 students each, at no additional cost, or hire a *part-time* teacher to teach an additional session. It is possible that the cost of a part-time teacher would be less than the class size penalty. Consequently, school districts are prevented from achieving potential cost savings through the use of part-time staff or employing one teacher to teach two classes.

  Because this mandate increases state and local costs, produces no demonstrable benefits, and may have an adverse impact on class sizes, we recommend that it be repealed through urgency legislation.

Fiscal Effect. If the single session kindergarten mandate is repealed and if districts either increase the number of sessions taught by kindergarten teachers or hire part-time kindergarten teachers, the districts would receive a windfall under the existing school finance mechanism. Currently, one kindergarten class generates sufficient revenue to pay for the teacher and other class costs. If one teacher were to teach two classes, the school finance mechanism would provide an amount sufficient to support *two* teachers, thus providing double-funding for teacher costs.

The purpose of our recommendation, however, is not to divert state funds away from local school districts. Rather it is to eliminate a mandate which results in school districts incurring costs that are unnecessary or unjustified. Accordingly, repeal of this mandate need not result in a reallocation of state funds away from K–12 education.

f. Repeal Physical Education Mandate

We recommend that urgency legislation be enacted to repeal the Education Code provisions which require (1) students to participate in physical education programs and (2) school districts to provide physical education as part of the school curriculum.

Under current law, students in grades one through six must participate in physical education programs for at least 200 minutes every 10 school days. Students in grades 7–10 must participate in physical education programs at least 400 minutes every 10 school days unless exempted for reasons such as illness, attending driver training, or participating in after-school interscholastic sports. State law does not require minimum student attendance in other subject areas, such as mathematics, English, and history.

During our field visits, most administrators expressed the view that physical education should not be mandated. They maintained that the mandate (1) hindered the districts' efforts to adjust expenditures in the face of funding reductions and (2) reduced the districts' ability to offer the instructional program sought by students and the community.

Due to reduced enrollments and reductions in the purchasing power of general education funding, some districts have attempted to achieve cost savings by reducing the length of the school day. The physical education mandate, however, prohibits the districts from reducing the physical education program below the minimum specified by the mandate. Consequently, districts which reduce the number of class offerings must retain P.E., while eliminating classes in areas which may have a higher priority to the district and community. In some cases, academic classes such as English or science, may have to be sacrificed in order for the district to remain in compliance with the physical education mandate.

Additionally, the P.E. mandate denies those students who want to take academic classes, rather than physical education, the opportunity to do so.

As described in the K-12 overview, California high school seniors rank below the national average in academic achievement and the length of the average California school day is less than the national average. Thus, the academic program in many California schools is squeezed from both directions: from a shorter-than-average school day on the one end and the P.E. mandate on the other end. As a consequence, both the districts and students are unduly limited in their ability to take those actions that research has shown to increase achievement: increased academic coursework. Because neither the districts nor students can substitute academic courses for P.E., the mandate appears to promote educational inefficiency.

For these reasons, we recommend that urgency legislation be enacted to repeal the P.E. mandate before the beginning of the 1983–84 school year.

g. Unfunded Legislation—Chapter 67, Statutes of 1982 (AB 971).

The Governor's Budget identifies AB 971 (Ch 67/82) as unfunded legislation enacted in the 1981–82 session. This measure expands the existing exemptions of specified natural areas and open space lands from property taxation. The budget shows that this measure carries a cost of $129,000 because its results in a loss of property tax revenues which otherwise would offset state aid to school districts. Because this estimated loss of revenues is small and actual property tax revenues for 1983–84 are unknown at this time, we concur with the Governor's Budget that no specific appropriation is warranted.

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2. County Offices of Education (Item 6100-106-001)

a. Overview

The county offices of education provide services to school districts and administer educational programs. The state apportions funds to the counties for the following categories of activities:

- *"Direct" Services.* These services—health care, guidance, and supervision of instruction and pupil attendance—are provided to small districts, as defined by statute.
- *"Other Purpose" Services.* These services include audio-visual services, staff development, and curriculum development.
- *Business Services.* These services consist of payroll preparation, expenditure audits, maintenance of financial records, budget approval, collection and disbursement of funds, centralized purchasing, and data processing.
- *Program Administration.* County programs include special education classes, Regional Occupational Programs (ROP), opportunity schools, technical, agricultural, and natural resource conservation schools, pregnant minor programs, child development programs, and other special classes (county jails, handicapped adults).

The Budget Act of 1982 appropriated $60.9 million for programs and services provided by county offices of education (excluding ROC/Ps, which were funded separately). The budget estimates that $65.6 million will be expended for county offices in 1982–83, assuming that projected deficiencies ($4.7 million for juvenile hall programs and $10.1 million for funds transferred from the county office appropriation to the ROC/P appropriation) will be funded through a deficiency appropriation.

The budget proposes an appropriation of $69.7 million for county offices in 1983–84, an increase of $4.1 million, or 6.2 percent, over estimated current-year expenditures, assuming enactment of the deficiency appropriation. This increase is due to projected enrollment growth in county-operated programs and a proposed 3 percent cost-of-living adjustment (COLA). The proposed COLA is less than the statutory COLA for county offices of education—7.4 percent. In order to fund the statutory COLA, an augmentation to the budget of $6.4 million would be needed.

b. San Francisco County

We recommend that the Legislature enact legislation to eliminate the state portion of the San Francisco County office operations revenue limit and "Other Purpose" apportionment, effective in 1984–85 (General Fund savings: $350,000 annually).

The San Francisco County Office of Education receives state funding for "Other Purpose" services, business services, and various programs. Generally, county offices of education provide these services to school districts within their jurisdiction. In the case of the county office in San Francisco, however, there is only one district within its jurisdiction—San Francisco Unified.

Although five other county offices serve only one district apiece, these are rural and sparsely populated areas. San Francisco Unified School District (SFUSD), on the other hand, is the fourth largest district in the state, with an enrollment of approximately 58,000 ADA. The district also has a revenue limit that is approximately 6 percent above the statewide average.

Our review indicates that districts with more than 30,000 ADA generally do not rely on the county office of education for business services and the various "Other Purpose" services. Sacramento Unified School District (ADA of 39,000), for example, processes its own payroll and receives little assistance from the county for activities such as staff development, library services, and audiovisual aids.

Given its size, San Francisco Unified should be able to realize the same economies of scale available to other large districts, and given its revenue limit, the district should not require a state subsidy outside the regular K–12 apportionment to finance these services. Under these circumstances, San Francisco Unified should not have to rely on the county office for business services and "Other Purpose" services.

For these reasons, we recommend in our report, "A Review of County Offices of Education" (82–10), that the Legislature eliminate the state funding for the San Francisco County office operations revenue limit (which supports business services) as well as for the "Other Purpose" apportionment. This would result in a General Fund savings of approximately $350,000 annually, and a corresponding loss of revenue to San Francisco County/Unified School District. This reduction would amount to about 6 percent of the district's expenditures on central office administration and support (currently allocated primarily to audio-visual services and library services). For functions that cannot be assumed by SFUSD, if any, the county office could continue to use federal funds, revenue derived from local taxes, and state allocations for county-operated programs such as special education and ROP.

In order to provide the county and district with sufficient lead time to make the necessary adjustment in their budgets, we proposed in our report that the reduction not be implemented until 1984–85. Accordingly, we recommend enactment of legislation, in the companion bill, to implement our proposal.

c. Equalization for Juvenile Hall Funding

We recommend that the Legislature adopt Budget Bill language to allocate inflation allowances for juvenile hall programs according to an equalization mechanism.

County office of education juvenile hall programs are funded on the basis of a separate revenue limit per ADA. These revenue limits vary considerably among the individual programs. In 1981–82, the revenue limits among the 42 juvenile hall programs ranged from $1,718 per ADA in Del Norte County to $6,563 in Siskiyou County. The statewide average was $3,211 per ADA.

These revenue limits reflect historical expenditure patterns, rather than objective measures of need.

We find no justification for the current disparity in the revenue limits for juvenile hall programs. Consequently, we recommend that these revenue limits be equalized. In order to move toward equalization, we recommend that inflation allowances for these programs be allocated according to an equalization mechanism similar to the one used for school district revenue limits. Specifically, we recommend adoption of the following Budget Bill language:

> "Provided that the funds appropriated for a COLA for county-operated juvenile hall programs shall be allocated pursuant to the following formula:

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(1) Calculate the average revenue limit per county-operated juvenile hall ADA.
(2) Multiply the amount from (1) above by 0.03.
(3) Divide the result from (2) above by 2.
(4) Increase the juvenile hall revenue limit per ADA by the result from (2) above for all counties with a juvenile hall revenue limit per ADA equal to or less than the average.
(5) Increase the juvenile hall revenue limit per ADA by the amount determined in (3) for all counties with juvenile hall revenue limits equal to or greater than 125 percent of the average.
(6) For counties with juvenile hall revenue limits between the average and 125 percent of the average, increase their revenue limit by the amount determined in (3) above, plus an amount determined by multiplying the amount determined in (3) above by the factor of: 25 minus the percent above the average revenue limit, divided by 25.
(7) Any remaining funds after allocation pursuant to (1) through (6) above shall be allocated by increasing each juvenile hall revenue limit per ADA by an amount determined by dividing the remaining funds by the amount of reported juvenile hall ADA."

The effect of this language would be to increase per-ADA funding for low-expenditure programs by more than the 3 percent proposed in the budget, and increase the funding for high expenditure programs by significantly less than 3 percent. For example, Del Norte would receive a $96 (5.6 percent) increase in its per-ADA revenue limit while Siskiyou would receive a $48 (0.7 percent) increase per ADA.

3. Regional Occupational Centers and Programs (Item 6100-101-001)

Regional Occupational Centers and Programs (ROC/Ps) provide vocational training to high school pupils and adults. There are 67 ROC/Ps in the state. Of these, 41 are operated by county superintendents of schools and 26 are operated by districts (mostly through joint powers agreements). In 1981–82, they enrolled 81,257 pupils in average daily attendance (ADA), consisting of 56,347 high school ADA and 24,910 adult ADA.

Courses cover a wide range of job-related training. Training is conducted in facilities on high school sites, centers, or business sites. High school pupils are provided with transportation between their school and the ROC/P facility.

a. Funding for ROC/Ps

Table 12, shown previously, shows the funding for ROC/Ps. Prior to 1982–83, funding for ROC/Ps was derived from the appropriations for K-12 apportionments, county offices of education, and adult education. Consequently, Table 12 does not specify ROC/P expenditures for 1981–82.

The budget proposes an appropriation of $173.0 million for ROC/Ps in 1983–84, an increase of $19.4 million, or approximately 13 percent, over estimated current-year expenditures. The current-year amount—$153.6 million—is $12.8 million more than the Budget Act appropriation for ROC/Ps in 1982–83. This is because ROC/P enrollment in 1981–82—the base year for determining the current-year appropriation—was higher than estimated. Pursuant to the provisions of the Budget Act of 1982, any funding shortfall for ROC/Ps in the current-year due to higher-than-estimated 1981-82 enrollment will be funded through transfers from the appropriations for K-12 apportionments, county offices of education, and adult education. The 1983-84 budget proposes a $12.8 million deficiency appropriation for the current-year to fund the transfers required to cover the shortfall.

The increase proposed in the budget for 1983-84 provides for a 10 percent growth in enrollment and a COLA of 3 percent. Because enrollment growth would be funded at a unit rate which is below the average rate for the base program (pursuant to provisions implemented in the Budget Act of 1982), the amount required to support a 10 percent increase in enrollment is slightly less than 10 percent of the total base funding level. (Each 1 percent increase in enrollment causes an expenditure increase of approximately $1.4 million.)

b. Enrollment Growth

We recommend that during the budget hearings the Department of Finance provide information justifying the proposed 10 percent growth in enrollment for Regional Occupational Centers and Programs and the relationship of this proposal to the administration's policy on enrollment growth in similar program areas. We further recommend enactment of legislation to provide that, in allocating deficits in the ROC/P appropriation caused by excessive enrollment growth, only those ROC/Ps that exceed the authorized level of growth shall be subject to the deficit.

Enrollment Growth. The amount of funded enrollment growth in ROC/Ps is subject to annual legislative determination through the budget process. Prior to 1982-83, statutory funding limits on enrollment growth in ROC/Ps applied only to adults in district-operated programs. With no such limitations on the increases in enrollment of high school pupils or adults in county-operated programs, average daily attenance (ADA) in ROC/Ps increased significantly in recent years. For example, between 1979-80 and 1981-82, the annual increase averaged approximately 15 percent.

The Budget Act of 1982 limited funding for enrollment growth in the current-year. The limit is 10 percent for high school ADA and 5 percent for adult ADA, resulting in a weighted average increase of about 8.5 percent for all pupils. The budget proposes a growth of 10 percent (all pupils) for 1983-84, at a cost to the General Fund of $14.3 million. We note that with high school ADA (excluding ROC/Ps) projected to decline slightly in 1983-84, the budget proposal represents an expansion in the *proportion* of secondary school enrollment which would be accommodated by ROC/Ps.

The Department of Finance has not submitted any information to justify the magnitude of ROC/P growth that would be funded in 1983-84. While there is no strictly analytical basis for determining the appropriate level of growth in this program, the Legislature may want to consider this issue in a broader context—one that includes the related issues of enrollment growth for the adult education program and for community colleges. The budget provides for *no* enrollment growth in these programs, in contrast to the 10 percent proposed for ROC/Ps. To facilitate legislative consideration of this policy determination, we recommend that during the budget hearings, the department present information justifying the size of the enrollment growth proposed for ROC/Ps, and relating it to the policy toward enrollment growth in related program areas.

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Deficits. Although the budget limits statewide growth to 10 percent, there is no such limit on state-funded growth in any individual ROC/P. Consequently, if a deficit were to occur as a result of total ROC/P growth in excess of 10 percent, individual ROC/Ps which grew by less than 10 percent nevertheless would be subject to that deficit. Consequently, we recommend enactment of legislation to provide for the allocation of such funding deficits only to those ROC/Ps which exceed the authorized level of growth.

c. Target ROC/P Training to Grades 11 and 12

We recommend that the Legislature adopt Budget Bill language and enact follow-up legislation restricting enrollment in Regional Occupational Centers and Programs (ROC/Ps) to pupils in grades 11 and 12 and adults, for a General Fund savings of $13,026,000. (Reduce Item 6100-101-001 by $12,647,000 and reduce Item 6100-226-001 by $379,000.)

We further recommend that the Legislature adopt Budget Bill language directing the Department of Education to (1) certify to the Director of Finance the amount of funding apportioned to each ROC/P in 1982–83 for attendance by pupils in grades 9 and 10, and (2) reduce the 1983–84 entitlement for each ROC/P by the amount certified.

Limiting Enrollment. ROC/Ps are open to all high school pupils and adults. Although some ROC/Ps have a policy of not enrolling pupils below grades 11, most accept pupils at any high school grade level. Based on reports submitted to the Department of Education by 93 percent of the ROC/Ps, we estimate that about 10,000 pupils in grades 9 and 10 were enrolled in ROC/Ps in 1981–82, or approximately 10 percent of all secondary school pupils in ROC/Ps.

In contrast to generalized training offered in school-based vocational education programs, ROC/P courses are designed to prepare individuals for employment in *specific* occupations in the labor market. Courses provide entry-level skills, and generally can be completed in one semester or one year. The type of job-specific training offered by ROC/Ps should be most effective if provided as close as possible to the time when the pupils are seeking employment. Thus, enrollment of 9th and 10th grade pupils in ROC/Ps may be counter-productive from a vocational training standpoint and also may dilute the pupil's core academic preparation. Consequently, we recommend Budget Bill language to prohibit the enrollment of 9th and 10th grade pupils in ROC/Ps.

Funding Reduction. Because ADA is not reported by grade level, the precise amount of state funds apportioned for the attendance of ninth and tenth grade pupils is not known. Based on head count enrollment reports, however, we estimate that this recommendation would result in a General Fund savings of approximately $13 million. Consequently, we recommend that the budget proposal be reduced by $13 million. We further recommend the adoption of Budget Bill language directing the Department of Education to certify the amount of funding provided for this purpose in 1982–83. By applying this reduction only to those ROC/Ps which enrolled ninth and tenth grade pupils in 1982–83, our recommendation would not affect adversely any ROC/P's capacity to enroll pupils in grades 11 and 12.

Specifically, we recommend the following Budget Bill language:

"Provided that no Regional Occupational Center/Program shall enroll pupils in grades 9 and 10."

"Provided further that the Department of Education shall certify to the Director of Finance the amount of state funding apportioned to ROC/Ps in 1982–83 for the attendance of pupils in grades 9 and 10. The Department of Education shall reduce each ROC/P's authorized 1983–84 ADA level by a factor of 1.1 times the amount of grade 9 and 10 enrollment in that ROC/P in 1982–83."

d. New Criteria for ROC/P and Adult Education Vocational Course Approval

We recommend that the Legislature adopt supplemental language directing the Department of Education to develop new criteria for approval of state funded ROC/P and Adult Education vocational courses, based upon skill level, wage level, and documentation of local labor market shortage. We further recommend that these criteria be applied to existing as well as new or revised courses.

ROC/Ps are required to submit a description of each proposed new or revised course to the State Department of Education for approval. According to state regulations, courses must "meet the labor demand," as determined and verified by the ROC/P, and ROC/Ps must "make use" of an occupational advisory committee for each course. Similarly, Adult Education vocational courses must have "high employment potential." However, there is no requirement that ROC/Ps take into account the relationship between labor demand and supply, the skill level of the occupation, or the wage level. Similarly, current law requires the local governing body of each ROC/P and Adult Education program to review every course initiated after September 22, 1979, in order to ensure that the course (1) meets a documented labor market demand, (2) does not unnecessarily duplicate other programs, and (3) is effective, as measured by the employment and completion success of its students. These criteria, like the state regulations, emphasize labor demand rather than the supply/demand relationship.

Our review indicates that ROC/P directors and Adult Education program administrators decide to operate courses primarily on the basis of (1) the pupil demand for the course, (2) the likelihood of job placement following training, and (3) the cost of the course. In many cases, this has resulted in the operation of courses which train pupils for occupations that have low skill requirements, low wages, and no shortage of job applicants. Examples of such courses, offered in 1982–83, include courses to train pupils to be restaurant waiters, waitresses, dishwashers, and cashiers, grocery store checkers, amusement park attendants, pet groomers, cosmetologists, child development aides, recreation aides, service station attendants, and hotel clerks.

In occupations such as these, there is generally an adequate supply of job applicants who are either qualified or can obtain the necessary skills through on-the-job training provided by the employer. The number of pupils completing training in *public* school vocational courses in cosmetology in 1979–80, for example, *was four times the estimated number of job opportunities.*

By allocating limited state resources for job training in these occupations, less funding is available to improve the quantity and quality of training which can be provided in priority areas such as electronics, computer applications, and health. Moreover, training students for jobs in labor surplus occupations does nothing to improve employment opportunities for the labor force as a whole. Where an Adult Education or ROC/P graduate is hired to fill a job in one of these occupations, it simply

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means that another qualified applicant or job holder is displaced.

Consequently, we recommend that the Department of Education develop and implement regulations revising ROC/P and Adult Education vocational course approval criteria for state-funded courses so that in the future approval will be based primarily on the following factors: skill level, wage level, and documentation of local labor market shortage (including an assessment of the ability of the employer to conduct the necessary training). Courses restricted to handicapped persons would be exempt from these criteria.

Currently, only new or revised courses must be submitted to the department for approval. If new criteria are adopted, however, existing courses should be reviewed for consistency with the criteria. The department can accomplish this task on a phase-in basis, beginning with courses involving low-skill occupations.

In developing the course approval criteria, the department should attempt to incorporate quantitative measures of skill level, such as the Specific Vocational Preparation codes used by the U.S. Department of Labor.

Although it is difficult to aggregate labor supply and demand data at the local level, the department can require ROC/P directors (with the assistance of their occupational advisory committees) and Adult Education program administrators to submit evidence of a labor market shortage and to verify that the training could not be assumed by the employer. The Education Code requires each district or county superintendent governing an ROC/P to conduct local job market surveys. These surveys, in conjunction with existing supply and demand data and job outlook narratives published by the Employment Development Department for counties and Standard Metropolitan Statistical Associations, can serve as the basis for documenting the degree of labor market shortage for occupations covered by ROC/P and Adult Education vocational courses. This task should be facilitated by the publication of a guide, currently being developed by the California Occupational Information Coordinating Committee, designed to assist local program administrators in the use of labor market information in the planning process.

Specifically, we recommend that the Legislature adopt the following Supplemental Language:

> "The State Board of Education shall, by December 1, 1983, adopt regulations establishing new criteria for the approval of vocational training courses in Regional Occupational Centers and Programs (ROC/Ps) and Adult Education programs, based on occupational wage level, skill level, and labor market shortage. It is the intent of the Legislature that state funding be prohibited for courses (excluding courses for handicapped persons) that provide training in occupations with low wages, low skill levels, no labor market shortage (considering the relationship between labor demand and supply), or where employers have the capacity to conduct the necessary training. It is further the intent of the Legislature that existing, as well as new, courses be reviewed for approval, on a phase-in basis, beginning with courses in low skill occupations."

e. Pilot Program for Block Grant Funding

We recommend that the Legislature adopt Budget Bill language establishing a three-year pilot program to fund up to five ROC/Ps on a block grant basis.

ROC/Ps are funded on a revenue limit basis. For each pupil in average daily attendance (ADA), the ROC/P receives a fixed amount of state funds equal to the revenue limit established for the ROC/P. Revenue limits in county-operated ROPs ranged from $1,369 per ADA to $4,199 in 1980–81. Pursuant to a new method of funding implemented for 1982–83, each ROC/P's annual growth in ADA over the prior year is funded at the same rate—the statewide average revenue limit for district-operated ROC/Ps ($1,612 per ADA).

In contrast to *revenue,* which is a fixed amount per ADA within any particular ROC/P, the *cost* of individual training courses or programs varies: some courses cost less per ADA than the revenue generated, others cost more. Consequently, the ROC/P director must balance the low-cost and high-cost courses in order to stay within total budgeted resources, a process known as "cost averaging." Thus, any ROC/P director who desires to operate high-cost courses (such as those in high technology fields) has a *fiscal,* rather than programmatic, incentive to operate low-cost courses. To the extent that such courses are in occupations where the need for trained persons is relatively low, this results in a suboptimal curriculum. As mentioned previously, our field visits indicate that this is occurring to a considerable extent. Low-cost courses, such as cosmetology, frequently are offered by ROC/Ps in spite of low wage levels and a generally adequate supply of job applicants relative to demand.

In order to explore options for eliminating the adverse impact on program curriculum that currently results from the revenue limit mechanism used to fund ROC/Ps, and to give ROC/Ps more opportunity to shift their curricula toward higher technology occupational training, we recommend that the Legislature establish a three-year pilot program under which ROC/Ps would be funded by block grants rather than revenue limits. Under this proposal, ROC/Ps would receive the same level of funding which they would have received under the revenue limit system (including annual inflation and growth allowances), but would have the discretion to reduce their enrollment without losing funds. (The pilot project ROC/Ps would be subject to the same limit on ADA growth which is applicable to other ROC/Ps.)

Specifically, we recommend that the Legislature direct the Department of Education to select up to five ROC/Ps to participate in the pilot program, based on a review of plans submitted by interested ROC/Ps. Each plan should indicate how the funds will be expended, and should show how the curriculum will be enriched. This recommendation could be implemented by adopting the following Budget Bill language:

> "Provided that the Department of Education shall select up to five ROC/Ps to participate in a three-year pilot program in which the ROC/Ps will be funded by a block grant, based on each participating ROC/P's entitlement if funded for authorized enrollment growth under the regular program. Provided further that each ROC/P applying for the program shall submit to the department an expenditure plan, and that each participant shall submit an annual report on courses, expenditures, and enrollment."

We will review the results from this pilot program, if established, and report our findings and recommendations to the Legislature in the *Analysis of the 1986–87 Budget Bill.*

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f. ROC/P Equalization

We recommend that the Legislature adopt Budget Bill language to allocate inflation allowances for Regional Occupational Centers and Programs (ROC/Ps) according to an equalization mechanism.

Regional Occupational Centers and programs (ROC/Ps) are funded on the basis of revenue limits. These revenue limits vary considerably among the individual programs. The ROC/P revenue limit per ADA in San Mateo County, for example, was $3,106 in 1981–82, while the ROC/Ps in Contra Costa and Santa Cruz Counties had revenue limits below $1,700.

These revenue limits reflect historical expenditure patterns rather than objective measures of need. We find no justification for the wide disparity among the ROC/P revenue limits. Consequently, we recommend that these revenue limits be equalized. In order to move toward equalization, we recommend that inflation allowances for these programs be allocated according to an equalization mechanism similar to the one used for school district revenue limits.

Specifically, we recommend adoption of the following Budget Bill language:

"Provided that the funds appropriated for a COLA for Regional Occupational Centers and Programs (ROC/Ps) shall be allocated pursuant to the following formula:

(1) calculate the average revenue limit per ADA in the ROC/Ps;
(2) multiply the amount from (1) above by 0.03;
(3) divide the result from (2) above by 2;
(4) increase the ROC/P revenue limit per ADA by the result from (2) above for all ROC/Ps with a revenue limit per ADA equal to or less than the average;
(5) increase the revenue limit per ADA by the amount determined in (3) for all ROC/Ps with revenue limits equal to or greater than 125 percent of the average;
(6) for ROC/Ps with revenue limits between the average and 125 percent of the average, increase their revenue limit by the amount determined in (3) above plus an amount determined by multiplying the amount determined in (3) above by a factor of: 25 minus the percent above the average revenue limit, divided by 25.
(7) Any remaining funds after allocation pursuant to (1) through (6) above shall be allocated by increasing each ROC/P revenue limit per ADA by an amount determined by dividing the remaining funds by the amount of reported ROC/P ADA."

The effect of this language would be to increase per ADA funding for low expenditure (less than $1,743 per ADA) ROC/Ps by more than the 3 percent proposed in the budget, while high expenditure ROC/Ps would receive a per ADA increase significantly less than 3 percent.

g. Administrator-Teacher Ratio

We recommend that the Legislature adopt Budget Bill language to make Regional Occupational Centers and Programs (ROC/Ps) subject to the same ceiling on administrator-teacher ratios that is applied to high school districts, provided that each ROC/P be allowed at least 1.0 administrative position without penalty (potential General Fund savings of up to $1 million annually).

In order to control unnecessary growth in the number of administrators, the Education Code requires school districts to pay a penalty for exceeding a specified ratio of administrators to teachers. ROC/Ps are exempt from this requirement.

Table 14 shows the distribution of ROC/Ps according to the number of administrators per 100 teachers in 1981–82. The information in the table is based on responses to a departmental survey from 54 of 65 ROC/Ps. The ratios ranged from 4.2:100 to 22.7:100. Our examination of the data indicates that there is no relationship between the size of ROC/P and the relative number of administrators.

Table 14

ROC/P Administrator/Teacher Ratios

1981–82 [a]

Administrators Per 100 Teachers	*Number of ROC/Ps*	*Percent of Total*
0–7.0	13	24.1%
7.1–14.0	28	51.9
14.1–21.0	7	12.9
Over 21.0	6	11.1
Total	54	100.0%

[a] Based on Department of Education (CBEDS) report. 54 of 65 ROC/Ps responding.

The wide variation among the ROC/Ps in the number of administrators indicates the need for some control mechanism.

Although we do not have an analytical basis for determining the cost-effectiveness of the statutory ceiling on administrator/teacher ratios that applies to high school districts, we find no reason why ROC/Ps should be exempt from these ceilings. Under the statutory ceiling, a district must pay a penalty for exceeding a ratio of seven administrators for every 100 teachers (or 14.3 teachers per administrator). Table 14 shows that about 76 percent of the ROC/Ps responding to the department's survey exceeded this limit.

Some of the individual ROC/Ps which would be affected if the statutory ceiling were applied to these programs are relatively small agencies with only one administrator. In recognition of the diseconomies of scale involved in small ROC/Ps, we recommend that each ROC/P be permitted at least 1.0 administrative position without penalty. This would affect eight of the 41 ROC/Ps which reported more than seven administrators per 100 teachers.

As applied to school districts, penalties for exceeding the statutory ceilings on administrators are based on current year data. Consequently, if our recommendation is adopted, the penalties would first apply to 1983–84 staffing ratios in excess of the ceiling. The ROC/Ps would therefore have an opportunity to adjust to the ceilings. If the existing ratios were not adjusted to stay within the ceiling, this recommendation would result in approximately $1 million in apportionments being withheld, for a corresponding savings to the General Fund.

Specifically, we recommend the adoption of the following Budget Bill language:

"Provided that the apportionment for ROC/Ps exceeding the administrator-teacher ratios for high school districts shall be adjusted pursuant to the procedure specified in Education Code Sections 41400 through

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41406, except that each ROC/P shall be allowed a minimum of 1.0 administrative position."

h. Institute for Computer Technology

We recommend that the Legislature adopt Budget Bill language to fund the Institute for Computer Technology as an exemplary project under the Investment in People Program, rather than from the appropriation for Regional Occupational Centers and Programs, as provided by current law.

The Institute for Computer Technology was established in 1982 by three school districts in Santa Clara County—Sunnyvale Elementary, Fremont Union High School, and Los Gatos Joint Union High School—to provide education and training in computer technology for pupils in grades K–12 and adults. Chapter 1528/82 (AB 3266) reappropriated up to $100,000 from the exemplary projects component of the Investment in People program (Budget Act of 1982) to support the institute in 1982–83, to be allocated on the basis of the average revenue limit per ADA ($2,057) of the three participating districts. Chapter 1528 also provided that support for the institute in 1983–84 and annually thereafter shall be made from the appropriation for Regional Occupational Centers and Programs (ROC/Ps), for a maximum of 500 ADA.

We believe that the Institute for Computer Technology represents an innovative effort in multi-district coordination. We recommend, however, that the institute continue to be funded in 1983–84 as an exemplary project of the Investment in People program (Staff Development), rather than be supported from the ROC/P appropriation, for the following reasons:

- Because the institute serves elementary and junior high school pupils, as well as senior high school pupils, its role differs from that of the ROC/Ps, which are designed to prepare high school pupils for immediate entry into the job market.
- High school pupils in the institute are eligible to enroll in the Santa Clara and San Jose ROC/Ps, which intend to offer computer skills courses in 1983–84.
- Funding the institute from the appropriation proposed for ROC/Ps will have the effect of reducing the amount available for enrollment growth in the existing ROC/Ps.

Specifically, we recommend that the following Budget Bill language be adopted for the ROC/P item:

"Provided that, Education Code Section 52484 notwithstanding, no funds from this item shall be apportioned for enrollment in the Institute for Computer Technology. Provided further that the Institute for Computer Technology shall be funded, up to a maximum of 500 ADA, as an exemplary project in the Investment in People program (staff development), to the extent that funds are made available for this program in this act."

Because all staff development programs (including the exemplary projects funds) are included in the proposed block grant program, we suggest that any action on this recommendation be coordinated with the Legislature's decisions regarding the block grant.

i. Unfunded Legislation—Chapter 1044, Statutes of 1982

Chapter 1044, Statutes of 1982, permits district-operated ROC/Ps to accumulate excess reserves (year-end balances exceeding 15 percent of operating expenditures) over a period of two or more years, for purposes of capital outlay. Prior law required that such reserves be returned to the state General Fund.

The budget includes Chapter 1044 in its list of statutes for which General Fund costs are projected for 1983–84 but which are not funded in the budget. Our analysis indicates, however, that this act will result in a loss of revenue, rather than an increase in cost that would require funding by a Budget Act appropriation, and therefore should not be considered as unfunded.

4. Urban Impact Aid and Chapter 323 (Meade) Aid (Item 6100-206-001)

a. Overview

In 1976 and 1977, the Legislature created new funding mechanisms to provide additional general aid to certain school districts. For 1983–84, the budget proposes that 19 urban districts receive $59.7 million in additional funding under the Urban Impact Aid program, and that over 250 districts receive $9.4 million in additional funding under Ch 323/77 (Meade) aid. Generally, both funding mechanisms are subsumed under the heading of Urban Impact Aid.

Table 15 displays the funding levels for these Urban Impact Aid funding mechanisms, for the past, current, and budget year. As the table indicates, the budget proposes a 3 percent cost-of-living adjustment for both mechanisms in 1983–84.

Table 15
Urban Impact Aid and Chapter 323 General Aid
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change*	
				Amount	*Percent*
Urban Impact Aid	$58,003	$58,003	$59,743	$1,740	3%
Chapter 323 general aid	9,171	9,100	9,373	273	3
Totals	$67,174	$67,103	$69,116	$2,013	3%

b. Recommend Elimination of COLA

We recommend that funding for the cost-of-living adjustment proposed for Urban Impact Aid be deleted, because there is no analytical basis for providing such an adjustment to this type of program, for a General Fund savings of $2,013,000. (Reduce Item 6100-226-001, by $2,013,000.)

Urban Impact Aid uses categorical funding mechanisms to provide general aid to selected districts. The funds provided under these programs can be used to support *any* expenditure by the district. Unlike funding provided under other categorical programs, these funds are not earmarked for a specific educational purpose or a specific group of pupils.

Typically, cost-of-living adjustments (COLA) are appropriated for programs that are tied to a specific type of service (for example, Miller-Unruh reading teachers) which has become more costly due to inflation (for example, due to increases in teacher salaries).

Our analysis indicates that this logic does not apply to Urban Impact Aid. These funds are *not* restricted to a specific service. Consequently, districts

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do not routinely incur increased costs in supporting an Urban Impact Aid "program." Faced with a *general* increase in costs, those districts receiving Urban Impact Aid have the flexibility to redirect their Urban Impact Aid funds to less costly items and services. Accordingly, we cannot support the need for a cost-of-living adjustment in the Urban Impact Aid programs, and recommend that funding for the proposed COLA (Item 6100-226-001) be deleted, for a General Fund savings of $2,013,000.

5. State Educational Block Grant (Item 6100-218-001)

The Governor's Budget proposes to consolidate nine General Fund local assistance programs into a single block grant.

Table 16 shows the past and current year expenditures for the programs to be consolidated and the proposed appropriation for the block grant in the budget year.

Table 16

General Fund Local Assistance Funding for Programs Proposed to be Consolidated into the State Educational Block Grant (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change*	
				Amount	*Percent*
Economic Impact Aid	$171,346	$171,737	($171,737)	—	—
School Improvement Program	162,658	162,695	(162,695)	—	—
Instructional Materials	39,976	40,678	(40,678)	—	—
Gifted and Talented Education	16,883	16,838	(16,838)	—	—
Miller/Unruh Reading Program	16,181	16,182	(16,182)	—	—
Staff Development	3,328	12,793	(12,736)	−$57	−0.4%
Demonstration Programs in Reading and Mathematics	3,558	3,558	(3,558)	—	—
Educational Technology	998	870	(870)	—	—
Native American Indian Education Program	319	318	(318)	—	—
State Educational Block Grant	—	—	425,612	—	—
Totals	$415,157	$425,669	$425,612	−$57	N/A

In addition, the budget proposes to include in the block grant funding that otherwise would be used for state administration of vocational education (VEA). VEA local assistance funding would remain, however, outside the block grant, and would continue to be allocated pursuant to federally-approved formulas. In our analysis of the budget's request for state administration, we discuss the proposed changes in state operations associated with the block grant. We also present a separate analysis of each of these programs proposed for consolidation, using our traditional format, in order to provide the Legislature with information on the individual programs in the event the Legislature decides *not* to include some or all of the programs in the proposed block grant.

As shown in Table 16, the budget proposes no COLA for these nine programs in 1983–84, in contrast to the budget's proposal that a 3.0 percent COLA be granted to most other categorical aid programs. (The $57,000 reduction in the staff development component shown in Table 16 reflects the funds carried over from 1981–82 to 1982–83, and thus not part of the baseline amount for this activity.)

a. Inadequate Information

We recommend that by April 1, 1983, the State Department of Education provide the information needed by the Legislature to review adequately the advantages and disadvantages of the State Educational Block Grant. We withhold recommendation on the proposed local assistance funding for the block grant ($425,612,000), pending receipt of this information.

Before the Legislature can consider the block grant proposal, it will need information on (1) how the funds would be allocated to school districts and (2) how much flexibility school districts would have in allocating the funds among schools and programs. At the time this *Analysis* was prepared, this information was not available.

Our review indicates that consolidating categorical education programs into a block grant would have a number of advantages and disadvantages. In this section, we discuss the potential advantages and disadvantages of establishing an education block grant. In subsequent sections of this *Analysis,* we discuss the individual categorical programs proposed for consolidation into the block grant.

Advantages. The advantages of establishing a state education block grant are as follows:

- Responsibility for establishing funding levels for programs would be vested with the level of government most familiar with, and most responsive to, local needs.
- Responsibility for administering the programs would be assigned to that level of government best able to oversee program operations.
- Administration of the programs at the local level could be centralized and streamlined, because districts would not need to comply with state program regulations and reporting and auditing requirements which apply to individual categorical programs.
- The state would experience savings, because not as many state staff would be needed to administer the programs.

Disadvantages. The disadvantages of establishing a state education block grant are as follows:

- The state would be unable to direct funds to programs having a high statewide priority.
- Specialized programs that are provided most efficiently on a statewide or regional basis might be eliminated or made less efficient.
- Districts would lose access to the specialized expertise of state staff, unless some technical assistance components (perhaps funded on a reimbursement basis) were maintained.
- Services which are now uniform throughout the state would vary by district.
- Some districts might have difficulty in providing those services now provided by state staff, because they lack the resources needed to perform certain administrative and programmatic functions effectively.

In addition, we believe the administration needs to address the following issues before the Legislature will be able to determine the potential effects of the proposed block grant:

- Will funds be allocated (1) by a formula based on pupil characteristics, (2) by a formula based on average daily attendance, or (3) by a competitive grant based on proposed expenditures? The programs proposed for consolidation currently use all three allocation methods.

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Any change in the current allocation methods undoubtedly would result in funding shifts among districts.

- Will the proposal include allocation control provisions if there are funding shifts, to ensure that no district receives less or more than a specified percent of the funds received from the separate programs in 1982–83? In other words, will districts be held harmless against "excessive" reduction in funding?
- Will the funds be provided as general aid, available for financing general salary increases and benefit improvements determined through the collective bargaining process? If not, what specific purposes can the funds be used to support?
- Why were these nine programs selected for inclusion in the block grant proposal while other similar categorical programs not included? For example, Urban Impact Aid is not proposed for inclusion in the block grant, even though it is a general aid categorical program.
- What is the basis for the administration's assumption that establishment of the block grant would result in a 5 percent increase ($21 million) in funds, available for teaching services in 1983–84, and a 10 percent increase ($42.5 million) in 1984–85. (These amounts are based on the administration's assumption that 20 percent ($85 million) of the funds received by local districts for these programs are used to pay for administrative costs, and that a quarter of these costs could be saved and reallocated in 1983–84 and half could be saved and reallocated in 1984–85. We estimate that direct administrative costs for all local district progams is approximately 5.3 percent.)
- Will existing school site councils and advisory committees have any control over the allocation of these funds? (Under the current sunset provisions established by AB 8 (Ch 282/79), school site councils would continue to have authority over the allocation of School Improvement Program funds even if all other rules and regulations were terminated.)

Without this type of information there is no way to compare the proposed grant to the current categorical aid system.

The Governor's Budget, however, indicates that *the details of the block grant proposal will not be developed fully and available to the Legislature until August 1, 1983.* We recommend that the administration accelerate its timetable and provide by April 1, 1983, the information needed for legislative review of the block grant proposal. Pending receipt of this information, we withhold recommendation on this proposal.

B. CATEGORICAL EDUCATION PROGRAMS

1. Consolidated Categorical Programs

This section analyzes the state and federal categorical aid programs currently administered by the State Department of Education's Consolidated Programs Division.

The Governor's Budget proposes to include most of these programs within a single State Educational Block Grant (Item 6100-218-001). Nevertheless, we include in this section our analysis of each categorical program both to facilitate legislative review of the block grant program and to assist the Legislature in the event it decides not to include some or all of these programs in the proposed block grant.

Table 17 displays (1) funding for federal ECIA Chapters I and II and programs which are not included in the proposed block grant and (2) the funding level for each state categorical program which is proposed to be in the block grant.

Table 17
Funding for Programs
Included in the Consolidated Programs Division
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Consolidated program components not included in proposed State Educational Block Grant:					
State administration	$3,864	$1,995	$2,049	$54	2.7%
ECIA Chapter I	272,545	252,776	252,776	—	—
ECIA Chapter II	—	33,228	33,228	—	—
Subtotals	$276,409	$287,999	$288,053	$54	—
Consolidated program components proposed for inclusion in State Educational Block Grant:					
State Administration	$4,015	$5,820	$6,083	$263	4.5%
School Improvement Program	162,658	162,695	162,695	—	—
Economic Impact Aid	171,346	171,737	171,737	—	—
Miller-Unruh	13,387	16,182	16,182	—	—
AB 1544 Indian Education	319	318	318	—	—
Subtotals	$351,725	$356,752	$357,015	$263	0.1%
Totals	$628,134	$644,751	$645,068	$317	—
General Fund	*$351,725*	*$356,752*	*$357,015*	*$263*	*0.1%*
Federal funds	*276,403*	*287,999*	*288,053*	*54*	—
Reimbursements	*6*	—	—	—	—

a. Economic Impact Aid and ECIA Chapter I Aid (Items 6100-218-001 and 6100-136-890).

The primary source of state funding for compensatory education services to educationally disadvantaged students is the Economic Impact Aid (EIA) program. Similar educational services are supported with federal funds provided under the federal Education Consolidation and Improvement Act (ECIA) Chapter I. Table 17 displays funding for these two programs.

Economic Impact Aid (Item 6100-218-001). The intent of EIA is to provide funds for supplemental educational services, particularly in basic skills, to children who (1) have difficulty in reading, language development, and mathematics and (2) attend schools which (a) are located in high poverty areas and/or (b) have an excessive number of children with poor academic skills. EIA funding served 269,000 pupils in 1981–82.

Although the budget proposes to fold EIA into State Educational Block Grant, we present this analysis of EIA in order to provide specific information about the program that will assist the Legislature in deciding (1) whether to fold the program into a block grant and (2) if it decides not to eliminate the program, what actions should be taken with respect to the program in the 1983–84 budget.

DEPARTMENT OF EDUCATION—Continued

Allocation Formula Change Needed

We recommend that the Legislature adopt Budget Bill language to change the EIA formula so that EIA allocations are based on the statewide district count of Limited English Proficient pupils, rather than on the district count of only Spanish and Asian surnamed and American Indian pupils. We further recommend that legislation be enacted to amend the relevant sections of the Education Code to reflect this formula change.

Economic Impact Aid (EIA) is a mechanism for distributing aid to school districts for the provision of compensatory education services, including services to limited English proficient (LEP) pupils. The funds are allocated through a complex formula which determines the "unmet need" of each school district. Need is calculated using factors related to: (1) additional resources necessary to serve LEP pupils, as projected by the number of Spanish and Asian surnamed and American Indian pupils, (2) family poverty, as determined through a combination of welfare and income data, and (3) pupil transiency, as computed from the districts' average daily attendance.

Our analysis indicates that the current method for determining the impact of LEP pupils—identifying the number of Spanish and Asian surnamed and American Indian pupils—is not the most accurate method available. A statewide census is now conducted each spring to specifically identify limited English proficient children. (The results of the 1982 Language Census are discussed as part of our analysis of bilingual education.) We recommend that this census data be used, instead of the current proxy data, for determining the potential impact of LEP pupils. By changing the EIA formula in this way, the state would:

More accurately target bilingual education funds to LEP pupils. Using the LEP census data would ensure that districts with the highest proportion of pupils actually needing bilingual education would receive funding. Under the current formula, pupils who are fully English proficient (FEP) but have Spanish or Asian surnames, or who are American Indian, trigger EIA funds for their district. In addition, there are districts that have LEP pupils who are neither American Indian nor Spanish or Asian surnamed. According to the spring 1982 census, 32,305 (7.5 percent) of California's LEP pupils have a primary language other than Spanish or one of the Asian languages, and thus presumably are excluded from the determination of LEP pupil impact for each school district. Further, although California has approximately 33,000 American Indian pupils, only 380, or 1 percent of all American Indian pupils, are LEP.

Encourage a more accurate identification of LEP pupils by school districts. Under the current system, identification of LEP pupils may trigger various bilingual education requirements but will not result in any additional bilingual education funds. The recommended formula change would serve as an incentive to school districts to make certain that all LEP pupils are appropriately identified. Our analysis indicates that because (1) LEP status is clearly defined by existing law, and (2) the SDE monitors, on a sample basis, district census procedures, it is not likely that the formula change would encourage districts to report non-LEP pupils as being LEP.

Because the formula change would (1) more accurately target funds for bilingual education and (2) encourage more accurate identification of

LEP pupils, we recommend that the Legislature adopt the following Budget Bill language:

"The Superintendent of Public Instruction shall use each district's spring census count of limited English proficient pupils, rather than the count of Spanish and Asian surnamed and American Indian pupils, as a factor in determining each school district's Economic Impact Aid allocation."

Education Consolidation and Improvement Act—Chapter I (Item 6100-136-001)

We recommend approval.

The federally funded Education Consolidation and Improvement Act (ECIA) Chapter I also provides support for compensatory education services to educationally disadvantaged students. Both ECIA Chapter I and Economic Impact Aid (EIA) fund a variety of supplemental educational services for children having difficulty mastering basic skills or who attend targeted schools. ECIA Chapter I funded services for 368,000 pupils in 1981–82.

Table 17 displays the local assistance expenditures for Chapter I, which are estimated to be $252,776,000 in 1983–84.

b. Transition Program For Refugee Children (Item 6100-176-890)

We recommend approval.

The federally-funded Transition Program for Refugee Children (TPRC), authorized by the Refugee Act of 1980, supersedes and expands the Indochina Refugee Children Assistance Program. TPRC provides local assistance to school districts which have experienced heavy enrollments of refugee children, primarily Cuban, Haitian, and Indochinese. The TPRC served 46,366 refugee pupils in 260 California school districts in 1982–83.

School districts use their TPRC funds to provide a variety of educational and educationally-related 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.
- testing, assessment, and placement of incoming pupils.

TPRC grants are allocated to school districts through a formula based on the number of eligible pupils, their grade level, and the number of years they have been in the United States. The SDE allocates one professional position for monitoring school district census procedures, transmitting TPRC entitlements, and providing technical assistance through workshops and statewide mailings. Federal regulations limit state operations to 1 percent of the state's total TPRC grant.

Table 18

Transition Program for Refugee Children (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
State Administration	$72	$73	$78	$5	6.8%
Local Assistance	6,855	7,637	7,637	—	—
Totals	$6,927	$7,710	$7,715	$5	0.1%

DEPARTMENT OF EDUCATION—Continued

Table 18 displays the 3-year funding history for the TPRC. Although the Refugee Act of 1980 funding expires on September 30, 1983, the Governor's Budget anticipates that TPRC funding will be $7,715,000 in 1983–84—approximately the same amount available in 1982–83.

c. Bilingual Education.

Because (1) a major priority of the EIA, ECIA Chapter I, and TPRC programs is to promote English proficiency and (2) there continues to be a high level of interest in the state's bilingual education efforts within the Legislature we present our analysis of this program separately.

Current state law 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.

State funding for bilingual education programs is provided primarily under Economic Impact Aid. Additional state funding for services to LEP pupils may be provided as part of other programs such as Demonstration Programs in Reading and Mathematics and Special Education. Federal programs, including ECIA Chapter I, Migrant Education, and the Transition Program for Refugee Children, also serve LEP pupils.

Because of the multiplicity of programs and funding sources for bilingual education, California's *total* expenditures for bilingual education cannot be determined.

Annual Census of LEP Pupils. Current 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. Table 19 shows the results of this census for each of the past three years.

As indicated in the table, the number of LEP pupils increased by 32 percent (325,748 to 431,449) between 1980 and 1982. Of the 1982 LEP pupil population, 75 percent have Spanish as their primary language. The table also indicates the rapid increase in the number of Asian language LEP pupils that has occurred since 1980.

Table 19

Number and Increase of K-12 Limited English Proficient Pupils

				Change Over Three Years	
Language	*1980*	*1981*	*1982*	*Amount*	*Percent*
Spanish	257,033	285,567	322,526	65,493	25.4%
Non-Spanish	68,715	91,227	108,923	40,208	58.5
Vietnamese	(14,018)	(22,826)	(27,733)	(13,715)	97.8
Cantonese	(10,174)	(14,196)	(16,096)	(5,922)	58.2
Korean	(6,599)	(7,508)	(7,980)	(1,381)	20.9
Philippino	(6,658)	(6,752)	(8,569)	(1,911)	28.7
All others	(31,266)	(39,945)	(48,449)	(17,183)	54.9
Totals	325,748	376,794	431,449	105,701	32.4%

SDE Translation of Bilingual Education Paperwork Needed

We recommend that the Legislature adopt supplemental language requiring the State Department of Education to serve as a clearinghouse to provide translations of all forms and memoranda that school districts are required to give to non-English speaking parents, because it is costly and inefficient for each school district to produce individually such translations.

Various categorical programs require that school districts send the parents of LEP pupils certain forms and memoranda in a language which the parents understand—in most cases, a language other than English. The language census questionnaire explained earlier is an example of the type of form which must be translated into numerous languages and sent to parents. Other examples include: a letter explaining the free lunch program, an explanation of the role and responsibilities of parent advisory committees, Chapter I complaint resolution forms, an explanation of California Assessment Program test scores, and a statement of the rights of parents of special education pupils.

During our field visits, we determined that although every school district is required to distribute some or all of these forms, each district is *individually* responsible for obtaining the necessary translations, even though the forms are the same throughout the state. In some cases, districts had difficulty finding a qualified translator, and in many cases districts had to divert compensatory education funds from education programs to pay for translation costs.

Our analysis indicates that the effectiveness of state support for compensatory education would be enhanced if the SDE served as a clearinghouse for bilingual education paperwork. This is because:

- It is inefficient for each school district *individually* to translate forms that are used throughout the state.
- The diversion of compensatory education funds from programs to pay the cost of these duplicative translations could be halted were the SDE to take the lead in obtaining the translations.
- Some districts are unable to obtain qualified translators.

Our analysis also indicates that the SDE could undertake a clearinghouse role of this type within its existing resources. Currently, consultants in the SDE possess translation capabilities in at least 6 foreign languages. The SDE could also contract, at minimal cost, for the short-term services of a translator for those languages not represented in the department.

Consequently, we recommend that the Legislature direct the SDE to serve as a clearinghouse for bilingual education paperwork for those languages which are spoken by at least 1 percent (approximately 4,300 pupils) of the state's LEP pupil population. A 1 percent floor would make the SDE the coordinator for translations into seven languages, and thus would result in the department meeting the translation needs of most school districts, without requiring it to provide translations of the rarer and usually more localized foreign languages. Specifically, we recommend that the Legislature adopt the following supplemental language:

"Beginning with the 1983–84 school year, the SDE shall provide free of charge to school districts, a translation of all forms and memoranda which school districts are required, by state or federal law, to give non-English speaking parents. SDE translations are required only for those foreign languages which are spoken by at least 1 percent of the state's current Limited English Proficient pupil population."

DEPARTMENT OF EDUCATION—Continued

d. School Improvement Program (Item 6100-218-001).

The School Improvement Program (SIP) provides funding to schools, on a per-ADA basis, for expenditure pursuant to the decisions made by local School Site Councils.

The Governor's Budget proposes to fold the School Improvement Program into the State Educational Block Grant (Item 6100-218-001). We present our analysis of SIP as a separate program in order to provide specific information about the program that will assist the Legislature in deciding (1) whether to fold the program into a block grant and (2) if it decides not to eliminate the program, what actions should be taken with respect to the program in the 1983–84 budget.

As shown in Table 17, the level of funding proposed in the budget for the block grant program in 1983–84 includes $162.7 million for the School Improvement Program, the same amount appropriated for SIP in the current year.

Allocation of SIP Funds. Schools are selected for participation in the School Improvement Program on the basis of applications submitted to the State Board of Education. In the initial year, schools receive planning grants at the statutory rate of $30 per ADA. The statutory rates for implementation grants are $148 per ADA for grades K–3, $90 per ADA for grades 4–8, and $65 per ADA for grades 9–12. There is no statutory limit on the number of years a school may participate in SIP, but there is provision for the termination of grants upon a finding by the local governing board that a school's program has failed, over a four-year period, to substantially meet its declared objectives.

SIP grants are used for a variety of activities and purposes, such as to employ teacher aides (prevalent at the elementary school level) or for staff and curriculum development. Funds may not be used to reduce class size (that is, to employ regular classroom teachers) or for capital outlay.

Prior Expansion. The School Improvement Program was initiated in 1977–78. It revised and expanded the Early Childhood Education (ECE) program. In 1977–78, 871,000 pupils in average daily attendance (ADA), attending 2,928 schools, participated in SIP. The program was expanded to serve 1,349,000 ADA in 3,468 schools (879 districts) in 1980–81, and has remained at that level ever since. Currently, SIP serves 32 percent of total K–12 ADA, 53 percent of the schools in the state, and 85 percent of the school districts. Because SIP replaced the ECE program, which served pupils in grades K–3 only, SIP is concentrated in the primary grades. About 68 percent of statewide K–3 ADA participates in SIP, compared to 22 percent for grades 4–6, and 21 percent for grades 7–12.

We know of no analytical basis for determining what the level of funding for the School Improvement Program should be. At the same time, we conclude that the current distribution of funds under the program is not defensible from an analytical standpoint. This deficiency could be overcome in one of two ways: (1) increase funding for SIP so that all interested districts can be brought into the program or (2) reallocate existing SIP funds among all districts.

Increase Funding to Expand the Program. Because planning grants are funded at a rate substantially lower than implementation grants, the cost of expanding SIP is relatively low in the first year. The second-year cost of expanding SIP, however, is approximately twice the first-year cost for grades 9–12, three times the cost for grades 4–8, and about five times the cost for grades K–3. This is an important factor in the consideration of any plan to expand participation in SIP by increasing the amount of funds appropriated for the program.

SIP schools are permitted to carry over unexpended balances from planning grants into the implementation phase of the program. Our analysis indicates that schools frequently carry over significant portions of their planning grants, sometimes in excess of 50 percent. This indicates that planning grants could be funded at a rate lower than the $30 statutorily authorized rate per ADA.

Reallocation of SIP Funds. If the Legislature chooses not to appropriate additional funding for the School Improvement Program, the allocation of funds among districts could be made more equitable in one of the following ways:

- ***Reduce the grants to schools that have been in the program for a specified period of time.*** For example, a 20 percent reduction in grants to those schools that have been in the program for three years would free-up approximately $30 million for reallocation to non-participating districts. This might be appropriate since the affected schools have benefitted from the program the longest and have had sufficient time to identify successful school improvement practices that warrant funding from within their regular revenue limit. This alternative, however, would require the affected schools to cut back their program unless the funds have been used for nonrecurring expenditures (developing a new science curriculum or purchasing computers, for example) or can be offset by alternate funding sources.
- ***Reduce all K–3 grants by a specified amount.*** As stated previously, SIP authorizes allocations of $148 per ADA in grades K–3, compared to $90 for grades 4–8 and $65 for grades 9–12. Presumably, the differential was established in order to emphasize instruction in the primary grades and, possibly, in recognition of the differences in school size (enrollment) between elementary and secondary schools. A 20 percent reduction in grants for K–3 ADA would provide approximately $22 million for reallocation to non-participating schools.

  As in the case of the preceding alternative, the programmatic impact of a reduction in SIP grants for K–3 pupils will depend on how these funds have been used in the past. It would appear, however, that a reduction in K–3 SIP grants would be feasible. Approximately 275 elementary schools that are funded under SIP only for grades K–3 have elected, under provisions of the School-Based Program Coordination Act, to apply their SIP funds to grades 4–6 as well.
- ***Permit districts that are partially funded for the School Improvement Program to reallocate funds from SIP schools to schools that are not participating in the program.*** This would allow a more effective use of the funds *within* districts, assuming that familiarity with the needs of individual schools tends to be greatest at the local level.

SIP Program Evaluation. As required by Chapter 894/77 (AB 65), the Department of Education contracted in 1980 for an independent evaluation of SIP, at a cost of $771,241. Since then, the contract has been augmented by $35,036, and the due date for the evaluation has been extended from October 1, 1982 to April 1, 1983.

The final report will describe the patterns of program implementation, analyze the extent to which SIP programs can improve the quality of instruction, and specify the conditions under which state program components and implementation strategies are effective in creating well-imple-

DEPARTMENT OF EDUCATION—Continued

mented programs. To accomplish these tasks, the evaluators have surveyed SIP participants in approximately 200 schools and conducted intensive fieldwork in approximately 50 schools.

e. Miller-Unruh Reading Program (Item 6100-218-001).

The Miller-Unruh Reading program is designed to upgrade the reading achievement of low-performing K–6 pupils by funding reading specialists for participating schools. In the current year, the state will allocate approximately $17,000 per full time reading specialist. School districts must pay for the remainder of the specialist's salary.

The Governor's Budget proposes to fold the Miller-Unruh Reading program into the proposed State Educational Block Grant (Item 6100-218-001). In this section, we present our analysis of the Miller-Unruh program in order to provide specific information that will assist the Legislature in deciding (1) whether to fold the program into a block grant and (2) if it decides not to eliminate the program, what actions should be taken with respect to the program in the 1983–84 budget.

Funding. Table 20 shows participation in and funding for the Miller-Unruh program. The level of funding proposed in the budget for the block grant program in 1983–84 includes $16.2 million from the Miller-Unruh program in 1983–84, the same amount appropriated for the program in the current year.

Table 20
Miller-Unruh Reading Program
Participation and Funding

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*[a]	*Change Amount*	*Change Percent*
Appropriation (thousands)	$16,181	$16,182	$16,182	—	—
Number of districts	161	162	162	—	—
Number of teachers	967	976	976	—	—
Estimated statewide average elementary teacher salary	$20,626	$22,100	$22,100	—	—
Average amount paid per full-year position	$16,745	$17,427	$17,427	—	—
Percent of statewide average elementary teacher salary paid by state	81.2%	78.9%	78.9%	—	—

[a] Proposed for inclusion in the State Educational Block Grant program.

Reallocation of Miller-Unruh Funds

We recommend that the Legislature adopt Budget Bill language requiring the Department of Education to reallocate Miller-Unruh Reading Program funds, based on California Assessment Program reading scores and district base revenue limits, in order to comply with legislative intent that funding be targeted on districts with the greatest need.

The Miller-Unruh program was implemented in 1966–67. Participation increased from 53 districts in that year to 302 districts in 1969–70. It then declined steadily to 169 districts in 1978–79, and has remained at approximately this level ever since. Because it is the policy of the department to renew annually (to the extent feasible) the grants to participating schools, most of the current Miller-Unruh schools have been participating in the program for more than 10 years. No additional schools have been added to the program since 1978-79, and applications are not being solicited by the department.

In enacting the Miller-Unruh program, the Legislature declared its intent that funding priority be given to those districts and schools "where the need for reading instruction is greatest and the financial ability of the districts to provide it is least." The department, however, has not reviewed the Miller-Unruh schools to determine whether legislative intent is being met by the current allocation of funds.

We analyzed a sample of Miller-Unruh schools, and found 15 schools which (1) ranked in the top quartile in terms of 1981-82 California Assessment Program (CAP) reading scores, and (2) are in districts that have revenue limits above the statewide average. This indicates that a reallocation of Miller-Unruh program funding is needed if the priorities set by the Legislature are to be met. Consequently, we recommend that Budget Bill language be adopted requiring the department to open the program for new applications and effect a reallocation of funding, based on CAP reading scores and district revenue limits.

Specifically, we recommend adoption of the following Budget Bill language:

"Provided that the Department of Education shall reallocate Miller-Unruh Reading program funding to school districts, based on the following criteria: lowest ranking California Assessment Program reading scores and district base revenue limits."

f. State Preschool Program (Item 6100-196-001)

We Recommend Approval.

The objective of the State Preschool program is to provide an educational preschool experience for children from low-income families. Preschool programs are administered by 115 school districts which enroll 11,300 children, and by 76 nonprofit agencies which enroll 8,000 children.

Table 21 shows actual, estimated, and projected expenditures for this program.

Table 21
State Preschool Expenditures
(in thousands)

	Actual 1981-82	Estimated 1982-83	Proposed 1983-84	Change Amount	Change Percent
State Operations	$547[b]	$458	$486	$28	6.1%
Local Assistance[a]	30,064	30,341	31,250	909	3.0
Scholarship Incentive Program	(239)	(239)	(246)	(7)	(3.0)
Totals	$30,611	$30,799	$31,736	$937	3.0%

[a] Total local assistance, including amounts funded through the consolidated application process.
[b] Includes $56,065 in one-time federal funds for audits of Headstart programs.

The budget proposes expenditures of $486,000 for state operations and $31.3 million for local assistance in support of the State Preschool programs in 1983-84. The proposed budget for state operations is $28,000, or 6.1 percent, more than estimated current-year expenditures for this purpose, while the proposed budget for local assistance is $909,000, or 3 percent more than estimated current-year expenditure level.

Our review indicates that these adjustments are consistent with budget guidelines, and consequently, we recommend approval.

DEPARTMENT OF EDUCATION—Continued

g. Federal Block Grant (Item 6100-101-890)

We recommend approval.

In 1982–83, the federal government consolidated 31 assistance grant programs into a single block grant. Federal law requires that (1) at least 80 percent of the block grant be allocated as local assistance, (2) no more than 20 percent be retained for state operations, and (3) an advisory committee be formed to advise the state on the initial allocation of funds for local assistance and state operations. Federal law prohibits the state from specifying how the local assistance funds will be spent by the districts.

Last year, the Legislature allocated $35.4 million (84 percent) for local assistance and $6.6 million (16 percent) for state operations in 1982–83, as shown in Table 22. The Governor's Budget proposes to continue the block grant allocation for local assistance and state operations (adjusted for normal price increases) at the same level authorized by the Legislature for the current year. Table 22 shows federal funding for the block grant programs in 1981–82 prior to consolidation, and in 1982–83 and 1983–84 after consolidation.

Table 22
Federal Block Grant Funding
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
State Operations	$6,236	$6,454	$6,664	$210	3.3%
Local Assistance:					
Shown in Governor's Budget	27,929	34,838	34,838	—	—
Not Shown in Governor's Budget [a]	23,123	—	—	—	—
Totals	$57,288	$41,292	$41,502	$210	0.5%

[a] Some programs awarded grants directly to local school districts, and complete data on these grants are not available.

The federal block grant was initiated during the current year. Consequently, there are no data available at this time which can provide a basis for evaluating the use of these funds. Because the budget proposes to continue the legislatively approved allocation levels for this program, however, we recommend approval.

2. Nonconsolidated Categorical Programs

This section discusses the categorical aid programs that are not part of the consolidated application process, and are not part of other major programs.

Table 23 shows local assistance expenditures and funding sources for these categorical aid programs.

a. Education Consolidation and Improvement Act—Chapter I Migrant Education (Item 6100-141-890)

The federally-funded Migrant Education program was established in 1965 to provide supplementary education services to children of migrant and formerly migrant parents. In the current year, the State Department of Education (SDE) will distribute migrant education funds to school districts, primarily through 10 regional offices which are operated through

Table 23
Nonconsolidated Categorical Programs
Local Assistance Expenditures and Funding Sources
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
ECIA, Chapter I—Migrant [f]	$58,785	$63,442	$63,442	—	—
Demonstration programs in reading and mathematics [g]	3,558	3,558	3,558 [a]	—	—
Legal education [f]	200	200	200	—	—
Driver training [s]	17,336	17,844	17,844	—	—
Transportation [g]	169,934	173,542	178,223	$4,681	2.7%
Instructional materials [g]	42,177	40,678	40,678 [a]	—	—
Staff development [f, g]	3,328	13,088	13,031 [a]	−57	−0.4
Indian education centers [g]	751	750	774	24	3.2
Vocational education [f, g, s]	78,846	82,816	66,571	−16,245	−19.6
Adult education apportionments [g]	159,259	150,838	150,124	−714	−0.5
Adult basic education [f, g]	7,552	9,375	9,375	—	—
Federal block grant [f]	27,929	— [b]	— [b]	—	—
Environmental education [s]	495	495	399	−96	−19.4
Gifted and talented [f, g]	16,883	16,838	16,838 [a]	—	—
Educational technology [g]	798	870	870 [a]	—	—
Totals	$587,831	$574,334	$561,927	−$12,407	−2.2%
General Fund	*$396,843*	*$399,892*	*$403,826*	*$3,934*	*1.0%*
Federal funds	*161,481*	*140,691*	*126,446*	*−14,245*	*−10.1*
Other state funds and reimbursements	*29,507*	*33,751*	*31,655*	*−2,096*	*−6.2*

[a] Included in the proposed State Educational Block Grant (Item 6100-218-001).
[b] Transferred to consolidated categoricals.
[f] Indicates federal funds support.
[g] Indicates General Fund support.
[s] Indicates support from other state funds and reimbursements.

certain county offices of education. (In 1983–84, there will be 13 regional offices.) In addition, five school districts, at their request, operate their Migrant Education program independent of a regional office, and receive their funds directly from the SDE.

The budget reports that 131,000 pupils are served by Migrant Education in 1982–83.

Typically, school districts use migrant education funds to employ additional teachers and aides to work directly with migrant pupils. Districts also supply a variety of educationally related services, such as counseling, health care, and college preparatory programs. Further, the regions and districts use the Migrant Student Record Transfer System (MSRTS) to assure that migrant students' files follow them wherever they move within the United States.

Table 24
Federal ECIA Chapter I Migrant Education Funds

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
State operations	$1,839	$2,120	$2,181	$61	2.8%
Local assistance	58,785	63,442	63,442	0	—
Totals	$60,624	$65,562	$65,623	$61	—

DEPARTMENT OF EDUCATION—Continued

As shown in Table 24, California expects to receive approximately $65.6 million in federal migrant education funds in 1983-84. The budget proposes to allocate $63.4 million of this amount for local assistance to regions and districts—the same as in 1982-83. The balance—$2.2 million is proposed for state operations.

Failure to Serve Eligible Migrant Pupils in Los Angeles County

We recommend that the State Department of Education report during budget hearings on why it has not implemented a Migrant Education program to serve all eligible Los Angeles County pupils, as required by supplemental language to the 1981 Budget Act. We further recommend that the department report on the levels of funding provided for the pilot project to identify and recruit eligible pupils in Los Angeles County.

In our *Analysis of the 1981-82 Budget Bill,* we stated that as many as 41,000 Los Angeles County pupils may have been eligible for, but were not receiving, services through the Migrant Education program. Subsequently, the Legislature adopted language in the *Supplemental Report on the 1981 Budget Act* requiring the SDE to (1) take all necessary actions to identify and recruit by September 1, 1982, as many eligible Los Angeles County pupils as possible and (2) implement educational programs for these pupils by September 1, 1983. At the time the language was adopted, a project conducted by the Los Angeles County Superintendent of Schools had identified 3,077 eligible pupils in six school districts.

As a result of the supplemental language, additional migrant education funds were allocated to Los Angeles County for project expansion. In the current school year, 19 school districts are either serving or have identified 6,306 migrant pupils. This reflects a 105 percent increase over a three year period.

Although funding for the Los Angeles County project has increased, we believe that the SDE may not be complying with the intent of the supplemental language. Our analysis indicates that:

The SDE has provided no funding for Migrant Education services in three Los Angeles County school districts which have identified eligible pupils. Three districts have successfully completed an identification and recruitment process funded through the SDE, which produced a total of 800 pupils eligible for migrant education services. The SDE, however, has denied additional funds to these districts for implementation of migrant education programs for these pupils.

Additional districts have requested, but have been denied, funding to begin the identification and recruitment process. According to the Los Angeles County Office of Education, a minimum of five school districts want to begin an identification and recruitment process which could produce an estimated 1,500 to 2,000 additional migrant pupils eligible for, but not receiving, migrant education services. Although required to make every effort to identify and recruit as many eligible migrant pupils as possible, the SDE has provided no funding for Los Angeles County districts seeking to *begin* an identification and recruitment process.

The SDE has indicated to the Los Angeles County Office of Education that the funding restrictions are the result of limited federal migrant education funds. Our analysis, however, fails to validate the Department's explanation because:

- ***The SDE has not been able to spend all funds available in a given***

year. For example, SDE carried over $3.1 million in unspent funds from 1981–82 to 1982–83. The SDE estimates that $4.4 million will carry over from the current year into 1983–84.
- ***California's share of federal migrant education funds is determined by the number of eligible pupils.*** As more pupils are identified in Los Angeles, California's share should increase.
- ***The SDE achieved savings of Migrant Education funds in the current year.*** It did so through cutbacks in (1) the 1982–83 service agreement for the Migrant Education Mini-Corps program, and (2) the Education Commission of the State's Migrant Education Task Force. These savings could have been redirected to the Los Angeles project.

Elsewhere in this *Analysis,* we recommend the reduction of an additional $262,000 in 1983–84 migrant education funds. These funds could also be redirected to the Los Angeles project.

Because (1) a significant number of eligible pupils are being denied an opportunity to receive services under the Migrant Education program and (2) the Legislature has directed the SDE to identify and serve these pupils, we recommend that the SDE report during budget hearings on why all eligible Los Angeles County pupils are not being served and why funds for program expansion have not been allocated.

Migrant Education Mini-Corps Program.

The State Department of Education (SDE) contracts annually with the Butte County Superintendent of Schools to conduct the statewide Mini-Corps program. The Mini-Corps operates a nine-month school year program and a summer school program. Both programs seek to (1) provide services to migrant education pupils, by using college students as teacher aides in migrant education classrooms and (2) increase the number of bilingual professionals available to serve migrant children by encouraging college students to become teachers. During the Fall 1982 semester, 259 college students enrolled in 15 institutions of higher education were serving as Mini-Corps aides.

The 1982 Summer and 1982–83 school year Mini-Corps service agreements resulted in expenditures of $2.9 million. The program, under the supervision of the SDE, is directly administered by 10 positions in the Sacramento and Oroville Mini-Corps offices, and by 16 certificated campus coordinators.

Language included in the *Supplemental Report to the 1982 Budget Act* directed that the SDE attempt to reduce the level of administration for the Mini-Corps program. Our review of the 1982–83 Mini-Corps contract indicates that SDE has complied with this directive, and has made substantive reductions in Mini-Corps administrative costs. The Sacramento Mini-Corps office currently is staffed by four professional and four clerical positions—a reduction of three professional and one clerical positions. The Oroville Mini-Corps office is staffed by one professional and one clerical position.

Recommend Department of Finance Approval of Next Mini-Corps Service Agreement

We recommend that the Legislature adopt supplemental language requiring that the Director of Finance review and approve, prior to implementation, the 1983–84 Mini-Corps Service Agreement between the State Department of Education and the Butte County Superintendent of Schools in order to assure that it complies with a legislative directive.

DEPARTMENT OF EDUCATION—Continued

Language contained in the *Supplemental Report to the 1982 Budget Act* requires that all California State University (CSU) Mini-Corps participants apply for work-study financial aid in order to offset migrant education-funded stipends wherever possible. The language also directs the Mini-Corps to return to the SDE for redirection to local assistance, the offset amount of the participant's stipends.

Data supplied by the SDE indicates that all CSU Mini-Corps participants applied for work-study funds, and that 36 of these participants received a total of approximately $43,000 in work-study funds to offset all or part of their stipend. Our analysis of the 1982–83 Mini-Corps service agreement between the SDE and Butte County indicates, however, that the service agreement does *not* reflect the $43,000 offset. Consequently, this savings has not been redirected from stipends to other local assistance, as required by the supplemental language. Instead, the funds constitute an overpayment to the Butte County Office of Education.

Because the offset and redirection called for by the Legislature have not been reflected in the 1982–83 agreement between the department and the county, we believe that better oversight of the department's contracting procedures is needed. Consequently, we recommend that the Legislature adopt the following supplemental language directing the Director of Finance to review the 1983–84 service agreement in order to make sure that it complies with legislative intent:

> "Migrant Education Mini-Corps Service Agreements. The Director of Finance shall review and approve the 1983–84 Mini-Corps Service Agreement between the State Department of Education and the Butte County Superintendent of Schools prior to its implementation. The Director shall determine that any offset of Migrant Education Mini-Corps stipends is redirected to other Migrant Education local assistance."

Recommend Redirection of Mini-Corps Campus Coordinators

We recommend that the Legislature adopt supplemental language directing the State Department of Education to reduce 16 full-time school year Mini-Corps campus coordinator positions to eight full-time equivalent positions to reflect workload requirements for a Federal Trust Fund redirection of $219,000.

Supplemental language to the 1982 Budget Act requires the Legislative Analyst to report on the effectiveness of Mini-Corps campus coordinators.

Campus coordinators are located at each of the 16 community colleges and state universities that have Mini-Corps programs. The campus coordinators report to the Mini-Corps Director and Associate Director. Each campus coordinator is allocated a half-time clerical position and funds for travel and office expenses.

Our review of Mini-Corps personnel data and our field visits indicate that campus coordinators have four basic functions:

(1) to recruit college students to serve as Mini-Corps aides,
(2) to assure that all paperwork is completed,
(3) to train aides, and
(4) to supervise and evaluate aides.

On average, each campus coordinator serves from 8 to 23 Mini-Corps aides—an average of 16 aides per coordinator. In addition, the aides work under a certificated classroom teacher who provides direct and constant supervision.

Our review indicates that full-time school-year campus coordinators can be reduced to half-time because:

1. Adequate supervision and assistance for an average of 16 Mini-Corps aides can be accomplished on a half-time basis.
2. Classroom teachers provide direct day-to-day supervision and leadership for Mini-Corps aides, as can the regional Migrant Education staffs, reducing the need for campus coordinators to supervise and evaluate the aides.
3. More of the responsibility for training Mini-Corps aides can be shifted from campus coordinators to the classroom teacher and regional migrant education staff because they are already providing such services for the regular migrant education aides.

Because campus coordinators serve relatively few Mini-Corps aides and because their supervisory and training role duplicate the activities of classroom teachers and regional staff, the coordinator position for each campus can be reduced to half-time without having an adverse impact on the program. Conversely, one campus coordinator could serve two campuses full-time and supervise 32 aides. By reducing funding in the Mini-Corps program budget to the level needed to support eight professional positions, the SDE would save $219,000 in salary and benefits which could be redirected to other programs serving migrant pupils. For these reasons, we recommend that the Legislature adopt the following supplemental language:

> "Migrant Education Mini-Corps Campus Coordinators. The SDE, during renegotiation of the Mini-Corps service agreement, shall contract for no more than eight full-time equivalent campus coordinator positions.

Unacceptable External Evaluation

We recommend that the State Department of Education report during budget hearings on the status of the external Migrant Education evaluation which has been returned to the evaluator for revision.

In April 1980, the State Department of Education (SDE) contracted with RMC Research Corporation for an external evaluation of Migrant Education. The evaluation is estimated to cost approximately $890,000. Supplemental language to the 1982 Budget Act directed our office to review and report on the findings of the evaluation.

We are unable to report on the evaluation at this time because the SDE has rejected RMC's final report and returned it for revision. In returning the report, the SDE indicated that the report was superficial in its treatment of the major topics under study. In addition, the SDE found that the report failed to provide evaluative conclusions and demonstrated a fundamental misunderstanding of California's Migrant Education program.

Accordingly, we recommend that the SDE report during budget hearings on the status of the evaluation.

b. Driver Training/Traffic Safety Education (Items 6100-001-178 and 6100-171-044).

The Department of Education administers a driver training program which includes both a laboratory phase (behind-the-wheel training) and classroom driver education. For nonhandicapped students, current law limits state reimbursement for costs incurred by districts in offering the laboratory phase to the lesser of $60 per pupil, or actual costs. For hand-

DEPARTMENT OF EDUCATION—Continued

icapped students, the state reimbursement is limited to $200 per pupil. Beginning in 1982–83, these costs are funded from the Motor Vehicle Account of the State Transportation Fund.

The department also administers a School Bus Driver Instructor Training program which prepares teachers to instruct classes for prospective operators of these vehicles.

Driver Training (Item 6100-171-044). Table 25 displays the funding levels for the Driver Training program for the past, current, and budget years.

Table 25
Allocations for Driver Training
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Driver Training					
State Operations	$98	$99	$99	—	—
Local Assistance					
Regular	16,039	16,569	16,569	—	—
Handicapped	1,297	1,275	1,275	—	—
Subtotals	$17,336	$17,844	$17,844	—	—
Totals	$17,434	$17,943	$17,943	—	—
Driver Training Penalty Assessment Fund	$17,434	$99	$99	—	—
Motor Vehicle Account, State Transportation Fund	—	17,844	17,844	—	—

Local Assistance Funding Transfer—Control Section 24.10

We recommend approval.

Prior to the 1982 Budget Act, local assistance for the driver training program was funded from the Driver Penalty Assessment Fund (DTPAF), which receives its revenues from traffic citations issued to violators of the Vehicle Code. This fund was created exclusively for the purpose of supporting the Driver Training program. Any unencumbered balances in this fund at year-end generally were transferred to the General Fund.

The 1982 Budget Act changed the source of funding for Driver Training local assistance in 1982–83 from the DTPAF to the Motor Vehicle Account of the State Transportation Fund. This was done to free-up resources in the DTPAF for transfer to the General Fund.

The budget proposes that in 1983–84 the Driver Training program again be funded from the Motor Vehicle Account, making an additional $17.8 million available for transfer to the General Fund in the budget year. The transfer would be accomplished by Control Section 24.10. According to the budget, this section, by transferring all unencumbered balances in the Driver Training Penalty Assessment Fund (DTPAF) to the General Fund on June 30, 1984, would result in a General Fund revenue increase of $22.5 million on June 30, 1984.

In short, the budget proposal continues the action taken in the 1982 Budget Act to maximize General Fund revenues by reverting DTPAF funds that otherwise would be used to fund driver training. Because (1) Section 24.10 is a continuation of current policy, and (2) funds currently are available in the Motor Vehicle Account which can be used to finance the Driver Training program, we recommend approval of the control section.

Driver Training Overbudgeting

We recommend that the amount budgeted for driver training local assistance be reduced by $508,000 because these funds will not be needed during the budget year, due to declining enrollment in the program. (Reduce Item 6100-171-044 by $508,000.)

The Department of Education indicates that enrollment in school district driver training programs is roughly correlated with the enrollment in public high schools. The Population Research Unit of the Department of Finance estimates that enrollment in California high schools declined from 1,245,380 students during the past year to 1,216,100 in the current year, and projects another enrollment decline to 1,213,900 (0.2 percent) during the budget year.

Additionally, the SDE has indicated that during the past five years enrollment in school district driver training programs has declined from approximately 327,000 pupils enrolled in 1977–78, to an estimated enrollment of 250,000 in 1981–82. This translates to an average enrollment decline in the program of 5.9 percent per year during the five-year period. The budget indicates that as a result of a general enrollment decline in the program, local assistance expenditures for the Driver Training program were $508,000 less than budgeted in 1981–82. We estimate the Driver Training program will experience a similar enrollment decline during the budget year. Accordingly, we recommend the budget request for driver training local assistance be reduced by $508,000—the amount of savings realized in 1981–82. This will result in a $508,000 savings to the Motor Vehicle Account of the State Transportation Fund.

Competency-Based Driver Training Programs. Traditional Driver Training programs are based on the concept that every student must receive a stipulated minimum amount of behind-the-wheel instruction and rear seat observation time, without regard to individual differences in driver competency. Therefore, under the traditional program, students have received a minimum of six hours of behind-the-wheel instruction, regardless of their driving skill.

Practitioners of driver education and training have long recognized that students enter into the program with varying entry level skills and knowledge. In recognition of this, a competency-based mode of driver training has been instituted in 223 school districts, which is based on the premise that students should be trained to a common level of performance without regard to "seat time." This premise recognizes the differential skill levels between students.

The department reports that increased numbers of local school districts are adopting a competency-based mode of driver training. As of this writing, of the 396 school districts that offer Driver Training programs, 223 (56 percent) offer competency-based programs. The department expects this to increase to 75 percent by the end of the current school year.

Driver Training Programs' Excess Costs. The Driver Training program currently is funded by the state though a reimbursement system under which the state reimburses local school districts in the budget year for their actual costs in the prior fiscal year, up to a maximum of $60 per pupil for regular students, and $200 per pupil for handicapped students.

For many years, the state reimbursement provided to districts has not been sufficient to fund the districts' full cost of driver training. In 1979–80,

DEPARTMENT OF EDUCATION—Continued

the cost-per-student for regular and handicapped driver training was $107 and $235 per student, respectively, versus the $60 and $200 per student reimbursement provided by the state for regular and handicapped students.

Because of the increased number of districts offering competency-based driver training programs, however, the statewide average cost of this program per-student has been reduced to $65 in 1981–82, which is closer to the $60 per-student state reimbursement rate. In view of the cost reductions achievable by local school districts through competency-based programs, we expect school districts to continue to switch to this mode of offering driver training in the future, resulting in continuing reductions in average per student program cost.

Termination of Statutes and Regulations. Assembly Bill 8 (Ch 282/79) specified that if legislation is not enacted to continue the driver training program past its scheduled June 30, 1983 termination date, all statutes and regulations pertaining to the use of driver training funds shall be discontinued on that date.

The Legislative Counsel has opined that school districts would still be required to provide a driver training program after June 30, 1983 in order to receive state aid, but the manner of instruction of driver training could be designed locally by the districts in order to meet the needs of their students. The State Department of Education would assume the responsibility for administrative reviews of locally designed programs, to insure that they meet the general purpose of the terminated program, and would still apportion funds to those programs which meet these general purposes.

Our examination of the statutes and regulations that now govern this program indicates that a substantial portion of them would become inoperative if legislation is not passed to extend the program beyond June 30, 1983. Among those provisions which would terminate are those which:

- mandate the course content of driver training;
- establish pupil eligibility standards for driver training;
- standards for automobiles used in driver training classes; and
- govern the contracting-out by school districts of driver training instruction to private driving schools.

A large number of school districts have already essentially exempted themselves from many of these statutes and regulations by securing a waiver from either the Department of Education or the State Board of Education. The waiver enables them to offer the competency-based mode of driver training instruction.

Because this program is already permissive, and because many school districts have already been exempted from the statutes and regulations governing the program, we believe there would be little effect on school district programs if the Driver Training program is allowed to terminate on June 30, 1983. The termination would not result in any administrative cost savings in the Department of Education, however, because the driver training program currently is staffed by only 1.6 positions, and the department would still be required to conduct administrative reviews of programs to insure that they meet the general purpose of the terminated program.

School Bus Driver Instructor Training Program (Item 6100-001-178)

We recommend approval.

The budget proposes the appropriation of $457,000 ($254,000 from the Driver Training Penalty Assessment Fund and $203,000 from program reimbursements) for support of the School Bus Driver Instructor Training program in the budget year. This represents a $13,000 (2.9 percent) increase over current-year estimated expenditures of $444,000 ($244,000 from the Driver Training Penalty Assessment Fund, plus $200,000 from program reimbursements). Our analysis indicates that the request is reasonable, and we therefore recommend approval.

c. Home-To-School Transportation (Items 6100-111-001 and 6100-101-001)

We recommend approval.

The school transportation program provides state aid to school districts for providing home-to-school transportation. State aid is provided through two means—regular transportation aid and small school district transportation aid.

Regular transportation aid (Item 6100-111-001) reimburses approved transportation costs. Previously, the amount of such aid provided to a district was based upon local assessed property valuations and state reimbursement rates. Chapter 100, Statutes of 1981 (AB 777), however, repealed these provisions, and AB 2448 (Ch 1192/82) stipulated that for 1981–82 and future years, state reimbursement shall be based on a district's actual approved home-to-school transportation costs for the prior fiscal year, limited to a specified "ceiling" amount.

Small school district transportation aid, funded in Item 6100-101-001, provides additional general state aid to school districts (1) with 2,500 or less average daily attendance and (2) which incurred transportation costs in excess of 3 percent of their total general fund education expenses in 1977–78. There is no requirement, however, that this aid be spent on transportation, and it may be used for a variety of other purposes. Table 26 displays the funding levels for these programs in the past, current, and budget years.

Table 26
Home-To-School Transportation Aid
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Regular Transportation Aid	$152,416	$156,024	$160,705	$4,681	3.0%
Small District Transportation Aid	17,518	17,518	17,518	—	—
Totals	$169,934	$173,542	$178,223	$4,681	3.0%

The budget for 1983–84 proposes an appropriation of $160.7 million for regular transportation aid in 1983–84—which is 3 percent more than the amount approved by the Legislature for the current year—and $17.5 million for small district transportation aid—the maximum amount allowed by law.

The budget request, however, probably will change as the effects of AB 2448 on school district transportation categorical aid requests become known. The Department of Finance indicates that an amendment to the budget will be submitted in March to reflect any change in the amount needed for 1983–84.

DEPARTMENT OF EDUCATION—Continued

AB 2448 Transportation Aid. Chapter 1192, Statutes of 1982 (AB 2448), authorizes a permanent home-to-school transportation categorical aid funding mechanism, beginning in 1982–83, to replace the previous mechanisms established by AB 777 (Ch 100/81) and prior law. AB 2448 bases the amount of a school district's home-to-school transportation aid upon actual and approved transportation costs incurred in the prior year, up to a ceiling amount.

The ceiling amount is based upon the adjusted state transportation aid actually received by individual school districts in the prior fiscal year, plus any inflation increase appropriated by the Legislature in the Budget Act. The statute also allows school districts to adjust this ceiling amount so that a district can switch between its transportation categorical aid request and its general aid revenue limit request (and vice-versa) any 1980 transportation costs (plus accumulated inflation adjustments) which the districts financed from their general aid funds in that year. This transportation cost amount generally is referred to as the "encroachment amount", and reflects the extent to which school district transportation costs required funding within a district's 1980 general aid revenue limit funds.

Because actual transportation costs incurred by school districts in the past five years have equaled or exceeded the ceiling amount, this option allowing districts to adjust the ceiling essentially allows them to specify how they want the "encroachment" portion of their transportation aid to be received—through either their general aid apportionment, or through their home-to-school transportation categorical aid reimbursement.

School districts will, in general, choose the option which provides them the largest inflation adjustment on this "encroachment" amount. Consequently, as a result of AB 2448, in future years there will be a constant switching by school districts of this "encroachment" amount between their transportation categorical aid request and their general aid apportionment request in order to obtain the larger inflation adjustment.

In 1983–84, general aid apportionments are budgeted to receive a 6 percent inflation adjustment, compared with a 3 percent adjustment budgeted for home-to-school transportation categorical aid. Therefore, school districts probably will transfer as much of their "encroachment" amount as possible to their general aid request in order to receive the larger inflation adjustment.

Termination of Statutes and Regulations for Transportation Program. Assembly Bill 8 (Ch 282/79), as amended, specified that if legislation is not enacted to continue the Home-to-School Transportation program past its schedule June 30, 1983 termination date, all statutes and regulations pertaining to the use of state home-to-school transportation funds shall be discontinued on that date.

The statute provides that if the termination occurs, funding will still be provided for this program in accordance with the provisions of AB 2448. It also requires that the funds be disbursed according to the identification criteria and allocation formulas for the program in effect on June 30, 1983. Regulations and statutes regarding the actual use of these funds, however, will terminate on this date unless extended by legislation, leaving local school districts with the discretion to use these funds as they wish as long as they are used for the general intended purpose of the home-to-school transportation program.

Because almost all of the statutes and regulations currently in effect for the home-to-school transportation program relate either directly or indirectly to the funding allocation formulas for this program, we conclude that the AB 8 provision will have little, if any, effect on the statutes and regulations currently in effect for this program. Accordingly, failure to extend existing statutes and regulations (other than those linked to AB 2448) beyond June 30, 1983 would have little, if any, effect on the cost of this program.

Unfunded Legislation—Chapters 822 and 1192, Statutes of 1982. Item 9875-101-001 in the Governor's Budget includes a list of statutes enacted during the 1981–82 legislative session, which have identified General Fund costs but which have not been funded in the Governor's Budget. Two of these unfunded statutes involve the Home-to-School Transportation program.

- ***AB 2448.*** As explained in the previous section, Ch 1192/82 authorizes the establishment of a permanent funding mechanism for the Home-to-School Transportation program. It gives local school districts the option during 1983–84 of obtaining funding for any 1980 transportation cost "encroachment" on their general aid revenue limit funding (plus accumulated inflation adjustments) either from the Home-to-School Transportation categorical aid program, or from the general aid revenues.

Some of these "encroachment" costs currently are budgeted in the proposed Home-to-School Transportation aid appropriation. Because the budget request for the general aid revenue limit apportionment contains a 6 percent inflation adjustment in 1983–84, compared with a 3 percent adjustment budgeted for the Home-to-School Transportation program, many school districts will probably shift any "encroachment" amount from the transportation budget request to the general aid apportionment request. An amount equal to the "extra" inflation adjustment available—3 percent—multiplied by the "encroachment" amount that will be shifted is not funded in the budget. This amount will not be known until the school districts indicate their decisions regarding how much of this "encroachment" amount will be transferred between the two budget requests.

- ***AB 2640.*** Chapter 822 (AB 2640) establishes a funding base for 1982–83, and each year thereafter, for the purpose of establishing a Home-to-School Transportation program in the Redding Elementary School District.

Under the AB 2448 reimbursement mechanism, this statute could result in a claim of up to $94,760 for the reimbursement of the Home-to-School Transportation costs of this school district.

- ***No Appropriation Required For AB 2448 or AB 2640.*** In the budget year, the cost of AB 2640 will be funded from the proposed appropriation for the Home-to-School Transportation program, and the cost of the AB 2448 inflation differential will be funded from the appropriation for the K-12 general revenue limit aid program. It will not be known whether the funding provided for these programs will be more or less than the amount claimed by local school districts until their reimbursement claims for the Home-to-School Transportation program, and their principal apportionment reports for the general revenue limit aid program, are submitted during 1983–84.

Given this uncertainty, we see no reason to provide additional funding for these statutes until it has been determined that additional funding is needed. Accordingly, we do not recommend that additional funding for these statutes be provided at this time.

DEPARTMENT OF EDUCATION—Continued

d. Staff Development (Item 6100-218-001)

The Governor's Budget proposes to consolidate the Staff Development program into the State Educational Block Grant (Item 6100-218-001). We present this analysis of the Staff Development program in order to provide specific information that will assist the Legislature in deciding (1) whether to fold the program into a block grant, and (2) if it decides not to eliminate the program, what actions should be taken with respect to the program in the 1983-84 budget.

The state funds the following staff development programs:

- *Teacher Education and Computer (TEC) Centers,* which provide in-service training and assistance to schools in staff development, and emphasize mathematics, science, and computer education.
- *Exemplary programs,* which are special instructional and staff development projects, emphasizing mathematics, science, and computer technology. These projects are funded by grants awarded by the State Board of Education.
- *School Personnel Staff Development program,* which provides funding for grants to local school districts to conduct staff development activities.
- *Bilingual Teacher Training program,* which provides training for teachers seeking certification as bilingual instructors.

The state also receives federal block grant funding, part of which is allocated for staff development.

Funding

Table 27 shows expenditures and funding for staff development programs.

Table 27
Funding for Staff Development Programs
(in thousands)

	Actual 1981-82	*Estimated 1982-83*	*Proposed 1983-84*[a]	*Change* Amount	*Change* Percent
State Operations:					
General Fund	$735	$729	$692	−$37	−5.1%
Federal funds	87	298	306	8	2.7
Subtotals	$822	$1,027	$998	−$29	−2.8%
Local Assistance:					
Teacher Education and Computer Centers	—	$6,303	$6,303	—	—
School Personnel Staff Develoment	$947	3,354	3,354	—	—
Instructional Development and Exemplary Programs	—	2,344	2, 344	—	—
Bilingual Training	678	792	735	−$57	−7.2
School Resource Centers	944	—	—	—	—
Professional Development Centers	759	—	—	—	—
Federal Teacher Centers	—	295	295	—	—
General Fund	$3,328	$12,793	$12,736	−$57	−0.5%
Federal funds	—	295	295	—	—
Subtotals	$3,328	$13,088	$13,031	−$57	−0.4%
Totals	$4,150	14,115	$14,029	−$86	−0.6%
General Fund	*$4,063*	*$13,522*	*$13,428*	*−$94*	*−0.7%*
Federal funds	*87*	*593*	*601*	*8*	*1.3*

[a] Proposed for inclusion in the State Educational Block Grant Program.

The budget proposes $692,000 from the General Fund for state operations in 1983–84, a decrease of $37,000, or 5.1 percent, from the current year. The budget also includes in the block grant for 1983–84 $12.7 million (General Fund) that otherwise would have been provided for staff development local assistance, or $57,000 (0.4 percent) less than the amount expended for these programs in the current year. The decrease reflects funds from the bilingual training program which were carried over from 1981–82 to 1982–83, and thus are not part of the base amount budgeted for the program. The budget proposal, therefore, requests no change from the current-year baseline level of spending.

Investment in People Program. As Table 27 shows, the Legislature provided for a major increase in funding for staff development in 1982–83, in the form of $9,750,000 for staff development in mathematics, science, and computer education under the Governor's Investment in People initiative. The additional funds consist of $4,600,000 for Teacher Education and Computer Centers, $2,406,250 to expand the School Personnel Staff Development program, $2,343,750 for exemplary programs in mathematics, science, and computer education, and $400,000 for state operations.

The central feature of the Investment in People program is the reorganization of the statewide network of Professional Development and Program Improvement Centers and School Resource Centers into 15 regional Teacher Education and Computer (TEC) Centers. The current organization of these centers is shown in Figure 1.

The TEC Centers, governed by local "policy boards," are required to provide staff development services for teachers and administrators, and to administer grants under the School Personnel Staff Development program. The centers emphasize staff development in the areas of mathematics, science, and computer education. Table 28 shows the K-12 enrollment and the distribution of funds for the TEC Centers in 1982–83.

Table 28

Funding for Teacher Education and Computer Centers, 1982–83

Region	*Administrative County Office*	*ADA (1981–82)*	*Total Funding*[a]	*Funding Per ADA*
1	Humboldt	21,489	$205,000	$9.54
2	Tehama	76,442	278,221	3.64
3	Marin	155,669	435,576	2.80
4	Sacramento	222,540	291,270	1.31
5	San Francisco	55,981	207,991	3.72
6	Alameda	286,557	323,279	1.13
7	Stanislaus	166,868	263,434	1.58
8	Santa Clara	394,513	377,257	.96
9	Ventura	170,203	275,102	1.62
10	Kings	166,755	263,378	1.58
11	Kern	83,189	221,595	2.66
12	Los Angeles	1,189,730	1,494,865	1.26
13	Riverside	285,756	322,878	1.13
14	Orange	344,371	352,186	1.02
15	San Diego	321,935	390,968	1.21
	Totals	3,941,998	$5,703,000	$1.45

[a] Excludes $120,000 for the state's computer software clearinghouse in region 8, and $480,000 for a pilot project retraining program in region 12.

DEPARTMENT OF EDUCATION—Continued

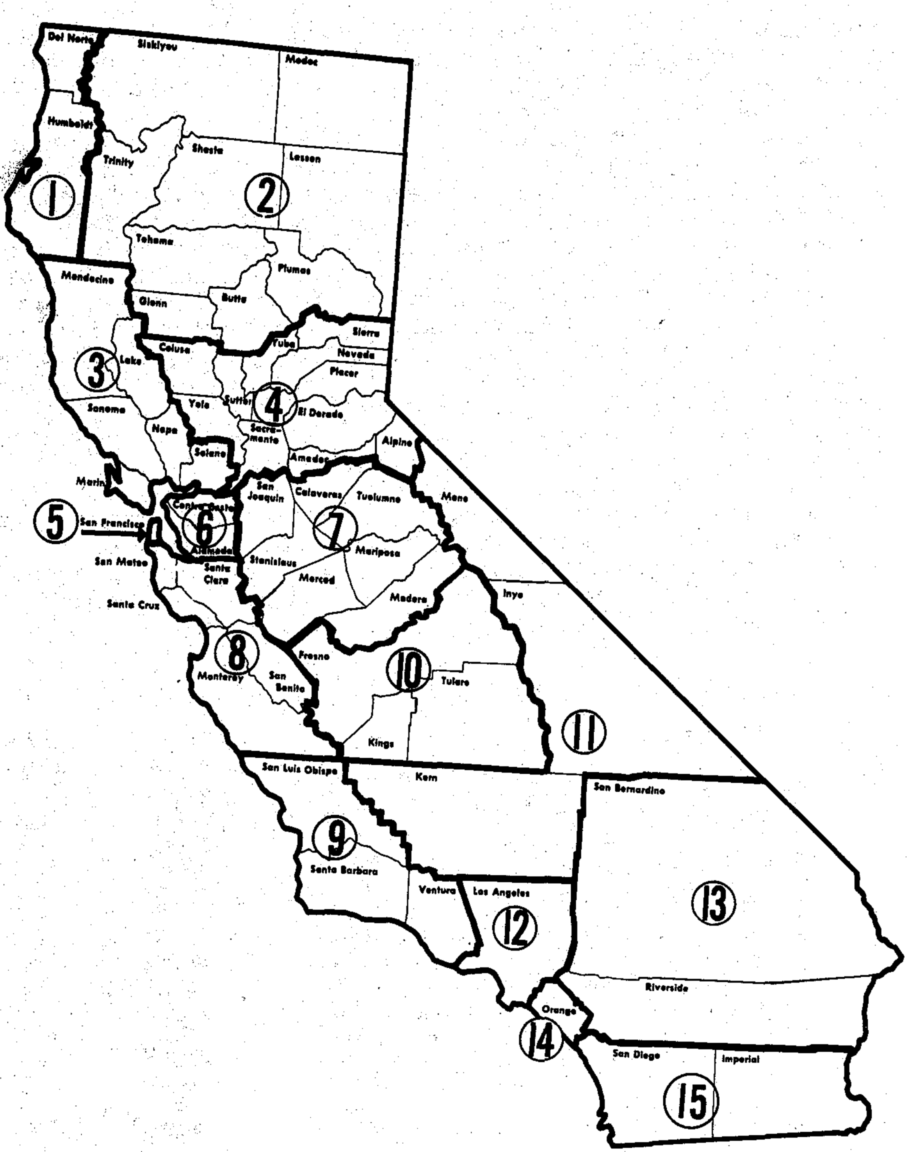

Chart 1

Teacher Education/Computer Center Regions

Because the centers are still in the initial stage of operations, we cannot, at this time, comment on the impact of their activities. Based on our review of the allocation of funds among the centers, however, we offer the following recommendations regarding the distribution of funds and the organization of the centers.

Delete One-Time Funding Supplements

We recommend that funding for "bonuses" provided to three Teacher Education and Computer Centers be deleted because these funds were intended for 1982–83 only, for a General Fund savings of $247,741. (Reduce Item 6100-218-001 by $247,741.)

The three TEC Centers in regions 2, 3, and 9 received $247,741 in one-time "bonuses" in 1982–83 in order to help them fund the consolidation of several existing staff development centers into the new TEC Center. Because the consolidation activities have been completed, there is no need to continue this funding in 1983–84. Consequently, we recommend the deletion of $247,741, for a General Fund savings of the same amount. This would result in a reduction of $60,000 from region 2, $177,741 from region 3, and $10,000 from region 9.

Consolidation of Centers

We recommend that (1) TEC region 5 (San Francisco) be merged with region 8 (Santa Clara), and (2) funding for San Francisco enrollment be added to Region 8's budget at the same rate per ADA now provided for this region, for a General Fund savings of $154,250. (Reduce Item 6100-218-001 by $154,250.)

The TEC Center in region 5 serves San Francisco County. Our analysis indicates that the TEC Centers could operate more efficiently and equitably if San Francisco were merged into another region. The basis for our conclusion is as follows:

- *Maintaining a separate center for San Francisco alone fails to take advantage of economies of scale, and thus is inefficient.* Figure 1 and Table 28 reveal that the TEC Center regions generally seek to balance enrollment and geographical size in order to obtain an efficient and effective scale of operations. The one exception is San Francisco. Other TEC Center regions of comparable *enrollments* are in rural areas, and are much larger geographically. Other regions of comparable *geographical size* are in urban areas and have a significantly greater number of pupils. In spite of its compact area, the San Francisco TEC Center has a relatively high cost ($3.72 per ADA, compared to the statewide average of $1.45). Only the sparsely populated Humboldt region exceeds San Francisco's cost per ADA. This indicates that efficiencies are not being achieved.
- *A state-funded TEC dedicated solely to San Francisco is unnecessary because there is a federal Teacher Center* (one of seven in the state) *which provides staff development services exclusively to San Francisco Unified School District.*

DEPARTMENT OF EDUCATION—Continued

- ***Region 8 (Santa Clara) could serve San Francisco's needs effectively, and provide for a more efficient scale of operations.*** The boundaries between the two regions are contiguous, access is not inhibited by geographical barriers, and the Santa Clara and San Mateo county offices have been among the leaders in the state in terms of implementing computer education programs.

Because the Santa Clara TEC Center operates at a much lower cost per ADA than the San Francisco center, the combination of eliminating the funding for San Francisco (−$207,991) and augmenting the Santa Clara Center, at its funding rate, for San Francisco enrollment (+$53,741) would result in a General Fund savings of $154,250. Accordingly, in recognition of the economies of scale that would be achieved through regional consolidation, we recommend a General Fund reduction of $154,250.

Investment in People—State Operations

We recommend that 3.0 positions established in 1982–83 for administration of the Investment in People program (and related operating expenses) be eliminated because there is not sufficient workload to justify these positions and expenditures, for a General Fund savings of $250,000. (Reduce Item 6100-001-001 by $250,000).

In 1981–82, the department had 7.4 positions (5.0 professional and 2.4 clerical) supported by the General Fund to administer four state-funded staff development programs. The Budget Act of 1982 provided a General Fund augmentation of $400,000 in state operations for administration of the Investment in People program. Of this amount, the department chose to delete $130,000 as part of the unallocated reduction required by the 1982 Budget Act. The department used the remaining $270,000 to (1) establish 3.0 new positions (2.0 professional and 1.0 clerical), (2) provide $20,000 to support the Council on Technology Education established by Ch 1528/82, and (3) increase funding for operating expenses (including $99,000 for consultants and professional services). The budget requests that this funding be continued in 1983–84.

We recommend that $250,000 of the $270,000 augmentation provided in the current year and proposed for continuation in the budget year be deleted, for the following reasons:

- ***Workload has decreased.*** The Investment in People program resulted in the consolidation of 17 Professional Development and Program Improvement Centers and 12 School Resource Centers into 15 Teacher Education and Computer (TEC) Centers, thereby reducing departmental workload by facilitating statewide coordination.
- ***The Department of Education no longer is responsible for determining which school district proposals will be accepted for funding in the School Personnel Staff Development program.*** This responsibility has been assigned to the Teacher Education and Computer Centers.
- ***Once the TEC Centers complete their initial year of operations, the need for departmental training of the center directors should decrease.***
- ***The department has established other new positions in this area.*** In addition to the General Fund augmentation, the department established 2.5 new positions in the current year for administration of staff development programs, using federal block grant (Chapter 2) funds.

Presumably, these positions will be continued in the budget year.

In addition to creating TEC Centers, the Investment in People program provided funding for exemplary projects. Chapter 1528 established the Council on Technology Education to review project proposals and make recommendations for funding to the State Board of Education. We recommend approval of the $20,000 allocated by the department for support of the council during the current year. This would be supplemented by 1.0 professional position established by the department in 1982–83, using federal Chapter 2 funds, for council staffing.

Investment in People—Mathematics, Engineering, Science Achievement (MESA) Program

We recommend that state support for the MESA program be consolidated in the Department of Education's budget by transferring funds now appropriated for the University of California and California State University to the department's budget item, in order to facilitate legislative review and administration of the program. We further recommend that all funds for MESA be appropriated in a separate budget bill item. (Reduce Item 6440-001-001 by $198,000, reduce Item 6610-001-001 by $273,000, reduce Item 6100-218-001 by $880,000, and establish new Item 6100-005-001 in the amount of $1,351,000.)

The MESA program is designed to increase the enrollment of underrepresented ethnic minorities in university and college programs related to mathematics, engineering, and the physical sciences. The program provides tutoring, counseling, study groups, and summer school enrichment for secondary school students who show an aptitude in mathematics and science. MESA is funded jointly by the state and the private sector.

The state's contribution currently is provided through the budget appropriations for the University of California (UC), the California State University (CSU), and the State Department of Education (SDE). Despite the separate sources of funding, MESA is coordinated by a central office located in the Lawrence Hall of Science in Berkeley.

In our analysis of the UC and CSU budgets, we recommend that all funding for MESA be consolidated in the Department of Education's budget. This would allow the Legislature to consider all state support for MESA, which primarily serves high school students, in a single budget. It would not, however, affect the operation of the program.

Currently, SDE's portion of MESA funding ($880,000) is provided through the exemplary projects component of the Investment in People program. This program is proposed for inclusion in a new state block grant. In the absence of an implementation plan for the block grant program, the implications of the budget proposal for MESA are not clear at this time.

Our analysis of MESA, however, indicates that continuation of the program is warranted. In order to ensure that MESA is continued in 1983–84, and to facilitate administration of the funds, we recommend that funding for the program be appropriated in a separate budget bill item.

MESA Evaluation. The Center for the Study of Evaluation at UCLA conducted an independent evaluation of the MESA program in 1981–82. According to the center's final report, the evaluators found that:

- MESA was perceived as effective by program coordinators, advisors, students, and parents,
- data on academic performance indicated that MESA students per-

DEPARTMENT OF EDUCATION—Continued

formed significantly better than comparison groups of students having the same ethnic background, and

- the eligibility rates for the University of California and the California State University were significantly higher among MESA students than other students with similar racial/ethnic backgrounds.

The study concluded that there was a need for better coordination and communication in the program, greater parental involvement, and increased resources (primarily for additional clerical support, additional compensation for advisors, support services at the university level for MESA graduates, implementation of a system of monitoring student progress in the university, and expansion of the program to the junior high school level). This conclusion, however, was based on MESA's 1981–82 level of funding. The Legislature approved a $1.3 million (public and private funds) expansion of the program in 1982–83.

e. Instructional Materials (Textbooks) (Items 6100-218-001 and 6100-015-001)

Article IX, Section 7.5 of the California Constitution requires the state to adopt textbooks for use in grades K–8 and supply them to the schools without charge. To meet this mandate, the Department of Education oversees a 25-month textbook adoption and distribution process.

The Governor's Budget proposes to consolidate the Instructional Materials program into the State Educational Block Grant (Item 6100-218-001). We present this analysis of instructional materials in order to provide specific information about the program that will assist the Legislature in deciding (1) whether to fold the program into a block grant, and (2) if it decides not to eliminate the program, what actions should be taken with respect to the program in the 1983–84 budget.

Table 29

Instructional Materials Expenditures and Funding (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*[a]	*Change* Amount	Percent
State Operations:					
Curriculum frameworks	$1,174	$1,063	$1,104	$41	3.9%
Textbook distribution	37	26	28	2	7.7
Warehousing and shipping	152	152	151	−1	−0.7
Frameworks production	45	51	51	—	—
Recovery Project	69	82	87	5	6.1
Subtotals, State Operations	$1,477	$1,374	$1,421	$47	3.4%
Local Assistance	$42,177	$40,678	$40,678	—	—
Totals	$43,654	$42,052	$42,099	$47	0.1%
State Operations:					
General Fund	*$1,427*	*$1,323*	*$1,370*	*$47*	*3.6%*
Reimbursements	*45*	*51*	*51*	—	—
Surplus Property Revolving Fund	*5*	—	—	—	—
Local Assistance:					
General Fund	*$39,976*	*$40,678*	*$40,678*	—	—
Instructional Materials Fund	*$2,201*	—	—	—	—
Positions	23.5	26.3	26.3	—	—

[a] Proposed for inclusion in the State Educational Block Grant program.

Expenditures and Funding. Table 29 shows the expenditures and funding for instructional materials in the prior, current, and budget years.

The budget proposes $40.7 million (in the block grant) from the General Fund for local assistance in 1983–84, the same as the current year level of funding.

Statutory COLA for Instructional Materials. The Education Code authorized an appropriation for instructional materials of $13.30 per pupil (grades K–8) in 1978–79, and provides for annual inflation allowances to this amount in subsequent years, based on changes in the Consumer Price Index. Because the 1978–79 appropriation and subsequent inflation allowances approved by the Legislature have been less than the authorized amounts, the budget request for textbook support in grades K–8 is $17.1 million below the amount authorized by statute.

Instructional Materials Review Process. Chapter 1503, Statutes of 1982 (AB 2561), requires the Legislative Analyst to "review the instructional materials review process . . . and report on the increase in funding needed . . . to support effective quality and legal compliance review processes."

The State Board of Education has the constitutional responsibility of adopting textbooks for use in grades K–8. As part of the six-year adoption process, the board has established a procedure to evaluate textbooks and other instructional materials for (1) compliance with social content criteria established in state law and board guidelines and (2) educational content.

- ***Social Content.*** The Education Code requires school governing boards to adopt only those instructional materials which:
- accurately portray society's cultural and racial diversity (including depiction of males and females and their roles, various ethnic groups, and the entrepreneur and labor), the ecological system and the need to protect the environment, and the effects of tobacco, alcohol, narcotics, and other dangerous substances;
- when deemed appropriate, encourgage thrift, fire prevention, and the humane treatment of animals and people;
- contain the Declaration of Independence and the Constitution of the United States, when appropriate for the comprehension of pupils in social science, history, or civics;
- do not reflect adversely on persons because of race, color, creed, national origin, ancestry, sex, or occupation; and
- do not contain any sectarian or denominational doctrine or propaganda contrary to law.

In addition to evaluating instructional materials for compliance with these statutory criteria, the state review process also includes a check for compliance with Board of Education guidelines relating to the depiction of older persons and disabled persons, the use of brand names, and the representation of nutritious foods.

Evaluation for compliance with social content criteria is conducted initially by the Legal Compliance Committee, selected by the Department of Education. In 1981–82, 25 panels of the Legal Compliance Committee, each consisting of up to 15 members, were convened at Instructional Materials Display Centers located throughout the state. They reviewed 1,723 items (textbooks or ancillary materials) submitted by publishers for the reading adoption. The panels found 753 violations of the social content criteria. These citations involved 162, or 4 percent, of the items submitted for review.

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If a panel rejects an item, the department notifies the publisher, who may offer revisions for consideration by the panel. The publisher or any member of the public may appeal any decision of the panel to a First Level Appeal Committee, consisting of eight members (five from the Legal Compliance Committee and three "independent members"); and decisions of this committee may be appealed to a Second Level Appeal Committee, consisting of three or more members of the State Board of Education. In 1981–82, 83 percent of the initial citations were appealed. Of these, 34 percent of the panel decisions were overturned.

• ***Educational Content.*** Instructional materials submitted for state adoption are also evaluated for educational content: factual and technical accuracy, educational value, and quality. The criteria for this evaluation are specified by the state's Curriculum Development and Supplemental Materials Commission, based on curriculum frameworks which are developed for each subject.

The Curriculum Commission appoints Instructional Materials Evaluation Panels (consisting primarily of teachers and curriculum specialists) to conduct the educational content review. In 1981–82, three panels, consisting of 25 members each, reviewed 1,723 items for the reading adoption. Using standardized rating sheets, each panel submits a report to the appropriate Subject Matter Committee of the Curriculum Commission. Based on the panel reports and comments received from other sources, such as teachers, school administrators, school board members, parents, or other members of the public, the Subject Matter Committee evaluates the instructional materials and makes recommendations for adoption, accompanied by pertinent summary information, to the Curriculum Commission. The commission, in turn, submits its recommendations to the State Board of Education. Unlike the social content review, the educational content review produces general ratings which do not cite "violations" or involve an appeals process.

The department does not disseminate to school districts the textbook ratings made by the Instructional Materials Evaluation Panels. Because these ratings could assist district governing boards in their textbook selection process, we believe that the department should consider the merits of disseminating this information to the districts.

• ***Costs.*** The state costs of the review processes include salaries, benefits, and related operating expenses for departmental personnel, other operating expenses such as data processing, and travel and per diem expenses for panel members (no salary is provided for these individuals). Due to the nature of the department's accounting system, these costs can only be approximated. We estimate that in 1982–83, the legal compliance review will cost about $180,000, and the educational content review will cost approximately $130,000 (including departmental staff support).

Additional costs are incurred at the local level because school districts and county offices of education frequently assign personnel to serve on review panels. These costs are unknown.

• ***Efficiency and Effectiveness.*** To the extent that the state's review process avoids duplication of similar efforts on the part of individual school districts, it tends to result in savings and thus can be viewed as a relatively *efficient* process. District administrators contacted by our office generally acknowledged this contribution.

We cannot determine analytically the *effectiveness* of the review processes. It is impossible, for example, to determine the extent to which the legal compliance review procedure has reduced violations of the social content criteria prior to submission of textbooks for adoption. Nor can we demonstrate that the state's evaluation of the educational quality of textbooks results in the best possible choice for all school districts.

Given these difficulties and the limited data available, we cannot evaluate empirically the potential impact of changes in the review processes. If we assume, however, that concentration of expertise results in better reviews, and that such expertise can be aggregated through a centralized process, then it can be argued that the legal compliance reviews can be made more effective by centralizing it in a manner similar to the educational content reviews (fewer panels, more extended meetings). The Department of Education advocates such a change, on the basis that it will result in greater interaction among committee members and a more thorough and accurate evaluation. The department estimates that a centralized system would require an additional $7,500 annually, due to higher lodging costs. These additional costs can be funded within the department's existing budget resources.

• ***Conclusion.*** We have no analytical basis for determining the optimum level of funding to support the instructional materials review processes. Our review, however, indicates that funding is generally adequate for the department to assist the State Board of Education in its mandate to adopt textbooks, and to assist school governing boards in their mandate to adopt instructional materials that comply with the state's social content criteria. Consequently, we recommend no change from the budgeted level of expenditures for this purpose.

Publisher Fee for State-Adopted Instructional Materials

We recommend that the Legislature adopt Budget Bill language requiring publishers who submit instructional materials for state adoption to pay a fee of $100 per item, to be refunded if the item is not adopted by the State Board of Education, for an increase in reimbursements of $60,000, and a General Fund savings of $60,000. (Reduce Item 6100-001-001 by $60,000.)

The State Board of Education is required to adopt from 5 to 15 basic instructional materials programs for each subject in each grade, for grades K–8. Typically, basic programs consist of several items—a series of textbooks and ancillary materials.

The annual process of adopting instructional materials currently is supported by the state and local public education agencies. Publishers pay a fee only for legal compliance review of materials submitted outside the normal adoption cycle.

We recommend that publishers who submit materials for state adoption be required to pay a fee of $100 per item, to be refunded if the item is not adopted, for the following reasons:

- ***Those publishers who benefit from the adoption process should share the costs of that process.*** Publishers benefit from the review process because approximately 80 percent of the state's allocation to school districts for grades K–8 instructional materials ($32 million) can be used *only* for purchase of state-adopted items.
- ***Adoption in California is also likely to assist publishers in their efforts to sell their textbooks in other states.*** Consequently, publishers whose textbook programs are adopted by the state enjoy a significant

DEPARTMENT OF EDUCATION—Continued

competitive advantage in sales.

- ***Precedent exists for the establishment of such a fee.*** At least two of the 22 states that have adoption processes—Oregon and Kentucky—require publishers to pay nonrefundable fees for each book or item.

We estimate that our recommended fee would generate $60,000 in reimbursements, based on the department's estimate that 600 items will be adopted in 1983–84. This would permit a corresponding savings to the General Fund. The fee, therefore, would be sufficient to fund about 20 percent of the estimated costs of the instructional materials review process (legal compliance and educational content), or about 50 percent of the cost of the educational content review (the component of the review process which is necessary for determination of the highest quality textbook programs). Because the number of items to be adopted in 1983–84 is relatively small (music, art, bilingual education, and foreign language), savings from this recommendation in the budget year will not be as great as in subsequent years. We estimate that annual savings in future years could range up to approximately $150,000.

Adoption of the following Budget Bill language would implement our recommendation:

"Provided that publishers who submit an item for adoption must pay a fee of $100 per item. This fee shall be returned for each item that is not adopted by the State Board of Education."

Direct Ordering of Textbooks. Chapter 1503, Statutes of 1982 (AB 2561), permits school districts to order textbooks directly from publishers, rather than through the State Department of Education, beginning in 1983–84. This act has the potential to reduce the department's workload for ordering textbooks.

We do not recommend a reduction to reflect this potential decline in workload, however, because (1) we do not know the number of districts which will opt for direct ordering and (2) the department will be required to review district purchase orders to ensure that state funds are used appropriately for procurement of state-adopted materials.

We will review the impact of Ch 1503 on departmental workload during 1983–84, and include our findings in the 1984–85 *Analysis.*

Warehousing and Shipping (Item 6100-015-001)

We recommend approval.

The budget proposes a transfer of $238,000 from the Instructional Materials Fund to the General Fund for the warehousing and shipping of instructional materials. This function is performed primarily in connection with textbooks printed by the Office of State Printing and large print and braille textbooks. The budget proposal represents an increase of $4,000, or 1.7 percent, above the current-year funding level.

Because Ch 1503/82 could reduce or eliminate state-printed textbooks for grades K–8, General Fund requirements for warehousing and shipping could decline significantly in future years. Funding for this purpose in 1983–84, however, is associated with textbooks ordered in the current year, prior to the implementation of Ch 1503. Consequently, we recommend approval of the amount proposed in the budget.

f. Gifted and Talented Education (Item 6100-218-001).

The Gifted and Talented Education (GATE) program was established by Ch 774/79 to supersede the Mentally Gifted Minor program. In 1981–82, GATE provided funds to 441 school districts for extraordinary educational programs serving 172,157 high ability and/or talented students. Only those districts which operated a Mentally Gifted Minors program during 1978–79 are eligible to receive GATE funds, although a limited number of additional districts have been admitted to the program to replace districts which have withdrawn from GATE.

Pupils are identified as gifted or talented based on district criteria and state guidelines. Typically, this local selection process is complex and may utilize standardized test scores, teacher or parent referrals, course grades, and a review by a school psychologist.

The design of each district's GATE program is also determined locally within state guidelines. These guidelines specify the following types of approaches: (1) independent study, (2) special day classes, (3) part-time or cluster groupings of GATE students, (4) enrichment activities, (5) acceleration activities, and (6) higher education opportunities.

The budget for 1983–84 proposes to fold GATE into the State Educational Block Grant (Item 6100-218-001). The block grant includes $16.8 million in local assistance that otherwise would have been requested for GATE—the same amount appropriated for GATE in 1982–83.

g. Vocational Education (Items 6100-166-890, 6100-166-001, and 6100-020-001)

The vocational education office in the Department of Education assists local education agencies in providing vocational training and guidance to approximately 1.2 million secondary students. Vocational education programs are provided through the regular secondary school curriculum, and by Regional Occupational Centers and Programs (ROC/P).

Table 30
Vocational Education Funding
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
State Operations:					
General Fund	$3,498	$3,252	$3,375	$123	3.8%
Federal Funds [a]	4,374	4,961	5,056	95	1.9
Reimbursements [b]	1,041	1,437	1,480	43	3.0
Subtotals	$8,913	$9,650	$9,911	$261	2.7%
Local Assistance:					
General Fund	—	$25	$25	—	—
Federal Funds [a]	$67,257	67,466	53,221	−$14,245	−$21.1%
Reimbursements [b]	11,589	15,325	13,325	−2,000	−13.1
Subtotals	$78,846	$82,816	$66,571	−$16,245	−19.6%
Totals	$87,759	$92,466	$76,482	−$15,984	−17.3%
Positions	105.0	117.6	117.6	—	—

[a] Includes amounts transferred to the Chancellor's Office of the California Community Colleges for postsecondary vocational education programs.
[b] Includes reimbursements from the Employment Development Department for CETA programs.

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Funding

Table 30 shows the funding for vocational education programs in the prior, current, and budget years. Federal funds support all local assistance programs administered by the vocational education unit. General Fund support is required only to match federal funds reserved for administration of the Vocational Education Act (VEA) of 1976.

Funds supporting state operations for the vocational education program are proposed for inclusion in the State Educational Block Grant. The budget, however, anticipates that vocational education local assistance will continue as a separate program.

The budget includes $25,000 from the General Fund for local assistance, pursuant to an appropriation in Ch 1251/80 for a pilot program providing occuapational training to the handicapped. (This program falls under the jurisdiction of the department's office of special education.) The budget also projects $53.2 million in federal funds for local assistance in 1983–84, a decrease of 21 percent from estimated current-year expenditures. This reduction primarily reflects funds which were unexpended in 1981–82 and carried over to the current year, and thus are not a part of the baseline funding level for this program.

Work Experience Education

We recommend that the Legislature adopt Budget Bill language which prohibits the granting of ADA credit, for General Work Experience Education, toward the minimum school day required for state apportionment.

The Education Code authorizes school districts to establish Work Experience Education programs. Under regulations established by the State Board of Education, there are three types of Work Experience Education:

- *Exploratory:* This provides the student with opportunities to sample a variety of work conditions, emphasizing vocational guidance. Pupils are not paid for employment.
- *Vocational:* This involves part-time paid employment and classroom coursework related to the pupil's occupational goal.
- *General:* This consists of part-time paid employment. There is no classroom requirement, and employment need not be related to the pupil's occupational goal.

Enrollment in Work Experience Education programs amounted to 77,737 in 1979–80, the last year in which annual enrollment was reported. General Work Experience was by far the most prevalent type, accounting for 88 percent of the total enrollment in the program.

Pupils in Work Experience programs must be enrolled in at least three other subjects, unless they are enrolled in summer school, continuation school, or in the last semester of the 12th grade. Work Experience may be taken for credit, and may count toward the minimum school day required to generate ADA for state apportionment aid purposes. Thus, a pupil may take three one-hour courses (such as physical education, English, and social studies) on campus, and take one hour of Work Experience in order to complete the minimum school day and thus qualify the school for a full day of ADA. (The minimum day for pupils in grades 9–12 is 240 minutes, with specified exceptions.)

We recommend that the Legislature adopt Budget Bill language prohibiting General Work Experience Education from counting toward the minimum school day required for state apportionments, for the following reasons:

- *General Work Experience weakens academic preparation.* To the extent that it can be substituted for classroom instruction, General Work Experience tends to dilute the pupil's core academic preparation.
- *Typically, General Work Experience is not related to the pupil's occupational goals.* A common example of General Work Experience is working part-time at a fast food restaurant.
- *The current funding arrangement distorts a district's incentive to offer the curriculum in the students' best long-term interest.* School districts now have a fiscal incentive to provide General Work Experience Education in lieu of academic instruction. School districts must provide a coordinator to supervise work experience, at a ratio of 125 pupils to one coordinator. Consequently, it is a low-cost course, relative to, say, English or mathematics.

Our recommendation would eliminate the fiscal incentive for school districts to offer General Work Experience as a substitute for occupationally-related vocational training and would facilitate greater emphasis on pupils' academic preparation. Adoption of this recommendation would not deny work opportunities to those pupils who need to work during regular school hours in order to support themselves or their families. Programs with flexible schedules, such as continuation schools and independent study, are available to accommodate the needs of these pupils.

For the reasons given above, we recommend adoption of the following Budget Bill language, for the apportionments item (6100-101-001):

"Provided that attendance shall not be claimed for General Work Experience Education."

Federal Job Training Partnership Act (Item 6100-166-001)

We recommend approval.

The SDE budget includes $13.3 million in reimbursements from the Employment Development Department (EDD) in 1983–84. These reimbursements are from the federal Job Training Partnership Act, which replaces the federal CETA program. (For more information on the new federal act, please see our analysis of the budget proposed for EDD.)

Vocational Education Student Organizations (Item 6100-020-001)

We recommend approval.

The budget includes $500,000 for state support of vocational education student organizations, which, until June 30, 1983, are funded by a continuous annual statutory appropriation of $500,000. This allocation is displayed in the budget as part of vocational education state operations. The 1983–84 Budget Bill, however, would separate the student organization appropriation from the department's support item, in effect treating it as local assistance. We agree that these funds are used for local assistance, and therefore should be so identified in the budget. Consequently, we recommend approval as budgeted.

h. Adult Education (Items 6100-156-001 and 6100-156-890).

The Adult Education Unit is responsible for managing state and federally funded programs for adults and general education development (GED) testing. Adult education ADA is estimated to be 156,895 in 1983–84.

Funding for Adult Education. Table 31 shows the state operations and local assistance funding for adult education in the prior, current, and budget years.

DEPARTMENT OF EDUCATION—Continued

Table 31
K-12 Adult Education Funding
(in thousands)

	Actual 1981-82	*Estimated 1982-83*	*Proposed 1983-84*	*Change Amount*	*Change Percent*
State Operations:					
General Fund	$332	$373	$386	$13	3.5%
Federal Funds	644	669	688	19	2.8
Reimbursements/Special Deposit Fund	154	119	123	4	3.4
Subtotals	$1,130	$1,161	$1,197	$36	3.1%
Local Assistance:					
General Fund	$158,236	$149,639	$148,889	−$750	−0.5%
Federal Funds	7,465	9,288	9,288	—	—
Reimbursements	87	87	87	—	—
Subtotals	$165,788	$159,014	$158,264	−$750	−0.5%
Totals	$166,918	$160,175	$159,461	−$714	−0.4%
Positions	22.2	22.0	22.0	—	—

State Adult Education Program (Item 6100-156-001). The budget proposes a General Fund appropriation of $148.9 million for adult education local assistance in 1983–84. This represents a decrease of $0.8 million, or 0.5 percent, from estimated current-year expenditures. This change reflects (1) additional funding for a 3 percent COLA, (2) a one-time appropriation of $1.8 million in 1982–83 that would not continue in the budget year, and (3) technical adjustments in 1982–83 associated with the transfer of a school district program to a community college, and the consolidation of funding for Regional Occupational Centers and Programs into a single budget item.

The budget proposal provides no funding for enrollment growth in adult education programs in 1983–84. We have no analytical basis for recommending a specific level of growth for these programs. Ultimately, the amount of growth funded by the state depends on legislative priorities.

Statutory COLA. Current law provides a statutory inflation allowance of 6 percent for adult education. The budget proposes a 3 percent cost-of-living adjustment (COLA), in lieu of the 6 percent statutory amount, for eligible districts. Because districts with adult education revenue limits above the statewide average are not entitled to inflation allowances, the total amount required to provide a 3 percent COLA is less than 3 percent of the baseline amount. The Department of Finance estimates that $1.4 million will be needed for the proposed inflation allowance in 1983–84, which is equal to 0.9 percent of the current-year base. The statutory COLA would require an augmentation to the budget of $4.1 million.

Adults in Correctional Facilities. The budget proposes to (1) continue the 1982–83 General Fund support ($1.2 million) for adults in correctional facilities and (2) provide a 3 percent inflation increase ($36,000) for this program. Funding for the program is included in the school apportionments item (6100-101-001).

Adult Education Program Termination

We recommend that all General Fund support for state operations in Adult Education be eliminated, due to statutory termination of the program's laws and regulations, for a savings of $386,000. (Reduce Item 6100-001-001 by $386,000.)

Pursuant to the sunset provisions of the Education Code, the Adult Education program will terminate on June 30, 1983, unless reenacted by the Legislature. Funding for local assistance is to continue for the general purposes of the program, but laws and regulations governing the program will be terminated. Consequently, the current state operations workload related to administering the laws and regulations would be eliminated after June 30, 1983. Therefore, we recommend elimination of all General Fund support for administration of the Adult Education program (excluding the department's Local Assistance Bureau, which apportions funding to the local agencies), for a savings of $386,000. This would result in the elimination of 7.3 positions.

Courses Authorized for State Funding

We recommend that the Legislature adopt Budget Bill language deleting home economics and health and safety education from the list of subject areas in which adult education courses are authorized for state funding, for a General Fund savings of $14,293,000. (Reduce Item 6100-156-001 by $14,160,000 and reduce Item 6100-226-001 by $133,000.)

We further recommend that the Legislature adopt Budget Bill language directing the Department of Education to (1) certify to the Director of Finance the amount of funding apportioned to each school district for home economics and health and safety courses in 1982–83, and (2) reduce the 1983–84 entitlement for each district by the amount certified.

The Education Code restricts state funding of adult education to courses in the following areas: parenting, basic education, English as a Second Language (ESL), citizenship, classes for substantially handicapped persons, short-term vocational education courses with high employment potential, apprenticeship training, classes for older adults, home economics, and health and safety education. School districts must submit a list of courses for which they claim state funding to the State Department of Education for approval.

The provision of current law that terminates statutory and regulatory provisions governing adult education, effective June 30, 1983, would not eliminate state local assistance funding for adult education programs. Funding would continue for the general purposes of adult education. This funding, however, could be used for adult programs other than those specified by current law. If the Legislature wishes to continue to fund specific adult education courses, we recommend that the authorized subject areas be specified in budget act language.

Our review of state-funded adult education courses indicates that two of the areas currently authorized—home economics and health-and-safety education—include many courses which are primarily recreational or avocational. These include microwave cooking, needlepoint, beginning sewing, and fitness and aerobics.

Recreational courses must be offered on a fee-supported basis if provided in adult education programs. They are not supposed to be supported with state funds. Our analysis, however, indicates that it is hard to distinguish many home economics and health-and-safety education courses

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from recreational courses. In fact, we found that some of these courses are state-funded in some districts and fee-supported in others. Furthermore, we note that the Legislature reduced funding for community college apportionments in the 1982 Budget Act, and directed the Board of Governors of the California Community Colleges to identify recreational and avocational courses that would no longer be supported with state funds. Some of the courses identified by the board, such as aerobics and sewing, are offered in adult education programs with state support.

For these reasons, we recommend that home economics and health-and-safety education be dropped from the list of subject areas in which adult education courses are eligible for state funding. Home economics courses which primarily are intended to provide vocational training could still be funded under the category of "vocational courses with high employment potential." Health and safety education courses, such as CPR, first aid, and lifesaving, are generally available at community colleges or from agencies such as the Red Cross, on a fee basis.

Because of the manner in which adult education enrollment is reported to the State Department of Education, the ADA generated by home economics and health and safety education is not known for certain. Based on head count enrollment data, however, we estimate that these courses account for 9.6 percent of total state funded ADA. Consequently, we recommend that the proposed appropriation be reduced by 9.6 percent, or $14.3 million. We also recommend Budget Bill language to direct the Department of Education to certify the amount of funds apportioned for these courses in 1982–83, and to reduce each district's 1983–84 entitlement accordingly. Specifically, we recommend that the following Budget Bill language be adopted:

> "Provided that no average daily attendance may be claimed for the receipt of state aid for classes in home economics and health and safety education.
>
> Further provided that the Department of Education shall certify the amount of funding apportioned to each school district for average daily attendance in home economics and health and safety classes in 1982–83 and shall reduce each district's 1983–84 entitlement by the amount certified, as adjusted for any cost-of-living increase approved for adult education in this act."

Improvement in Attendance Reporting Needed

We recommend that the Legislature adopt Supplemental Language requiring the Department of Education to report state-funded average daily attendance (ADA) in adult education programs, categorized by the areas of study which are authorized for state funding.

In reporting adult education ADA to the State Department of Education, school districts report total ADA; they do not distribute it among the ten subject areas in which courses qualify for state funding (parenting, basic education, English as a Second Language, citizenship, classes for substantially handicapped persons, vocational education courses with high employment potential, apprenticeship training, classes for older adults, home economics, and health and safety education).

We believe the Legislature would find such information useful for purposes of state-level planning and review. For example, the information would help the Legislature monitor program trends, such as a shift in enrollment from one course area to another.

For this reason, we recommend adoption of the following supplemental language requiring the department to collect and report to the SDE adult education ADA, categorized by area of study. We estimate that the cost to the department and to local districts of complying with this requirement would be minor, and could be accommodated within existing resources.

Specifically, we recommend that the Legislature adopt the following supplemental language:

"The Department of Education shall require school districts to report adult education ADA, categorized by area of study authorized for state funding."

Federal Adult Basic Education Act (Item 6100-156-890)

We recommend approval.

The budget proposes $9.3 million from the Federal Trust Fund for local assistance in adult education, the same as estimated current-year expenditures, and $688,000 in federal funds for state operations, an increase of 2.8 percent. These funds are provided under the federal Adult Basic Education Act to support basic skills instruction for adults with less than an eighth grade level of education. Our review indicates that this program is serving its intended purpose, and therefore we recommend approval.

i. Indian Education (Items 6100-218-001 and 6100-151-001).

The State Department of Education (SDE) administers two separate projects to serve Native American pupils—SB 2264/74 Indian Education centers and AB 1544/77 Indian Education programs. The SDE uses two consultants and one half-time clerical position to administer the two programs.

In addition to receiving services from these two projects, Native American pupils may also be served by a variety of state and federal categorical programs, including School Improvement, Economic Impact Aid, ECIA Chapter I, ESEA Title IV-A and the Johnson-O'Malley program. Under the latter two programs, federal funds are provided directly to school districts and educational agencies that serve Native American pupils. According to the federal Department of Education and the Bureau of Indian Affairs, California school districts will receive $4,753,063 in Title IV-A funds and $576,446 in Johnson-O'Malley funds in 1982–83.

Table 32 shows state administration and local assistance expenditures proposed for the two state Indian Education projects in 1983–84. As the table indicates, the budget proposes a total of $1,249,000 for the two projects in the budget year.

The budget, however, proposes to fold the AB 1544 Indian Education program, but not the SB 2264 Indian Education Centers, into the State Educational Block Grant (Item 6100-218-001). We present the following separate analysis of the AB 1544 program to assist the Legislature in deciding (1) whether to fold the program into a block grant and (2) if it decides not to eliminate the program, what actions should be taken with respect to the program in the 1983–84 budget.

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Table 32
State Expenditures for Indian Education
(in thousands)

		Actual 1981–82	Estimated 1982–83	Proposed 1983–84	Change Amount	Change Percent
State Operations		$172	$149	$157	$8	5.3%
Local Assistance:						
AB 1544	Native American Indian Education program	318	318	318[a]	—	—
SB 2264	American Indian Education centers	750	750	774	24	3.2
Totals		$1,240	$1,217	$1,249	$32	2.6%

[a] Proposed for inclusion in the State Educational Block Grant.

AB 1544 Native American Indian Education Programs (Item 6100-218-001)

We recommend that the AB 1544 Native American Indian Education program be eliminated and that one consultant position and related clerical support be deleted for a General Fund savings of $396,000, because there is no justification for having a separate compensatory education program for Native American pupils in addition to the regular state and federal compensatory education programs. (Reduce Item 6100-218-001 by $318,000 and Item 6100-001-001 by $78,000).

The AB 1544 Native American Indian Education program seeks to improve the educational accomplishments of kindergarten through fourth grade Native American pupils in selected rural school districts. The intent of this program is "to develop and test educational models which increase competence in reading and mathematics." In 1981–82, the AB 1544 program served 1,217 pupils. Ten rural school districts receive AB 1544 funds for 19 schools. These schools received an average grant of $17,000 each.

Unlike the federal Indian Education programs, the AB 1544 program has no established criteria for identifying pupils to be served. Generally, the AB 1544 schools use an informal system to find pupils whose families claim Native American status. *All* students with such status may be served through the AB 1544 program—not just those with specific compensatory education needs.

During our field visits, we observed that schools use their AB 1544 funds primarily for aides or teachers to work more directly on reading and math skills with the K–4 pupils.

We recommend termination of the AB 1544 program for the following three reasons:

- ***The reading and mathematics needs of Native American children served through the AB 1544 program can and should be met through the major categorical programs which are intended to serve all pupils with special needs.*** According to the SDE, 17 of the 19 schools receiving AB 1544 funds in 1981–82 *also* receive funds from at least one other compensatory education program. In fact, seven of the larger schools participate in at least three other compensatory education programs. (The two schools which receive no other programs are in a single district and have a total enrollment of 55 pupils).

Because the other compensatory education programs serve *all* pupils with identified needs, our analysis indicates that funding provided by AB 1544 is duplicative and unnecessary. In the AB 1544 programs we visited, virtually all of the Native American pupils were identified as ECIA Chapter I pupils, and thus were targeted for special assistance. In some classrooms we observed two or more aides simultaneously attempting to assist a single Native-American pupil.

• ***The reading and mathematics needs of Native American pupils are not unique and do not require a specialized program.*** We know of no analytical data which indicates that methodologies used for teaching basic skills to Native American pupils differ from those used to teach other pupils. In fact, we observed at several schools that AB 1544 teacher aides were using the same teaching methodologies as those used with non-Native American pupils.

• ***The procurement and distribution of curriculum materials pertaining to Native American history and culture can be accomplished by other organizations.*** Our analysis indicates that curriculum development to serve Native American pupils can be accomplished through the SB 2264 Indian Education centers and other Indian organizations, the SDE Curriculum Services Unit, and school district curriculum specialists.

Because the AB 1544 program (1) is not based on a unique educational need, (2) duplicates the functions of other statewide categorical programs, and (3) is not necessary for the development of curriculum materials, we recommend termination of the program and elimination of state operations staff, for a General Fund savings of $396,000.

SB 2264 Indian Education Centers (Item 6100-151-001)

We recommend approval.

Twelve Indian Education centers serve as regional educational resource centers to Indian students, parents, and schools. The centers are operated by private non-profit organizations which report to community-elected boards of directors. The centers typically offer a variety of services, funded through several sources. In their role as *education* centers, the centers: (1) provide tutorial assistance and counseling for Indian pupils, (2) provide Native American related curriculum development for school districts, and (3) serve as a cultural center and library. Our review indicates that this program is serving its intended purpose and, therefore, we recommend approval.

j. Demonstration Programs in Reading and Mathematics (Item 6100-218-001).

The Governor's Budget proposes to consolidate this program into the State Educational Block Grant, Item 6100-218-001. We present our analysis of Demonstration Programs in Reading and Mathematics to assist the Legislature in deciding (1) whether to fold the program into a block grant, and (2) if the Legislature decides to not eliminate the program, what actions should be taken with respect to the program in the 1983–84 budget.

Demonstration Programs in Reading and Mathematics were established to provide cost-effective exemplary reading and math programs in grades 7, 8, and 9, using intensive instruction. The enabling legislation for demonstration programs specifies that the programs are to (1) develop new approaches to the teaching of reading and mathematics, (2) provide information about the successful aspect of the projects, (3) encourage project replication in other schools, and (4) be ranked according to evaluation results, with state support withdrawn from the lowest rated progams. In 1982–83, the program will serve 9,000 students in 28 schools representing 19 districts.

The budget proposes to appropriate $3,558,000 for local assistance (included in the proposed block grant) which is the same funding level as the current year.

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Evaluations indicate that the demonstration program has been successful. For example, data collected on the program in 1981–82 indicate a median growth in reading achievement of 2.5 months and a median of growth in mathematics achievement of 2.9 months, for each month of instruction.

Applicability of the Demonstration Program Funding to Other Programs. Language contained in the *Supplemental Report to the 1982 Budget Act* requires our office, with the cooperation of the SDE, to select three programs and review the adaptability of the unique funding process used for demonstration projects to these three programs. This funding process involves terminating the least effective program each year and selecting a replacement program. After consulting with the SDE, we included eight programs in our review: Miller-Unruh, Gifted and Talented Education, Indian Education Centers, Educational Technology, ECIA Chapter II, Investment in People, State Compensatory Education, and the University College and Opportunity Program. In determining these programs' adaptability to the demonstration program methodology, we sought to determine:

- If there is a program output or goal which can be quantified and compared on a systematic statewide basis.
- If the competitive aspect of the methodology, which requires that the least cost-effective demonstration reading and demonstration mathematics projects be terminated, is appropriate or practical for the other programs.
- If individual projects could be demonstrated and replicated throughout the state?

Based on these criteria, our analysis indicates that only one of these eight programs—the Miller-Unruh Reading Program—could be adapted to the demonstration program methodology. (Elsewhere in our analysis of Item 6100-218-001, we provide more detailed information on this program.) This is because:

- ***Unlike the other seven programs, the program output and goals of Miller-Unruh can be quantified and compared.*** For Miller-Unruh, the SDE can use a standardized test of reading and achievement to calculate the gain in achievement as a function of the program cost, as is currently done for Demonstration Programs.
- ***Miller-Unruh programs are locally designed and implemented and have been replicated on a limited basis.*** Our analysis indicates that a systematic process to encourage the replication and demonstration of Miller-Unruh methodologies is possible and could be beneficial.
- ***There is some justification for requiring that the least cost-effective of the Miller-Unruh programs be terminated.*** This would release funds for other schools that wish to develop new, and possibly more successful, approaches.

In conclusion, if the Legislature determines that the demonstration program funding process should be expanded to other categorical aid programs, our analysis indicates that the Miller/Unruh reading program could be funded through this process.

3. State, Court, and Federal Mandates (Items 9680-101-001 and 6100-114-001)

Under the provisions of current law, the state reimburses school districts for the cost of local programs which are mandated by the state, the courts, or the federal government. These reimbursements are funded from the General Fund. Table 33 shows the past, current, and budget year expenditures for these reimbursements.

Table 33
Expenditures for State, Court, and Federal Mandates (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change* Amount	Percent
State Mandates	$23,747	$27,386	$14,322	–$13,064	–47.7%
Court and Federal Mandates	128,725	140,454	140,454	—	—
Totals	$152,472	$167,840	$154,776	–$13,064	–7.8%

As shown in Table 33, the budget proposes no change in funding for court and federal mandate reimbursements. Although the budget appears to propose a $13.1 million, or 48 percent, decrease in state mandate reimbursements, this is misleading. The decrease in state mandate reimbursements is due to the fact the expenditures estimated for the current year include funds provided in a claims bill for costs incurred in years other than 1982–83. (See table 34.) To the extent that the Legislature enacts claims bills in 1983–84 for education claims, there may be no decrease in costs for state mandates between the current and budget years.

Table 34
State Mandates (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change* Amount	Percent
Chapter 1215/74 School Attendance Review Boards	$3,212	—	—	—	—
Chapter 593/75 Jury Duty for Teachers	1,100	$1,452	—[a]	–$1,452	–100.0%
Chapter 961/75 Collective Bargaining	6,480	8,794	$9,493	699	7.9
Chapter 1216/75 School Employee Dismissal Evaluation	8	1	18	17	1,700.0
Chapter 973/77 School Administrators Transferred to Teaching	2	1	1	—	—
Chapter 965/77 Pupil Disciplinary Procedures	325	244	623	379	155.3
Chapter 1253/75 Pupil Disciplinary Procedures	—	1	1	—	—
Chapter 894/77 Pupil Basic Skills—Notification and Conferences	1,300	1,746	2,603	857	49.1
Chapter 1176/77 Immunization Records	600	943	1,240	297	31.5
Chapter 1347/80 Scoliosis Screening	477	486	343	–143	–29.4
Chapter 472/82 Immunization Records	—	610	—	–610	–100.0
Subtotals	$13,504	$14,278	$14,322	$44	0.3%
Prior claims bills	10,243	13,108	—	–13,108	–100.0
Totals	$23,747	$27,386	$14,322	–$13,064	–47.7%

[a] Reimbursement funding terminated by Ch 1586/82.

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a. *State Mandates (Item 9680-101-001).*

Table 34 shows General Fund expenditures for reimbursement of education mandates in 1983–84. A total of $14,332,000 is proposed for this purpose in the budget year, an increase of $44,000, or 0.3 percent, above the adjusted 1982–83 level (exclusive of funds provided in claims bills). The $27,386,000 shown in the budget for reimbursement of claims in 1982–83 includes $13.1 million for prior year claims appropriated in separate legislation, and primarily represents one-time, rather than ongoing expenditures. Consequently, the decrease between 1982–83 and 1983–84 is not meaningful from a programmatic standpoint.

The budget-year funds are contained in Item 9680-101-001, which is the appropriation item for all state mandate reimbursements.

Unfunded Legislation—Chapter 472, Statutes of 1982 (SB 818)

We recommend that the Department of Finance explain during budget hearings, why the Budget Bill does not include an appropriation to reimburse the increased school district costs mandated by Ch 472/82, and what actions the administration proposes to take with regard to the constitutional requirement that these costs be reimbursed.

Pursuant to Ch 472/82, school districts are required to ensure that all students are immunized against rubella at the time (1) they first enroll in a California school or (2) if they were enrolled in school on January 1, 1980, when they transfer to, enter, or attend school at the seventh and ninth grade. This mandate increases school district screening and recordkeeping costs because the districts must ensure that students have the required immunization. In recognition of these costs, Ch 472/82 appropriated $610,453 for reimbursement of school district costs in 1982–83.

The budget proposes no funding for these mandated costs in 1983–84, although it recognizes in the unfunded legislation item (Item 9875-101-001) that the cost of providing these reimbursements in 1983–84 will be $539,000.

Our analysis indicates that the costs mandated by Ch 472/82 will continue in 1983–84 through 1986–87. Given the *constitutional* requirement that the state reimburse local agencies for mandated costs, the budget should include funds for these costs. Unlike other "unfunded" legislation, the state cannot choose on a policy basis not to fund these costs.

For this reason, we recommend that the Department of Finance explain, during budget hearings, why the Budget Bill does not include funds to reimburse the increased school district costs mandated by Ch 472/82, and what action the administration proposes to take with regard to the constitutional requirement that these costs be reimbursed.

Physical Performance Test

We recommend that the Legislature enact legislation to repeal the physical performance test requirements for grades 5, 7, and 10 because we find no analytical reason to continue this mandate.

Education Code Sections 60603d and 60608 require students in grades specified by the State Board of Education to take annually a physical performance test. The board has specified that students in grades 5, 7, and 10 shall take this test.

SDE provides districts with a list of specific tests, to be administered, and the average range of expected student performance on each test. (For example, the average seventh grade, 13 year old male is expected to walk or jog a little less than one mile in six minutes and complete 41 sit-ups in one minute.) SDE reviews the test items on a six-to-seven-year cycle, and adjusts the expected student performance ranges based on the results of its review. The last review was in 1981–82.

The code does not state the purpose of this test, nor does the code require any systematic evaluation of test results. Consequently, the state does not systematically collect or evaluate the results of the tests. Because there is no ongoing evaluation, the tests do not provide the state with data on whether pupil physical performance is increasing or decreasing.

In summary, we find no analytical reason for the state to continue mandating the physical performance test.

If the schools themselves find the results of these tests useful, they could continue to offer them, even if the mandate is repealed. Districts that do not find the test to be useful could reallocate the students' time to other education-related activities.

Because we find no use for the results of physical performance tests at the state level, there would appear to be no reason for the state to mandate these tests. Accordingly, we recommend that the physical performance test mandate be repealed.

b. Court and Federal Mandates (Item 6100-114-001)

Prior to the passage of Proposition 13, school districts were authorized to fund final court orders and federal mandates through the local property tax. In 1978–79 and 1979–80—pursuant to post-Proposition 13 fiscal relief legislation—federal and court mandates affecting school districts were funded by the state through a revenue limit reimbursement of district claims for apportionment aid. Through 1979–80, the state was automatically liable for all new federal- and court-mandated costs imposed on school districts. This policy was changed in 1981.

Current Law. Chapter 100, Statutes of 1981 (AB 777) removed mandate funding from general aid in school apportionments. Such funding is now provided in the annual Budget Act. Current law also provides that the Controller must review each mandate claim to determine if the costs claimed are reasonable, and provides that the reimbursement among claiming districts will be prorated if the amounts claimed exceed the Budget Act appropriation. The Board of Control, however, is authorized to review any unfunded claims for possible inclusion in a subsequent claims bill.

Funding. Table 35 displays the actual funding and potential future costs for court and federal mandates.

The Governor's Budget proposes $140,454,000 for reimbursements of these mandates in 1983–84—an increase of $11,728,000 or 9 percent, above the 1982 Budget Act appropriation. Since 1981–82, all of the funds appropriated for the reimbursement of court and federal mandates have been allocated to four school districts for costs resulting from court-ordered desegregation activities. Currently, there are no reimbursable federal mandates.

Table 35 indicates that in addition to the $140.5 million proposed in the 1983–84 budget for reimbursing budget-year claims, a deficit remains of approximately $59.7 million from 1981–82 and 1982–83 which is eligible for reimbursement through the Board of Control process. If there is no change in claims for 1983–84, we estimate that the $140.5 million requested to pay claims will be $22.3 million less than claims actually received in the budget year. This would bring the unfunded deficit to $82 million by the end of the budget year.

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Table 35
Court and Federal Mandates:
Claims Approved by the Controller
Actual and Budgeted Claim Reimbursements
and Additional Claims Eligible for Reimbursement

Approved Claims	*Actual Claims for 1980–81*	*Actual Claims for 1981–82*	*Estimated Claims for 1982–83*	*Estimated Claims for 1983–84*
Desegregation Claims:				
Los Angeles Unified	$138,076,522	$120,864,924	$128,754,633	$128,754,633
San Diego City Unified	17,834,871	22,471,333	24,941,633	24,941,633
San Bernardino Unified	2,987,361	2,746,396	3,089,270	3,089,270
Stockton Unified	3,242,512	8,333,782 [a]	6,000,000 [b]	6,000,000 [b]
Miscellaneous—Maternity Benefits	512,302	—	—	—
Total Approved Claims	$162,653,568	$154,416,435	$162,785,536	$162,785,536
Budget Act appropriation	150,926,000	128,726,000	128,726,000	140,454,000 [c]
Deficit	($11,727,568)	($25,690,435)	($34,059,536)	($22,331,536)
Claims bill appropriation in 1982–83	−11,727,568			
Cumulative remaining deficit subject to Board of Control Action	—	$25,690,435	$59,749,971	$82,081,507

[a] Approval pending.
[b] Preliminary estimate.
[c] Proposed in Item 6100-114-001.

Whether funds *should* be provided to eliminate the $59.7 million unfunded deficit is a policy decision that the Legislature must make, based on its priorities regarding the use of limited state resources. Accordingly, we make no recommendation on this issue. We note, however, that the districts that incurred these costs in prior years have already funded them. They have done so by reallocating general aid revenues to their desegregation programs. In effect, the districts, have managed to operate their programs with the current level of state reimbursements. Thus, if the four districts receive an additional $59.7 million, the new money would constitute a windfall to the districts.

Unfunded Legislation—Chapter 1619, Statutes of 1982 (SB 550). Chapter 1619, Statutes of 1982 (SB 550), authorized (1) reimbursements to school districts which voluntarily operate programs to remedy racial segregation and (2) continued reimbursement, through 1988–89, for costs incurred by those districts currently under court-ordered desegregation plans in the event the court order terminates and these districts implement voluntary desegregation plans. As indicated earlier, prior law authorized reimbursements only for those districts which are under a court order.

The Governor's Budget estimates that $20 million is necessary to reimburse districts with voluntary programs. (The second provision of SB 550 affecting the four districts currently under court order has no effect in

1983–84 because those orders are still in effect, and partial reimbursement for most of these mandated costs is already included in the budget.) The budget, however, contains no funds to provide these voluntary program reimbursements.

We make no recommendation regarding this matter. As noted above, this is a policy question that only the Legislature can answer, based on its priorities. If the Legislature decides not to appropriate funds for Ch 1619/82, however, it would not result in a funding reduction for the eligible districts because they are currently funding voluntary programs within existing resources.

4. Special Education (Item 6100-161-001, 6100-161-890, and 6100-006-001)

Special education includes (1) local assistance to support the Master Plan for Special Education, (2) state administration, (3) support for the state special schools, and (4) assistance to the Southwest Regional Deaf-Blind Center. In 1983–84, special education will serve approximately 360,000 students who are learning, communicatively, physically, or severely handicapped.

Table 36 shows the expenditure and funding for special education in the prior, current, and budget years. The budget proposes total expenditures for this program of $852,782,000 in 1983–84, an increase of $2,100,000, or 0.2 percent above the current-year level. The General Fund will support 89 percent of all special education expenditures, while federal funds will account for 0.6 percent and reimbursements will finance the remaining 10 percent.

Table 36
Special Education Program Expenditures and Funding (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
1. State Operations					
State administration	$5,881	$6,652	$6,825	$173	2.6%
Clearinghouse depository	396	337	352	15	4.5
Southwest Deaf-Blind Center	1,351	608	619	11	1.8
Special schools	33,939	33,943	35,445	1,502	4.4
Subtotals	$41,567	$41,540	$43,241	$1,701	4.1%
2. Local Assistance					
General Funds	$712,535	$727,230	$727,629	$399	0.1%
Federal funds	94,725	81,912	81,912	—	—
Subtotals	$807,260	$809,142	$809,541	399	0.1%
Totals	$848,827	$850,682	$852,782	2,100	0.2%
General Fund	*$743,103*	*$758,342*	*$760,379*	*2,037*	*0.3%*
Federal Fund	*100,158*	*87,397*	*87,492*	*95*	*0.1*
Reimbursements	*5,556*	*4,943*	*4,893*	*–50*	*–1.0*
Special Deposit Fund	—	—	*18*	*18*	—

Special education expenditures in 1982–83 are estimated to be greater than the amount actually needed to fund program costs in 1982–83. This is because the Legislature appropriated $35 million in the 1982 Budget Act to fund part of a 1981–82 special education deficit. This one-time expenditure is reflected in the 1982–83 estimate of local assistance support by the General Fund.

The net change in funding for special education in the budget year of

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2.1 million reflects (1) the elimination of the $35 million one-time appropriation for the 1981–82 deficit, (2) an increase for a 3 percent cost-of-living adjustment ($36,249,000) for General Fund local assistance, (3) elimination of the one-time transfer of $850,000 from the county office's appropriation to special education for the purchase of equipment for visually handicapped students, (4) a $95,000 increase in federal aid, and (5) baseline increases for state administration.

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

California students 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 special education services through regional organizations called Special Education Local Plan Areas (SELPAs). Each SELPA is required to adopt a local 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.

Special education funding is provided through Ch 797/80, as amended by Ch 1094/81 (SB 769) and Ch 1201/82 (SB 1345). School districts and county offices receive reimbursement for costs incurred in their special education program based on (1) their current level of services, (2) costs incurred in 1979–80 adjusted for inflation, and (3) local general fund contributions to the program. Transportation costs associated with the special education program are reimbursed based on the actual costs incurred in the prior-year, while regional services are reimbursed based on per pupil costs in the current year.

Students Served. Special education programs served 357,679 students as of December 1, 1981. Under the MPSE, students receive services through one of four instructional settings: special day classes (SDC), resource specialist programs (RSP), designated instruction and services (DIS), and nonpublic schools (NPS). Table 37 displays the distribution of special education students by general disability and instructional setting.

Table 37
Special Education Enrollment
December 1, 1981

	Disability				
Placement	*Communication*	*Learning*	*Physical*	*Severe*	*Total*
Designated Instruction and Service (DIS)	89,785	8,041	16,876	1,059	115,761
Resource Specialist Program (RSP)	698	127,680	969	958	130,305
Special Day Class (SDC)	8,580	81,382	7,027	10,186	107,175
Nonpublic Schools (NPS)	134	1,959	117	2,228	4,438
Totals	99,197	219,062	24,989	14,431	357,679

Continuing Funding Deficits in Special Education. In 1980–81, special education *entitlements* exceeded the Budget Act appropriation by $117 million. In 1981–82, a special education program deficit of $200 million was projected. In response to these deficits, the Legislature appropriated $30 million in the 1981 Budget Act to fund part of the 1980–81 deficit, and adopted SB 769 (Ch 1094/81) to limit the deficits in future years. Specifically, Chapter 1094 reduced entitlements and the deficit by $168 million by (1) changing the formulas used to determine the district's entitlement to state aid, and (2) easing some of the program requirements on school districts to allow for greater flexibility and opportunity for local cost savings. The changes brought about by Ch 1094 reduced the 1981–82 deficit in the special education program to $32.1 million. The transportation deficit for that year was $27.2 million.

The Legislature responded to the 1981–82 deficit by appropriating an additional $35 million in the 1982 Budget Act. In appropriating these funds, however, the Legislature provided that they would be made available for allocation *only* if another reform measure was adopted. This measure was SB 1345.

SB 1345 (Chapter 1201/Statutes of 1982). Senate Bill 1345 was enacted in June, 1982. This measure allocated the $35 million provided in the 1982 Budget Act. Of the total, $19 million was allocated for the program deficit and $16 million was provided for the deficit in special transportation. As a result, the 1981–82 deficit was reduced to $24.5 million—a program deficit of $13.2 million and a transportation deficit of $11.2 million. The third recertification of the 1981–82 second principal apportionment shows that district and county offices received 97.9 percent of ther special education entitlement and 87.7 percent of their special transportation entitlement for 1981–82.

Like SB 769, SB 1345 reduced some mandates in the special education program. These reductions, however, are *not* expected to reduce entitlements for state funding. Instead, the cost savings resulting from the additional local flexibility are expected to accrue to local education agencies. Some of the mandate reductions contained in SB 1345 are as follows:

- Members of pupil assessment teams are no longer required to maintain personal records of assessments, and the membership requirements of the team have been relaxed.
- Individualized Education Program (IEP) teams are not required to meet if there is a change in the pupil's program or placement.
- The requirement that the resource specialist program (RSP) shall average no more than 24 pupils per class is deleted. The maximum caseload per RSP of 28 pupils, however, was maintained.
- Program specialists are no longer required, and funds provided for program specialists may be used for regionalized services or special education classes.

The act also made three changes in the funding formulas which govern district entitlements to state funds. First, districts are permitted to receive additional reimbursement for support services costs for only SDC classes serving the severely handicapped. DIS and RSP classes serving the severely handicapped are not eligible for the higher support services rate. Second, the measure required districts to recompute their support services ratio to eliminate double-funding for program specialists. Finally, the act specified that excess local revenues of the county are to be subtracted from district's entitlement to state support for special education costs.

The Master Plan Funding Model. As mentioned above, special education and related services in California are provided to infants, preschool children, school-age children, and young adults from 18 to 21 years through the Master Plan for Special Education (MPSE). First introduced in 1974 the Master Plan has undergone numerous changes. Most of the original principles, however, still remain. Some of these principles are as follows: (1) all students are entitled to an appropriate education in the least retrictive environment, (2) each student should receive services according to a program developed to meet his or her individual need, (3)

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efforts should be taken to avoid the unnecessary labeling of students, and (4) parent and student rights should be protected through due process procedures and fair hearings.

The Master Plan as a *service delivery* model continues to enjoy support among both the recipients of special education services and the local providers. Our field visits indicate that special education teachers agree with the Master Plan concept of providing a continuum of services to handicapped children. Greater interaction between the handicapped and nonhandicapped, where appropriate, is identified as a positive outcome of the MPSE. In addition, district administrators indicate that there are few, if any, students identified as individuals with exceptional needs who are not receiving services.

The Master Plan as a *funding* model, however, does not have similar support.

Under the current system, school districts and county offices receive state support for their special education program through three funding components. First, local providers receive state assistance for the program component of the MPSE, which includes both direct salary and benefit costs, and support costs, based on the actual costs incurred by the district or county office in 1979–80. These costs constitute the provider's "unit rate" and "support services ratio", which in turn determine their entitlement to state funds.

Second, districts and county offices receive funding for transportation costs associated with the special education program through the transportation component of the MPSE. State assistance for transportation costs is based upon actual costs incurred in the prior year. Districts are entitled to 80 percent of their prior-year costs, while county offices are entitled to 100 percent funding for prior year costs.

Third, state funding for costs incurred at the regional level are distributed on a per-pupil basis to districts and county offices. These funds are broken down to provide for (1) "regionalilzed services", which include personnel and curriculum development, evaluations, and data collections, and (2) "program specialists" who coordinate and assist in the provision of special education services within the region.

Though each of the funding components does not receive a separate Budget Act appropriation, Budget Act language has been adopted each year to limit the funds available for transportation and regionalized services. As a result, a deficit in one funding component cannot be transferred to another. This is shown in Table 38, which divides the 1981 Budget Act appropriation, the local entitlements, and the deficit for 1981–82 into the three funding components.

Table 38

Special Education Appropriation [a]
Local Entitlements, and
Deficits for 1981–82

Funding Component	*Budget Act Appropriation*	*Local Entitlement*	*Deficit*	
			Amount	*Percent*
1. Special Education Program	$607,787,502	$620,998,003	$13,210,501	2.13%
2. Special Transportation	$80,260,000	$91,437,419	$11,177,419	12.22
3. Regionalized Services and Program Specialists	$24,700,000	$24,818,955	$118,955	0.48

[a] Includes $35 million provided in the 1982 Budget Act.

Weaknesses of the Current Funding Model. Our field visits indicate that there is considerable dissatisfaction with the Master Plan funding model. Based on an analysis of the model and discussions with state and local officials, we have identified the following weaknesses of the current system.

• *Appropriation Deficits.* While deficits are on outcome of the system, rather than a feature of the Master Plan itself, the components of the model are such that they tend to make deficits more likely. This is because the model makes it difficult for the Legislature to estimate funding requirements. Table 39 shows the revenue and expenditure components of the Master Plan.

Table 39
Master Plan for Special Education
Revenue and Expenditure Components

Revenues	*Expenditures*
Budget Act appropriation	Special education program
Federal funds	Special day class
County property taxes	Designated instruction and services
Negative entitlements	Resources specialist program
Revenue limits, districts	Aides
Revenue limits, counties	Extended year
Local General Fund contribution	Nonpublic schools
	Infants
	Special transportation
	Regionalized services/program specialist

The Budget Act appropriation is made based on (1) the level of revenues anticipated from federal funds, local property tax levies, and district and county revenue limits and (2) the projected requirements for the three funding components—special education, special transportation, and regionalized services and program specialists. A deficit in special education funding occurs when the Budget Act appropriation is insufficient to meet the total allowable claims, or entitlement, of local service providers. Under these circumstances, districts and county offices receive a pro rata share of the amount claimed, based on funds available.

If total support for special education falls short of actual expenditures incurred, local providers nevertheless are required to fund all program costs. Under these circumstances, additional funding must be provided from the district's general fund. This redirection of funds is commonly referred to as "encroachment."

Encroachment poses several problems for school districts. First, school districts cannot be alerted to a shortfall in special education revenues until well into the school year, after they have made their expenditure commitments for the year. Consequently, districts have little opportunity to reduce special education costs, and are forced instead to make reductions elsewhere. Second, the district's regular education program is adversely affected because funds that were budgeted to meet other district priorities instead must be redirected to cover the special education deficit. And finally, funding shortfalls in special education strain interdistrict service agreements.

An important feature of the Master Plan for Special Education is the

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provision of services on a regional basis. Ideally, districts within the SELPA develop a plan that specifies the responsibilities of each member district, and services are provided according to the plan. Deficits tend to discourage cooperation among districts, and instead cause each district to look out for its own fiscal welfare. In some cases, districts have withdrawn from the SELPA in the belief that they would be better off on their own should special education entitlements exceed the amount of funds available.

- ***Complexity of Entitlement System.*** Since the adoption of SB 1870 (Ch 797/80), the vehicle providing for statewide implementation of the MPSE, the entitlement system has grown increasingly complex. The system was amended first through SB 769 (Ch 1094/81), and then through SB 1345 (Ch 1201/82), in an attempt to reduce the continuing funding shortfalls by reducing entitlements. In the process, however, these changes have also yielded an entitlement system which fewer and fewer people understand.

The State Department of Education's entitlement form for special education, referred to as the J-50, currently is 27 pages long. Staff from SDE conduct workshops throughout the state in order to teach local special education directors and district business managers how to fill out the form correctly. Completion of each new set of forms often requires local officials to refer to numerous documents, revise figures already submitted to SDE, and recompute ratios and growth rates based on new legislation. In some cases, difficulty encountered in filling out these forms has caused local officials to forego funding for some parts of their special education program.

- ***System is not Fiscally Neutral.*** Our analysis indicates that the current funding provisions encourage program expansion and discourage program contraction. Under the current funding arrangement, if a school district adds a special education class, it receives additional state funding in an amount which exceeds the increase in instructional costs. Conversely, when classes are dropped, the districts lose more state funding than they save in costs if they reduce the size of their program.

(For 1982–83, the Legislature imposed growth controls for special education to reduce the projected program deficit. These controls, adopted in SB 1345 (Ch 1201/82), restrict the number of state-funded special education classroom units to the number of units eligible for state funding in 1981–82. The Governor's Budget proposes to continue these growth controls in 1983–84.)

This effect of the entitlement system can be traced to two features: the system's support services ratio and the local general fund contribution.

Special education providers receive reimbursement for support costs, for each additional classroom unit offered. This is because state aid for support costs is provided as a function of direct instructional costs in the form of a ratio. For example, a district may receive 50 cents in support for every dollar of direct instructional costs. This translates into a support services ratio of .5. The problem lies in the fact that support costs do not increase in direct proportion to the increase in direct costs. The support services ratio does not distinguish between fixed support costs, such as administrative salaries and classroom maintenance, and variable support costs. Consequently, a district receives reimbursement for support services which may *exceed* the actual costs incurred when an additional classroom unit is added. Conversely, a district loses both the support reimbursement and the direct salary support when a classroom unit is dropped. The result of this funding system is that districts find it financially advantageous to continue offering special education classes even when a declining pupil count warrants a reduction in class offerings.

The second feature of the Master Plan that encourages program expansion is the adjustment for a district's local general fund contribution (LGFC). The LGFC is treated as a revenue source under the funding model, but actually acts as an offset to a district's entitlement to state aid. A district's LGFC is the amount provided in 1979–80 from the district's general fund to support the special education program. Chapter 797, Statutes of 1980 (SB 1870), requires that each district's entitlement to state aid be reduced by the district's 1979–80 LGFC.

The presumption underlying this provision is that districts should maintain some level of local support for their special education programs. A problem arises, however, because the LGFC is set at a fixed dollar amount, rather than as a proportion of the district's total program entitlement. In addition, the LGFC is not adjusted for inflation. As a consequence, the LGFC comprises a smaller proportion of the entitlement as the total program expands, but a larger proportion as the program contracts. Because the school district's LGFC is invariant, the district does not share the marginal cost of program expansion. Instead, the state assumes the full cost. Conversely, the district reaps no cost savings for reducing the size of the program, since the LGFC is fixed at the 1979–80 level.

Our analysis indicates that for a single district, the provision of state aid is elastic with respect to changes in the size of the program. In other words, a 1 percent increase in the size of the program will yield a greater than 1 percent increase in the district's entitlement to state aid, while a 1 percent decrease in the program will yield a greater than 1 percent decrease in funding. This situation, coupled with the formulas governing support services reimbursement, result in a funding model that encourages unwarranted program expansion and discourages program contraction that is warranted.

Criteria For A New Funding Model. Two proposals to restructure special education finance in California have been advanced in recent years. One has been developed by the Advisory Commission for Special Education, and the other by a task force assembled by the Superintendent of Public Instruction. These and other proposals are likely to come before the Legislature during the current legislative session.

We believe that any new funding system for special education should satisfy the following five criteria.

- Ease of Administration.
- Fiscal Neutrality.
- Gradual Funding Adjustments.
- Eligibility Criteria.
- State and Local Cost Sharing.

Each of these criteria is discussed below.

- ***Ease of Administration.*** The primary purpose of a funding system is to allocate resources among various programmatic entities. For the Master Plan for Special Education, the funding model should distribute state, local, and federal revenues to school districts and county offices that offer special education programs, or to those that are financially responsible for insuring that services are provided. The distribution of funds should be accomplished with a minimum administrative burden, and yet provide for a reasonable level of state control.

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The current system is inordinately complex, and has resulted in numerous errors in the calculation of entitlements to state funding. As a result, state reimbursements may not be provided for some local expenditures that are eligible for state reimbursement, and in other cases may be provided in excess of what is appropriate. Moreover, a complex system requires considerable staff time at both the district and state level to insure that funds are provided properly. This redirects resources to administration that otherwise could be made available for classroom instruction.

• ***Fiscal Neutrality.*** Prior to the adoption of SB 1870 (Ch 797/80), school districts received funds for their special education program based on the number of students in the program. Specifically, districts received $2,296 for each pupil. This funding system did not recognize differences in the costs of providing various sevices to students with different types of handicaps, and, consequently, was not fiscally neutral. As a result, a district could receive more state funds than what was required to operate a program by identifying too many students for low cost services and too few students, for high cost services. Left unchanged, this system could have resulted in a higher cost system than could be justified, yet one that did not provide needed services to some children with special needs.

Ideally, the model should yield no financial rewards or penalties to districts choosing among the various educational alternatives in making placement decisions. The decision to place a student in a particular program should be governed by an assessment of the pupil and the pupil's individualized education program. Similarly, a district should face no financial incentives when choosing to expand or contract its overall special education program.

• ***Gradual Funding Adjustments.*** A change in the special education funding model will most likely result in a change in the amount of state funds received by most school districts. Some districts will receive more under the new system, while others will receive less. In order to promote a smooth transition between funding models and minimize disruption of current programs, funding adjustments should be made gradually.

Gradual funding adjustments will allow local special education providers to plan for program expansion or contraction. Our field visits indicate that abrupt changes in a district's state aid result in expenditure decisions that may be detrimental to the program. In addition, unanticipated funding reductions have resulted in uncertainty about continued employment, which in turn was cited as a primary reason for low morale in some special education programs. Conversely, unanticipated revenues have prompted districts to purchase expensive equipment for which there was no clearly identified need.

In many cases, district officials, while acknowledging the problems with the current funding model, urged that no immediate changes be made. They stated that frequent and unanticipated changes in the funding provisions of special education hindered their ability to deliver an effective program. To these officials, a stable funding system, even a flawed one, is better than one in which funding levels are not predictable.

Consequently, implementation of a new funding model or revisions to the existing system should provide for gradual adjustments in a given district's entitlement to state aid.

• ***Eligibility Criteria.*** Any new special education funding model should include specific eligibility criteria to insure uniform provision of services and to regulate the number of students served. Without statewide eligibility criteria there is no way to determine the number of students that should be served and the level of funds needed to support the program. Total state funding requirements, in the absence of statewide criteria, are indirectly determined by the independent decisions of each school district to accept or deny potential special education students. To gain greater control over special education costs, statewide criteria should be adopted.

Chapter 1247, Statutes of 1977 (AB 1250), required the State Board of Education to develop and promulgate, by January 1, 1979, criteria to identify students in need of special education services. In July 1979, the SDE released a preliminary draft of eligibility criteria, but eventually withdrew it. In 1981, the Legislature once again adopted legislation (Ch 1094/81) requiring the State Board of Education to provide specific criteria for the identification of students with exceptional needs. The deadline for action by the State Board of Education was March 1982.

At the time this *Analysis* was prepared, statewide eligibility criteria for special education had been adopted by the board. These criteria, however, were being reviewed by the Office of Administrative Law and had not been promulgated. Until these criteria are approved by OAL, the state is without statewide eligibility criteria for special education.

• ***State and Local Cost Sharing.*** The current funding model provides for state and local cost sharing in the form of the Local General Fund Contribution (LGFC). In 1981–82, the LGFC accounted for $167.4 million, or 14 percent of the $1,237.9 million spent pursuant to the Master Plan.

Some form of state and local cost sharing should be maintained to encourage local cost control. The cost sharing arrangement, however, should be set at a fixed proportion of the total program cost, rather than as a fixed dollar amount. By fixing the LGFC at a set dollar level the current funding system fully insulates districts from the additional costs resulting from program expansion, and shares none of the cost savings with them when the program is reduced. Consequently, the system provides a fiscal incentive for program expansion and a fiscal penalty for program contraction.

If established as a fixed *proportion* of program costs, rather than as a fixed dollar amount, a cost sharing arrangement could eliminate the unintended fiscal incentives for program expansion and disincentives for program contraction, and encourage local cost control.

Another criticism of the LGFC as it is currently being implemented is that cost burdens are not distributed evenly across all districts. Our analysis indicates that in 1981–82, there were 118 districts with no LGFC and 642 districts with contributions ranging from $0.20 to $312.64 per ADA. Among those districts that had an LGFC, the average contribution per pupil was $44.05. In other words, 118 districts were not expected to contribute from their general fund to support their special education programs, while 642 districts were expected to contribute on average $44.05 per pupil from their general fund to support their programs.

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Cost-of-Living Adjustment. The budget proposes a 3 percent cost-of-living adjustment (COLA) for special education local assistance. This would be in lieu of the statutory COLA for special education program entitlements and regionalized services/program specialists. Existing law calls for the COLA for these components of the program to equal the inflation adjustment provided to revenue limits of unified districts with greater than 1,500 ADA. The Governor's Budget proposes a 6 percent inflation adjustment for these revenue limits for 1983–84.

- *Special Transportation.* The 1982 Budget Act and Ch 1201/82 (SB 1345) provided $80.3 million for reimbursement of special transportation claims in 1982–83. The budget proposes a 3 percent inflation adjustment to the funds made available for special transportation claims in 1982–83; consequently, $82.7 million would be available for reimbursement of special transportation costs in 1983–84.

Under current law, no COLA is required for special transportation. Instead, school districts and county offices are eligible to receive 80 percent and 100 percent, respectively, of approved transportation costs in the prior year. Approved transportation costs are expected to exceed the funds available for 1982–83. (Chapter 1201, Statutes of 1982, however, expressed legislative intent that any deficit in special transportation in 1982–83 not be funded.) Consequently, it is possible that the appropriation for the budget year will also be insufficient. SB 1345, however, placed restrictions on the types of pupils who are eligible to receive special transportation services, and will result in some cost savings. At the time this *Analysis* was prepared, however, no data was available on whether the cost savings from SB 1345 will be sufficient to reduce transportation entitlements to the 1983–84 appropriation.

- *Special Day Class Revenue Limit Contributions.* The Master Plan treats as an offset to a district's special education state aid entitlement applicable federal funds, county property taxes, the district's local general fund contribution, and district and county revenue limits for pupils in special day classes. The revenue limits for students in special day classes are deducted from the district's state aid entitlement because these pupils spend more than half of the school day in special education. For 1982–83, revenue limits for students in special day classes is expected to total $198.7 million—$157.5 million from district revenue limits and $41.2 million from county revenue limits. The budget anticipates a similar contribution in 1983–84.

Cost-of-Living Adjustment Overbudgeted

We recommend that the cost-of-living adjustment for special education local assistance be reduced by $10,683,000 because the budget fails to reflect the increase in funds that will result from the cost-of-living adjustment that the budget proposes for district and county office revenue limits. (Reduce Item 6100-226-001 by $10,683,000.)

The budget proposes that revenue limits for K–12 districts and county offices in 1983–84 be increased by 6 percent and 3 percent, respectively. These COLAs are applied to the per pupil revenue limit for each ADA, regardless of how the ADA is classified—regular education or special education. As a result, the COLAs proposed in the 1983–84 budget will provide an additional $10,683,000 as an offset to special education entitlements because the revenue limit contribution of students in special day classes will increase. The budget fails to reflect this offset. Consequently, state support for special education is overbudgeted, and should be reduced by $10,683,000. (This estimate assumes no change in special day class enrollments in 1983-84.)

Potential 1983-84 Special Education Funding Shortfall. The Department of Finance estimates that special education entitlements in 1983-84 will exceed the amount proposed in the budget (excluding funds for a cost-of-living adjustment (COLA)) by $10.4 million. In order to fund special education entitlements in full, the department proposes to provide $36.2 million as a COLA for special education entitlements (Item 6100-226-001), recognizing that only $25.9 million is needed to fund this COLA. Thus, it is Finance's intent that the amount overbudgeted for the COLA be applied to the estimated shortfall in the special education appropriation.

This leaves the Legislature with three options:

- Provide an additional $10.4 million in Item 6100-161-001 to fund special education local entitlements to the estimated level required.
- Allow $10.4 million of the amount overbudgeted in Item 6100-226-001 to cover the estimated shortfall for special education apportionments, and reduce this item by $300,000.
- Delete $10.7 million in the COLA item and provide no additional funds for special education apportionments.

At the time this analysis was prepared, no reliable data existed that could be used to prepare estimates of special education funding segments in 1983-84. The department's estimates were derived from data on 1981-82 program requirements, and may not be accurate. A more accurate estimate of funding requirements will become available when school districts submit reports on their 1982-83 special education program to the Department of Education in February 1983. This data should allow the Department of Finance and SDE to provide a more reliable estimate of the total program requirements for 1983-84.

Until a more reliable basis for projecting a shortfall in 1983-84 exists, we recommend that the proposed special education appropriation not be augmented.

b. Clearinghouse Depository for Handicapped Students (In Item 6100-001-001)

We recommend approval.

In 1963, the Legislature established the Clearinghouse Depository for Handicapped Students (CDHS). The CDHS acts as a central clearinghouse for specialized textbooks, reference books, recorded material, and other aids and equipment for use by handicapped students. The CDHS identifies for school districts, nonpublic schools, and colleges sources of these materials for purchase or loan. In addition, the clearinghouse produces recorded books to be loaned to schools, nonpublic schools, and colleges through the state.

Under current law, equipment and materials purchased by districts with state or federal funds are the property of the state. It is the responsibility of the CDHS to reassign these materials as the needs among the districts change.

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Prior to 1982, no state funds had been appropriated to CDHS for the direct purchase of materials and equipment. Instead, state funding was provided for the operation of the clearinghouse only. CDHS, however, does receive federal funds for the purchase of materials and equipment for the visually handicapped through the Federal Quota Program of the American Printing House for the Blind. The CDHS conducts annual counts of the visually handicapped students to determine the state's share of funds under the Federal Quota Program.

In the 1982 Budget Act, $850,000 was provided to CDHS for the purchase of equipment and materials for the visually handicapped. To date, CDHS has received about 500 requests totaling approximately $3.0 million for the purchase of such equipment and materials.

Transfer of Funds for Equipment Purchases. The Legislature, in the 1982 Budget Act, transferred $850,000 from county offices of education to the Clearinghouse Depository for Handicapped Children. The $850,000 made available to CDHS was to be expended on the purchase of equipment for visually handicapped children. The 1983–84 budget does not propose to continue this transfer of funds.

Our field visits do not indicate that there is a particular shortage of equipment for the visually handicapped. Furthermore, our analysis indicates that additional funding for equipment is not justified because funding for equipment purchases is provided through support services reimbursement in the MPSE.

c. Unfunded Legislation—Chapter 1201, Statutes of 1982 (SB 1345).

The Governor's Budget identifies SB 1345 (Ch 1201/82)—the most recent special education reform measure—as unfunded legislation enacted in the 1981–82 session. The budget states that this measure carries an unknown cost, but requests no funding to cover these costs.

Our analysis indicates that SB 1345 should yield cost savings to local special education providers because of some mandate reductions and a reduction in state entitlements of $11.7 million because of three formula changes. Consequently, we do not agree that SB 1345 should be characterized as "unfunded" legislation.

d. Federal Public Law 94-142 (Item 6100-161-890)

In November 1975, Congress adopted the Education for All Handicapped Children Act (PL 94-142). This measure established the concept of "free appropriate public education", and required that all handicapped individuals age 3 to 21 years be served by September 1980. The Congress also appropriated federal funds to states and local education agencies to assist in the implementation of special education programs.

The Governor's Budget estimates that California's PL 94-142 award for 1983–84 will be $86.5 million—the same amount as in 1982–83. Of this amount, the department proposes to allocate $71.1 million for local assistance, $9.9 million for state discretionary programs and $5.5 million for state administration. Under the provisions of Ch 797/80 (SB 1870), all federal PL 94-142 funds disbursed as local assistance are used as an offset against state special education costs. Funds received by districts through the state discretionary programs, however, do not offset state costs. Consequently, any reduction in the $71.1 million budgeted for local assistance would result in a deficit in special education funding for 1983–84.

Two types of pre-Kindergarten programs are supported with Federal

Public Law 94-142 funds—one for infants under three years and one for children 3 years to 4 years 11 months.

PL 94-142 requires the state to provide special education to students age 3 to 21 years old. While each school district within the state is not required to actually *offer* a program for preschool children (age 3 to 4 years 11 months), each district must insure that such services are available to children requiring them. Provision of services to handicapped infants (under 3 years), however, is permissive under federal law.

Prior to September 1981, California State law left to school districts the decision of whether to provide services to handicapped infants. Chapter 1094, Statutes of 1981 (SB 769), however, requires all districts offering infant programs in 1980–81 to continue to offer them annually thereafter.

Preschool Incentive Grant Program (3 years to 4 years 11 months). In December 1981, there were 17,328 handicapped children enrolled in 248 preschool programs in 138 districts and county offices statewide. Children in these programs receive instruction in speech development, motor coordination, feeding techniques, and other developmental/educational interventions. Some districts also offer education programs for parents to help them assess their child's progress and provide home instruction.

Funding for preschool programs for handicapped children is provided through the Master Plan for Special Education and from federal Preschool Incentive Grants. Master Plan apportionments for preschool classroom units are distributed by formula with funds for the K–12 program, while funds provided by the federal Preschool Incentive Grant program are disbursed by competitive grants reviewed by the State Department of Education (SDE). Districts must submit a grant application to SDE along with a proposal outlining the use of these funds. SDE staff evaluate the proposals and award grants based upon the proposals. For 1982–83, the state will allocate approximately $2.0 million for preschool incentive grants.

Infant Programs (under 3 years). The state currently serves approximately 2,200 handicapped infants in 67 school district and county office programs statewide. These children receive special education and related services through both home-based and center-based programs.

Infant programs operated by districts or county offices are *not* available statewide. Under current law, school districts that operated a program in 1980–81 are required to continue operating the program each year thereafter, unless the program is tranferred to another entity. School districts that did not offer an infant program in 1980–81 are not required to establish one or to insure that services are available to district residents. A district may, however, establish a program at its own discretion. Parents of handicapped infants living in districts without an infant program usually are referred for services to other districts or to regional centers operated by the Department of Developmental Services.

School districts receive both state and federal funds to support their infant programs. State funds are received through the Master Plan for Special Education, while federal funds are provided through the state discretionary programs component of the PL 94-142 grant. These funds, unlike PL 94-142 funds provided as local assistance, are awarded on a competitive grant basis. Approximately $2.1 million is available for allocation for these programs in 1982–83.

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Allocation of Federal Funds

We recommend that the Legislature adopt supplemental language directing the Department of Education to allocate Preschool Incentive Grants and federal PL 94-142 funds for infant programs on a per capita basis according to the number of children enrolled in each program in the prior year. We further recommend that one special education consultant position responsible for grant reviews be deleted and the $71,000 in federal funds budgeted to support the position be redirected to local assistance, because a consultant will not be needed to review grant applications. (Reduce Item 6100-001-890 by $71,000 and increase Item 6100-161-890 by $71,000.)

In 1982–83, California will receive approximately $2.0 million in federal funds for the Preschool Incentive Grant program, and will set aside $2.1 million in PL 94-142 funds for infant programs. SDE staff will review approximately 130 grant applications and make approximately 120 awards for the two programs. Grant awards for preschool programs are based on (1) the degree to which the program encourages mainstreaming of handicapped preschoolers, (2) the presence of interagency agreements with other service providers, and (3) the unmet need in the district. In evaluating infant program grant applications, SDE staff look for (1) parent education programs and (2) home-based programs.

Our analysis indicates that awarding funds on a competitive grant basis is unnecessary and inefficient. Both state and federal law, require that all children age 3 years to 4 years 11 months be served. Consequently, there is no reason to award funds for such services through a competitive process. Currently, most grant recipients receive at least 90 percent of their prior year award if they apply for funds.

Similarly, most districts that apply for PL 94-142 infant funds are mandated by SB 769 to operate an infant program.

In addition, awarding funds on a competitive grant basis requires considerable staff time and paperwork at both the district and state level. District staff must spend time developing proposals. SDE staff must, in turn, be assigned to evaluate these proposals. In both cases, funds that could be used to finance services to children must be used for administration. Because most preschool and infant programs are ongoing, this should not be necessary.

In addition, school district officials have indicated that provision of funds on a competitive grant basis makes budgeting for the upcoming year more difficult. Because grant awards may be less than the amount budgeted, business managers must adjust district spending accordingly. In some cases notice of the grant award may arrive so late as to make budget adjustments difficult. Provision of preschool funds based on the prior-year count of children in the program would minimize the funding uncertainty districts currently face.

Because (1) both federal and state law mandate the provision of special education services to preschool children and infants living in specified districts, (2) most infant and preschool programs are ongoing and do not change significantly from year to year, (3) the development of grant proposals at the district level and the evaluation of these proposals by SDE staff require considerable staff time and paperwork thereby diverting funds away from services to children, and (4) the provision of funds on a competitive grant basis makes budgeting more difficult, we recommend that the following supplemental language be adopted to replace the competitive grant process with a per-capita allocation system:

"The Department of Education shall allocate Preschool Incentive Grants and federal PL 94-142 funds for infant programs to school districts on a per capita basis, according to the number of children enrolled in each program in the prior year."

State Administration. Two professional positions are authorized to evaluate the grant proposals and provide technical assistance to school districts operating preschool or infant programs. These positions are supported with federal funds.

Consistent with our recommendation to replace the competitive grant allocation process, we recommend that one special education consultant position be deleted in recognition of the reduced workload associated with the per capita distribution of federal funds. We further recommend that the $71,000 in salary and benefit savings be made available for local assistance in the preschool and infant programs.

Special Education Resource Network (SERN)

We recommend that the Legislature adopt supplemental language directing the Department of Education to report by December 1, 1983, to the legislative budget committees on the feasibility and potential cost savings of consolidating the Special Education Resource Network (SERN) with the existing Teachers' Education and Computer (TEC) centers.

Federal Law PL 94-142 requires each state to maintain a comprehensive system of personnel development. This law requires (1) the provision of in-service training to both general and special education personnel, (2) an annual needs assessment and evaluation, and (3) the provision of technical assistance to local education agencies. In California, this mandate is met through the Special Education Resource Network (SERN).

The SERN is organized into nine regional training units that provide in-service training and personnel development programs to school districts. These programs are designed to meet the individual needs of each district, and are offered at no charge. In addition, SERN maintains five specialized service groups which offer in-depth training resources for (1) the severely handicapped, (2) parents, (3) infants and preschool children, (4) assessments, and (5) resource development and dissemination. In 1982–83, SERN is budgeted to receive approximately $3.6 million in federal funds and $350,000 in General Fund support. Support for SERN in 1983–84 is expected to be maintained at the 1982–83 level.

The state also funds Teacher Education and Computer (TEC) centers which provide in-service training and assistance to school districts. As discussed previously, there are 15 TEC centers which offer staff development services on a regional basis. Although these services emphasize training in the areas of mathematics, science, and computer education, each TEC center is required to administer grants for general staff development under the School Personnel and Staff Development program, and conduct a staff development needs assessment in its region. The TEC centers are budgeted to receive $6.3 million in General Fund support through the proposed State Educational Block Grant in 1983–84.

Because both SERN and TEC centers are responsible for (1) providing staff development and in-service training to school districts and (2) conduct needs assessments on a regional basis, we recommend that the SDE

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explore the feasibility and potential cost savings of consolidating the two programs. Though SERN is designed specifically for those working with the handicapped, and TEC centers emphasize mathematics, science, and computer education, both provide programs for personnel development. Teachers and administrators will most likely take advantage of both programs over the course of their careers, and a consolidation of these centers may result in significant economies for both school district and SDE staff.

To implement this recommendation the Legislature should adopt the following supplemental language:

"The Department of Education shall submit a report by December 1, 1983 to the legislative budget committees. The report shall explore feasibility and potential cost savings of consolidating the Special Education Resource Network with the Teacher Education Computer centers."

We note that the budget proposes to fund TEC centers through a State Educational Block Grant. The administration, however, has not specified how these funds will be allocated to the districts, nor has it specified how TEC centers are to be funded by the districts. If the TEC center network is altered significantly as a result of block grant funding, consolidation of SERN and TEC centers may not be feasible.

State Special Schools (Item 6100-006-001)

The state operates six special schools for handicapped children. These schools offer both residential and nonresidential programs for students who are deaf, blind, neurologically handicapped, and multihandicapped. Only those students who cannot receive an appropriate education in their district of residence are eligible for admission to a special school. In 1983–84, these schools will serve approximately 1,080 students who are deaf and 120 students who are blind. In addition, approximately 390 students with neurological handicaps will receive diagnostic assessment services.

Table 40 displays the enrollment and cost per full-time equivalent (FTE) for the two schools for the deaf and the school for the blind.

Table 40
Enrollment and Cost Per Student In Special Schools[a]

	Actual 1981–82		*Estimated 1982–83*		*Proposed 1983–84*	
	FTE Enrollment	*Cost Per Student*	*FTE Enrollment*	*Cost Per Student*	*FTE Enrollment*	*Cost Per Student*
School for the Blind, Fremont	112	$28,000	110	$30,000	120	$29,000
School for the Deaf, Fremont	567	17,000	569	17,000	560	19,000
School for the Deaf, Riverside	523	18,000	525	19,000	520	20,000

The budget proposes an appropriation of $35,445,000 for the state special schools (see Table 36 in 1983–84). This is an increase of $1,502,000 (4.4 percent) above the current-year level. The significant changes reflected in this increase are: (1) a $764,000 increase to restore funding for the employer's contributions to PERS on behalf of special school employees, (2) a $232,000 increase for required employee compensation benefits, (3) a $231,000 increase for merit salary adjustments, and (4) a $228,000 increase to offset the effects of inflation on the amount budgeted for operating expenses and equipment. Our review indicates that these increases are justified.

Diagnostic Schools for the Neurologically Handicapped.

The state operates three diagnostic schools for the neurologically handicapped. These schools are located in San Francisco, Fresno, and Los Angeles, and serve the northern, central, and southern regions of the state, respectively. The diagnostic schools are responsible for providing assessment services to school districts and county offices of education for students who cannot be properly assessed at the local level. In general, these students have multiple handicaps and some form of neurological disorder. Local efforts to properly assess the student must be exhausted before a referral to a diagnostic school can be made.

Once approved for an assessment, the student, along with the parent or guardian, is scheduled for a five-day visit to the school. There is no fee for the assessment, and the parent and child are housed free-of-charge in a dormitory facility at the school. The assessment usually includes a physical, audio and visual perception tests, tests for motor coordination, and psychological profile, and other neurological tests. Parents are required to observe the testing process, and are informed of the test results.

At the conclusion of the five day assessment, the team of professionals meets and prepares a detailed "work-up" on the student. This work-up includes all of the significant findings of the team, and offers recommendations and program options for the district special education staff.

In approximately one-third of the cases, the diagnostic school staff has found that the five-day assessment did not provide sufficient information from which to draw reliable conclusions. Under these circumstances, the staff may recommend to the parents and the school district that the student be assigned to the diagnostic school for an extended assessment. Extended assessments include an academic program as well as additional tests, and students are required to remain in residence. The extended assessment usually lasts between three months and one year.

Cost Review Needed

We recommend that the Legislature adopt supplemental language directing the Department of Education to submit a report to the legislative budget committees by December 1, 1983, on the feasibility of contracting for assessment services for students with neurological disorders.

Our review indicates that between 1978–79 and 1981–82, 1,526 students received a five-day assessment from one of the three diagnostic schools. Of these students, 502 were enrolled for extended assessments. The Budget Act appropriations for the schools over this period totaled $20,472,111. Assuming that the costs incurred for those students who underwent extended assessments is comparable to the cost of residential placements at the two schools for the deaf, we estimate that the state has spent $8,300 for each five-day assessment over the four-year period, excluding extended assessment residential costs.

Although this cost is significant, SDE has not evaluated whether other diagnostic institutions such as private hospitals or medical centers and clinics could provide comparable diagnostic services at less cost. For this reason, we recommend that the Legislature direct SDE to prepare a report by December 1, 1983, which explores the feasibility of securing comparable assessment services from public and private hospitals, medical centers and clinics, and other diagnostic institutions. The report should

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address (1) the availability of such services on a statewide basis, (2) the cost of comparable services, and (3) the cost of comparable services which include residential care. To implement this recommendation, we suggest that the Legislature adopt the following supplemental language:

"The Department of Education shall submit a report by December 1, 1983, to the legislative budget committees which explores the feasibility of securing assessment services, comparable to those provided by the diagnostic schools, from public and private hospitals, medical centers and clinics, and other diagnostic institutions. The report shall address (1) the availability of such services on a statewide basis, (2) the per-pupil cost of comparable services, and (3) the cost of comparable services which include residential care."

5. Child Care, Child Nutrition, and Surplus Property

The child care, child nutrition, and surplus property programs comprise the Department of Education's Division of Child Development and Nutrition Services. Table 41 shows the expenditures and funding for these programs.

Table 41

Child Care, Child Nutrition, and Surplus [a] Property Expenditures and Funding (in thousands)

	Actual 1981-82	*Estimated 1982-83*	*Proposed 1983-84*	*Change* Amount	Percent
State Operations:					
Child Care	$5,296	$4,726	$4,943	$217	4.6%
Child Nutrition	5,497	6,488	6,703	215	3.3
Surplus property	11,459 [a]	25,225	26,363	1,138	4.5
Subtotals	$22,252 [a]	$36,439	$38,009	$1,570	4.3%
Local Assistance:					
Child Care	$250,731	$251,013	$257,049	$6,036	2.4%
Child Nutrition	321,085	322,766	323,549	783	.2
Subtotals	$571,816	$573,779	$580,598	$6,819	1.2%
Totals	$594,068	$610,218	$618,607	$8,389	1.4%
General Fund	$279,132	$280,690	$288,334	$7,644	2.7%
Federal Funds	302,552	303,742	303,910	168	—
Surplus Property Revolving Fund	11,417	25,200	26,337	1,137	4.5
Reimbursements	593	25	26	1	4.0
Special Account for Capital Outlay	374	561	—	−561	−100.0

[a] Includes $937,000 which was shown as local assistance in 1981-82.

a. Surplus Property (Item 6100-001-680)

The state's surplus property program processes and distributes federally donated hardware and food commodities to eligible California public and private nonprofit agencies. The budget estimates that the fair market value of distributed hardware and food commodities will be approximately $100 million in 1983-84. This program is entirely self-supporting, because processing and handling charges are assessed to local agencies which receive the surplus properties.

For 1983-84, the budget proposes aggregate expenditures of $26,363,000 under the surplus property program—an increase of $1,138,000, or 4.5 percent, above estimated 1982–83 expenditures. This increase will grow by the amount of any salary or benefit increase approved for the budget year. Table 42 shows the Office of Surplus Property's expenditures and funding for the past, current, and budget years.

Table 42
Office of Surplus Property
Budget Summary
(dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
State Operations	$10,522	$25,225	$26,363	$1,138	4.5%
Local Assistance	937	—	—	—	—
Totals	$11,459	$25,225	$26,363	$1,138	4.5%
Surplus Property Revolving Fund	$11,417	$25,200	$26,337	$1,137	4.5%
Reimbursements	19	25	26	1	4.0
Federal Trust Fund	23	—	—	—	—
Person-years	141	164.5	164.5	—	—

Inaccurate Budget Display

We recommend that the Department of Finance submit prior to the budget hearings, a more accurate budget request for the Office of Surplus Property (OSP).

The Governor's Budget requests an appropriation of $26,363,000 to support the operations of OSP in 1983–84. Table 43, however, shows that while the Legislature has, on average, appropriated $29.5 million for support of OSP's operations for the past three fiscal years, OSP has only expended $12.3 million (42 percent) of the amount appropriated.

Table 43
Comparison of Amount Appropriated to Amount Spent
Surplus Property Revolving Fund
Office of Surplus Property
1979–80 to 1981–82
(in thousands)

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Three-Year Average*
Adjusted budget authorization [a]	$29,361	$34,404	$24,732	$29,499
Actual expenditures	15,076	10,535	11,417	12,343
Expenditure percent of budget authorization	51%	31%	46%	42%

[a] Includes budget authorization provided in separate appropriations for employee compensation and for price increases, and includes legislatively mandated travel expenditure reductions.

The department indicates that the expenditure shortfall occurs because revenues and expenditures are purposely overbudgeted to reflect the maximum revenue and expenditure level which OSP could possibly realize during a given fiscal year.

Because the budget year expenditure request of $26.0 million represents 214 percent of the average actual expenditures for OSP during the past three years, we conclude that the proposed appropriation for OSP is again significantly overbudgeted. Therefore, the budget display has little, if any, informational value to the Legislature for the budgetary process.

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Accordingly we recommend that the Department of Finance submit prior to the budget hearings, a more accurate budget request for the Office of Surplus Property.

Excess Reserves

We recommend that the Legislature adopt supplemental language directing that $3.9 million of excess reserves in the Surplus Property Revolving Fund be refunded to recipient agencies through lower service and handling charges.

The budget indicates that OSP's actual 1981–82 expenditures from the Surplus Property Revolving Fund were $11.4 million during the past fiscal year. The State Controller indicates that this fund had an ending cash balance of approximately $10.0 million as of June 30, 1982. Consequently, at the end of 1981–82, OSP had a reserve almost equal to its annual operating costs.

There are valid reasons for OSP to maintain a reserve—the United States Department of Agriculture requires an operating reserve equal to six months' revenues for its commodities program ($4.7 million), and reserves are needed to fund various capital outlay projects such as the Sacramento and Fullerton warehouse remodeling projects (approximately $1.4 million). These requirements, however, do not justify the $10.0 million ending cash balance in this fund. We, therefore, conclude that local agencies should have refunded to them $3.9 million in excess service and handling charges, so as to bring reserves down to a more reasonable level. To accomplish this, we recommend that the Legislature adopt the following supplemental language directing the department to reduce service and handling charges to recipient agencies by $3.9 million during the budget year:

> "The Office of Surplus Property shall reduce its service and handling charges during 1983–84 such that $3.9 million of excess reserves in the Surplus Property Revolving Fund are refunded to recipient agencies of surplus commodities and personal property."

Fullerton Warehouse

We recommend that the Department of Education submit the Southern California warehouse remodeling project to the Legislature for funding consideration in the 1983–84 budget.

The Department of Education indicates that it is curently proceeding with a plan to lease and remodel new warehouse space in Fullerton, in order to provide 60,000 square feet of cool storage. The estimated cost of the remodeling, which is being undertaken in response to a report of the State Logistics and Material Management Unit (SLAMM) of the Deparment of General Services, is $682,000.

A facility has already been selected for lease as of this writing, and the Office of Surplus Property hopes to occupy it by May 1, 1983. The department indicates that a proposal will be submitted to the Department of Finance, in accordance with Section 28 of the Budget Act, requesting authorization to expend $682,000 from the Surplus Property Revolving Fund for the proposed remodeling.

Section 28 of the 1982 Budget Act, which allows the Director of Finance to approve expenditures for new programs not identified in the Governor's Budget, essentially was enacted to provide flexibility to the executive branch to expend funds when the Legislature was not in session—subject to prior notification to the fiscal committees and the Joint Legislative Budget Committee. This project, however, would not seem to be of the type contemplated by Section 28. The project has no special urgency, and would seem to warrant legislative review of the type generally given to capital outlay projects.

For this reason, we recommend that this project be submitted to the Legislature for approval through the normal budgetary process, rather than through the Section 28 process.

Sacramento Warehouse

We recommend that the proposed appropriation for the Office of Surplus Property be reduced by $264,700 to reflect cost savings resulting from the conversion of existing warehouse space to cool storage. (Reduce Item 6100-001-680 by $264,700).

On July 20, 1982, the Department of Education requested that the Department of Finance, through the Section 28 process, approve the expenditure of $605,000 from the Surplus Property Revolving Fund to (1) convert 40,000 square feet of warehouse space at the Sacramento textbook facility to cool storage, and (2) construct a railroad spur to that facility. The Office of Surplus Property (OSP) estimated the construction of this project would (1) reduce storage costs substantially, (2) eliminate the cost of transporting commodities from a railroad spur to the textbook warehouse, and (3) eliminate the costs associated with the unloading of railroad cars and trucks at commercial cool storage facilities.

The Director approved that application because of the significant operating cost savings which would accrue to the program as a result of these modifications. These savings originally were estimated at $335,000, and have since been revised to $353,000 per year. The budget, however, does not reflect any savings from this project in the OSP budget.

The State Architect has indicated that this project will be completed by September 1983. Consequently, nine months worth of savings should be realized in the budget year. Accordingly, we recommend that the proposed appropriation for the Office of Surplus Property be reduced by $264,700, to reflect the anticipated savings from the conversion of existing warehouse space to cool storage.

SLAMM Report

We recommend that the Department of Education report prior to the budget hearings, the estimated net savings which will result from its implementation of each of the recommendations in a recent SLAMM report prepared per legislative directive.

The Department of Finance (DOF), in its August 1981 review of the Surplus Commodity program, recommended that the Office of Surplus Property (OSP) obtain the assistance of the Department of General Services' State Logistics and Material Management Unit (SLAMM) to review its inventory control system, and to analyze the cost-effectiveness of obtaining additional warehouse locations closer to population centers. The DOF report indicated that these measures could result in cost savings to the program, which in turn would result in lower service and handling charges to local agencies which purchase the surplus property.

Recognizing the possibility that savings could result from this review, the Legislature adopted language in the *Supplemental Report to the 1982 Budget Act* directing the Department of Education to submit a report

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indicating the actions it plans to take in response to the recommendations made by the SLAMM unit, and the estimated costs and savings which would result from the implementation of each recommendation.

The SLAMM report was completed July 1982, and the department's response was completed November 1982. The department's response, however, contains estimates of the dollar savings associated with only two of the 10 recommendations contained in the report. Two of the remaining recommendations are expected to result in improved management of hardware inventory and in recovery of delivery costs. No savings estimate, however, has been formulated for the other six recommendations.

For example, one recommendation stated that OSP should attempt to have state trucks return loaded after delivering surplus food commodity merchandise. The OSP indicated that in order to implement the recommendation, an agreement was reached with the United States Department of Agriculture (USDA) in November 1982, whereby OSP trucks would transport some federally donated food commodities on their return trips. In return, USDA would grant OSP transportation credits which would result in savings to the state.

This agreement is already being implemented. The OSP, however, maintains that the amount of savings will not be known until July 1, 1983. It would seem that the OSP should have *some* estimate of the savings to be realized. Otherwise, it is not clear why OSP implemented this recommendation. Similarly, OSP should be able to provide some estimate of the savings which will result from the implementation of each of the other SLAMM report recommendations, especially since steps have already been taken to establish some of them in order to obtain future savings.

Accordingly, we conclude that the department's response to the SLAMM report does not fully comply with the Legislature's directive. We therefore recommend that prior to the budget hearings the department provide the fiscal committees with an estimate of the net savings which will result from implementing *each* of the recommendations made in the SLAMM report.

Shipping Rates

We recommend that the budget for the Office of Surplus Property (OSP) be reduced by $137,523, to reflect anticipated savings in commercial shipping costs associated with the state's exemption from minimum Public Utilities Commission mandated shipping rates. (Reduce Item 6100-001-680 by $137,523).

The SLAMM report also recommended that the office take advantage of the Public Utilities Commission's (PUC) statement that commercial carriers may charge the State of California shipping rates less than the mandated minimum rate established by the PUC. The report further recommended that OSP negotiate with commercial carriers to obtain these favorable rates, and estimated that OSP could save as much as 10 percent ($137,523) of its private shipping costs annually.

OSP indicates that the implementation and operational *costs* associated with this recommendation are negligible, and that the recommendation was implemented in July 1982 for commercial carriers used in its distribution system. The office further indicates that the *savings* estimated by the SLAMM unit—10 percent of commercial carrier costs—appear to be valid.

These savings, however, have not been reflected in OSP's baseline budget for 1983–84. Therefore, we recommend that the proposed appropriation for OSP be reduced by $137,523 to reflect the anticipated savings in commercial shipping costs expected in the budget year.

Data Processing

We recommend that prior to the budget hearings, the Department of Education report the estimated personnel savings which will result from the implementation of a new data processing system in the Division of Child Development and Nutrition Services.

The Division of Child Development and Nutrition Services—which includes the Office of Surplus Property (OSP), the Office of Child Development (OCD), and the Office of Child Nutrition Services (OCNS), is continuing to automate many of its manual procedures through the development and implementation of new data processing systems, which include the Program Management Information System (PROMIS), the Compliance Assessment, Improvement and Monitoring Information System (AIMS), and elements of the California State Accounting and Reporting System (CALSTARS).

This data processing project was implemented because the three offices within the division deal with many of the same local agencies, and use similar techniques and tools to ensure compliance with the same or closely related regulations.

Based on the original feasibility study report for the PROMIS system, we calculated that to reflect the reduced personnel needs of the office as a result of the new data processing system, 9.5 positions within the Office of Surplus Property could be deleted for a $282,300 savings to the Surplus Property Revolving Fund.

The PROMIS system was later redesigned to reflect the emergence of the CALSTARS accounting system and the AIMS system (which provided most of the capabilities of the original PROMIS system at a reduced development cost). Consequently, in light of the operational delays resulting from the redesign, the Legislature adopted supplemental language directing the Department of Finance, the Legislative Analyst's Office, and the State Department of Education to review the staffing of the Office of Surplus Property to determine if the number of authorized personnel-years identified in the original feasibility study should be reduced as a result of implementing the redesigned data processing system.

The latest quarterly progress report for the PROMIS system indicates that implementation of that system in the OSP should be complete by July 31, 1983. Furthermore, the Feasibility Study Report for the AIMS system indicates that it should have been operational by August 1982. Due to unanticipated delays, however, and the equipment procurement freeze imposed by the previous administration, the completion date for the AIMS systems has been slipped to January 31, 1983. Because a revised feasibility study report has not been prepared to reflect the redesigned integrated data processing system, it is not possible for our office or the Department of Finance to conduct the specified review of OSP staffing for possible cost savings.

The cost of compliance procedures within OSP, OCD, and OCNS are estimated to be $4 million annually, and we therefore believe that significant cost savings above those necessary to pay for the operating costs of the new data processing system are possible within *all three* offices, rather than just within OSP. Consequently, we recommend that the Department of Education report prior to the budget hearings, the estimated personnel

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savings which will result from the implementation of the new data processing system for the entire Child Development and Nutrition Services Division, and that the savings be identified separately for the Office of Surplus Property, the Office of Child Development, and the Office of Child Nutrition Services.

b. Child Care Programs (Items 6100-196-001 and 6100-196-890).

The Child Care Program's major goals are to (1) provide a comprehensive, coordinated, and cost-effective system of child care and development services, (2) enhance the educational performance and cognitive development of participating children, (3) assist families in becoming self-sufficient by enabling parents to work or receive employment training, and (4) provide families with a full range of child care and development services in the areas of education, supervision, health, nutrition, social services, parent participation, and parent education.

Funding. Table 44 summarizes state and federal funding for child care services in the prior, current, and budget years.

Table 44
Child Care Services
Expenditures and Funding
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change* Amount	Percent
Local Assistance:					
Center Program-Public	$120,130	$124,428	$128,161	$3,733	3.0%
Center Program-Private	39,002	36,582	37,679	1,097	3.0
Center Program-Title 22 [a]	8,709	8,472	8,726	254	3.0
Family Child Care Homes [a]	5,629	5,175	5,330	155	3.0
County Child Care Services	5,974	5,571	5,738	167	3.0
Campus Children's Centers	5,205	5,224	5,381	157	3.0
High School Age Parenting	4,166	4,171	4,296	125	3.0
Migrant Day Care	7,409	7,613	7,784 [c]	171	2.2
Special Allowance for Rent	363	366	377	11	3.0
Special Allowance for Handicapped	587	614	632	18	3.0
Alternative Payment Program [a]	13,816	13,647	14,056	409	3.0
Resource & Referral [a]	4,752	4,822	4,967	145	3.0
Campus Child Care Tax Bailout	3,477	3,477	3,581	104	3.0
Indochinese Refugee Assistance	493	—	—	—	—
Children With Special Needs	603	—	—	—	—
Child Care Capital Outlay (carryover)	352	510	—	−510	−100.0
Subtotals	$220,667	$220,672	$226,708	$6,036	2.7%
State Operations	$4,749	$4,268	$4,457	$189	4.4%
Totals	$225,416	$224,940	$231,165	$6,225	2.8%
General Fund	*$222,751*	*$222,422*	*$229,208*	*$6,786*	*3.1%*
Federal Funds [b]	*2,291*	*1,957*	*1,957*	—	—
Other Funds	*374*	*561*	—	*−561*	*−100.0*

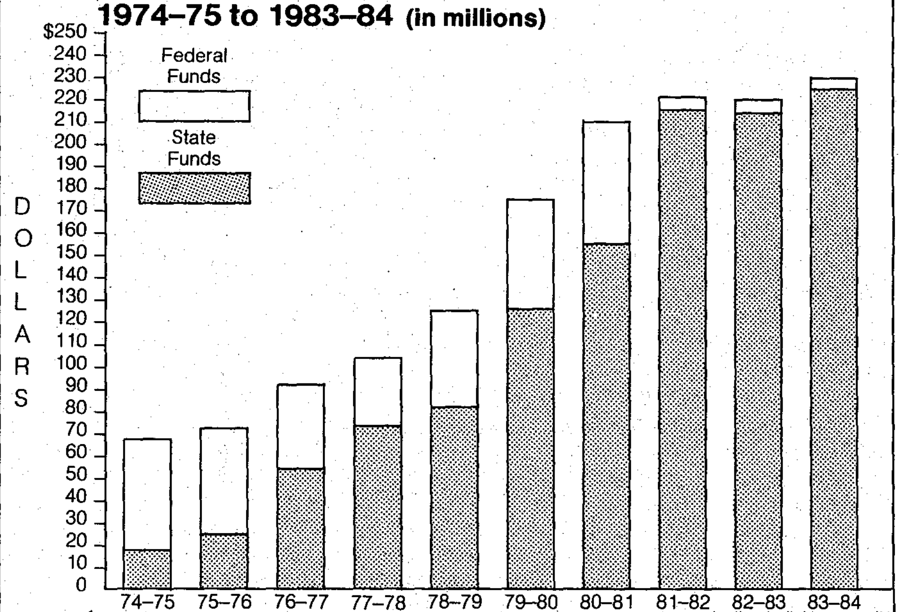
[a] Formerly included under Alternative Child Care Programs.
[b] Includes reimbursements.
[c] Includes $1,957 of federal funds and $5,827 of state funds.

The budget proposes a funding level of $226,708,000 for child care local assistance—an increase of $6,036,000 over estimated current-year expenditures—and $4,457,000 for state operations (an increase of $189,000) in 1983–84. The increases primarily reflect:

- An increase of $6.5 million (3 percent) in the form of a cost-of-living adjustment to offset the effects of inflation on local assistance payments.
- A decrease of $.5 million in one-time capital outlay funds carried over into the current year which will not be available in 1983–84.

As shown in Chart 4, the level of local assistance proposed in the budget is 231 percent above the 1974–75 expenditure level. This reflects an average yearly compounded rate of increase in child care funding equal to 14 percent.

Chart 4
Child Care Local Assistance 1974–75 to 1983–84 (in millions)



[1] Includes a 3 percent cost of living adjustment.

Participation. Table 45 summarizes the scope of SDE child care services for 1982–83. The table shows that 597 agencies will provide service to an estimated 142,947 children in the current year.

Cashflow System Improvements. A survey of local child care providers during 1981–82 by the Advisory Committee on Child Development Programs indicated that 31 percent of the respondents noted that their July and August apportionments were either late or inadequate. Many of them claimed that payments for July and August were received three or more months behind schedule.

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Table 45

Child Development Services
Estimated Number of Agencies, Sites, and Children
1982-83

Programs	*Agencies*	*Sites*	*Children*
Center Program-Public	111	508	69,889
Center Program-Private	192	283	24,955
Center Program-Title 22	69	85	6,172
Family Child Care Homes	33	4	3,325
County Child Care Services	34	1	10,917
Campus Children's Centers	50	75	6,492
High School Age Parenting	49	65	2,222
Migrant Day Care	22	50	7,482
Alternative Payment Program	37	—	11,493
Totals	597	1,071	142,947

Agencies which were not affiliated with school districts or some other large organization indicated that late payments had serious consequences for their programs because they could not borrow from a parent agency to pay their bills until the July and August local assistant payments were received. Department staff indicated that a new data processing system and a new procedure for processing local assistance agreements would significantly mitigate the July/August payment cashflow problem experienced by many providers.

An informal survey of child care providers conducted by our office indicates that agencies received their July local assistance payment on time this year. Migrant child care agencies, however, continue to report instances of receiving their August payment in October (two months later) which results in major cash flow problems to these agencies.

Inadequate Response to Supplemental Language on Consortia and Employer Sponsored Child Care. The Legislature included language in the *Supplemental Report on the 1982 Budget Act* pertaining to consortia, budget revisions, employer sponsored child care, and the child care fee schedule. The Department of Education (SDE) has complied with the language regarding the budget revisions and the fee schedule. In our judgment, however, it has not complied adequately with the language regarding consortia and employer-sponsored child care.

• ***Consortia.*** The Legislature adopted supplemental language which directed the Department of Education to plan and establish consortia activities throughout the state. These activities were required to involve all child care providers under contract with the SDE who wish to participate, and are to include regularly scheduled meetings and the dissemination of management and program assistance to consortia attendees.

During the budget hearings, we recommended the establishment of consortia because some local child care agencies indicated difficulty in establishing contact with either the Office of Child Development or their consultants. These consortia would provide agencies with opportunities for resolving questions and obtaining meaningful management assistance to solve their operating problems. Consortias were intended as a means to insure that these agencies received this assistance, and to promote the establishment of self-help networks among providers to facilitate the sharing of information and management expertise among themselves.

SDE submitted a report to the Legislature which describes the consortia activities they plan to conduct in the current year to fulfill the legislative directive. SDE basically has established one consortia for each child care program type, and has assigned an office of child development administrator to assist each one.

The report indicates however, that each consortia will hold only one meeting per fiscal year. It is doubtful that this minimal level of activity will lead to any significant mitigation of the problems which led us to make our initial recommendation that consortia be established.

The department should be prepared to comment during the budget hearings on what one consortia meeting per year can be expected to accomplish.

• *Employer-Sponsored Child Care.* The Legislature also directed that the Department of Education shall promote, as feasible, the establishment of employer-sponsored child care services.

The department reported on December 17, 1982, their efforts to date to fulfill this directive. Basically, these efforts have consisted of attempting to help the establishment of two new employer-sponsored programs in Los Angeles and San Francisco. The department's current plan to fulfill this legislative directive is essentially to act as an information clearinghouse, and to encourage local resource and referral agencies to promote this type of care.

We believe it is doubtful that this level of effort will lead to any significant expansion of employer-sponsored child care services in the state for the foreseeable future. The department should be prepared to comment on the extent to which its planned activities can be expected to promote the expansion of employer-sponsored child care.

Office of Child Development Management—Blue Ribbon Task Force Report. In September 1982, the department appointed a blue ribbon task force to review the management of OCD. The task force issued its report on November 10, 1982. The major findings of the report are:

- Top management needs to be replaced.
- Administration needs to be streamlined and reorganized.
- Staff needs more development to be more effective with child care providers.
- Guidelines and policies need to be clearly developed and consistently applied.

At the time this *Analysis* was written, the new Superintendent of Public Instruction was reviewing the complete organizational structure of the department, and as a result, the department had not taken specific action on any of the task force's recommendations.

The department should be prepared to explain during the budget hearings what actions it will take with respect to the task force's recommendations.

Auditor General's Report. In September 1982, the Auditor General issued a report entitled "Improvements Needed in Administering State-Funded Child Care Programs." This report criticized the operations of the Office of Child Development (OCD) within the State Department of Education. It examined OCD's overall administration of the state-subsidized child care program, its administration of its child care agency licensing responsibilities, and the current method of funding child care agencies which are under contract to the state. The Auditor General's report contained criticisms of OCD in the areas of (1) overall administration, (2) licensing administration, and (3) funding.

• *Overall Administration.* Three criticisms were made of OCD's overall administration of the state subsidized child care program:

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- OCD has not considered child care agencies previous expenditures, and has not effectively determined the amount of funds that agencies should receive.
- Accurate, timely, and complete determinations of agencies' earnings, based on the agencies' year-end audit reports, have not been made. Consequently, OCD's effectiveness in contracting with agencies is impaired, and delays occur in identifying overpayments and in collecting funds owed the state.
- OCD has not adhered to its own policy of enforcing repayment agreements with agencies that owe the state funds.

The Auditor General concluded that the cumulative impact of these weaknesses has resulted in the OCD not optimizing the use of child care and development funds.

- ***Licensing Administration.*** The Auditor General made the following three criticisms of the administration of OCD's child care agency licensing responsibilities:

- OCD has not issued licenses to new facilities, and has not renewed licenses of existing facilities in a timely manner.
- A policy has not been established regarding the sanctioning of agencies that fail to conform with state licensing requirements.
- OCD has not followed existing policies, and consequently, is not properly processing and investigating complaints against agencies operating state-funded child care and development programs.

As a result of these problems, the Auditor General stated that some children enrolled in state-subsidized programs were receiving services in facilities which did not meet health and safety standards.

- ***Funding.*** The Auditor General made the following comments regarding funding for this program:

- The present method of funding child care programs does not optimize the use of state funds because current law requires the reimbursement of agencies based on their average daily enrollment.
- A disparity exists between reimbursements made to agencies and the amount of child care services they actually provide, due to the current reimbursement standard.

The department has indicated, both in its response to the report and in its discussions with us, that steps have been taken to mitigate these problems. A survey of child care agencies that we conducted indicates that progress has been made to alleviate the problem of unlicensed facilities.

Whether the department's actions will be fully successful, however, is not clear at this point. Moreover, we note that avoidance of some of these problems will depend in part upon the successful implementation of a new data processing system, which has not been completed. Accordingly, because of the seriousness of some of the identified problems, and because it is uncertain whether the steps taken by the department will be successful in alleviating them, the Legislature may wish to consider having the Auditor General follow up on his earlier report, to insure that the identified problems have been corrected.

- ***State-Funded Child Care Programs.*** If the examination is ordered by the legislature, it should also include a review of the new PROMIS and AIMS data processing systems, for the purpose of determining whether the systems, as implemented, will be successful in preventing the recurrence of the problems identified in the report.

The Auditor General should report his findings to the legislative budget committees no later than December 15, 1983, and should include for each problem identified in his previous report, an opinion as to whether the steps taken by the department have been or will be successful in correcting this problem. The Auditor General should also specifically identify problems which remain, and state the reasons why the department has been unsuccessful in alleviating them.

Overbudgeting for Child Care

We recommend that the proposed General Fund appropriation for child care local assistance be reduced by $3,832,000, because local child care agencies have been unable to earn this amount in the past, and therefore it is not needed in the budget year to maintain current service levels. (Reduce Item 6100-196-001 by $3,832,000.)

The Office of Child Development (OCD) reimburses local child care contracting agencies based upon their enrollment and the amount of reimbursable costs they incurred. If an agency actually enrolls the number of state-subsidized children specified in its contract with OCD, the amount of its state reimbursement is limited to the lesser of the following:

(1) the maximum reimbursable amount specified in the agency's contract with the OCD, or

(2) the actual and allowable net costs incurred for state-subsidized children.

From these amounts are subtracted any parent fees collected, unless the agency "earns" these fees by enrolling more children than required by its contract.

The Auditor General, in his report "Improvements Needed in Administering State-Funded Child Care Programs", states that the OCD generally funds each agency for the amount of its previous year's contract—that is, the *maximum* contract amount—plus any inflation adjustment that the Legislature has granted. It does not base reimbursement on the agency's *actual* reimbursable expenditures in the previous year plus an inflation adjustment.

The Auditor General further states that while the OCD has reduced the contract amounts for some agencies, it has not routinely reviewed agencies' expenditures in previous years; nor has it reduced the contract amounts or withheld inflation adjustments for agencies whose previous expenditures did not meet the amount of their contracts. Consequently, OCD is contracting with agencies for amounts that exceed the the expenditure levels that these agencies have demonstrated an ability to realize.

The Auditor General recommends that the OCD consider an agency's demonstrated ability to earn the total amount specified in its prior year contract when it comes due for renewal and when determining the amount of funding that an agency should receive in the new contract.

In reviewing the actual reimbursable costs incurred by child care agencies against the maximum reimbursable amounts allowed by their contracts for the past fiscal year, we found that these agencies were unable to earn at least $3,720,000 of the contract amount. Because the budget year request for child care local assistance is based upon the past-year appropriation plus a 3 percent inflation adjustment, and because this appropriation, in turn, was based upon the maximum contract amounts contained in all of the state's contracts with local child care agencies, we conclude that the budget request is overstated by $3,720,000 plus the 3 percent inflation adjustment tied to this amount ($112,000).

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Accordingly, we recommend that the appropriation be reduced by $3,832,000 to eliminate overbudgeting. This recommendation is consistent with the recommendation made by the Auditor General in view of the fact that child care agencies have demonstrated an inability to earn the full contract amount in the past. Our recommendation would not result in a reduction of state subsidized child care because sufficient funds would remain in the budget to meet *actual* enrollments and costs.

Correction of Attendance Absences Needed

We recommend that the Legislature adopt Budget Bill language and enact legislation, to stipulate that state reimbursement shall not be provided for excused absences in excess of five days per child per year for children enrolled in state subsidized child care programs, unless such absences are due to certain specified reasons.

Child care agencies are reimbursed in part on the basis of their average daily attendance. "Enrollment" as defined by the Education Code includes not only the number of children actually present at a facility, but also includes children who are not present but have "excused absences". Children may have "excused absences" for reasons of illness, quarantine, illness or quarantine of their parents, family emergency, or to spend time with a parent or other relative as required by a court of law, or when it is clearly in the "best interest" of the child to be absent.

The Auditor General, in his report "Improvements Needed in Administering State-Funded Child Care Programs," indicates that his auditors visited local child care and development agencies, and compared their enrollment to actual attendance levels for January 1982. The results are shown in Table 46 for children enrolled full-time.

Table 46

Actual Attendance and Excused Absences for Children Enrolled Full-time [a]

Agency	*Average Number of Children Enrolled* [b]	*Actual Attendance (Percent)*	*Excused Absences (Percent)*	*Actual Attendance Plus Excused Absences (Percent)*
1	170	87.7%	12.0%	99.7%
2	61	63.7	31.4	95.1
3	142	79.6	15.3	94.9
4	89	74.5	23.7	98.2
5	287	87.1	11.5	98.6
6	102	85.0	14.6	99.6
7	82	84.9	15.0	99.9
8	177	90.3	8.2	98.5
Average	139	82.0	16.0	98.0

[a] Based on January 1982 attendance at a sample of eight agencies.
[b] Since enrollment in programs fluctuates during the month, average enrollment is used.
Source: Report of the Auditor General "Improvements Needed in Administering State-Funded Child Care Programs," September 1982.

The table shows that the actual attendance at these agencies ranged from approximately 64 percent to 90 percent of enrollment, with the average actual attendance being 82 percent of enrollment. The amount of excused absences ranged from 8 to 31 percent of enrollment, with the average rate of excused absence being 16 percent. The Auditor General indicates that all eight agencies received full funding of their enrollment for the sample month.

The Auditor General further indicates that the high percentage of excused absences is partly attributed to the definition of an "excused absence." The Education Code allows agencies to be reimbursed for excused absences—and agencies may claim as "excused" those absences which are "in the best interest of the child"—but the code does not place any limit on the number of these absences that an agency may claim.

The Auditor General's review indicates that agenies may be abusing this provision by claiming an excessive number of these absences, and that some of these absences are themselves questionable. For example, one facility counted as 30 days of excused absences two children on a family vacation for 15 consecutive days, on the basis that the absences were "in the best interest of the children." The agency claimed full state reimbursement for these days.

At another facility, absences involving children who stayed home with parents for up to two weeks were claimed as being "in the best interest of the child." In a third instance, an agency claimed 19 days of excused absence for a child who was out of town.

While we recognize the need to continue to provide state reimbursement to agencies with enrolled children who are ill or absent due to family emergency, the Auditor General's findings tend to indicate that the current provision in the Education Code allowing full state reimbursement for excused absences needs to be tightened.

Because actual attendance at child care agencies may be significantly less than enrollment, and because agencies report a shortage of state subsidized child care in the state, we recommend that the Legislature adopt the following Budget Bill language to stipulate that state reimbursement shall not be provided for excused absences in excess of five days per child per year for children enrolled in state subsidized child care programs, unless such absences are due to certain specified reasons.

> "Provided that except for absences due to a child's illness, quarantine, illness or quarantine of their parents, family emergency, or to spend time with a parent or other relative as required by a court of law, no state subsidy shall be provided for excused absences in excess of five days per child during the contract period, for children receiving a state child care subsidy."

Because the Budget Act is effective for only 1983–84, we further recommend that legislation be enacted through the trailer bill, to make a permanent change to the Education Code to limit funding for excused absences of this type.

Eligibility Standards and Parent Fee Schedule Review

We recommend (1) that the Legislature repeal the exemption from family fees currently granted to AFDC and SSI/SSP recipients receiving state subsidized child care services and (2) the Office of Child Development report prior to the budget hearings, the fiscal and programmatic effects of using the Current Population Survey issued by the U.S. Bureau of the Census in establishing future family fee schedules.

Last year, the Legislature added language to the *Supplemental Report to the 1982 Budget Act* directing the Advisory Committee on Child Devel-

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opment Programs to study and make recommendations regarding the revision of eligibility standards and the parent fee schedule, such that only low income families are eligible for and receive a state subsidy for state-sponsored child care and preschool services.

The advisory committee fulfilled this directive by surveying 114 program administrators and 868 parents who currently receive state subsidized child care services, and by holding two public hearings on these subjects. The committee completed its report on December 1, 1982. The report contains nine recommendations—some of which would require legislative action before they could be implemented. Two of the advisory committee's recommendations call for: (1) the amount of an AFDC or SSI/SSP grant to be counted as family income for the purpose of assessing the family fee for receipt of state-subsidized child care services and (2) the department to use the Current Population Survey (issued by the U.S. Bureau of the Census) to determine the yearly median income in California.

• *Grant Income.* The committee recommended that AFDC and SSI/SSP grants be counted as income when determining the amount of any fee which a family is required to pay for state-subsidized child care. The committee reports this recommendation reflects the overwhelming sentiment of the program directors and parents included in the study. Our examination of a sample of participant responses confirms that this is the case.

The Education Code specifically prohibits recipients of public assistance such as that provided to AFDC and SSI/SSP recipients from paying any fees for state-subsidized child care services.

The family fee schedule (from which the fee for state subsidized child care services is determined) is based upon a family's size and its "ability to pay" as indicated by the family's gross income. We see no reason why a distinction should be made in determining "ability to pay" as to what the source of that income is. It makes no sense, for example to charge a working family a higher fee than is charged a non-working family *with the same gross income.*

Accordingly, we recommend that consistent with the committee's recommendation, language be included in the companion bill to the 1983 Budget Act which (1) mandates that AFDC and SSI/SSP grants be considered as part of gross income for the purpose of determining the family fee for state-subsidized child care services and (2) repeals the exemption from fees currently granted to AFDC and SSI/SSP recipients.

• *Income Data.* The committee also recommended that the Department of Education use a different set of data to establish the state median income for different family sizes. These median income figures are important because they are a key factor in determining the family fee schedule, which all state-subsidized child care programs use to levy fees on recipients of state-subsidized child care services.

The committee indicates that OCD currently uses income data released by the Federal Department of Health and Human Services, which OCD (1) updates to the current year using the consumer price index, and (2) adjusts for family size, using a federal Title XX formula.

The committee and the Department of Finance, however, indicate that the current population survey data issued by the U.S. Bureau of the Census is more accurate, particularly when family size is being considered. Table 47 compares the two sets of data, and indicates that significant discrepancies of as much as 40 percent occur between the two measures in some family size categories. On the average, the median income data given by the current population survey is 12 percent *less* than that used by OCD.

Table 47

Comparison of Family Size Income Data Between the Current Population Survey of the U.S. Bureau of the Census and the Income Data Used by the Office of Child Development

Family Size	*Current Population Survey Monthly Median Income, 1980*	*OCD Median Income (for 1981–82 Program Year)*	*Current Population Survey Percent (Under)/Over OCD Median*
1	$785	$1,087	(−28%)
2	1,595	1,422	12
3	1,967	1,757	12
4	2,172	2,093	4
5	2,218	2,434	(−9)
6	2,013	2,763	(−27)
7	1,709	2,828	(−40)
8	2,519	2,893	(−13)
9	2,359	2,958	(−20)
Average			(−12%)

[a] OCD uses prior-year income data for establishing the fee schedule for a particular fiscal year. Therefore, 1980 income data is used to establish the fee schedule for 1981–82.

Consequently, if the Current Population Survey data were used in etablishing family fee schedules, the fee amount charged to some individual families would go up, while the fee charged other families would go down. It is not clear what the net impact on state costs would be. That would depend on the distribution of families served, by family size.

Because the Current Population Survey data is more accurate than the data currently being used by the OCD in establishing the state median income level, we believe that the advisory committee's recommendation deserves further examination. We also think, however, that the fiscal effect on the state General Fund, and the programmatic effects on local child care agencies, of using the Current Population Survey should be ascertained before action on this recommendation is taken by the Legislature. Accordingly, we recommend that the Office of Child Development report prior to the budget hearings on the fiscal and programmatic effects of using the Current Population Survey to establish the state median income level for use in establishing future family fee schedules.

Consultant Services. The field services section in the Office of Child Development (OCD) is authorized 17 consultants, 9 child development assistants, and 3 child development administrator positions who (1) provide management and program assistance to local agencies and (2) serve as an advocate for local agencies within the Office of Child Development. The 1982–83 Governor's Budget indicated that the average cost per position in the current year will approximate $40,956, $38,877, and $33,927 for the child development administrator, consultant, and child development assistant positions, respectively. This results in a total cost of approximately $1 million for these personnel services, exclusive of any associated operating expenses.

Last year, field agencies reported that the quality of service provided

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by the consultant staff varied considerably. Specifically, responses to a survey conducted by the Advisory Committee on Child Development Programs indicated that:

- Twenty-nine percent of the respondents noted that program consultants had, in general, little or no program and administrative knowledge; or noted that consultants did not understand the commentator's particular program type.
- Twenty-two percent indicated that information varied from week to week, or between consultants.
- Twenty percent stated that consultants switched assignments too often.
- Sixteen percent noted that either they could not reach their consultant, had no visit from a consultant, or did not receive information back on a timely basis.
- Thirty-two percent recommend that OCD establish regional offices for consultants for the provision of better service.

Our discussions with field agencies last year confirmed the criticisms made in the survey. Agency administrators frequently reported to us that program support was not available or irregular. These problems were of particular concern to new child care providers who needed these services to successfully establish their operations.

This year we conducted an informal survey of child care providers and solicited their opinion regarding: (1) the quality of consultant services they received, (2) where the consultant was most helpful, and (3) where the consultant was least helpful. The majority of respondents were ambivalent about the quality of service received, and equal numbers of respondents liked and did not like the quality of these services. The quality of service provided depended upon the specific consultant assigned to the agency, with some agencies giving favorable ratings to their consultants, and others giving unfavorable ratings.

In general, the consultants were most helpful in interpreting OCD's policies, regulations, and forms, and in answering general questions—as one respondent put it ". . . in helping use the system." The consultants were least helpful in providing specific technical information, program improvement information—and as one respondent put it ". . . in finding constructive solutions to basic problems."

Some critics of the quality of consultant services, however, have indicated that the problem may not lie with the consultants themselves, but rather within the OCD "system" which prevents them from being effective.

In view of both the cost of providing these services and the criticisms directed at the system by providers, we believe the OCD "system" needs a rigorous review. Specifically, if the main benefit of the consultant services lies in their being able to explain OCD's system, rather than in providing (1) substantive technical and programmatic expertise, and (2) helping formulate solutions to basic problems, then we question the cost-effectiveness of providing these services.

The Auditor General did not include a review of the field services section of OCD (which provide the consultant services to agencies) in his overall review of the Office of Child Development. Accordingly, the Legislature may wish to consider having the Auditor General examine the quality and cost of consultant services provided to child care agencies, with a specific review regarding (1) whether these services should be continued and (2) how these services, if they are continued, could be improved.

Handicapped Children's Centers. Provision 10 to Item 6100-196-001 in the Budget Bill authorizes the Superintendent of Public Instruction to provide state funding to certain child care programs which serve severely handicapped individuals. This provision, in effect, exempts these programs from the provisions of the Education Code and related regulations which govern the operations of regular child care programs. Currently, severely handicapped individuals are served in seven Bay Area childrens' centers, which are funded through a general allowance in the budget bill.

In passing the 1982 Budget Act the Legislature adopted Control Section 21.42 which required the Superintendent to develop a schedule of parent/guardian fees which these seven centers would then have to implement in order to continue receiving state funding during the current year. The department developed the required fee schedule, which requires parents to begin paying a fee when their income reaches 50 percent of the state median ($13,176 for a family of four), and to pay the full cost of the child care when their income reaches 300 percent of the state median ($79,092 for a family of four).

Subsequently, however, the Legislature enacted SB 1345 (Ch 1201/82), which stipulates that a parent fee shall not be assessed during 1982–83 if the child has been referred to the program by another agency.

The director of three of these seven centers advise us that none of the parents with children served by the centers will be required to pay a fee in 1982–83 because all of their children are referred from other agencies. Therefore, SB 1345 essentially negates the effect of Control Section 21.42.

The 1983–84 Budget Bill contains language which reinstitutes the provisions of Control Section 21.42 of the 1982 Budget Act. If approved by the Legislature, this section would supersede the provisions of Ch 1201/82.

c. Child Nutrition (Items 6100-101-945, 6100-201-001, and 6100-201-890)

The department's Office of Child Nutrition Services administers the state child nutrition program. The office also supervises the federally-funded National School Lunch and Breakfast Programs and Child Care Food Program. These programs assist schools in providing nutritious meals to pupils, with emphasis on free or reduced-price meals to children from low-income families.

Funding for Child Nutrition Programs. Table 48 summarizes the funding of the child nutrition programs in the past, current, and budget years. The budget requests $6.7 million in 1983–84 to support state operations administrative costs ($1.5 million from the General Fund and $5.2 million from federal funds), an increase of 3.3 percent. In addition, $323.5 million is requested for local assistance allowances ($26.8 million from the General Fund and $296.7 million in federal funds), which is essentially the same amount as estimated for the current year.

State Child Nutrition Program (Items 6100-101-945 and 6100-201-001)

The state child nutrition program provides a basic subsidy from the General Fund for each meal served by public schools, private nonprofit schools, and child care centers to pupils eligible for free and "reduced-price" meals (generally, low-income pupils).

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Table 48
Child Nutrition Programs
Expenditures and Funding
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Federal Funds					
State Operations	$4,117	$5,076	$5,244	$168	3.3%
Local Assistance:					
School Lunch					
General Assistance	32,196	37,600	37,600	—	—
Special Assistance to Needy Children	178,941	177,529	177,529	—	—
School Breakfast	36,051	44,051	44,051	—	—
Special Milk	1,615	1,702	1,702	—	—
Child Care Food	45,801	33,261	33,261	—	—
Food Service Equipment Assistance	253	—	—	—	—
Cash for Commodities	915	2,441	2,441	—	—
Commodities Supplemental Food Program	207	125	125	—	—
Nutrition Education and Training Projects	660	—	—	—	—
Subtotals	$296,639	$296,709	$296,709	—	—
Total Federal Funds	$300,756	$301,785	$301,953	$168	0.1%
General Fund					
State Operations	$1,380	$1,412	$1,459	$47	3.3%
Local Assistance Basic Subsidy	$24,446	$26,057	$26,840	$783	3.0%
Total State Funds	$25,826	$27,469	$28,299	$830	3.0%
Combined Totals:					
State Operations	$5,497	$6,488	$6,703	$215	3.3%
Local Assistance	321,085	322,766	323,549	783	0.2
Totals	$326,582	$329,254	$330,252	$998	0.3%
General Fund	$25,826	$27,469	$28,299	$830	3.0%
Federal Funds	300,756	301,785	301,953	168	0.1

The Budget Act of 1982 appropriated $26.1 million for the state child nutrition program in 1982–83, based on an estimated 300.5 million meals reimbursed at a rate of 8.67 cents per meal. The budget proposes an appropriation of $26.8 million for 1983–84. This amount assumes approximately the same number of meals and provides for a 3 percent inflation adjustment.

Current law provides that the state meal reimbursement rate is to be adjusted for inflation, based on the Food Away From Home Index (Consumer Price Index) for San Francisco and Los Angeles. This would require a COLA of 8.7 percent in 1983–84, or an augmentation to the budget of $1.5 million (assuming the same number of meals projected in the budget).

The Department of Education intends to survey a sample of school districts in February, 1983, in order to project the number of meals eligible for the state subsidy in 1983–84. We will review the survey and report on its implications for funding the state child nutrition program during the budget hearings.

Federal Child Nutrition Program (Item 6100-201-890)

We recommend approval.

The budget proposes an appropriation of $296.7 million from the Federal Trust Fund for local assistance for 1983–84, the same as estimated current-year expenditures. The budget also proposes $5.2 million in federal funds for state operations, an increase of 3.3 percent over the current year. Our review indicates that these federal funds will be expended for appropriate purposes and, consequently, we recommend approval.

6. State School Building Aid

a. Overview

The State School Building Aid Program provides financial assistance to school districts for (1) acquisition and development of school sites, (2) construction or reconstruction of school buildings, (3) purchase of school furniture and equipment for newly constructed buildings, (4) deferred maintenance, and (5) emergency portable classrooms.

Prior to the passage of Proposition 13 (Article XIIIA of the State Constitution) local school districts financed the construction of elementary and secondary school facilities in one of two ways. They either issued school construction bonds or obtained a loan from the state under the State School Building Aid program.

The state raised the money loaned to applicant districts from the sale of general obligation bonds, and loans obtained by districts from the state were subject to prior voter approval for repayment from district property tax revenues.

Proposition 13 eliminated the ability of local school districts to levy additional special property tax rates to pay off new bonds or loans. Consequently, the State School Building Aid program was subsequently revised such that the state was no longer making construction loans to districts, but was funding the construction of new school facilities and "renting" them for a nominal fee to school districts under a long-term lease. This lease arrangement essentially represents a "quasi-grant" of construction funds to school districts because the state only charges a nominal yearly rental rate—usually $1—plus any interest earned on state funds on deposit in the county school lease-purchase fund for the applicant school district. Moreover, title to the facility is transferred to the district no later than 40 years after the rental agreement has been executed.

Funding for this program is provided through three major statutory appropriations, which are available for expenditure irrespective of fiscal year. These are:

- school district "excess" repayments—that is, the excess of school district principal and interest payments on State School Building Aid loans over the amount needed for the debt service of state school construction bonds. These are principally used to fund school district deferred maintenance projects,
- a yearly $200.0 million allocation of tidelands oil revenues through 1984–85, used principally for new school construction, and
- bond revenues authorized by Proposition 1 of 1982 which can be used for new school construction and rehabilitation of existing school facilities.

The school building aid program has the following three major elements:

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- The construction quasi-grants, which are made under the State School Building Lease-Purchase program.
- Deferred maintenance matching funds, which are provided to school districts under the State School Deferred Maintenance program.
- The emergency portable classroom program, which leases state-acquired portable classrooms at up to $2,000 per year to overcrowded school districts, pending construction of permanent school facilities.

Table 49 shows the total revenues appropriated and available for state school building aid.

Table 49

Revenue Sources for School Construction and Deferred Maintenance [a]

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*
Revenues authorized from continuous appropriations:			
Excess school district loan repayment Ch 282/79 (AB 8)	$65,635	$83,892	$81,289
Carryover of prior year General Fund appropriation Ch 288/80 (SB 1426)	208,000		
Tidelands oil appropriation—Ch 899/80 (AB 2973)	200,000	200,000	200,000
Carryover of prior year tidelands oil appropriation Ch 899/80 (AB 2973)	100,000		
Proposition 1 bond sales—Ch 410/82 (AB 3006)		125,000	200,000
Repayment of loan—Ch 998/81 (AB 114)		47,200	
Subtotals	$573,635	$456,092	$481,289
Transfers and Loans:			
Transfer to General Fund per Section 19.91, Budget Act of 1981 [b]	–$200,000		
Transfer to General Fund—Ch 207/82 (AB 884)	–200,000		
Loan to SAFCO and ERF Funds—Ch 998/81 (AB 114)	–47,200		
Nontransfer of school district excess repayments—Section 19.05, Budget Act of 1982		–$18,892	
Nontransfer of tidelands oil reserves—Ch 327/82 (SB 1326)		–147,200 [c]	
Nontransfer of tidelands oil reserves			–$200,000
Subtotal	–$447,200	–$166,092	–$200,000
Net Amount Available for Commitment	$126,435	$290,000	$281,289
State School Deferred Maintenance Fund	$51,645	$65,000	$81,289
State School Building Lease-Purchase Fund	74,790	225,000	200,000

[a] This table illustrates only the revenue sources provided by current statutes, and the transfers and loans made from those revenues to arrive at the net appropriation for school construction and deferred maintenance in the particular fiscal year. This is not a fund condition statement, and accordingly, does not include any beginning balances in these funds.

[b] The $200 million transferred to the General Fund by the Budget Act of 1981 is to be repaid in 1984–85 through an additional year's allocation of tidelands oil revenue to the Lease-Purchase Fund.

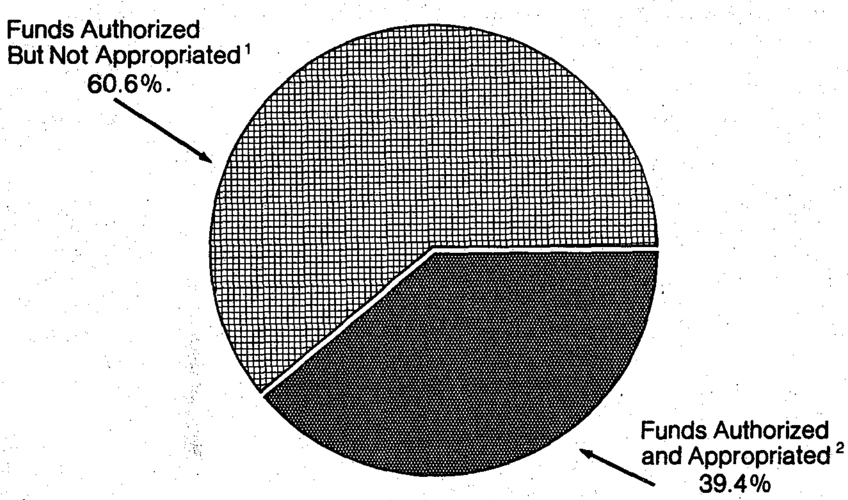
[c] Various bills are currently before the Legislature to reappropriate to the General Fund, any tidelands oil revenues unencumbered by contract with private construction contractors. Therefore, the $147.2 million could increase by an undetermined amount. The budget proposes the appropriation of $125 million of Proposition 1 bond funds to replace these monies.

School Construction Funds Withheld in 1982–83. As Table 49 shows, the Legislature in completing action on the 1982 Budget Act, withheld $166.1 million from (1) tidelands oil revenues ($147.2 million) and (2) school district excess loan repayments ($18.9 million), which existing law authorizes for school construction and deferred maintenance purposes, and allocated these funds instead to the General Fund. In addition, at the time this *Analysis* was prepared, various bills were before the Legislature which reappropriated to the General Fund any remaining tidelands oil revenues in the current year which are unencumbered by contract with private construction contractors. If enacted, these measures could further increase the amount of funds withheld from school construction. Chart 5 shows that since 1980–81, approximately 61 percent of the statutorily authorized funding for this program (excluding Proposition 1 bond funds) has been either withheld or transferred to other funds for alternative uses.

Chart 5

State School Building Aid Funds Transferred

1980–81 through 1982–83



[1] Does not include Proposition 1 bond funds.
[2] Does not reflect the impact of any legislation which may be enacted during 1982-83 to reappropriate any unobligated school construction monies to the General Fund.

The Legislature has reduced the amount allocated for school building aid as part of a program intended to compensate for General Fund revenue shortfalls, and thereby avoid a deficit. In addition, the Legislature has found it necessary to reduce funding for school building aid because of shortfalls in tidelands oil revenues. In recent years, the amount of tidelands oil revenues available have been between $73.5 million and $155.5 million below the level anticipated when the $200 million allocation to the program was established. Consequently, the Legislature has had to suspend the tidelands oil allocation mechanism to reflect these shortfalls, with the result that the State School Building Lease-Purchase Fund has not received the full statutory allocation.

In the current year, $100.0 million and up to $65.0 million were appropriated for new school construction and deferred maintenance, respectively. This is approximately 50 percent of the $331.1 million that was expected to be available for these purposes in the current year, prior to

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passage of Proposition 1.

The exact amount of funding available for new school construction and deferred maintenance in the current year, however, is subject to change. As noted earlier, legislation was pending before the Legislature at the time this *Analysis* was written that appropriated to the General Fund any unencumbered funds from the $100.0 million tidelands oil appropriation. In addition, the State Allocation Board has requested that the Treasurer sell $125.0 million of Proposition 1 bonds in the current year to fund school construction needs. We will provide an update on current-year funding for the program at the time of the budget hearings.

Effects of Funding Reduction. School districts will not experience any adverse effects due to the $18.9 million reduction in the deferred maintenance program during 1982–83 because the state funding actually provided for this purpose was predicated upon an estimate of the actual amount of these funds which school districts could utilize. Under current law, the maximum amount of state aid which can be provided to any particular school district is limited to one-half percent of the general and adult education funds budgeted for school district expenditures during a particular year. In the current year, school districts budgeted approximately $13 billion of these funds, one-half percent of which would be $65 million, which is the maximum amount of deferred maintenance aid existing law allows the state to provide to districts during the current year. Therefore, any funding provided for this purpose over this amount ($18.9 million) is not needed because it cannot be allocated to school districts.

The State Allocation Board was able to apportion $104.5 million for school construction during the current fiscal year, and reserved approximately $10 million to fund preliminary and final plans for additional new projects. To ration the planning funds, the State Allocation Board adopted a policy of only funding plans for projects with 60 or more priority points, and continued a policy of only funding construction applications with 70 or more priority points.

Proposition 1 could provide $125.0 million of bond funds to finance these construction projects in the current year, but it is uncertain at this time whether the State Treasurer will sell these bonds. Specifically, the Treasurer has stated that he cannot sell any state general obligation bonds (including Proposition 1 bonds) in the absence of a balanced state budget containing a prudent reserve.

1983–84 Budget. The budget proposes that the full amount of "excess" repayments ($81.3 million) be provided to the State School Deferred Maintenance program, to be used for school deferred maintenance in 1983–84.

The budget also proposes that *no* tidelands oil revenues be allocated for school building aid in the budget year. In lieu of the $200.0 million in tidelands oil allocations authorized by existing law, the budget proposes that $200.0 million of Proposition 1 bond funds be made available for school construction in the budget year.

In summary, the budget proposes school capital outlay and deferred maintenance funding of $281.3 million in 1983–84, which includes $200.0 million of proposed Proposition 1 bond sale funds and $81.3 million of "excess repayments" funds for school deferred maintenance.

b. Proposition One (November 1982)

The voters approved Proposition 1 on the November 1982 ballot. This proposition authorizes the sale of $500.0 million of general obligation bonds, with the proceeds to be used for K–12 school capital outlay. Of the total, up to $150.0 million can be used for reconstruction or modernization of existing school facilities, leaving a minimum of $350.0 million available for construction of new school facilities.

As previously mentioned, however, at the time this *Analysis* was prepared, it was uncertain when the State Treasurer will begin selling any of these bonds. While the budget estimates that $125.0 million and $200.0 million of these bonds will be sold in 1982–83 and 1983–84, respectively, to fund school capital outlay, the Treasurer has announced that he cannot sell any state general obligation bonds in the absence of a balanced state budget containing a prudent reserve.

c. The Need for School Capital Outlay

As Table 50 indicates, the budget proposes that $225.0 million and $65.0 million of net new funding be used in the current year to fund new facility construction and deferred maintenance, respectively, and that $200.0 million and $81.3 million be made available for the same purposes in the budget year.

Table 50
Resource Allocation for School Facilities
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*
1. New Facilities			
Tidelands oil revenue—Ch 899/80 (AB 2973)	—	$100,000	—
Excess repayments—Ch 282/79 (AB 8)	$13,990	—	—
Proposition 1 bond funds—Ch 410/82 (AB 3006)	—	125,000	$200,000
General Fund—Ch 288/80 (SB 1426)	60,800	—	—
Subtotal	$74,790	$225,000	$200,000
2. Deferred Maintenance			
Excess repayments—Ch 282/79 (AB 8)	$51,645	$65,000	$81,289
Total Funding	$126,435	$290,000	$281,289

Table 51 shows the amount of school capital outlay need that the Department of General Services' Office of Local Assistance (OLA) estimates would remain unfunded at the end of 1983–84 if the budget is approved. It also shows the aggregate amount of unfunded need that would remain if the amount of school capital outlay funding authorized by current law is provided in the budget year.

Not included in the table is the amount which OLA estimates is needed to fund the rehabilitation of existing school facilities which, given the questionable assumptions upon which it is based, we do not consider a reliable number for budgetary purposes.

The table shows that the estimated total need for school construction funds in the current year is approximately $618.7 million. The budget anticipates that approximately $311.5 million of that amount will be provided in the current year.

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Table 51
Summary of School Facilities Needs
(in thousands)

	1982–83		*1983–84*				
				Funds Available		*Unfunded, End-of-Year*	
	Estimated Need	*Funds Available*	*Estimated Need*	*Current Law*	*Governor's Budget*	*Current Law*	*Governor's Budget*
1. Emergency class-room	$8,500	$9,000	$6,300	$1,800	$1,800	$4,500	$4,500
2. Construction of new facilities	485,287	237,481	764,736	400,000	200,000	364,736	564,736
3. Rehabilitation of old buildings	—	—		—	—		
4. Deferred Mainte-nance	124,900	65,000	185,053	81,289	81,289	103,764	103,764
Totals	$618,687	$311,481	$956,089	$483,089	$283,089	$473,000	$673,000

The need for funds is expected to increase to $956.1 million in the budget year, with the budget calling for $283.1 million of that amount to be provided.

The estimates reflected in Table 51 for new facility construction assumes that all of the forecasted construction need will be submitted to the State Allocation Board for funding in either the current or budget year. Some of these projects, however, may not be submitted for state aid until sometime after 1983–84, and would therefore be considered for funding from future resources appropriated for this purpose.

d. Proposition One Clarification Needed

We recommend that the Legislature enact legislation to clarify the provisions of Proposition 1 regarding local district matching funds and sale of surplus school sites. We further recommend that the Department of Finance identify prior to the budget hearings, the amount and funding source for the 1983–84 debt service for the Proposition 1 bonds sold in the current fiscal year.

Proposition 1 which was approved by the voters at the November 1982 election, authorizes $500.0 million in bond sales for school capital outlay—at least $350.0 million of which can be used for new school construction, and up to $150 million of which can be used for modernization or rehabilitation of existing school facilities.

The approval of Proposition 1 by the voters has raised several important issues which need to be resolved by the Legislature. These issues are as follows: (1) will districts be required to contribute an amount equal to 10 percent of a project's cost? (2) what will be the funding source for the 1983–84 debt service for the Proposition 1 bonds proposed to be sold during the current year? and (3) will districts be required to sell surplus school sites prior to receiving state aid?

Matching Funds and Surplus Sites. Under the State School Building Lease-Purchase Program, districts with projects funded from tidelands oil revenues must (1) agree to contribute either 10 percent of a project's cost in the first year, or 1 percent of project costs per year for 10 years to the State School Deferred Maintenance Fund and (2) must justify holding any surplus school sites to the State Allocation Board prior to receiving state school construction aid.

Proposition 1, however, did not apply these provisions to projects funded from Proposition 1 bond revenues. Therefore, the anomalous situation exists in which some projects will be subject to the contribution and surplus school site requirements, while others will be exempt from these requirements—depending solely upon the funding source for the project.

Several benefits accrue to the state from applying the local match and surplus site requirements that now apply to projects financed with tidelands oil funds. First, the 10 percent match helps to encourage the design of cost effective projects by districts because they must contribute 10 percent of the cost of their projects, and therefore, must pay for part of any unnecessary project design features.

Second, requiring districts to justify holding any unused surplus school sites both promotes the maximum use of existing facilities and reduces school construction costs to the state. This is because school districts must either fully use existing facilities, or dispose of them and apply the proceeds to offset project cost.

For these reasons, and because we find no analytical basis for exempting school construction projects from either the 10 percent match or school sites requirements merely because they are funded from Proposition 1 bond funds, we recommend that legislation be enacted requiring projects funded with these bond funds to be subject to both requirements.

Funding Source. The budget anticipates that $125.0 million of Proposition 1 bonds will be sold during the current year to provide funding for school capital outlay. At the time this *Analysis* was written, it was not clear that any of the bonds would be sold because of the freeze on bond sales imposed by the State Treasurer. If, however, sales do occur, funds will need to be appropriated during the budget year to fund the 1983–84 debt service for these bonds. The budget does not identify either the amount or the source of this funding.

This question needs to be resolved in the 1983 Budget Act because no funds were proposed for appropriation to the State School Building Lease-Purchase Fund that could be used for debt service payments in the budget year. (The $200.0 million in Proposition 1 bond funds proposed for the budget year cannot legally be used for debt service purposes.) Consequently, the Legislature will either have to (1) appropriate additional money to the lease-purchase fund or (2) use deferred maintenance funds or carryover lease-purchase fund balances (if any) to fund debt service payments in the budget year for the $125.0 million worth of Proposition 1 bonds proposed to be sold during the current year.

Therefore, we recommend that the Department of Finance identify prior to the budget hearings, the amount and source of funds that may be needed to pay the 1983–84 debt service on Proposition 1 bonds sold during the current year.

e. Hardship Waivers

We recommend that the Legislature enact legislation amending the Education Code to delete the requirement that the State Allocation Board adopt a hardship waiver regulation because it is no longer needed.

Existing law requires that local school districts provide a 10 percent match for tidelands oil funds received for school construction projects. Alternatively, districts have the option of extending this payment by contributing 1 percent of project cost each year for a period of 10 years to the State School Deferred Maintenance Fund. Both of these requirements may be waived by the State Allocation Board (SAB) in a case of hardship, which the law requires the board to define.

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At the time this *Analysis* was prepared, the board had not adopted a regulation defining "hardship."

In July, the board adopted a policy which stated that "The board, in considering the provision of Section 17761(b) of the Education Code, has concluded that the 1 percent contribution each year for 10 years . . . is proper recognition of a hardship." SAB staff was directed to file this policy with the Office of Administrative Law, (OAL) as a proposed regulation. OAL, however, rejected the policy because it was a restatement of the current matching policy.

Our analysis indicates that the average cost of the projects funded for construction in the current year was approximately $1.86 million. One percent of this amount is $10,860. The most expensive project funded during the current year cost approximately $10.4 million, 1 percent of which would be $104,000.

As of June 30, 1981, the average ending balance in the General Fund of local school districts was approximately $760,000. An additional average ending fund balance of $381,000 was available to 360 school districts which have building funds used to finance major capital outlay projects. Furthermore, 638 districts maintained special reserve funds (which is used to accumulate funds for capital outlay purposes) which had an average ending fund balance of $344,000.

In view of these balances and the amounts needed to pay 1 percent of the cost of the average school construction project, we agree with the SAB that allowing districts to pay 1 percent over 10 years is an adequate recognition of a hardship situation. We therefore conclude that formal hardship waivers are unnecessary, and recommend that the Education Code be amended to delete the provision authorizing the granting of these waivers.

f. Constitutional Amendment

We recommend that the Legislature enact legislation to place a constitutional amendment on the next general election ballot authorizing local voters to assess special property tax rates to fund debt service for local school contruction bonds.

Proposition 13 effectively eliminated the ability of local school districts to levy additional special property tax rates to pay off new bonds or loans, and therefore, severely limited the districts' access to funds needed for school building construction. Consequently, school districts now rely upon the State School Building Aid program to finance virtually all of their capital outlay needs.

School districts frequently complain about various aspects of the State School Building Aid program, including (1) the amount of paperwork involved in filing an application, (2) the inadequacy of the building area entitlement, and (3) the restrictiveness of the program. The current method of financing school construction, however, is deficient in two more important respects:

- It does not generate sufficient funding to meet district needs.
- It does not distribute the burden of paying for new school facilities in an equitable manner.

Current Mechanism Doesn't Provide Sufficient Funding to Meet Districts Needs. Because of other demands on limited state resources, the state has not been able to allocate enough money for school construction and deferred maintenance to meet the needs of all districts. Consequently, the amount of unfunded school construction projects has remained at a high level. As Table 51 shows, approximately $564.7 million of eligible new school contruction projects are not expected to be funded by the end of 1983–84. If the need for deferred maintenance and emergency classrooms is considered, this amount is even higher—$673.0 million. Proposition 1 could provide an additional $175.0 million of bond funds to help meet this need, but $498.0 million of unfunded capital outlay projects would still remain.

A major reason why the current method of financing school construction does not provide for the facility needs of all districts is that it is not geared to the life of the facilities themselves. Currently, the state pays the entire cost of school construction projects within approximately three years of their initiation. These facilities, however, often last 50 years. Such long-lived assets can and should be financed over their useful life. This would ensure that those benefitting from these structures in the future pay part of the cost of constructing them, rather than allow the entire burden to fall on current beneficiaries.

The inadequacy of present funding sources to provide for the school construction needs in the state points out the desirability of developing additional funding sources for school construction.

Burden of Financing School Construction is Not Distributed Equitably. The present method of financing school construction is inequitable because it requires all citizens of California to pay for school facilities which primarily benefit the residents of particular local school districts. Often, this results in taxpayers paying twice for school facilities: first, through their local property tax payments to pay off loans or bonds issued prior to 1978 to finance their own school facilities, and second, through the state budget to pay for facilities serving residents of other districts. In many cases, the recipients of this subsidy are located in growing and economically vigorous communities (hence the need for new facilities), while the subsidy providers are located in stagnant or declining communities. This does not seem to be consistent with the ability-to-pay doctrine that forms the basis for much of the state's tax system.

For these reasons, we believe that a new revenue source needs to be developed to finance school construction. Specifically, we believe that local school districts should be given the authority (subject to local voter approval) to assess a special property tax in order to fund bonded debt issued to finance school construction. This financing mechanism has the following advantages:

- It would make school construction financing available to those districts who are unable to obtain State School Building Aid funds to meet existing needs.
- It would result in the residents of the school district who are the primary beneficiaries of new school construction paying most of the cost of these facilities.
- It would maintain voter control of borrowing and taxing decisions.

For these reasons, we recommend that the Legislature enact legislation placing a constitutional amendment on the 1984 June ballot which would authorize school districts, upon local voter approval, to assess a special limited property tax rate to fund debt service for local school construction bonds or state School Building Aid loans.

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g. Alternative Eligibility Standards

We recommend that the Legislature adopt supplemental language directing the State Allocation Board (SAB) to require that each applicant for state school construction aid demonstrate that specified alternatives for (1) mitigating the need for school construction and (2) financing school construction, in a manner minimizing demands on limited state funds, cannot be used.

We further recommend that the Departments of General Services and Education compile and publish a handbook for distribution to school districts detailing available alternative financing options for school construction which also discusses strategies for implementing these options.

Existing law specifies that State School Building Aid funds may not be provided to school districts that have an unjustified surplus school site, unless the site is sold and the proceeds are used to offset part of the project's cost. It further requires districts to make maximum feasible use of existing facilities before an apportionment can be received.

There are other alternatives, however, for meeting school facility needs which currently are not recognized in existing law or regulation that, if utilized, could allow limited state funds to go further in meeting facility needs.

Some of these alternatives include interdistrict agreements for the use of underutilized school facilities, increasing the market value of surplus school sites prior to sale through rezoning, and the use of developer fees to finance the cost of some facilities. In addition, alternative financing options of the type discussed in the K–12 overview could be made available to districts through changes in existing law. Our analysis indicates that these options have not been utilized to the fullest extent possible by school districts for two main reasons.

- *Inadequate Information.* First, our field visits indicate that many district officials are not knowledgeable about the various options available under existing law to finance school construction. This situation could be rectified if either the Department of Education or the Department of General Services created a handbook detailing these options, which also discusses strategies for implementing them.
- *Inadequate Local Responsibility.* The second and more serious problem concerns the attitudes of local city, county, and district officials. Many local officials consider the provision of sufficient financing for school facilities to be solely a state responsibility. As long as the State School Building Lease-Purchase program exists, this attitude is likely to persist. Furthermore, district administrators often find it easier to apply to the state for school construction funding than to attempt to fully utilize existing school facilities or alternative funding techniques. For example, administrators are reluctant to increase utilization of existing school facilities by using year-round school sessions, because of opposition from some parents and teachers. The Los Angeles Unified School District ran into this kind of opposition when it attempted to implement a year-round school use plan as a means of reducing overcrowding in some of its schools.

School districts also find it difficult to use existing alternative funding techniques because many of these techniques require the agreement of other local agencies. For example, SB 201 fees which are used to finance interim school facilities, cannot be assessed by school districts, but rather, must be authorized by a city or county.

To assure that the options for alternative financing and increased use of existing facilities are fully explored by districts before they apply for state aid, existing eligibility standards under the school building aid program should be changed so as to require the maximum possible use of these options wherever feasible. Accordingly, we recommend that the Legislature adopt supplemental language directing the State Allocation Board to require that all applicants for state school construction aid demonstrate that they have explored and utilized all feasible options for (1) mitigating the need for new construction, or (2) financing the cost of the proposed school construction project.

We further recommend that the Departments of General Services and Education be directed to compile and publish a handbook detailing options for funding school construction which also discusses strategies for implementing these options. This handbook should be distributed to local school districts, so as to make them fully aware of the range of options available for financing school construction, and for avoiding the need to undertake construction by fully utilizing existing school facilities.

Specifically, we recommend the adoption of the following supplemental language:

"The Department of General Services and the Department of Education shall publish a handbook by December 1, 1983, detailing options available to school districts for: (1) getting the maximum use out of existing school facilities and (2) financing the cost of school construction projects. These handbooks shall be distributed to applicants for State School Building Aid for Phase 1 feasibility studies, along with the required SAB application forms.

After December 1, 1983, the SAB shall require applicants for state aid for Phase 1 feasibility studies, to demonstrate that the options in the handbook cannot be used to either mitigate the need for the proposed projects, or to help finance the cost of the proposed projects; and the SAB shall consider each district's response to this requirement in determining whether to apportion feasibility study funding for the project."

h. Conservation of Existing School Construction Funds

We recommend that the Legislature enact legislation substituting a sliding scale for the required 10 percent school district match that now applies to the cost of school construction projects, in order to strengthen incentives for reducing the cost of assisted projects. We further recommend that supplemental language be adopted directing the State Allocation Board to change the current method of paying for architectural services, in order to conserve state school construction funds.

In order to receive State School Building Aid funds, school districts must finance either 10 percent of a project's cost in the first year, or remit 1 percent of project cost each year for 10 years to the State School Deferred Maintenance Fund.

Architects' fees for designing school construction projects are based upon a percentage of the construction cost, which declines as the cost of the project increases. For example, for a project costing \$1.5 million, the architect would receive 9 percent of the first \$500,000, 8.5 percent of the next \$500,000, and 8.0 percent for the third \$500,000, for a total architectural fee of \$127,500.

While in theory the 10 percent local district match should provide some incentive for districts to conserve limited state school building funds by

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encouraging them to seek the most cost-effective structures, our field observations indicate that in practice this incentive is not sufficient to accomplish this purpose. Furthermore, because an architect's fees are based on a percentage of project cost, there is an incentive for architects to design buildings which utilize as much as possible of the construction budget allowance.

Variable School District Match. Our analysis suggests that the amount of state aid available for school construction could be made to "go farther" if additional incentives were provided for districts to conserve these funds. One way to do this would be to change the required district funding match so that the matching percentage increases as the project's cost approaches 100 percent of the building aid allowance. For example, the district match could be set so that it would be 5 percent when the project's cost is 85 percent of the allowance, but 15 percent when the cost reaches 100 percent of the allowance. This is illustrated in Table 52.

Table 52

School District Matching Costs

	Project Cost	*District Share*	*District Savings*	*State Share*	*State Savings*
A. Present System	$1,000,000	$100,000 (10%)	—	$900,000 (90%)	—
B. Alternative					
Example #1	850,000 (85%)	42,500 (5%)	$57,500	807,500 (95%)	$92,500
Example #2	1,000,000 (100%)	150,000 (15%)	–50,000	850,000 (85%)	50,000

Assuming that the State Allocation Board cost allowance for a building is $1,000,000, under the present system, the state's share would be $900,000 (90 percent), and the district's share would be $100,000 (10 percent). If as a result of a variable match, the district, working with an architect, was able to hold down the cost of the building to 85 percent of the allowance (example #1 Table 52), the state share would be $807,500 (95 percent), for a cost savings of $92,500, and the district share would be $42,500 (5 percent) for a district cost savings of $57,500.

If, on the other hand, the architect's design results in the building costing 100 percent of the allowance (example 2, Table 52) the district would incur additional cost of $50,000 for building a less cost-effective structure, while the state would realize savings of $50,000 that could be used to fund other projects.

Architectural Fees. A second way to promote conservation of the limited amount of state funds available for school construction is to provide an incentive to architects to design a more cost-effective building. This could be done by basing the architect's compensation, in part, upon the amount of savings from State Allocation Board cost allowances that their building designs achieve. For example, architects could be paid an additional 2 percent over their normal marginal percentage fee for the amount of any cost savings that their project designs achieve. The additional fee would be paid out of the amount of savings the state realizes.

To illustrate this option, assume that a project's cost allowance is $5 million. The regular architect's fee for designing this project would be $377,500. If, as a result of adopting this option, the architect designs a project costing $4,500,000, the architect would receive his normal marginal 7 percent fee ($342,500) plus an additional 9 percent on the cost savings amount of $500,000 ($45,000) for a total fee of $387,500. Thus, the architect would receive an additional $10,000 for the cost-effectiveness of his designs, and state would realize a net cost savings of $405,000.

Both of these options would promote the conservation of limited state funds, and thus enable the state to assist more districts to meet their school facility needs. Accordingly, we recommend the enactment of legislation to amend the school district matching requirement so as to place it on a variable scale as discussed above. We also recommend the adoption of the following supplemental language which would require the SAB to change the current method of compensating architects:

> "The State Allocation Board shall change the current method of paying for architectural services under the State School Building Lease-Purchase program, to provide additional compensation to architects whose building designs achieve savings from the cost allowance authorized for that project under the program. This additional compensation shall be paid from the savings amount realized by the state on the project resulting from the architect's building design. The additional compensation paid to the architect shall be equal to 2 percent in addition to the applicable marginal percentage architectural fee, based on the savings amount the building design achieves from the construction cost allowance provided under the State School Building Lease-Purchase program."

i. Nonuse Payments for Surplus School Sites

We recommend that the Legislature enact legislation to increase the nonuse payment for surplus school sites charged to local school districts, in order to return these sites to the property tax rolls.

In the Spring of 1981, the Department of General Services' Office of Local Assistance conducted a statewide survey of unused school sites. This survey showed the existence of 682 unused sites comprising 9,072 acres. The acquisition of some of these sites had been financed from State School Building Aid loans, and all were exempt from local property taxes.

Under current law, unused school sites are subject to a nonuse payment of 1 percent of the original purchase price adjusted by either: (1) a factor reflecting the change in assessed value of all lands in the state from the date of the site's purchase to the current date or (2) other factors which the State Allocation Board determines are more applicable to the site. Nonuse payments were instituted so as to provide an incentive for school districts to dispose of surplus sites, thereby placing them back onto the property tax rolls.

In the case of unused sites originally financed with a State School Building Aid loan, the district must pay, in addition to the nonuse payment, the principal and interest on the loan. When the site is sold, the district retains the full proceeds from the sale if the loan has been repaid; if the loan has not been repaid, the district retains part of the proceeds, and uses some of the proceeds to repay the outstanding balance of the loan.

Our analysis indicates that the current nonuse payment provisions are not adequate to accomplish their intended purpose of encouraging the disposition of surplus school sites. This is because the nonuse payment rate is lower than comparable market lease rates. For example, in contrast to the 1 percent nonuse rate established by statute, private lessors of residential sites generally are currently charging a lease rate of 4 percent of the site's fair market value for residential land. In addition to the earnings from such a lease, the lessor profits from any appreciation in the value of the underlying property. The Port Authority of San Diego, for example,

DEPARTMENT OF EDUCATION—Continued

charges 10 percent of the fair market value for its industrial land leases.

Our analysis also indicates that school districts can derive substantial profits from the appreciation in value of their surplus school sites, in spite of the 1 percent nonuse payment that they are required to make. For example, we found that 11 surplus school sites located in 11 different counties have appreciated in value by an average of 9 percent per year compounded annually. Assuming no unpaid loans remain on these properties, the difference between the 9 percent appreciation and the 1 percent nonuse payment results in an annual 8 percent "profit" to the districts from retaining the sites. Because the property is exempt from taxation, however, the state also loses money, in that the General Fund must pay more to fund the district's revenue limit than it otherwise would.

In sum, we conclude that the current one percent nonuse payment must be increased if it is to serve its intended purpose of encouraging districts to restore surplus sites to the property tax rolls. Specifically, we recommend that legislation be enacted increasing the rate upon which the nonuse payments are based to reflect the yearly increase in assessed valuation in the county in which the property is located. This rate should be calculated based upon the prior year's "adjusted purchase price" of the property, with the nonuse payment amount being reduced by any interest paid on any outstanding State School Building Aid loans. For property upon which a nonuse payment will be assessed for the first time, this essentially freezes the "adjustment purchase price" of the property at its current value in the year prior to the beginning of the nonuse payments. For property currently subject to those payments, this freezes the "adjusted purchase price" of the property at its value in the current year. The state captures any future increase in the fair market value of the property through the assessment of the nonuse payment.

For example, if (1) a school district owns a piece of property with an "adjusted purchase price" of $1,000,000 in the year prior to the first assessment of a nonuse payment, (2) no State School Building Aid loans are outstanding against that property, and (3) the yearly increase in assessed valuation in the county is 10 percent per year, the nonuse payment would be 10 percent of $1,000,000, or $100,000 per year. The school districts would therefore no longer benefit from holding this property off the tax rolls because the $100,000 yearly appreciation in the market value of the property would be paid to the state as a nonuse payment.

j. Priority Points

We recommend that the Legislature adopt supplemental language directing the State Allocation Board to establish the minimum number of priority points needed by construction applications before they can be considered for funding in the budget year so as to assure that available funds are used to fund projects for which the greatest need exists.

Existing law authorizes the State Allocation Board (SAB) to establish priorities for the funding of school construction projects, based upon the criteria of maximum pupil benefit. It further authorizes the board to make exceptions to these priorities when it determines that to do so will benefit the pupils affected.

Regulations adopted by the SAB require the assignment of priority points when it is determined that the estimated need for school construction by all districts exceeds the available funds in any given fiscal year.

These regulations also (1) require the consideration of projects in sequence according to the number of priority points credited to each application, and (2) mandate that the SAB shall from time to time establish the minimum number of priority points necessary to qualify an application for funding consideration.

Pursuant to the latter requirement, the SAB has continued the practice, begun in 1981–82, of requiring 70 priority points before a project can be approved for construction funding. It also has adopted a policy requiring 60 priority points before a project's preliminary or final plans can be funded. This was done because the board recognized that there would be a shortage of state monies in 1982–83.

At the July meeting of the board, $104.5 million was apportioned to fund the construction phase of 60 projects, and $10.0 million was set aside to fund preliminary and final plans for additional projects. Consequently, there are no funds left to finance the construction phase of any projects coming before the board during the remaining 11 months of the current fiscal year.

Among the 60 projects funded for construction were two that had 67 and 77 priority points, respectively. In the next month (August), the board received four applications for construction funding, two of which had 332 and 225 priority points, respectively. In October, seven additional applications were received, two of which had 396 and 311 priority points, respectively. None of these applications were funded because of the action taken in July. As a result, some projects have been funded merely because they happened to be before the board in July, while other projects for which there is a much greater need and which are ready for construction have not been funded because the projects were submitted to the board a few months later.

This illustrates the need for better planning by the board to insure that only projects for which there is the greatest need are funded from available funds.

Currently, the SAB attempts to allocate funds based on known need, rather than anticipated need in the months ahead. It is this approach that results in projects with 77 priority points being funded while projects with over 300 priority points are not.

Our analysis indicates that available funds for school construction could be allocated in a manner that is more responsive to existing law if the SAB was required to adopt a priority point level, which given available funds, would ensure that the highest priority known *and anticipated* projects are funded in a given year. Consequently, we recommend that the following supplemental language be adopted directing the State Allocation Board to establish such a priority point level:

> "The State Allocation Board shall adopt at their July 1983 meeting, a minimum priority point level which applicants for State School Building Aid for the construction phase of school construction projects must equal or exceed before their application can be considered by the Board. This priority point level shall be set at a level which matches (1) the cost of projects which will qualify for state aid under the State School Building Lease-Purchase law and are anticipated to be submitted for construction funding during the entire 1983–84 fiscal year to (2) the amount of funds available for funding the construction phase of school construction projects during 1983–84, while still retaining an adequate amount of funds for project planning."

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k. Developer Fees

We recommend that the Legislature enact legislation authorizing districts to assess SB 201 fees to finance the cost of permanent school construction, so that more funds can be made available to meet the unmet need for school facilities.

Some school districts currently are receiving developer impaction fees under either the provisions of Ch 955/77 (SB 201) (Government Code Section 65974), or based on the impaction mitigation provisions of the California Environmental Quality Act (CEQA).

Under SB 201, a city or county may adopt an ordinance to require developers to dedicate land or pay fees to mitigate the impact of housing developments. These fees must be used for the acquisition of temporary elementary or secondary school facilities, which are used until permanent school facilities can be built. These fees typically range from several hundred dollars to $3,000 per house.

Under CEQA, an environmental impact report (EIR), is required on any project that may have a significant effect on the environment. If the EIR indicates a particular development will cause a negative impact on service areas of the city or county, the developer is obligated to remedy the impact by either mitigating or avoiding the identified effects. The CEQA is ambiguous as to whether its provisions apply to school districts. Furthermore, since the passage of SB 2011 (Ch 1438/82), it is unclear whether developer mitigation fees can continue to be collected by school districts under CEQA.

In cases where a school district will be adversely impacted, an unofficial agreement between the developer and the impacted school district typically is reached to mitigate the effects. This agreement usually involves the levying of a fee on each parcel of property within the development and/or the dedication of land for school purposes. Fees are paid directly to the school district, and can be used to fund either interim or permanent school facilities.

The assessment of mitigation fees has been criticized by the building industry because they add to the cost of housing. On the other hand, use of these fees may be justified by the fact that new housing developments are often responsible for school overcrowding, and consequently, it makes sense to have those who benefit from the construction of new facilities pay part of the cost of these facilities.

In the K–12 overview, we discussed the inability of the state to provide sufficient funds to meet the unmet need for K–12 school capital outlay. New financing sources for school construction, therefore, would be desirable. One such source would involve greater use of developer's fees. Currently, SB 201 fees can only be used for the procurement of interim school facilities, and use of these facilities must be discontinued one year after receipt of an apportionment from the State School Building Lease-Purchase program.

Therefore, to increase the amount of revenue available for financing school construction, we recommend the enactment of legislation authorizing the assessment of SB 201 fees to finance part or all of the cost of *permanent* school facilities.

I. Department of Education—School Facilities Planning (Item 6100-001-344)

We recommend approval.

The budget includes $495,000 from the State School Building Lease-Purchase Fund for support of the School Facilities Planning Unit in the Department of Education. This is an $18,000, or 3.8 percent, increase over estimated 1982–83 expenditures for this purpose.

This unit provides consulting services in the area of school facilities planning to local school districts that lack the resources and expertise to obtain these services locally. Among the types of assistance provided are:

- Planning of new school facilities.
- Planning for renovation of existing facilities.
- Evaluation of existing facilities.
- Financial planning for school construction.

Our analysis indicates that the request is reasonable, and accordingly, we recommend approval.

III. STATE OPERATIONS

A. DEPARTMENT OF EDUCATION (Items 6100-001-001 and 6100-001-890)

1. Overview of 1983–84 Proposed Budget

This section discusses the overall state operations (administration) budget for the Department of Education (SDE) and related agencies, as well as those administrative activities that are not directly tied to a particular local assistance program: (1) program evaluation, (2) curriculum services, and (3) library services. Administrative issues related to particular local assistance programs, such as the School Improvement Program, are discussed in connection with the program itself.

a. ***Expenditures.*** Table 53 shows state operations expenditures for the SDE, special schools, and State Library in the prior, current, and budget years. These expenditures are proposed at $132.7 million in 1983–84, of which $63.9 million is requested from the General Fund. The proposed General Fund increases for the special schools and the State Library are $1,534,000 (5.3 percent) and $387,000 (6.0 percent), respectively. These increases will grow by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposes a $2,296,000, 8.0 percent, *decrease* in General Fund support for the department. This, however, makes no allowance for the cost of any salary or staff benefit increase that may be approved in the budget year. The Department of Finance estimates that each 1.0 percent of salary increase will require $518,000 in additional General Fund support for the SDE and related agencies.

Table 53 shows that total Department of Education expenditures are expected to decrease by $0.2 million, or 0.3 percent, while General Fund expenditures by the department are proposed to decrease by $2.3 million, or 8.0 percent. The most significant reasons for the difference between the change in total expenditures and the change in General Fund expenditures are (1) anticipated increases in federal funds ($0.6 million) and (2) a technical change in the way reimbursements to a Special Deposit Fund ($1.5 million) are displayed in the budget.

DEPARTMENT OF EDUCATION—Continued

Table 53
State Operations Funding
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
A. Department of Education Funding:					
General Fund	$31,807	$28,839 [a]	$26,543	−$2,296	−8.0%
Federal funds	29,727	30,722	31,297	575	1.9
State School Building Lease-Purchase	401	477	495	18	3.8
Driver Training Penalty Assessment	309	244	254	10	4.1
Environmental License Plate	—	—	101	101	100.0
Private Postsecondary Administration	434	955	986	31	3.2
Student Tuition Recovery	—	47	49	2	4.3
Special Deposit	—	—	1,528	1,528	100.0
Special Account for Capital Outlay	22	51	—	−51	−100.0
State School	—	114	—	−114	−100.0
Subtotals	$62,700	$61,449	$61,253	−$214	−0.3%
B. Special Schools Funding:					
General Fund	$28,389	$29,013	$30,547	$1,534	5.3%
Subtotals	$28,389	$29,013	$30,547	$1,534	5.3%
C. Division of Libraries Funding:					
General Fund	$6,676	$6,458 [a]	$6,845	$387	6.0%
Federal funds	851	1,010	1,039	29	2.9
Special Account for Capital Outlay	—	805	—	−805	−100.0
Subtotals	$7,527	$8,273	$7,884	−$389	−4.7%
D. Surplus Property Revolving Fund	$10,480	$25,200	$26,337	$1,137	4.5%
E. Local Assistance Administration [b]	$248	$1,180	—	−$1,180	−100.0%
F. Reimbursements [c]	$8,670	$8,256	$6,607	−$1,549	−18.8%
Totals	$118,014	$133,371	$132,728	−$643	−0.5%
General Fund	*$66,872*	*$64,310* [a]	*$63,935*	*−$375*	*−0.6%*
Federal funds	*30,578*	*31,732*	*32,336*	*604*	*1.9*
Other state funds [d]	*20,564*	*37,329*	*36,457*	*−872*	*−2.3*

[a] Amounts are those shown in the Governor's Budget and do *not* reflect the 2 percent General Fund reductions pursuant to the Executive Order D-1-83. These reductions equal $577,000 for the department and $129,000 for the State Library.

[b] The decrease in 1983–84 is due to a change in budgeting. Local assistance administration will be appropriated in state operations and not transferred from local assistance as has been the practice in prior years.

[c] The decrease in reimbursements is due to a change in identity for special deposit funds which will not be classified as reimbursements in 1983–84. Special deposit funds will be continuously appropriated under Government Code Section 16370.

[d] Includes reimbursements, state school building lease-purchase, surplus property revolving, driver training penalty assessment, environmental license plate, private postsecondary administration, student tuition recovery, special deposit, special account for capital outlay, state school, and local assistance administration.

The General Fund increases for the special schools and the State Library in the budget year are caused primarily by baseline adjustments—restoration of the employer's contribution to the PERS after a one-time reduction in the current year, and adjustments needed to compensate for the effects of inflation on operating expenses and equipment purchases. The budget shows an expenditure decrease for the State Library because the current-year budget contains one-time funding for relocating the Sutro Library.

b. ***Significant General Fund Changes in 1983–84.*** Table 54 shows the components of the $375,000 (0.6 percent) decrease in General Fund supported state operations for SDE and related agencies, between the current and budget years.

Table 54

Proposed 1983–84 General Fund Budget Changes
State Operations
(in thousands)

1982–83 Base Budget		$64,310
A. Changes to maintain existing budget		
1. Restore employee compensation	$1,795	
2. Merit salary increase	304	
3. Price increases	861	
4. Workload changes	664	
Total, changes to maintain existing budget		$3,624
B. Program Change Proposals		
1. Legal staff reduction	–$140	
2. State educational block grant	–3,859	
Total, Program Change Proposals		–$3,999
Total Change:	–$375	
Amount		
Percent	0.6%	
Total 1983–84 Support		$63,935

The most significant changes shown in Table 54 are (1) the decrease that is proposed in SDE state operations on account of the State Educational Block Grant (–$3,859,000), (2) increases for price adjustments ($861,000), and (3) increase to restore the employer's PERS contribution ($1,795,000). Later in this analysis, we discuss in more detail the decreases associated with the proposed State Educational Block Grant.

Table 55

Department of Education
Personnel Years by Fund Source

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Department of Education					
General Fund	501.1	542.0	464.3	–77.7	–14.3%
Federal funds	438.3	449.3	447.5	–1.8	–0.4
Other funds	518.2	568.4	568.5	.1	—
Subtotals	1,457.6	1,559.7	1,480.3	–79.4	–5.1%
State Library					
General Fund	145.7	141.1	138.6	–2.5	–1.8%
Federal funds	15.2	17.4	17.4	—	—
Other funds	18.8	18.7	18.7	—	—
Subtotals	179.7	177.2	174.7	–2.5	–1.4%
Special Schools					
General Fund	992.4	1,015.4	1,015.4	—	—
Other funds	57.4	65.1	63.9	–1.2	–1.8%
Subtotals	1,049.8	1,080.5	1,079.3	–1.2	–0.1%
Department Totals					
General Fund	1,639.2	1,698.5	1,618.3	–80.2	–4.7%
Federal funds	453.5	466.7	464.9	–1.8	–0.4
Other funds	594.4	652.2	651.1	–1.1	–0.2
Totals	2,687.1	2,817.4	2,734.3	–83.1	–2.9%

DEPARTMENT OF EDUCATION—Continued

Personnel. Table 55 shows the number of funded positions, by fund source, in the Department of Education, the special schools, and the State Library. The budget proposes an 83.1 (2.9 percent) *decrease* in the number of funded positions, of which 80.2 are now supported from the General Fund. This amounts to a 4.7 percent reduction in General Fund-supported positions. The primary reasons for these decreases are (1) the proposed deletion of 71.4 positions to reflect reduced workload that would accompany the proposed block grant and (2) a decrease of 5.0 positions in the department's legal office. Both of these reductions are discussed later in this *Analysis.*

e. ***Operating Expenses and Equipment (OEE).*** Table 56 presents the line item display for operating expenses and equipment (OEE) for the SDE and its related agencies.

Table 56

Operating Expenses and Equipment (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change*	
				Amount	*Percent*
General Expenses	$3,410	$2,952	$1,759	−$1,193	−40.4%
Printing	1,000	955	943	−12	−1.3
Communications	1,557	1,485	1,525	40	2.7
Postage	599	388	387	−1	−0.3
Travel-in-state	2,937	2,714	2,698	−16	−0.6
Travel-out-of-state	101	149	149	—	—
Training	7	56	56	—	—
Facilities operation	3,964	4,177	4,203	26	0.6
Utilities	1,161	1,300	1,542	242	18.6
Consultant and Professional Services	10,190	11,044	10,899	−145	−1.3
Departmental services	282	803	947	144	17.9
Consolidated data centers	1,075	888	888	—	—
Data Processing	1,185	766	767	1	0.1
Central administrative services	3,005	2,960	2,698	−262	−8.9
Equipment	371	1,678	837	−841	−50.1
Other Items of Expense	2,799	2,943	3,145	202	6.9
Commodities costs	3,996	18,038	18,775	737	4.1
Surplus Property Demonstration Project	118	384	612	228	59.4
Unallocated reduction	—	—	−1,702	−1,702	—
Totals	$37,757	$53,680	$51,128	−$2,552	−4.8%

As shown in Table 56, OEE expenses are proposed to decrease by $2.6 million, or 4.8 percent, in the budget year. The primary factors causing this decrease are (1) a reduction in general expenses (−$1.2 million), (2) an unallocated reduction associated with the proposed block grant (−$1.7 million), and (3) a reduction in equipment purchases (−$0.8 million). These decreases are partially offset by (1) increases for surplus property commodity costs and demonstration projects ($1.0 million) and (2) increases for departmental services and utilities ($0.4 million).

F. ***1982–83 Department Expenditures.*** In the first six months of the current year, the department's General Fund expenditures exceeded the amount budgeted by an amount that, on an annual basis, is equivalent to approximately $1.6 million. Not only must the department bring its rate of expenditures into line with budgeted resources, and offset the deficiency remaining from the July-December period, it must also reduce General Fund expenditures by $577,000 pursuant to Executive Order D-1-83, which requires a 2 percent reduction in General Fund supported state operations.

The department has instituted a variety of actions to stay within authorized General Fund resources during the current year. These actions include:

- Shifting General Fund personnel to work on federally-funded projects.
- Reducing operating expenses and equipment costs, primarily in the areas of consultant and professional services and in-state travel.

G. ***1983–84 Governor's Budget.*** As shown in Table 55, the budget proposes a reduction of 77.7 General Fund person-years for the department between 1982–83 and 1983–84. These reductions reflect (1) normal workload and administrative adjustments (1.3 person-years and $23,000), (2) an administration proposal to reduce legal staff in line agencies (5.0 personnel years and $140,000), and (3) implementation of the proposed State Educational Block Grant (71.4 personnel years and $3,859,000).

Legal Office Reduction. The budget proposes to delete 5.0 positions (3.0 professional and 2.0 clerical) and $140,000 (General Fund) from the department's legal office. This reflects the administration's policy decision to centralize the provision of legal services in the Attorney General's office.

In the current year, the SDE legal office includes 16.9 positions, of which 10.0 positions are supported from the General Fund at a cost of $459,000 (excluding the cost of defending the department in pending litigation stemming from the *Serrano v. Priest* decision). The budget proposes to reduce 50 percent of the General Fund positions *but only 30 percent of the funds* associated with these positions. This is because the budget proposes to (1) reduce only the salary and *some* staff benefits associated with the five positions, and (2) eliminate the lowest cost professional and clerical positions. The budget does not reduce all the staff benefits or any OEE associated with these positions. If funding for all staff benefits and OEE associated with these positions is also reduced, additional General Fund reductions would be possible.

The 10.0 General Fund-supported positions provide legal assistance to the SDE and the State Board of Education with regard to (1) allocation of state aid to school districts and (2) development of regulations for implementing legislation. In addition to these duties, the legal office staff also provide assistance to the Attorney General's staff when there is litigation on state education programs.

To the extent that the proposed reduction would result in either (1) lower quality legal work for the department and board resulting in increased litigation and state costs or (2) less assistance to the Attorney General's staff resulting in loss of cases affecting state costs which otherwise would have been won, the proposed savings could result in increased General Fund costs for future budgets.

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We make no recommendation on the administration's proposed reduction because we have no analytical basis for determining whether either of the possible effects of the proposed reduction will occur, resulting in increased future General Fund costs. We suggest, however, that the SDE be prepared to comment on whether the proposed reduction would lead to increased costs for future budgets.

Block Grant Related Reductions

We withhold recommendation on the proposed reduction in state administration ($3,859,000) related to the block grant proposal, pending receipt of adequate justification for this proposal.

The budget proposes to reduce General Fund-supported state administration for the nine local assistance programs proposed for consolidation into the State Educational Block Grant. The budget also proposes to fold funding for the *administration* of vocational education into the block grant, although vocational education local assistance is not proposed for inclusion in the block grant. The total reduction in state operations is 71.4 personnel-years and $3,859,000, which is a 13 percent reduction from current-year levels.

The budget, however, provides no information that would allow us to analyze the proposed reduction. Specifically, it fails to identify (1) what activities would no longer be performed and the positions now required to perform those activities, (2) what activities would still need to be performed and the workload standards for those activities, or (3) whether these are half- or full-year savings (the budget assumes that savings in local district administration of these programs are half-year.) In fact, the budget states that this is an unallocated reduction, and the details will be developed at a later date. Consequently, the Legislature currently has no information that could be used to judge the practicality or effects of the proposed reduction.

Pending receipt of justification for the proposed state administration funding level from the Departments of Finance and Eduction, we withhold recommendation on the state block grant administration reduction.

Attorney Fees

We recommend that (1) the attorney fees for defending the Superintendent of Public Education in the Serrano case be separately identified in the Department of Education's appropriation, and (2) any expenditure of these funds be subject to approval by the Director of Finance.

The Governor's Budget contains $525,000 for defense attorney fees in the *Serrano v. Priest* case.

These funds might not be required in 1983–84 because the case currently is in the trial phase, and is expected to be completed by late Spring or early Summer of 1983. The case, however, could continue into 1983–84 because of unanticipated delays. Additionally, after the trial court ruling, the state or plaintiffs may decide to appeal the trial court decision, prolonging the need for additional funds.

For these reasons, the amount of funds needed for *Serrano* defense attorney fees in 1983–84 is unknown at this time. In order to ensure that any unneeded funds are not reallocated to other purposes, we recommend that the $525,000 requested for defending the superintendent be separately identified in the Department of Education's appropriation, and that any expenditure of these funds be subject to approval by the Director of Finance.

State Publications Report. Pursuant to Ch 1632/82, state agencies are required to include with their budget request (1) a report on legislatively mandated publications which require 100 or more employee hours to produce, and (2) recommendations as to whether any of these publications should be discontinued. Our office is required to review the report and recommend in this *Analysis* whether any publication should be discontinued.

The Department of Education did not submit with its budget request the report required by Ch 1632/82. The department intends to submit the report before budget hearings. We will be prepared to comment on the department's report at that time.

2. Office of Program Evaluation and Research (Item 6100-001-001)

The Office of Program Evaluation and Research (OPER) is the department's centralized evaluation unit. Its main functions are, the administration of (1) the California Assessment Program, (2) various evaluations, and (3) the California High School Proficiency Examination. In the current year, OPER has 64.5 authorized positions.

Table 57 shows OPER's expenditures and funding.

Table 57
Expenditures and Funding for the Office of Program Evaluation and Research (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
State Operations:					
Special studies	$169	$143	$148	$5	3.5%
California Assessment Program	2,062	1,430	1,463	33	2.3
California High School Proficiency Examination (CHSPE)	750	557	566	9	1.6
Student proficiency	540	323	334	11	3.4
Other mandated evaluations	1,547	1,828	1,876	48	2.6
Subtotals	$5,068	$4,281	$4,387	$106	2.5%
Local Assistance	$193	$80	$80	—	—
Totals	$5,261	$4,361	$4,467	$106	2.4%
General Fund	*$2,484*	*$1,399*	*$1,454*	*$55*	*3.9%*
Federal funds	*2,265*	*2,405*	*2,447*	*42*	*1.7*
Reimbursements	*512*	*557*	—	*−557*	*−100.0*
Special Deposit Fund	—	—	*566*	*566*	*100.0*

a. California High School Proficiency Exam (CHSPE)

We recommend that, during budget hearings, the Departments of Finance and Education submit a plan on how they propose to fund the CHSPE deficit.

Chapter 1265, Statutes of 1972, established an examination process which provides students an opportunity to obtain a certificate of proficiency before their formal graduation from high school. The examination is administered by the department, and all test questions are developed by OPER. The exam is given three times annually at approximately 100 centers statewide. Currently, a $20 fee—the maximum fee allowed by law—is charged those taking the CHSPE in order to cover the cost of the

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exam, including the OPER staff costs.

Our analysis indicates that the current $20 fee is not sufficient to cover the costs to the state of administering the exam. Specifically, we find that revenues are overestimated and the costs of the program are underestimated.

Revenues Overestimated. The Governor's Budget estimates that the department will receive fees of $566,000 in the budget year. Actual fee revenues in 1981–82 and estimated fee revenues in 1982–83, however, are $562,250 and $451,120, respectively. For revenues in the budget year to reach the $566,000, therefore, they will have to increase by $115,000, or 25 percent, over estimated 1982–83 revenues. We do not believe this is likely to occur.

Costs Underestimated. The budget fails to show the full costs of the CHSPE program. Instead, the budget *assumes* that program costs in 1983–84 will be equal to estimated fee revenues. This assumption, however, is not valid. We estimate that the full program costs of 1983–84 will be at least $730,000, or $164,000 higher than budgeted 1983–84 fee revenues. Our estimate is based on actual contract costs in 1982–83 ($615,940), and actual state administrative cost in 1981–82 ($114,538). Neither contract costs nor state administration costs can be reduced significantly and still provide the program at the legislatively established level, because the examination must be given to any qualified person who requests it.

Consequently, we estimate that the budget contains a hidden deficit of at least $164,000. The effect of this hidden deficit will be that the expenditure plan approved by the Legislature will have to modified, without the Legislature having an opportunity to specify what activities should be reduced in order to generate the funds needed to cover the deficit.

For this reason, we recommend that, during budget hearings, the Departments of Finance and Education submit a plan on how they propose to fund the CHSPE deficit.

3. Curriculum Services

To assist school districts and other agencies in improving instruction, the Curriculum Services Unit administers the following seven programs: (1) physical education, (2) health education, (3) personal and career development, (4) special curriculum programs, (5) traffic safety, (6) parenting, and (7) computer education. For 1983–84, the budget proposes $3.8 million (all funds) for these programs, a reduction of $1.7 million, or 31 percent, from the 1982–83 level.

This $1.1 million decrease consists of a General Fund reduction of $1.1 million and a reduction in federal funds of $0.6 million. The General Fund reduction of $1.7 million reflects the budget's proposal to include Educational Technology within the State Educational Block Grant. The federal funds reduction of $635,000 results primarily from the inclusion of a federally-funded Career Education program within the federal block grant.

Environmental Education (Items 6100-001-140 and 6100-181-140)

We recommend approval.

The Curriculum Services Unit administers the Environmental Education program which provides approximately 30 grants annually to local education agencies, other governmental agencies, and nonprofit organizations to establish interdisciplinary education programs related to the environment, energy, and conservation. The budget proposes to fund both local assistance ($399,000 in Item 6100-181-140) and state operations ($101,000 in Item 6100-001-140) for this program from the Environmental License Plate Fund—a total of $500,000. Our analysis indicates that the proposal is reasonable, and therefore we recommend approval.

Educational Technology (Item 6100-218-001) For 1983–84, the budget proposes to fold the Educational Technology program into the State Educational Block Grant (Item 6100-218-001). The block grant includes $232,000 in state operations and $870,000 in local assistance—the same amount appropriated for Educational Technology in 1982–83.

As a categorical program, Educational Technology seeks to provide instructional telecommunications services for schools. Through the State Instructional Television Advisory Committee, grants are awarded for the development of instructional television and radio programs. In addition, the SDE approves the plans of local educational agencies for educational technology programs. According to the SDE, in 1981–82, 310 school districts conducted educational technology programs involving 1.7 million pupils statewide.

4. University and College Opportunities Program

The goal of the University and College Opportunities (UCO) program is to assist high schools in increasing the number of students from underrepresented groups that are eligible for university admission. The program is administered by four positions within the State Department of Education. The budget proposes $250,000 from the General Fund for UCO in 1983–84, an increase of 3 percent from 1982–83. Services provided by UCO program staff include (1) coordination of federally-funded innovative projects, (2) a UCO "network" to encourage program replication and information sharing, (3) liaison with the Mathematics, Engineering, Science Achievement (MESA) program, (4) workshops to bring together high school and university officials, (5) coordination with parent and community support groups, and (6) linking outstanding students with existing scholarship and fellowship programs.

Role of Postsecondary Education Segments in K–12 Outreach. In the postsecondary education overview in this *Analysis,* we note that the three postsecondary education segments are involved in outreach activities, in which program staff work with underrepresented minority students attending secondary schools, in order to increase their enrollment in institutions of postsecondary education. In the postsecondary overview, we recommend that the Legislature adopt a policy specifying that certain outreach programs are the sole responsibility of the K–12 segment. We also recommend that the three postsecondary education segments, the California Postsecondary Education Commission (CPEC), and the State Department of Education develop a plan for making the transition to the proposed new policy.

5. Private Postsecondary Education (Item 6100-001-305)

The Office of Private Postsecondary Education (OPPE) within the Department of Education, regulates private schools in the state, and is the administrative arm of the Council for Private Postsecondary Educational Institutions. OPPE receives its authority from the Private Postsecondary Education Act of 1977 (Ch 1202/77), which requires OPPE to review and

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approve most private postsecondary schools operating in the state. The OPPE also has a contract with the U.S. Veterans Administration, which requires OPPE to make an annual visit to schools enrolling veterans.

The office also administers a Student Tuition Recovery Fund, which 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.

OPPE 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 for its administration. Table 58 shows OPPE support for the past, current and budget year.

Table 58

Office of Private Postsecondary Education Expenditures (dollars in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change*	
				Amount	*Percent*
State Operations	$1,590	$2,401	$2,468	$67	2.8%
Local Assistance	152	222	222	—	—
Totals	$1,742	$2,623	$2,690	$67	2.6%
General Fund	*$74*	—	—	—	—
Federal Trust Fund	*727*	*$1,399*	*$1,433*	*$34*	*2.4%*
Student Tuition Recovery Fund	*159*	*269*	*271*	*2*	*.7*
Private Postsecondary Education Fund	*434*	*955*	*986*	*31*	*3.2*
Reimbursements	*348*	—	—	—	—
Positions	33.8	35.4	35.4	-	-

The budget requests $2,468,000 for OPPE's state operations in the budget year, including $986,000 from the Private Postsecondary Fund (Item 6100-001-305). This amount represents a $67,000 (2.8 percent) increase from current-year estimated expenditures of $2,401,000. The budget also requests $222,000 from the Student Tuition Recovery Fund for local assistance expenditures—an amount equal to estimated current-year expenditures.

Firearms Training Schools. In our analysis of the budget request for the Department of Consumer Affairs, we recommend that the responsibility for regulation of firearms training schools be transferred from the Bureau of Collection and Investigative Services in the Department of Consumer Affairs to the Office of Private Postsecondary Education. This recommendation will be heard by the fiscal subcommittees which consider the Department of Consumer Affairs budget request. Any increased workload assigned by the Legislature to the OPPE as a result of this recommendation would be funded from fees imposed on these schools in accordance with current statutory authority granted to OPPE. Accordingly, no action on this matter needs to be taken by the fiscal subcommittees which consider the budget request of the Department of Education.

B. STATE LIBRARY (Items 6100-011-001, 6100-211-001, 6100-211-890, and 6100-011-870)

1. Overview

The 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 the various library collections (law, reference, Sutro, government publications, etc.), the provision of consultant services to public libraries, and the administration of the California Library Services Act (CLSA). 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 of California public library materials. Table 59 shows the funding level for the State Library in the prior, current, and budget years. The $220,000 reduction in total funding for statewide library support and development shown in the table primarily reflects the elimination of one-time capital outlay funding provided in 1982–83 to pay for the costs of moving the Sutro Library to a new location in San Francisco.

Table 59

State Library Expenditures and Funding

	Actual 1981–82	*Estimated 1982–83* [a]	*Proposed 1983–84* [a]	*Change Amount*	*Change Percent*
State Operations:					
Reference for the Legislature	$722	$717	$738	$21	2.9%
Statewide library support and development	2,466	3,039	2,269	−770	−25.3
Special clientele services	1,302	1,372	1,402	30	2.2
Support services	3,072	3,157	3,489	332	10.5
Subtotals	$7,562	$8,285	$7,898	−$387	−4.7%
Local Assistance:					
Statewide library support and development	$10,116	$10,736	$10,901	$165	1.5%
Totals	$17,678	$19,021	$19,799	−$220	−1.1%
State Operations:					
General Fund	*$6,677*	*$6,457*	*$6,846*	*$389*	*6.0%*
Special Account for Capital Outlay	—	*805*	—	*−805*	*−100.0*
Federal Funds	*872*	*1,010*	*1,039*	*29*	*2.9*
Reimbursements	*13*	*13*	*13*	—	—
Local Assistance:					
General Funds	*$5,484*	*$5,520*	*$5,685*	*$165*	*2.9%*
Federal Funds	*4,632*	*5,216*	*5,216*	—	—

[a] Does not include recent augmentation of Federal LSCA funds totaling $1.6 million.

a. ***Summary of Changes*** Table 60 displays the changes in the State Library budget proposed for 1983–84.

The budget proposes a $389,000 (6.0 percent) increase for state operations, primarily for the purpose of funding increases in employee compensation, merit salary adjustments, and adjustments needed to offset the effect of inflation on operating expenses and equipment. The budget also reflects a $25,000 reduction to eliminate funding no longer needed for rent in connection with the Sutro Library in San Francisco. For local assistance, the budget proposes a 2.9 percent cost-of-living adjustment ($165,000) for the California Library Services Act.

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Table 60
State Library General Fund Budget Changes
1983–84
(in thousands)

State Operations:		
Revised 1982–83 Budget		$6,457
To Maintain Existing Budget		
1. Price Letter	$232	
2. Employee Compensation	137	
3. Merit Salary Adjustments	45	
4. Sutro Library Rental	−25	
Total Change:		
Amount		$389
Percent		6%
Total State Operations, 1983–84		$6,846
Local Assistance:		
Revised 1982–83 Budget		$5,520
Cost-of-Living Allowance	$165	
Total Change:		
Amount		$165
Percent		2.9%
Total Local Assistance, 1983–84		$5,685

b. State Library—State Operations (Items 6100-011-001)

We recommend approval.

The budget requests an increase of $389,000, or 6 percent, in General Fund support for the library state operations. Our review indicates that this request is reasonable, and we recommend approval.

Table 61
California Library Services Act
General Fund Expenditures by Component
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change* Amount	Percent
State Operations:					
Board	$51	$53	$54	$1	1.9%
Administration	61	78	82	4	5.1
Program	158	159	166	7	4.4
Subtotals	$270	$290	$302	$12	4.1%
Local Assistance:					
System reference	$1,387	$1,404	$1,446	$42	2.9%
Transactions—direct loan	3,006	1,700	1,751	51	3.0
Transactions—inter-library loan	—	896	923	27	3.0
Consolidations and affiliations	38	50	51	1	2.0
Statewide data base	87	487	502	15	3.0
System communication and delivery	939	948	976	28	2.9
System advisory boards	27	35	36	1	2.8
Subtotals	$5,484	$5,520	$5,685 [a]	$165	2.9%
Totals	$5,754	$5,810	$5,987 [a]	$177	3.0%

[a] Does not include a federal Library Services and Construction Act funds augmentation.

2. Local Assistance—California Library Services Act (Item 610-211-001)

General Fund support to public libraries and regional library cooperative systems is provided under the California Library Services Act (CLSA) for the purposes of:

- encouraging the sharing of resources between libraries,
- encouraging libraries to serve the underserved, and
- reimbursing libraries for providing services outside their jurisdiction or beyond their normal clientele.

The Act is administered by the State Librarian, who serves as chief executive officer of the 13-member California Library Services Board. The board was established under the CLSA to adopt rules, regulations, and general policies for the implementation of the act. Programs for libraries and library systems are funded by formula, transaction-based reimbursements, or through service plan agreements.

Table 61 indicates CLSA funding by component.

a. State-Supported System Reference Services

We recommend that state funding for system reference centers be deleted, for a General Fund savings of $1,446,000, because no statewide interest appears to be served by these centers and reference services can be provided by local libraries and two federally-funded reference centers. (Reduce Item 6100-211-001 by $1,446,000.)

One component of the CLSA provides state funding for 20 system reference centers which are part of regional library systems. As shown in Table 61, the Governor's Budget requests $1,446,000 for these centers in 1983–84. These funds are allocated to the systems using a formula recently adopted by the California Library Services Board. The formula is based on the number of member libraries in each system and the population served by that system. These funds are used to supplement (1) locally-funded reference activities and (2) $745,000 in federal funds allocated in 1982–83 under the Library Services and Construction Act to two major reference centers —the Southern California Answering Network (SCAN) and the Bay Area Reference Center (BARC).

In general, library reference services seek to provide answers to questions posed by library patrons. Typically, a patron poses a question over the telephone or at the library. This question is then handled in the following manner: (1) the locally-funded library staff attempts to answer the question—if it is unable to do so, it (2) forwards the question to the state-funded reference centers, which usually are housed at one of the major libraries in the area—if the state funded reference center is unable to ascertain the answer to the question, it is (3) forwarded to the federally funded BARC or SCAN—usually the reference center of last resort. We question the need for state support of system reference centers for three reasons:

1. It is not apparent what *statewide* (as opposed to local) benefit results from providing reference services at state expense.

2. Given the availability of local and federal funds for reference services, it is not clear why the state should use its limited sources to support these services.

3. Our analysis indicates that the use of *state* supported reference services is inversely related to the priority that *local* libraries give to reference service. If reference service is a high local priority, local libraries will

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usually not have to forward questions to the state-supported reference centers for answers. If, however, local libraries choose to allocate few resources for reference service, the state will find itself in the position of funding a service which has a relatively low priority to the local community, while higher priority activities are being cut back.

We conclude that reference service can be provided locally, supplemented as necessary by the major resources of the federally supported BARC and SCAN systems. On this basis we recommend the elimination of state-supported CLSA reference center services, for a General Fund savings of $1,446,000.

One effect of our recommendation would be to necessitate that local libraries be more discriminating in accepting questions for reference because they cannot simply be passed on to a state funded higher level. Currently there is no incentive for selectivity in researching answers to reference questions and although many questions are reasonable, local libraries may be allocating resources to search for answers to trivial questions or passing them on to the state-supported reference centers. Examples of questions which we consider to be trivial and that should probably be declined by librarians include: (1) was a 1957 Dodge Custom Royal convertible available in pink? (2) What are the lyrics to various songs? (3) how to bleach pine cones, and (4) how to build a chicken feather plucker.

b. Transaction Based Reimbursements

In an effort to encourage the sharing of resources between library jurisdictions, the CLSA includes a component to provide two types of reimbursement to libraries which lend materials to individuals residing beyond their jurisdiction:

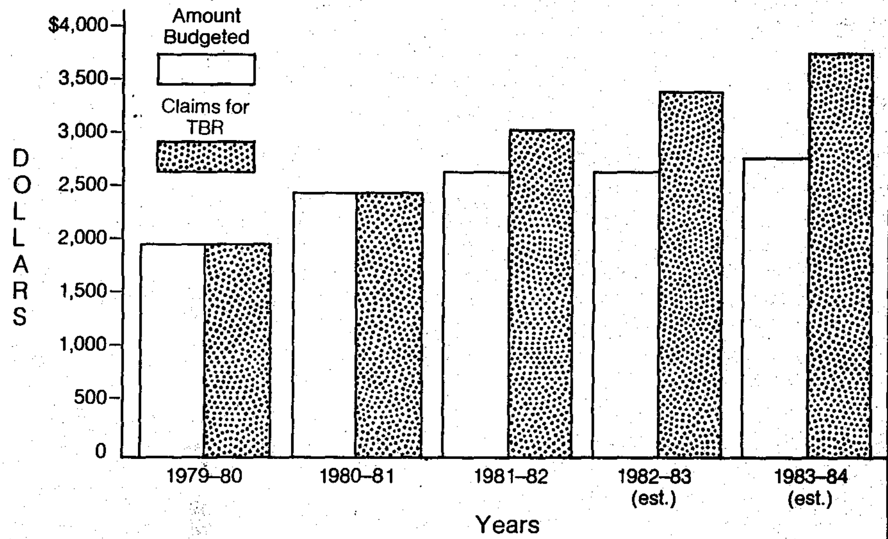
- for *inter-library loan (ILL),* the lending library currently receives a partial reimbursement of $2.71 for the handling cost of each item sent to other jurisdictions. In addition to the reimbursement, the items to be lent often are delivered to the requesting library via a CLSA-funded system of trucks and vans or through the U.S. mail. According to the librarians we interviewed during our field visits, the ILL reimbursement only partially offsets the actual cost of making their materials available to other libraries. The borrowing library that initiates the request receives no reimbursement.
- for *direct loan (DL),* a lending library receives 48 cents for the net number of items that patrons from outside the lending library's jurisdiction borrow by actually appearing at the lending library—rather than requesting that an item be delivered to their own library through ILL.

As indicated by Table 61, the budget proposes $923,000 from the General Fund to support ILL and $1,751,000 from the General Fund to support DL, or a total of $2,674,000 for transaction-based reimbursements. This is 3 percent more than estimated expenditures for this purpose in 1982–83. These amounts do not reflect an increase in federal Library Services and Construction Act funds for 1982–83. The State Librarian has recently proposed to allocate these funds to supplement 1982–83 General Fund support for transaction-based reimbursements because the number of transactions has exceeded the amount of state funds budgeted for reimbursements.

ILL and DL Shortfall Problem. There are no limitations on the number of reimbursable transactions which are conducted each year. In 1981–82 and 1982–83, the amount of reimbursements claimed for both types of transaction-based costs exceeded the funds budgeted. Chart 6 illustrates this shortfall.

Chart 6

CLSA Transaction-Based Reimbursements Transaction-Based Reimbursements (TBR) Funding Shortfall (in thousands)



The 1981–82 shortfall of $415,000 was funded through a redirection of existing CLSA funds. As indicated earlier, the State Librarian has proposed to fund the 1982–83 estimated shortfall of $729,000 with the additional federal Library Services and Construction Act (LSCA) funds.

As indicated by Chart 6, the State Library estimates that the funding shortfall for reimbursing transaction-based claims will be even greater in 1983–84. In view of this, we suggest that a change in ILL policy is needed.

Change Needed in Reimbursement Policy for Inter-Library Loan (ILL)

We recommend that the Legislature adopt Budget Bill language directing the State Librarian to require that libraries participating in the CLSA charge patrons a $1 processing fee for each inter-library loan requested under the CLSA, so that library patrons will have reason to be more selective in requesting this service, thereby reducing the amount needed for CLSA reimbursements.

The majority of CLSA liabraries charge no fee (other than the cost of a postcard for patron notification) to their patrons who request that material be borrowed from another library jurisdiction and delivered to that patrons' library. Libraries which initiate an ILL request do not receive a CLSA reimbursement. Furthermore, the lending libraries are

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prohibited from charging a fee to the borrowing library because the lending library receives the $2.71 reimbursement.

Because ILL is a "free good" at most libraries, patrons have no incentive to be selective in making their requests that items be sent from other jurisdictions. During our field visits, some libraries indicated that patrons occassionally take advantage of ILL privileges. One example of this is the failure of patrons to pick up materials they have requested. (The free good problem does not apply to DL transactions because to obtain the requested material, the patron has to appear personally at the lending library resulting in some transportation or personal cost to the patron, thus discouraging frivolous or unnecessary requests.)

Some libraries have, at their own initiative, begun charging a nominal fee to their patrons initiating requests for ILL. Each of these libraries that we contacted reported a reduction in ILL requests immediately following the imposition of fees.

If all CLSA member libraries charged a nominal fee of $1 for initiating ILL transactions, our analysis indicates the results would be as follows:

- Libraries initiating the ILL request would recover a portion of their costs associated with ILL requests.
- Frivolous or unnecessary ILL requests would be discouraged, while necessary requests continue to be made without the patron experiencing a major financial burden.
- By discouraging low priority requests, the fee would result in cost savings to both local agencies and the state.

For these reasons, we recommend that the Legislature adopt the following Budget Bill language directing the State Librarian to require that all CLSA libraries charge a minimum fee for inter-library loans.

"In order to receive California Library Services Act reimbursement for inter-library loan transactions, participating libraries must certify to the State Librarian that they are charging a minimum fee of $1 to library patrons for each such transaction requested."

Recommend Federal Fund Offset for CLSA

We recommend that $900,000 of increased federal Library Services and Construction Act funds be used to replace state support for California Library Services Act (CLSA) local assistance so as to increase the Legislature's fiscal flexibility, for a General Fund savings of $900,000. (Reduce Item 6100-211-001 by $900,000).

California has received an increase in its current-year federal Library Services and Construction Act (LSCA) grant. The increase provided $1,600,000 of new funds, in addition to the LSCA base grant of $6,255,000.

Through the Section 28 process, the State Librarian has proposed to use the additional funds to *supplement* state funding for the Transaction-Based Reimbursement (TBR) component of the California Library Services Act (CLSA). According to the State Librarian, approximately $700,000 of the increased federal LSCA grant would be used to fund the current-year CLSA-TBR shortfall. The Department of Finance indicates that remaining LSCA funds ($900,000) would be carried over to 1983–84 to fund an anticipated TBR shortfall in the budget year.

The proposed use of these unanticipated funds would result in a major expansion of the TBR program—a 30 percent funding increase over two years. The State Library has provided no justification for using the funds in this manner other than citing the fact that the number of interlibrary loan (ILL) and direct loan (DL) requests has increased.

We concur in the proposed use of $700,000 in federal LSCA monies to fund the 1982–83 TBR shortfall. Local libraries have participated in, and incurred costs for ILL and DL with the understanding that they would be reimbursed. Hence, it makes sense to use these funds for this purpose.

With regard to the other $900,000, we conclude that these funds can be used in a better way than that anticipated by the Department of Finance. Imposing a nominal charge for interlibrary loans, as we recommend, should reduce the need to supplement funds already budgeted for reimbursement of ILL and DL costs. Consequently, the additional funds could be used to partially reduce General Fund support for CLSA, making another $900,000 available to the Legislature for funding its priorities in the budget year. Accordingly, we recommend that $900,000 of additional LSCA funds be used to replace an equal amount of General Fund support proposed for CLSA, for a corresponding savings to the General Fund.

State-Funded Local Advisory Boards Unnecessary

We recommend that state funding for System Advisory Boards be eliminated because libraries and library systems receive sufficient public advice from other sources, for a General Fund savings of $36,000. (Reduce Item 6100-211-001 by $36,000.)

Each library system is run by an administrative council composed of the librarians from each library in the system. The California Library Services Act requires that each library system establish a system advisory board (SAB) whose members are representative of the public-at-large. The purpose of the SABs is to assist and advise system administrative councils in developing and implementing a plan for system services. The budget proposes $36,000 for SABs in 1983–84. These funds would be used primarily for travel, printing and other costs associated with SAB meetings. In 1982–83, there are 15 SABs advising a similar number of councils statewide.

Our analysis indicates that in addition to SABs, there is an abundance of nonstate funded public input utilized in library decision-making and evaluation. Specifically:

- Librarians who sit on the administrative councils usually report to a publicly-elected city or county council or library commission, and also interact with local citizens and library support groups such as "Friends of the Library".
- Many cities and counties have official library advisory boards.
- The librarians who adminsiter the various systems also receive extensive input from the public on an informal basis.
- Public participation in library decision-making statewide is accomplished formally through the California Library Services Board, composed of representatives of the public-at-large, underserved groups, and librarians. Informal participation is accomplished through organizations such as the California Library Association.

Because there appears to be adequate opportunity for the public to provide input to those responsible for administering libraries, we conclude that elimination of state funding for SABs would have little effect. Accordingly, we recommend the elimination of state funding for local SABs, for a General Fund savings of $36,000.

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c. Unfunded Legislation—Chapter 1498, Statutes of 1982 (SB 358).

Chapter 1498, Statutes of 1982 (SB 358) created the Public Library Fund to increase the amount of state funds provided to public libraries. Prior to Ch 1498/82, the 168 public libraries under local jurisdictions were supported primarily from local funding sources. This chapter authorized an appropriation of state funds to supplement, by up to 10 percent of a "foundation program" level, the local funding of each library. A foundation program is defined as activities of a library related to its role as a provider of information, education, and cultural enrichment to the community.

Chapter 1498 appropriated $23 million from the General Fund to the Public Library Fund in 1982–83. Because the provisions of the act relating to the Public Library Fund become operative after the end of 1982–83, however, the act did not result in an appropriation being made for 1982–83. The act also stipulated that the annual appropriation to the Public Library Fund in 1983–84 and thereafter shall be increased by a percentage equal to the prior-year average statewide percentage increase in the total revenue limit for all unified school districts. Based on this formula, the budget estimates that an appropriation of $25.5 million would be needed for the Public Library Fund in 1983–84.

The budget contains no funds for the program established by Chapter 1498 in 1983–84. Instead, because the act established a continuing statutory appropriation, the budget (Item 6100-495) includes language to revert the funds that otherwise would have been appropriated.

We have no analytical basis for determining how much, if any, funding should be provided for Ch 1498/82 in 1983–84. This is a policy issue for the Legislature to resolve in the context of its priorities and the amounts available for funding these priorities. We note that:

- If the Legislature decides to appropriate funds for Ch 1498/82 in the amount called for by the act, it would represent a major augmentation (450 percent) of state support for local libraries.
- If funds are not appropriated for Ch 1498/82, it would not result in a funding *reduction* for local libraries because libraries will continue to receive local revenues, state support through the CLSA, and federal support through the LSCA.

3. Library Services and Construction Act (Items 6100-211-890 and 6100-011-890)

We recommend approval.

The federal Library Services and Construction Act (LSCA) has as its goals (1) extending library services to underserved areas, (2) improving library accessibility for disadvantaged individuals, (3) strengthening major metropolitan libraries and the State Library, and (4) promoting interlibrary cooperation. Funds are provided to the State Librarian who allocates them among library agencies within the state.

Each fall, the State Librarian initiates a grant application process whereby library agencies may seek funds for new services or the extension of currently funded services. In 1982–83, the State Librarian, with the advice of the California State Advisory Council on Libraries, awarded 26 grants to applicants.

The budget anticipates that the state will receive $5,216,000 in federal funds for local assistance through the LSCA—the same amount received in 1982–83. The budget also anticipates receiving $1,039,000 in LSCA funds for state operations—an increase of 3 percent (29,000) above the 1982–83 level.

As indicated earlier, the Governor's Budget does *not* include an additional $1,600,000 in federal LCSA funds recently allocated to California. Of these funds, $700,000 has been allocated to meet the 1982–83 shortfall in CLSA transaction based reimbursements. In our analysis of the request for the CLSA, we recommend that the remaining $900,000 of LSCA funds be used to replace state support for CLSA in 1983–84.

We recommend approval of this item in order to make the federal funds available for allocation by the State Librarian.

C. K–12 Technical Issues

In this section, we present issues which are technical in nature. These issues relate either to errors in calculating funding requirements for various programs, or the format of the budget. Specifically, our analysis has identified the following technical issues:

- Funding for the state special schools is overbudgeted.
- The General Fund match for federal career education funds is not needed.
- One-time data processing costs have not been deleted.
- Expenditure authority for textbook reimbursements is not provided.
- The Surplus Property Revolving Fund is not displayed accurately.
- The budget format for local assistance does not contain sufficient information.

1. Technical Issue—State Special Schools Overbudgeted

We recommend that $354,450 be reduced from the appropriation for the state special schools because the schools historically have failed to spend in excess of 1 percent of their General Fund appropriation. (Reduce Item 6100-006-001 by $354,450.)

For 1983–84, the budget proposes an appropriation of $35,445,000 for the state special schools. Our analysis indicates that since 1977–78, the state special schools have failed to spend at least 1 percent of their General Fund appropriation. Between 1977–78 and 1981–82, the unexpended balance ranged from 1.1 percent to 4.0 percent of the appropriation, and averaged 2.0 percent. For example, in 1981–82, $621,000 remained from an appropriation of $34,354,000, excluding allocations for employee compensation. This was equal to 1.8 percent of the appropriation. A 1 percent reduction in the amount budgeted for the special schools in this item ($354,450) would prevent funds needed for other purposes from being unnecessarily tied up in the budget. Accordingly, we recommend that the special schools appropriation be reduced by 1 percent ($354,450) to eliminate overbudgeting.

We recognize, however, that prudent fiscal management will leave some funds unexpended. Consequently, we recommend that the appropriation be reduced by one percent, rather than two percent, the average unexpended balance since 1977–78.

2. Technical Issue—Matching Funds for Terminated Program Not Needed

We recommend that the state matching funds requested for the federal Career Education Incentive Act state operations be eliminated because the program no longer exists, for a General Fund savings of $78,000. (Reduce Item 6100-001-001 by $78,000.)

DEPARTMENT OF EDUCATION—Continued

The budget requests $78,000 from the General Fund for career education state operations. According to the budget, these funds would be used to match an equal amount of state operations federal funds under the Career Education Incentive program.

Chapter II of the federal Education Consolidation and Improvement Act of 1981 includes career education as one of the programs replaced by the federal education block grant. The act eliminates the Career Education Incentive program as a separate program, and eliminates the requirement that the state match federal funds available for state operations costs.

Accordingly, we recommend the deletion of funds requested for the state operations 50 percent match, for a General Fund savings of $78,000.

3. Technical Issue—Data Processing

We recommend that the amount budgeted for data processing for the instructional materials unit be reduced by $35,000 to eliminate overbudgeting, for a General Fund savings of $35,000. (Reduce Item 6100-001-001 by $35,000.)

The department's instructional materials unit uses data processing for the textbook ordering and review processes. The budget proposes $242,644 from the General Fund for this purpose, the same amount as estimated expenditures in the current year. The current year, however, includes $35,000 in nonrecurring expenditures, due to the developmental costs incurred in connection with a new accounting system.

Our analysis indicates that no increase to the baseline expenditures will be needed for data processing in 1983–84. Consequently, we recommend a reduction of $35,000 to bring the budget into line with projected expenditures, and eliminate overbudgeting.

4. Technical Issue—Instructional Materials

We recommend that the Legislature adopt Budget Bill language to permit expenditure of funds recovered from publishers due to breach of contract.

Since 1981–82, the state has funded three positions in the department to process claims against publishers for breach of contract, due to excessive textbook charges to school districts. As of May 1982, this claims process had recovered $460,000, which has been deposited in the Instructional Materials Fund. The department, however, is unable to allocate these funds to the school districts that were overcharged because there is no statutory authority to do so. In order to resolve this technical problem and allow the funds to be returned to the districts, we recommend that the following Budget Bill language be adopted:

> "Provided that the Superintendent of Public Instruction may allocate to school districts funds recovered from publishers and deposited in the Instructional Materials Fund, as a result of proceedings in the state recovery project."

5. Technical Issue—Surplus Property Revolving Fund Condition

We recommend that the Department of Finance submit prior to budget hearings, a more accurate fund condition statement for the Surplus Property Revolving Fund for the current and budget years and that the Legislature adopt supplemental language directing the Department of Finance to include in the budgets for future years, a complete fund condition *statement for this fund.*

The 1983–84 budget display for the Department of Education does not reflect either a realistic estimate of the revenues and expenditures, nor a realistic estimate of the fund balance, for the Surplus Property Revolving Fund. Specifically, for both the current and budget years, the fund condition statement shows a zero ending balance.

The Department of Education states that the United States Department of Agriculture requires OSP to maintain a cash reserve equal to six months of operating revenues for the surplus commodities program. According to the department, the OSP is in compliance with this requirement and will end the current fiscal year with a cash reserve in the Surplus Property Revolving Fund. This is contrary to what the budget indicates. Furthermore, the Governor's Budget for 1982–83 estimated a zero ending fund balance in the Surplus Property Revolving Fund as of June 30, 1982, while the State Controller indicates that this fund, in fact, had an ending balance of $9.9 million as of that date.

Because the 1983–84 budget again reflects no ending fund balance in either the current and budget years, we conclude that the fund balance amount is once again understated, making the fund condition statement of little use to the Legislature for oversight purposes. Accordingly, we recommend that the Department of Finance submit, prior to budget hearings, a more accurate fund condition statement for the current and budget years and that the Legislature adopt the following supplemental language directing the Department of Finance to include in the budget for future years the complete fund condition statement.

"The Department of Finance shall include in all future year budgets, a complete and accurate fund condition statement for the Surplus Property Revolving Fund, which includes a realistic and accurate estimate of the revenues, expenditures, and fund balances for that fund."

6. Technical Issue—Budget Format

We recommend that the Legislature adopt supplemental language directing the Department of Finance to provide the same level of detail in the 1984–85 Governor's Budget for the Department of Education's Summary by Object for Local Assistance as was provided in prior budgets.

Prior to the 1983–84 budget, the annual Governor's Budget included program detail for the Department of Education's Summary by Object for Local Assistance. The 1983–84 budget contains four lines for this summary. The information that is no longer included in the budget summary cannot be derived through CFIS or from the other data in the budget. Consequently, information, such as the administrative costs for specific programs, is no longer available to the Legislature in performing its oversight function.

We believe that this information is needed for legislative review of the administrative costs of specific local assistance programs. Consequently, we recommend that the Legislature adopt the following supplemental language directing the Department of Finance to provide the same level of detail in the summary as was provided in prior budgets:

"For the 1984–85 Governor's Budget and for all future budgets, the Department of Finance shall include a Summary by Object for Local Assistance for the Department of Education. This summary shall be at the same level of detail as Table 24 in the 1982–83 Governor's Budget for the Department of Education."

DEPARTMENT OF EDUCATION—REAPPROPRIATION

Item 6100-490 from the General Fund — Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the proposed reappropriation for child care capital outlay. We withhold recommendation, however, on the proposed reappropriation for the evaluation of the Demonstration Programs in Reading and Mathematics and the proposed reappropriation for the evaluation of the Gifted and Talented program, pending receipt of additional information.

The budget proposes the reappropriation on July 1, 1983, of the unexpended balances of the following three items:

- Capital outlay for child care facilities—the unexpended balance of Ch 798/80, Section 23.4, as reappropriated by the Budget Acts of 1981 and 1982.
- Performance evaluations for Demonstration Programs in Reading and Mathematics—the unexpended balance of Item 6100-146-001, Budget Act of 1982.
- Independent evaluation of the Gifted and Talented program—the undisbursed balance of Item 352(c), Budget Act of 1980, as reappropriated by the Budget Acts of 1981 and 1982.

A. Capital Outlay for Child Care Facilities

Chapter 798, Statutes of 1980 (SB 863), appropriated $4 million for child care capital outlay projects. Specifically, $1.7 million was for allocation to family day care homes and child care agencies for minor capital outlay projects to meet state and local health and safety standards; and $2.3 million was allocated to the State Allocation Board for the acquisition and leasing of portable facilities to child care contracting agencies. Of the $1.7 million, $500,000 was reverted to the General Fund in the 1982 Budget Act. The remaining $1.2 million in funds are currently being expended for the purposes intended in the statute, and reappropriation is necessary to complete the construction of portable facilities. Consequently, we recommend approval.

B. Performance Evaluations for Demonstration Programs in Reading and Mathematics

Demonstration Programs in Reading and Mathematics were established to provide cost effective exemplary programs in grades 7, 8, and 9 using intensive instruction. The enabling legislation specifies that the programs are 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.

No later than January 30, 1984, the Superintendent of Public Instruction is required to submit a report to the Legislature on the implementation and evaluation of the exemplary programs in existence during 1982, which were funded from Item 6100-146-001 of the 1982 Budget Act. Demonstration Programs in Reading and Mathematics, however, have been proposed for inclusion in the State Educational Block Grant. At the time this *Analysis* was written it was not clear how the block grant would be implemented.

We have previously recommended that the Department of Education report by April 1, 1983, its plans regarding the implementation of the proposed block grant. As part of that report, the department should indicate how it will use the funds that would be reappropriated by this item for the aforementioned performance evaluation. Depending on the contents of the department's report, these evaluations may no longer be required.

Accordingly, we withhold recommendation on this item, pending receipt of more information.

C. Evaluation of the Gifted and Talented Program

The Gifted and Talented Education (GATE) program was established to supersede the Mentally Gifted Minor program, and provides funding for educational enrichment activities for high achieving and talented students. The legislation which established this program requires a four-year independent evaluation of the program, with a report to the Legislature due on January 5, 1984.

The GATE, however, has also been proposed for inclusion in the State Educational Block Grant. For the same reasons given above, we withhold recommendation on this reappropriation.

DEPARTMENT OF EDUCATION—REVERSION

Item 6100-495 from the General Fund | Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

The budget proposes that the unencumbered balance of the following two appropriations revert to the General Fund on June 30, 1983.

- Public Library Fund—Ch 1498/82
- Dental Disease Prevention Program—Ch 1134/79

A. Public Library Fund

Chapter 1498, Statutes of 1982, created the Public Library Fund to provide state funds to public libraries. The act appropriates $25.5 million in 1983–84. The Governor's Budget shows this amount in Item 9875-101-001 as unfunded financial legislation.

As noted earlier, we have no analystical basis for making a recommendation on this proposed reversion.

B. Dental Disease Program

We recommend approval.

Chapter 1134, Statutes of 1979, authorized local health departments to offer community dental disease prevention programs for K–6 pupils. The legislation also required the State Department of Education (SDE) to assist the Department of Health Services in developing dental health training programs for K–6 teachers. An appropriation of $60,000 was made to the SDE for this purpose. The purposes for which the appropriation was made have been achieved, and therefore, the unencumbered balance ($29,480) of the appropriation is no longer needed. Consequently, we recommend approval of this reversion.

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND

Item 6300 from the General Fund | Budget p. E 50

Requested 1983–84	$191,313,000
Estimated 1982–83	235,491,000
Actual 1981–82	235,491,000
Requested decrease $44,178,000 (−18.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item provides the state's contribution toward funding the benefits earned by retired members of the State Teachers' Retirement System (STRS).

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $191,313,000 from the General Fund to the State Teachers' Retirement Fund in 1983–84. This amount is $44,178,000, or 18.8 percent, less than the estimated current-year expenditures.

The apparent reduction of nearly $44.2 million, however, is misleading. The decrease reflects a technical change in budgeting, rather than a true reduction in expenditures. In the prior and current years, the annual General Fund appropriation to reimburse local entities for their costs in complying with certain state mandates affecting local STRS retirement costs has been included in this item. In the budget for 1983–84, the funds

Table 1
Contributions to the State Teachers' Retirement Fund
Item 6300-101-001
(in thousands)

Program	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*Change from 1982–83*
1. Contributions for unfunded liabilities	$191,313	$191,313	$191,313	–
2. State-mandated STRS program costs:				
a. Ch 89/74 Retirement credit for unused sick leave	11,147	11,147	(11,147) [a]	−$11,147
b. Ch 1036/79 cost-of-living increase for STRS retirees	15,350	20,406	(22,088) [a]	−20,406
c. Ch 1286/80 increase in STRS minimum benefits	5,602	7,179	(7,770) [a]	−7,179
d. Ch 1090/81, Claims Bill to pay prior years' adjusted claims	12,079	–	–	–
e. Deficiencies in prior appropriations	–	5,446	–	–
Subtotals, mandated STRS program costs	$44,178	$44,178	($41,005) [a]	−$44,178
Grand Total Expenditures	$235,491	$235,491	$191,313	−$44,178

[a] Beginning in 1983–84, these expenditures are budgeted under Item 9680 in the General Government Section of the budget. They are shown here only for information.

needed to provide these reimbursements—$41,005,000 are requested in a separate item ("Mandated Local Programs"—Item 9680-101-001) in the General Government section of the budget. When proposed expenditures in the current and budget years are put on a comparable basis by excluding mandate-related costs, there is no change between the two years.

Table 1 shows the expenditure-components of this item for the past, current and budget years.

Legislative Mandates Underfunded

The budget proposes a General Fund appropriation of $41,005,000 (Item 9680-101-001) to reimburse local entities for their costs of complying with various legislative mandates requiring additional employer's STRS contributions. This amount is $3,173,000, or 7.2 percent, less than estimated current-year expenditures for this purpose, as shown in Table 1.

This apparent reduction of nearly $3.2 million is not realistic. The amount budgeted for 1983–84 is based on long-term actuarial estimates of the mandated costs, while the estimated current-year expenditure amount is based on revised estimates, using *actual* costs in the preceding year. Historically, actual costs have exceeded actuarial estimates.

Prior to July 1, 1981, state-mandated costs for STRS benefits were paid to the STRS by the local school districts, who then sought reimbursement through the claim process. Because of the length of the claim review process, many of these claims were not approved in time to be included in the following year's Budget Act, and instead were funded in the next Omnibus Claims Bill.

Since July 1, 1981, the Legislature has appropriated to the State Teachers' Retirement Fund an actuarial estimate of the amount equal to the school districts' mandated STRS program costs, instead of reimbursing the school districts through the claim process. This new reimbursement method made it possible to terminate the claim process for mandated costs incurred *after* June 30, 1981. A portion of the deficiencies in prior year's appropriations for these mandated costs ($5.4 million) was included in the appropriation for 1982–83, as shown in Table 1. This $5.4 million will be applied by the STRS toward an existing deficiency of $11.3 million in actual mandated STRS retirement program costs for Ch 89/74 (retirement credit for unused sick leave) in 1981–82. Under the current funding arrangement for these mandated costs, the remaining 1981–82 deficiency of $5.9 million will be absorbed by the State Teachers' Retirement Fund.

The STRS Unfunded Liability Problem

The latest available actuarial valuation of the State Teachers' Retirement Fund estimated that as of June 30, 1981, the unfunded liability (accrued retirement benefits for which there are no assets) at $13.2 billion. Under the current funding arrangements for STRS benefits, *the size of this unfunded liability is expected to grow at a rate of about $1 billion per year.*

1. ***History.*** From its inception in 1913 until 1972, STRS benefits were financed on a "pay-as-you-go," rather than on a "reserve-funding" basis. This meant that the annual income was used to pay benefits to retirees, and no funds were set aside to cover the accruing cost of future benefits earned by the working STRS membership.

In 1972, the Legislature enacted a partial funding program which was designed to (a) stabilize the accumulated unfunded liability and (b) provide reserves to cover future benefits earned by the working STRS mem-

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CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued

bers. Beginning in 1972, the budget included an annual General Fund appropriation of $135 million to finance the actuarial cost of pensions for STRS members who retired prior to July 1, 1982. The need for such appropriation was expected to continue through fiscal year 2002–03.

The combination of salary increases for active teachers, declining mortality rates for retired teachers, and an increasing number of early retirements has caused the long-term benefit costs to rise faster than anticipated in 1972. In addition, school districts' retirement contributions, equivalent to 8 percent of payroll, were phased in over an eight-year period beginning in 1972, instead of being increased to 8 percent in 1972. As a result, the contribution levels established by that program proved to be insufficient to fund the increasing long-term benefits being earned by active members, and the unfunded liability continued to grow.

2. ***Chapter 282 Funding.*** In 1979, the Legislature once more addressed the STRS unfunded liability through the enactment of Ch 282/79 (AB 8). This act addressed the unfunded liability problem by (a) increasing annually the General Fund appropriation to the STRS trust fund by the percentage increase in the California Consumer Price Index (CCPI); (b) extending the authorization for the annual General Fund contributions indefinitely beyond fiscal year 2002–03; and (c) providing an additional annual General Fund appropriation, phased in over a 15-year period, beginning with $10 million in 1980–81 and increasing in $20 million annual increments thereafter until it reaches $280 million in 1994–95. Beyond that date, this appropriation will also be increased by the CCPI increase. This program was designed to slow the growth of the unfunded liability, but it was not expected to stop it, or to reduce the amount of the unfunded liability. The goal of the program was to achieve "infinite funding" of the State Teachers' Retirement Fund (STRF). In actuarial terminology, "infinite funding" represents the level at which the rate of growth in the unfunded liability is equal to the rate of growth in payroll.

3. ***Chapter 282 Requirements Underfunded.*** Chapter 282 required that the $144.3 million annual General Fund contribution specified under prior law be increased beginning in 1980–81, by an amount which reflects the change in the California Consumer Price Index (CCPI) in the preceding year. However, the Budget Act appropriations for both 1980–81 and 1981–82 were less than the amounts required by Chapter 282. The 1982 Budget Act provided no increase in the amount of the states contribution to the STRS. No increase is proposed for 1983–84.

Table 2

Contributions for State Teachers' Retirement Fund Unfunded Liabilities (in millions)

	Actual 1980–81	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*
Ongoing baseline contribution	$144.3	$161.6	$171.3	$171.3
Increase *in lieu* of CCPI	17.3 [a]	9.7 [b]	— [c]	— [c]
Adjusted baseline contributions	$161.6	$171.3	$171.3	$171.3
Increment of additional $280 million	10.0	20.0	20.0 [d]	20.0 [d]
Total contributions	$171.6	$191.3	$191.3	$191.3

[a] Based on budgeted COLA of 12 percent, *in lieu* of a statutory CCPI of 17.1 percent.
[b] Based on budgeted COLA of 6 percent, *in lieu* of a statutory CCPI of 10.4 percent.
[c] No COLAs were provided in these years.
[d] The $20 million annual increase toward the $280 million was not provided in these years.

Table 2 shows the General Fund contributions to the State Teachers' Retirement Fund for the past, current and budget years.

4. ***Funding Requirements.*** In his most recent valuation of STRS obligations, the consulting actuary concluded that the funding value of Chapter 282 fell significantly short of its intended goal. As a result, the STRS unfunded liability is expected to grow at a faster rate than payroll. This growth in unfunded liability occurs because the current contributions from all sources, expressed as a percent of STRS payroll, are not sufficient to achieve infinite funding—that is, to limit the growth in unfunded liability to the growth in payroll.

The actuary's estimates of this funding shortage and the cost of amortizing the unfunded liability over specified funding periods, expressed both as a percent of payroll and in dollar terms for 1983–84, are shown in Table 3.

Table 3

Funding Shortage of the State Teachers' Retirement Fund

	Funding Period			
Contributions	*Infinite* [a]	*50 years*	*40 years*	*30 years*
Normal cost	19.22%	19.22%	19.22%	19.22%
Cost of amortizing unfunded liability	2.56	5.82	6.90	8.71
Total cost	21.78%	25.04%	26.12%	27.93%
Current contributions from all sources	20.08	20.08	20.08	20.08
Contributions shortage to cover costs	1.70%	4.96%	6.04%	7.85%
Contributions shortage in dollars (millions) [b]	$122.4	$357.1	$434.9	$565.2

[a] Unfunded liability would not be amortized. It would grow at the same rate as STRS payroll.
[b] Based on projected STRS payroll of $7.2 billion for 1983–84.

Table 3 shows that maintaining the growth in STRS unfunded liability at the same rate as the growth in payroll would require an increase in annual contributions equal to 1.7 percent of payroll (or about $122 million in 1983–84), into infinity. Amortizing the unfunded liability over a 50-year funding period would require an increase in annual contributions equal to 4.96 percent of payroll (equivalent to $357 million in 1983–84). To amortize the unfunded liability over an actuarially more acceptable funding period—30 years—would require an increase in contributions equal to 7.85 percent of payroll (about $565 million in 1983–84). The equivalent dollar amounts would increase in subsequent years of the funding period, in proportion with payroll increases.

5. ***Projected Cash-Flow Problems.*** Currently, the annual income of the STRS trust fund exceeds the annual cost of benefit payments by a substantial margin (about $1.1 billion in 1981–82). If the present contribution and benefit levels remain unchanged, however, the STRS will have an annual cash-flow deficit by 1994–95, according to the consulting actuary. At that point, the system will have to start using the trust fund's assets and interest earnings to pay the annual cost of benefits.

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND—Continued

Unfunded Legislation

Chapter 1606, Statutes of 1982 (SB 1562), provides supplemental, *ad hoc* cost-of-living adjustments (COLAs) to certain STRS retirees, or beneficiaries, subject to the availability of a General Fund appropriation in the annual Budget Act. The supplemental COLAs are to be provided to all those eligible persons whose pensions have not been maintained at 75 percent of their original purchasing power, based on a special index that is tied to salaries paid to active teachers.

The retirement program cost of this special benefit for 1983–84 is estimated by the STRS at $20.5 million. Future-year costs, if funded, will change according to the cost-of-living increases provided to teaching members of the STRS.

The budget contains no funding for this benefit.

CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION

Item 6320 from the General Fund and the Federal Trust Fund — Budget p. E 51

Requested 1983–84	$225,000
Estimated 1982–83	244,000
Actual 1981–82	298,000
Requested decrease (excluding amount for salary increases) −$19,000 (−7.8 percent)	
Total recommended reduction	$25,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
6320-001-001—Support		General	$25,000
6320-001-887—Federal, Support		Vocational Education—Federal	200,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *General Fund Support. **Reduce Item 6320-001-001 by $25,000.*** Recommend elimination of state support because the amount of federal funds is sufficient to allow the council to carry out its mandated duties. 1467

GENERAL PROGRAM STATEMENT

The federal Vocational Education Act of 1976 requires the state to establish an advisory council on vocational education and specifies the council's membership and duties. The California Advisory Council on Vocational Education (CACVE) was established by Ch 1555/69 in order to comply with this mandate. It consists of 25 members and is staffed by 5.5 positions in the current year.

The CACVE is supported by both federal and state funds.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $225,000 in support of the CACVE during 1983–84. This is a reduction of 7.8 percent from the estimated current-year expenditures. The budget also proposes to reduce staffing by 1.7 positions (0.7 professional and 1.0 clerical), to 3.8 positions. Funding for the council is summarized in Table 1.

In the 1982 Budget Act, the Legislature reduced General Fund support for the CACVE to $24,000 from $99,000 in 1981–82 (the Budget Act appropriation prior to adjustments). The budget proposes to increase the level of General Fund support by $1,000, to $25,000, in 1983–84, plus the cost of any salary or staff benefit increase approved for the budget year.

The budget also proposes expenditures of $200,000 from the Federal Trust Fund. This is $20,000, or 9.1 percent, below estimated expenditures in the current year. The current year amount, however, includes expenditures of $20,000 which are being financed with funds carried over from 1981–82. The proposed reduction in staffing is due in part to the reduction in the amount of federal funds expected to be available in 1983–84.

Table 1
Source of Funding for the California Advisory Council on Vocational Education (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Federal funds	$201	$220	$200	–$20	–9.1%
General Fund	97	24	25	1	4.2
Totals	$298	$244	$225	–$19	–7.8%
Personnel-years	5.7	5.5	3.8	–1.7	–30.9%

General Fund Support Unnecessary

We recommend that state support for the California Advisory Council on Vocational Education be eliminated on the basis that the amount of federal funds available to the council should be adequate to finance its statutorily required duties, for a General Fund savings of $25,000. (Reduce Item 6320-001-001 by $25,000.)

The CACVE is mandated by state and federal law to (1) advise the State Board of Education, the Legislature, and other specified agencies on policies concerning vocational education and related federal programs; (2) evaluate programs, services, and activities involving occupational education; (3) consult with the CETA Council and comment on its report; (4) provide technical assistance to local vocational education advisory committees; and (5) prepare an annual evaluation report. Current law, however, does not require any particular level of effort in any of these areas.

Our review indicates that the amount of federal funding expected to be available to the council in 1983–84 should be adequate to support the council's activities in each of these five areas. Furthermore, the availability of federal support for the council is *not* dependent upon the provision of some state support. Consequently, we see little basis for continued state support of the council.

We estimate that elimination of the remaining General Fund support for the council could be absorbed if the council's staff were reduced from 3.8 positions to 3.0 positions. Such a reduction would tend to limit CACVE's program evaluation activities. We do not believe, however, that this

CALIFORNIA ADVISORY COUNCIL ON VOCATIONAL EDUCATION—Continued

would have a significant adverse impact on the state's vocational education programs. Even if the council were staffed with 3.8 positions, it would be too small to undertake evaluations of a comprehensive nature. Such evaluations must either be carried out by other agencies, such as the Department of Education, or funded through legislation.

Accordingly, we recommend that the remaining General Fund support for CACVE be deleted, for a savings of $25,000.

CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 6330 from the Federal Trust Fund — Budget p. E 52

Requested 1983–84	$115,000
Estimated 1982–83	136,000
Actual 1981–82	269,000
Requested decrease (excluding amount for salary increases) $21,000 (−15.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Occupational Information Coordinating Committee (COICC) was established by Ch 972/78 pursuant to a requirement contained in the federal Vocational Education Act. 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 Development Department, and private industry.

The committee has three authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $115,000 from the Federal Trust Fund for support of the COICC in 1983–84. This is a reduction of $21,000, or 15 percent, from estimated expenditures in the current year. The budget proposes to effect this reduction through a decrease in operating expenses, primarily travel expenditures, consultant services, printing, and equipment.

Table 1 shows COICC funding for the prior, current, and budget years.

Table 1

Funding for the California Occupational Information Coordinating Committee (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Federal funds	$269	$136	$115	−$21	−15.4%
Reimbursements	22	—	—	—	—
Totals	$291	$136	$115	−$21	−15.4%
Personnel-years	5.3	3.0	3.0	—	—

COICC Projects

In the current year, COICC will publish a planning guide to assist vocational education program administrators in the use of labor market information, and will conduct workshops for program planners and counselors on the use of such information. In the budget year, the committee plans to develop measures to evaluate the performance of occupational training agencies, and conduct additional workshops on the use of labor market information. Our analysis of COICC's budget indicates that it is reasonable, and, consequently, we recommend approval.

COMMISSION ON TEACHER CREDENTIALING

Item 6360 from the Teacher Credentials Fund — Budget p. E 56

Requested 1983–84	$5,478,000
Estimated 1982–83	4,540,000
Actual 1981–82	3,404,000
Requested increase (excluding amount for salary increases) $938,000 (+20.7 percent)	
Total recommended reduction	$143,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Basic Skills Examination for Vocational Education Teachers. Recommend enactment of legislation to exempt applicants for a vocational education credential from the basic skills proficiency examination requirement because of the nonacademic nature of vocational teaching. 1471
2. Credential Processing. Recommend adoption of Budget Bill language requiring the commission to reduce positions for processing credentials because of an anticipated reduction in the volume of credential applications due to the basic skills examination. 1472
3. Credential Fees. Recommend adoption of Budget Bill language requiring the commission to reduce its fee for credential applications from $40 to $35 because the projected surplus in the Teacher Credentials Fund warrants a fee reduction. Further recommend legislation to clarify the procedures for determining the credential fee. 1472
4. ***Bilingual Teacher Directory. Reduce Item 6360-001-407 by $10,000.*** Recommend adoption of Budget Bill language, and enactment of legislation, requiring the commission to discontinue publication of the annual directory of bilingual teachers because it is not useful to school districts. 1474
5. ***Salary Savings. Reduce Item 6360-001-407 by $133,000.*** Recommend increasing the amount budgeted for salary savings by $92,000, and reducing the amount budgeted for related staff benefits and operating expenses by $41,000, because the amount budgeted for salary savings is low in relation to actual salary savings in the past. 1474

COMMISSION ON TEACHER CREDENTIALING—Continued

GENERAL PROGRAM STATEMENT

The Commission on Teacher Credentialing (formerly the Commission for Teacher Preparation and Licensing) is responsible for (a) developing standards and procedures for credentialing teachers and administrators, (b) issuing and revoking credentials, (c) evaluating and approving programs of teacher training institutions, and (d) establishing policy leadership in the field of teacher preparation. The commission, which is supported by the Teacher Credentials Fund, has 113.2 authorized positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $5,478,000 from the Teacher Credentials Fund for support of the commission in 1983–84. This is an increase of $938,000, or 21 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Table 1 summarizes the commission's funding.

Table 1

Expenditures and Funding for the Commission on Teacher Credentialing (in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Proposed 1983–84*	*Change Amount*	*Change Percent*
Elementary and pre-school professional personnel	$714	$867	$1,300	$433	49.9%
Secondary, adult and vocational professional personnel	513	623	973	350	56.2
Instructional specialists for all grades	453	556	763	207	37.2
Professional administrative and support service personnel	260	314	440	126	40.1
Professional standards for certificated personnel	444	1,113	912	−201	−18.1
Administration	1,052	1,067	1,090	23	2.2
Total Expenditures	$3,436	$4,540	$5,478	$938	20.7%
Teacher Credentials Fund	*$3,404*	*$4,540*	*$5,478*	*$938*	*20.7%*
Federal funds	*32*	—	—	—	—
Positions	95.6	113.2	108.5	−4.7	−4.2%

1983–84 Support Level

As shown in Table 2, the proposed increase in expenditures is due to (1) $704,000 in expenditures associated with the new California Basic Educational Skills Test, (2) a one-time augmentation of $42,000 for consultants needed to review teacher preparation programs, (3) a one-time augmentation of $34,000 for data processing equipment, (4) a technical augmentation of $156,000 so that ongoing contract expenditures for administration of subject matter examinations will be reflected in the budget, and (5) adjustments to maintain the baseline level of services.

Table 2 shows the changes in the commission's budget between the current year and 1983–84.

Table 2

Proposed Budget Adjustments for the Commission on Teacher Credentialing (in thousands)

	Adjustments	*Total*
1982–83 Base Budget (Revised)		$4,540
A. Changes to Maintain Existing Budget		2
1. Restore employee compensation reduction	$86	
2. Staff benefits	36	
3. Population and price	95	
4. Merit salary	44	
5. Workload and administrative reductions	−259	
B. Budget Change Proposals		936
1. Base skills examination	704	
2. Consultants	42	
3. Data processing	34	
4. Subject matter examination	156	
Total Change	$938 (20.7%)	
1983–84 Support Level		$5,478

California Basic Educational Skills Test

Chapter 1136, Statutes of 1981 (AB 757), as amended by Ch 206/82 and Ch 1388/82, provides that, commencing February 1, 1983, the Commission on Teacher Credentialing shall not issue initial credentials, or renewals of emergency credentials, unless the applicant has passed a statewide examination in basic reading, writing, and mathematics. To implement this statutory requirement, the Superintendent of Public Instruction adopted the California Basic Educational Skills Test (CBEST) as the state assessment instrument, to be administered by the Educational Testing Service.

The cost of the CBEST examination will be funded by fees. Currently, the fee is $30 per examination. The budget proposes expenditures of $704,000 for the CBEST in 1983–84. This proposal assumes that 30,000 tests will be given at a contract price of $23.16 per test ($694,800) and that approximately $9,200 in examination development costs will be incurred by the Department of Education. The contract cost per test, however, varies with the volume of examinations and the number of test administrations. If 26,000 examinations are given in five test administrations, for example, the cost per test would be $27.31.

Basic Skills Requirement for Vocational Education Teachers

We recommend enactment of legislation to exempt applicants for a vocational education credential from the basic skills proficiency examination requirement.

Holders of the vocational education (designated subject) credential teach vocational education courses in intermediate and high schools, and in Regional Occupational Centers and Programs (ROC/Ps). The minimum requirements for the credential are possession of a high school diploma and the equivalent of five years of relevant work experience. The commission issued 3,410 of these credentials in 1981–82.

Chapter 1136, Statutes of 1981 (AB 757), and Chapter 1388/82 (AB 3253) prohibit school districts from initially hiring teachers unless they have passed the statewide basic skills proficiency examination (reading, writing, and mathematics), beginning February 1, 1983. Holders of an adult education credential in a nonacademic subject are exempt from this requirement. Holders of a vocational education credential, however, must

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pass the test within one year of employment.

During our field visits, we were advised by ROC/P and vocational education administrators that the proficiency examination requirement for holders of the vocational education credential could lead to difficulty in recruiting instructors.

In our judgment vocational education instructors can be distinguished from other teachers in that the vocational teachers' primary mission is to provide instruction in nonacademic subjects. The Legislature recognized this distinction when it exempted adult education teachers of vocational courses from the proficiency test requirement. Because of the nonacademic nature of vocational teaching assignments, and to avoid problems in teacher recruitment, we recommend that an exemption also be applied to holders of the vocational education credential.

Credential Processing

We recommend the adoption of Budget Bill language requiring the Commission on Teacher Credentialing to reduce the number of its authorized positions for processing credential applications, in an amount proportional to the estimated reduction in the volume of credential applications.

Implementation of the California Basic Educational Skills Test (CBEST) is likely to reduce the number of applications for credentials received by the commission. This, in turn, will reduce the commission's workload for processing applications. At the present time, there is not enough data available to permit an estimate of how large this reduction in the number of applications is likely to be. To avoid excessive staffing in the face of this reduction in workload, we recommend adoption of Budget Bill language requiring the commission to review the volume of credential applications at the beginning and middle of 1983–84, and to reduce the number of its authorized positions for credential processing in proportion to the estimated reduction in the volume of applications. Specifically, we recommend adoption of the following Budget Bill language:

> "Provided that the Commission on Teacher Credentialing reduce the number of its authorized positions for processing credential applications, in an amount proportional to the estimated reduction in the volume of credential applications. Provided further that these reductions shall be implemented in August, 1983, based on the number of applications processed in 1982–83 compared to the prior year, and in January, 1984, based on projected applications for 1983–84 compared to the prior year."

We estimate that this recommendation will result in a savings to the Teacher Credentials Fund of approximately $100,000 for every 5 percent decrease in the volume of credential applications.

Credential Fees

We recommend the adoption of Budget Bill language requiring the Commission on Teacher Credentialing to reduce its fee for credential applications from $40 to $35, effective in 1983–84, for an estimated reduction of Teacher Credentials Fund revenues of $545,000.

We further recommend enactment of legislation amending the Education Code so as to clarify that credential fees should be set at a level to avoid surpluses in excess of a "prudent reserve," as determined by the Department of Finance.

Table 3 shows the status of the Teacher Credentials Fund in the prior, current, and budget years. It indicates that the fund surplus is expected to be $2.6 million at the end of the budget year, or an amount equal to 47 percent of total budgeted expenditures.

Table 3
Teacher Credentials Fund
(in thousands)

	Actual 1981–82	*Estimated 1982–83*	*Projected 1983–84*
Surplus, July 1	$1,028	$1,613	$1,946
Revenues:			
Credential fees	3,757	3,980	4,360
Teacher basic skills proficiency exam	—	—	900
Subject matter exam	94	93	271
Fingerprint fees	—	609	348
Income from surplus money investments	122	191	230
Miscellaneous income	16	—	—
Total Revenue	$3,989	$4,873	$6,109
Total Resources	$5,017	$6,486	$8,055
Expenditures:			
Support of commission	$3,404	$4,540	$5,478
Surplus, June 30	$1,613	$1,946	$2,577
Percent of budgeted expenditures	47.4%	42.9%	47.0%

Chapter 890, Statutes of 1981, requires the commission to reduce the credential fee (currently $40) if the projected surplus of the fund, for two consecutive fiscal years, exceeds a "prudent reserve," as determined by the Department of Finance. The Department of Finance has not defined a "prudent reserve" for the commission. Our analysis, however, indicates that the fund surplus of $2.6 million projected for June 30, 1984 is far in excess of commission requirements.

Under normal circumstances, we believe that a surplus of this size would justify reduction in the credential fee of at least $10. However, because the volume of credential applications resulting from the new basic skills examination is uncertain at this time, we recommend a $5 reduction in the fee (to $35). Even if credential applications drop by 20 percent, a $35 fee would yield an estimated surplus of approximately $700,000 at the end of 1983–84, or about 13 percent of the commission's operating expenditures. (The projected surplus would be higher if commission expenditures are reduced in proportion to any decrease in credential applications, as we recommend.)

Specifically, we recommend that the following Budget Bill language be adopted:

"Provided that the Commission on Teacher Credentialing shall reduce the credential fee from $40 to $35, effective in 1983–84."

We estimate that based on the number of credential applications assumed in the budget, a $5 fee reduction would reduce Teacher Credentials Fund revenues by $545,000 in 1983–84. Our recommendation would not preclude the commission from increasing the credential fee in 1984–85, if the commission's funding needs warrant such an increase. We will review the adequacy of the credential fee in our analysis of the 1984–85 budget.

We also recommend enactment of legislation to clarify the meaning of

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Ch 890/81. In addition to assigning to the Department of Finance the responsibility for determining a prudent reserve, Ch 890 requires the commission to reduce fees "in an amount which will reduce any surplus funds of the commission to an amount less than its operating budget for the next two fiscal years." This phrase is ambiguous and could be an impediment to the determination of a prudent reserve by the Department of Finance. Consequently, we recommend that it be deleted.

Bilingual Teacher Directory

We recommend adoption of Budget Bill language and legislation requiring the Commission on Teacher Credentialing to discontinue publication of the annual directory of bilingual teachers, for a Teacher Credentials Fund savings of $10,000. (Reduce Item 6360-001-407 by $10,000.)

Chapter 1631, Statutes of 1982, requires each state agency to make recommendations as to whether legislatively mandated publications should be discontinued. To carry out this responsibility, the commission conducted a survey of school districts to determine the need for commission publications. The survey indicated that one of the commission's publications—the annual directory of bilingual teachers—was not productive. Current law requires the commission to compile the directory and send a copy annually to each school district. Of 384 districts that enrolled bilingual students, only 32, or 8 percent, found the directory useful. Based on these results, the commission has recommended that the requirement to publish this directory be eliminated.

Chapter 1632 also requires the Legislative Analyst to review the information provided by each agency, and to make appropriate recommendations. Based on our review, we conclude that elimination of the bilingual teacher directory is warranted. We estimate that this would result in a savings to the Teacher Credentials Fund of $10,000 in operating expenses (printing and postage).

Technical Budgeting Issue—Salary Savings

We recommend that the amount budgeted for salary savings for the Commission on Teacher Credentialing be increased by $92,000, and that the amount budgeted for staff benefits and operating expenses be decreased by $41,000, for a savings to the Teacher Credentials Fund of $133,000. (Reduce Item 6360-001-407 by $133,000.)

The budget for the commission proposes that $43,000, or 1.9 percent of total salaries and wages, be allowed for salary savings in 1983–84. This is the projected amount of savings which will be realized due to delays in filling vacant positions and to salary differentials associated with personnel turnover (for example, hiring new personnel at the beginning of the salary range).

Table 4 shows actual salary savings for the commission in the years 1978–79 through 1981–82.

Table 4

Salary Savings by the Commission on Teacher Credentialing

Year	*Amount*	*Percent of Salaries and Wages*
1978–79	$219,909	13.4%
1979–80	156,000	9.0
1980–81	46,652	2.4
1981–82	136,000	7.1
Average	$139,640	8.0%

As indicated in the table, actual salary savings ranged from 2.4 percent of salaries and wages to 13.4 percent during the last four years. The average was 8.0 percent. This suggests that the amount proposed for 1983–84—1.9 percent—is too low.

Recognizing that the high level of salary savings in past years may have been due partly to abnormal factors such as the hiring freeze in 1981–82 and Control Section 27.2 in 1978–79, our analysis indicates that 6 percent is a reasonable estimate of salary savings for 1983–84. Consequently, we recommend that salary savings be budgeted at 6 percent of salaries and wages, or $135,000, thereby permitting an increase in salary savings of $92,000 and a corresponding reduction in the 1983–84 appropriation. This would also have the effect of reducing estimated expenditures for staff benefits and related operating expenses by $41,000.

In sum, our recommendation would result in total savings of $133,000 to the Teacher Credentials Fund.