

This is the second year of operation of this newly established research institute. The institute's proposed expenditure plan reflects the type of research activities which the Legislature directed it to undertake in the enabling legislation. The amount requested appears reasonable.

DEPARTMENT OF EDUCATION

Item 6110 from the General
Fund and various funds

Budget p. E 1

Requested 1988-89	\$14,562,218,000
Estimated 1987-88	13,669,748,000
Actual 1986-87	13,151,514,000
Requested increase (excluding amount for salary increases) \$892,470,000 (+6.5 percent)	
Total recommended reduction	54,699,000
Recommendation pending	182,900,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6110-001-001—Main support	General	\$44,060,000
6110-001-178—School bus driver instructor training	Driver Training Penalty Assessment	838,000
6110-001-305—Private postsecondary education	Private Postsecondary Administration	1,573,000
6110-001-344—School facilities planning	State School Building Lease-Purchase	1,109,000
6110-001-687—Donated food distribution	Donated Food Revolving	13,568,000
6110-001-862—Child care facilities	State Child Care Facilities Fund	111,000
6110-001-890—Federal support	Federal Trust	37,640,000
6110-006-001—Special schools	General	40,169,000
6110-007-001—Special schools	General	436,000
6110-015-001—Instructional materials warehousing/shipping	General	305,000
6110-021-001—Child nutrition administration	General	588,000
6110-101-001—School apportionments	General	8,351,481,000
6110-101-814—Lottery revenues	California State Lottery Education Fund	492,951,000
6110-101-890—Federal block grant	Federal Trust	41,315,000
6110-102-001—Regional Occupational Centers/Programs	General	215,466,000
6110-106-001—County schools	General	111,433,000
6110-109-001—High school pupil counseling	General	7,267,000
6110-111-001—Home-to-school transportation	General	293,121,000
6110-114-001—Court-ordered desegregation	General	419,116,000
6110-115-001—Voluntary desegregation	General	48,733,000
6110-116-001—School Improvement Program	General	242,652,000
6110-117-001—Educational Assistance	General	42,744,000
6110-118-001—Vocational education student organizations	General	550,000

DEPARTMENT OF EDUCATION—Continued

6110-119-001—Specialized secondary schools/ foster youth services	General	2,922,000
6110-120-001—Pupil dropout prevention	General	12,250,000
6110-121-001—Economic Impact Aid	General	196,952,000
6110-128-001—Intergenerational education	General	165,000
6110-128-890—Math & science teacher training	Federal Trust	5,448,000
6110-136-890—Federal ECIA Chapter 1	Federal Trust	333,461,000
6110-141-890—Migrant education	Federal Trust	81,093,000
6110-146-001—Demonstration programs in read- ing and math	General	4,367,000
6110-151-001—American Indian education cen- ters	General	861,000
6110-156-001—Adult education	General	243,076,000
6110-156-890—Federal adult education	Federal Trust	8,651,000
6110-158-001—Adults in correctional facilities	General	2,109,000
6110-161-001—Special education	General	1,096,045,000
6110-161-890—Federal special education	Federal Trust	163,473,000
6110-162-001—Alternatives to special education	General	640,000
6110-166-001—Vocational education	General	8,108,000
6110-166-890—Federal vocational education	Federal Trust	68,947,000
6110-167-001—Agricultural vocational education	General	3,000,000
6110-171-178—Driver training	Driver Training Penalty Assess- ment	[20,136,000]
6110-176-890—Refugee and immigrant programs	Federal Trust	19,603,000
6110-181-001—Educational technology	General	13,055,000
6110-181-140—Environmental education	Environmental License Plate Fund	604,000
6110-182-001—Interactive instructional technol- ogy	General	1,000,000
6110-183-890—Drug and alcohol abuse preven- tion	Federal Trust	10,646,000
6110-183-001—Health education	General	427,000
6110-186-001—Instructional materials, K-8	General	85,740,000
6110-187-001—Instructional materials, 9-12	General	23,955,000
6110-191-001—Staff development	General	82,091,000
6110-196-001—Child development	General	315,235,000
6110-196-890—Child development	Federal Trust	2,140,000
6110-201-001—Child nutrition	General	41,039,000
6110-201-890—Child nutrition	Federal Trust	463,610,000
6110-209-001—Commissions on professional competence	General	18,000
6110-224-001—Orchard plan/year-round school demonstration	General	300,000
6110-224-344—Alternatives to school construc- tion	State School Building Lease- Purchase	[15,000,000]
6110-225-001—School/law enforcement partner- ship	General	150,000
6110-226-001—Cost-of-living adjustments	General	680,117,000
Reimbursements		27,378,000
—Set-aside for Meade/Urban Aid	General	86,635,000
—School fund revenues	State School Fund	49,416,000
—Control Section 22—GAIN allocation	General	20,000,000
—Prior-year balance available	General	1,776,000
—Local assistance	Special Deposit Fund	1,135,000
—Unemployment insurance	Special Deposit Fund	1,100,000
—Student tuition recovery	Student Tuition Recovery	90,000
—Reader services	Reader Employment Fund	68,000
—Loan repayments	General	—3,904,000
Total		\$14,562,218,000

Funding Source:

General	\$12,736,250,000
Federal Trust	1,236,027,000
California State Lottery Education	492,951,000
State School	49,416,000
Donated Food Revolving	13,568,000
Special Deposit	2,235,000
Private Postsecondary Administration	1,573,000
State School Building Lease-Purchase	1,109,000
Driver Training Penalty Assessment	838,000
California Environmental License Plate	604,000
State Child Care Facilities	111,000
Student Tuition Recovery	90,000
Reader Employment Fund	68,000
Reimbursements	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONSAnalysts
page**School Apportionments**

1. **Revenue Limit Equalization. Reduce Item 6110-101-001 (a) by \$20,000,000.** Recommend deletion of a \$20 million proposed augmentation for revenue limit equalization because it is not analytically justified. Recommend instead that \$20 million be used to provide a 2 percent discretionary COLA for categorical programs for which the budget proposes no increase. 827
2. **Discretionary COLAs. Augment Item 6110-226-001 by \$20,000,000.** Recommend augmentation to the amount proposed for cost-of-living adjustments (COLAs) of \$20 million (transfer from revenue limit equalization aid), to provide 2 percent discretionary COLAs to selected categorical programs. 827
3. **Small School District Transportation Aid. Reduce Item 6110-101-001 (c) by \$6,000,000.** Recommend reduction of \$6 million from the amount provided for small school district transportation aid. Recommend a corresponding augmentation to the home-to-school transportation program in order to (1) eliminate overpayment to districts for transportation costs and (2) achieve a more equitable distribution of state transportation aid. 829

Programs Relating to Classroom Instruction

4. **Educational Assistance. (Reduce Item 6110-117-001 by \$42,744,000 and eliminate language.)** Recommend rejection of the Governor's proposal to consolidate funding for specified categorical programs, because separate funding provides the Legislature with more useful oversight information. 831
5. **School Improvement Program (SIP).** Recommend adoption of Budget Bill language requiring the State Department of Education to establish specified criteria for the allocation of SIP planning grants in Grades 7 and 8 to ensure that the programs are modified appropriately for secondary schools. 837

DEPARTMENT OF EDUCATION—Continued

6. Demonstration Programs In Reading and Math. Recommend adoption of Budget Bill language to (1) authorize the Superintendent of Public Instruction (SPI) to use 5 percent of program funds for technical assistance and (2) require the SPI to limit grant awards as specified, and reallocate the anticipated savings to new programs. 838
7. Interactive Instructional Technology. Withhold recommendation on \$1 million proposed for research into interactive instructional technology pending receipt of a detailed plan from the department. 840

Programs Relating to Teaching and Administration

8. Staff Development Program. Withhold recommendation on \$10 million requested from the General Fund for unspecified staff development programs, pending receipt and review of a detailed proposal from the department. 844
9. Beginning Teacher Study. Withhold recommendation on \$1.9 million requested to test and evaluate beginning teacher support and assessment programs, pending receipt and review of a detailed proposal from the department. 844
10. *Intersegmental Program. Reduce Item 6110-191-001 (f) by \$140,000 and Item 6610-001-001 by \$200,000.* Recommend deletion of funds proposed for expansion of the New Teacher Retention program, because expansion should await completion of an evaluation currently in progress. 845

Special Education

11. *Instructional Unit Growth. Reduce Item 6110-161-001 by \$3.8 million.* Recommend \$3.8 million reduction in amount proposed for instructional unit growth because the budget overestimates demand. Withhold recommendation on the remaining \$60.2 million requested for growth pending a revised estimate from the department. 848
12. Instructional Unit Waivers. Withhold recommendation on \$5 million proposed from the General Fund for additional instructional units granted on the basis of waivers, and on the corresponding Budget Bill language, pending submission of more specific approval criteria. 850
13. Project Work Ability. No recommendation regarding \$2 million in federal funds proposed to expand Project Work Ability, because the program's effectiveness has not been established. 852
14. State Special Schools. Recommend adoption of Budget Bill language allocating \$150,000 for an in-depth review of the schools' mission and staffing. 854
15. Special Education Technical Issues. Recommend adjustments to Item 6110-161-890 and the adoption of Budget Bill language in Item 6110-161-001 to address technical issues related to special education. 858

Vocational Education

16. Vocational Education GAIN Funds. Recommend that the Legislature reappropriate the unexpended balance of funds 861

budgeted for GAIN. Further recommend adoption of Budget Bill language directing SDE, in conjunction with the State Job Training Coordinating Council, to implement a reallocation plan.

Compensatory Education Programs

17. *Miller-Unruh Reading and Native American Indian Education. Add new Item 6110-126-001 at \$19,869,000, and add new Item 6110-131-001 at \$365,000.* Consistent with recommendation regarding the Governor's proposed Educational Assistance Program, recommend (1) separate funding for these programs at their current levels, and (2) adoption of Budget Bill language consistent with that provided in the current year. 863
18. Indian Education Centers. Recommend adoption of supplemental report language directing the department to submit a detailed plan and funding proposal for a comprehensive evaluation of the effectiveness of this program. 865

School Desegregation

19. *Court-Ordered School Desegregation. Reduce Item 6110-114-001 by \$24,750,000.* Recommend adoption of Budget Bill language to reduce state reimbursement for "excess" program growth costs from 80 percent to 50 percent. Further recommend reduction of \$24.8 million to reflect savings due to reduced state match. 866
20. *Court-Ordered School Desegregation. Reduce Item 6110-226-001 by \$5,449,000.* Recommend reduction of \$5.4 million from funds proposed for school desegregation cost-of-living adjustments to more accurately reflect projected needs. 869

Other Specialized Education Programs

21. Dropout Prevention Program. Recommend adoption of Budget Bill language that prevents the proposed redirection of \$350,000 from the model dropout program repository to the C-LERN project. Further recommend that \$150,000 of this amount be used to fund an independent evaluation of the existing dropout prevention programs. 870
22. *Gifted and Talented Education (GATE). Add new Item 6110-124-001 at \$22,510,000.* Recommend enactment of legislation to extend or delete the program's statutory repeal provision. Consistent with recommendation regarding the Governor's proposed Educational Assistance Program, further recommend separate funding for the program at its current level. 872
23. GATE—Contingent Funding. Recommend adoption of Budget Bill language making GATE state administration and local assistance funds available only if legislation is enacted to extend or delete the program's statutory repeal provision. 872
24. *GATE COLA. Reduce Item 6110-226-001(d) by \$367,000.* Recommend reduction to provide the program with the same cost-of-living adjustment that is provided to other education programs that were granted discretionary COLAs. 872

DEPARTMENT OF EDUCATION—Continued

25. Federal Anti-Drug Abuse Act of 1986. Recommend adoption of supplemental report language requiring the State Department of Education (SDE) to (1) include information on the risks of contracting AIDS associated with intravenous (IV) drug abuse in prevention programs developed with these funds, (2) coordinate with other departments receiving these funds and (3) report to the Legislature, as specified. Further recommend adoption of Budget Bill language requiring the SDE to contract for an independent evaluation of this program. 874
26. Federal ECIA Chapter 2 Block Grant Funds. Withhold recommendation on a total of \$49,178,000 requested from federal funds, pending receipt of an expenditure plan. Recommend adoption of supplemental report language requiring the department to provide the Legislature with an expenditure plan by January 5 annually. 876

Ancillary Support for K-12 Education

27. *Home-to-School Transportation. Augment Item 6110-111-001 by \$6,000,000.* Augment funding for home-to-school transportation aid by \$6 million (transfer from small school district transportation aid), to increase reimbursements to specified districts. Further recommend adoption of Budget Bill language to direct additional funding to specified districts. 829
28. Home-to-School Transportation. Recommend adoption of supplemental report language to require the department to conduct an evaluation of two specified alternative transportation reimbursement formulas. 878
29. State School Building Lease-Purchase Program. Recommend enactment of legislation requiring new construction funds to be allocated on the basis that the facility to be built will be operated on a year-round basis. 882
30. School Facilities: Price Waterhouse Study. Recommend that the Department of General Services, State Department of Education, and the Office of the State Architect report during budget hearings on the status of implementation of the Price Waterhouse recommendations regarding streamlining the school facilities application process. 883
31. State School Building Lease-Purchase Program. Recommend enactment of legislation to guarantee every school district a specified minimum yield from a given property tax rate. 884
32. Emergency Classrooms. Recommend that Control Section 24.40 be deleted because it duplicates current law. 888
33. Year-Round School Incentive Payments Claims Procedures. Recommend adoption of Budget Bill language to (1) limit the payment of claims for one fiscal year to funds specifically provided for that fiscal year, (2) specify timelines, and (3) provide for a pro rata allocation of available funds. 890
34. Year-Round School Incentive Payments Formula. Recommend Budget Bill language to reduce the incentive pay- 891

ments to school districts because the incentive exceeds the level of possible savings.

35. Child Nutrition. Withhold recommendation on \$41,914,000 requested from the General Fund for the State Child Nutrition program, pending receipt of specified information. 893
36. *Pregnant/Lactating Students Program. Reduce Item 6110-201-001 (b) by \$100,000.* Recommend reduction because program participation has not increased as anticipated. 894

Non-K-12 Education Programs

37. Child Care—State Administration. Recommend that the Legislature, during budget hearings, review the department's plans to implement cost control and management efficiency measures. 897
38. Child Care—Reimbursement Rates. Recommend adoption of Budget Bill language to modify the child care reimbursement rates to more accurately reflect actual costs of care. 897
39. Child Care—GAIN Reporting Costs. Recommend adoption of supplemental report language directing the department to determine the feasibility of obtaining federal reimbursement for GAIN-related reporting costs, and include any available reimbursements in the 1989-90 budget. 900
40. Child Care—GAIN Participation. Recommend adoption of supplemental report language directing the department to (1) collect data on the number of GAIN graduates receiving state-subsidized child care services, and (2) develop a system for assessing the effect of GAIN on state-subsidized child care. 901
41. Child Care—Compliance Reviews. Recommend adoption of supplemental report language directing the department, to the extent possible within its existing resources, to conduct non-local education agency compliance reviews more frequently. 902
42. Child Care Capital Outlay. Recommend adoption of supplemental report language directing the department to periodically report on the status of applications processing for child care facilities aid. 904
43. Child Care—Regulations. Recommend adoption of supplemental report language (1) directing the department to report quarterly on the status of child development regulations, and (2) specifying legislative intent that administratively authorized program changes terminate within two years after they take effect, unless they are adopted by the State Board of Education as regulations. 905
44. Child Care—Latchkey Waivers. Recommend adoption of Budget Bill language directing the department to (1) expedite Latchkey waiver processing, and (2) ensure that Latchkey providers are held harmless when processing delays occur. 907
45. Child Care—Latchkey Technical Assistance. Recommend adoption of supplemental report language directing the department to develop a plan for providing technical assistance to Latchkey contractors in financial difficulty. 908

DEPARTMENT OF EDUCATION—Continued

46. Child Care Employment Act. Recommend amendment of proposed Budget Bill language due to a technical error. 910
47. *Adult Education COLA. Reduce Item 6110-226-001(b) (1) by \$3,962,000 and 6110-226-001(b) (2) by \$35,000.* Recommend reduction in order to provide adult education programs with a cost-of-living adjustment (COLA) equal to that provided general purpose revenue limits. 911
48. *Adult Education Equalization. Reduce Item 6110-226-001 by \$725,000.* Recommend reduction because further equalization is unnecessary. 912
49. *Adult/High School Concurrent Enrollments. Reduce Item 6100-101-001 by \$15,600,000.* Recommend that funding for these pupils be (1) funded at each district's adult revenue limit, and (2) based on a two hour minimum day, because the apportionment provisions of current law (regular base revenue limit and a three hour minimum day) provide an excessive level of funding. 913
50. Adult Education Technical Issues. Recommend adoption of Budget Bill language in Item 6110-156-001 and amendments to Control Section 22 to address technical issues related to adult education growth and the GAIN program. Recommend also that the Legislature request the Superintendent of Public Instruction, at the time of budget hearings, to advise it of the amount of 1988-89 growth funds he intends to use for GAIN. 916
51. *Federal Funds for Homeless Adults. Augment Item 6110-156-890 by \$900,000.* Recommend augmentation to reflect the availability of federal funds to address illiteracy among homeless adults. Further recommend that the Legislature review, during budget hearings, the administration's plan for expending these funds. 917
52. *Office of Food Distribution. Reduce Item 6110-001-687 by \$1,568,000.* Recommend reduction in the expenditure authority for this program based on historical overbudgeting. 919

State Department of Education

53. Student Performance Accountability. Withhold recommendation on \$550,000 for the first year of a school performance accountability program, pending receipt of additional information about the proposal and the department's future plans for implementation. 923
54. Assessment Programs. Withhold recommendation on \$8.6 million for the California Assessment Program and \$750,000 for development of a comprehensive assessment system, pending receipt of information about the relationship between the two testing programs. 924
55. Sunsetting Programs—State Operations. Withhold recommendation on \$3.6 million from the General Fund and federal funds for state administration of specified categorical programs, pending receipt of information reflecting new workload levels. 925
56. Teen Pregnancy Coordinator. Withhold recommendation on \$100,000 from the General Fund for 1 teen pregnancy 926

coordinator position, pending receipt of a work plan.

57. **Federal Funds for Homeless Youth. Augment Item 6110-001-890 by \$900,000.** Recommend augmentation to reflect availability of federal funds to insure access to education for homeless youth. Further recommend that the Legislature review, during budget hearings, the administration's plan for expending these funds. 926

OVERVIEW OF K-12 AND RELATED EDUCATION PROGRAMS ANALYSIS

Fiscal impact of recommendations. We recommend a net reduction of \$54.7 million in the appropriations proposed for K-12 and related education programs. These recommendations are listed in Table 1.

Table 1
Summary of Legislative Analyst's
Fiscal Recommendations
1988-89

<i>Activity</i>	<i>General Fund</i>	<i>Other Funds</i>
School apportionments—equalization	-\$20,000,000	
Discretionary cost-of-living adjustments	+20,000,000	
Small school district transportation	-6,000,000	
Educational Assistance Program	-42,744,000	
New teacher retention programs	-140,000	
Special education growth	-3,800,000	
Miller-Unruh reading programs	+19,869,000	
Native American Indian education	+365,000	
Court-ordered desegregation growth	-24,750,000	
Court-ordered desegregation—COLA	-5,449,000	
Gifted and talented education	+22,510,000	
Gifted and talented education—COLA	-367,000	
Home-to-school transportation	+6,000,000	
Child nutrition	-100,000	
Office of food distribution	—	-\$1,568,000
Adult education programs—COLA	-4,000,000	
Adult education equalization	-725,000	
Adult/High school concurrent ADA	-15,600,000	
Federal funds for the homeless		+1,800,000
Totals	-\$54,931,000	+\$232,000

As Table 1 shows, we recommend \$55 million in net reductions from the General Fund and \$232,000 in net augmentations from other funds. The net recommended reduction reflects the findings of our analysis which indicate that the budget contains funds in excess of individual program needs.

In addition, we withhold recommendation on \$183 million from state and federal funds pending receipt of additional justification for the proposals.

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

DEPARTMENT OF EDUCATION—Continued
K-12 AND RELATED EDUCATION PROGRAMS
OUTLINE OF THE ANALYSIS

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*Instructional Materials	6110-015-001, 6110-186-001 and 6110-187-001	836
Demonstration Programs in Reading and Math	6110-146-001	838
*Educational Technology Program	6110-181-001	837
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*Private Postsecondary Education Division	6110-001-305	922

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

DEPARTMENT OF EDUCATION—Continued**GENERAL PROGRAM STATEMENT**

In 1988-89, approximately 4.9 million students will attend public elementary and secondary schools in 1,025 elementary, high, and unified school districts. Student attendance in these districts is expressed in terms of average daily attendance (ADA), which is defined as the average number of pupils that actually attend classes for at least the minimum school day, plus the average number of pupils having a valid excuse for being absent from school.

Table 2 shows K-12, adult, county, and Regional Occupational Centers and Programs (ROC/P) attendance figures for the prior, current, and budget years. As the table indicates, the attendance level of 1988-89 is projected to be 2.8 percent above the 1987-88 level.

Table 2
K-12 Education
Annual Average Daily Attendance (ADA) in
California Public Schools
1986-87 through 1988-89

	<i>Actual</i> <i>1986-87</i>	<i>Est.</i> <i>1987-88</i>	<i>Prop.</i> <i>1988-89</i>	<i>Change from</i> <i>1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
Elementary.....	2,992,054	3,117,805	3,247,208	129,403	4.2%
High School.....	1,328,214	1,310,857	1,290,395	-20,462	-1.6
Adult Education.....	183,518	180,500	197,497	16,997	9.4
County.....	20,859	21,700	24,284	2,584	11.9
ROC/P.....	102,524	99,700	104,843	5,143	5.2
Totals.....	4,627,169	4,730,562	4,864,227	133,665	2.8%

Source: Department of Finance.

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

The state provides assistance to local education agencies through approximately 60 general and categorical aid programs. The K-12 education system is administered by the State Department of Education (SDE), 58 county offices of education, and 1,025 school districts. The department has 2,686 personnel years in the current year to staff departmental operations, the state special schools, and the State Library.

OVERVIEW OF THE BUDGET REQUEST**Revenues for K-12 Education**

Total revenues for education programs in the prior, current, and budget years are shown in Table 3. The budget proposes that \$22.8 billion be made available to support education programs in 1988-89—an increase of \$2.2 billion (11 percent).

Table 3
Total Revenues for Education Programs
1986-87 through 1988-89
(dollars in millions)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> <i>1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
State					
General Fund ^a	\$12,152.7	\$12,465.4	\$13,422.7	\$957.3	7.7%
Special funds ^b	44.1	55.4	54.6	-0.8	-1.5
Subtotals, State.....	(\$12,196.8)	(\$12,520.9)	(\$13,477.3)	(\$956.5)	(7.6%)
Local					
Property tax levies ^c	\$3,483.6	\$3,764.9	\$4,048.6	\$283.7	7.5%
Subtotals, State and Local.....	(\$15,680.5)	(\$16,285.8)	(\$17,525.9)	(\$1,240.2)	(7.6%)
Other					
Federal ^d	\$1,221.2	\$1,349.5	\$1,506.8	\$157.3	11.7%
State capital outlay ^e	291.3	962.4	1,696.6	734.2	76.3
Local debt service.....	337.5	311.3	276.0	-35.3	-11.3
Local miscellaneous.....	1,163.5	1,247.8	1,338.2	90.4	7.2
Lottery Fund ^f	410.8	493.0	493.0	—	—
Subtotals, Other.....	(\$3,424.3)	(\$4,363.9)	(\$5,310.6)	(\$946.6)	(21.7%)
Totals	\$19,104.8	\$20,649.7	\$22,836.5	\$2,186.8	10.6%

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

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

^c Includes state property tax subventions and excess property taxes.

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

^e Includes General Fund, Proposition 53 bond funds, other proposed bond funds, and tidelands oil revenues for capital outlay.

^f Governor's Budget estimates.

The *state General Fund* will provide \$13.4 billion, or 59 percent, of the total support. Other state special funds will provide \$54.6 million. Thus, the total amount proposed from state sources in 1988-89 is \$13.5 billion—an increase of \$956.5 million, or 7.6 percent over the current-year level.

Local property tax levies will provide \$4.0 billion, or 18 percent—an increase of \$283.7 million, or 7.5 percent, over the current-year level. Thus, state and local revenue sources, combined, will provide a total of \$17.5 billion, or 76 percent of the total support for education in 1988-89—an increase of \$1.2 billion.

Other revenue sources are expected to contribute an additional \$5.3 billion, or 24 percent, in the budget year. This amount is composed of (1) \$1.5 billion in federal funds, (2) \$1.7 billion in funds for capital outlay, (3) \$276 million in local property taxes used to retire voter-approved indebtedness, (4) \$1.3 billion in miscellaneous revenues from the sale and rental of district property, interest earned on cash deposits, cafeteria income, and other local revenue sources, and (5) \$493 million from the state lottery.

Table 4 displays total funding proposed in 1988-89 for each of the education categories shown in the outline. The table shows that the Governor's Budget provides \$22.8 billion in total funding for K-12 and related education programs—\$13.5 billion from the state General Fund, \$2.2 billion from state special funds, \$5.7 billion from local revenues, and \$1.5 billion from federal funds.

DEPARTMENT OF EDUCATION—Continued

Table 4
Total Revenues for Education Programs
By Type of Expenditure
1988-89
(dollars in millions)

	<i>State</i>		<i>Local</i>	<i>Federal</i>	<i>Totals</i>
	<i>General Fund</i>	<i>Special Funds</i>			
TOTAL REVENUES FOR EDUCATION PROGRAMS					
<i>Direct Support for K-12 Education</i>					
General Education Programs					
School and county office revenue limits.	\$9,004.1	\$15.4	\$3,460.5	—	\$12,479.9
Local miscellaneous revenues.....	—	—	1,338.2	—	1,338.2
Contributions to STRF & PERS	622.8	—	—	—	622.8
Other general education programs	86.6	493.0 ^a	—	\$62.0	641.5
Subtotals, General Education Programs.....	(\$9,713.5)	(\$508.3)	(\$4,798.7)	(\$62.0)	(\$15,082.5)
Specialized Education Programs					
Classroom instruction	\$434.3	\$0.6	—	—	\$434.9
Teaching and administration.....	82.1	0.1	—	\$5.4	87.6
Special education	1,209.6	—	\$588.1	163.5	1,961.2
Vocational education	224.9	—	—	68.9	293.9
Compensatory education.....	197.8	—	—	436.6	632.0
School desegregation	486.7	—	—	—	486.7
Other specialized education programs	35.6	20.1	—	52.0	107.7
Subtotals, Specialized Education Programs.....	(\$2,671.1)	(\$20.8)	(\$588.1)	(\$726.4)	(\$4,004.0)
Subtotals, Direct Support for K-12 Education.....	(\$12,384.6)	(\$529.1)	(\$5,386.8)	(\$788.3)	(\$19,086.5)
<i>Ancillary Support for K-12 Education</i>					
Transportation	\$293.1	\$0.8	—	\$100.0	\$394.0
School facilities programs	48.0	1,648.6	\$276.0	12.7	1,985.3
Child nutrition.....	42.2	—	—	463.6	505.8
Subtotals, Ancillary Support for K-12 Education.....	(\$383.4)	(\$1,649.4)	(\$276.0)	(\$576.3)	(\$2,885.1)
<i>Non-K-12 Education Programs</i>					
Child development.....	\$329.1	—	—	\$2.1	\$331.2
Adult education.....	282.8	—	—	88.7	371.5
Office of Food Distribution	—	\$13.6	—	—	13.6
Private postsecondary assistance.....	—	1.6	—	—	1.6
Subtotals, Non-K-12 Education Programs.....	(\$611.9)	(\$15.2)	—	(\$90.8)	(\$717.9)
State Department of Education ^b	\$45.0	\$2.4	—	\$37.6	\$85.0
State Library.....	\$45.9	—	—	\$13.7	\$59.6
TOTALS, REVENUES FOR EDUCATION PROGRAMS	\$13,470.7	\$2,196.2	\$5,662.8	\$1,506.8	\$22,836.5

^a Includes lottery revenues.^b Excludes state special schools, Office of Food Distribution, and State Library.

Table 4 also shows that the \$22.8 billion is distributed as follows:

- **Direct Support for K-12 Education**—\$19.1 billion (84 percent of the total). General education programs (including school apportion-

ments) account for \$15.1 billion of this amount, while specialized education programs (so-called "categorical" programs) account for the remaining \$4.0 billion.

- **Ancillary Support for K-12 Education**—\$2.9 billion (13 percent of the total). Programs in this category include transportation, school facilities, and child nutrition.
- **Non-K-12 Education Programs**—\$718 million (3 percent of the total). Programs in this category include child development, adult education, and the Office of Food Distribution within the State Department of Education.
- **State Department of Education** state operations (excluding the state special schools and the State Library)—\$85 million (less than 1 percent of the total).
- **State Library** operations and aid to local library districts—\$60 million (less than 1 percent of the total).

Significant Program Changes

Table 5 shows the components of the \$2.2 billion net increase in total support proposed for K-12 and related education programs in 1988-89.

Table 5
Education Programs
Proposed 1988-89 Budget Changes
(dollars in millions)

	<i>Funding Sources</i>				<i>Totals</i>
	<i>General</i>	<i>Special</i>	<i>Local</i>	<i>Federal</i>	
1987-88 Expenditures (Revised)	\$12,529.8	\$1,446.4	\$5,324.0	\$1,349.5	\$20,649.7
Baseline Adjustments					
Enrollment/ADA increases:					
K-12 (2.1 percent)	\$255.2	—	—	—	\$255.2
Special education	64.2	—	—	—	64.2
Adult (2.5 percent)	5.7	—	—	—	5.7
ROC/P (1.6 percent)	3.4	—	—	—	3.4
Statutory inflation adjustments:					
K-12 apportionments (4.37 percent)	643.6	—	—	—	643.6
Other statutory COLAs	22.7	—	—	—	22.7
Discretionary inflation adjustments:					
Child care (4.37 percent)	12.3	—	—	—	12.3
Preschool (4.37 percent)	1.6	—	—	—	1.6
Increase in local property taxes	-280.2	—	\$248.4	—	-31.8
School facilities	-16.4	\$750.6	—	-\$31.9	702.3
School bus demonstration project	—	—	—	100.0	100.0
Increase in STRS contributions	58.9	—	—	—	58.9
Local miscellaneous revenues	—	—	90.4	—	90.4
School desegregation current-year costs ..	30.0	—	—	—	30.0
Enrollment related increases:					
School improvement (K-6)	8.3	—	—	—	8.3
Instructional materials	3.5	—	—	—	3.5
Increased federal funds for special education	-27.9	—	—	9.4	-18.5
Juvenile hall equalization (Ch 1597/85) ..	3.1	—	—	—	3.1
Reduction for one-time cost	—	—	—	-10.8	-10.8
Other baseline changes	-4.2	—	—	-21.2	-25.4
Subtotals, Baseline Changes	(\$783.8)	(\$750.6)	(\$338.8)	(\$45.5)	(\$1,918.7)

DEPARTMENT OF EDUCATION—Continued**Program Changes**

School desegregation expansion.....	\$66.0	—	—	—	\$66.0
Revenue limit equalization.....	20.0	—	—	—	20.0
Summer schools—increase funding cap...	19.4	—	—	—	19.4
Fully fund Mentor Teacher program.....	12.9	—	—	—	12.9
Staff development proposals.....	10.0	—	—	—	10.0
Instructional materials augmentation.....	10.0	—	—	—	10.0
SIP—grades 7 and 8 planning grants.....	4.6	—	—	—	4.6
Vocational education.....	2.9	—	—	\$11.2	14.1
Special education proposals.....	0.8	—	—	5.7	6.5
California Assessment Program.....	2.7	—	—	—	2.7
Beginning teacher support.....	1.9	—	—	—	1.9
Schools fiscal accountability.....	1.5	—	—	—	1.5
Interactive educational technology.....	1.0	—	—	—	1.0
Comprehensive school/pupil assessment..	0.8	—	—	—	0.8
Intersegmental programs.....	0.8	—	—	—	0.8
Pupil health assessments.....	0.7	—	—	—	0.7
Schools performance accountability.....	0.6	—	—	—	0.6
Bilingual programs evaluation.....	0.4	—	—	—	0.4
Immigration reform—(P.L.99-603).....	—	—	—	84.1	84.1
Federal drug-abuse initiative.....	—	—	—	10.8	10.8
Other program changes.....	0.1	—\$0.8	—	—	—0.7
Subtotals, Program Changes.....	<u>(\$157.1)</u>	<u>(—\$0.8)</u>	<u>(—)</u>	<u>(\$111.8)</u>	<u>(\$268.1)</u>
1988-89 Expenditures (Proposed).....	\$13,470.7	\$2,196.2	\$5,662.8	\$1,506.8	\$22,836.5
Changes from 1987-88:					
Amount.....	\$940.9	\$749.8	\$338.8	\$157.3	\$2,186.8
Percent.....	7.5%	51.8%	6.4%	11.7%	10.6%

The most significant changes include:

- **Cost-of-Living Adjustments.** An increase of \$680 million from the General Fund for various COLAs. This amount includes \$643 million to provide K-12 apportionments with a statutory 4.37 percent increase and \$22.7 million for other programs with statutory COLAs. The amount also includes \$14 million to provide a discretionary 4.37 percent COLA for child care and preschool programs.
- **Funding for Increase in Enrollment and Average Daily Attendance (ADA).** An increase of \$340 million from the General Fund to fund costs of increased ADA in school apportionments, adult education, regional occupational centers and programs, and various other programs. The amount includes \$64 million for growth in special education programs. Statewide ADA is expected to increase by a net of 134,000 in 1988-89. This change reflects an increase of 129,000 ADA in grades K through 8, a decrease of 20,000 ADA in the state's high schools, an increase of 17,000 ADA in adult education programs, an increase of 5,000 ADA in county offices of education programs, and an increase of 3,000 in regional occupational centers and programs.
- **School Facilities.** A net increase of \$702 million which includes (1) a \$1 billion *net* increase in the amount of general obligation bond authority (the Governor is proposing \$1.6 billion in general obligation bond authority for 1988-89, which is a \$1 billion increase over the \$600 million available in the current year), (2) an estimated \$220 million decrease in tidelands oil revenues, (3) a \$32 million reduction in federal funds, (4) a \$22 million reduction for the asbestos abatement program, and (5) a \$16.4 million decrease in General Fund monies for the deferred maintenance program.

- ***Increase in Local Property Tax Revenues.*** A net increase of \$248 million in property tax revenues, excluding levies for repayment of voter-approved indebtedness and "excess" local taxes. This increase, however, does not result in additional revenues to school districts. Instead, it reduces the General Fund cost of funding general education revenue limits on a dollar-for-dollar basis.
- ***Desegregation Program Growth.*** An increase of \$96 million to fund growth in court-ordered desegregation programs. This amount includes \$30 million for current-year expansion of the program and \$66 million for additional growth in the budget year.
- ***Local Miscellaneous Revenues.*** An increase of \$90 million due to increases in miscellaneous local revenues collected by school districts.
- ***Special Education Costs.*** A decrease of \$28 million in the General Fund cost of special education programs due to increased federal and local funds.
- ***Program Augmentations.*** Various General Fund increases to expand or augment school programs. These include:
 - \$20 million to continue equalization of school district revenue limits.
 - \$19 million to expand supplemental summer school programs by increasing the cap on funding from 5 percent of enrollments to 7 percent.
 - \$13 million to fully fund 5 percent of teachers eligible for the mentor teacher program authorized by SB 813.
 - \$10 million for a one-time augmentation for instructional materials.
 - \$10 million to provide unspecified local staff development programs.
 - \$5 million to provide school improvement program planning grants for schools serving seventh and eighth grade students.

Ten-Year Funding History

Total Revenues. Table 6 and Chart 1 display total funding for education programs, by source, for the 10 years, 1979-80 to 1988-89. The principal funding sources identified in the table are:

- ***Local Property Tax Levies***—revenues raised by the tax on real property.
- ***State Property Tax Subventions***—funds provided by the state to school districts in order to replace property tax revenues foregone due to tax exemptions granted by the state, such as the homeowners' exemption and (in years prior to 1983-84) the business inventory exemption.
- ***State Aid***—revenues provided from the General Fund and state special funds.
- ***Federal Aid***—all revenues received from the federal government.
- ***Miscellaneous Revenues***—lottery revenues (shown separately in Chart 1), combined state/federal grants, income from the sale of property and supplies, cafeteria revenues, interest income, and other revenues.

Table 6 shows total funding growing from \$11.0 billion in 1979-80 to \$22.8 billion in 1988-89—an increase of \$11.9 billion, or 108 percent. Since 1979-80, state aid from the General Fund and state special funds has

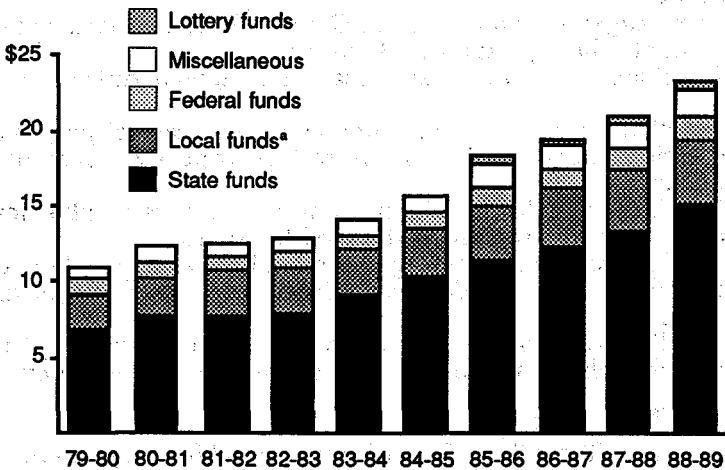
DEPARTMENT OF EDUCATION—Continued

grown by 117 percent, support derived from local property taxes has increased by 111 percent, and state property tax subventions have declined by 40 percent.

Average daily attendance (ADA) over the 10-year period grew 16 percent, from 4,206,150 to 4,864,227. This growth results from (1) an upturn in the school-aged population that began in 1982-83 and (2) expansion of the summer school program beginning in 1983-84, as authorized by SB 813.

Chart 1

**K-12 Education Revenues By Funding Source (In billions)
1979-80 through 1988-89**



* Includes state property tax subventions and excess property taxes.

Table 6
Total Education Revenues
1979-80 through 1988-89
(dollars in millions)

	Local Property Tax Levies ^a	State Property Tax Subven- tions	State Aid ^b	Federal Aid	Miscel- laneous ^c	Total Funding	ADA	Total Funding (actual dollars)		1979-80 Dollars ^d (actual dollars)	
								Per ADA	Percent Change	Per ADA	Percent Change
1979-80	\$2,000.0	\$180.0	\$6,998.5	\$1,100.4	\$702.7	\$10,981.6	4,206,150	\$2,611	18.3%	\$2,611	6.5%
1980-81	2,166.2	243.5	7,866.4	1,154.5	910.6	12,341.2	4,214,089	2,929	12.2	2,663	2.0
1981-82	2,674.1	259.5	7,837.3	1,000.7	843.8	12,615.4	4,200,678	3,003	2.5	2,545	-4.4
1982-83	2,675.3	266.5	8,100.7	967.6	854.0	12,864.1	4,230,065	3,041	1.3	2,433	-4.4
1983-84	2,869.5	114.2	9,191.8	1,032.7	941.8	14,150.0	4,259,631	3,322	9.2	2,536	4.2
1984-85	3,192.9	112.4	10,400.7	1,096.2	1,010.9	15,813.1	4,351,416	3,634	9.4	2,653	4.6
1985-86	3,481.6	119.8	11,510.5	1,145.2	1,674.5	17,931.6	4,468,699	4,013	10.4	2,806	5.8
1986-87 (estimated) ...	3,716.3	104.8	12,488.2	1,221.2	1,574.3	19,104.8	4,627,169	4,129	2.9	2,790	-0.6
1987-88 (estimated) ...	3,969.6	106.5	13,483.3	1,349.5	1,740.8	20,649.7	4,730,562	4,365	5.7	2,798	0.3
1988-89 (budgeted)	4,216.3	108.3	15,173.9	1,506.8 ^e	1,831.2	22,836.5	4,864,227	4,695	7.6	2,880	2.9
Cumulative Change											
Amount	\$2,216.3	-\$71.7	\$8,175.4	\$406.4	\$1,128.5	\$11,854.9	658,077	\$2,084	—	\$269	—
Percent	110.8%	-39.8%	116.8%	36.9%	160.6%	108.0%	15.6%	79.8%	—	10.3%	—

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

^a Includes local debt and (for 1986-87 through 1988-89) excess property taxes.

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

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

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

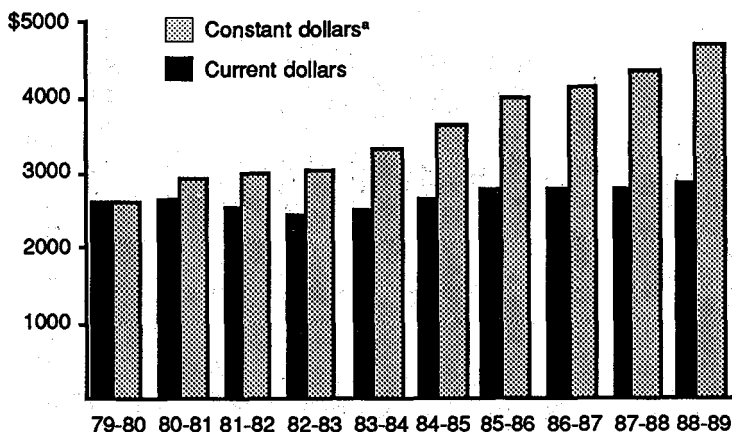
^e Includes funds from the Petroleum Violation Escrow Account for the replacement of school buses.

DEPARTMENT OF EDUCATION—Continued

Revenues Per ADA. Table 6 and Chart 2 display total education funding on a per pupil basis during the 10-year period, in both current and constant dollars (that is, dollars that have been adjusted to reflect the effects of inflation on purchasing power). The table and chart show per-pupil funding in current dollars growing by 80 percent since 1979-80 (from \$2,611 to \$4,695).

Chart 2

**K-12 Education Funding Per Average Daily Attendance
in Constant and Current Dollars
1979-80 through 1988-89**



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

If we adjust these expenditures for inflation, however, a different picture emerges. For 1988-89, the proposed per-pupil expenditure level, as measured in constant dollars, is \$2,880, or 10 percent, above the 1979-80 amount.

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

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

A. General Education Programs

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

Table 7
K-12 Education
General Education Expenditures
1986-87 through 1988-89
(dollars in millions)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> 1986-87	
				<i>Amount</i>	<i>Percent</i>
General Purpose Revenue Limits					
K-12 Districts.....	\$11,346.9	\$11,783.7	\$12,651.0	\$867.3	7.4%
State.....	(8,062.2)	(8,234.9)	(8,835.4)	(600.5)	(7.3)
Local.....	(3,284.7)	(3,548.8)	(3,815.6)	(266.8)	(7.5)
County Offices.....	211.1	225.9	249.0	23.1	10.2
State.....	(102.3)	(107.7)	(121.7)	(14.0)	(13.0)
Local.....	(108.8)	(118.2)	(127.3)	(9.1)	(7.7)
Subtotals.....	\$11,558.0	\$12,009.6	\$12,900.0	\$890.4	7.4%
State.....	(8,164.5)	(8,342.6)	(8,957.1)	(614.5)	(7.4)
Local.....	(3,393.5)	(3,667.0)	(3,942.9)	(275.9)	(7.5)
Other General Education					
Meals for needy pupils and apprentice- ship programs.....	\$36.1	\$35.3	\$39.1	\$3.8	10.8%
Federal P.L. 81-874.....	62.0	62.0	62.0	—	—
Urban Impact/Meade Aid.....	86.6	86.6	86.6	—	—
Small School District.....					
Transportation Aid.....	20.1	20.1	20.1	—	—
Transfer to State Teachers' Retirement Fund and STRS/PERS Mandates.....	509.2	546.8	622.8	76.0	13.9
Education mandates.....	20.3	28.8	17.8	-11.0	-38.2
Miscellaneous.....	1,574.3	1,740.8	1,831.2	90.4	5.2
Subtotals.....	<u>\$2,308.6</u>	<u>\$2,520.4</u>	<u>\$2,679.6</u>	<u>\$159.2</u>	<u>6.3%</u>
Totals.....	\$13,866.6	\$14,530.0	\$15,579.6	\$1,049.6	7.2%
Funding Source:					
General Fund.....	\$8,824.8	\$9,044.8	\$9,728.1	\$683.3	7.6%
State School Fund.....	11.0	14.3	14.3	—	—
Federal funds.....	62.0	62.0	62.0	—	—
Local funds.....	4,556.9	4,914.8	5,281.1	366.3	7.5
California State Lottery Education Fund.....	410.9	493.0	493.0	—	—
Special Account for Capital Outlay.....	-225.0	—	—	—	—
Special Deposit Fund.....	1.0	1.1	1.1	—	—

DEPARTMENT OF EDUCATION—Continued

As shown in Table 7, the budget proposes total general education expenditures (consisting of revenue limit funding and other expenditures) of \$15.6 billion in 1988-89. This is an increase of \$1 billion, or 7.2 percent, over the estimated current-year amount, and is composed of a \$683 million increase in General Fund support and a \$366 million increase in revenues from local sources.

Within the total, the budget proposes \$12.9 billion in general purpose revenue limit funding for K-12 districts and county offices of education—an increase of \$890 million, or 7.4 percent, over 1987-88. The state funds contribute 69 percent of this amount, while local property taxes account for 31 percent. The remaining general education expenditures are proposed at \$2.7 billion—an increase of \$159 million, or 6.3 percent, over 1987-88.

1. General Purpose Revenue Limits (Items 6110-101-001 and 6110-106-001)

Under California's system of financing schools, general education funding is allocated to school districts through a "revenue limit" system. Each school district has a specific revenue limit per unit of average daily attendance (ADA), which is based, in part, on the district's historical level of expenditures. The revenue limit represents the level of expenditures per ADA for which the district is funded through a combination of local property taxes received by school districts and state General Fund aid. In effect, the state provides enough funds to make up the difference between each district's property tax revenues per ADA and its revenue limit per ADA.

Revenue Limit Equalization

The budget proposes a General Fund augmentation of \$20 million for school district revenue limit equalization. These funds could be used for any general purpose expenditure. Under this proposal, school districts would be divided into the following six categories, based on size (as measured by average daily attendance—ADA) and type:

- Small Elementary (less than 101 ADA);
- Large Elementary (more than 100 ADA);
- Small High School (less than 301 ADA);
- Large High School (more than 300 ADA);
- Small Unified (less than 1,501 ADA); and
- Large Unified (more than 1,500 ADA).

The budget proposes to allocate equalization funds to all school districts whose revenue limit in 1987-88 is below the statewide average revenue limit for districts of the same category. The amount that each qualifying district receives would depend on the amount necessary to bring its revenue limit up to the average in its category. The State Department of Education estimates that the total cost of raising all revenue limits to the current-year averages in each category would be approximately \$100 million. Accordingly, the budget proposal would accomplish about one-fifth of this objective.

No Need for Equalization Aid. The California Supreme Court's decision in *Serrano v. Priest* (1971) held that the state's then-existing school finance system was unconstitutional, primarily because the amount of educational spending per pupil was largely determined by the assessed valuation of property within each district. The court further directed the Legislature to devise a school finance system that would reduce the amount of property wealth-related disparities in spending to "insignificant differences" of less than \$100 per pupil by 1980. This allowable expenditure range is referred to as a "closure band."

The Los Angeles Superior Court determined in April 1983 (in a decision that is currently being appealed) that the state is in compliance with the Supreme Court directive. This determination was based on the finding that 93.4 percent of the state's ADA were within the \$100 closure band (adjusted for inflation). Since then, that amount has increased to 95.9 percent. Accordingly, the state currently is under no legal obligation to provide additional revenue limit equalization.

Given the absence of a legal requirement, we presume that the budget proposal is based on the argument that, if 4.1 percent of the state's ADA are still not within the *Serrano* closure band, then there continues to be a problem with low revenue limit districts. Our review, however, indicates that this is not the case. Specifically, as shown in Table 8, *all* of the state's ADA that are not within the band are *above*, not below, it. Currently, no district has a revenue limit so low that it is below the closure band designated by the court. Accordingly, the only way to achieve 100 percent closure is to *raise the entire band* in order to incorporate the highest-spending districts. Such an objective is well beyond the requirements of equalization.

Table 8
K-12 Education
Percentage of Average Daily Attendance
That Are Below, Within, and Above
the Serrano Closure Band

District Type	Percent Below	Percent Within	Percent Above
	Serrano Band	Serrano Band	Serrano Band
Elementary School Districts.....	0%	94.0%	6.0%
High School Districts.....	0	89.2	10.8
Unified School Districts.....	0	97.5	2.5
All School Districts.....	0	95.9	4.1

Source: State Department of Education

Additional Problem. Not only does the budget proposal address an almost non-existent problem, it does so in a way that causes districts with relatively high revenue limits to qualify for "equalization" funding, while at the same time, other districts of the same type with *lower* revenue limits would not. For example, small elementary districts with revenue limits as high as \$3,069 would qualify for equalization aid, while large districts—of the same type—that have revenue limits as low as \$2,401 would not. This discrepancy is a function of the existence of some small school districts with extremely high revenue limits (that raise the state averages). It is not based on vastly different standards of need for large and small districts.

A More Effective Way to Allocate Funds

We recommend that the \$20 million in funding proposed for school district revenue limit equalization be redirected, instead, to cost-of-living adjustments for those categorical programs that have not been granted discretionary COLAs. (Reduce Item 6110-101-001 by \$20,000,000 and augment Item 6110-226-001 by \$20,000,000.)

For the reasons explained above, we find that there is neither a legal requirement nor an analytical or reasonable policy basis for allocating \$20 million according to the equalization formula proposed in the Budget Bill. We recommend, instead, that the Legislature redirect these funds to

DEPARTMENT OF EDUCATION—Continued

a more effective use. Specifically, we recommend that the \$20 million in equalization aid be used to fund discretionary cost-of-living adjustments for those programs that have not been granted one in the proposed budget. As shown in Table 9, the \$20 million would provide a 2 percent COLA for these categorical K-12 programs.

Table 9
The Cost of Discretionary
Cost-of-Living Adjustments
for Selected K-12 Programs
(dollars in thousands)

	<i>One Percent Dollar Increase</i>	<i>Two Percent Dollar Increase</i>
Apportionments:		
Apprentice Programs	\$69	\$138
Small School District Transportation	201	402
Transportation	2,931	5,862
Regional Occupational Centers/Programs	2,155	4,310
American Indian Education Centers	9	18
Native American	4	8
Staff Development	562	1,124
Libraries	75	150
Meade Aid	104	208
Urban Impact Aid	762	1,524
Instructional Materials (9-12)	220	440
Demonstration Programs in Reading and Math	44	88
Educational Technology	131	262
Economic Impact Aid/Bilingual Education	1,970	3,940
School Improvement Program (7-12)	325	650
Miller Unruh Reading Program	193	386
High School Pupil Counseling	73	146
Specialized Secondary Schools	21	42
Dropout Prevention	123	246
Foster Youth Services	8	16
Totals	\$9,980	\$19,960

Our review indicates that using the \$20 million to fund discretionary COLAs would (1) direct funds to support existing, on-going programs that have been authorized and reviewed by the Legislature, (2) allocate funds to a greater number of districts, and (3) offset the loss of purchasing power experienced by these programs. Moreover, this recommendation is consistent with recent efforts by the Legislature to provide discretionary COLAs. Funds appropriated in the Budget Bill by the Legislature for this purpose, however, have been either reduced or eliminated by the Governor in recent years. A discretionary COLA was provided most recently in 1986-87. In that year, 2 and 3 percent discretionary COLAs were reduced to 1 percent by the Governor.

We recommend, therefore, that the Legislature reduce Item 6110-101-001 and increase Item 6110-226-001 by \$20 million, in order to redirect support to unfunded discretionary COLAs. We further recommend that, in conforming actions, the Legislature (1) delete provision 11 from Item 6110-101-001 of the Budget Bill, and (2) amend the schedule in Item 6110-226-001 in order to allocate the amounts shown in Table 9 to the appropriate programs.

2. Urban Impact/Meade Aid—Budget “Sets Aside” Funding for Legislation

The Governor’s Budget for K-12 education includes \$86.6 million from the General Fund for Urban Impact and Meade Aid. These funds are not appropriated, however—they are “set aside” for these programs, “pending legislation” to be based on a report of a task force that was authorized last year pursuant to Chapter 1137, Statutes of 1987.

The task force—comprised of five members appointed by the Governor, two members appointed by the Speaker of the Assembly, and two members appointed by the Senate Rules Committee—is directed to review the rationale and purposes of Urban Impact Aid and the funding formula and to propose, if appropriate, allocation criteria. Its report is due to the fiscal and education policy committees of the Legislature by March 1, 1988. The related legislation should follow soon thereafter.

3. Small School District Transportation Aid

We recommend that the Legislature adopt Budget Bill language in Item 6110-101-001 that would eliminate overpayment to school districts for transportation costs. We also recommend that the Legislature redirect \$6 million from small school district transportation aid to home-to-school transportation aid and adopt additional Budget Bill language in Item 6110-111-001 that would target the redirected funds to districts that are currently reimbursed for less than half of their transportation costs. (Reduce Item 6110-101-001(c) by \$6 million and augment Item 6110-111-001(a) by \$6 million.)

The Governor’s Budget proposes to allocate \$20,090,000 for small school district transportation aid. This aid is provided to school districts with less than 2,501 average daily attendance (ADA) that, in 1977-78, had total home-to-school transportation costs that exceeded 3 percent of the district’s total general fund expenditures. This aid is allocated to districts through the revenue limit apportionment and is, therefore (unlike direct home-to-school transportation aid), subject to annual cost-of-living and enrollment growth funding increases. These annual funding increases are provided without reference to actual transportation costs.

Funding Exceeds Costs. Our review indicates that, because this aid is provided on the basis of data that are 10 years old, there is no longer a direct relationship between the amount of aid received and actual transportation costs. Furthermore, we find that 259 districts receive a combination of categorical home-to-school transportation aid and small school district transportation aid that *exceeds* their actual transportation costs. The amount of the overpayment ranged from \$54 to \$448,000 and totaled \$6 million in 1986-87.

Recommendation. In *The 1988-89 Budget: Perspectives and Issues*, we recommend that the Legislature enact a new formula for allocating home-to-school transportation aid and that funding that is currently provided for small school district transportation aid be allocated through the new formula. Recognizing that school districts need time to adjust to new funding levels that may result from a new formula, we also recommend that the new formula be phased in.

Consistent with our recommendation in the *Perspectives and Issues*, we recommend that the Legislature (1) adopt Budget Bill language that would eliminate the \$6 million overpayment of transportation aid to small school districts and (2) redirect the \$6 million to the home-to-school transportation program. We further recommend that the Legislature

DEPARTMENT OF EDUCATION—Continued

adopt Budget Bill language in the home-to-school transportation item that would target the \$6 million in redirected funds to school districts and county offices of education that are currently reimbursed for less than half of their total transportation costs. This recommendation would maintain existing total funding for transportation, but achieve a more equitable distribution by redirecting funds from districts whose aid exceeds costs to districts whose aid covers less than half of their costs.

Specifically, we recommend that the Legislature adopt the following Budget Bill language in Item 6110-101-001:

Notwithstanding any other provision of law, funds received by school districts pursuant to Section 42240 and 42240.1 of the Education Code shall not exceed the amount obtained by subtracting the district's allowance received pursuant to Section 41851 of the Education Code from its total approved expense, as computed pursuant to Section 41851 of the Education Code.

We also recommend that the Legislature adopt the following Budget Bill language in Item 6110-111-001:

Notwithstanding any other provision of law, of the amount appropriated in this item, \$6 million shall be used to increase the allowances of school districts and county offices of education whose current allowances are less than one-half of their approved transportation costs. For purposes of implementing this provision, the Superintendent of Public Instruction shall compute the additional amount necessary to reimburse each qualifying district and county office of education for one-half of its approved costs. If the amount appropriated for this provision is insufficient to fully fund the total allowance increase, then the Superintendent of Public Instruction shall allocate existing funds to qualifying school districts and county offices of education on a *pro rata* basis.

4. Lottery Revenues (6110-101-814)

We recommend approval as budgeted.

The California State Lottery Act—Proposition 37 of 1984—and subsequent legislation provide that a portion of lottery revenues shall be allocated to public school districts serving grades K-12, community colleges, county superintendents of schools, the University of California (UC), the California State University (CSU), the Hastings College of the Law, the California Maritime Academy (CMA) and the California Youth Authority (CYA). These funds are distributed based on enrollment.

Table 10 shows the estimated distribution of lottery revenues for public education as displayed in the Governor's Budget. The amount estimated for K-12 education—\$493 million—is the same as in the current year. We review lottery expenditures in the budget analysis for each separate segment, as appropriate.

Table 10
Distribution of Lottery Revenues
1986-87 through 1988-89
(dollars in thousands)

Segment	Actual 1986-87	Est. 1987-88	Est. 1988-89	Change from 1987-88	
				Amount	Percent
K-12 Education	\$410,881	\$492,951	\$492,951	—	—
Community colleges	62,668	72,445	72,445	—	—
California State University	32,380	22,502	22,502	—	—
University of California	12,643	15,081	15,081	—	—
California Youth Authority	—	434	434	—	—
Hastings College of the Law	127	151	151	—	—
California Maritime Academy	32	41	41	—	—
Totals	\$518,731	\$603,605	\$603,605	—	—
Lottery revenues per student	\$89	\$105	\$102	-\$3	-2.9%

B. Specialized Education Programs

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

1. Educational Assistance Program (Item 6110-117-001)

We recommend that the Legislature reject the Governor’s proposal to consolidate funding for the Gifted and Talented Education, Miller-Unruh Reading, and Native American Indian Education programs within the Educational Assistance Program. These programs should be funded with separate Budget Act items. (Reduce Item 6110-117-001 by \$42,744,000 and eliminate Budget Bill language.)

Last year, the Governor’s Budget proposed to (1) reduce funding for four categorical education programs (Economic Impact Aid-State Compensatory Education (EIA-SCE), Miller-Unruh Reading, Native American Indian Education, and Gifted and Talented Education (GATE)), (2) use these funds instead to reduce class sizes in grade 1, and (3) combine the remaining funding for the programs into a new Educational Assistance Program (EAP). The Governor also proposed to eliminate all funding for Urban Impact Aid and Meade Aid.

The Legislature rejected the class size reduction proposal. In order to protect funding for Urban Impact Aid and Meade Aid, however, the Legislature adopted a modified Educational Assistance proposal which (1) continued 1986-87 funding levels for Urban Impact Aid, Meade Aid and Small School District Transportation, as well as the four categorical programs, and (2) allocated funds for the seven programs in proportion to previous appropriations. The Governor subsequently vetoed the amounts allocated to Urban Impact Aid and Meade Aid, and retained funding for the remaining five programs in the EAP.

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New Proposal. The budget proposes to (1) restore EIA-SCE and Small School District Transportation Aid as separate programs with separate Budget Act items, (2) reauthorize Urban Impact Aid and Meade Aid through separate legislation, and (3) retain the Miller-Unruh Reading, Native American Indian Education, and Gifted and Talented Education (GATE) programs within the single EAP item. Proposed Budget Bill language for the EAP provides that funds for the three programs shall be allocated in proportion to the total amounts appropriated for each program in the 1987-88 fiscal year, increased by the cost-of-living adjustments (COLAs) provided for each program in the 1988-89 fiscal year. The proposed language does not address how allocations should be adjusted for (1) schools whose eligibility to receive funds has changed from the level provided in 1987-88 or (2) districts that have terminated participation in one or more of the programs.

Analysis and Recommendation. We believe that the proposed Educational Assistance Program should be rejected and that separate Indian Education, Miller-Unruh and GATE programs and budget items should be restored, for two reasons.

First, the Governor provides no compelling reason why the Native American Indian Education, Miller-Unruh Reading, and GATE programs should be treated in a different manner than EIA-SCE and Small School District Transportation Aid, which the budget proposes to restore as separate programs and budget items. Our analysis indicates that all five categorical programs have separate funding mechanisms and provide distinct types of services.

Second, we believe that funding Native American Indian Education, Miller-Unruh, and GATE as separate programs will provide the Legislature with more useful information in its oversight of the individual programs. Currently, neither the Governor's Budget display nor the Budget Bill provides sufficient information for the Legislature to determine the level of state administration and local assistance funds provided for each program.

For these reasons, we recommend that the proposed Educational Assistance Program be rejected. We recommend, instead, that the Legislature restore funding to Native American Education, Miller-Unruh, and GATE as separate programs. (These programs are analyzed separately later in this analysis.)

2. School-Based Program Coordination

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

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

The act allows schools to combine materials and staff funded by some or all of the various categorical programs, without requiring that re-

sources from each program be used exclusively to provide services to students who are specifically identified as eligible for that program.

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

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

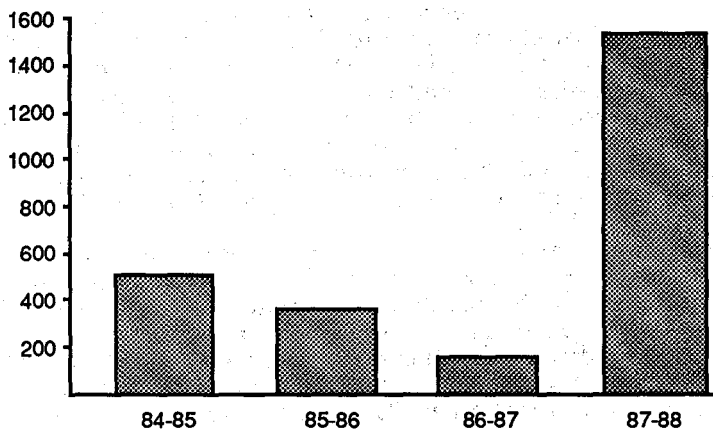
State Department of Education Report. In last year's *Analysis*, we pointed out that less than 3 percent of the state's schools reported participation under the School-Based Program Coordination Act (SBPCA), and that participation had declined by over 65 percent from 1984 to 1986. Our review indicated that there was considerable confusion, at both the local and state levels, about how to implement the measure. We further noted that information available from SDE was not sufficient to determine whether impediments to program participation were due to legal requirements or to program implementation factors.

The Legislature shared our concern. Accordingly, it included language in the *Supplemental Report of the 1987 Budget Act* which required the SDE to conduct a detailed study by November 15, 1987 of the factors that are impeding school district participation under the SBPCA. The language further specified that the report identify the specific administrative and legislative actions that should be taken in order to further the goals of the act.

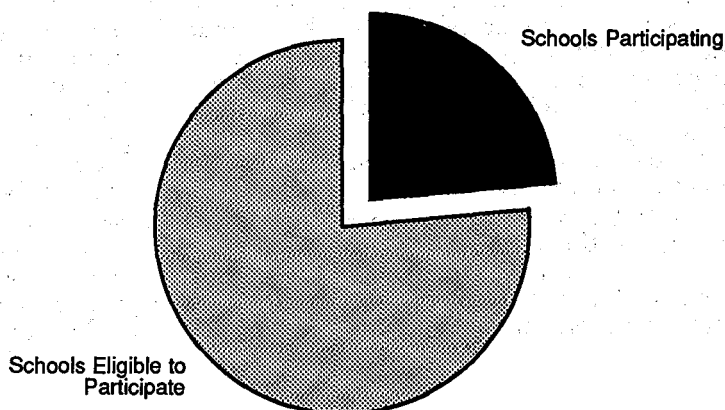
The SDE submitted an extensive and thorough study in compliance with the Legislature's directive. As part of its study, the department surveyed administrators from districts that do not participate in the program, as well as principals from schools that do participate. The department's findings regarding participation levels and impediments to program participation, updated in January, are summarized below.

Participation Increases Almost 900 Percent. As of mid-January 1988, 1,539 schools participated in the program, which represents an 880 percent increase in participation from the 1986-87 level. Chart 3 shows the changes in the number of schools operating SBCPs since 1984-85.

According to the department, the substantial participation increase is due primarily to the June 30, 1987 sunset of the School Improvement Program (SIP). The sunset terminated the authority for SIP schools to receive full ADA reimbursement for a maximum of eight staff development days; however, schools operating SBCPs maintain this authority.

DEPARTMENT OF EDUCATION—Continued**Chart 3****Number of Schools Participating in
School-Based Coordination Programs****1984-85 through 1987-88***

* Includes data available as of January 8, 1988.

Chart 4**Proportion of Eligible Schools Participating in School-Based
Coordination Programs****1987-88***

* Includes data available as of January 8, 1988.

Participation Still Low. The total number of participating schools is still far below the eligible number of schools. As Chart 4 indicates, only 1,539, or 24 percent, of the 6,444 eligible schools have chosen to participate in the program.

Factors Impeding Participation. The department's report discusses several factors which impede program participation. For example, the majority (53 percent) of administrators in the nonparticipating districts surveyed reported a general lack of understanding about how SBCPs work. In addition, 40 percent of the principals from *participating* schools expressed confusion about what an SBCP is and how it may operate.

On the other hand, 43 percent of the administrators from nonparticipating schools indicated that the *type* of categorical funding at the school, such as federal ECIA Chapter 1 funds (which cannot be coordinated through the program), made it less feasible to enroll in the program. Furthermore, 33 percent saw no clear advantages to coordination and therefore were not compelled to change the way their programs currently operate.

Conclusion. Overall, nonparticipating districts generally reported that more information describing the advantages of program participation would be useful. The SDE concurs that "there is obviously a need to send information to both the school site and central office administrators concerning the benefits of the [program]" and, in its report, describes its planned and ongoing efforts in this area.

Based on SDE's survey results and its administrative experiences, the department makes several recommendations regarding legislative changes which would improve program implementation and/or clarify current law. We understand the department will pursue these recommendations through legislation during the coming year. We will monitor the department's efforts and make recommendations to the Legislature, as appropriate.

3. Programs Relating To Classroom Instruction

Table 11 summarizes local assistance funding from the General Fund and state special funds for the programs relating to classroom instruction. In total, the classroom instruction budget requests \$391 million for these programs in 1988-89 - an increase of \$37.8 million (11 percent) above estimated current-year expenditures. The increase is due primarily to proposed augmentations for the School Improvement Program (\$22 million) and the Instructional Materials Program (\$15.4 million).

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Table 11

K-12 Education
Support for Programs Relating to Classroom Instruction
Local Assistance
1986-87 through 1988-89
(dollars in thousands)

Programs	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change from 1987-88	
				Amount	Percent
School Improvement Program.....	\$225,345	\$230,209	\$252,268	\$22,059 ^a	9.6%
Instructional materials	92,605	97,205	112,571	15,366 ^a	15.8
High School pupil counseling.....	7,528	7,603	7,267	-336	-4.4
Environmental education	604	604	604	—	—
Intergenerational programs.....	165	165	165	—	—
Educational Technology Program	25,545	12,967	12,717	-250	-1.9
Institute of Computer Technology	335	338	338	—	—
Interactive instructional technology.....			1,000	1,000	— ^b
Demonstration Programs in reading and math.....	4,240	4,367	4,367	—	—
Totals.....	\$356,367	\$353,458	\$391,297	\$37,839	10.7%
Funding sources:					
General Fund.....	\$355,763	\$352,854	\$390,693	\$37,839	10.7%
Environmental License Plate Fund	604	604	604	—	—

^a Includes 4.37 percent cost-of-living adjustment.

^b Not a meaningful figure.

We recommend approval of the proposed funding shown in Table 11 for the following programs relating to classroom instruction which are not discussed elsewhere in this analysis:

- **Instructional Materials (Item 6110-186-001, and 6110-187-001, and 6110-015-001)**—\$112.9 million from the General Fund for instructional materials local assistance, warehousing and distribution. This amount includes (1) \$88.6 million for grades K-8 local assistance, (2) \$24 million for grades 9-12 local assistance and (3) \$305,000 for state warehousing and shipping (not shown in Table 11). The Governor's Budget proposes an increase of \$15.4 million (16 percent) above the current year. The increase has three components: (1) \$2.5 million to reflect K-8 enrollment increases (2) \$2.9 million for a 4.37 percent statutory cost-of-living adjustment for grades K-8 and (3) a one-time only augmentation of \$10 million for instructional materials (\$8 million for grades K-8 and \$2 million for grades 9-12).
- **High School Pupil Counseling (Item 6110-109-001)**—\$7.3 million from the General Fund for supplemental counseling services for pupils who have not reached the age of 16 or the end of the tenth grade. This is a reduction of \$336,000 from the current year due to declining enrollments.
- **Environmental Education (Item 6110-181-140)**—\$604,000 from the Environmental License Plate Fund to provide grants to local education agencies, other governmental agencies, and nonprofit organizations to plan and implement education programs related to the environment, energy and conservation. This is the same level as is provided in the current year.

- **Intergenerational Education (Item 6110-128-001)**—\$165,000 from the General Fund for programs that provide for the involvement of senior citizens in public elementary and secondary schools. This is the same level of funding as is provided in the current year.
- **Educational Technology Program (Item 6110-181-001)**—\$12.7 million from the General Fund to support grants to schools to fund the use of technology in the classroom including the acquisition of computer hardware and software. The proposed amount reflects a decrease of \$250,000 (−1.9 percent) below the current-year level, due to one-time funding in 1987-88 associated with a pilot project on videotaped instruction.
- **Institute of Computer Technology (Item 6110-181-001)**—\$338,000 from the General Fund to support the Institute, which provides education and training in computer technology for pupils in grades K-12 and adults. The proposed amount reflects a continuation of the current-year level.

School Improvement Program (Item 6110-116-001)

We recommend that the Legislature adopt Budget Bill language in Item 6110-116-001 directing the State Department of Education to establish specified criteria for the allocation of SIP planning grants in grades 7 and 8.

The School Improvement Program (SIP) provides funding to schools for expenditure based on decisions made by local school site councils through a local planning process. SIP grants are used for a variety of purposes, including curriculum development, staff development and teacher aides. Funds may not be used to employ regular classroom teachers or for capital outlay.

The Governor's Budget proposes \$252 million for the School Improvement Program, an increase of \$22 million, or 9.6 percent above the current year. The increase includes: (1) \$8.3 million to reflect K-6 enrollment increases and maintain the current K-6 student participation rate of 82 percent statewide, (2) \$4.6 million for first year planning grants to expand the program in grades 7 and 8 and (3) \$9.2 million for a 4.37 percent statutory cost-of-living increase for grades K-6.

K-6 Increase Maintains the Status Quo. The additional funds provided in the budget for grades K-6 (\$17.5 million) will enable the state to maintain its statewide participation rate at 82 percent and compensate for the effects of inflation. The significant change proposed in the budget is for grades 7 and 8.

Grades 7 and 8 SIP Program Needs Direction. The SIP program was established in 1977 as a replacement for the Early Childhood Education (ECE) Program. A major evaluation of the program in 1983 concluded that, partially due to its historical basis in ECE, the program has been most effective in elementary schools. The report suggested that the SIP program may require modification to be effective in secondary schools.

Evaluation reports indicate that SIP is implemented differently at the secondary level than it is at the elementary level. Specifically, while at the elementary level SIP is used to accomplish *schoolwide* review and improvement, at the secondary level the improvement efforts are focused on review and improvement of *programs*. These differences appear to be justified due to the departmentalized structure of the secondary school curriculum.

DEPARTMENT OF EDUCATION—Continued

Our review indicates that the budget proposal does not address this issue and implicitly assumes that the model for SIP implementation at the elementary level is suitable for the secondary level. Based on our review, we believe that the department should develop appropriate modifications for the secondary level and *build them into* the planning process proposed for grades 7 and 8. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6110-116-001:

The State Department of Education shall establish standards and criteria to be used in the evaluation of applications submitted by schools for school improvement planning grants in grades 7 and 8. These standards and criteria shall include, but not be limited to, requirements that applicants demonstrate that their planning process will be directed toward the specific needs of secondary schools, as determined by the department.

Planning grants can increase future year costs. The budget proposal to provide \$4.6 million for first year planning grants will result in future cost increases in the program to the extent that the Legislature appropriates funds to implement school plans. The current-year budget contains \$12.6 million for grades 7 and 8 to serve approximately 123,000 students, or 19 percent of all seventh and eighth grade students. The budget's proposed planning grants would more than double this segment of the program (\$30 per student for 151,714 new grade 7 and 8 students).

While full funding of school plans is subject to future budget act appropriations by the Legislature, schools receiving 1988-89 planning grants would anticipate annual implementation grants beginning in 1989-90. We estimate that the full cost of providing these grants would be \$15.6 million in 1989-90. Should this occur, the total cost of SIP in grades 7 and 8 would be approximately \$28 million and the number of students served would increase to 41 percent of the statewide total.

Demonstration Programs in Reading and Mathematics (Item 6110-146-001)

We recommend that the Legislature adopt Budget Bill language in Item 6110-146-001 to (1) authorize the Superintendent of Public Instruction (SPI) to use 5 percent of Demonstration Programs in Reading and Math funds for technical assistance and (2) require the SPI to (a) limit grant awards as specified and (b) reallocate the anticipated savings to new programs.

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

The budget proposes an appropriation of \$4.4 million from the General Fund to support demonstration programs in 30 schools in 18 districts in 1988-89. This is the same level of funding as is provided in the current

year. A total of 27 of the 30 schools receive over \$100,000 per year and most use 80 to 90 percent of these funds for instructional purposes.

The Legislature Acts to Scale Back Existing Programs. The 1987 Budget Act contained language requiring a gradual reduction in funding to schools participating in the program for more than three years. Based on this language, schools would receive no more than 66 percent of the instructional costs of their program in 1988-89, no more than 33 percent in 1989-90 and 1990-91 and no funds to support instructional costs in 1991-92. Funds received for curriculum development and dissemination activities would be continued.

The Budget Act language was prompted by the Legislature's concerns that other schools would have difficulty replicating high cost programs and that program funds were being used to support ongoing instructional costs. Identical language is proposed in the 1988 Budget Bill.

SDE Recommendations. Language in the Supplemental Report of the 1987 Budget Act also required the State Department of Education (SDE) to prepare a report to the Legislature by December 1, 1987 outlining options for strengthening the demonstration programs. This report has been submitted. The major recommendations of the report are as follows:

- Reduce funds to existing programs consistent with the 1987 Budget Act language and reallocate those funds to new programs;
- Fund new programs for a maximum of six years, limiting grants to \$25,000 per year in the first three years, and reducing funding by one-third in the fourth, fifth and sixth years;
- Designate the department to coordinate and standardize dissemination activities, and to allocate 5 percent for technical assistance contracts with regional or statewide training agencies to ensure that programs are consistent with statewide curriculum frameworks;
- Refocus the programs to reduce costs and, hence, increase the ability of other schools to replicate programs;
- Redesign cost effectiveness measures to include multiple program outcomes rather than focusing exclusively on student achievement test scores.

In the current year, the department reduced grants to 12 programs, for a total savings of \$200,000 and required that they reduce their dissemination activities (sharing information and materials with other schools, hosting visitors and attending conferences to disseminate materials). With the savings, the department awarded technical assistance grants of \$100,000 each to the San Diego and Alameda County Offices of Education. According to the department, curriculum specialists from these counties will provide (1) staff training to programs throughout the state and (2) assistance to other counties in preparing applications.

Legislative Analyst Comments. By gradually reducing the funding level of existing programs, and by limiting new program grants to \$25,000, the department will be able to fund new sites across a broader geographic area with the same level of funding (current sites are concentrated in the Los Angeles and San Francisco Bay areas). The proposed six-year grant process will eliminate the long-running nature of the programs and the use of funds for ongoing instructional purposes. Of the 30 demonstration programs currently in operation, 15 have existed for over nine years and most programs use funds for instructional purposes. As outlined in the department's report, newly funded programs will emphasize teacher retraining in innovative instructional techniques, as well as curriculum

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and staff development, making the programs more easily replicated by other schools.

Using the department's figures, which indicate that current programs are spending, on average, 80 percent of their grant on instructional costs, we estimate that up to \$1.1 million will be available for new sites in 1988-89 alone, resulting in up to 44 additional programs.

Recommendation. Our review of the department's report indicates that it promotes legislative policies established in previous Budget Acts and the original legislative intent of the demonstration programs. Accordingly, we recommend that the Legislature implement the department's proposal by adopting the following language in addition to the language already proposed in Item 6110-146-001:

The Superintendent may retain up to 5 percent of the total amount appropriated by this item to contract with external agencies to provide technical assistance to demonstration program sites.

The Superintendent shall allocate the remaining funds appropriated by this item to new demonstration programs, with a maximum grant award of \$25,000 per year per program. New grants shall be awarded for a period of not more than six years, with grants reduced by one third in the fourth, fifth and sixth years.

Interactive Instructional Technology (Item 6110-182-001)

We withhold recommendation on \$1 million proposed for research into interactive instructional technology pending a plan from the department specifying the details of this program.

The budget proposes \$1 million for a new program regarding research into "interactive instructional technology." This research would focus on (1) improving the quality of educational computer software and (2) making this software compatible with various types of computer hardware.

Our analysis indicates that further research in this area may be justified; however, we find the details of the budget proposal to be unacceptably vague. For instance, the proposal does not indicate who would conduct this research or what specific type of software would be developed.

While the budget does require the State Board of Education to approve a "program plan," we believe that the Legislature should also approve the general elements of this plan prior to appropriating any funding. This approval would ensure that the plan also addresses the Legislature's priorities and concerns.

In order to justify this \$1 million request, the department should present a plan, by the time of budget hearings, detailing (1) the types of products to be developed, (2) the subject areas and competencies to be addressed, (3) the extent that the program will respectively serve the needs of elementary, secondary, and adult pupils, and (4) who will conduct the research. Accordingly, we withhold recommendation on the \$1 million requested for this research pending submission to the Legislature of a program plan containing the above specified information.

4. Programs Relating to Teaching and Administration

Local assistance funding in the prior, current, and budget years for programs relating to teaching and administration are shown in Table 12.

All of these programs are either staff development programs, have staff development components, or relate in some way to teacher education and training.

As Table 12 shows, the budget proposes over \$82 million from the General Fund for these programs in 1988-89. This is an increase of \$26 million (45 percent) over estimated current-year expenditures, and primarily reflects a \$13 million augmentation for the mentor teacher program and a \$10 million augmentation for unspecified staff development programs.

Table 12
K-12 Education
Support for Programs Relating to Teaching and Administration^a
Local Assistance
1986-87 through 1988-89
(dollars in thousands)

Program	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change from 1987-88	
				Amount	Percent
General Fund:					
Mentor Teacher Program.....	\$45,750	\$49,750	\$62,690	\$12,940	26.0%
Teacher Education and Computer Centers	12,586	—	—	—	—
Administrator Training and Evaluation Program.....	4,204 ^b	4,202	4,202	—	—
School Personnel Staff Development Program.....	3,645	—	—	—	—
SDE/CSU Minority Underrepresentation and Teaching Improvement Program.....	542	542	1,292	750	138.4
California International Studies Project.	480	480	880	400	83.3
Classroom Teacher Instructional Improvement Program.....	17,248 ^c	50	—	-50	-100.0
Pilot project to improve administrative personnel.....	245	—	—	—	—
Pilot project to improve personnel and management.....	175	—	—	—	—
Bilingual Teacher Training Program....	842	842	842	—	—
School Business Personnel Staff Development Program.....	10	490 ^d	250	-240	-49.0
Reader service for blind teachers	69	100	35	-65	-65.0
Beginning teacher support	—	—	1,900	1,900	— ^e
Staff Development Program.....	—	—	10,000	10,000	— ^e
Subtotals, General Fund.....	(\$85,796)	(\$56,456)	(\$82,091)	(\$25,635)	(45.4%)
Federal funds:					
Math and Science Teacher Training Grant.....	\$2,372	\$5,448	\$5,448	—	—
Totals	\$88,168	\$61,904	\$87,539	\$25,635	41.4%

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

^b This amount includes \$2,000 reappropriated from 1985-86.

^c This amount includes \$148,000 reappropriated from 1985-86.

^d This amount includes \$240,000 reappropriated from 1986-87.

^e Not a meaningful figure.

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We recommend approval of the proposed funding shown in Table 12 for the following programs relating to teaching and administration, which are not discussed elsewhere in this analysis:

- ***The Mentor Teacher Program (Item 6110-191-001 (b))***—\$62.7 million from the General Fund to provide \$4,000 stipends and \$2,000 support cost allowances for 10,440 mentor teachers, which represent 5 percent of the state's eligible teachers. (This is the full funding level authorized by SB 813.) This request, an increase of \$12.9 million (26 percent) above the current year amount, supports an additional 2,157 mentor teachers.
- ***The Bilingual Teacher Training Program (Item 6110-191-001 (c))***—\$842,000 from the General Fund to provide training for teachers who are seeking certification as bilingual instructors and have been granted temporary waivers of the certification requirements. This is the same level of funding provided in the current year. The department plans to complete an evaluation of this program by December 1, 1988.
- ***The Math and Science Teacher Training Grant Program (Item 6110-128-890)***—\$5.4 million from the federal Education for Economic Security Act, Title II (PL 98-377) grant program which provides funds to improve teacher training and retraining in the fields of mathematics and science. The SDE anticipates that it will receive an additional \$85,000 for state administration of the federal program.
- ***California International Studies Project (Item 6110-191-001 (d))***—\$880,000 from the General Fund to operate twelve regional centers which provide curriculum and staff development in international studies for K-12 teachers, in collaboration with colleges and universities. This budget request, which is an increase of \$400,000 (83 percent), will support the establishment of six new centers, as specified in the authorizing legislation—Ch 1173/85 (AB 2543).
- ***The School Business Personnel Staff Development Program (Item 6110-191-001 (e))***—\$250,000 from the General Fund for the second year of a five year program to increase the skills of school business personnel and to improve the financial management practices within LEAs and county offices of education. This budget proposal represents a decrease of \$240,000 (49 percent) because the SDE will complete several current year projects.
- ***Administrator Training and Evaluation Program (Item 6110-191-001 (a))***—\$4.2 million from the General Fund to support the Central Institute and 11 regional administrator training centers of the California School Leadership Academy. The centers develop curricula and provide intensive training to school administrators in the area of instructional leadership. This is the same level of funding as provided in the current year.
- ***Reader Service for Blind Teachers (Item 6110-191-001 (g))***—\$35,000 from the General Fund, for transfer to the Reader Employment Fund—Item 6110-001-812, to provide legally blind certificated teachers with the services of a reader. The budget also proposes to spend \$68,000 that is currently available in the Reader Employment Fund for a total proposed expenditure of \$103,000 in 1988-89.

Programs Eliminated This Year

Although the Governor had requested \$89.4 million from the General Fund for staff development programs in the current year, he subsequently vetoed \$32.1 million (or 36 percent) of the total funding for staff development after the Legislature had enacted the budget. The following three staff development programs are no longer funded:

- ***Teacher Education and Computer Centers***—The program would have provided \$12.6 million for 17 Teacher Education and Computer Centers (TECCs) in 1987-88. The TECCs provided regional staff development services for strengthening curriculum and instruction in K-12 classrooms across all subjects. There is no other state program that provides similar services.
- ***School Personnel Staff Development Program***—This program would have provided a total of \$3.6 million in grants to K-12 schools to implement locally-developed staff development programs.
- ***Classroom Teacher Instructional Improvement Program***—This program would have provided \$16 million to fund grants to teachers for improving the quality of classroom instruction.

With the elimination of these programs, most of the remaining state staff development funds will go directly to teachers rather than to support state or regional training centers.

Staff Development Study

The Legislature appropriated \$300,000 in the 1986 Budget Act for the California Postsecondary Education Commission (CPEC) to contract for a comprehensive study of the state's K-12 education staff development programs. This study is expected to provide the Legislature with information on existing staff development programs to help determine appropriate program policies and funding levels. A draft report has been completed by the contractor—Far West Laboratories—with the final report expected this spring. The major findings of the draft report are:

- "California's staff development resources are spent in ways that mainly reinforce existing patterns of teaching, conventional organization of schools, and long-standing traditions of the teaching occupation."
- Direct state and federal expenditures (in 1985-86) for staff development programs account for less than one-fifth of the total taxpayer expenditures for staff development related activities. The bulk of taxpayer expenditures—nearly \$600 million during a one-year period—is in the form of future salary obligations made to teachers for accruing credits from additional coursework.
- State staff development activities are not based on consistent or comprehensive state policies. The proportion of funds allocated to teachers, schools, districts, counties and regional agencies, and universities reflects a combination of deliberate strategy and historical accident.
- "Selected staff development activities have sound prospects for favorably influencing classroom performance and the overall quality of school programs. On the whole, however, the current array of staff development activities and incentives is unlikely to yield substantial change in the thinking or performance of California's classroom teachers."

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Currently, an advisory group composed of legislative staff, representatives from the Department of Finance, the Commission on Teacher Credentialing, the Department of Education, teacher unions, and other interested parties are reviewing the draft report and will make recommendations to the Legislature regarding state staff development policies within the next several months. We will keep the Legislature informed, as appropriate, on any recommended changes affecting the 1988 Budget Bill.

Staff Development Program (Item 6110-191-001 (i))

We withhold recommendation on \$10 million requested from the General Fund for unspecified staff development programs, pending our receipt and review of a detailed proposal from the department.

The budget requests an additional \$10 million from the General Fund for unspecified staff development programs. At the time this analysis was prepared, the department had not developed a proposal on how it would use the requested funds. Consequently, we withhold recommendation on the \$10 million requested for unspecified staff development programs, pending our receipt and review of the proposal.

Beginning Teacher Study (Item 6110-191-001 (h))

We withhold recommendation on \$1.9 million requested to test and evaluate beginning teacher support and assessment programs, pending our receipt and review of a detailed proposal from the department.

The budget proposes an increase of \$1.9 million from the General Fund to conduct a joint pilot program with the Commission on Teacher Credentialing on alternative methods to provide new teacher support and assessment. (The budget also requests \$1.1 million from the General Fund in Item 6360-001-001 and \$207,000 from the Teacher Credentials Fund in Item 6360-001-407 to support the commission's part of the program.) The commission and the department plan to operate and evaluate several different programs for assessing and retaining beginning teachers.

At the time this analysis was prepared, the commission and the department had not developed a proposal on how they would use the requested funds and operate the program. Consequently, we withhold recommendation on the requested \$1.9 million, pending our receipt and review of the proposal.

Intersegmental Program Proposal

The budget proposes an additional \$750,000 from the General Fund to support the State Department of Education's share of a joint program with the California State University (CSU) to improve teacher education and address other public education concerns. The department's share includes the following components:

- **High School Quality Reviews**—\$470,000 for the department to support the use of postsecondary faculty who work with secondary school personnel on curriculum review.
- **New Teacher Retention Program**—\$140,000 for the department (and \$200,000 for the CSU) to expand the New Teacher program, in which new teachers in selected urban schools receive a reduced teaching load and additional support services from CSU faculty and school district mentor teachers.

- **Curriculum Institute**—\$100,000 for the department to operate a visual and performing arts staff development center at Humboldt State University. The center will train 60 to 80 new teachers each year who in turn will provide training throughout the state.
- **Comprehensive Teacher Institutes**—\$40,000 for the department to evaluate the Comprehensive Teacher Institutes, in which CSU and school district personnel develop and implement plans to integrate academic and professional teacher preparation with classroom experience. (The budget proposes an additional \$350,000 for CSU to expand the program.)

We recommend approval of the funding proposed for the High School Quality Reviews, the Curriculum Institute, and the evaluation of the Comprehensive Teacher Institutes. We, however, recommend deletion of the \$350,000 proposed for CSU to expand the Teacher Institutes because expansion should await evaluation. (See our analysis of CSU—Item 6610.) Our analysis of the New Teacher Retention program for the department is discussed below.

New Teacher Retention Program Should Not Be Expanded

We recommend that the Legislature delete \$340,000 proposed for expansion of the New Teacher Retention program (\$140,000 for the department and \$200,000 for CSU), because the program is costly and should not be expanded prior to completion of an evaluation currently in progress. (Reduce Item 6110-191-001 (f) by \$140,000 and Item 6610-001-001 by \$200,000.)

The New Teacher Retention program is a pilot project designed to increase the retention of new teachers in urban schools. The CSU and the department currently receive \$500,000 (\$200,000 for the department and \$300,000 for CSU) to jointly operate two projects, one at Oakland Unified School District and one at San Diego Unified School District. Each of these districts have 25 new teacher participants in its program. The budget proposes an augmentation of \$340,000 to allow the department and CSU to (a) operate two additional projects for one-half year, (b) conduct a comprehensive evaluation, and (c) cover the department's administrative costs.

Our analysis indicates that the program should not be expanded for two reasons. First, the department contracted for an independent 3-year evaluation of the New Teacher Retention program in 1986. At the time this analysis was written, only a progress report covering the first year of the evaluation had been completed. Although the report indicated that program participants expressed positive feelings about the program, our review of the report indicates that it does not provide sufficient evidence to support program expansion.

Second, this program currently costs \$10,000 per participant which is one-half of the average beginning teacher salary of \$21,400. At this rate, the program probably is too costly to expand, to any significant degree, statewide. Realistically, the department should explore less costly alternatives. (The Governor's proposed \$3.2 million program on new teacher retention and assessment, discussed elsewhere, may identify such alternatives.)

Accordingly, we recommend deletion of the \$340,000 proposed for expansion of the New Teacher Retention program (\$140,000 SDE and

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\$200,000 for the California State University), because the program is very costly and should not be expanded prior to completion of its evaluation.

5. Special Education (Items 6110-006-001, 6110-007-001, 6110-161-001, 6110-161-890, and 6110-162-001)

The main elements of the Special Education program include (1) the Master Plan for Special Education, (2) state administration, and (3) the state special schools. In 1987-88, the program will serve an estimated 412,000 students (excluding those in state special schools) who are learning, communicatively, physically, or severely handicapped.

Table 13
K-12 Special Education Programs
1986-87 through 1988-89
(dollars in thousands)

<i>Expenditures</i>	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> 1987-88	
				<i>Amount</i>	<i>Percent</i>
State Operations ^a					
State administration	\$7,017	\$8,870	\$9,293	\$423	4.8%
Clearinghouse depository	604	532	545	13	2.4
Southwest Deaf-Blind Center	9	8	9	1	12.5
Special Schools	40,827	43,182	43,996	814	1.9
Special Schools transportation	429	425	436	11	2.6
Alternative programs	—	50	—	-50	-100.0
Subtotals, State Operations	(\$48,886)	(\$53,067)	(\$54,279)	(\$1,212)	(2.3%)
Local Assistance					
Support for Local Programs					
General Fund	\$1,004,822	\$1,062,526	\$1,168,330	\$105,804	10.0%
Federal funds	86,148	109,132	118,512	9,380	8.6
Local funding (excluding revenue limits) ^b	255,762	265,485	272,210	6,725	2.5
Revenue limit funds ^c	293,086	302,685	315,912	13,227	4.4
Subtotals, Support for Local Programs	(\$1,639,818)	(\$1,739,828)	(\$1,874,964)	(\$135,136)	(7.8%)
Federally-funded Programs					
Preschool program	\$2,304	\$27,326	\$26,228	-\$1,098	-4.0%
Other programs	13,268	12,246	18,733	6,487	53.0
Subtotals, Federally-funded Programs	(\$15,572)	(\$39,572)	(\$44,961)	(\$5,389)	(13.6%)
Alternative Programs					
School Success Program	\$311	\$430	\$430	—	—
Hyperactivity Pilot Project	210	210	210	—	—
Subtotals, Alternative Programs	(\$521)	(\$640)	(\$640)	—	—
Subtotals, Local Assistance	(\$1,655,911)	(\$1,780,040)	(\$1,920,565)	(\$140,525)	(7.9%)
Totals	\$1,704,797	\$1,833,107	\$1,974,844	\$141,737	7.7%
Funding Sources					
General Fund ^d	\$1,248,877	\$1,316,243	\$1,432,133	\$115,890	8.8%
Federal funds	108,706	156,683	171,794	15,111	9.6
Local ^e	343,688	356,291	366,984	10,693	3.0
Reimbursements	3,526	3,890	3,933	43	1.1

^a Includes amount for SDE administration of state special schools.

^b Includes county property taxes (including excess funds reallocated to school districts) and computed local general fund contribution.

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

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

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

Table 13 shows the expenditures and funding for the Special Education program in the prior, current, and budget years.

For 1988-89, the budget proposes total support of approximately \$2 billion—\$1.4 billion from the General Fund (including amounts budgeted in revenue limit apportionments that support special education), \$371 million from local funds and reimbursements, and \$172 million in federal funds.

The total amount represents an increase of \$142 million (7.7 percent) above the current-year level. This increase includes (1) \$72.3 million for a 4.37 percent cost-of-living increase, (2) \$68.2 million for workload adjustments related to increased enrollments, and (3) \$6.5 million for new or expanded special-purpose, federally-funded programs. These increases would be offset, in part, by a reduction of \$5.3 million associated with one-time expenditures in the current year.

We recommend approval of the proposed funding shown in Table 13 for the following program elements, which are not discussed elsewhere in this analysis:

- **State Special Schools Transportation (Item 6110-007-001)**—\$436,000 from the General Fund for transportation services provided to students attending the state special schools. The budget proposes an increase of \$11,000 (2.6 percent) above the current-year level to adjust for the effects of inflation.
- **Alternatives to Special Education (Item 6110-162-001)**—\$640,000 from the General Fund for programs designed to reduce the need for placing children in the Special Education program. This amount includes (1) \$430,000 for the Early Intervention for School Success Program, and (2) \$210,000 for the Pilot Project on Hyperactivity. The proposed amount represents a continuation of the current-year level.

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

a. Master Plan for Special Education (Item 6110-161-001)

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

Instructional Settings. Special education students are served through one of four instructional settings:

- **Designated Instruction and Services (DIS)**—this instructional setting provides special services such as speech therapy, guidance, and counseling to students in conjunction with their regular or special education classes.
- **Resource Specialist Program (RSP)**—this program provides instruction and services to pupils who are assigned to regular classroom teachers for the majority of the school day.

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- **Special Day Class or Center (SDC)**—these classrooms (or facilities) meet the needs of students that regular education programs cannot accommodate.
- **Nonpublic Schools**—These schools serve students who cannot appropriately be served in a public school setting.

Table 14 displays the distribution of special education students, by general disability and instructional setting, as of December 1, 1986.

Table 14
K-12 Special Education Enrollments
By Type of Disability and Placement
December 1, 1986

Placement	Disability				Totals
	Communi- cation	Learning	Physical	Severe	
Designated Instruction and Services (DIS)	91,949	5,567	11,964	2,009	111,489
Resource Specialist Program (RSP)	2,163	147,989	1,654	1,148	152,954
Special Day Class (SDC)	10,588	65,827	8,968	37,756	123,139
Nonpublic Schools (NPS)	160	741	146	3,398	4,445
Totals	104,860	220,124	22,732	44,311	392,027

Funding. School districts and county offices of education receive state reimbursement for their special education program costs, based on (1) state-authorized levels of personnel, (2) costs incurred in 1979-80, adjusted for inflation, (3) levels of federal, PL 94-142 funding, (4) local general fund contributions to the program, (5) local property taxes, and (6) general school apportionments ("revenue limits") for students in special day classes.

The budget proposes a total of \$1.9 billion in local assistance for the Master Plan, of which a total of \$1.2 billion is from the General Fund.

Instructional Unit Growth Overbudgeted

We recommend that \$64 million requested from the General Fund for special education instructional unit growth be reduced by \$3.8 million because the budget overestimates the level of demand for these funds. (Reduce Item 6110-161-001 by \$3,800,000.)

We withhold recommendation on the remaining \$60.2 million proposed for special education and recommend that the Legislature direct the Department of Education to submit a revised estimate that excludes levels of enrollment growth in SELPAs that do not qualify for additional units.

Under current law, the state allocates special education funds to special education local plan areas (SELPAs) on the basis of instructional service personnel units. These units represent funding for one teacher and up to two instructional aides. Current law provides that the state shall not increase the total number of units funded in each SELPA unless the Legislature appropriates funds specifically for this purpose.

In the past, total appropriations for unit growth have been less than the total rate of growth in special education enrollments. This has occurred because current law requires local education agencies (LEAs) to provide special education, when appropriate, to all handicapped children, and so restrictions on unit growth do not result in equivalent restrictions on the number of pupils served. Rather, the number of pupils served per unit

(and, correspondingly, the pupil-teacher ratio) has increased, particularly in SELPAs experiencing rapid population growth.

Calculation of Demand for Growth. In order to qualify for additional units under current law, the average number of pupils served by each unit in a SELPA must exceed certain statutory-enrollment standards. Certain SELPAs may apply to the State Department of Education (SDE), however, for a waiver from these enrollment standards. If the SELPA can demonstrate a need for units in addition to those for which it would qualify under the statutory standards, SDE may authorize the additional units, provided that sufficient funding is available. The amount needed to fund additional units for which SELPAs are eligible on the basis of both statutory enrollment standards and waivers constitutes the statewide "demand for growth."

If the demand for unit growth in any year exceeds the amount appropriated by the Legislature for this purpose, SDE pro rates the available amount among qualifying SELPAs. For instance, in the current year SELPAs were eligible for 1,312 units, at a total cost of \$70 million. Because the budget provided, however, only \$44 million for additional units, SDE only authorized 63 percent of the total number of units for which each SELPA was eligible. Thus, if a SELPA qualified for 100 additional units in the current year, it received funding for only 63 such units.

Budget Proposal. The budget proposes \$64 million from the General Fund to fund additional instructional units in the budget year. According to the Department of Finance (DOF), this amount would be sufficient to fully meet the demand for additional units in qualifying SELPAs. Of this amount, (1) \$25 million (39 percent) is associated with requests for units not funded in the current year, and (2) \$39 million (61 percent) is associated with demand that will result from an anticipated increase in special education enrollments of 2.6 percent.

The budget also proposes a \$5 million restriction on the amount of funding that can be used for additional units authorized on the basis of waivers from statutory enrollment standards.

Proposal Overbudgeted. Our analysis indicates that the amount proposed for unit growth is overbudgeted for the following reasons.

- **Waiver Restriction Will Reduce Approved Number of Units.** Of the unfunded level of demand for additional units in the current year—which will result in an equivalent amount of demand in the budget year—a portion (\$8.8 million, or 35 percent) is associated with requests for units authorized on the basis of waivers. The budget proposes \$8.8 million to fund these units in the budget year, but also proposes language to limit the amount of such units to \$5 million. Consequently, the budget overestimates the need for units in the budget year by \$3.8 million.
- **DOF Methodology Overstates Enrollment-Related Demand.** DOF estimated levels of demand for units associated with enrollment growth by multiplying statewide funding entitlements by 2.6 percent (the assumed rate of growth). When we tested this methodology against enrollment and growth data for 1986-87 and 1987-88, however, the methodology overstated actual levels of growth demand (excluding demand associated with waivers) by approximately \$30

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million and \$20 million, respectively. Presumably, this occurs because not all SELPAs experiencing enrollment growth qualify for additional units.

Conclusion. In view of the various problems with the budget proposal discussed above, we recommend that, based on the waiver restriction, the Legislature reduce the amount proposed for unit growth by \$3.8 million. Further, we withhold recommendation on the remaining \$60.2 million proposed for growth and recommend that the Legislature direct the Department of Education to submit a revised estimate that excludes growth units for unqualified SELPAs.

Special Education Waivers Out of Control

We withhold recommendation on (1) \$5 million proposed in Item 6110-161-001 from the General Fund for additional special education instructional units granted on the basis of waivers, and (2) corresponding Budget Bill language, pending submission of more specific approval criteria from the Departments of Education and Finance.

Current law specifies that SELPAs with either (1) high numbers of licensed-children's institutions (LCIs) within their area—which includes both foster family homes and residential medical facilities—or (2) low population density ("sparsity"), may apply to the State Department of Education (SDE) for waivers from enrollment standards used to allocate additional instructional units. The law authorizes the SDE to approve these waivers if adherence to the enrollment standards would result in "undue hardship." Current law, however, does not define specifically what constitutes an undue hardship.

In 1986-87, the department granted 465 additional units on the basis of waivers, resulting in an estimated additional cost of \$24.5 million to the General Fund.

When Should Waivers be Approved? Our review indicates that there are only four situations where there is any analytical justification for granting waivers:

- **Severity:** When a high concentration of LCIs results in a large number of severely handicapped students within a SELPA who require a higher than average number of supplementary services;
- **Exceed Ten Percent Cap:** When an LCI opens or expands in a SELPA that already has enrollment levels at or in excess of the current ten percent limit on enrollments;
- **Isolated LCI:** When several students residing in an LCI must, for programmatic or medical reasons, be instructed directly within the institution, thus requiring a separate, additional unit; and
- **Sparsity:** When, in rural SELPAs, geographic distances between schools prevent teachers from maintaining normal class sizes.

Waiver Approval Process Should Be Strengthened. Our review of the waiver approval process indicates that SDE's administration of the process should be strengthened. Specifically, we found that in the waiver applications approved by SDE, SELPAs rarely cited or documented one or more of the four criteria discussed above, especially in the case of waivers associated with LCIs. Nevertheless, in 1986-87 SDE approved 96 percent of all such applications, based upon a subjective review by program consultants of the merits of each application. Given SDE's

failure to use explicit criteria for approving these waivers, it is possible that many of the waivers granted by SDE are not warranted, thus resulting in both (1) an inefficient use of state funds, and (2) less unit funding for other SELPAs that have *legitimate* needs for additional units.

Budget Proposal. In order to address these problems, the budget proposes to limit additional funding for units granted on the basis of waivers to \$5 million. Related to this, the Budget Bill includes language that would (1) require a review of all previous waivers granted, and (2) restrict waivers granted to LCI-impacted SELPAs to only those with increasing levels of LCI pupils.

Proposed Language is Ineffective. We find that the proposed language is ineffective because the language does not fully *specify* the conditions under which waivers are warranted. Without more specific criteria, the department cannot (1) allocate the \$5 million proposed in the budget to only those SELPAs with legitimate needs, or (2) measure the true extent of these needs.

We, therefore, recommend that the Departments of Education and Finance jointly develop more specific criteria for granting waivers, and submit these criteria to the Legislature for its review by the time of budget hearings. These criteria should include:

- Guidelines for determining when SELPAs have an abnormally high level of pupils residing in LCIs who require intensive services;
- Definitions of an "isolated" LCI waiver;
- Guidelines for determining how far away a school must be from other schools in order to receive a unit on the basis of sparsity;
- Provisions for ensuring that any existing units granted on the basis of waivers that are found, upon review, to be unwarranted, are reallocated to other SELPAs that meet the criteria for waivers; and
- Provisions for ensuring that all nonwaiver units (including new units) shall on average meet minimum caseload criteria.

We withhold recommendation on the \$5 million proposed to fund waivers in Item 6110-161-001, and the corresponding Budget Bill language (provision 6), pending submission of revised approval criteria.

b. Federal Public Law 94-142—Special Education (Item 6110-161-890)

The Education for All Handicapped Children Act (P.L. 94-142) established and funded the right of such pupils to a "free and appropriate public education." The budget estimates that California will receive \$172 million under P.L. 94-142 (and other federal programs) consisting of \$119 million for direct assistance to local programs, \$45 million for a variety of special-purpose programs, and \$8 million for state administration.

The proposed amount is a net increase of \$15 million (or 9.6 percent) above the estimated current-year level. Of this increase, \$5.4 million is associated with funding for special-purpose programs. Table 15 displays the various components of the \$5.4 million increase.

We recommend approval of the changes shown in Table 15, except for Project Work Ability which is discussed in the following section.

DEPARTMENT OF EDUCATION—Continued**Table 15**

**K-12 Special Education
Federally-Funded, Special-Purpose Programs
Proposed 1988-89 Budget Changes
(dollars in thousands)**

1987-88 Expenditures (Revised)	\$39,572
<i>Baseline Adjustment</i>	
Preschool Program—Grant Adjustment	—\$1,098
Subtotal, Baseline Adjustments	(—\$1,098)
<i>Program Changes</i>	
Work Ability	\$2,000
Low-incidence handicap services	1,700
LCI impactation fund	1,500
Comprehensive program evaluation	200
Transition Center	—1,000
Timpany Center	—380
Personnel Development	(1,467)
Local in-service	937
Bilingual	200
Core curriculum training/research	200
Student study teams	80
Needs survey	50
Technical Error	1,000
Subtotal, Program Changes	(\$6,487)
1988-89 Expenditures (Proposed)	\$44,961
Change from 1987-88:	
Amount	\$5,389
Percent	13.6%

Effectiveness of Project Work Ability Not Established

We make no recommendation regarding \$2 million proposed from the Federal Trust fund to expand Project Work Ability, because the effectiveness of the program has not been established.

Project Work Ability, which was established by the Department of Education in 1982-83, provides handicapped youth with services intended to increase their prospects for employment after graduating from high school. These services include (1) vocational counseling, (2) job exploration, (3) instruction in appropriate work ethics and behavior, and (4) paid work experience. Currently, an estimated 16,000 students in 133 school districts participate in the program.

The budget proposes a total of \$6.8 million for the program (excluding amounts proposed for "Project Work Ability II" in Item 6110-166-001), of which \$3.5 million would be from the General Fund, and \$3.3 million would be from federal funds. The federal amount is an increase of \$2 million above the current-year level and would expand the program to additional school districts.

Cost-Benefit Data Flawed. In support of the proposed augmentation, SDE submitted an evaluation of the program claiming that program benefits significantly exceed program costs. Specifically, the report, which is based on the results of an eighteen-month follow-up study of 1982-83 Work Ability participants, concluded that the program results in

\$4 dollars in additional earnings among program graduates for every \$1 invested in the program.

Our analysis indicates, however, that SDE's analysis of the data is flawed, for two reasons.

First, SDE only counted state funds, and not funds from all other sources, when computing the program's benefit-cost ratio. When other resources are included, program benefits only slightly exceed costs.

Second, SDE significantly overstated program benefits. SDE claims that, because Work Ability students receiving work experience performed better in the job market than students who did not (including Work Ability students), the work experience component of the program must be effective. Our analysis indicates, however, that the program tends to provide work experience to those participants who are the most mature and "job-ready," and that this factor probably accounts for SDE's results. Furthermore, our analysis of the data indicates that among males (who constitute 68 percent of all pupils in the program), those receiving work experience performed only slightly better in the job market than those in the control group, while those not receiving work experience performed significantly worse. While these results do not indicate that the program is effective, because the Work Ability group may have been more severely handicapped than the control group, neither do the findings prove that the program is ineffective. Rather, we find the results of the evaluation to be inconclusive.

No Analytic Basis for Expansion. Because of these flaws in the program's evaluation, we are unable to determine whether, and when, the program is effective. Consequently, we make no recommendation regarding the \$2 million proposed for its expansion.

c. State Special Schools (Item 6110-006-001)

The state operates six special schools for handicapped children. Three of these schools offer both a residential and a nonresidential program for students who are deaf or blind; the remaining three schools provide diagnostic and residential services to students who are emotionally disturbed. In 1988-89, these schools will serve an estimated 825 students who are deaf, 105 students who are blind, and 442 with neurological and emotional disorders.

Table 16 displays the enrollment and cost per student in the six special schools for the prior, current, and budget years.

The budget proposes \$44 million for the state special schools (\$40.2 million from the General Fund and \$3.8 million in reimbursements). This is a net increase of \$814,000 (1.9 percent) above the current-year funding level, and reflects (1) \$760,000 to continue personnel costs incurred in the current year, (2) \$116,000 for price increases, (3) \$6,000 in estimated reimbursements, and (4) a reduction of \$68,000 associated with decreased employee retirement contributions.

DEPARTMENT OF EDUCATION—Continued

Table 16

K-12 Education
Enrollment in Special Schools
1986-87 through 1988-89

	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change from 1987-88	
				Amount	Percent
School for the Blind, Fremont:					
Blind.....	70	73	76	3	4.1%
Deaf/Blind	29	27	29	2	7.4
School for the Deaf, Fremont:					
Deaf	425	415	415	—	—
Multihandicapped Deaf.....	60	60	60	—	—
School for the Deaf, Riverside:					
Deaf	260	241	241	—	—
Multihandicapped Deaf.....	109	109	109	—	—
Diagnostic School, San Francisco:					
Short-term assessment	127	140	150	10	7.1
Long-term assessment	50	50	50	—	—
Follow-up service	157	180	180	—	—
Diagnostic School, Fresno:					
Short-term assessment	120	140	145	5	3.6
Long-term assessment	46	40	40	—	—
Follow-up service	158	160	120	-40	-25.0
Diagnostic School, Los Angeles:					
Short-term assessment	117	147	147	—	—
Long-term assessment	48	50	50	—	—
Follow-up service	97	100	105	5	5.0
Totals ^a	1,317	1,352	1,372	20	1.5%

^a Excludes long-term and follow-up assessments in diagnostic schools to avoid double counting students.

Review of State Special Schools Required

We recommend that the Legislature adopt Budget Bill language in Item 6110-006-001 providing for a \$150,000 review of (1) the role and mission of the state special schools, and (2) the schools' staffing patterns.

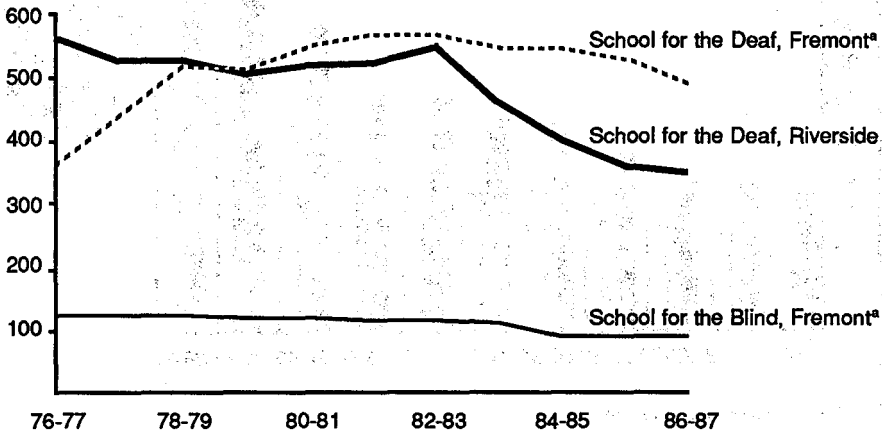
Our analysis indicates that there are a number of issues associated with the state special schools that warrant further review.

Staffing Levels Not Adequately Adjusted for Declining Enrollment. Chart 5 shows that enrollment levels in two of the three schools for the deaf or blind have declined significantly over the past 10 years. Specifically, during this period, enrollments in the School for the Deaf, Riverside and the School for the Blind, Fremont have declined by 38 and 24 percent, respectively. In addition, enrollments in the School for the Deaf, Fremont have declined steadily since 1982-83. These enrollment declines are primarily due to:

- Regionalization of services under the Master Plan, which has enabled local programs to serve greater numbers of deaf and blind students;
- The state requirement that local education agencies (LEAs) contribute 10 percent of the excess cost for each student attending the schools. This policy was instituted in 1981-82 to encourage regional placements; and

- A general decline in the statewide population of deaf and blind students.

Chart 5
Enrollment Changes
State Special Schools
1976-77 through 1986-87



^a Located in Berkeley until 1980-81.

Because the state does not automatically reduce staffing levels in the schools to match the enrollment declines, the cost of educating each pupil in the two schools has increased by approximately 200 percent over the last 10 years. Chart 6 shows the increases in cost per pupil. These rates of increase are over *twice* the rate of inflation for that period.

Although the Legislature did eliminate 18.5 positions in the 1986 Budget Act to adjust for declines in enrollment, our analysis indicates that additional reductions in personnel, as well as state action to close or consolidate some dormitories, may be warranted. Additional review will be necessary, however, in order to determine the appropriate nature and magnitude of potential budget adjustments.

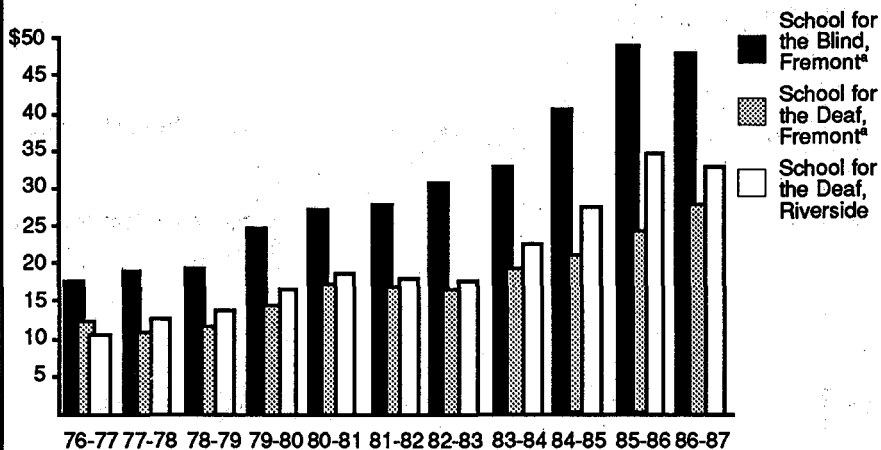
Schools Potentially Overstaffed. Our analysis indicates that the current number of staff positions (1,053) funded in the state special schools may be excessive. Specifically, the number of staff employed by the schools is almost as great as the average number of students served per day (approximately 1,093). In addition, although the state schools employ fewer instructional aides than most local programs for the deaf or blind, the schools employ approximately 80 percent more teachers per student than do local programs. It appears that the staffing levels provided by the schools significantly exceed the levels provided in most local programs for the severely handicapped.

DEPARTMENT OF EDUCATION—Continued

Chart 6

**Costs per Pupil
State Special Schools**

1976-77 through 1986-87 (in thousands)

^a Located in Berkeley until 1980-81.

Special Schools May Admit Some Students Unnecessarily. Under state law, the purpose of the state special schools is to provide education and assessment to only students who cannot be provided with these services in the regular public schools. This requirement is consistent with the provisions of PL 94-142, which mandate that students be served in the "least restrictive environment" possible. Each student's "individualized education program" (IEP) team, which consists of a group of teachers, administrators, and parents from the student's local school, is responsible for determining whether a student needs to be placed in the state special schools.

In spite of the requirements of current law, there is some evidence that suggests that the state special schools are serving a large number of students who could be served in programs located in their school districts of residence. For instance, the Department of Finance (DOF) issued a report in 1979 which found that the state schools for the deaf were admitting many students who had access to local education programs in their own school districts.

Our analysis indicates that this situation still prevails. Table 17 shows that the top five heaviest users of the state special schools are districts in Los Angeles, Orange, San Diego, Contra Costa, and San Bernardino Counties. This finding was surprising, because it is large, urban counties that, relative to other counties, should be *most* able to provide comprehensive programs for deaf and blind students. In fact, administrators in several of these counties indicate that many of the students placed in the schools could be adequately served locally, but are referred to the schools at the request of parents. Because PL 94-142 requires any disagreements between a student's parents and other members of an IEP team regarding placement to be resolved by an administrative hearing, districts will often consent to placements in the state special schools requested by parents—even if they believe these placements to be inappropriate—rather than incurring the cost of a hearing.

Table 17
State Special Schools
Percentage of Total Enrollments by County
Largest Five Users
1986-87

<i>County</i>	<i>Percent of Total Enrollment^a</i>
Los Angeles.....	21.3%
(LA Unified)	(8.8%)
Orange.....	6.2
San Diego.....	5.7
Contra Costa.....	5.5
San Bernardino.....	5.3

^a Based on district payment reports.

Unnecessary placements in the state special schools is a problem for both fiscal and programmatic reasons. Fiscally, such placements are expensive (between \$28,000 and \$44,000 per year per child). Programmatic, these placements can unduly isolate handicapped children from the larger society, and are therefore potentially contrary to the "least restrictive environment" provisions of PL 94-142. Although handicapped children (and in particular the deaf) require significant contact with other handicapped children in order to avoid social isolation, placements in regional programs operated by a SELPA (or a consortium of SELPAs) can afford children an opportunity for significant contact with *both* handicapped and nonhandicapped children, and may, therefore, be generally more desirable than placements in the state special schools.

Special Schools Unable to Serve All Students in Need. Although the mission of the state special schools is to serve pupils who cannot be served in the regular public schools, the special schools for the blind and deaf have denied admission to some emotionally disturbed pupils who cannot be educated in their local SELPA. As a result, districts must enroll these students in nonpublic schools, at state expense. Administrators of the state special schools have explained to us that the schools do not possess staff capable of providing services to these students.

Detailed Review Warranted. We believe these various issues warrant funding of an in-depth review of both the mission and staffing of the state special schools. Specifically, we recommend that the Legislature allocate

DEPARTMENT OF EDUCATION—Continued

\$150,000 from the state special schools' budget for the Department of Education to contract for an independent study which would (1) evaluate alternative roles of the state special schools, (2) develop appropriate staffing standards consistent with these roles, and (3) assess the schools' current admissions criteria and levels of service. We also recommend that the Legislature establish an advisory committee, composed of representatives from the policy and fiscal committees of the Legislature and the Department of Finance, to oversee the study. In order to implement our recommendations, the Legislature should adopt the following Budget Bill language in Item 6110-006-001:

Of the funds appropriated in this item, \$150,000 shall be used for a review of the mission and staffing of the state special schools. The Department of Education, in consultation with an advisory committee composed of representatives of the policy and fiscal committees of the Legislature, the Office of the Legislative Analyst, and the State Department of Finance, shall expend these funds for the purpose of contracting, through a competitive-bid process, with an organization deemed qualified and competent to conduct this review. The advisory committee shall assist in the development of a request-for-proposals and the selection of the contractor. Up to \$2,500 of the amount may be expended by the Department of Education to pay for overhead costs associated with supervision of the contract. The contractor shall, for purposes of this study, convene a technical committee of individuals with expertise in the education of the deaf, blind, and neurologically handicapped to provide advice on the educational needs of handicapped children. The contractor shall submit an interim report to the Legislature by August 1, 1989 and a final report by October 1, 1989.

Special Education Technical Issues

We recommend that the Legislature, in order to fully fund special education entitlements, (1) reallocate \$1 million from subschedule (b) to subschedule (a) in Item 6110-161-890, and (2) adopt Budget Bill language in Item 6110-161-001 providing for increased instructional aide entitlements.

Our review indicates that the proposed budget for special education contains the following technical errors:

- **COLA Underbudgeted.** The budget proposes \$72.3 million from the General Fund for a 4.37 percent statutory cost-of-living adjustment (COLA); our analysis indicates, however, that \$74.8 million is required to fully fund the statutory COLA. The budget effectively provides only a 4.22 percent COLA. The Department of Finance indicates that it will provide the correct COLA amount in its May revision.
- **Misscheduled Federal Funds.** The budget inadvertently schedules \$1 million in federal funds for SDE special-purpose programs rather than for funding of local entitlements. To correct this error, we recommend that the Legislature decrease Item 6110-161-890(b) by \$1 million and increase Item 6110-161-890(a) by a corresponding amount.
- **Omission of Aide Budget Bill Language.** The budget provides funding for instructional aide entitlements that is equal to 1980-81 levels but does not propose Budget Bill language authorizing SDE to

calculate aide entitlements at this level. Absent this language, current law requires SDE to calculate entitlements at only 93 percent of the 1980-81 levels. The Legislature, in the 1987 Budget Act, funded entitlements at 1980-81 levels. In order for the Legislature to fund entitlements at this level in 1988-89, we recommend that it adopt the following Budget Bill language in Item 6110-161-001:

- Notwithstanding Section 56728 of the Education Code, for the purposes of computing funding for aides other than those in classes for the severely handicapped, a full-time equivalent aide shall be equal to 1.00 times a full-time equivalent aide entitlements for those aides in the 1980-81 fiscal year.

6. Vocational Education Programs

Table 18 summarizes funding for all vocational education programs, including Regional Occupational Centers and Programs (ROC/Ps). In total, the vocational education budget requests approximately \$317 million for these programs in 1988-89—a net increase of \$1.1 million (0.3 percent) above the estimated current-year level of expenditures. The increase primarily reflects additional funding for (1) ROC/Ps (\$3.4 million), (2) the Greater Avenues for Independence (GAIN) program (\$2.6 million), (3) Partnership Academies (\$616,000), and (4) reimbursements from the Department of Social Services (\$192,000). These increases would be offset by a reduction in federal funding of \$5.8 million for school-based programs.

Table 18
K-12 Education
Funding for Vocational Education Programs
1986-87 through 1988-89
(dollars in thousands)

Programs	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change from 1987-88	
				Amount	Percent
Regional Occupational Centers/Programs.	\$209,981	\$217,059 ^a	\$220,466 ^a	\$3,407	1.6%
Student organizations	500	550	550	—	—
Agricultural education	3,000	3,000	3,000	—	—
School-based programs	76,764	74,397	68,639 ^b	-5,758	-7.7
Special-purpose programs:					
Partnership academies	600	600	1,216 ^d	616	102.7
GAIN Matching funds	2,000 ^c	4,600	7,200	2,600	56.5
Federal JTPA/other reimbursements. . .	12,876	15,832	16,024	192	1.2
Subtotals, Special-Purpose Programs..	<u>(\$15,476)</u>	<u>(\$21,032)</u>	<u>(\$24,440)</u>	<u>(\$3,408)</u>	<u>(16.2%)</u>
Totals	\$305,721	\$316,038	\$317,095	\$1,057	0.3%
Funding Sources:					
General Fund	\$216,081	\$225,809	\$232,124	\$6,315	2.8%
Federal funds	76,764	74,397	68,947	-5,450	-7.3
Reimbursements	12,876	15,832	16,024	192	1.2

^a Includes \$5 million for GAIN in Control Section 22.00.

^b Excludes \$308,000 in federal funds for Partnership Academies.

^c Governor's Budget display understates General Fund amount by \$994,000.

^d Includes \$308,000 in federal funds.

DEPARTMENT OF EDUCATION—Continued

We recommend approval of the proposed funding in Table 18 for the following vocational education programs, which are not discussed elsewhere in this analysis:

- **Regional Occupational Centers and Programs (ROC/Ps) (Item 6110-102-001)**—\$220.5 million from the General Fund to support vocational training provided to high school pupils and adults in ROC/Ps (of which \$215 million is proposed in this item and \$5 million—for expenditures related to GAIN—is proposed in Control Section 22.00). The proposed amount is \$3.4 million above the current-year level, and reflects funding for enrollment growth of 1.6 percent.
- **Vocational Education Student Organizations (Item 6110-118-001)**—\$550,000 from the General Fund for activities related to vocational education student organizations. This is the same level of support provided in the current year.
- **Agricultural Vocational Education Incentive Program (Item 6110-167-001)**—\$3 million from the General Fund to provide grants to local school districts to improve the quality of approved agricultural vocational education programs. This is the same level of funding as is provided in the current year.
- **School-Based Programs (Item 6110-166-890)**—\$68.6 million from the Federal Trust Fund for local assistance to vocational education programs that are provided as part of the regular school curriculum. The proposed amount reflects a decrease of \$5.8 million from the current-year level, due to a one-time expenditure of funds carried-over from the prior year. The budget proposes to use \$308,000 of the \$68.6 million for “Partnership Academies” (described below).
- **Partnership Academies (Items 6110-166-001 and 6110-166-890)**—\$1,216,000 (\$908,000 from the General Fund and \$308,000 in federal funds) to provide grants to local school districts to replicate special programs (“Partnership Academies”) for educationally disadvantaged youth, pursuant to Ch 1405/87. The proposed amount is an increase of \$616,000 above the current-year level for the purpose of establishing six new academies.

Our concerns and recommendations with the remaining budget for vocational education are discussed below.

Special-Purpose, Vocational Programs—(Item 6110-166-001)

The budget proposes a total of \$24.1 million for special-purpose, vocational education programs. This amount includes \$8.1 million from the General Fund consisting of (1) \$7.2 million for the Greater Avenues for Independence (GAIN) Program (which is in addition to the \$5 million proposed in Control Section 22), and (2) \$908,000 for Partnership Academies (discussed above). The remaining \$16 million consists of reimbursements from (1) the Employment Development Department (\$15.2 million) for activities related to the Job Training Partnership Act (JTPA), (2) the Department of Social Services (\$780,000) to develop GAIN assessment instruments, and (3) the Employment Training Panel (\$76,000) for training-related activities. (The amount proposed in this item differs from the figure shown in the table because the latter amount also includes \$308,000 in federal funds appropriated for Partnership Academies in Item 6110-166-890.)

The proposed amount is an increase of \$3.1 million above the current-year level. This increase is primarily due to an increase in the number of counties expected to participate in GAIN in 1988-89.

GAIN Funds Need Better Reallocation

We recommend that the Legislature (1) reappropriate the unexpended balance of funds provided for the purposes of the GAIN program, and (2) adopt Budget Bill language directing the Superintendent of Public Instruction and the Job Training Coordinating Council to jointly develop and implement a plan for reallocating unused GAIN funds for purposes of the program.

Chapter 1025, Statutes of 1985, established the GAIN program, which provides employment and training services to Aid to Families with Dependent Children (AFDC) recipients to help them become financially self-sufficient. The measure expressed legislative intent that the budget annually appropriate a portion of the amount provided for education under the federal Job Training Partnership Act (JTPA) for purposes of GAIN, as well as an equivalent amount from the General Fund to provide a required "local match." Accordingly, the Legislature provided state and federal JTPA funds for GAIN totaling \$4 million in 1986-87 and \$9.2 million in 1987-88. The state provided these funds to local JTPA entities known as "service delivery areas" (SDAs), and to agencies designated by SDAs. The SDAs (or their designated agencies) were in turn to contract with school districts or other organizations to provide remedial education to GAIN clients.

Low Expenditure Level. Our analysis indicates that to-date SDAs have expended only a small portion of these funds. For instance, in 1986-87, SDAs spent only \$2 million of these funds, or 50 percent of the total amount provided. In the current year, the State Department of Education (SDE) estimates that these agencies will spend only 38 percent of the amount available. These low-levels of expenditures are attributable to two factors: (1) extensive paperwork requirements, which have discouraged some districts from applying for these funds, and (2) delays in the implementation of GAIN.

The State Job Training Coordinating Council (SJTCC), which includes representation from SDE, sets the current policies on the use of JTPA funds. The SJTCC does not currently require unexpended GAIN funds to be reallocated to other agencies that have a need for additional GAIN education funds, but instead allows these funds to be used for non-GAIN related activities.

Our analysis indicates that the state should reallocate these funds to entities with a need for additional GAIN education funds because (1) current law expresses legislative intent that these funds be used for GAIN, and (2) there are large funding needs for education in this program—at least \$80 million for remedial education is requested in the budget year. Reallocating these funds will, over the long-run, offset the amount of state resources that will be required by the GAIN program.

Recommendation. For this reason, we recommend that the Legislature direct the Superintendent of Public Instruction, in conjunction with the State Job Training Coordinating Council, to develop and implement a plan for reallocating unexpended JTPA education funds. This plan should first provide for reallocating these funds within each county, and secondly to other counties with an unmet need for additional GAIN education funds.

DEPARTMENT OF EDUCATION—Continued

In addition to requiring reallocation, the Legislature should reappropriate unexpended current-year funds so that the state may reallocate these funds in the budget year.

Accordingly, we recommend that the Legislature (1) reappropriate the unexpended balance of funds specified in provision 5 of Item 6100-166-001 of the 1987 Budget Act, and (2) adopt the following Budget Bill language:

The Superintendent of Public Instruction and the State Job Training Coordinating Council shall jointly develop and implement a plan for reallocating unexpended state funds specified in provision 3 (or provision 5 of Item 6100-166-001 of the 1987 Budget Act), as well as the equivalent amount of Job Training Partnership Act funds. The plan shall provide for the reallocation of these funds (at either the state or local level) to only organizations providing or contracting for remedial education services to GAIN participants, or other GAIN-related activities. The plan shall give first priority to local reallocations. In circumstances where this is not possible, the plan shall, as its second priority, provide for reallocation of these funds to organizations in other counties.

7. Compensatory Education Programs

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

The budget proposes a total of \$654.1 million for compensatory education funding—\$217.2 million from the General Fund and \$436.9 million from federal funds. This represents a \$2.8 million (0.4 percent) increase above the current-year level. The increase is attributable to receipt of federal funds (in Control Section 23.50) to provide various services for newly-legalized aliens pursuant to the federal Immigration Reform and Control Act (IRCA). We discuss this proposal in further detail in our companion volume, *The 1988-89 Budget: Perspectives and Issues*.

Funding for the Miller-Unruh Reading Program and the Native American Indian Education Program are both contained within the Governor's proposed Educational Assistance Program, which is discussed earlier in this analysis.

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

- ***Education Consolidation and Improvement Act—Chapter 1 (Items 6110-136-890 and 6110-141-890)***—\$415 million from federal funds, composed of (1) \$334 million to provide compensatory education services to educationally disadvantaged students, and (2) \$81 million to provide supplementary educational and health services to children of migrant and formerly migrant workers.
- ***Refugee and Immigrant Programs (Item 6110-176-890)***—\$20 million from federal funds for two programs that serve refugee and immigrant children. This amount includes (1) \$15 million to fund the

Emergency Immigrant Education Assistance Program, and (2) \$5 million to fund the Transition Program for Refugee Children.

- **Economic Impact Aid (Item 6110-121-001)**—\$197 million from the General Fund to provide (1) compensatory education services (EIA-SCE) to educationally disadvantaged students and (2) bilingual education programs (EIA-LEP) for children who are classified as limited English-proficient (LEP).

Later in this analysis, we discuss our recommendation regarding the proposed bilingual education (EIA-LEP) evaluation.

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

Miller-Unruh Reading Program and Native American Indian Education Program: Educational Assistance Program

Consistent with our recommendation regarding the Governor's proposed Educational Assistance Program, we recommend that the Legislature separately fund the Miller-Unruh Reading Program and the Native American Indian Education Program at their current-year levels. (Add new Item 6110-126-001 at \$19,869,000 and adopt corresponding Budget Bill language, and add new Item 6110-131-001 at \$365,000.)

Miller-Unruh Reading Program. The Miller-Unruh Reading Program provides state support for reading specialist positions that are intended to prevent and/or correct reading disabilities at the earliest possible time in the educational career of the pupil. In the current year, the state will allocate \$21,527 per full-time reading specialist—an amount equal to approximately 70 percent of the average salary paid to elementary school teachers statewide.

Table 19
K-12 Education
Miller-Unruh Reading Program
Participation and Funding
1980-81 through 1987-88

	<i>Number of Districts Participating</i>	<i>Number of Positions Funded</i>	<i>Total Appropriation</i>	<i>Funding Level Per Position</i>
1980-81	165	992	\$15,265,796	\$15,389
1981-82	161	964	16,181,744	16,786
1982-83	157	948	16,182,000	17,070
1983-84	152	919	17,152,920	18,665
1984-85	149	918	18,166,000	19,789
1985-86	148	914	19,290,000	21,105
1986-87	147	913	19,869,000	21,762
1987-88	188	923	19,869,000	21,527
Change from 1980-81 through 1987-88				
Amount	23	-69	\$4,603,204	\$6,138
Percent	13.9%	-7.0%	30.2%	39.9%

Table 19 shows program participation and funding from 1980-81 through 1987-88. As the table indicates, program participation has grown from 147 districts to 188 districts since 1986-87, although the budget level did not change. According to the SDE, most of the participation growth is due to the reallocation of program funds to small districts after one large district terminated its participation. In accordance with 1987 *Budget Act* language, districts with the lowest California Assessment Program reading scores and district base revenue limits were given first priority for funding. For 1988-89, the budget proposes to provide \$19.9 million for the Miller-Unruh Reading Program.

DEPARTMENT OF EDUCATION—Continued

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

In 1987-88, 11 rural school districts will receive a total of \$365,000 in General Fund support under this program for the 23 schools serving approximately 1,130 students. For 1988-89, the budget proposes to provide \$365,000 for the Native American Indian Education Program.

Recommendations. Elsewhere in this analysis, we recommend that the Legislature reject the Governor's proposal to include the Miller-Unruh, Indian Education, and Gifted and Talented Education (GATE) programs within the Educational Assistance Program (EAP), because (1) we find no compelling reason why these programs should be treated in a different manner than Economic Impact Aid-State Compensatory Education and Small School District Transportation Aid which the budget proposes to restore as separate programs and budget items, and (2) we believe that funding Miller-Unruh, Native American Indian Education and GATE as separate programs will provide the Legislature with more useful information in its oversight of the programs.

Consistent with this recommendation, we recommend that the Legislature establish Items 6110-126-001 and 6110-131-001 to separately fund the Miller-Unruh Reading and Native American Indian Education programs, respectively, at their current-year levels.

The Legislature in previous actions has approved budget bill language to ensure that funds freed up when districts drop out of the Miller-Unruh program are reallocated to other districts, with priority given to schools with the lowest reading scores and district base revenue limits. The budget proposes to include this language in the EAP budget item. Consistent with our previous recommendation, we recommend that the Legislature adopt the following Budget Bill language in new Item 6110-126-001 to continue its existing funding policies for this program:

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

Indian Education Centers Program (Item 6110-151-001)

The California Indian Education Centers program is statutorily directed to "strengthen the instructional program within the public schools by establishing California Indian education centers." The statute further specifies that they "shall serve as educational resource centers in Indian communities to the Indian students, parents, and the public schools."

In 1987-88, 12 centers will receive a total of \$861,000 (an average of \$72,000 per center) in General Fund support to serve an estimated 2,125 K-12 Indian students and 725 Indian adults. The cost per client ranges from a low of \$161 to a high of \$1,092. Tutoring for K-12 students is the most common type of service provided. At the state level, the State Department of Education (SDE) will spend approximately \$111,000 to support portions of three positions in the American Indian Education Office to administer this program.

Budget Proposal. The budget proposes \$975,000, an increase of \$3,000, to fund the California Indian Education Centers program in 1988-89. Of this amount, \$861,000 is for direct support of the centers, and \$114,000 is for state administration.

Sunset Review Inconclusive: Comprehensive Evaluation Needed

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

Under current law, the California Indian Education Centers program will "sunset" on June 30, 1989, unless legislation is enacted to extend or repeal this date.

The "sunset" provision is intended to provide the Legislature with an opportunity to conduct a comprehensive review of the program's effectiveness. As part of the sunset review process, Ch 1270/83 required the SDE to review the program and report to the Legislature by September 15, 1987 on its appropriateness and effectiveness. The legislation further requires the Legislative Analyst to review the department's report and submit findings, comments, and recommendations regarding the program.

Our review of the program and the SDE sunset report indicates that there is little analytical data or material for the Legislature to use in determining whether the program should be continued. Specifically, we find that:

- There is no existing evaluative process.
- It is unknown if the program as a whole (or even an individual project) has increased the academic achievement levels of its participants.
- The department does not maintain programwide records which indicate the type or number of hours of service provided.
- Current funding allocation practices do not allow for new—and possibly better—projects to be funded, until an existing project terminates its program participation. Funds are allocated based on prior-year funding levels, rather than on relative need and project effectiveness. Any increased funding is distributed on a pro rata basis.

DEPARTMENT OF EDUCATION—Continued

- It is unknown to what extent participants in this program receive duplicate or similar services from other Native American Indian or compensatory education programs.
- The guidelines adopted by the SDE for the selection and administration of the education centers are outdated and no longer direct or reflect the current operational practices of the program.

Our review indicates that these problems primarily relate to the current *implementation* of the program. They, however, do not necessarily indicate that the program is unneeded. Therefore, we do not conclude that the centers program should necessarily be eliminated.

Recommendation. We recommend that the program be continued for two years only, until 1991, pending a comprehensive evaluation of the program. Specifically, we recommend that the SDE develop a detailed plan, including a funding proposal, to conduct a comprehensive evaluation focusing on the effectiveness of the program in improving the educational achievement levels of its participants. The plan should be submitted to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance by September 15, 1988 and should include the estimated cost and time frame for conducting such an evaluation. This plan would be available for the Legislature's deliberations on the 1989 Budget Bill.

Based on the results of such an evaluation, the Legislature should better be able to determine the overall need to adjust the statutory goals or requirements of the program and the related costs of doing so. Accordingly, we recommend adoption of the following supplemental report language in Item 6110-151-001:

The State Department of Education shall submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 15, 1988, a detailed plan, including the associated costs and time frame, for conducting a comprehensive evaluation of the effectiveness of the California Indian Education Centers program. The plan shall reflect a proposed evaluation that *at a minimum* focuses on (1) the effectiveness of the program, and individual projects, in increasing the academic achievement of its participants, (2) the educational needs of California Indians, and (3) the need for more specific program goals and objectives, both administrative and statutory.

8. School Desegregation (Items 6110-114-001 and 6110-115-001)

We recommend that the Legislature adopt Budget Bill language in Item 6110-114-001 to limit the state reimbursement of school desegregation program expansion to one-half of the expansion costs that are in addition to cost-of-living or enrollment increases. We further recommend that the Legislature, in a conforming action, reduce the amount proposed for the reimbursement of court-ordered desegregation programs to \$394.4 million for a General Fund savings of \$24.8 million. (Reduce Item 6110-114-001 by \$24,750,000.)

Current law entitles school districts to obtain reimbursement for the costs of both court-ordered and voluntary school desegregation programs from the state. The reimbursements are funded from the General Fund based on claims filed by school districts operating such programs.

Currently, seven school districts receive reimbursement for court-ordered programs, and 37 school districts receive reimbursement for voluntary programs. Table 20 shows the three-year funding history for these programs.

Table 20
K-12 Education
General Fund Appropriations for School Desegregation Programs
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change</i> <i>from 1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
Court-ordered desegregation	\$302,063	\$321,215	\$435,858	\$114,643	35.7%
Voluntary desegregation	82,815	47,233	50,863	3,630	7.7
Totals	\$384,878	\$368,448	\$486,721	\$118,273	32.1%

Budget Proposal. The budget proposes to provide \$435.8 million for court-ordered programs and \$50.9 million for voluntary programs in 1988-89, for a total of \$486.7 million. This total represents an increase of \$118.2 million (32 percent), above estimated current-year expenditures.

The increase in voluntary programs includes \$2.1 million for a 4.37 percent COLA and \$1.5 million for enrollment growth. Cost-of-living and enrollment growth adjustments are the only funding increases that are authorized by current law for districts that operate voluntary programs.

Districts that operate court-ordered programs, however, are entitled to these adjustments *plus* 80 percent of any additional cost increases that are claimed by the district and approved by the State Controller. Accordingly, state reimbursements for court-ordered programs are growing at a much faster rate than reimbursements for voluntary programs.

As shown in Table 20, the budget proposes a \$114.6 million (36 percent) increase in funding for court-ordered programs in 1988-89. This increase includes the following components:

- \$5 million for enrollment growth;
- \$16.7 million for a cost-of-living adjustment;
- \$30 million for the one-time payment of prior-year deficiencies for the Los Angeles Unified School District; and
- \$66 million for additional program expansion.

These increases are off-set in part by the deletion of a one-time appropriation of \$3.1 million that was provided in the current year for prior-year deficiencies.

Program Growth Is Out of Control. As indicated above, \$66 million in proposed court-ordered desegregation costs is for anticipated budget-year program expansion in eligible districts. These costs are estimates based on current- and prior-year cost increases.

The Legislature attempted to minimize such increases several years ago by enacting Ch 180/85 (AB 38). That statute limited state reimbursement of court-ordered programs to their base year cost plus (1) cost-of-living and enrollment growth adjustments and (2) 80 percent of any additional expansion. It was generally expected that the 20 percent local share would provide a fiscal incentive for a district to limit program growth.

The continued expansion of court-ordered programs since the enactment of Chapter 180, however, appears to contradict this expectation.

DEPARTMENT OF EDUCATION—Continued

Between 1984-85 and 1987-88, for example, costs in some districts have grown by 10 to 40 percent *faster* than the rate of inflation and enrollment growth. There are three reasons for this growth—the local share is too small to promote fiscal restraint, there are a wide variety of components eligible for funding, and there are no cost standards.

Our analysis indicates that the 20 percent local share is so small that it appears to encourage rather than discourage program growth. Specifically, a \$1 local contribution buys a \$4 state contribution, and results in a \$5 program. This serves as an incentive, therefore, to allocate local education funds to the fullest extent possible to desegregation programs, in order to maximize state funding participation.

The growth of court-ordered desegregation program costs is further facilitated by the wide variety of program components that are eligible for state funding. These include:

- day care;
- pre-school;
- gifted education;
- class size reduction;
- bilingual education;
- facilities renovation;
- magnet schools;
- voluntary student transfer; and
- general program enrichment.

Finally, although current law entitles districts to state reimbursement for nearly the total cost of these program components, it does not establish cost standards for them. Accordingly, districts may receive reimbursement for any program—at any cost—that they can relate to their court orders. For example, one school district receives state funding for a year-round extended day care program, even though the program is not specifically required by its court order. Under current law, the local decision to expand or implement such programs automatically entitles the district to state reimbursement for 80 percent of the costs.

Recommendation. In the absence of strict state standards to regulate program content and costs, we believe that the only means of controlling the rapid growth in the state cost of court-ordered programs is to increase the local share of expansion costs. Based on our review of matching ratios in other education programs, we believe that a 50 percent share would be reasonable. This would result in (1) an equal sharing of the financial burden between the state and those districts that the courts found to be maintaining segregated schools, (2) an incentive for better control of program growth, and (3) a direct state savings. Meanwhile, the existing level of funding for state reimbursement would be maintained, and a state match of 50 percent for further program expansion would be provided. In other words, this recommendation would reduce the fiscal incentive for excessive program expansion, but would not result in the reduction of any existing programs. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6110-114-001:

4. Notwithstanding Section 42247.3 of the Education Code or any other provision of law, for the 1988-89 fiscal year, the reimbursement for any court-ordered school desegregation program pursuant to Section

42243.6 of the Education Code shall not exceed the sum of the following:

- (a) The audited costs approved by the State Controller and incurred during the 1984-85 fiscal year, increased by the adjustment calculated pursuant to Section 42247.2 of the Education Code.
- (b) Additional costs approved by the State Controller for the 1987-88 fiscal year pursuant to Section 42247.3(a)(2) of the Education Code.
- (c) One-half of the amount obtained by subtracting the total audited costs approved by the State Controller for the 1987-88 fiscal year pursuant to Section 42243.6 of the Education Code (less the adjusted base) from the total audited costs approved for the 1988-89 fiscal year (less the adjusted base).

Because the adoption of this language would result in a direct state savings, we further recommend that the Legislature reduce the amount proposed in Item 6110-114-000 to \$394,366,000, for a General Fund savings of \$24,750,000.

COLA Too High

We recommend that the Legislature reduce the amount provided for a cost-of-living adjustment for court-ordered school desegregation programs to \$11.3 million for a General Fund savings of \$5.4 million, because the amount provided in the Governor's Budget exceeds statutory requirements. (Reduce Item 6110-226-001(a)(6) by \$5,449,000.)

The budget proposes \$16.7 million for cost-of-living adjustments (COLA) for court-ordered school desegregation programs. The budget indicates that, pursuant to current law, this amount constitutes a 4.37 percent adjustment. Our analysis indicates, however, that the amount proposed actually constitutes a 6.5 percent increase over the current-year base. On the basis of information provided by the State Controller, we estimate that the correct amount for a 4.37 percent COLA is \$11.3 million. Accordingly, we recommend that the amount proposed in Item 6110-226-001(a)(6) be reduced by \$5.4 million, to accurately budget for this purpose.

9. Other Specialized Education Programs

This section analyzes those specialized education programs that are not included in any of the six categories discussed above. These programs include Pupil Dropout Prevention and Recovery; Gifted and Talented Education; specialized secondary schools; foster youth services; Drug and Alcohol Abuse Prevention Programs; School/Law Enforcement Partnership; Commissions on Professional Competence; driver training; and the ECIA Chapter 2 federal block grant. Table 21 summarizes local assistance funding for these programs.

We recommend approval of the proposed funding shown in Table 21 for the following programs, which are not discussed elsewhere in this analysis:

- *Foster Youth Services (Item 6110-119-001(a))*—\$821,000;
- *Drug and Alcohol Abuse Prevention Program (Item 6110-183-001)*—\$427,000;
- *School/Law Enforcement Partnership Program (Item 6110-225-001)*—\$150,000;

DEPARTMENT OF EDUCATION—Continued

- *Commissions on Professional Competence (Item 6110-209-001)*—\$18,000;
- *Driver Training (Item 6110-171-178)*—\$20.1 million; and
- *Specialized Secondary Schools (Item 6110-119-001 (b))*—\$2.1 million.

Table 21
K-12 Education
Support for Other Specialized Education Programs
Local Assistance
1986-87 through 1988-89
(dollars in thousands)

Program	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change from 1987-88	
				Amount	Percent
Pupil Dropout Prevention and Recovery .	\$13,650	\$12,250	\$12,250	—	—
Foster Youth Services	821	821	821	—	—
Drug and Alcohol Abuse Prevention	427	427	427	—	—
School/Law Enforcement Partnership	150	150	150	—	—
Commissions on Professional Competence.	18	18	18	—	—
Youth Suicide Prevention	315	—	—	—	—
Gifted and Talented Education:					
Educational Assistance Program	21,236	22,510	23,861	\$1,351	6.0%
Specialized Secondary Schools	2,101	2,101	2,101	—	—
Federal block grant (ECIA Chapter 2) ...	40,444	40,227	41,315	1,088	2.7
Driver Training	19,500	20,136	20,136	—	—
Totals	\$98,662	\$98,640	\$101,079	\$2,439	2.5%
Funding Source:					
General Fund	\$38,468	\$38,027	\$39,628	\$1,601	4.2%
Federal funds	40,444	40,227	41,315	1,088	2.7
Special funds	19,750	20,386	20,136	—250	-1.2

Pupil Dropout Prevention and Recovery Programs (Item 6110-120-001)

We recommend that the Legislature adopt Budget Bill language in Item 6110-120-001 to prevent the proposed redirection of \$350,000 from the model dropout program repository to the C-LERN project. We further recommend that the Legislature budget \$150,000 of this amount to fund an independent evaluation of the existing dropout prevention programs.

Budget Proposal. The budget proposes a General Fund appropriation of \$12.5 million in 1988-89 for dropout prevention and recovery programs authorized by Ch 1421/85 (SB 65). This is essentially the same amount appropriated in the current year and consists of:

- **Dropout Prevention Programs**—\$8 million to fund outreach coordinators at 200 participating schools.
- **Alternative Education and Work Centers**—\$2 million to fund outreach coordinators at alternative education and work centers that provide vocational training and instruction in basic academic skills to students who have previously dropped out of school.
- **Educational Clinics**—\$1.9 million to fund nine educational clinics that provide dropouts with intensive, individualized instruction in order to prepare them for reentry into another educational program or the military.

- **Model Dropout Program Repository**—\$350,000 to fund the model dropout program repository that provides grants to schools for replication of existing model programs.
- **Administrative Costs**—\$207,000 to fund state operations.

Our analysis indicates that the proposed funding for the dropout prevention program, alternative education and work centers, the educational clinics and administrative costs is justified. The department indicates, however, that it plans to redirect the \$350,000 appropriated for the model dropout program repository to a new project called the California-Local Educational Reform Network (C-LERN). This project was not specifically authorized by SB 65.

C-LERN Project. The C-LERN project consists of a seven-stage process through which schools redesign their existing programs to more effectively meet their special needs. District administrators, school principals, and designated staff attend weekly meetings and summer institutes to diagnose school problems, develop programs to remedy these problems, and monitor progress. Although schools may address their school dropout problems through the C-LERN project, it is not designed specifically to prevent dropouts.

The department plans to support the C-LERN project in the current and budget year by using private contributions and redirecting the \$350,000 appropriated for the repository. In addition, the department will seek additional funds through legislation authorizing the C-LERN project in the current session.

Recommendation. Our review of the C-LERN project indicates that it may be a valuable tool for improving schools. We believe that the department should obtain specific legislative program and funding authorization, however, before beginning the project. It should not administratively establish it with a redirection of funds that the Legislature specifically targeted for the dropout prevention program. We recommend, therefore, that the Legislature adopt the following Budget Bill language in Item 6110-120-001 to prevent the redirection of funds appropriated for the model dropout program repository to the C-LERN project:

None of the funds appropriated in this item shall be used for activities related to the California-Local Educational Reform Network (C-LERN) project.

Evaluation Needed

Our analysis indicates that there is a need for an evaluation of the existing 200 dropout prevention programs to help (1) the Legislature determine if the existing programs should be expanded or modified and (2) schools choose the most effective dropout prevention program for implementation. The department has no plans to evaluate the existing dropout prevention program although it will complete a required evaluation of the educational clinics by February 29, 1988.

We believe that it is appropriate to redirect \$150,000 of the funds proposed for the repository to fund this evaluation. While this redirection will have some minimal effect on the program because fewer grants would be given to schools, we believe it is important that the department determine which of the existing dropout programs are the most effective and, therefore, should be included in the repository. This, in turn, would make the repository more effective.

DEPARTMENT OF EDUCATION—Continued

We estimate that an independent evaluation of the existing 200 dropout prevention programs will cost approximately \$150,000. Accordingly, we recommend that the Legislature transfer \$150,000 from Item 6110-120-001 to Item 6110-001-001 and adopt the following Budget Bill language:

Of the funds appropriated in this Item, an amount not to exceed \$150,000 shall be available only for the State Department of Education to contract for an independent study of the dropout prevention program authorized by Ch 1421/85.

Gifted and Talented Education: Educational Assistance Program (Items 6110-001-001, 6110-117-001 and 6110-226-001)

The Gifted and Talented Education (GATE) program was established by Ch 774/79 to supersede the Mentally Gifted Minor program. Each district's GATE program is designed locally, in accordance with state guidelines. All programs are required to provide unique educational opportunities for high-achieving and underachieving gifted and talented pupils, including those in the upper range of intellectual ability, while ensuring the participation of children from disadvantaged and varying cultural backgrounds.

In the current school year, the program funds 417 school districts that serve approximately 232,000 GATE students identified as gifted or talented.

Table 22 shows program participation and funding from 1985-86 through 1987-88.

Table 22
Gifted and Talented Education
Funding Data
1985-86 through 1987-88

<i>Year</i>	<i>Appropriation</i>	<i>Number of Gate Students</i>	<i>Per Pupil Expendi- ture</i>
1985-86	\$20,034,000	219,073	\$91
1986-87	21,236,000	226,000 ^a	94
1987-88	22,510,000	232,000 ^a	97
Change from 1985-86 through 1987-88			
Amount	\$2,476,000	12,927	\$6
Percent	12.4%	5.9%	6.6%

^a Based on 5 percent of projected California pupil enrollment increase of 120,000 per year.

Budget Proposal. As shown earlier in Table 21, \$23.9 million in local assistance funding for Gifted and Talented Education is included in the Educational Assistance Program, which we discuss earlier in this analysis. The budget also provides \$423,000 for state administration of the GATE program.

Analysis of the Budget Proposal

Our review of the GATE program reveals several issues which we address below.

Continue GATE with Separate Funding. We recommend that the Legislature enact legislation to extend or delete the program's statutory repeal provision. Consistent with our recommendation regarding the Governor's proposed Educational Assistance Program, we further

recommend that the Legislature separately fund the GATE program at its current level. (Add new Item 6110-124-001 at \$22,510,000.)

Make Funding Contingent on Enactment of Legislation. We further recommend that the Legislature adopt Budget Bill language making state administration and local assistance funds available for GATE only if legislation is enacted to extend or delete the program's statutory repeal provision.

Modify 6 Percent COLA. We further recommend that the GATE program be provided the 4.37 percent cost-of-living adjustment that is provided to other education programs that were granted discretionary COLAs. (Reduce Item 6110-226-001 (d) by \$367,000, and amend Provision (d) in Item 6110-226-001.)

GATE Repeal Provision. Under current law (Ch 1544/85), GATE will be repealed on June 30, 1988 unless legislation is enacted before that date to continue the program. Our analysis indicates that unlike other "sunset" provisions, if the Legislature does not continue the GATE program beyond the repeal date, the program will actually terminate because of a unique provision in the statute.

Continue GATE With Separate Funding. While we have found several areas of needed improvement in the GATE program, our analysis indicates that GATE is being implemented in accordance with legislative intent and is accomplishing its objective of providing enriched learning opportunities for identified pupils at a level that warrants its continuation. Therefore, we do not believe the program should be repealed.

Elsewhere in this analysis, we recommend that the Legislature reject the Governor's proposal to include the GATE, Miller-Unruh, and Indian Education programs within the Educational Assistance Program (EAP), because (1) we find no compelling reason why these programs should be treated in a different manner than Economic Impact-State Compensatory Education and Small School District Transportation Aid (previously in EAP), which the budget proposes to restore as separate programs and budget items and (2) we believe that funding GATE, Miller-Unruh and Indian Education as separate programs will provide the Legislature with more useful information in its oversight of the programs.

Consistent with our concerns discussed above, we recommend that the Legislature (1) enact legislation to extend or delete the program's statutory repeal provision, and (2) establish Item 6110-124-001 to separately fund the GATE program at its current level.

Make GATE Funding Contingent on Enactment of Legislation. Our analysis indicates that the funds provided in the budget may not be able to be spent for the GATE program unless separate legislation is enacted to delete or extend the GATE repeal provision contained in Ch 1544/85. The GATE program cannot be extended through the Budget Bill.

Consistent with our review of the GATE repeal provision, we believe that the effect of the GATE repeal provision on GATE funding should be clarified. Specifically, we recommend that the provision of GATE funds in 1988-89 be made contingent on the enactment of legislation to continue the program. Accordingly, we recommend that the Legislature adopt the following Budget Bill language:

Item 6110-001-001: Of the amount appropriated in this item, \$423,000 shall be available for state administration of the GATE program only if the program's repeal date as specified in Chapter 1544, Statutes of 1985, is extended or deleted through legislation.

DEPARTMENT OF EDUCATION—Continued

Item 6110-124-001: Of the amount appropriated in this item, \$22,510,000 shall be available for the GATE program only if the program's repeal date as specified in Chapter 1544, Statutes of 1985, is extended or deleted through legislation.

Modify 6 Percent COLA. The Legislature has annually provided a 6 percent COLA to GATE in the Budget Act on the assumption that it is required by statute. Our review of the law, however, indicates that a 6 percent COLA is required only for programs in roughly 100 districts that identify 50 or fewer gifted or talented pupils. Statute does not require a COLA for over 300 other GATE programs.

Regardless of this legal issue, we find that there is no analytical basis for giving a 6 percent COLA to GATE. Other education programs which receive a COLA do so on the basis of either (1) a prescribed index such as the GNP deflator for State and Local Government Purchases of Goods and Services or (2) legislative discretion.

Although we find no statutory or analytical basis for providing a 6 percent COLA to GATE, some adjustment would be necessary to offset a loss of purchasing power. Accordingly, we recommend that the program be provided a 4.37 percent COLA—the same discretionary cost-of-living adjustment that is proposed for the child care and preschool programs.

Consistent with our previous recommendations (1) to fund the GATE program separately and (2) to make GATE funding contingent on the enactment of legislation to continue the program, we further recommend that the Legislature delete the proposed Budget Bill language in Item 6110-226-001 (d) and replace it with the following:

(d) Gifted and Talented Program, in lieu of the amount which would otherwise be appropriated for purposes of Chapter 8 (commencing with Section 52200) of Part 28 of the Education Code, (for transfer to Item 6110-124-001). This amount shall be available for the GATE program only if the program's repeal date as specified in Chapter 1544, Statutes of 1985 is extended or deleted through legislation.

Federal Anti-Drug Abuse Act of 1986 (Item 6110-183-890)

We recommend that the Legislature adopt Supplemental Report language in Item 6110-183-890 to require the State Department of Education (SDE) to (1) include information on the risks of contracting AIDS associated with intravenous (IV) drug abuse in drug prevention curriculum, programs and materials, (2) coordinate with other state agencies responsible for drug education activities and (3) report to the Legislature on the implementation and coordination activities.

We recommend that the Legislature adopt Budget Bill language requiring SDE to (1) select an outside contractor, at a cost not to exceed \$70,000, in 1988-89, to evaluate the impact of the federal drug abuse program on school age children and (2) submit the results of the outside evaluation to the Legislature.

The Federal Anti-Drug Abuse Act of 1986 authorized a total of \$1.2 billion annually for three years, beginning in Federal Fiscal Year (FFY) 1987 for (1) drug and alcohol treatment (2) education and prevention and (3) drug law enforcement.

In 1987-88, California received a total of \$15.6 million for education and prevention programs. Based on federal requirements, these funds are allocated as follows:

- \$4.7 million (30 percent) to the Governor for discretionary grants and contracts.
- \$10.9 million (70 percent) to the SDE of which \$9.8 million is allocated to local education agencies and the remaining \$1.1 million is allocated to SDE for training, technical assistance, demonstration projects, and/or grants to areas serving economically disadvantaged children. Up to 2.5 percent of the amount allocated to state programs may be used for SDE administrative costs.

Budget proposal. The budget assumes that the SDE will receive \$10.8 million in federal drug prevention funds in 1988-89. The department has developed an expenditure plan for its 10 percent portion of the funds, allocating \$273,000 (2.5 percent) for administration and \$819,000 (7.5 percent) for program development which includes:

- Development of drug and alcohol abuse prevention resource services to disseminate information and provide technical assistance to local education agencies;
- Development of a comprehensive health curriculum with a drug and alcohol education component, local grants for student developed prevention materials, support and assistance for parent and community prevention efforts, local coordination designees and a statewide prevention conference in 1989;
- Interagency coordination efforts and an advisory task force; and
- A program evaluation contract.

Funds Provide an Opportunity To Enhance AIDS Education Efforts. Intravenous (IV) drug abusers are at high risk of infection with the AIDS virus. In fact, there is evidence to suggest that the virus is spreading rapidly among this group. IV drug abusers transmit the virus by sharing needles and then, once infected, may also transmit the virus through sexual encounters or perinatal exposure. Over time, this could result in a greater proportion of AIDS cases due to IV drug abuse in California (currently 3 percent). By way of contrast, 40 to 60 percent of the AIDS cases in New York are estimated to be due to IV drug abuse.

The primary strategy for attempting to reduce or eliminate the incidence of AIDS is targeted prevention education. However, despite the department's plans to use a portion of these funds for health curriculum development and information dissemination, our review indicates that there is no systematic plan for incorporating information about the AIDS risk associated with IV drug abuse. Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6110-183-890:

The State Department of Education shall include information on the AIDS risk associated with intravenous (IV) drug abuse in the health curriculum guidelines, drug prevention materials, information and programs developed with funds appropriated by this item.

Coordination Lacking between Departments. Despite the department's proposal to work with other state agencies receiving drug prevention funds, our review indicates that there is a need for greater cooperation and communication to maximize the efficient use of the funds received. For example, both the SDE and the Department of

DEPARTMENT OF EDUCATION—Continued

Alcohol and Drug Programs have plans to develop resource service centers. In addition, the federal government has directly funded, here in California, the "Western Center for Drug Free Schools"—a cooperative effort between three drug labs to develop and provide drug prevention information.

Although the target populations of each program may differ, there is some overlap in programs and materials, making effective coordination between the centers essential. Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6110-183-890:

The State Department of Education shall coordinate the use of funds appropriated by this item with other state agencies responsible for drug abuse education, treatment, prevention or enforcement, to avoid duplication and maximize resources. Coordination shall include but not be limited to, quarterly meetings with affected agencies and shared training and resource materials.

The State Department of Education shall report to the Legislature by January 15, 1989 on the implementation of drug abuse education and prevention programs funded by this item and coordination activities with other state agencies responsible for drug abuse education, treatment, prevention or enforcement.

SDE Should Contract for an Independent Evaluation. The department's expenditure plan proposes to transfer \$70,000 in 1988-89 and 1989-90 to the Legislative Analyst for the purposes of contracting with an outside agency to evaluate the impact of the Federal drug funds on California's school age population. We find no compelling reason, however, to transfer this responsibility to our office. The SDE, as the administrative agency, can contract for the evaluation, but should involve appropriate legislative and administrative staff in the contractor selection and evaluation design. Accordingly, we recommend the following Budget Bill language in Item 6110-183-890:

Of the funds appropriated from this item, the State Department of Education shall expend \$70,000 for the purpose of contracting with an outside agency, individual, firm or organization to evaluate the impact of these funds on California's school age population.

The department shall establish an advisory committee to assist in the design of the evaluation and the selection of the contractor, composed of staff from the legislative fiscal committees, the Legislative Analyst's Office, the legislative education policy committees, the Department of Finance and other appropriate administrative agencies.

The department shall submit the results of the evaluation report to the Legislature by January 1, 1991.

Federal Block Grant—ECIA Chapter 2 (Items 6110-101-890 and 6110-001-890)

We withhold recommendation on \$41.3 million requested in Item 6110-101-890 and \$7.9 million requested in Item 6110-001-890, pending review of an expenditure plan for federal ECIA Chapter 2 block grant funds.

Chapter 2 of the Education Consolidation and Improvement Act (ECIA) provides a block grant for state and local education programs.

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

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

Expenditure Plan not Provided. As of January 1988, the SDE had not developed its expenditure plan for 1988-89. The department indicates, however, that the plan will be available in time for budget hearings. Accordingly, we withhold recommendation on the proposed expenditures in Items 6110-101-890 and 6110-001-890, pending receipt of the department's expenditure plan.

Earlier Reporting Needed

We recommend the adoption of supplemental report language in Item 6110-101-890 requiring the State Department of Education to provide the Legislature with an expenditure plan for Federal ECIA Chapter II state discretionary funds by January 5 of each year.

The information regarding these ECIA allocations is of interest to the Legislature, but frequently has not been available until late February or March. This has made it impossible to include the information in the *Analysis* for the Legislature's review prior to budget hearings. In order to facilitate review, we recommend that the Legislature adopt the following supplemental report language in Item 6110-101-890:

The State Department of Education shall provide the Legislature with an expenditure plan for Federal ECIA Chapter II discretionary funds prior to January 5 of each year.

II. ANCILLARY SUPPORT FOR K-12 EDUCATION

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

A. Transportation

There are three elements to this program—the home-to-school transportation program, the school bus driver instructor training program, and the small school district bus replacement program.

Proposed funding for the programs is shown in Table 23. We note that the Governor's Budget also proposes to appropriate \$100 million from federal Petroleum Violation Escrow Account (PVEA) funds in Item 3360-001-853 for a project to field test the fuel efficiency of different types of school buses. Our discussion of this proposal appears in our analysis of the California Energy Commission budget (Item 3360-001-853).

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Table 23
K-12 Education
Transportation Aid
1986-87 through 1988-89
(dollars in thousands)

<i>Program</i>	<i>Actual 1986-87</i>	<i>Est. 1987-88</i>	<i>Prop. 1988-89</i>	<i>Change from 1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
Home-to-School Transportation.....	\$289,970	\$289,970	\$289,970	—	—
Small School District Bus Replacement ...	6,151	3,151	3,151	—	—
School Bus Driver Instructor Training Program.....	633	811	838	\$27	3.3%
Totals.....	\$296,754	\$293,932	\$293,959	\$27	—
Funding Sources:					
General Fund.....	\$293,121	\$293,121	\$293,121	—	—
Driver Training Penalty Assessment Fund.....	633	811	838	\$27	3.3%
Federal Outer Continental Shelf Lands Act.....	6,000	—	—	—	—

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

- *Small School District Bus Replacement (Item 6110-111-001(b))*—\$3.2 million from the General Fund to provide aid for school districts with fewer than 2,501 ADA to replace or recondition school buses. This is the same level of support provided in the current year.
- *School Bus Driver Instructor Training Program (Item 6110-001-178)*—\$838,000 from the Driver Training Penalty Assessment Fund for a program that prepares school bus drivers to instruct classes for other prospective drivers. This is an increase of \$27,000 (3.3 percent) over the current-year funding level.

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

Home-to-School Transportation (Item 6110-111-001(a))

We recommend that the Legislature adopt supplemental report language in Item 6110-111-001 to require the State Department of Education to conduct an evaluation of two alternative formulas for allocating transportation aid.

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

In *The 1988-89 Budget: Perspectives and Issues*, we discuss four alternatives to the current formula for allocating home-to-school transportation. In our analysis, we find that—on the basis of specified criteria—all of the alternatives rate higher than the current formula and that two of the alternatives rate highest overall. The two highest-rated alternatives are to provide reimbursement (1) for a fixed percentage of approved costs and (2) on the basis of the number of buses operated.

Although our analysis indicates that the percentage reimbursement and bus-based formulas are the best of the alternatives we evaluate, we do not have enough detailed information to allow us to recommend either option as a replacement for the current formula. Accordingly, in order for the Legislature to obtain the information it needs to identify the best formula for allocating state transportation aid, we recommend that the following supplemental report language be adopted in Item 6110-111-001:

The State Department of Education shall report to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1988 information on bus-based and fixed percentage funding formulas for allocating state home-to-school transportation aid. The report shall include: (1) the basic costs which should be eligible for reimbursement, (2) the appropriate rate of reimbursement; and (3) how the allocation of funds under these new formulas would compare with current law.

B. School Facilities Programs

School facilities programs include:

- Construction, reconstruction, or modernization of school facilities;
- Deferred maintenance of school facilities;
- Emergency portable classrooms;
- Year-round school incentive payments to eligible districts using year-round schools;
- The School Facilities Planning Unit within the State Department of Education; and
- The School Facilities Asbestos Abatement program (discussed in Item 6350, later in this *Analysis*).

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

1. School Facilities Aid

Funding for the construction, reconstruction, modernization or deferred maintenance of school facilities is provided through the following sources:

- **Proceeds from bond sales.** The voters may authorize the state to raise funds for the construction, reconstruction and modernization of school facilities by approving state general obligation bonds. Most recently, the voters approved the Greene-Hughes School Building Lease-Purchase Bond Law of 1986 (Proposition 53) which authorized the sale of \$800 million in bonds. All of these funds have been fully allocated to school districts.
- **Tidelands oil revenues.** Current law appropriates \$150 million of these revenues annually in 1988-89 through 1990-91 for the school construction program. (As discussed below, the Governor proposes to eliminate the statutorily-required appropriation for 1988-89.)
- **General Fund (school district "excess repayments").** Excess repayments represent the amount by which school district principal and interest payments on State School Building Aid loans exceed debt service requirements on state school construction bonds. These

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payments, which are estimated at \$48 million in the budget year, are initially deposited in the General Fund and then transferred to the State School Deferred Maintenance Fund to be used primarily to fund school district deferred maintenance projects. Any remaining amount is used to fund new construction.

Table 24
K-12 Education
Revenues Available for School Facilities Aid ^a
Current Law and Governor's Proposed Allocation
1986-87 through 1988-89
(dollars in millions)

	<i>Actual</i> 1986-87	<i>Current Law (Est.)</i>		<i>Governor's Proposal (Est.)</i>	
		1987-88	1988-89	1987-88	1988-89
<i>State Building Program (construction, re-construction, and modernization)</i>					
Tidelands oil revenues	—	\$220.0 ^b	— ^c	\$155.0 ^b	\$15.0 ^{d,e}
Proposed bond act (June 1988)	—	—	—	65.0 ^e	735.0 ^e
Proposed bond act (November 1988) ...	—	—	—	—	800.0
Greene-Hughes School Building Lease-Purchase Bond Law of 1986 (Proposition 53)	\$200.0	600.0	—	600.0	—
School building aid bonds (Ch 764/84) .	—	—	\$40.0	—	40.0
Lease-purchase rental revenues	3.6	2.0	2.0	2.0	2.0
Federal funds ^f	28.5	—	—	—	—
Subtotals, State Building Program	(\$232.1)	(\$822.0)	(\$42.0)	(\$822.0)	(\$1,592.0)
<i>Deferred Maintenance Program</i>					
General Fund ("excess repayments") ..	\$64.3	\$64.4	\$48.0	\$64.4	\$48.0
<i>Emergency Classroom Program</i>					
Tidelands oil revenues	15.0	35.0	—	35.0	35.0 ^{d,e}
Rental revenues	2.0	4.0	6.6	4.0	6.6
<i>Year-Round School Incentives</i>					
Tidelands oil revenues	—	15.0	—	15.0	15.0 ^{d,e}
General Fund	3.6	—	—	—	—
<i>Asbestos Abatement Program ^g</i>	2.8	22.0	—	22.0	—
<i>Child care facilities ^f</i>	—	23.8	12.7	23.8	12.7
<i>Child care capital outlay ^f</i>	—	7.3	—	7.3	—
<i>Air conditioning</i>	30.0 ^h	13.5 ^f	—	13.5 ^f	—
Totals	\$349.8	\$1,007.0	\$109.3	\$1,007.0	\$1,709.3

^a This table illustrates only revenue sources; this is not a fund condition statement and, accordingly, does not include any beginning balances.

^b These funds were appropriated in 1984-85 and 1985-86 but were not fully spent, consequently, a balance has been carried over to 1987-88.

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

^d Availability of these funds is dependent upon successful passage of a state school facilities general obligation bond act in 1988.

^e The Governor proposes that \$65 million of the proposed \$800 million June 1988 bond act be used to replace general purpose tidelands oil revenues which have been allocated in the current year, so that the tidelands oil revenues instead may be used as follows: (1) \$35 million to purchase portable classrooms, (2) \$15 million for year-round school incentives, and (3) \$15 million for carryover to 1989-90.

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

^g Carried over from prior years' appropriations.

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

Table 24 shows the total amount of revenues authorized under current law for school facilities aid during the prior, current and budget years, as well as the revised allocation proposed by the budget. We note that actual expenditures under the SAB-administered programs in a given year may not equal the revenues available because (1) prior-year reserves may be used to finance project grants, and (2) the SAB may choose not to allocate all revenues that become available in any one year.

Budget Proposal. The budget proposes to allocate a total of \$1.7 billion for school facilities aid during 1988-89 as follows:

- **\$1.5 billion in proposed state general obligation bonds.** The Governor proposes that \$800 million in general obligation bond authority be placed on the June 1988 ballot, and an additional \$800 million on the November 1988 ballot, for a total of \$1.6 billion in proposed general obligation bond act authority. However, the Governor also proposes that \$65 million of these bond funds be used to "free up" tidelands oil revenues that have been allocated by the SAB in the current year, bringing the total available proposed bond proceeds to \$1.5 billion. The \$65 million in "freed up" tidelands oil revenues would be used as follows: \$35 million for portable classrooms, \$15 million for year-round school incentives, and \$15 million for carry-over to 1989-90.
- **\$48 million from the General Fund ("excess repayments").** These funds would be used to finance deferred maintenance projects.
- **\$41.6 million from rental income generated from portable/relocatable classrooms (\$6.6 million) and unexpended tidelands oil revenues (\$35 million).** These funds would be used to finance the construction and installation of portable classroom facilities under the Emergency Classroom program. (The availability of this \$35 million in tidelands oil revenues for this program is dependent upon the successful passage and voter approval of a school facilities general obligation bond act at the June 1988 or November 1988 election.)
- **\$40 million in unsold State School Building Aid bonds.** These funds are available for loans to districts pursuant to Ch 764/84.
- **\$30 million from unexpended tidelands oil revenues.** Of this amount, \$15 million would be used to provide incentive payments to school districts operating year-round schools because of overcrowding. The remaining \$15 million would be carried over to 1889-90 for an unspecified purpose. (The availability of the entire \$30 million is also dependent upon the successful passage and voter approval of a school facilities general obligation bond act at the June or November 1988 election.)
- **\$12.7 million from unexpended federal funds.** These funds, received pursuant to a settlement related to Section 8(g) of the Outer Continental Shelf Lands Act, would be deposited in the State Child Care Facilities Fund for capital outlay needs relating to extended day care services.
- **\$2 million from lease-purchase rental revenues.** These funds would be deposited in the State School Building Lease-Purchase Fund, to be made available for any of the programs operated under the state School Building Lease-Purchase Program.

The budget does not propose the statutorily-required \$150 million appropriation from tidelands oil revenues for use in 1988-89; Control

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Section 11.5 of the Budget Bill would repeal this statutorily-required appropriation for 1988-89. (Our analysis indicates that, given current statutory priorities for the use of tidelands funds, there would be insufficient revenues from this source to provide any funding for school facilities—even in the absence of the proposed control section.)

In sum, the net effect of the budget proposal is to increase the amount of funding that would be available under current law to school facilities programs in 1988-89 by \$1.6 billion by proposing the sale of two \$800 million general obligation school facilities bond acts during 1988.

State School Building Lease-Purchase Program

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

It's a Grant—Not Lease-Purchase. School districts “rent” newly-constructed, reconstructed, or modernized facilities from the state under a long-term, lease purchase agreement that transfers title to the facility from the state to the district within 40 years. In most cases, rent is paid to the state at the rate of \$1 per year, plus (1) specified revenues from the sale of surplus school sites, and (2) any interest earned on state funds deposited in the county school lease-purchase fund on behalf of the district. Because this rent amount usually is nominal in comparison to the amount of state aid provided, the state is essentially providing a grant to the districts for school construction, reconstruction, or modernization.

Allocation of Funds for New Construction

We recommend that the Legislature enact legislation requiring that funds allocated to school districts under the State School Building Lease-Purchase program for new construction projects be provided on the basis that the facility would be operated on a year-round basis.

Under current law, school districts qualifying for the new construction program are awarded a total amount of funds based on a complex funding formula. Based on this formula, a district seeking to build a K-6 facility that would house 600 pupils would be allocated \$4.2 million.

The current funding formula allocates funds on the basis that the school will operate on a traditional 9-month academic calendar. However, if the school were to operate on a year-round basis, the same number of students could be accommodated in a smaller facility at a significantly lower cost. That is, a school that has been designed to accommodate 500 pupils on a 9-month calendar, can accommodate approximately 600 pupils on a year-round schedule (based on a 20 percent capacity increase). However, a 500 pupil year-round school would cost only \$3.5 million, for savings of just over \$700,000 from the cost of a traditional 600 pupil school.

Our analysis indicates that year-round schools are educationally sound and, for several different reasons, provide a viable alternative to the traditional 9-month calendar. In light of (1) the state's limited financial resources, and (2) school districts' ability to raise facility revenues locally through the sale of local construction bonds, we can find no analytical justification for the state to continue to provide funds under the Lease-Purchase program for the construction of traditional, rather than year-round schools.

Accordingly, to maximize the number of pupils that can be housed with available state revenues, we recommend that the Legislature enact legislation requiring Lease-Purchase program funds for new construction to be allocated to school districts on the basis that the facility will operate on a year-round basis. Under this proposal, however, districts could retain the option to operate the school on a 9-month calendar, if they used locally-raised funds to construct the larger (and more costly) facility needed to house the same number of students.

School Facilities Application Process Study Recommendations

We recommend that during budget hearings, the Legislature review the administration's plans to respond to the recent Price Waterhouse study recommendations related to streamlining the school facilities application process.

Chapter 886, Statutes of 1986, (SB 327) appropriated \$150,000 for the Legislative Analyst to contract for an independent study of the administrative processes related to state funding for the construction and reconstruction of school facilities. Chapter 886 specified the scope of the independent study and required the contractor to submit a final report by January 10, 1988.

The firm of Price Waterhouse was selected on a competitive bid basis to conduct the study. Its major findings and administrative recommendations are summarized below.

Price Waterhouse Findings:

- The existing system is extremely complex, including (1) 54 different steps in the process, (2) an applicant handbook over 190 pages in length, and (3) four different state administrative agencies, each with a distinct role and responsibility;
- A survey of 61 new construction applications filed prior to July 1984 indicates that 57 percent required slightly more than two years to receive state approval to seek construction bids (from this point, typically, it is another one to two years until the facility is constructed and ready to be occupied); the remaining 43 percent were still lodged in the state system. Applications that did not require site acquisition moved much more quickly through the system than did others;
- The existing state system, in providing the bulk of the financing for participating districts may actually serve as a disincentive for locals to assume a larger financial share of the costs of local school facilities; and
- The Office of Local Assistance has many administrative weaknesses.

Price Waterhouse Recommendations:

- Legislation should be enacted to eliminate (1) the traditional method of computing available square footage and make the alternative method the standard method, (2) the five-year plan requirement, and (3) the State Department of Education (SDE) site acquisition review and approval;
- School districts should be provided with facilities consulting services through state-funded programs operated out of regional school facilities planning offices. Once established, the SDE plan review and approval process should be eliminated and, instead, the consulting services should provide technical assistance for plan development and review;

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- The SDE should reorient the role of the School Facilities Planning Unit to overall facility planning, training, research and evaluation;
- The Office of Local Assistance (OLA) should promote greater use of computer processing systems, and make changes to the current system being implemented, including preparation of a new Feasibility Study Report, as specified. It should also establish a full-time office automation manager position;
- The OLA should develop an annual administrative planning process to include application workload forecasts, anticipated legislative requirements, performance objectives, and use of management information systems;
- The OLA should develop an electronic spreadsheet program for use by school districts to calculate enrollment projection data; and
- The Office of the State Architect should (1) establish plan checking turnaround standards, as specified, and (2) identify OLA plans with the OLA application number to allow for proper application tracking.

The Price Waterhouse report indicates that adoption of its recommendations could reduce the overall application processing time by six to eight months. The report also indicates that the amount of change that can be accomplished within the confines of the existing program and process are limited, and that in order to achieve major reform, major policy changes would have to be implemented. We discuss one such alternative below.

Conclusion. Our review indicates that the recommendations presented by the Price Waterhouse report contain the potential to both simplify and expedite the current school facilities application processing system. Because streamlining of this system is of particular interest to the Legislature, we recommend that the Legislature require the Department of General Services, the State Department of Education, and the Office of the State Architect to report during budget hearings on the status of their plans to implement these recommendations.

Formula for Major Reform

We recommend that the Legislature enact legislation to establish an alternative system for financing local school facilities. Specifically, we recommend that the legislation guarantee every school district a certain minimum revenue yield from a given tax rate so that all districts, regardless of their property tax base, are able to raise sufficient revenues for financing their local school facilities needs.

Since the passage of Proposition 13 in 1978, the burden of providing funding for local school facilities construction, reconstruction and modernization has shifted from local school districts to the state. In the intervening years, the voters have approved several statewide bond issues totaling \$1.8 billion, and the Legislature has appropriated a total of \$300 million in tidelands oil revenues, for school facilities. All of these funds have been allocated to school districts. Table 25 identifies the bond issues that have been approved by voters, the bond measures proposed by the Governor for the budget year, and the respective levels of financing authority for each.

Table 25
K-12 Education
Post Proposition 13 School Facilities Bond Acts
(dollars in millions)

<i>Bond</i>	<i>Amount</i>
State School Building Lease- Purchase Bond Act of 1982 (Proposition 1)	\$500
State School Building Lease- Purchase Bond Act of 1984	450
Greene-Hughes School-Building Lease-Purchase Bond Law of 1986 (Proposition 53)	800
Subtotal, Approved Bonds	(\$1,750)
Proposed June 1988	\$800
Proposed November 1988	800
Subtotal, Proposed Bonds	(\$1,600)
Total	\$3,350

School Construction Need

There are no reliable estimates available of the *need* for school facilities funding on a statewide basis. We can, however, provide data on the volume of school facilities funding requests that are pending before the State Allocation Board (SAB).

Approximately 50 percent of the 1,026 school districts in California, representing between 60 percent to 70 percent of ADA, participate in the Lease-Purchase program. Specifically, an estimated 425 districts have participated in the new construction program, and 400 in the reconstruction (now called modernization) program. The unduplicated number of districts participating in both of these programs is estimated at between 500 and 530.

As of January 27, 1988, 595 applications from school districts were on file with the SAB, requesting \$2.6 billion for *new construction*. In addition, 1,146 applications were on file with the SAB requesting \$1 billion for *reconstruction* of school facilities. In total, districts with applications currently on file with the SAB are requesting \$3.6 billion for school facilities. In comparison, under the Governor's proposal, an estimated \$2.4 billion would be available in 1987-88 and 1988-89 to fund these requests (see Table 25). Consequently, even if no additional applications are filed and all available revenues are used, the SAB will not be able to fund an estimated \$1.2 billion in projects.

To the extent that (1) school districts file additional requests for aid with the SAB between January 27, 1988 and the end of 1987-88 and/or (2) the voters fail to approve the Governor's proposed \$1.6 billion in general obligation bond authority, the gap between available funds and the demand on those funds will widen.

Problems with the Current Program

The Price Waterhouse report (discussed earlier) identified various problems with the current system, such as its complexity and fragmented administration, and suggested ways to improve it. Our review, however, indicates that even if all the changes the Price Waterhouse report identifies were implemented, the following two problems still would be present:

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1. **Inequitable tax burden.** There are a number of districts with school facility construction needs that are *not* eligible to participate in the Lease-Purchase program. Many of these districts rely on locally-approved special taxes or general obligation bonding authority to finance their school construction needs. Others use less expensive alternatives to new construction such as year-round schools. However, the Lease-Purchase program is primarily financed through statewide general obligation bonds, thereby spreading the tax burden among all taxpayers, including (1) those who are already taxing themselves at the local level to pay for their facilities needs, and (2) those that have met their needs through less expensive alternatives. As a result, some taxpayers are taxed twice, and others once, in order to have their facility needs met.

2. **Districts are discouraged from raising revenues locally.** Under the Lease-Purchase program, districts are allowed to use locally-raised revenues to augment the state's allocation by a statutorily specified minimal amount. To the extent that districts raise more than that amount, their allocation from the SAB may be commensurately reduced. Consequently, there is a disincentive for local districts to raise any amount beyond the specified minimum.

Increase Districts' Responsibility for Financing School Facilities Needs

The current method of funding school construction (1) fails to provide sufficient funds to meet district needs in a timely manner, and (2) fails to distribute equitably the burden of paying for new school facilities. In *The 1986-87 Budget: Perspectives and Issues* (p. 189), we recommended an alternative funding mechanism that would address these problems. Specifically, we recommended that the Legislature enact legislation guaranteeing every school district a certain minimum revenue yield from a given tax rate. The funding source for this guarantee would be the revenues from (1) school construction bonds issued by the state, and (2) any statutorily authorized tidelands oil revenues. We continue to believe this alternative has merit.

How the Guarantee Would Work. In broad outline, this new funding mechanism would work as follows:

- A district would submit information on its need for new school facilities to the SAB, which, in turn, would certify the accuracy of the district's estimates regarding the number of students to be housed in the new facility.
- The district would then consult a schedule showing the amount of revenue per pupil housed which it could raise from a given tax rate. This basic schedule would be the same for all districts throughout the state, even though the actual amount of revenue raised by each tax rate would vary considerably from place to place. Such a schedule could include "adjustment factors" to reflect local differences in the costs of site acquisition and construction.
- Based upon the costs of the facility per pupil housed, the district would choose a tax rate from the guarantee schedule and submit this rate to the local voters for their approval.
- If the voters approved the measure, the district then would be authorized to levy the new tax rate. If the revenues raised by the tax were less than the amount guaranteed by the state schedule, the state would make up the difference.

Advantages of the Proposal

This approach to financing the construction, reconstruction and modernization of local school facilities offers the following advantages over the current system:

- It would enhance local control by enabling local school districts to develop their projects based on local, rather than state, priorities.
- It would provide local school districts with an opportunity to raise substantial amounts of money for new construction within a shorter period of time, because the role of the state in reviewing and approving applications would be substantially reduced.
- It would increase incentives for each school district to choose the most cost-effective solutions for its school facilities needs, because the beneficiaries of school construction projects would be required to pay at least some part of project costs.
- It would make local school districts more accountable to those they serve, because voter approval would be necessary before bonds could be sold.

Conclusion. If our recommended alternative system is established, the state school construction aid program would no longer be one that allocates grant funds to districts with a minimal, if any, matching requirement. Instead, the state would provide smaller grants based on a local voter-approved matching rate, and districts would contribute a larger local match. Such a matching rate would vary so that districts with a low property tax base would have a lower local matching requirement than districts with a high property tax base, although each might be taxing themselves at the same rate. In essence, the ability of all school districts to raise a given amount of revenue for a given level of tax effort would be *equalized*. At the same time, the program would allow local discretion in determining the exact amount of revenue to be raised.

By carefully designing the guarantee schedule, the Legislature can provide strong fiscal incentives for school districts to construct facilities at a "standard" level of costs per pupil housed, while still allowing local communities to tax themselves at somewhat higher rates in order to provide either more space per pupil or a higher quality of construction. Those districts unable to receive the necessary voter approval to raise sufficient revenues locally, could retain the option to participate in the existing Lease-Purchase program.

Deferred Maintenance

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

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

The budget indicates that, in 1988-89, these "excess repayments" would total approximately \$48 million. The budget proposes that the entire amount be transferred to the State School Deferred Maintenance Fund and that the bulk of it (\$47.7 million) be used as matching funds for local

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deferred maintenance projects. The remainder (\$318,000) would be used to finance state administrative costs.

Deferring Deferred Maintenance Projects. "Deferred maintenance" refers to projects that are needed to maintain, rather than change or enhance, a school facility's utility. Examples of such projects include: re-roofing, repaving blacktop areas such as playgrounds, and replacing, reglazing and recaulking windows.

Table 26 shows the amount of "excess repayments" annually made available for local deferred maintenance projects since 1983-84.

Table 26
K-12 Education
"Excess Repayments" Available for Deferred Maintenance Projects
1983-84 through 1988-89
(dollars in thousands)

<i>Year</i>	<i>Amount</i>
1983-84	\$90,138
1984-85	88,867
1985-86	85,869
1986-87	64,317
1987-88 ^a	64,367
1988-89 ^a	48,000

^a Estimated.

Table 26 indicates that the amount of "excess repayments" available for the deferred maintenance program has been declining, and that there will be a reduction of approximately \$16.4 million (25 percent) from the current year to the budget year. The reduction primarily reflects the following two factors: (1) school districts, for the most part, no longer participate in the State School Building Aid loan program, consequently, no new loans are being issued, and (2) those districts that did participate are paying off their loans (the State Controller estimates that 30 districts will pay off their loans by the close of the current year).

Information from the SAB indicates that in the current year, an estimated 959 eligible applicants (920 school districts and 39 county offices of education) will request a total of \$143 million in deferred maintenance support.

To the extent that the state is unable to provide full funding for all of the eligible requests, local districts will either have to (1) fully fund with local resources an increasing number of their deferred maintenance projects, and/or (2) defer such deferred maintenance projects.

Emergency Classrooms—Control Section 24.40 Not Needed

We recommend that Control Section 24.40 be deleted because it is duplicative of current statutory law and, therefore, not needed.

Control Section 24.40 authorizes the SAB to spend up to \$35 million annually, from any funds available to the board, for the purchase of portable classroom facilities (this authority is in addition to authority the SAB also has to spend specified rental revenues for the purchase of portable classrooms). Control Section 24.40 also provides for specified advance purchase procedures. Effective January 1, 1988, Ch 1299/87

provides this same authority, including the advance purchase provisions, on an annual basis. As a result, Control Section 24.40 duplicates current statutory law and is not needed.

Orchard Plan (Item 6110-224-001)

We recommend approval.

Chapter 1246, Statutes of 1987, establishes a four-year pilot project, known as the "Orchard Plan", under which five elementary schools would operate specified year-round instruction programs. The purpose of the program includes increasing pupil enrollment at participating schools, reducing class size, improving academic achievement and reducing costs and absentee rates, as specified.

Chapter 1246 provides for each of the five participating districts to receive \$60,000 (a) upon selection for the program, (b) upon commencement of the program, and (c) upon commencement of the second year of participation in the program, for a total of \$180,000 per participating district.

The budget includes \$300,000 from the General Fund, for the Orchard Plan program. This amount is sufficient to provide the first of the three \$60,000 payments to the five districts selected to participate in the program.

Year-Round School Incentives (Item 6110-224-344)

In 1988-89, school districts that accommodate overcrowding through the use of year-round schools may be eligible to receive incentive funds through two state programs: the "SB 813" program and the "SB 327" program. These programs provide qualified districts with additional general purpose aid, which may be spent for any purpose the district chooses. Both programs also allow school districts to remain "in line" for state aid to construct new facilities to house these pupils, while they receive the incentive funds. A description of the two programs follows:

- **Senate Bill 813 (Ch 498/83).** SB 813 authorizes a flat rate payment of \$25 per pupil, for every pupil in an eligible school which is operated on a year-round basis because of overcrowding.
- **Senate Bill 327 (Ch 886/86).** SB 327 authorizes a payment of up to \$125 (adjusted annually for inflation), *in addition to the \$25 payment provided by SB 813*, for every pupil in a school which is operated on a year-round basis because of overcrowding. The exact per-pupil amount a district may receive is based on a complicated formula that considers both (1) the amount it would have cost the state to acquire a site and construct a new school of sufficient size to house the students accommodated through year-round operations, and (2) the extent to which the district succeeds in increasing available capacity to a target level of 15 percent. The current year is the first year that the SB 327 program will be operative.

Budget Proposal. The budget proposes \$15 million from the State School Building Lease-Purchase Fund for incentive payments to school districts under these two programs, predicated upon voter approval of the Governor's proposed school facilities general obligation bond acts. This is the same level of funding as provided in the current year.

The Budget Bill also includes language that: (1) revises both substantively and technically the formula for determining the level of payment a school district can receive under the SB 327 program; (2) limits the

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amount of incentive payments that may be claimed by districts receiving state reimbursement for the costs of operating year-round schools pursuant to a court-ordered or voluntary desegregation program; and (3) provides that a district may receive a payment pursuant to either (a) a program which sunsetted January 1, 1988, or (b) the SB 813 program, but not both.

Inadequate Claims Processing Procedures.

We recommend that the Legislature adopt Budget Bill language in Item 6110-224-344 to (1) limit the payment of year-round school incentive claims for one fiscal year to the level of funds provided for that fiscal year, (2) specify timelines by which applications must be received and processed, and (3) provide that available funds in a fiscal year shall be allocated on a proportional basis equally among all qualified districts.

Our review indicates that the administrative procedures used by the Office of Local Assistance (OLA) to certify the number of pupils to the Superintendent of Public Instruction and, subsequently, provide payment to eligible districts under the SB 813 program (1) has resulted in an inequitable distribution of funds among qualified districts, and (2) enables funds appropriated in one fiscal year to be used to pay claims submitted for payment under prior fiscal years. Our review also indicates that these same procedures may be used in the current year to process the initial claims under the SB 327 program.

Table 27 displays the funding history for the year-round incentive payment programs since their inception in 1984-85.

Table 27
K-12 Education
Year-Round Incentive Payments
1984-85 through 1988-89
(dollars in thousands)

<i>Year</i>	<i>Appropriated</i>	<i>Claimed</i>	<i>Expended</i>	<i>Difference Claimed Expended</i>
1984-85 ^a	\$4,048	\$4,203	\$4,203	—
1985-86 ^a	3,639	4,725	4,479	—\$246
1986-87 ^a	3,639	5,053	2,644	—2,409
Subtotals	(\$11,326)	(\$13,981)	(\$11,326)	(—\$2,655)
1987-88 ^{b,c}	\$15,000	\$21,000	\$15,000	—\$6,000
1988-89 ^d	15,000	21,000	15,000	—6,000
Totals	\$31,326	\$55,981	\$41,326	—\$14,655

^a SB 813 program (\$25 flat rate) only.

^b SB 813 and SB 327 (up to \$125) programs.

^c Estimated.

^d Projected.

Table 27 shows that in each of the first two years of the program's operation (1984-85 and 1985-86), the amount expended to pay school districts' claims exceeded the level of funding appropriated. This occurred because funds provided in 1985-86 and 1986-87 were used to pay prior-year claims without legislative approval. Table 27 also indicates that,

to date, approximately \$14 million in year-round incentive payments have been claimed by eligible school districts, but only \$11.3 million have been paid, resulting in a cumulative deficiency of \$2.7 million.

A review of the claims processed and paid-to-date indicates that the 1985-86 and 1986-87 claims have not been paid in an equitable manner. Some 1985-86 claims have received full funding; others have not. Further, of the 15 districts with eligible claims for 1986-87, seven received full funding while eight received only 45 percent of their approved funding request.

We can find no analytical justification for providing eligible claimants under these programs with differing percentages of their approved claim. Consequently, in order to ensure that (1) all districts' claims are equitably paid and (2) the annual amount of expenditures in these programs does not exceed the level of funding approved by the Legislature for that year, we recommend that the following Budget Bill language be adopted in Item 6110-224-344:

1. Funds made available through this item shall be used only to pay claims for year-round operations during 1988-89.
2. Applications for year-round incentive payments pursuant to Section 42250 and 42250.3 of the Education Code must annually be received by the Office of Local Assistance by no later than December 31 of the year in which the year-round operation occurred and for which payment is sought; applications received after that date shall not be processed. The Office of Local Assistance shall certify all eligible and approved claims to the Superintendent of Public Instruction by no later than April 1 of the following year. In the event that the funds available for a fiscal year are insufficient to fully pay all claims for that year, the Superintendent of Public Instruction shall provide all approved claims with a prorated share of the funds made available.

SB 327 Incentive Payment Exceeds Costs Avoided

We recommend that the Legislature amend proposed Budget Bill language relative to the SB 327 year-round school program to reduce the amount of incentive payment provided to school districts, because the payment level specified (1) does not reflect action taken by the Legislature in the current year, and (2) would exceed the costs avoided by the state. (Amend Provision 4(g) of Item 6110-224-344.)

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

Governor's Proposed Formula. The Governor proposes the adoption of Budget Bill language specifying the formula by which the amount of the incentive payment under the SB 327 program would be calculated. This language is nearly identical to the language adopted by the Legislature for the current year, except that the Governor's proposal would increase from 5 percent to 7 percent the amount of the state's total "savings" (presumably from not building a facility) that annually is shared with eligible districts.

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An analysis of the costs of constructing a new school facility (financed over a 20-year period) compared to the costs of providing the incentive payment indicates that at the 5 percent sharing ratio, districts receive approximately 100 percent of the state's savings (exclusive of the additional \$25 per pupil payment provided under the SB 813 program). At the 7 percent sharing ratio level proposed by the Governor, districts would receive an estimated *140 percent* of the state's total savings from not building a facility. We can find no analytical basis for providing school districts with incentive payments that would *exceed* the costs to taxpayers of building a new school.

Our review indicates that providing school districts with 100 percent of the state's savings is (1) consistent with the action taken by the Legislature in the current year, (2) sufficient compensation to encourage districts to participate in the program, and (3) enables the state to better use its limited resources to assist districts with their school construction and reconstruction needs. Accordingly, we recommend that the Legislature amend Provision 4 of Item 6110-224-344 as follows:

- In subsection (g), change ".07" to ".05".

Department of Education—School Facilities Planning Unit (Item 6110-001-344)***We recommend approval.***

The budget includes \$1.1 million from the State School Building Lease-Purchase Fund for support of the School Facilities Planning Unit (SFPU) in the Department of Education. This is an increase of \$21,000 (1.9 percent) above estimated current year expenditures. This increase reflects the annualization of the current-year cost-of-living-adjustment for employee compensation.

C. Child Nutrition

The department's Office of Child Nutrition Services administers the State Child Nutrition and Pregnant/Lactating Students programs. It also supervises the federally-funded National School Lunch and Breakfast programs and the Child Care Food program. These programs assist schools in providing nutritious meals to pupils, with emphasis on providing free or reduced-price meals to children from low-income households.

Funding for Child Nutrition Programs. Table 28 summarizes funding for child nutrition programs in the prior, current, and budget years.

The table shows that child nutrition programs are supported primarily by federal funds. The budget proposes an increase of \$66,000—or 0.8 percent—for state operations, and an increase of \$1.2 million—or 2.9 percent—for local assistance.

Table 28
K-12 Education
Funding for Child Nutrition Programs
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> <i>1987-88</i>	
				Amount	Percent
<i>State Operations</i>					
General Fund.....	\$1,484	\$1,562	\$1,624	\$62	4.0%
Federal funds.....	6,127	7,149	7,153	4	0.1
Subtotals, State Operations	(\$7,611)	(\$8,711)	(\$8,777)	(\$66)	(0.8%)
<i>Local Assistance</i>					
General Fund.....	\$38,592	\$41,039	\$42,229 ^a	\$1,190	2.9%
Federal funds.....	433,145	463,610	463,610	—	—
Subtotals, Local Assistance	(\$471,737)	(\$504,649)	(\$505,839)	(\$1,190)	(0.2%)
Totals	\$479,348	\$513,360	\$514,616	\$1,256	0.2%

^a Includes proposed 2.9 percent COLA.

We recommend approval of the proposed funding for the following two programs, which are not discussed elsewhere in this analysis.

- **Nutrition Education and Training Projects (NETP) (Item 6110-021-001)**—\$588,000 from the General Fund for grants to local educational agencies and child care agencies to implement nutrition education programs for the classroom. The program also provides nutrition education for food service personnel. The level of funding proposed for the budget year is \$14,000, or 2.4 percent, more than the level of support provided in the current year.
- **Federal Child Nutrition Programs (Item 6110-201-890)**—\$470.8 million from the Federal Trust Fund (\$7.2 million for state operations, and \$463.6 million in local assistance) to provide nutrition subsidies to participating schools and eligible child care institutions under the following four programs: (1) National School Lunch, (2) School Breakfast, (3) Special Milk, and (4) Child Care Food. This amount represents a one-tenth percent increase in state operations funding, and maintains the same level of funding provided in the current year for local assistance.

State Child Nutrition and Pregnant/Lactating Students Programs
(Item 6110-201-001(a) and (b))

State Child Nutrition. We withhold recommendation on \$41,914,000 requested from the General Fund for the State Child Nutrition program, pending receipt of additional information on the projected number of meals to be served (Item 6110-201-001(a)).

The State Child Nutrition program provides a basic subsidy from the General Fund for each meal served by public schools, private not-for-profit schools, and nonprofit residential child care institutions and child care centers to pupils from low-income households eligible for free and "reduced-price" meals. The budget requests \$41.9 million for the State Child Nutrition subsidies in 1988-89. This is a 2.9 percent increase over the current-year funding level. This amount (1) provides a subsidy for the same number of meals served in 1988-89 as in the current year, and

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(2) fully funds the 2.9 percent statutory COLA, which is based on the "food away from home" component of the Consumer Price Index for San Francisco and Los Angeles.

Better Data Needed. The Department of Education indicates that additional information on the number of meals served during the current year will be available in May 1988. This information will provide a better basis for estimating the number of eligible meals that will be served in 1988-89. We will review this information and report during the budget hearings on its implications for the State Child Nutrition program.

Pregnant/Lactating Students. *We recommend that proposed General Fund support for the Pregnant/Lactating Students program be reduced by \$100,000 because program participation has not increased as anticipated. (Reduce Item 6110-201-001 (b) by \$100,000.)*

The Meal Supplements for Pregnant or Lactating Students program authorizes food authorities participating in a federal nutrition program to be reimbursed for specified additional nutrition supplements served to students who are pregnant or lactating. In the current year, participating authorities receive 42.91 cents for each supplement served to a pregnant or lactating student. Table 29 displays the historical and projected participation and expenditures rates for this program since its inception.

Table 29
Pregnant/Lactating Students Program
1985-86 through 1988-89

Year	Number of Supplements Served	Reimburse- ment Rate	Expendi- tures	Appropri- ation
1985-86 ^a	71,860	\$.4000	\$28,744	\$285,000
1986-87	152,064	.4124	62,711	294,000
1987-88	319,540	.4291	137,115 ^b	306,000
1988-89 ^c	693,092	.4415 ^d	315,000	315,000 ^d

^a Program operated for six months only (January 1, 1986 to June 30, 1986).

^b Estimate based on information provided by the State Department of Education.

^c As proposed in the Governor's Budget.

^d Includes a 2.9 percent COLA.

Budget Proposal. The budget includes \$315,000 for the Pregnant/Lactating Students program in 1988-89. This amount represents a \$9,000 or 2.9 percent increase over the current-year funding level.

Table 29 indicates that in the current year the program is projected to provide \$137,000 in meal supplements, which is \$169,000 less than the \$306,000 appropriated for the program. The SDE indicates that despite an extensive outreach program, participation in the program has failed to increase as initially anticipated. Although the department indicates that it will continue its outreach efforts, participation would have to increase 123 percent in order to warrant the level of funding proposed in the Governor's Budget. We have no analytical basis for concluding that such a substantial increase in participation is likely to occur; accordingly, we recommend that the Legislature reduce the budget-year appropriation by \$100,000. This will provide the program with \$215,000, an amount sufficient to provide approximately 487,000 meal supplements, or accommodate a 52 percent increase in the number of supplements estimated to be served in the current year.

III. NON-K-12 EDUCATION PROGRAMS

This section analyzes those programs administered by the State Department of Education (SDE) which are not part of the K-12 education system. These include Child Development, Adult Education, and the Office of Food Distribution.

Child Development Programs (Items 6110-196-001, 6110-196-890, and 6110-001-862)

The Child Development Division (CDD) within SDE administers a variety of subsidized child care and educational programs that are targeted to low-income families and those with special needs. The major goals of these programs are to (1) enhance the physical, emotional, and developmental growth of participating children, (2) assist families to become self-sufficient by enabling parents to work or receive employment training, and (3) refer families in need of medical, family support, or child care services to appropriate agencies.

Funding. Table 30 summarizes funding for the prior, current, and budget years for child development programs. For 1988-89, the budget proposes a total funding level of \$338.7 million for child development local assistance—an increase of \$12.9 million (4 percent) from estimated current-year expenditures. The budget also proposes \$4.7 million for state operations—a reduction of \$158,000 (3 percent). The changes primarily reflect:

- An increase of \$13.9 million from the General Fund for 4.37 percent cost-of-living adjustments (COLAs) for state-funded child development programs.
- A decrease of \$773,000 in local assistance and a decrease of \$114,000 in state operations related to various programs that will terminate either (1) in the current year, or (2) during the budget year.

Participation. Table 31 summarizes the scope of SDE-administered child development services in each of the eight major types of programs funded on the basis of daily enrollment. During the current year, over 500 public and private agencies will provide subsidized child care services for an average daily enrollment of approximately 53,000 children from low-income families. These agencies will receive reimbursements for each day an eligible child is enrolled in a child care program. The maximum amount of reimbursement to be provided to each agency is established by the agency and SDE.

Additional child care services are provided by the following programs which are not funded on a daily enrollment basis: (1) county welfare departments and extended day care ("Latchkey") programs, (2) school districts participating in the School Age Parenting and Infant Development (SAPID) program, (3) respite and handicapped child care programs, and (4) Child Care and Employment Act (CCEA) programs which contract with local private industry councils to provide services to participants in federal job training programs.

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Table 30
K-12 Education
Child Development Programs
Expenditures and Funding
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> <i>1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
<i>State Operations</i>					
State Preschool.....	\$379	\$422	\$434	\$12	2.8%
Child Care.....	4,478	4,433	4,263	-170	-3.8
Subtotals, State Operations.....	(\$4,857)	(\$4,855)	(\$4,697)	(-\$158)	(-3.3%)
<i>Local Assistance</i>					
State Preschool.....	\$35,604	\$35,817	\$37,382	\$1,565	4.4%
Preschool Scholarship Incentive Program.....	(233)	(276)	(276)	—	—
General child care.....	206,454	200,418	209,176	8,758	4.4
Campus children's centers.....	6,196	6,205	6,476	271	4.4
High school age parenting.....	6,623	6,668	6,959	291	4.4
Migrant day care.....	8,713	9,415	9,723	308	3.3
Special allowance for rent.....	424	424	443	19	4.4
Special allowance for handicapped.....	711	711	742	31	4.4
Alternative Payment Program.....	25,538	31,946	33,342	1,396	4.4
Resource and referral.....	7,297	7,335	7,656	321	4.4
Campus child care tax bailout.....	4,026	4,026	4,202	176	4.4
Protective services.....	1,027	1,027	1,072	45	4.4
Child Care Employment Act (CCEA) ..	2,904	400	400 ^a	—	—
Child care capital outlay (carryover) ...	—	185	—	-185	-100.0
California Child Care Initiative (Ch 1299/85).....	250	250	250	—	—
Before/After School Program Incentives (Ch 1440/85).....	412	588	—	-588	-100.0
Extended Day Care (Ch 1026/85)	13,998	15,476	16,152	676	4.4
Subtotals, Local Assistance	(\$320,177)	(\$320,891)	(\$333,975)	(\$13,084)	(4.1%)
Totals.....	\$325,034	\$325,746	\$338,672	\$12,926	4.0%
<i>Funding Sources</i>					
General Fund.....	\$319,342	\$319,820	\$333,678	\$13,858	4.3%
Federal funds.....	2,533	3,011	2,378	-633	-21.0
Special Account for Capital Outlay.....	50	195	—	-195	-100.0
State Child Care Facilities Fund.....	—	215	111	-104	-48.4
Reimbursements.....	3,110	2,505	2,505 ^a	—	—

^a This reflects a technical error in the Budget Bill, which is discussed in our analysis of the CCEA program.

Table 31
K-12 Education
Child Development Services
Participation
1987-88

<i>Program</i>	<i>Number of Contracts</i>	<i>Average Days of Service^a</i>	<i>Average Daily Enrollment^b</i>
Center Program—Public.....	106	246	27,523
Center Program—Private.....	178	247	11,564
Center Program—Title 22.....	44	249	1,671
Family child care homes.....	27	253	1,520
Campus child care.....	51	185	2,057
State migrant.....	27	159	2,116
Federal migrant.....	3	124	397
Alternative payment.....	71	250	6,483
Totals.....	507	— ^c	53,331

^a Weighted average.

^b Average daily enrollment: The average number of full-time equivalent children enrolled in a program on any given day of operation.

^c Not a meaningful figure.

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

- **Preschool Program (Item 6110-196-001(a)).** \$37.4 million from the General Fund to provide educational and related services in part-day programs for pre-kindergarten children from low-income families. This funding level includes a \$1.6 million (4.37 percent) COLA for the program.

Our discussion of the remaining child development programs follows.

Program Cost Control and Management Efficiency Measures Needed

We recommend that the Legislature, during budget hearings, review the State Department of Education's plans to implement cost control and management efficiency measures. We further recommend that the Legislature adopt Budget Bill language in Item 6110-196-001 that modifies the child development reimbursement rate structure to more accurately reflect actual costs of care.

The Legislature has, in previous actions, required the SDE to evaluate its application, contracting and reimbursement systems for child development programs. Accordingly, the department has issued three studies since September 1986 that make recommendations to improve its administration of the program.

These reports discuss several issues that (1) have been subjects of previous legislative concern, and (2) relate to the Legislature's consideration of the budget request for child development programs in 1988-89, as follows:

Inadequate Cost Control Mechanisms. Child development agencies receive reimbursement for the actual costs of providing child care for each day an eligible child is enrolled in a child care program, unless (1) the costs exceed the agency's maximum per-unit or total reimbursement rate, or (2) the costs are for items not allowed under the agency's contract (such as major capital outlay).

This reimbursement system provides no direct incentive for agencies to control costs, because agencies are reimbursed for all costs incurred,

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subject to the general limits discussed above. Thus, the primary means the state has to ensure that it pays no more than necessary for child development services is to set reimbursement rates at levels that encourage cost containment.

The current system, however, does not appear to set rates at such levels. While many child care agencies are funded at or below a statutory standard reimbursement level of \$18.85 per day in 1987-88, the law does not require that the standard rate be used for all child care agencies. Consequently, assigned reimbursement rates in the current year vary widely—from \$14 to \$24 per day for general child care programs, for example. While some agencies may face higher costs than others, there is no analytical basis for reimbursement rates that are more than 70 percent higher than others.

The state could control costs under the current system if it rigorously reviewed each agency's request for reimbursement. The current contracting system does not, however, provide an adequate or uniform review of reimbursement rates. This view is reinforced by the following statement, contained in an August 1987 Price Waterhouse report:

- **Price Waterhouse Findings:** "There are no clearly established fiscal guidelines in place to assist (child development staff) . . . in assessing the (child development) application(s). The proposed line item budget in the application is not compared against prior and current year actuals, nor against program and statewide averages. Similarly, other than agency historical experience, there are no established program and statewide guidelines in assessing and determining the daily reimbursement rate."
- **Price Waterhouse Recommendation:** The SDE's Child Development Division should establish and utilize budget and daily rate guidelines, for use as reasonableness measures to aid staff in determining contract terms.

Comments: Our review indicates that, as a result of inadequate and inconsistent rate and budget reviews, the state may be paying more than is reasonable or necessary for child development services. The Legislature shares this concern and, based on our recommendation in a previous *Analysis*, adopted language in the *Supplemental Report to the 1985 Budget Act* directing the SDE to develop budget guidelines regarding the allocation of state funds by all public and private child care agencies, including requirements specifying minimum expenditures for direct services to children. The SDE has failed thus far to comply with this requirement and indicates that the guidelines will not be available until May 1988—*three years after the language was adopted*.

Once the guidelines are adopted, we believe the department should use them during 1988-89 to evaluate all agencies that are reimbursed above the standard rate, and that the SDE should report on the evaluation results, particularly on the number of children able to be served as a result of rate adjustments.

We further believe that child development staff should, beginning in the budget year, routinely compare proposed agency budgets against prior and current year expenditures to determine whether the proposed budgets are appropriately based on past expenditure patterns.

Implement Triennial Contracting Process. The SDE processes more than 1000 child care contracts each year. Recently-issued reports by the

department's Streamlining Task Force and by Price Waterhouse make the following recommendation:

- **Reports' Recommendation:** The renewal process should be conducted for most agencies every three years, rather than on an annual basis. The implementation of a triennial contracting cycle depends on the extent to which the SDE can conduct appropriate program and compliance reviews during the three year period.

Comments: We believe that implementation of a triennial contracting process would free up SDE staff to (1) conduct more program and compliance reviews, and (2) provide more technical assistance to child care agencies. Under current law (Ch 1066/86) the SDE has authority to implement a three-year renewal process for certain agencies. Legislation would be required to expand the three-year renewal process to additional agencies.

Develop Additional Program Quality Review Instruments. In 1980, the Legislature required the SDE to develop standards for implementing quality child care programs and to identify quality indicators for certain program areas. As a result, the department developed Program Quality Review (PQR) instruments for certain types of child care programs. The PQR allows child care agencies and the SDE to evaluate the extent to which child care programs are meeting or exceeding specified quality standards. The recent Price Waterhouse report makes the following recommendation:

- **Price Waterhouse Recommendation:** The PQRs should be developed for all programs. Currently, PQRs are available for all center-based preschool, Alternative Payment, and Resource and Referral programs, and for certain State Preschool programs. Programs, and types of care, for which PQRs have not been developed include the following: Latchkey, Migrant, school-age parenting and infant development (SAPID), general child care programs in family day care homes, and infant care.

Comments: A 1986 report by the Auditor General concluded that some child development agencies sampled did not comply with state standards for program quality, and that, as a result, "some families did not receive the high quality child care they and the state are paying for (through parent fees and SDE contracts, respectively)." We believe the development of PQRs for all programs would assist the Legislature in determining whether child development funds are being provided to programs that merit funding.

Adjust the Reimbursement System. Most child development programs are reimbursed on a daily enrollment basis; that is, they receive different reimbursement amounts for children that are enrolled part-time, full-time, or more than full-time. A September 1986 report by MPR Associates makes a number of recommendations for modifying the child development reimbursement system which may be implemented by SDE in the future. We believe one recommendation merits particular attention:

- **MPR Recommendation:** Reimbursement rates should be (1) reduced significantly for children enrolled more than full-time, and (2) increased slightly for some part-time children, to reflect more accurately the actual costs of providing child care for varying lengths of time.

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Comments: Our review indicates that adopting this recommendation would result in (1) a \$1.8 million savings to provide the current level of child care services, (2) an increase of approximately 400 children served, (3) an unknown reimbursement rate increase, or (4) some combination of reduced costs, increased service levels, and increased reimbursement rates. We believe this recommendation could be implemented on an interim basis while SDE concludes its evaluation of all MPR recommendations.

Conclusion and Recommendations. As a result of previous legislative actions, several studies have made recommendations for improving the administration of child development programs, which are discussed above. Given the legislative concerns that prompted the reports, we recommend that the Legislature review, during budget hearings, the SDE's plans to implement these recommendations.

Furthermore, our review indicates that the MPR recommendation on reimbursement rates should be implemented in 1988-89, to insure that the rates reflect the actual costs of providing child care. Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6110-196-001 in lieu of provision 4:

Until such time as new funding procedures are established by the State Department of Education, the following reimbursement factors shall remain in effect:

- (a) Under 4 hours per day: 55% of the full-time daily rate.
- (b) 4 to under 6.5 hours: 73% of the full-time daily rate.
- (c) 6.5 to under 10.5 hours: 100% of the full-time daily rate.
- (d) 10.5 hours and over: 1.18% of the full-time daily rate.

GAIN Procedures Should Be Updated

The Greater Avenues for Independence (GAIN) program provides employment and training services to Aid to Families with Dependent Children (AFDC) recipients to help them become financially self-sufficient. All AFDC recipients must participate in GAIN unless they meet certain criteria, in which case they can volunteer for the program.

SDE Should Seek Federal Reimbursement for Reporting Costs

We recommend that the Legislature adopt supplemental report language in Item 6110-001-001 directing the State Department of Education to determine the feasibility of obtaining federal reimbursement for GAIN-related reporting costs, and include any available federal reimbursements in the 1989-90 budget.

In order to claim federal matching funds for child care services provided to GAIN participants, SDE reviews data provided by the Department of Social Services (DSS) on the level of child care services provided to GAIN participants. Then, SDE determines the costs of providing these services and provides this information to DSS.

Although SDE's current reporting costs are minor (probably less than \$10,000 annually), these costs may only be "the tip of the iceberg." Specifically, the costs may increase significantly in the future as (1) additional counties implement GAIN, and (2) the counties that are currently implementing GAIN enroll additional GAIN participants in SDE-administered child care programs.

Recommendation. Our review indicates that SDE's reporting costs may be reimbursable through federal Title IV-A funds. Because current SDE reporting costs may increase in the future, and Title IV-A funds may be available to reimburse the department for these costs, we recommend that the Legislature direct the SDE to explore the feasibility of obtaining federal reimbursement for the department's GAIN-related reporting costs. We further recommend that the Legislature direct the SDE to include available federal reimbursements, if any, for GAIN reporting costs in the 1989-90 budget.

Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6110-001-001:

It is the intent of the Legislature that the State Department of Education shall determine the feasibility of obtaining federal reimbursement for the department's reporting costs which are related to the Greater Avenues for Independence (GAIN) program. It is further the intent of the Legislature that available federal reimbursements, if any, shall be included in the 1989-90 budget.

Need to Track the Impact of GAIN on Child Care

We recommend that the Legislature adopt supplemental report language directing the State Department of Education to collect data on the number of GAIN graduates who are receiving state-subsidized child care services. We further recommend that the Legislature direct the SDE to develop a system for assessing the number of GAIN participants and graduates enrolled in state-subsidized child care and report on the proposed system prior to consideration of the 1989-90 budget.

Last year, in *The 1987-88 Budget: Perspectives and Issues*, we raised several issues regarding the availability of state-subsidized child care for GAIN graduates. Specifically, we noted that:

- When GAIN participants leave the program, many will remain low income and, thus, will be eligible for state-subsidized child care;
- If such care is unavailable, however, these GAIN graduates may find that they are unable to continue working and will, instead, return to the welfare rolls;
- Thus, an assessment of the extent to which GAIN graduates are likely to be served (or are served) by subsidized child care is crucial to insuring the overall success of the GAIN program.

We continue to have these concerns. We believe it is important for the Legislature, in its oversight capacity, to know the extent to which the demand for state-subsidized child care services increases as a result of GAIN.

Based on our recommendation in the *Perspectives and Issues*, the Legislature last year adopted language in the *Supplemental Report to the 1987 Budget Act* in the DSS budget item that directed DSS, in conjunction with the SDE, to collect data beginning in July 1987 on the extent to which GAIN participants will be able to use SDE child care once they graduate from the program. The language further specified that three elements be included in the data: (1) the number of children of GAIN graduates who are receiving services, (2) the number of children of GAIN graduates who are on waiting lists for services, and (3) the length of time these children have remained on the waiting lists.

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We understand from SDE and child care providers in counties that are implementing GAIN that there are technical problems associated with collecting the specified waiting list information. Specifically, state-subsidized child care providers use numerous waiting list systems, and thus it is not feasible or even accurate to compare one waiting list system with another. We further understand that the SDE had not complied with the language as of the time this analysis was written.

Recommendation. Given the Legislature's interest in obtaining information about the extent to which subsidized child care services are being provided to GAIN graduates, but recognizing the constraints discussed above, we recommend that the Legislature adopt supplemental report language directing the SDE to conduct a one-time survey of GAIN graduates who were receiving state-subsidized child care services on a specified date—November 15, 1988. We believe that the one-time survey would avoid the technical problems identified earlier.

We believe, however, that the SDE should provide ongoing information to the Legislature in the future regarding the number of GAIN participants and graduates served in state-subsidized child care. Therefore, we further recommend that the Legislature adopt supplemental report language directing the SDE, in consultation with appropriate child development agencies, to develop an ongoing system for annually reporting the numbers of GAIN participants and graduates served in state-subsidized child care and to report on the legislative actions, if any, needed to implement the system beginning in the 1989-90 budget year.

Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6110-196-001:

The State Department of Education shall submit to the Department of Social Services by February 15, 1989 information on the number of GAIN graduates who were receiving state-subsidized child care services as of November 15, 1988. It is further the intent of the Legislature that the State Department of Education, in consultation with appropriate child development agencies, shall develop a system for annually reporting to the Department of Social Services and the Joint Oversight Committee on GAIN Implementation the numbers of GAIN participants and graduates served in SDE-administered child care. The department shall report to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Joint Oversight Committee on GAIN Implementation by February 15, 1989 on the legislative actions, if any, needed to implement the proposed system in the 1989-90 budget year.

More Frequent Comprehensive Compliance Reviews Needed

We recommend that the Legislature adopt supplemental language directing the State Department of Education, to the extent possible within existing resources, to conduct compliance reviews more frequently to ensure that non-local educational agency (non-LEA) child development programs merit continued funding.

To ensure fiscal and program accountability for child development funds, the SDE conducts three types of reviews: financial audits, program quality reviews, and compliance reviews. Annual financial audits and less-frequent program quality reviews (PQRs) are used to determine the

extent to which child development agencies meet specified accounting and program quality standards. (We discuss PQRs earlier in this analysis.)

The third type of review—the compliance review—provides the SDE with comprehensive information on the extent to which (1) children served are eligible for state-subsidized child care, (2) families are charged appropriate fees, and (3) agencies meet applicable facility licensing, and staffing requirements. The SDE uses two distinct, but similar, compliance reviews, as follows:

- **Coordinated Compliance Reviews (CCRs)**—are used for local education agencies (LEAs), such as school districts and county offices of education. CCRs cover a number of SDE-administered programs, and are administered by representatives from many SDE program units.
- **Contract Monitoring Reviews (CMRs)**—are used for non-LEAs, such as private nonprofit, private proprietary, and public agencies (including cities, counties, and universities). CMRs are used only for child development programs, and are administered by SDE's Child Development Division (CDD).

Non-LEA Reviews Conducted Every 15 Years. Our review indicates that LEAs contract for approximately 60 percent of child development funding, and non-LEAs contract for the remaining 40 percent. The SDE indicates, however, that LEAs and non-LEAs are subject to a significantly different level of compliance review.

According to the department, CCRs are administered to LEAs every three years, but CMRs are administered to non-LEAs on average *only every 15 years*. The CDD indicates that compliance reviews are important, but that it does not have sufficient staff to conduct the non-LEA CMRs on a three-year schedule.

Our analysis indicates that the 15-year compliance review cycle provides insufficient information for the Legislature to determine whether non-LEA programs are restricting services to eligible children or are otherwise meeting state standards. The Legislature needs this information to help determine whether the SDE is providing child development funds only to programs which merit continued funding.

Our review further indicates that the SDE should administer more frequent compliance reviews to private agencies and other non-LEAs for two reasons:

- At least in some cases, private agencies have more difficulty meeting SDE standards than LEAs. For example, non-LEA contracts comprised approximately 90 percent of all child development contracts terminated in the current year by SDE due to non-compliance with fiscal and/or program standards.
- Based on an informal survey of other state agencies, such as the Chancellor's Office, California Community Colleges and the Department of Developmental Services, the reviews appear to be conducted much less frequently than other similar reviews. Most of the surveyed agencies conduct program and fiscal reviews at least every three years. In fact, the longest reported time between reviews was five years.

Conclusion and Recommendation. We believe that a 15-year non-LEA compliance review cycle provides insufficient information for the Legislature to determine whether the SDE is providing child development

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funds to programs that merit continued funding. If the SDE adopts a three-year contracting cycle (which is discussed earlier in this analysis), we further believe that the SDE will be able to administer compliance reviews more frequently using existing staff resources.

We therefore recommend that the Legislature direct the SDE, to the extent possible within existing resources, to conduct non-LEA child development compliance reviews more frequently. Accordingly, we recommend that the Legislature adopt the following supplemental report language in Item 6110-196-001:

It is the Legislature's intent that non-LEA child development programs be subject to more frequent compliance reviews. In accordance with this intent, the State Department of Education shall submit a report on the extent to which compliance review frequencies, particularly for non-local education agencies (non-LEAs), can be increased using existing resources to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance by September 1, 1988.

Child Care Capital Outlay Progress Reports Needed

We recommend that the Legislature adopt supplemental report language in Item 6110-196-001 directing the State Department of Education to submit periodic progress reports on the status of applications processing for child care facilities aid.

Chapter 1026, Statutes of 1985, provided \$36.5 million in federal funds for capital outlay for the School Age Community Child Care (SACCC "Latchkey") program. In addition, Ch 1140/85 appropriated \$7.3 million in federal funds to establish a child care facility loan program for other state-subsidized child care programs. These measures require (1) the SDE to determine child care agencies' eligibility for state facilities aid, and (2) the State Allocation Board (SAB) to subsequently (a) acquire, provide, and lease relocatable facilities, (b) approve renovations, and (c) provide loans to qualifying agencies. The SDE anticipates that it will complete the applications process for both programs by January 1, 1989. It is premature, however, to estimate whether the department will in fact meet its goal.

The Legislature acted last year to expedite the processing of child care facilities aid applications. Given the Legislature's concern that applications be processed and funds be allocated as quickly as possible, we recommend that the Legislature direct the SDE to submit periodic progress reports on the applications process until it is completed. Such reports could also serve as indicators of future workload for the SAB and thus could be useful in determining the board's 1989-90 staffing needs. We, therefore, recommend that the Legislature adopt the following supplemental report language in Item 6110-196-001:

The State Department of Education shall submit to the Joint Legislative Budget Committee, the legislative fiscal committees, the Department of Finance, and the State Allocation Board, progress reports on the Chapter 1026/85 and Chapter 1440/85 child care capital outlay applications processes by October 1 and January 1, 1988, and quarterly thereafter until the funds provided by these measures have been fully allocated and the applications process is complete.

Draft Child Care Regulations Have Been Submitted

We recommend that the Legislature adopt supplemental report language in Item 6110-196-001 that (1) directs the State Department of Education to report quarterly on the status of child development regulations, and (2) specifies Legislative intent that program changes authorized by the regulations shall terminate within two years after they take effect, unless approved as regulations.

The Legislature adopted language in the 1987 Budget Act that required the SDE to (1) develop draft regulations governing all programs administered by the department's Child Development Division by December 1, 1987, and (2) submit these regulations in final form to the Office of Administrative Law (OAL) by April 1, 1988.

Revised Timeline. The SDE complied with the December 1 deadline, but submitted a revised schedule for implementing the final regulations. The department indicates that the new schedule "is designed to allow sufficient time for public comment and feedback."

Under this proposed timeline, the department's "best-case scenario" is that it will submit regulations in final form to the OAL by August 16, 1988, and they will take effect mid-October 1988. Under an alternative scenario, if the OAL rejects the proposed regulations one time, the regulations could not take effect until mid-April 1989.

Progress Reports Needed. While it is important that the public have sufficient time to comment on the proposed regulations, given the Legislature's previous interest in adopting the regulations on a timely basis, we believe that the department should report periodically to the Legislature on its progress.

Future Program Changes. The department indicates that it may modify the regulations to give itself the authority to make program changes on a temporary basis without adopting new regulations. Our review indicates that the department needs this administrative flexibility, within limits. Such administrative changes, in our judgment, should be limited to a two-year period, in order to meet the Legislature's intent that ongoing program requirements be subject to a public hearing process.

Recommendation. Given the concerns discussed above, we recommend that the Legislature adopt the following supplemental report language in Item 6110-196-001:

The State Department of Education shall report quarterly, beginning September 1, 1988, to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, on the status of proposed regulations governing all programs administered by the Child Development Division, until the regulations are approved by the Office of Administrative Law. It is further the intent of the Legislature that the proposed regulations be amended to include a provision which states that program changes shall terminate no later than two years after the date they take effect, unless approved as regulations by the Office of Administrative Law.

Results of Extended Day Care ("Latchkey") Study

Under the School Age Community Child Care (SACCC "Latchkey") program established by Ch 1026/85, the SDE contracts with child care providers (including school districts, private providers, public or private colleges, and others) to provide child care services before and after school for children in kindergarten through grade 9. Unlike traditional

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fully-subsidized child care programs, the Latchkey program serves both nonsubsidized and subsidized children. The budget proposes to allocate \$16.1 million for the Latchkey program, which includes a \$676,000 (4.37 percent) cost-of-living adjustment above the current-year funding level.

Evaluation Results. Chapter 1026 appropriated \$175,000 for the Office of the Legislative Analyst to contract, on a competitive bid basis, for an independent study of the Latchkey program. The firm of MPR Associates conducted the evaluation. Chapter 1026 further specified the scope of the independent study and required the contractor to submit a final report by December 1, 1987.

MPR's major findings and recommendations follow:

MPR Findings:

- The program provides high-quality care to approximately 15,000 children—54 percent nonsubsidized and 46 percent fully- or partially-subsidized. Moreover, the program is cost-effective—average program costs are lower than the fees charged by private providers, and Latchkey providers use community resources extensively.
- Many programs are in serious financial difficulty. An SDE review of selected contractors showed losses of over \$1.2 million related to the program's \$16 million subsidized component. These losses occurred primarily because (1) contractors spent more than their contracts allowed, and/or (2) contractors were unable to generate sufficient fees from full-cost families to match subsidized costs.
- Given that average reimbursement rates are approximately 20 percent lower than average program costs, it is clear that many reimbursement rates are inadequate. Furthermore, given the gap between Latchkey reimbursement rates and private market rates, most reimbursement rates could be increased without fear that the state is paying excessive amounts for child care services.
- The greatest difficulty for Latchkey contractors has been attracting enough full-cost children to meet the program's nonsubsidized participation requirement.
- The SDE has authority to waive the participation requirement, but the waiver process is still not running smoothly.

MPR's Major Recommendations:

- The Legislature should remove the nonsubsidized participation requirement that no more than half of program costs can be paid for by the state. Legislation should be introduced to require programs to match the number of subsidized and nonsubsidized children enrolled and to make the match a compliance issue rather than a fiscal one.
- The SDE's Child Development Division (CDD) should increase reimbursement rates for Latchkey contractors, where a review indicates an inadequate reimbursement rate.
- The Legislature should remove the \$2,100 limit on the average amount spent per child per year because the program's costs are controlled in other ways.
- The Legislature should grant Latchkey programs the same cost-of-living adjustment (COLA) as it grants school districts.
- The SDE should grant waivers of program requirements, if approved, at the time the program contract is issued. If this is not

possible, then Latchkey contractors should be held harmless for the period between the start of the contract and the time the decision is made.

- The CDD should provide one-on-one technical assistance to Latchkey contractors with financial problems. To provide this assistance, CDD should use some of its technical assistance allocation to hire experienced contractors on a short-term basis.

Comments. Should the Legislature decide to modify the Latchkey program, the implementation of the majority of the MPR recommendations would require statutory authorization. The last two recommendations listed above, however, are relevant to the Legislature's consideration of the child development budget for 1988-89, and we discuss them below.

Speed Up the Waiver Process

We recommend that the Legislature adopt Budget Bill language in Item 6110-196-001 (1) directing the State Department of Education to expedite the processing of Latchkey program waivers and (2) ensuring that Latchkey providers are held harmless when processing delays occur.

Under current law, the SDE has authority to grant waivers to agencies that are unable to enroll enough nonsubsidized children to equal or exceed the cost of providing services to subsidized children. Agencies that do not receive a waiver and do not meet the nonsubsidized participation requirement may not be reimbursed for all the services they have provided to subsidized children.

In its March 1987 preliminary findings, MPR cited the Child Development Division's (CDD) long delays in issuing waivers and recommended that the waiver process be clarified. The Legislature, in response to this recommendation, adopted language in the *1987 Budget Act* easing waiver requirements. This language was made permanent in Ch 1120/87.

The waiver process is still not working well. According to MPR, "as of November, waivers for 1987-88 still had not been granted even though the contract year began in July". In fact, CDD did not even issue *instructions* regarding the waiver application process to Latchkey contractors until September 1987. As MPR notes, "once again . . . agencies have been left in a situation of uncertainty and potentially at risk for significant sums".

Conclusion and Recommendation. Given the Legislature's previous actions to clarify the Latchkey waiver process, the SDE has provided no compelling reason why waivers cannot, in general, be granted at the time contracts are issued. Accordingly, we concur with MPR's recommendation that waivers should be granted at the time a contract is awarded and, if this is not possible, then contractors later denied waivers should be held harmless for the period between the start of the contract and the time the decision is made.

We also believe, as MPR concludes, that contractors should be given a reasonable amount of time to build up their nonsubsidized components or reduce their costs, even if a waiver is denied. Our review indicates that two months is the minimum amount of time necessary for contractors to modify their programs.

Accordingly, we recommend that the Legislature adopt the following Budget Bill language in Item 6110-196-001:

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The State Department of Education shall, to the extent possible, grant waivers of the school age community child care requirements at the time contracts are issued. Notwithstanding any provision of the law to the contrary, the Superintendent of Public Instruction shall ensure that waiver denials issued after the time contracts are issued shall not take effect until two months after the denial decisions are provided, in writing, to affected contractors. The two-month period may be extended at the discretion of the Superintendent of Public Instruction in order to provide contractors with a reasonable amount of time to comply with school age community child care requirements. Nothing in this language shall be construed to apply to school age community child care agencies that do not apply for waivers in good faith.

Provide Individual Technical Assistance to Programs in Financial Difficulty

We recommend that the Legislature adopt supplemental report language in Item 6110-196-001 directing the State Department of Education to develop a plan for providing technical assistance to Latchkey contractors in financial difficulty.

In its evaluation of the Latchkey program, MPR notes that many agencies are experiencing financial difficulties. According to MPR, "it is crucial to find as soon as possible what specific problems contractors are having" and provide assistance to them.

MPR recommends that the CDD utilize experienced contractors to provide one-on-one technical assistance to contractors with financial problems. MPR further notes that larger meetings would be reasonable alternatives if individual assistance is not feasible.

Conclusion and Recommendation. We concur with MPR's statement that "there are many contractors around the state who have successfully operated full-cost programs for many years, and CDD should take a leadership role in organizing ways for this technical expertise to be shared". We therefore recommend that CDD develop and implement a plan for utilizing existing contractors to provide technical assistance to Latchkey contractors which experience financial difficulties.

Accordingly, we recommend adoption of the following supplemental report language in Item 6110-196-001:

The State Department of Education shall submit to the Joint Legislative Budget Committee, the legislative fiscal committees, and the Department of Finance, by September 1, 1988, a plan for utilizing existing school age community child care contractors to provide technical assistance to other contractors that are experiencing financial difficulties and, by June 30, 1989, a progress report on these technical assistance efforts.

No Funding Proposed for Child Care and Employment Act

Chapter 1291, Statutes of 1983, established the Child Care and Employment Act (CCEA) to expand the provision of child care services to eligible participants in the job training programs operated pursuant to the federal Job Training Partnership Act (JTPA). The program is jointly administered by the SDE and the Employment Development Department (EDD).

In the current year, \$1.4 million (\$500,000 from EDD, \$500,000 from SDE, and \$400,000 from Department of Social Services Title XX funds)

has been made available through the redirection of existing resources for the CCEA program. As of December 31, 1987, the full \$1.4 million available in the current year had been committed by contract to child development agencies; the SDE estimates that these funds will be fully expended by the close of the current year.

The budget proposes no funding support for this program in 1988-89.

Evaluation Results. Chapter 1066, Statutes of 1986, appropriated \$50,000 for the Office of the Legislative Analyst to contract for an independent evaluation of the CCEA program. Chapter 1066 specified the scope of the independent study and required the contractor to submit a final report by January 1, 1988.

Based on a competitive bid, the firm of MPR Associates was selected to conduct the evaluation which was completed as specified. MPR's major findings and recommendations follow:

MPR Findings:

- The implementation of the program was significantly impeded due to state-level administrative problems; such problems, for the most part, have been resolved and available program funds are expected to be fully expended.
- Benefits of the program have not been distributed in a geographically equitable manner. Of the 51 eligible local JTPA programs, only 37 participate in the CCEA program. Of these, 22 spent approximately 80 percent of the program's funds providing service to approximately 30 percent of the eligible single-parent JTPA participants.
- An estimated 27 percent of the single-parent JTPA participants live in areas that are not served by the CCEA program.
- Between December 1984 and June 1987, approximately 5,500 children had been placed in child care at an average cost of \$1,220 per child (\$610 state CCEA funds and \$610 local JTPA funds).
- The average placement wage earned by JTPA participants is approximately \$5.55 per hour. The MPR report indicates that an adult with one school-age child needs to make \$6.44 per hour (or \$9.25 per hour if a parent has two school-age children) to break even.
- Over 75 percent of the JTPA participants that received child care assistance indicated that they would not have been able to participate in the JTPA program without it.
- The child care supply has not been a barrier to the utilization of CCEA funds.
- Overall, parents have been very satisfied with the quality of child care services and assistance provided.

MPR Recommendations:

- The Legislature should continue the CCEA program and provide a stable funding source for it.
- The SDE and EDD should continue to be jointly responsible for the program. Both departments, however, should take a substantially more active role in promoting maximum participation in the program among local JTPA programs, including (a) providing technical assistance to local JTPA programs, (b) authorizing more than one child development agency to be designated for a geographical area, and (c) encouraging the central administration of child care funds where fixed unit price contracts are used.

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Overall, the MPR report indicates that the CCEA program is sound and that it has both increased the quality and quantity of child care services to single-parent JTPA participants. Should the Legislature wish to provide funding for this program in the budget year, our review indicates that implementation of the MPR recommendations would be warranted.

Technical Error

We recommend that Budget Bill Item 6110-196-001 (b) (10.5) and (c) be amended to correctly reflect the budget proposal for the CCEA program.

The budget proposes to provide no funding support for the CCEA program in 1988-89. The Budget Bill, however, indicates that SDE will expend \$400,000 in reimbursements for this program in the budget year. We are advised by the Department of Finance that this is a technical error. Accordingly, we recommend that the Legislature amend the Budget Bill to accurately reflect the Governor's proposal. The following amendments are consistent with our recommendation:

- Delete schedule (b) (10.5) under Item 6110-196-001; and
- Reduce Item 6110-196-001 (c) "Reimbursements" by \$400,000 (from -\$2,505,000 to -\$2,105,000).

B. ADULT EDUCATION

Adult education programs provide instruction to adults designed to (a) improve general literacy, English-speaking skills, employability, and knowledge of health and safety, and (b) meet the special needs of older adults, parents, and the handicapped. We estimate that in 1987-88 average daily attendance (ADA) in adult education will be 180,500 in K-12 schools and 71,581 in the community colleges.

Table 32 shows the state operations and local assistance funding for K-12 adult education in the prior, current, and budget years. (The budget proposal for community colleges is discussed in Item 6870-101-001 of the *Analysis*.)

1. State K-12 Adult Education Program (Item 6110-156-001)

The budget proposes a General Fund appropriation of \$258 million for adult education local assistance (excluding adults in correctional facilities) in 1988-89. This is a net increase of \$21 million (9 percent) above estimated expenditures in the current year.

The proposed increase for 1988-89 includes (1) \$14.6 million for a statutory 6 percent COLA, and (2) \$5.6 million for a 2.5 percent increase in enrollments in the areas of English as a Second Language (ESL), basic skills instruction, and the Greater Avenues for Independence (GAIN) program, and (3) \$725,000 to continue providing an equalization adjustment pursuant to Ch 498/83.

In addition to the amounts discussed above, the budget proposes (1) \$15 million from the General Fund (in Control Section 22.00) for remedial education provided to welfare recipients participating in GAIN, and (2) \$80 million in federal funds (in Control Section 23.50) to provide ESL and citizenship instruction to illegal aliens applying for amnesty under the federal Immigration Reform and Control Act (IRCA). We

discuss these proposals in further detail in our publication *The 1988-89 Budget: Perspectives and Issues*. GAIN is also discussed in Item 5180 of this *Analysis*.

Table 32
K-12 Education
Adult Education Funding
1986-87 through 1988-89
(dollars in thousands)

	Actual 1986-87	Est. 1987-88	Prop. 1988-89	Change from 1987-88	
				Amount	Percent
<i>State Operations</i>					
General Fund	\$195	\$217	\$222	\$5	2.3%
Federal funds	944	891	928	37	4.2
Special Deposit Fund	176	259	219	-40	-15.4
Subtotals, State Operations	(\$1,315)	(\$1,367)	(\$1,369)	(\$2)	0.1%
<i>Local Assistance</i>					
General Fund					
School districts	\$214,938	\$237,450	\$258,386	\$20,936	8.8%
Correctional facilities	1,931	2,038	2,236	198	9.7
GAIN excess ADA	1,000	17,000	15,000	-2,000	-11.8
Subtotals, General Fund	(\$217,869)	(\$256,488)	(\$275,622)	(\$19,134)	7.5%
Federal funds					
Basic Education	\$8,088	\$8,651	\$8,651	—	—
IRCA ^a	—	30,000	80,000	\$50,000	166.7%
Subtotals, Federal Funds	(\$8,088)	(\$38,651)	(\$88,651)	(\$50,000)	129.4%
Subtotals, Local Assistance	<u>(\$225,957)</u>	<u>(\$295,139)</u>	<u>(\$364,273)</u>	<u>(\$69,134)</u>	<u>23.4%</u>
Totals	\$227,272	\$296,506	\$365,642	\$69,136	23.3%
Personnel-Years	15.6	16.5	16.5	—	—

^a Immigration Reform and Control Act of 1986—not included in Governor's Budget totals for adult education.

Reduced Funding for Adult Education COLA Warranted

We recommend that adult education programs be provided with a cost-of-living adjustment (COLA) equal to the COLA used for school apportionments rather than the arbitrary 6 percent COLA specified in statute, for a General Fund savings of \$4 million. (Reduce Item 6110-226-001 (b) (1) by \$3,962,000 and 6110-226-001 (b) (2) by \$35,000, and adopt corresponding Budget Bill language.)

Under current law, K-12 adult education programs are entitled to receive an annual 6 percent cost-of-living adjustment (COLA). This amount differs from the COLA prescribed in current law for school apportionments, which is tied to the percentage change in the "Implicit Price Deflator for State and Local Government Purchases of Goods and Services." Based upon estimates of this index, the budget proposes a cost-of-living adjustment of 4.37 percent for school district revenue limits in the budget year.

The Education Code also prescribes COLAs for a number of other educational programs. In almost all cases, *including adult education COLAs for programs operated by community colleges*, these COLAs are directly tied to the school apportionments COLA or to some other variable index of inflation. Current law specifies a fixed COLA only in the

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cases of (1) adult education programs operated by school districts, (2) gifted and talented education, and (3) meals for needy pupils.

COLAs Differ. There is no analytical reason why K-12 adult education programs should be provided a higher COLA (6.0 percent) than that provided most other education programs (4.37 percent), including adult education programs operated by community colleges. The types of goods and services used by K-12 adult programs are the same as those purchased by most other education programs. Thus, there is no basis for assuming that the costs faced by K-12 adult programs rise more rapidly than in other education programs.

Recommendation. For the reasons discussed above, we recommend that the Legislature provide K-12 adult education programs with the same COLA as it provides for school apportionments (4.37 percent) in the budget year. Adoption of this recommendation would result in General Fund savings of \$4 million in 1988-89. Accordingly, we recommend that the Legislature (1) reduce the amounts requested in Item 6110-226-001 (b) (1) by \$3,962,000 and Item 6110-226-001 (b) (2) by \$35,000, and (2) adopt the following Budget Bill language:

In lieu of the inflation adjustments calculated pursuant to Sections 41841.5 and 52616 of the Education Code, the inflation adjustment for adult education programs shall be the percentage adjustment prescribed by statute for K-12 revenue limits. This provision applies to the appropriations contained in schedule (b).

Equalization Funds No Longer Needed

We recommend that the Legislature delete \$725,000 proposed for equalization of adult education revenue limits because further equalization is unnecessary. (Reduce Item 6110-226-001 by \$725,000 and adopt corresponding Budget Bill language.)

For purposes of apportioning adult education funds to school districts, the state assigns each district operating an adult education program a unique funding rate, or "revenue limit," based on historical rates of expenditure for adult education. To reduce substantial variations in the revenue limits, SB 813 (Ch 498/83) established a revenue limit equalization adjustment that requires the Superintendent of Public Instruction to annually increase revenue limits that are below the prior-year statewide average to that average.

Table 33 shows the amounts annually appropriated by the Legislature for equalization since 1984-85 (the first year of equalization). The table shows that the amount appropriated for equalization has declined from \$3.5 million in 1984-85 to only about \$721,000 in 1986-87. Equalization funding has declined over time because, after the initial years of equalization, all districts that previously operated below the statewide average were brought to the average. These districts continue to receive small amounts of equalization aid, however, due to the fact that the statewide average rises each time equalization is provided.

The budget proposes \$725,000 in the COLA item to provide yet another equalization adjustment. (Because current law authorizes the equalization of adult revenue limits in a section relating to the adult education COLA, the budget proposes funding for equalization in the COLA item.)

Table 33
K-12 Education
Appropriations For Adult Education Equalization
1984-85 through 1988-89
(dollars in thousands)

Year	Amount
1984-85	\$3,500
1985-86	1,400
1986-87	721
1987-88 (est.)	751
1988-89 (prop.)	725

Additional Equalization No Longer Necessary. Our analysis indicates that further equalization of adult education revenue limits is unnecessary, for the following three reasons.

First, previous equalization adjustments have substantially eliminated revenue limit variations. We estimate that, in 1987-88, 94.2 percent of all per-pupil revenue limits will be equal to the statewide average (\$1,312). Only 0.2 percent will differ from the average by more than \$100 (the standard used in *Serrano* equalization).

Second, more funding will result in little additional equalization. The \$725,000 proposed by the administration would reduce the average difference between low and high revenue limits from \$73 to \$69, a reduction of only four dollars per pupil.

Finally, the Legislature is under no legal obligation to fund equalization of adult education revenue limits. The *Serrano* ruling only applied to K-12 revenue limits, not to categorical programs.

For these reasons, we recommend that the Legislature no longer provide funding for the equalization of adult education revenue limits. We therefore recommend that the Legislature (1) reduce the amount requested in Item 6110-226-001 for adult education by \$725,000, and (2) adopt the following Budget Bill language:

Notwithstanding Section 52616 of the Education Code, the Superintendent of Public Instruction shall increase adult revenue limits only by the amount provided in this item for cost-of-living increases without regard to the equalization requirements specified in that section.

High School Pupils Funded at Twice the Adult Rate

We recommend that the Legislature adopt Budget Bill language providing that ADA claimed by school districts for the attendance of secondary school pupils concurrently enrolled in adult education programs shall be (1) funded at each district's adult revenue limit, and (2) based on a two hour minimum day, because the apportionment provisions of current law (regular base revenue limit and a three hour minimum day) provide an incentive to enroll students for financial rather than programmatic reasons, for a General Fund savings of \$15.6 million. (Reduce Item 6110-101-001 by \$15,600,000.)

Because the per-pupil cost of supporting adult education programs is lower than the cost of regular school programs, the state funds adult schools at a substantially lower rate. The statewide average revenue limit for adult schools is about \$1,312 per ADA, compared to about twice that amount (\$2,670 per ADA) for unified school districts. A *significantly* shorter school day in adult programs primarily accounts for the difference—adult students usually attend school for only half as long as most high school students.

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Concurrent Enrollments. Under current law, pupils enrolled in high school may enroll in adult education courses. Because current law allows districts to count the attendance of these pupils *twice* (once for attending high school and once for attending adult courses), concurrently-enrolled pupils may generate twice as many units of average daily attendance (ADA) as other students. Current law further provides that the adult ADA attributable to these pupils shall be funded at the district's base revenue limit for its *regular* high school program, rather than the lower adult education revenue limit.

Concurrently-Enrolled Funding Above Average. The higher revenue limit rate combined with the additional ADA results in higher funding for concurrently-enrolled high school students.

Table 34 compares the amount of funding that a district would receive for a concurrently-enrolled pupil and a pupil attending only high school. Assuming that both students attend school for six hours per day, the table shows that the concurrently-enrolled student generates \$4,450 per year, while the other student generates only about \$2,670 per year (67 percent less).

Table 34
K-12 Adult Education
Comparison of Funding per Pupil
Concurrently Enrolled versus High School Only
1987-88

Program	Concurrently Enrolled In High School and Adult School		Enrolled In High School Only	
	Hours	Funding	Hours	Funding
High School Program	4 ^a	\$2,670 ^b	6 ^c	\$2,670
Adult Program	2	1,780 ^d	—	—
Totals	6	\$4,450	6	\$2,670
Percent of High School Revenue Limit		166.7%		100.0%

^a Four hours of attendance constitutes a *minimum* school day in high school, per current law.

^b \$2,670 is the average revenue limit provided for high-school students in a unified school district.

^c Six hours of attendance constitutes a normal school day for nonconcurrently-enrolled pupils, per section 46201 of the Education Code.

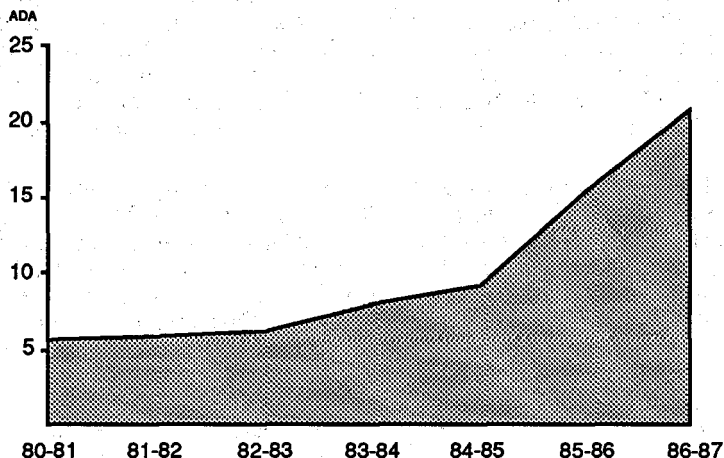
^d Because three hours of attendance will generate one unit of ADA, two hours of attendance will generate two-thirds of a high-school revenue limit (\$2,670).

The favorable financial treatment afforded concurrently-enrolled pupils may have contributed to the dramatic increase in ADA levels associated with these students in recent years. Chart 7 illustrates the ADA increase during the period 1980-81 through 1986-87. It shows a significant increase in ADA beginning in 1984-85 which is largely due to the participation of districts in large urban areas beginning in that year.

Justification of Current Funding Levels Lacking. Given that it costs districts less to operate adult education courses than courses in the K-12 program, funding adult education services provided to concurrently-enrolled students at the K-12 revenue limit rate appears excessive. For this reason the Legislature, in the *Supplemental Report of the 1984 Budget Act*, directed SDE to evaluate the continued need to fund concurrently-enrolled adult ADA at the full K-12 revenue limit.

Chart 7

Adult Education/K-12 Concurrent Average Daily Attendance 1980-81 through 1986-87 (in thousands)



In its report, the department stated that many high-school pupils who also enroll in adult education are deficient in credits due to failure in school, language deficiencies, or attendance problems, and for these reasons require additional services, such as counseling, that make these pupils more costly to serve than other adult education students. The department's report presented no evidence, however, that these additional costs are of sufficient *magnitude* to warrant a full K-12 revenue limit, especially in view of the fact that some of these additional services can be provided in the regular high school.

Revisions to Funding Provisions Needed. Our analysis continues to indicate that adult education services provided to concurrently-enrolled students should be funded at the adult revenue limit rate, because this rate reflects the cost of providing adult education services. Because, however, concurrently-enrolled students may require some additional services not normally provided to adult students, we also recommend that ADA for these students be calculated using a two hour minimum day, rather than the three hour day specified in current law. Calculating ADA in this manner would effectively increase funding for concurrently-enrolled students (over the adult revenue limit rate) by 50 percent. Thus, a concurrently-enrolled student who attends adult school for two hours per day would generate \$1,312 under our proposal, as opposed to \$875 (two-thirds of a revenue limit) for an adult not concurrently-enrolled.

This comparison excludes funds associated with the concurrently-enrolled student's attendance in the regular high school. If these funds are also included, the student would generate a total of \$3,982 for the

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district, which is still significantly greater than the amount (\$2,670) generated by other high school students.

Revising the funding rate for concurrently-enrolled students has two advantages. First, it avoids "overfunding" these services and thus would reduce the incentive to enroll students in adult education programs for financial rather than programmatic reasons. Second, it would generate \$15.6 million in General Fund savings that the Legislature could use for other high-priority purposes. We, therefore, recommend that the Legislature reduce Item 6110-101-001 by \$15.6 million, and adopt the following Budget Bill language to revise the level of funding for concurrently-enrolled pupils:

Notwithstanding any other section of law, including Section 42238.5 of the Education Code, average daily attendance (ADA) claimed for adult school attendance of secondary school pupils concurrently enrolled in adult school (1) shall be calculated using a divisor of 350 hours per year (i.e., a two hour minimum day) and (2) shall be funded at each school districts' adult revenue limit. Districts may claim up to three hours per day per individual served for the purpose of calculating adult ADA. Funds generated by this ADA shall be transferred to each district's fund for adult education. In order to maximize district flexibility to serve these pupils in adult education, districts may transfer additional amounts to this fund, up to one regular revenue limit per ADA (based on a three-hour minimum day) less the above-specified amount, for the purpose of serving concurrently-enrolled students.

Adult Education Technical Issues

We recommend that the Legislature adopt Budget Bill language in Item 6110-156-001 (1) extending maintenance-of-effort provisions to districts receiving 1988-89 growth funds for ESL or basic skills, and (2) providing for additional advanced apportionments to districts participating in GAIN.

We further recommend that the Legislature request the Superintendent of Public Instruction, at the time of budget hearings, to advise it as to the amount of 1988-89 growth funds to be used for GAIN.

Our review indicates that there are several technical problems related to funding for enrollment growth and GAIN. We discuss these issues below.

Maintenance of Effort. In the current year, the Legislature, pursuant to recommendations we made in last year's *Analysis*, (1) targeted growth funds to specified high-priority instructional areas (ESL and GAIN), and (2) adopted language requiring districts receiving these funds to maintain prior-year enrollment levels in these areas in order to prevent supplanting of existing funds.

The budget for 1988-89 proposes to continue the maintenance-of-effort language. The language, however, is technically flawed because it does not reference districts receiving (1) 1988-89 growth funds for ESL or (2) growth funds for basic skills (which the budget also designates as a high-priority area). To correct this inconsistency, we recommend the Legislature adopt the following Budget Bill language in lieu of provision 9 in Item 6110-156-001:

As a condition of receiving any funds appropriated in this item pursuant to provision 4, 5, or 6, districts shall certify to the Superinten-

dent of Public Instruction that levels of annual average daily attendance in the 1988-89 fiscal year (1) in programs for (a) English as a second language and (b) elementary and high school basic skills, and (2) which are used to compute block entitlements, shall be maintained at or above levels funded in either the 1986-87 or 1987-88 fiscal year, whichever levels are higher, for each of these two areas. The Superintendent shall, at the time of the annual apportionment, reduce funding by the corresponding amount to any district receiving funds affected by this provision which fails to generate certified levels of average daily attendance.

Growth Funds Used For GAIN. The budget proposes \$5.6 million in funds for growth in designated high-priority areas (GAIN, ESL, basic skills). It leaves the allocation of funds between these three areas, however, to the discretion of the Superintendent of Public Instruction. As a result, the Legislature does not currently know what portion of these funds will be used for the GAIN program. In order to determine whether or not funding in the budget from all sources for GAIN meets legislative priorities, we recommend that the Legislature request the Superintendent, by the time of budget hearings, to advise it as to what portion of the \$5.6 million will be used for GAIN.

GAIN Start-Up. The budget proposes language (which the Legislature adopted in the 1987 Budget Act) authorizing advanced apportionments to school districts participating in GAIN. (These districts claim that without such advanced funding, they will not be able to hire teachers and to operate classes for GAIN participants.) The language, however, only applies to funding for GAIN contained in Item 6110-156-001, and not to the \$15 million for GAIN scheduled in Control Section 22. To eliminate this inconsistency, we recommend that the Legislature add the following language to Control Section 22:

- (c) Any funding allocated to educational agencies for additional average daily attendance shall be governed by provision 8 of Item 6110-156-001 and provision 5 of Item 6110-102-001.

2. Federal Adult Basic Education Act (Item 6110-156-890)

The budget proposes \$8.7 million from the Federal Trust Fund for local assistance in adult education, an amount equal to estimated current-year expenditures. These funds are associated with the federal Adult Basic Education Act, and must be used to support basic skill instruction for adults with less than an eighth grade level of education.

SDE Funds for the Homeless Available in 1988-89

We recommend that the Legislature augment Item 6110-156-890 by \$900,000 to reflect the availability of federal funds for providing outreach, literacy training and basic skills remediation for homeless adults. We further recommend that the Legislature review, during budget hearings, the administration's expenditure plan for providing education services to the homeless in 1988-89.

The Stewart B. McKinney Homeless Assistance Act of 1987 will provide about \$56 million to California in 1987-88 and 1988-89, including approximately \$12 million that will be available to the state for the Legislature to allocate in 1988-89. This amount includes approximately \$1.8 million in funds for the State Department of Education (SDE) (\$900,000 for homeless youth and \$900,000 to alleviate illiteracy in homeless adults).

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The act requires that the state use the \$900,000 for adults to provide literacy training and basic skills remediation for homeless people by undertaking outreach activities and coordinating with existing state programs that serve the homeless.

The budget does not reflect the \$900,000 made available under the McKinney Act for education programs to serve homeless adults.

Recommendation. We recommend that the Legislature augment the budget for federally-funded adult education programs (Item 6110-156-890) by \$900,000 to reflect the additional federal funds. We, however, do not recommend Budget Bill language here specifying how the funds should be used by SDE, so as to provide the Legislature with an opportunity, at the time of budget hearings, to establish priorities for using the SDE funds in conjunction with (1) funds that the act provides to several other programs, and (2) other funds that the 1988-89 Budget proposes for programs that serve the homeless.

In our document, *The 1988-89 Budget: Perspectives and Issues*, we recommend that the Department of Finance provide the legislative fiscal committees with a plan for the use of the funds. Accordingly, we recommend that the Legislature, during budget hearings, review the administration's plan for spending funds for education services to the homeless in 1988-89, in conjunction with the expenditure of other federal funds available for the same purpose. In reviewing the administration's plan, the Legislature can consider its options for using the SDE funds in light of its priorities for the use of other funds for the homeless.

We make a similar recommendation regarding the \$900,000 for homeless youth in our analysis of state administration of compensatory education programs.

3. Adults in Correctional Facilities (Item 6110-158-001)

We recommend approval.

The budget proposes \$2.2 million from the General Fund for education of adults in correctional facilities, an increase of \$198,000 over the current-year level. This increase includes \$127,000 for a 6 percent statutory cost-of-living adjustment (COLA), and \$71,000 for enrollment growth of 2.5 percent, as specified in current law. Except for the amount proposed for a COLA (which we discuss in our analysis of Item 6110-156-001), the proposed amount appears reasonable, and accordingly we recommend that it be approved.

C. Office of Food Distribution (Item 6110-001-687)

The Office of Food Distribution (OFD) administers the Surplus Food program. Under this program, the OFD receives surplus food commodities donated from the United States Department of Agriculture (USDA) and distributes them to schools, child care centers, charitable institutions, and food programs for the elderly. The OFD is entirely self-supporting; local agencies that receive commodities under the Surplus Food program are assessed processing and handling charges (\$2.50 per unit of donated food) that are sufficient to cover 100 percent of the program's costs.

Table 35 shows the value of food distributed, as well as the costs of administering the Surplus Food program, from 1985-86 through 1988-89.

Table 35
State Department of Education
Office of Food Distribution—Surplus Food Program^a
Distribution Activity and Administrative Costs
1985-86 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1985-86	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> <i>1987-88</i>	
					<i>Amount</i>	<i>Percent</i>
Total value of food distributed ^b	\$92,409	\$115,150 ^c	\$96,464	\$97,675	\$1,211	1.3%
Number of agencies participating	2,850	2,850	2,940	3,000	60	2.0%
State administrative costs ^d	\$8,437	\$8,369	\$14,474	\$13,568	-\$906	-6.3%
Personnel-years	87.5	84.0	92.0	92.0	—	—

^a Donated Food Revolving Fund.

^b Includes "bonus" food commodities.

^c Includes \$21.8 million from one-time dairy herd buyout.

^d The state is reimbursed for these costs through fees charged to local agencies.

Table 35 indicates that, during the budget year, the OFD will distribute an estimated \$98 million in donated food commodities, an increase of \$1.2 million over the current year. Table 35 also shows an expenditure of \$13.6 million for administrative costs in 1988-89—a decrease of \$906,000, or 6.3 percent—from estimated 1987-88 expenditures due to the one-time current-year cost of purchasing a prefabricated refrigeration unit for the program's Southern California warehouse.

Appropriation Authority Exceeds Expenditures

We recommend reducing the expenditure authority for the Office of Food Distribution from \$13,568,000 to \$12,000,000 based on historical and projected expenditure patterns. (Reduce Item 6110-001-687 by \$1,568,000.)

As mentioned, the Office of Food Distribution is fully supported by the processing and handling charges that are assessed to the local agencies participating in the Surplus Food program. These charges, which are deposited into the Donated Food Revolving Fund, are adjusted as necessary to ensure that the total amount of revenue generated is sufficient to fully cover the administrative costs of the Surplus Food program. Because this program is entirely supported by a revolving fund comprised of local agencies' fees, the level of funding authorized in the Budget Act is more an *authorization* to expend the anticipated level of fee revenues than it is an appropriation based on program need or fiscal priorities.

A review of prior years data as shown in Table 35 indicates that the expenditure levels for the OFD were \$8.4 million in 1985-86 and 1986-87. Based on this, we estimate that the budget year costs will be approximately \$9 million, or \$4.7 million less than the amount proposed in the Governor's Budget. The SDE indicates that this program, in order to be responsive to the often unpredictable availability of additional surplus food commodities, requires an expenditure authorization level in excess of its projected administrative costs—ideally, 25 percent. We concur, and accordingly recommend that this level be set at \$12 million, rather than \$13,568,000, allowing for a reduction of \$1,568,000.

DEPARTMENT OF EDUCATION—Continued**IV. STATE DEPARTMENT OF EDUCATION**

This section discusses the overall administrative budget for the State Department of Education (SDE), as well as those administrative activities that are not tied to a particular local assistance item, such as the California Assessment Program (CAP) and the Private Postsecondary Education division. Administrative issues related to particular local assistance items are discussed in connection with the programs themselves. Issues related to the State Library and state special schools are discussed elsewhere in the analysis.

Table 36 shows state operations expenditures for the SDE (excluding the State Library and state special schools) in the prior, current, and budget years. The budget proposes \$108.9 million in 1988-89, including \$44 million from the General Fund, and \$37.6 million from federal funds. The General Fund amount is \$6.2 million (16 percent) above the estimated current year level.

Table 36
Department of Education
State Operations Funding^a
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> <i>1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
Funding:					
General Fund	\$37,008	\$37,836	\$44,060	\$6,224	16.4%
Federal funds	36,153	37,441	37,640	199	0.5
Donated Food Revolving Fund	8,369	14,474	13,568	-906	-6.3
Special Account for Capital Outlay	50	10	—	-10	— ^b
Driver Training Penalty Assessment	632	822	838	16	1.9
Private Postsecondary Administration ..	1,463	995 ^c	1,573	578	58.1
State School Building Lease Purchase...	715	1,088	1,109	21	1.9
First Offender Program Evaluation	3	13	—	-13	— ^b
State Child Care facilities	—	215	111	-104 ^d	-48.4
Special Deposit	640	1,186	1,135	-51	-4.3
Student Tuition Recovery	50	50	50	—	—
Subtotals	(\$85,083)	(\$94,130)	(\$100,084)	(\$5,954)	(6.3%)
Reimbursements	\$7,371	\$8,745	\$8,861	\$116	1.3%
Totals	\$92,454	\$102,875	\$108,945	\$6,070	5.9%

^a Excludes State Special Schools and State Library.

^b Not a meaningful figure.

^c A 1987-88 deficiency is reportedly in process.

^d Program was limited term, ceases in 1988-89.

Significant General Fund Changes in 1988-89

Table 37 shows the elements of the \$6.2 million increase in General Fund support proposed for SDE in the budget year. As the table shows, the budget proposes (1) a total baseline reduction of \$827,000 and (2) a total increase of \$7,051,000 to fund various program changes in the budget year.

Table 37
Department of Education
Proposed 1988-89 General Fund Changes
State Operations^a
(dollars in thousands)

1987-88 Expenditures (Revised)	\$37,836
<i>Baseline Adjustments</i>	
Adjustments for nonrecurring expenditures	-\$1,382
Full-year costs of 1987-88 salary increases	466
Price changes	251
Reduced transfers from programs	-162
Subtotal, Baseline Adjustments	(-\$827)
<i>Program Changes</i>	
Physical—Health Related Fitness Assessment Program	\$700
Comprehensive Assessment System	750
California Assessment Program ^b	2,711
Student Performance Accountability	550
Fiscal oversight and monitoring	714
Fiscal information data base	347
School accounting manual	95
Support for fiscal reporting system	304
Continue Microcomputer Advisory Committee (Ch 1150/86)	40
Health Careers Education—staff support	13
Prevention of teen pregnancy	100
Partnership Academies	50
Bilingual education evaluation	420
School Crime Reporting	33
GAIN—Staff support	149
State Board of Education stipends	37
Year round schools—Orchard Plan	18
Toxic art supplies list	20
Subtotal, Program Changes	(\$7,051)
1988-89 Expenditures (Proposed)	\$44,060
<i>Change from 1987-88:</i>	
Amount	\$6,224
Percent	16.4%

^a Excludes state special schools, and State Library.

^b Includes funding for maintenance; revision of English, Language Arts, and Math tests; development in grade 6 and implementation in grade 12 of direct writing assessments; and grade 10 test development.

The \$827,000 baseline reduction primarily reflects (1) a reduction due to nonrecurring expenditures (—\$1.4 million), (2) full year costs of employee salary increases granted in 1987-88 (\$466,000), (3) a 2.5 percent price increase (\$251,000), and (4) reduced transfers from various programs (—\$162,000).

The \$7,051,000 proposed for program changes reflects increases for (1) test development, revision and implementation costs for the California Assessment Program (CAP) (\$2.7 million), (2) development of a comprehensive assessment instrument (\$750,000), (3) increased fiscal oversight and accountability activities (\$1.3 million), (4) establishment of a school performance accountability system (\$550,000), (5) implementation costs for the Physical-Health Related Fitness Assessment Program (\$700,000), (6) first-year contract costs for a two-year evaluation of bilingual education programs (\$420,000), (7) the department's activities

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relating to the Greater Avenues for Independence (GAIN) program (\$149,000) and, (7) costs to disseminate teen pregnancy prevention information (\$100,000).

Personnel. The budget proposes a total of 1390.3 personnel years (PYs) supported from all funds in 1988-89, excluding the state library and special schools—an increase of 14.7 PYs, (1.1 percent) above the current-year level.

We recommend approval of the following significant budget proposals in Item 6110-001-001, not discussed elsewhere in the analysis:

- **Physical-Health Related Fitness Assessment Program**—\$700,000 from the General Fund for implementation of Ch 1675/84 (AB 3228) which required the department to design, administer and compile the results of student physical fitness tests. The program received \$75,000 in the current year. The proposed budget year increase would fully develop the reporting system and computer software necessary to meet legislative intent. Future year program costs should be reduced once these development functions have been completed.
- **Bilingual Education Evaluation**—\$420,000 from the General Fund for the department to contract for the first year of a two-year, \$700,000, independent evaluation of bilingual education programs.
- **Greater Avenues for Independence (GAIN)**—\$149,000 for the department to review county plans associated with the GAIN program. Three limited-term positions were approved for the program in the current year.
- **Fiscal Monitoring and Accountability**—\$1.5 million as follows: (1) \$439,000 to continue activities previously funded on a one-time basis—\$304,000 for contract staff to review district financial and audit reports, \$95,000 for ongoing revision of the school accounting manual and \$40,000 for staff support of the Microcomputer Advisory Committee (Ch 1150/86); (2) \$714,000 to increase state review of county office of education budgets and fully implement an early warning system to permit timely intervention and support for districts heading for financial insolvency; and (3) \$347,000 to develop a fiscal information data base with district by district data.

In addition, we recommend approval of the following item not discussed elsewhere in this analysis:

- **Private Postsecondary Education Division (6110-001-305)**—\$1,573,000 from the Private Postsecondary Education Administration Fund to support the Private Postsecondary Education division within the State Department of Education which regulates private schools in the state, and is the administrative arm of the Council for Private Postsecondary Educational Institutions. The division is self-supporting and derives its revenues from (1) federal reimbursements, (2) fees charged to private schools seeking state licensure, and (3) charges assessed to the Student Tuition Recovery Fund. (The Student Tuition Recovery Fund reimburses students enrolled in private postsecondary schools for a portion of their tuition payments when schools close before the students have completed their instructional program.)

Student Performance Accountability Proposed

We withhold recommendation on \$550,000 in Item 6110-001-001 for the first year of a school performance accountability program, pending receipt of additional information about the budget year proposal and the department's future plans for program implementation.

Since 1984, the State Department of Education (SDE) has assessed the performance of each California public school, based on quality indicators which include: increased scores on California Assessment Program (CAP) tests; improved student attendance; increased homework assignments; and, at the high school level, increased enrollment in specified academic courses, reduced dropout rates, and improved performance on college board examinations.

Budget Proposal. The budget proposes \$550,000 for the first year implementation of an expanded performance accountability program. According to the department, the budget proposal is for technical assistance to schools identified as "low performing" by the Superintendent. As of this writing, the SDE was not able to provide a detailed budget or a specific program justification for the budget proposal.

The department indicates that the budget proposal is the first phase of a new policy initiative to improve student performance. The SDE's proposal involves a long range three-stage process with increasing levels of state intervention. According to the department, the proposed stages would move from (1) notifying a school of its low performance rating, (2) requiring specific improvements and (3) if improvement did not occur, the appointment of a "trustee" to evaluate improvement efforts and recommend changes in school management policies to the local school board.

Our review indicates that schools that continue to have low performance ratings might benefit from technical assistance and support. However, there are two problems with the department's proposal — the budget is undefined and there are major unanswered questions.

The Budget Proposal is Undefined. Although the department is able to provide conceptual information on the performance accountability initiative, it is not able to provide a program budget or information on the specific activities planned for 1988-89. Without this information, the Legislature cannot determine the need for the additional funds proposed since it is not clear how the new or expanded activities differ from the current responsibilities of the department.

Moreover, as mentioned, the department indicates that this budget request is the first phase of a broader program initiative. We believe that the department should provide the Legislature with the information it needs to determine the future fiscal and policy implications related to the budget request before it can be approved.

Unanswered questions. We believe that clarification is needed on how the program will be implemented. Specifically, the department could not provide information to answer the following questions:

- How will low performing schools be identified?
- Will existing quality indicators be used to expand the notion of accountability?
- Will low performing special populations within otherwise highly rated schools qualify the school for this assistance?
- How many schools will be served with the \$550,000 proposed in the budget?

DEPARTMENT OF EDUCATION—Continued

- What will the role of the local governing board and the school districts be?
- How will trustees be selected and what will their qualifications be; what authority and responsibility will they have; what level of involvement will they have in day to day school operations; and what targets will be set for schools to terminate the trusteeship? Who will bear the costs of the trustee?

Given these uncertainties, we withhold recommendation, pending receipt of additional information about the budget proposal and the department's future plan for program implementation.

The Department May be Proposing Conflicting Testing Programs

We withhold recommendation in Item 6110-001-001 on \$8.6 million for the California Assessment Program and \$750,000 for development of a comprehensive test instrument pending receipt of information about the relationship between the two testing programs.

California Assessment Program. The California Assessment Program (CAP) is designed to provide information regarding K-12 student performance. Under this program, standardized achievement tests are currently administered to all public school students in grades 3, 6, 8, and 12. The reports are provided on a schoolwide and districtwide basis, rather than on an individual student basis.

CAP Proposal. The budget proposes \$8.6 million for CAP in 1988-89. This amount includes: (1) \$7.3 million from the General Fund and (2) \$1.3 million from Federal Education Consolidation and Improvement Act (ECIA) Chapter 2 funds. The proposed General Fund amount represents an increase of \$2.9 million (50 percent) above the current-year level, consisting of the following:

- \$949,000 in contract costs to revise tests in mathematics and English-language arts in grades 3, 6, 8, and 12.
- \$1.1 million (and 1.5 positions) to fund statewide implementation of the completed grade 12 direct writing assessment and to initiate development at grade 6.
- \$630,000 (and 4.5 positions) for Grade 10 test development in the English-language arts and mathematics.
- \$73,000 for inflationary contract costs in test maintenance.
- \$130,000 (2.2 percent) for price increases granted to the department for this program.

Comprehensive Assessment System Budget Proposal. The budget also proposes \$750,000 for the first year development of a Comprehensive Assessment System to consolidate California's statewide testing program with various district testing programs. Current testing practices result in districts administering the statewide CAP tests, yielding schoolwide and districtwide scores, and in addition, administering a variety of locally adopted proficiency exams which yield individual scores. The department proposes to consolidate these tests to reduce testing time and to develop a single test that can yield different types of data for various purposes. As of this writing, the department could not provide an expenditure plan for the \$750,000 in 1988-89, clarification as to how the new testing system would be developed or information about the timeframe for implementation.

Will CAP eventually be eliminated? Our review of the proposed expansion of CAP indicates that it is consistent with legislative intent and the department's four-year plan for CAP test development. Our review of the proposal for a consolidated test instrument indicates that it may, indeed, reduce testing time and simplify test data collection. We are concerned, however, that it is logically inconsistent to request funding for major increases in CAP test development, while at the same time requesting funds for development of a consolidated test instrument that appears to replace the CAP tests.

Additional Information Needed. The department was unable to provide us with information about the long-term relationship between the CAP tests and the proposed consolidated test instrument. Accordingly, we withhold recommendation, pending receipt and review of the following information from the department:

- A work plan for the proposed \$750,000 to develop a consolidated test instrument, and a multi-year plan for its proposed full implementation;
- The type of data that will be generated by the consolidated test and how it will serve the current purposes of tests being used. For example, will nationwide comparisons with other student test scores be possible?
- Information about the relationship between the existing and proposed CAP tests and the consolidated test instrument.

SDE Administration Budget Should Reflect Reduced Workload Due To Sunsetting Programs

We withhold recommendation on \$3.6 million from the General Fund and federal funds (\$1,348,000 from Item 6110-001-001 and \$2,213,000 from Item 6110-001-890) for state administration of the School Improvement, Indian Early Childhood Education, Economic Impact Aid (state compensatory and bilingual education) and Miller-Unruh Reading programs, which sunset on June 30, 1987, pending receipt of information from the State Department of Education which reflects the new workload levels.

The following five categorical programs "sunsetting" on June 30, 1987: (1) School Improvement, (2) Indian Early Childhood Education, (3) Economic Impact Aid—State Compensatory Education, (4) Economic Impact Aid—Bilingual Education, and (5) Miller-Unruh Reading. Under the statutory sunset provisions, these programs did not actually terminate. Instead, funding has continued for the general purposes of each program, but all relevant statutes and regulations governing the programs, with certain exceptions, have ceased to be operative. A State Department of Education (SDE) program advisory on the five sunsetted programs, issued in August 1987, identifies more than fifteen former program requirements that are no longer required as a result of the statutory sunset provisions.

Our review indicates that the SDE is likely to experience a reduction in its workload associated with monitoring and administering the five programs because a significant number of the program requirements no longer exist. The proposed budget, however, does not reflect the reduced workload level. We believe, therefore, that prior to budget hearings the department should provide information on the appropriate level of state administration for the five programs.

DEPARTMENT OF EDUCATION—Continued

Recommendation. We withhold recommendation on the \$3.6 million from the General Fund and federal funds for state administration of the School Improvement, Indian Early Childhood Education, Economic Impact Aid—State Compensatory Education, Economic Impact Aid—Bilingual Education, and Miller-Unruh Reading programs, which sunset on June 30, 1987, pending receipt of SDE information on the appropriate level of state administration for these programs.

Teen Pregnancy Prevention

We withhold recommendation on \$100,000 from the General Fund (Item 6110-001-001) and 1 position proposed for the dissemination of teen pregnancy prevention information, pending receipt of a work plan.

Chapter 1081, Statutes of 1986 (AB 4327), requires the State Department of Education to (1) prepare and distribute to school districts comprehensive educational materials relating to the prevention of teen pregnancy, and (2) assist interested districts and county offices of education in developing comprehensive teen pregnancy prevention programs. Chapter 1081 further requires the department to seek input from other public agencies and from experienced private nonprofit organizations, and allows the department to use appropriate materials developed by such sources. Finally, the statute specifies that, in order to implement this program, the department shall seek federal and private funding and use all available resources as necessary.

The budget proposes \$100,000 and 1 position for purposes of implementing the provisions contained in Chapter 1081. At the time this analysis was written, the department had not yet developed the workplan supporting its request. The department indicates that this information will be available prior to budget hearings; therefore, we withhold recommendation on this item.

SDE Funds for the Homeless Available in 1988-89

We recommend that the Legislature augment the budget for state administration of compensatory education programs (Item 6110-001-890) by \$900,000 to reflect the availability of federal funds for homeless youth programs. We further recommend that the Legislature review, during budget hearings, the administration's expenditure plan for providing education services to the homeless in 1988-89.

The Stewart B. McKinney Homeless Assistance Act of 1987 will provide about \$56 million to California in 1987-88 and 1988-89, including approximately \$12 million that will be available to the state for the Legislature to allocate in 1988-89. This amount includes approximately \$1.8 million in funds for the State Department of Education (SDE) (\$900,000 for homeless youth and \$900,000 to alleviate illiteracy in homeless adults).

The act requires that the states use the funds to (1) prepare and implement a plan to ensure that homeless youth have access to a "free and appropriate" education, and (2) collect information on the location and number of homeless youth in the state.

The budget does not reflect the \$900,000 made available under the McKinney Act for programs to ensure that homeless youth have access to public education.

Recommendation. We recommend that the Legislature augment the budget for state administration of compensatory education programs (Item 6110-001-890) by \$900,000 to reflect the additional federal funds. We, however, do not recommend Budget Bill language here specifying how the funds should be used by SDE so as to provide the Legislature with the opportunity to establish its priorities for using these SDE funds in conjunction with (1) funds that the act provides to several other programs, and (2) other funds that the 1988-89 budget proposes for programs that serve the homeless.

In our document, *The 1988-89 Budget: Perspectives and Issues*, we recommend that the Department of Finance provide the legislative fiscal committees with a plan for the use of the funds. Accordingly, we recommend that the Legislature, during budget hearings, review the administration's plan for spending funds for education services to the homeless in 1988-89, in conjunction with the expenditure of other federal funds available for the same purpose. In reviewing the administration's plan, the Legislature can consider its options for using the SDE funds in light of its priorities for the use of other funds for the homeless.

We make a similar recommendation regarding the \$900,000 for alleviating illiteracy in homeless adults in our analysis of the adult education program.

DEPARTMENT OF EDUCATION—REAPPROPRIATION

Item 6110-490 from the General
Fund

Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to reappropriate the unencumbered balance (\$1,776,000) of Item 6100-119-001(b), Budget Act of 1984, for the expansion of Opportunity Classes and Programs. Because this balance remains from the 1984 appropriation, this reappropriation is provided in lieu of a new Budget Bill item.

DEPARTMENT OF EDUCATION—REVERSION

Item 6110-495 from the General
Fund

Budget p. E 1

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes to revert the unencumbered balance of the appropriation made in Ch 1169/81, for bilingual teacher training. This is a technical reversion needed to clear a minor remaining balance.

DEPARTMENT OF EDUCATION—STATE LIBRARY

Item 6120 from the General
Fund and the Federal Trust
Fund

Budget p. E 24

Requested 1988-89.....	\$59,645,000
Estimated 1987-88	57,224,000
Actual 1986-87	51,035,000
Requested increase (excluding amount for salary increases) \$2,421,000 (+ 4.2 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6120-011-001—Main support	General	\$11,614,000 ^a
6120-011-890—Federal support	Federal Trust	1,701,000
6120-211-001—Local assistance	General	13,208,000
6120-211-890—Federal local assistance	Federal Trust	12,000,000
6120-221-001—Public Library Foundation	General	21,100,000
Reimbursements	—	22,000
Total		\$59,645,000

^a Differs from Budget Bill by \$1,000 due to technical errors.

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Families for Literacy Campaign. Recommend that the Legislature review, during budget hearings, the State Library's plans to evaluate the Families for Literacy Campaign. 930
2. California Literacy Campaign. We make no recommendation on the \$500,000 requested from the General Fund to speed up the current rate of program expansion because this is a policy decision that should be made by the Legislature. 931

GENERAL PROGRAM STATEMENT

The California State Library (1) maintains reference and research materials for state government, (2) provides support to local public libraries, and (3) provides library services to the blind and physically handicapped in northern California. The State Library's operations budget supports the maintenance of various library collections (such as law, reference, Sutro, and government document publications), the provision of consultant services to public libraries, and the administration of the California Library Services Act (CLSA) and the Public Library Foundation Program. Its local assistance budget supports state and federal grants to public libraries and library agencies, and local resource sharing through the creation and maintenance of a data base covering California public library materials.

The State Library has 162.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Table 1 displays total funding for the State Library in the prior, current, and budget years.

Table 1
California State Library
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Prop.</i> 1988-89	<i>Change from</i> <i>1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
<i>State Operations</i>					
Reference services for the Legislature and state agencies	\$1,733	\$3,239	\$2,814	—\$425	—13.1%
Statewide library support and development	2,883	3,108	3,522	414	13.3
Special clientele services	1,665	1,659	1,989	330	19.9
Support services	4,826	4,910	5,012	102	2.1
Subtotals, State Operations	(\$11,107)	(\$12,916)	(\$13,337)	(\$421)	(3.3%)
<i>Local Assistance</i>					
Statewide library support and development	<u>\$39,928</u>	<u>\$44,308</u>	<u>\$46,308</u>	<u>\$2,000</u>	<u>4.5%</u>
Totals, Expenditures	\$51,035	\$57,224	\$59,645	\$2,421	4.2%
<i>Funding Sources</i>					
<i>General Fund</i>	\$41,442	\$43,822	\$45,922	\$2,100	4.8%
<i>Federal funds</i>	9,580	13,380	13,701	321	2.4
<i>Reimbursements</i>	13	22	22	—	—

As Table 1 shows, the budget proposes a General Fund appropriation of \$45.9 million for the State Library in 1988-89—an increase of \$2.1 million (4.8 percent) above the current-year level. Total expenditures, including federal funds and reimbursements, are proposed at \$59.6 million—\$2.4 million (4.2 percent) above the current-year level.

Table 2 identifies the major changes in the State Library budget proposed for 1988-89. The table shows a net total increase of \$2.4 million, which reflects (1) reductions of \$740,000 due to the elimination of a one-time reappropriation of 1986-87 funds for reference services for the Legislature and state agencies, and \$304,000 for the elimination of various other one-time expenditures, (2) increases of \$280,000 for price increases, and \$136,000 for employee compensation, and (3) \$3 million for various program changes discussed below.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant budget proposals, which are not discussed elsewhere in this analysis:

- **Public Library Fund**—\$900,000 from the General Fund for a cost-of-living adjustment for the Public Library Foundation Program, which supplements local funding for public libraries.
- **Compact Shelving**—\$291,000 from the General Fund for compact shelving, comprised of \$250,000 for the Braille and Talking Book Library and \$41,000 for the Sutro Library.
- **Microfilming Materials**—\$261,000 from federal funds to microfilm rare California materials.
- **Acquire Census**—\$162,000 from federal funds to acquire the the 1910 United States Census and various historical city telephone directories.

DEPARTMENT OF EDUCATION—STATE LIBRARY—Continued

Table 2
California State Library
Proposed 1988-89 Budget Changes
By Funding Source
(dollars in thousands)

	<i>General Fund</i>	<i>Federal Funds</i>	<i>Reimburse- ments</i>	<i>Totals</i>
1987-88 Expenditures (Revised)	\$43,822	\$13,380	\$22	\$57,224
<i>Baseline Adjustments</i>				
Price increase	\$280	—	—	\$280
Full-year costs of salary increases	103	\$33	—	136
Computation error	—2	—	—	—2
Adjustments for nonrecurring expenses	—169	—135	—	—304
Reappropriation of 1986-87 funds	—740	—	—	—740
Subtotals, Baseline Adjustments	(—\$528)	(—\$102)	—	(—\$630)
<i>Program Changes</i>				
Public Library Fund	\$900	—	—	\$900
Families for literacy (local assistance)	600	—	—	600
California literacy campaign	500	—	—	500
Compact shelving for braille and talking book library (BTBL)	250	—	—	250
Families for literacy (state operations)	210	—	—	210
Access to California historical material	95	—	—	95
Compact shelving for Sutro Library	41	—	—	41
Machine repair staff for BTBL	32	—	—	32
Microfilming rare California materials	—	\$261	—	261
Acquisition of 1910 census	—	162	—	162
Subtotals, Program Changes	<u>(\$2,628)</u>	<u>(\$423)</u>	—	<u>(\$3,051)</u>
1988-89 Expenditures (Proposed)	\$45,922	\$13,701	\$22	\$59,645
Change from 1987-88:				
Amount	\$2,100	\$321	—	\$2,421
Percent	4.8%	2.4%	—	4.2%

STATE LIBRARY SUPPORT

As shown in Table 1, the budget proposes \$13.3 million in total funding for the State Library's operations in 1988-89. This is a net increase of \$421,000 (3.3 percent) above the estimated current-year level.

Families for Literacy Campaign (Items 6120-011-001 and 6120-211-001)

We recommend that the Legislature, during budget hearings, review the State Library's plans to evaluate the Families for Literacy Campaign.

Chapter 1359, Statutes of 1987 creates the Families for Literacy Campaign (FLC), to provide grants for public libraries that coordinate literacy services for families that include illiterate adults and preschool-age children. Chapter 1359 further provides that the State Library shall submit an evaluation of the program to the Legislature by January 1990.

The budget provides \$810,000 for the FLC—\$210,000 and three positions to administer the program, and \$600,000 for grants to public libraries.

Recommendation. Our analysis of the cost estimates and the grant allocation plan for the FLC indicates that they are reasonable. We note, however, that the State Library has not provided a plan for conducting the statutorily-required program evaluation by January 1990. We recom-

mend, therefore, that the Legislature review, during budget hearings, the State Library's plans to evaluate the program.

SUPPORT TO LOCAL LIBRARIES

The budget proposes \$46.3 million in support to local libraries in 1988-89 through the California Library Services Act, the federal Library Services and Construction Act, and the Public Library Foundation. This is a net increase of \$2 million (4.5 percent) above the estimated current-year level.

Proposed Expansion of California Literacy Campaign

We make no recommendation on the \$500,000 requested from the General Fund to speed up the current rate of expansion of the California Literacy Campaign to new local public libraries because this is a policy decision that should be made by the Legislature.

The California Literacy Campaign (CLC) was established by the State Library in 1983 with \$2.5 million in one-time federal funds, and is administered under the California Library Services Act. Its mission is to provide financial and technical assistance to local public libraries to enable the establishment of local adult literacy programs. The program funded 64 projects in 1987-88, including 47 established projects and 17 new ones. The State Library indicates that in 1986-87, the 47 established projects served 15,170 adult learners.

As Table 3 indicates, state support for each local literacy program is withdrawn gradually and replaced by local support so that the assisted program no longer receives state funding in the sixth year and would be fully locally supported. Thus, as state support declines for some local programs, funds are freed up so that other programs can be established.

Table 3
California Literacy Campaign
Percentage of Program State Funded
1988-89

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Percent of Program Funded	75%	100%	100%	75%	50%	0%

Budget Proposal. The budget proposes a total of \$5 million from the General Fund for the CLC in 1988-89. This is an increase of \$500,000 (11 percent) above the current-year level of funding. The proposed increase would provide for program expansion to 7 additional libraries. In addition, as a result of the phase-out of support for existing programs, approximately 10 other local libraries will receive grants (through a redirection of funds) for the first time in the budget year. Thus, the budget anticipates program expansion to a total of 17 libraries in 1988-89.

Program Effectiveness Is Unclear. A recent evaluation concluded that, while CLC participation improves the literacy skills of most adult learners, it is unclear whether program participation enables adult learners to read and write English well enough to handle the functional literacy demands they face in their daily lives.

Current Program Already Provides for Expansion. Our analysis indicates that the CLC will expand to some 10 new programs in the budget year through redirection of program funds—even if no additional General Fund support is provided. Our review further indicates that, because a relatively large number of existing programs will no longer receive funding in 1989-90, the State Library will be able to expand CLC

DEPARTMENT OF EDUCATION—STATE LIBRARY—Continued

funding to approximately 22 additional programs at that time. Thus, if the seven additional programs are not funded in the budget year, these programs as well as some 15 additional programs—more than three times the number of programs for which expansion funding is requested—could receive funding in 1989-90.

Literacy programs are expanding on a regular basis. Based on the current CLC evaluation, however, the net benefit of providing an additional \$500,000 in the budget year for a speed up of the expansion rate is not apparent.

Recommendation. In our view, the decision about whether the CLC budget should be increased by \$500,000 to speed up the current rate of program expansion to new public libraries is a policy decision that should be made by the Legislature, based on (1) whether the current expansion rate is deemed adequate, and (2) the relative priority accorded the requested increase as compared with other legislative priorities. Accordingly, we make no recommendation on the \$500,000 requested from the General Fund to speed up the current rate of expansion of the CLC to new local public libraries.

DEPARTMENT OF EDUCATION—CAPITAL OUTLAY

Item 6120-301 from the General
Fund, Special Account for
Capital Outlay

Budget p. E 40

Requested 1988-89.....	\$180,000
Recommended reduction.....	180,000

ANALYSIS AND RECOMMENDATIONS**Minor Capital Outlay**

We recommend deletion of \$180,000 in Item 6120-301-036 for minor capital outlay modifications to the State Library and Courts Building because preliminary plans are being developed to relocate the vault for storage of rare and valuable materials from the Library and Courts Building to the proposed new State Library Annex Building (State Site 5).

Library and Courts Building. The budget includes \$180,000 for modifications to the materials vault in the basement of the Library and Courts Building. The modifications include: (1) installation of fire extinguisher and security alarm systems and a new air conditioner, and (2) removal of asbestos from piping. Library staff indicate that the modifications are an effort to protect the library's collection of rare and valuable materials.

State Library Annex. In 1984-85, the Legislature appropriated \$525,800 to the Department of General Services to develop preliminary plans for the construction of a new state building on State Site 5 in Sacramento. The budget includes \$800,000 under Item 1760-301-036 to prepare working drawings in the budget year for the Site 5 building. The State Board of Control and the State Library Annex are to be the primary tenants in

the building. The Office of Project Development and Management indicates that the current plans for the Site 5 building relocate the vault for the storage of rare and valuable materials from the State Library and Courts Building to the Site 5 building.

Proposal is Not Cost-Effective. The library's proposal indicates that modifications to the existing vault are needed as soon as possible because of the need for improved environmental and security controls.

Our analysis indicates, however, that the proposed modifications to the existing vault are not justified because they would be interim measures and would not be cost effective. Relocation of the collection to the library annex building appears to be the best solution for providing long-term environmental and security controls. In fact, the proposal stipulates that relocation of the collection to the new library annex would be the "ideal long-term solution" because more effective environmental and security controls could be provided in the new building than can be installed in the existing building. In the meantime, if library staff deem it necessary, they should consider temporarily relocating the material to an existing more suitable environment (such as the state's library storage facility in Richmond). Thus, we recommend deletion of \$180,000 from the Special Account for Capital Outlay for the proposed vault modifications.

CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS

Item 6255 from the General
Fund and Special Deposit
Fund

Budget p. E 41

Requested 1988-89.....	\$1,112,000
Estimated 1987-88	1,100,000
Actual 1986-87	626,000
Requested increase \$12,000 (+ 1 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6255-001-001—Support	General	\$412,000
—	Special Deposit	700,000
Total		\$1,112,000

GENERAL PROGRAM STATEMENT

The California State Summer School for the Arts (CSSSA) was established by Ch 1131/85, to provide talented high school students with an opportunity to receive art instruction from professional artists in a residential summer school program. Students compete for approximately 400 openings, and choose from six disciplines: dance, music, theatre arts, visual arts, creative writing, and film/video. The first session was held in the summer of 1987.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS—Continued

The CSSSA is funded by the state General Fund, private contributions and student fees. The budget anticipates \$1.1 million for its support in 1988-89. This amount includes \$412,000 from the General Fund and \$700,000 from the Special Deposit Fund comprised of cash and in-kind contributions and student fees. The proposed General Fund amount is an increase of \$12,000 above estimated current year expenditures.

In the 1986 and 1987 Budget Acts, funding for the CSSSA was provided from the supplemental summer school appropriation of the Department of Education.

CONTRIBUTIONS TO STATE TEACHERS' RETIREMENT FUND

Item 6300 from the General
Fund

Budget p. E 44

Requested 1988-89	\$559,053,000
Estimated 1987-88	500,097,000
Actual 1986-87	463,581,000
Requested increase \$58,956,000 (+11.8 percent)	
Total recommended reduction	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
Education Code Sections 23401 and 23402: Unfunded liability payments	General	\$414,218,000
6300-111-001—State Teachers' Retirement System: Cost-of-living adjustments	—	138,835,000
6300-490-001, Budget Act of 1987—Prior-year balances available:	—	6,000,000
Total		\$559,053,000

GENERAL PROGRAM STATEMENT

The state appropriates funds to the State Teachers' Retirement Fund (STRF) for two purposes. First, Sections 23401 and 23402 of the Education Code (as added by Ch 282/79—AB 8) appropriate funds for the state's annual contribution to the STRF. These contributions are intended to reduce the unfunded liability of the State Teachers' Retirement System (STRS). Second, as provided by Ch 1606/82, the state also appropriates funds for supplemental cost-of-living adjustments (COLAs) to STRS retirees.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes total General Fund contributions of \$559 million to the STRF in 1988-89. This is \$59 million or 11.8 percent, above estimated current-year expenditures. Table 1 shows the components of state contributions to the STRF for the past, current, and budget years.

Table 1
State General Fund Contributions to the
State Teachers' Retirement Fund
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> 1986-87	<i>Est.</i> 1987-88	<i>Proposed</i> 1988-89	<i>Change from</i> <i>1987-88</i>	
				<i>Amount</i>	<i>Percent</i>
AB 8 Contributions:					
Base contribution	\$232,893	\$241,882	\$254,218	\$12,336	5.1%
Incremental contribution	120,000	140,000	160,000	20,000	14.3
Subtotals	(\$352,893)	(\$381,882)	(\$414,218)	(\$32,336)	(8.5%)
COLA Funding:	\$110,688	\$124,215	\$138,835	\$14,620	11.8%
Prior-year balances available	—	—	6,000	6,000	— ^a
Balances available in subsequent years ..	—	-6,000	—	6,000	— ^a
Subtotals	(\$110,688)	(\$118,215)	(\$144,835)	(\$26,620)	22.5%
Totals	\$463,581	\$500,097	\$559,053	\$58,956	11.8%

^a Not a meaningful figure.

Payments Toward Unfunded Liability. As Table 1 indicates, the budget proposes \$414.2 million as the state's statutory AB 8 contribution to the STRF in 1988-89. This amount is \$32 million, or 8.5 percent, above estimated current-year expenditures. The increase is due to: (1) the required inflationary adjustment to the "base" contribution, and (2) growth in the AB 8 "incremental" contribution.

In past years, the state's contribution toward the unfunded liability was appropriated in the Budget Act. In 1985-86, however, the budget document began showing the contribution as a statutory appropriation. This reflects the 1984 state appellate court's decision in *California Teachers' Association (CTA) v. Cory*, which held that the state must make the full contribution to the STRF called for by current law. In fiscal years 1980-81 through 1983-84, the Budget Act had provided in-lieu appropriations, which were less than what AB 8 required. The state restored these "shortfalls" in 1985-86 by transferring \$127.4 million from the General Fund to the STRF.

COLA Payments. The budget proposes a General Fund appropriation of \$138.8 million to the STRF in 1988-89 to pay for supplemental COLAs for those STRS retirees who have been most adversely affected by inflation. These funds, combined with \$6 million available from the 1987-88 balance, will provide a total of \$144.8 million in COLA funding in the budget year, as discussed below. STRS funds cost-of-living adjustments necessary to provide all retirees with at least 68 percent of their original retirement purchasing power.

Reappropriation—Item 6300-490

We recommend approval.

In the current year, \$124.2 million was budgeted for cost-of-living adjustments. Current estimates indicate that \$6 million of that amount will not be needed. Therefore, Item 6300-490-001 reappropriates the \$6 million to fund cost-of-living adjustments in the budget year.

CALIFORNIA STATE COUNCIL ON VOCATIONAL EDUCATIONItem 6320 from the General
Fund and Federal Trust Fund

Budget p. E 43

Requested 1988-89.....	\$321,000
Estimated 1987-88	303,000
Actual 1986-87	272,000
Requested increase (excluding amount for salary increases) \$18,000 (+5.9 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6320-001-001—Support	General	\$96,000
6320-001-890—Support	Federal Trust	225,000
Total		\$321,000

GENERAL PROGRAM STATEMENT

The federal Vocational Education Act of 1984 requires the state to establish an advisory council on vocational education and specifies the council's membership and duties. In order to comply with this requirement, the California State Council on Vocational Education (SCOVE) was established by Ch 164/85.

The SCOVE consists of 13 members appointed by the Governor, and has planning, oversight, and evaluative functions. The council has 4.1 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures totaling \$321,000 from state and federal funds to support the SCOVE in 1988-89. This is an increase of \$18,000, or 5.9 percent, above estimated current-year expenditures. This increase consists of (1) \$20,000 for price increases and additional council meetings, (2) \$5,000 to continue personnel costs incurred in the current year, and (3) a reduction of \$7,000 for nonrecurring expenditures.

CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 6330 from the Federal
Trust Fund

Budget p. E 44

Requested 1988-89.....	\$114,000
Estimated 1987-88	285,000
Actual 1986-87	305,000
Requested decrease (excluding amount for salary increases) \$171,000 (—60 percent)	
Total recommended reduction.....	None

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6330-001-890—COICC, support	Federal Trust	\$104,000
Reimbursements	—	10,000
Total		\$114,000

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 of 1978. The committee is responsible for the development of the California Occupational Information System, which provides occupational planning and guidance information to educational institutions, the Employment Development Department, and private industry. The committee has two personnel-years to administer its program in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes a total of \$114,000 (\$104,000 from the Federal Trust Fund and \$10,000 in reimbursements) for support of the COICC in 1988-89. This is a decrease of \$171,000, or 60 percent, below estimated expenditures in the current year.

This reduction primarily reflects the deletion of \$108,000 in one-time grants from the National Occupational Information Coordinating Committee (NOICC) for special projects. The decrease also reflects elimination of (1) \$40,000 in reimbursements from the Job Training Coordinating Council to fund a current-year project regarding the supply of skilled labor, and (2) \$23,000 in current-year funds carried-over from the prior year.

During 1988-89, COICC plans to continue its efforts to develop an occupational information system for California. These efforts will include the development of methods for measuring local labor market conditions for use by local education agencies, career counselors, economic developers, and employment and training planners.

SCHOOL FACILITIES ASBESTOS ABATEMENT

Item 6350 from the General
Fund

Budget p. E 46

Requested 1988-89.....	\$100,000
Estimated 1987-88	100,000
Actual 1986-87	4,950,000
Requested increase: None	
Total recommended reduction.....	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Local Asbestos Funds. Recommend that the Legislature adopt supplemental report language directing the State Allocation Board (SAB) to establish a procedure to rescind unclaimed program funds that have been allocated to school districts. 939
2. Federal Asbestos Program. Recommend that the SAB report during budget hearings on the potential effects of the recently established federal asbestos program. 940

GENERAL PROGRAM STATEMENT

The State Asbestos Abatement program was established in 1984 for the purpose of providing matching grants to school districts for asbestos abatement projects. The State Allocation Board (SAB), which is staffed by the Office of Local Assistance in the Department of General Services, is the state agency responsible for administering the program and allocating the funds to school districts.

Hazardous asbestos materials are those that are "friable"- loose, crumbling, flaking or dusting- and thus make it possible for asbestos fibers to be released into the air. Exposure to airborne asbestos fibers has been linked with a number of serious diseases, including cancer, which primarily affect the lungs and digestive system.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes to appropriate \$100,000 from the General Fund to the Asbestos Abatement Fund in 1988-89. This is the same level as is provided in the current year and would reimburse the Department of Industrial Relations (DIR) for workload associated with monitoring asbestos abatement projects- state operations. The budget provides no additional funds for the SAB to allocate to school districts for asbestos abatement projects- local assistance.

Table 1 displays the funding history for the Asbestos Abatement program since its inception.

Table 1 indicates that, to date, a total of nearly \$25 million in state funds has been made available for matching grants to school districts for asbestos abatement projects. In addition, the federal government has appropriated funds to provide loans or matching grants (up to 50 percent of project costs) to local public or private schools for asbestos abatement.

Table 1
Asbestos Abatement Funding
1984-85 through 1988-89
(dollars in thousands)

	Appropriations			Fund Source
	Local Assistance ^a	State Operations ^b	Totals	
1984-85.....	\$10,000	—	\$10,000	SAFCO ^c
1985-86.....	9,900	\$100	10,000	SAFCO
1986-87.....	4,850	100	4,950	General
1987-88.....	—	100	100	General
Subtotals.....	(\$24,750)	(\$300)	(\$25,050)	
1988-89.....	—	\$100	\$100	General
Totals.....	\$24,750	\$400	\$25,150	

^a State funds available for matching grants to local school districts.

^b State funds provided to the Department of Industrial Relations for asbestos abatement health and safety monitoring.

^c Special Account for Capital Outlay.

A total of approximately \$1 million in federal funds— which are distributed directly to qualifying schools and are not reflected in the state budget - have been provided for asbestos abatement for the period 1984-85 through 1987-88. At the time this analysis was prepared, it was unclear whether federal funds would continue to be made available for such asbestos abatement projects in the budget year.

ANALYSIS AND RECOMMENDATIONS

Local Asbestos Funds—Use Them or Lose Them

We recommend that the Legislature adopt supplemental report language in Item 6350-201-001 directing the State Allocation Board to establish a procedure to rescind the allocation of funds to districts that fail to use such funds within a specified period of time.

Information provided by the Office of Local Assistance (OLA) indicates that as of December 31, 1987, the SAB had allocated to school districts approximately \$23.8 million of the \$24.8 million available since the program's inception. Of the amount allocated, however, approximately \$16.2 million, or 68 percent of the total, had not been claimed by school districts.

Survey Conducted. In an effort to determine why districts have not claimed their allocations, our office surveyed selected districts for which projects had been approved for funding by the SAB between September 1985 and March 1986 (21 to 27 months earlier) but had not yet claimed any state funds.

The nine districts we surveyed had received SAB-approval for 139 local projects, totaling approximately \$3.3 million in state funds. Our survey found that:

- An estimated \$2.6 million in projects were not eligible for state funding support. Of these, \$1.8 million in projects had been completed with local funds but the district was unable to provide OLA with the necessary documentation to indicate that the project would have met all state eligibility criteria. The remaining \$840,000 in projects did not meet the statutory air standards required to receive

SCHOOL FACILITIES ASBESTOS ABATEMENT—Continued

state assistance (effective September 1987, these standards have been relaxed) and had not been undertaken because the districts were unable to locally fund the full cost of the project.

- Approximately \$365,000 in projects had been completed and the districts were awaiting fund releases from OLA.
- Approximately \$350,000 in projects were still being pursued by the districts. Districts indicated that the delay in bringing these projects to completion (and thereby becoming eligible to receive the state funds allocated to them) was the result of a combination of factors including lack of expertise in managing an asbestos project, low district priority, and/or difficulty in providing the local matching requirement.

In an effort to encourage districts to proceed with their SAB-approved projects in a timely manner, and to recapture allocated funds that districts cannot use, the OLA began mailing quarterly letters in April 1987 to all districts that had received an SAB-approved asbestos allocation apprising them of their status and requesting expeditious completion of all funded projects.

The results of our survey, however, indicate that despite the initiation of the quarterly letters, there is still a substantial amount of allocated funds that districts cannot or do not intend to use. Therefore, to further promote the expeditious use of allocated funds, we recommend that the SAB establish timelines by which districts must use their allocated funds, or have them reallocated to another qualifying district.

Such a procedure would be similar to one that is currently in place for the new construction and reconstruction school facilities aid programs, which are also administered by the OLA and the SAB. Under the new construction and reconstruction programs, school districts failing to progress within a specified time frame (between 12 and 18 months, depending on the type of project) are required to justify the delay to the SAB and request an extension, or be subject to having their apportionment revoked.

Our analysis indicates that the Asbestos Abatement program could benefit from a similar procedure. We, therefore, recommend that the Legislature adopt the following supplemental language in Item 6350-201-001:

The State Allocation Board shall establish a procedure by, September 30, 1988 to monitor the progress of districts that have received allocations for asbestos abatement projects. It shall include timelines by which districts must have completed their projects and received their state funds, or otherwise have their allocation rescinded.

"AHERA"—the Asbestos Hazard Emergency Response Act

We recommend that the Director of General Services report at the time of budget hearings on the potential effects of "AHERA" on the state's Asbestos Abatement program.

Public Law 99-519, known as the Asbestos Hazard Emergency Response Act (AHERA), established a comprehensive program designed to identify and abate all asbestos and asbestos-related hazards in public and private schools.

Effective October 1987, the federal Environmental Protection Agency (EPA) issued final rules implementing AHERA. The act requires all

schools, both public and private, to be inspected by accredited inspectors for asbestos by October 1988, to remove or contain friable forms of asbestos beginning July 1989, and to periodically monitor and/or inspect all forms of asbestos that are identified.

Also by October 1988, local education agencies (LEAs) must develop a specified asbestos management plan *for each school* (there are an estimated 13,000 schools in California), and file it for review and approval with the Office of Local Assistance (OLA). These plans must include the inspection results and a description of any planned or completed response actions. The EPA specifies five response actions available to schools: operations and maintenance, repair, encapsulation, enclosure and removal.

The federal act requires (1) OLA to review and approve all plans within 90 days of receipt and (2) LEAs to begin implementation of their management plans by July 1989. All friable asbestos must be abated; nonfriable asbestos must be periodically monitored as long as it remains in the school.

Our review indicates that AHERA has the potential to substantially affect the state's Asbestos Abatement program. For this reason, we recommend that during budget hearings, the Office of Local Assistance advise the Legislature on (1) the potential effects of AHERA on the state's asbestos abatement program and (2) the ability of the program to respond to these potential effects.

COMMISSION ON TEACHER CREDENTIALING

Item 6360 from the General
Fund and the Teacher
Credentials Fund

Budget p. E 50

Requested 1988-89	\$10,640,000
Estimated 1987-88	9,139,000
Actual 1986-87	8,477,000
Requested increase (excluding amount for salary increases) \$1,501,000 (+16.4 percent)	
Total recommended reduction.....	None
Recommendation pending	1,307,000

1988-89 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6360-001-001—Support	General	\$1,100,000
6360-001-407—Support	Teacher Credentials	6,405,000
6360-001-408—Support	Test and Administration Ac- count, Teacher Credentials	3,135,000
Total		<u>\$10,640,000</u>

COMMISSION ON TEACHER CREDENTIALING—Continued**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS***Analysis
page*

1. Beginning Teacher Pilot Project. We withhold recommendation on \$1.3 million requested to evaluate beginning teacher programs, pending receipt and review of a detailed proposal from the commission.

943

GENERAL PROGRAM STATEMENT

The Commission on Teacher Credentialing (CTC) is responsible for (1) developing standards and procedures for credentialing teachers and administrators, (2) issuing and revoking credentials, (3) evaluating and approving programs of teacher-training institutions, (4) developing and administering "legislatively-mandated" competency exams, and (5) establishing policy leadership in the field of teacher preparation. The commission has 119 personnel-years to administer its programs in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget, as shown in Table 1, proposes appropriations totaling \$10.6 million from the Teacher Credentials Fund, the Test Development and Administration Account, and the General Fund for support of the commission in 1988-89. This is an increase of \$1.5 million, or 16 percent, above estimated current-year expenditures.

Table 1
Commission on Teacher Credentialing
Budget Summary
1986-87 through 1988-89
(dollars in thousands)

	<i>Actual</i> <i>1986-87</i>	<i>Est.</i> <i>1987-88</i>	<i>Prop.</i> <i>1988-89</i>	<i>Change</i> <i>from</i> <i>1987-88</i>
<i>Programs</i>				
Credential issuance and information	\$2,424	\$2,992	\$3,091	3.3%
Certification standards	513	584	1,907	226.5
Program monitoring and evaluation	1,088	864	954	10.4
Examinations	2,704	3,252	3,135	-3.6
Professional standards	1,515	1,447	1,553	5.9
Administration	1,230	1,463	1,504	0.3
Distributed administration	-997	1,463	-1,504	— ^a
Total Expenditures	\$8,477	\$9,139	\$10,640	16.4%
<i>Funding Sources</i>				
General Fund	—	—	\$1,100	— ^a
Teacher Credentials Fund	\$8,477	\$9,139	6,405	-29.9%
Test Development and Administration Account	—	—	3,135	— ^a
Personnel-years	103.1	119	119.7	0.6%

^a Not a meaningful figure.

Table 2 shows the changes in the commission's budget proposed for the budget year. It shows that budget change proposals would increase expenditures by \$2.3 million in 1988-89. This amount is offset by net baseline reductions of \$772,000 primarily attributable to (1) the deletion of nonrecurring expenditures, and (2) a decrease in the number of applicants for the California Basic Educational Skills test.

Table 2
Commission on Teacher Credentialing
Proposed 1988-89 Budget Changes
By Funding Source
(dollars in thousands)

	<i>General Fund</i>	<i>Teacher Credentials Fund</i>	<i>Test and Adminis- tration Account</i>	<i>Totals</i>
1987-88 Expenditures (Revised)	—	\$9,139	—	\$9,139
<i>Baseline Adjustments</i>				
Establish separate account for California Basic Educational Skills Test (CBEST) expendi- tures.....	—	-3,252	\$3,252	—
Personnel increases.....	—	50	—	50
Price Increases.....	—	94	17	111
Nonrecurring expenditures.....	—	-547	-282	-829
Fingerprint clearance processing	—	66	—	66
Decrease in CBEST administration costs	—	—	-170	-170
Subtotals, Baseline Adjustments.....	—	(-\$3,589)	(\$2,817)	(-\$772)
<i>Program changes</i>				
Beginning teacher study.....	\$1,100	\$207	—	\$1,307
Automation—third-year funding	—	457	—	457
Improve subject matter examinations	—	—	\$248	248
Add certification officers	—	99	—	99
Revise Language Development Specialist ex- amination	—	—	70	70
Review administrator assessment examina- tions.....	—	50	—	50
Evaluate teacher professional growth require- ments	—	42	—	42
Subtotals, Program Changes	(\$1,100)	(\$855)	(\$318)	(\$2,273)
1988-89 Expenditures (Proposed)	\$1,100	\$6,405	\$3,135	\$10,640
Change from 1987-88:				
Amount	\$1,100	-\$2,734	\$3,135	\$1,501
Percent.....	— ^a	-29.9%	— ^a	16.4%

^a Not a meaningful figure.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant increases which are not discussed elsewhere in the analysis (all amounts are from the Teacher Credentials Fund unless otherwise noted):

- **Automation**—\$457,000 to fund the third year of the commission's five-year credentialing automation project which has been previously approved by the Legislature.
- **Improvements to Subject Matter Examinations**—\$248,000 from the Test Development and Administration Account to complete improvements on five existing subject examinations.
- **Add Certification Officers**—\$99,000 to hire additional certification officers to (a) process credentials within legislatively mandated timelines and (b) decrease staff overtime.

Beginning Teacher Study

We withhold recommendation on \$1.3 million requested to test and evaluate beginning teacher support and assessment programs, pending

COMMISSION ON TEACHER CREDENTIALING—Continued***receipt and evaluation of a detailed proposal from the commission.***

The budget proposes an increase of \$1.1 million from the General Fund and \$207,000 from the Teacher Credentials Fund to conduct a joint pilot program with the State Department of Education on alternative methods to provide new teacher support and assessment. (The budget also requests \$1.9 million from the General Fund in Item 6110-191-001 (h) to support the department's part of the program.) The commission and the department plan to operate and evaluate several different programs for assessing and retaining beginning teachers.

At the time this analysis was prepared, the commission and the department had not developed a proposal on how they would use the proposed funds and operate the program. Consequently, we withhold recommendation on the \$1.3 million requested to test and evaluate beginning teacher support and assessment programs, pending receipt and evaluation of the proposal.

Credential Fee Level Recommendation

Chapter 572, Statutes of 1986, (AB 3843) requires, as part of the annual budget review process, the Department of Finance and Legislative Analyst to recommend to the Legislature a credential fee level that will generate sufficient revenues to support the operating budget of the commission plus a "prudent reserve," (defined by the Department of Finance as 21 percent of expenditures). A reserve is necessary because of a history of substantial annual fluctuations in revenues. The budget proposes to increase the credential fee from the current level of \$50 to \$60. Our analysis indicates that this fee level will provide for a \$2.1 million (20 percent) prudent reserve balance in the Teacher Credentials Fund (including the Test and Administration Account) at the end of 1988-89. We concur with the appropriateness of this fee level.
