

EDUCATION

DEPARTMENT OF EDUCATION

Item 6110 from the General
Fund and various funds

Budget p. E 1

Requested 1991-92.....	\$23,012,693,000
Estimated 1990-91.....	22,421,575,000
Actual 1989-90.....	21,018,963,000
Requested increase \$591,118,000 (+2.6 percent)	
Total recommended reduction.....	183,900,000
Increased General Fund revenues.....	31,800,000
Recommendation pending.....	48,853,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6110-001-001—Main support (non-Proposition 98)	General	\$39,940,000
6110-001-178—School bus driver instructor training	Driver Training Penalty Assessment	914,000
6110-001-231—Health and physical education	Cigarette and Tobacco Products Surtax	900,000
6110-001-344—School facilities planning	State School Building Lease-Purchase	1,422,000
6110-001-687—Donated food distribution	Donated Food Revolving	13,531,000
6110-001-890—Federal support	Federal Trust	49,323,000
6110-005-001—Special schools (non-Proposition 98)	General	30,204,000
6110-006-001—Special schools	General	15,765,000
6110-006-814—Lottery revenues (special schools)	California State Lottery Education	110,000
6110-008-001—Special schools student transportation (non-Proposition 98)	General	436,000
6110-015-001—Instructional materials warehousing/shipping (non-Proposition 98)	General	342,000
6110-021-001—Child nutrition administration (non-Proposition 98)	General	593,000
6110-101-001—School apportionments	General	10,261,232,000
6110-101-814—Lottery revenues	California State Lottery Education	613,542,000
6110-101-890—Federal block grant	Federal Trust	40,435,000
6110-102-001—Regional Occupational Centers/Programs	General	243,787,000
6110-106-001—County schools	General	117,729,000
6110-106-231—Health and physical education	Cigarette and Tobacco Products Surtax	15,100,000
6110-108-001—Supplemental grants	General	185,400,000
6110-109-001—High school pupil counseling	General	8,298,000
6110-111-001—Home-to-school transportation	General	343,682,000
6110-114-001—Court-ordered desegregation	General	439,457,000
6110-115-001—Voluntary desegregation	General	76,072,000
6110-116-001—School Improvement Program	General	329,547,000
6110-117-001—Vocational education student organizations (non-Proposition 98)	General	360,000
6110-118-001—Vocational education student organizations	General	207,000

DEPARTMENT OF EDUCATION—Continued

6110-119-001—Specialized secondary schools/ opportunity programs	General	3,923,000
6110-119-959—Foster youth services	Foster Children and Parent Training	1,353,000
6110-120-001—Pupil dropout prevention	General	12,089,000
6110-121-001—Economic Impact Aid	General	280,589,000
6110-124-001—Gifted and Talented Education	General	32,685,000
6110-126-001—Miller-Unruh Reading Program	General	22,409,000
6110-128-001—Intergenerational education	General	130,000
6110-128-890—Math & science teacher training	Federal Trust	9,102,000
6110-129-001—Intergenerational education (non- Proposition 98)	General	45,000
6110-131-001—Native American Indian educa- tion	General	410,000
6110-136-890—Federal ECIA Chapter 1	Federal Trust	472,319,000
6110-141-890—Migrant education	Federal Trust	93,207,000
6110-146-001—Demonstration programs in in- tensive instruction	General	4,707,000
6110-151-001—American Indian education cen- ters	General	1,530,000
6110-152-001—American Indian education cen- ters (non-Proposition 98)	General	366,000
6110-156-001—Adult education	General	294,016,000
6110-156-890—Federal adult education	Federal Trust	12,605,000
6110-158-001—Adults in correctional facilities	General	3,377,000
6110-160-001—Special education (non- Proposition 98)	General	206,000
6110-161-001—Special education	General	1,478,877,000
6110-161-890—Federal special education	Federal Trust	211,926,000
6110-162-001—Alternatives to special education	General	1,620,000
6110-165-001—Vocational education (non- Proposition 98)	General	6,912,000
6110-166-001—Vocational education	General	1,516,000
6110-166-890—Federal vocational education	Federal Trust	80,298,000
6110-167-001—Agricultural vocational education	General	3,233,000
6110-171-001—Driver training	General	21,000,000
6110-171-178—Driver training	Driver Training Penalty Assess- ment	[1,000]
6110-176-890—Refugee and immigrant programs	Federal Trust	13,610,000
6110-180-001—Institute of Computer Technol- ogy	General	428,000
6110-181-001—Educational technology	General	13,977,000
6110-181-140—Environmental education	California Environmental Li- cense Plate	804,000
6110-183-890—Drug and alcohol abuse preven- tion	Federal Trust	33,940,000
6110-184-001—Prenatal substance abuse educa- tion	General	4,000,000
6110-186-001—Instructional materials, K-8	General	107,357,000
6110-187-001—Instructional materials, 9-12	General	27,074,000
6110-191-001—Staff development	General	31,516,000
6110-195-001—Child development (non- Proposition 98)	General	132,667,000
6110-196-001—Child development	General	223,474,000
6110-196-890—Federal child development	Federal Trust	3,477,000
6110-201-001—Child nutrition	General	47,714,000
6110-201-890—Federal child nutrition	Federal Trust	610,862,000

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6110-202-001—Child nutrition (non-Proposition 98)	General	6,802,000
6110-209-001—Commissions on professional competence	General	30,000
6110-224-001—Year-round school incentives	General	82,937,000
6110-225-001—School/law enforcement partnership	General	650,000
Local property tax revenues		5,495,877,000
Reimbursements		39,873,000
—Control Section 12.31—Proposition 98 reserve	General	100,000,000
—Control Section 22.00—GAIN	General	3,120,000
—Control Section 23.50—State Legalization Impact Assistance	State Legalization Impact Assistance	36,000,000
—School apportionments	State School	21,839,000
—Driver training	State School	1,000
—Department administration	Special Deposit	750,000
—Unemployment insurance	Special Deposit	1,300,000
—Loan repayments	General	—686,000
—Pending legislation	General	95,000,000
—Child care (non-Proposition 98)	General	216,000
—Transfer to California State Summer School for the Arts	General	—694,000
Total		<u>\$23,012,693,000</u>
Funding Sources:		
General		\$15,138,273,000
Federal Trust		1,631,104,000
California State Lottery		613,652,000
State Legalization Impact Assistance		36,000,000
State School		21,840,000
Health Account, Tobacco Products Surtax		16,000,000
Donated Food Revolving		13,531,000
Special Deposit		2,050,000
State School Building Lease-Purchase		1,422,000
Foster Children and Parent Training		1,353,000
Driver Training Penalty Assessment		914,000
California Environmental License Plate		804,000
Reimbursements		39,873,000
Local property tax revenues		<u>5,495,877,000</u>

DEPARTMENT OF EDUCATION—Continued

MAJOR ISSUES

- The budget proposes to suspend Proposition 98 and reduce funding for K-12 education and community colleges by \$2 billion below levels that would be required in the absence of suspension.
- The budget proposes to suspend statutory COLAs (4.77 percent), reducing funding for K-12 education programs by \$991 million.
- The budget reduces funding for school apportionments by \$250 million, by assuming that strict adherence to current-law attendance accounting requirements will reduce reported ADA.
- The budget eliminates \$97 million in funding for the mentor teacher program (\$66 million) and class size reduction (\$31 million).
- The budget proposes \$95 million in new initiatives, including (1) expanding preschool services for low-income families, (2) coordinating social and mental health services through school sites, and (3) restoring a revised assessment program.
- The Legislature should eliminate \$100 million for a proposed Proposition 98 reserve, because a separate reserve for this purpose is not needed.
- The Legislature should reduce funding for year-round schools by \$51 million, in order to ensure that (1) year-round incentives share with districts no more than 90 percent of the statewide average cost avoidance and (2) desegregation reimbursements do not double-fund costs related to year-round operations.

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONSAnalysis
page**Overview of Budget Request**

1. **Statutory Cost-of-Living Adjustments.** We find that the budget eliminates funding for statutory COLAs, for a General Fund savings of \$991 million. 912

General Education Programs

2. **Attendance Accounting.** We find that the budget reduces funding for school apportionments by \$250 million, on the assumption that strict compliance with current-law attendance accounting requirements will reduce reported ADA. 923
3. **Proposed Property Tax Changes.** We find that the budget potentially underfunds general-purpose revenue limits by \$6 million, on the assumption that proposed legislation related to property taxes will be enacted. 924
4. **Property Tax Collection Fees.** We find that school districts' refusal to pay property tax collection fees may lead to deficiencies in school apportionments funding of \$78 million in 1990-91 and up to \$100 million in 1991-92. 925
5. **Adult Independent Study. Reduce Item 6110-101-001 by \$7,200,000.** Recommend reduction of \$7.2 million in funding for adults in K-12 independent study, to reflect reduction in funding rates required by current law. 926
6. **Proposition 98 Reserve. Delete \$100 million from Control Section 12.31.** Recommend deletion of \$100 million proposed for a K-12 education Proposition 98 reserve, because a separate reserve for this purpose is not needed under the Governor's proposal. 926

Programs Relating to Classroom Instruction

7. **Class Size Reduction.** We find that the budget eliminates funding for reducing class sizes, for a General Fund savings of \$31 million. 932
8. **School Restructuring Projects.** Recommend adoption of supplemental report language expressing intent that State Board of Education fund restructuring proposals at varying levels of per-pupil support. 933

Programs Relating to Teaching and Administration

9. **Mentor Teacher Program.** We find that the budget proposes to eliminate funding for the mentor teacher program in 1991-92, for a General Fund savings of \$65.5 million. 937
10. **Professional Development Program.** Recommend adoption of Budget Bill language requiring regional resource agencies to review and approve staff development plans, in order to enhance quality control. 938

DEPARTMENT OF EDUCATION—Continued**Compensatory Education**

11. Economic Impact Aid. We find that the appropriation for Economic Impact Aid may underfund statutory enrollment growth by \$16 million. 947

School Desegregation

12. *Double-Funding of Year Round Schools. Reduce Item 6110-114-001 by \$21,300,000.* Recommend adoption of Budget Bill language prohibiting school districts from receiving reimbursement for costs related to year-round school operations, except to the extent that such costs exceed amounts provided through year-round school operating grants. 949

Other Specialized Education Programs

13. *Driver Training. Reduce Item 6110-171-001 by \$21 million.* Recommend deletion of \$21 million from the General Fund for driver training, because this program primarily serves individual, rather than statewide, interests. 954
14. *Prenatal Substance Abuse Education. Reduce Item 6110-184-001 by \$4 million.* Recommend deletion of \$4 million from the General Fund for prenatal substance abuse education, because school district costs are likely to be minor. 955
15. Tobacco Use Prevention Program. We find that the budget proposes to redirect \$20 million in funding from the Tobacco Use Prevention program to a new perinatal insurance program. 955
16. Federal ECIA Chapter 2 Block Grant. Withhold recommendation on \$48.9 million from the federal ECIA Chapter 2 block grant, pending receipt of a detailed expenditure plan. 956

Ancillary Support for K-12 Education Programs

17. Home-to-School Transportation. Recommend enactment of legislation to revise existing home-to-school transportation funding formula, because the present formula results in an inequitable distribution of state aid. 958
18. *Interest Earnings. Increase General Fund revenues by \$31,800,000.* Recommend adoption of new control section to transfer to the General Fund local interest earnings on state school facilities aid, in order to comply with intent of existing law. 963
19. *Year-Round School Incentives. Reduce Item 6110-224-001 by \$30,400,000.* Recommend \$30.4 million reduction in funding for year-round school operating grants, and adoption of Budget Bill language, to reflect more realistic estimate of statewide average cost avoided through not building school facilities. 968

20. School Facilities Inventory Progress Report. Recommend that Office of Local Assistance report at budget hearings on its progress in completing School Facilities Inventory project. 972
21. School Facilities Inventory Participation. Recommend adoption of new control section to condition state school facilities aid on districts' participation in School Facilities Inventory project. 973
- Non-K-12 Education Programs**
22. Child Care Carryover Funds. Recommend that the Legislature review the Governor's proposed priorities for the expenditure of unexpended local assistance funds from previous fiscal years, in light of 1990 priorities. 982

Department of Education

23. Unallocated Reduction. Recommend that SDE report at budget hearings on its plan for accommodating a proposed \$1 million unallocated reduction. 989

OVERVIEW OF K-12 AND RELATED EDUCATION PROGRAMS ANALYSIS

As part of its overall strategy for addressing the state's budget problem, the administration proposes to suspend the minimum funding guarantee provisions of Proposition 98. The administration further proposes reducing funding for K-12 schools and community colleges by \$2 billion below levels that would be required were Proposition 98 not suspended. (This figure is based on the budget's revenue assumptions—including the assumed enactment of the administration's revenue enhancement proposals.)

In our companion document, *The 1991-92 Budget: Perspectives and Issues*, we present a more detailed review of issues related to the suspension of Proposition 98. If the guarantee is suspended, the Legislature will have considerable flexibility in deciding the amount of funding to appropriate for K-14 education—and need not be bound by the administration's proposed \$2 billion reduction.

Consistent with the format throughout this *Analysis*, the recommendations which follow are characterized in terms of their impact by fund source. In the event the Legislature chooses *not* to suspend Proposition 98, any savings resulting from our recommendations to reduce funding for Proposition 98-eligible programs would need to be spent on other Proposition 98-eligible purposes—and could not be transferred to the unrestricted balance of the General Fund. In addition, certain recommendations (such as that relating to the necessity for a \$100 million Proposition 98 reserve) may need to be modified depending on the Legislature's decision on Proposition 98.

DEPARTMENT OF EDUCATION—Continued

Fiscal Impact of Recommendations. As shown in Table 1, we recommend reductions totalling \$183.9 million in specific, proposed General Fund appropriations for K-12 education programs. Adoption of these recommendations would enable the Legislature to use these funds for other, higher-priority purposes either within or outside of K-12 education programs. (As noted, if the Legislature chooses not to suspend Proposition 98, it will need to spend these funds—all of which come from Proposition 98-eligible programs—for other purposes counting towards meeting Proposition 98 minimum funding requirements.)

We also recommend adoption of a new control section to transfer to the General Fund an estimated \$31.8 million in local interest earnings on school facilities aid, in order to comply with the intent of existing law.

Table 1
K-12 Education
Summary of Legislative Analyst's
Fiscal Recommendations
1991-92

Activity	General Fund	
	Expenditures	Revenues
Adult independent study.....	-\$7,200,000	
Proposition 98 reserve.....	-100,000,000	
Court-ordered desegregation.....	-21,300,000	
Driver training.....	-21,000,000	
Prenatal substance abuse education.....	-4,000,000	
School facilities interest earnings.....		+\$31,800,000
Year-round school incentives.....	-30,400,000	
Totals.....	-\$183,900,000	+\$31,800,000

Finally, we also withhold recommendation on \$48.9 million in proposed spending from federal funds, pending receipt of additional information.

Numerous Legislatively Required Reports Delayed

In preparing this analysis, we found numerous instances in which the State Department of Education had been unable to submit legislatively required reports on time. At the time this analysis was written, the Legislature had not received any of the following:

- A report, required by the *Supplemental Report of the 1990 Budget Act*, on ways of using state educational technology grant funds to better leverage local discretionary resources (due November 1, 1990).
- A report, required by the *Supplemental Report of the 1990 Budget Act*, on (1) all formal studies the department is conducting outside of its program evaluation division and (2) all pilot programs that it administers (due November 15, 1990).

- A report, required by the *Supplemental Report of the 1990 Budget Act*, on ways of bringing the increasing costs of desegregation programs under control (due December 1, 1990).
- A report, required by the 1990 Budget Act, on the most cost-effective ways of confirming students' attendance for the minimum school day (due December 1, 1990).
- A report, required by the *Supplemental Report of the 1990 Budget Act*, on ways to enhance compliance among providers of "latchkey" child care with existing law requirements to enroll at least 50 percent unsubsidized children (due December 1, 1990).

Our review indicates that the failure of SDE to comply with the deadlines for these legislatively required reports is due—in part—to the \$3.9 million unallocated reduction to the department's budget imposed by gubernatorial vetoes and Control Section 3.80 of the 1990 Budget Act (this control section authorized the Director of Finance to reduce most General Fund-supported state operations budgets by up to 3 percent). It also, however, reflects the decisions of department management not to make completion of these reports a higher priority, within the level of resources available. In the analysis which follows, we discuss each of these reports in greater detail.

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

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

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* Institute of Computer Technology.....	6110-180-001	931
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b. School Restructuring Projects.....	—	932
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* Native American Indian Education	6110-131-001	947
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*ECIA Chapter 1	6110-136-890 and 6110-141-890	947
* Refugee and Immigrant Programs	6110-176-890	947
Economic Impact Aid	6110-121-001	947
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* Commissions on Professional Competence	6110-209-001	952
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* Gifted and Talented Education	6110-124-001	952
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a. Driver Training	6110-171-001 and 6110-171-178	953
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2. Year-Round School Incentives	6110-224-001	965
3. School Facilities Inventory	—	971
4. Emergency Portable Classroom Program	—	973
5. School Facilities Planning Unit	6110-001-344	974
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* State Child Nutrition Program	6110-201-001 (a) and 6110-202-001	975
* Pregnant and Lactating Students Program	6110-201-001 (b)	976
* Federal Child Nutrition Program	6110-201-890	976
* Nutrition Education and Training	6110-021-001	976
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* Adults in Correctional Facilities	6110-158-001	985
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* State K-12 Adult Education Program	6110-156-001	986
C. Office of Food Distribution	6110-001-687	987
IV. State Department of Education	6110-001-001, 6110-001-178, and 6110-001-890	987

* 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 1991-92, approximately 5.5 million students will attend public elementary and secondary schools in 1,013 elementary, high school, and unified school districts. School 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, supplemental (nonremedial) summer school, adult, county, and Regional Occupational Centers and Programs (ROC/Ps) attendance figures for the prior, current, and budget years. As the table indicates, the attendance level in 1991-92 is projected to be 4.1 percent above the 1990-91 level. (Due to technical differences in the definition of ADA, this figure differs slightly from the 4.3 percent ADA increase which is used to calculate the Proposition 98 minimum funding guarantee for 1991-92.)

The state provides assistance to local education agencies through approximately 50 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 1,013 school districts. The department has 2,465 personnel-years in the current year to staff departmental operations and the state special schools.

Table 2
K-12 Education
Annual Average Daily Attendance (ADA) in
California Public Schools
1989-90 through 1991-92

	<i>Actual</i> 1989-90	<i>Est.</i> 1990-91	<i>Prop.</i> 1991-92	<i>Change</i> <i>from 1990-91</i>	
				<i>Amount</i>	<i>Percent</i>
Elementary.....	3,371,657	3,549,100	3,704,300	155,200	4.4%
High school.....	1,302,889	1,359,200	1,414,100	54,900	4.0
Supplemental summer school ^a	47,039	49,391	51,505	2,114	4.3
Adult education.....	199,500	203,800	208,193	4,393	2.2
County.....	25,259	26,520	28,028	1,508	5.7
Regional Occupational Centers/Programs ..	104,600	106,200	107,200	1,000	0.9
Totals.....	5,050,944	5,294,211	5,513,326	219,115	4.1%

Source: Department of Finance and Department of Education.

^a Estimated based on funded hours of supplemental summer school.

OVERVIEW OF THE BUDGET REQUEST

Funding for K-12 Education

Total funding for education programs in the prior, current, and budget years is shown in Table 3. The budget proposes that \$26.8 billion be made available to support education programs in 1991-92—an increase of \$1.4 billion (5.6 percent) over 1990-91. (These amounts are somewhat distorted by the state's suspension of payments to the State Teachers' Retirement Fund in 1990-91; if funding for STRF is excluded, total

funding increases by \$953 million, or 3.8 percent, over 1990-91 levels.) Funding levels for 1990-91 include the impact of a \$450 million reduction to the Proposition 98 minimum funding level, due to shifting to "Test 3" (the calculation used in low revenue-growth years).

The *state General Fund* (excluding General Fund support for deferred maintenance, year-round schools, and debt service on school facilities bonds in capital outlay) will provide \$16.1 billion, or 60 percent, of the total support. Other state special funds will provide \$58 million. Thus, the total amount proposed from state sources in 1990-91 is \$16.2 billion—an increase of \$739 million, or 4.8 percent, over the current-year level.

Local property tax levies will provide \$5.5 billion, or 21 percent of total support—an increase of \$482 million, or 9.6 percent, over the current-year level. Thus, state and local revenue sources, combined, will provide a total of \$21.7 billion, or 81 percent of the total support for education in 1991-92—an increase of \$1.2 billion (6.0 percent).

Table 3
Total Funding for Education Programs^a
1989-90 through 1991-92
(dollars in millions)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
State:					
General Fund ^b	\$14,591.1	\$15,358.3	\$16,109.3	\$751.0	4.9%
Special funds ^c	98.9	69.7	57.9	-11.9	-17.0
Subtotals, state	(\$14,690.0)	(\$15,428.1)	(\$16,167.2)	(\$739.1)	(4.8%)
Local:					
Property tax levies ^d	\$4,521.2	\$5,014.4	\$5,495.9	\$481.5	9.6%
Subtotals, state and local	(\$19,211.2)	(\$20,442.5)	(\$21,663.1)	(\$1,220.6)	(6.0%)
Other:					
Federal ^e	\$1,682.1	\$1,763.9	\$1,775.6	\$11.7	0.7%
State capital outlay ^f	120.4	140.0	171.2	31.2	22.3
Local debt service	303.3	303.3	303.3	—	—
Local miscellaneous ^g	1,937.6	2,077.9	2,228.4	150.5	7.2
Lottery Fund ^h	788.9	613.7	613.7	—	—
Subtotals, other	(\$4,832.3)	(\$4,898.8)	(\$5,092.2)	(\$193.4)	(3.9%)
Totals	\$24,043.4	\$25,341.3	\$26,755.3	\$1,413.9	5.6%

^a Does not include bond act proceeds; does include costs of debt service to pay off bonds; details may not sum to totals due to rounding.

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

^c Includes the Tobacco Products Surtax Fund, State School Fund, Donated Food Revolving Fund, and others.

^d Includes state property tax subventions and excess property taxes. Excludes debt service.

^e Includes Federal Impact Aid (P.L. 81-874) which is not shown in the budget, SLIAC, and the Katz Schoolbus Fund/Petroleum Violation Escrow Account.

^f Includes General Fund.

^g Includes revenue from developer fees, sales of property and supplies, interest and lease income, and other income.

^h Governor's Budget estimates.

Other revenue sources are expected to contribute an additional \$5.1 billion, or 19 percent of the total, in the budget year. This amount is composed of (1) \$1.8 billion in federal funds, (2) \$171 million for capital

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outlay (excluding bond act proceeds), (3) \$303 million in local property taxes used to retire voter-approved indebtedness, (4) \$2.2 billion in miscellaneous revenues from the sale and rental of district property, developer fees, interest earned on cash deposits, cafeteria income, and other local revenue sources, and (5) \$614 million from the state lottery.

Table 4 displays total funding proposed in 1991-92 for each of the education categories shown in the outline. The table shows that the

Table 4
Total Funding for Education Programs^a
By Type of Expenditure
1991-92
(dollars in millions)

	State		Local ^b	Federal	Totals
	General Fund	Special Funds			
<i>Direct Support for K-12 Education</i>					
General Education Programs					
School and county revenue limits ^c	\$9,970.8	\$21.8	\$5,062.0	—	\$15,054.7
Contributions to STRF ^d	529.1	—	—	—	529.1
Other general education programs	439.1	614.8 ^e	2,228.4	\$63.4	3,345.7
Subtotals, general education programs	(\$10,939.1)	(\$636.7)	(\$7,290.4)	(\$63.4)	(\$18,929.6)
Specialized Education Programs					
Classroom instruction	\$491.6	\$0.8	—	—	\$492.4
Teaching and administration	31.5	—	—	\$9.1	40.6
Special education	1,777.5	0.1 ^e	\$433.9	211.9	2,423.4
Vocational education	259.1	—	—	80.3	339.4
Compensatory education	305.3	—	—	579.1	884.5
School desegregation	515.5	—	—	—	515.5
Other specialized education programs	294.8	17.4	—	74.4	386.5
Subtotals, specialized education programs	(\$3,675.3)	(\$18.3)	(\$433.9)	(\$954.8)	(\$5,082.2)
Subtotals, direct support for K-12 education	(\$14,614.4)	(\$654.9)	(\$7,724.3)	(\$1,018.2)	(\$24,011.8)
<i>Ancillary Support for K-12 Education</i>					
Transportation	\$343.7	—	—	\$45.1	\$388.8
School facilities	426.4	\$88.3	\$303.3	—	817.9
Child nutrition	54.5	—	—	610.9	665.4
Subtotals, ancillary support for K-12 education	(\$824.6)	(\$88.3)	(\$303.3)	(\$656.0)	(\$1,872.1)
<i>Non-K-12 Education Programs</i>					
Child development	\$406.1	—	—	\$3.5	\$409.6
Adult education	297.4	\$35.0	—	12.6	345.0
Office of Food Distribution	—	13.5	—	—	13.5
Subtotals, non-K-12 education programs	(\$703.5)	(\$48.5)	—	(\$16.1)	(\$768.1)
State Department of Education ^f	\$50.2	\$4.1	—	\$49.3	\$103.6
TOTALS, REVENUES FOR EDUCATION PROGRAMS	\$16,192.6	\$795.9	\$8,027.6	\$1,739.6	\$26,755.3

^a Excludes reimbursements; details may not sum to totals due to rounding.

^b Includes state property tax subventions.

^c Excludes special education revenue limits.

^d Based on 90 percent of total STRF contributions (K-12 teachers' share).

^e Includes lottery revenues.

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

Governor's Budget proposes \$26.8 billion in total funding for K-12 and related education programs—\$16.2 billion from the state General Fund, \$796 million from state special funds, \$8 billion from local revenues, and \$1.7 billion from federal funds.

Table 4 also shows that the \$26.8 billion is distributed as follows:

- **Direct support for K-12 education**—\$24 billion (90 percent of the total). General education programs (including school apportionments) account for \$18.9 billion of this amount, while specialized education programs (so-called "categorical" programs) account for the remaining \$5.1 billion.
- **Ancillary support for K-12 education**—\$1.9 billion (7 percent of the total). Programs in this category include transportation, school facilities, and child nutrition.
- **Non-K-12 education programs**—\$768 million (2.9 percent of the total). Programs in this category include child development, adult education, and the Office of Food Distribution within the SDE.
- **State Department of Education state operations** (excluding the state special schools, the Office of Food Distribution, and the State Library)—\$104 million (less than 1 percent of the total).

Significant Program Changes

Table 5 shows the components of the \$1,414 million net increase in total support proposed for K-12 and related education programs in 1991-92. The table shows that:

- Baseline adjustments total \$2,551 million.
- Program changes total -\$1,137 million.

Later in this analysis, we discuss the details of these changes.

Table 5
K-12 Education
Proposed 1991-92 Budget Changes
(dollars in millions)

	State		Local	Federal	Totals
	General Fund	Special Funds			
1990-91 Expenditures (Revised)	\$15,489	\$693.0	\$7,395.6	\$1,763.9	\$25,341.3
Baseline Adjustments					
Enrollment/ADA increases:					
K-12 (4.3 percent)	\$647.5	—	—	—	\$647.5
Special education	64.5	—	—	\$30.8	95.3
Other programs	46.7	—	—	—	46.7
Statutory inflation adjustments					
K-12 apportionments (4.77 percent)	766.8	—	—	—	766.8
Other statutory COLAs (4.77 percent)	224.2	—	—	—	224.2
Increase in local property taxes	-454.0	—	\$460.5	—	6.5
Contributions to STRF ^a	481.4	—	—	—	481.4
Local miscellaneous revenues	—	—	150.0	—	150.0
School facilities debt service	89.5	—	—	—	89.5
Mandate reimbursements	56.5	—	—	—	56.5
Schoolbus demonstration project	—	—	—	43.1	43.1
Year-round school incentives	34.6	—	—	—	34.6

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Table 5—Continued
K-12 Education
Proposed 1991-92 Budget Changes
(dollars in millions)

	State		Local	Federal	Totals
	General Fund	Special Funds			
Immigration Reform and Control Act	—	—	—	-61.9	-61.9
1990-91 one-time appropriations ^b	-23.9	\$9.5	—	—	-14.4
PERS reduction	-12.5	—	—	—	-12.5
Adult independent study (Ch 1089/89)	-7.2	—	—	—	-7.2
Other baseline changes	4.4	0.3	0.5	-0.3	4.9
Subtotals, baseline adjustments	\$1,918.5	\$9.9	\$611.0	\$11.7	\$2,551.0
Program Changes					
Eliminate statutory COLAs	-\$991.0	—	—	—	-\$991.0
Reduce K-12 apportionments ^c	-271.0	—	\$21.0	—	-250.0
Suspend mentor teacher program	-65.5	—	—	—	-65.5
Eliminate class size reduction	-31.0	—	—	—	-31.0
Tobacco use prevention	—	-\$20.0	—	—	-20.0
Trigger-related reductions	-8.1	—	—	—	-8.1
Restructuring projects (Ch 1556/90)	-6.3	—	—	—	-6.3
Proposition 98 reserve	100.0	—	—	—	100.0
Preschool expansion ^d	50.0	—	—	—	50.0
Restore driver training	21.0	—	—	—	21.0
Healthy Start pilot ^d	20.0	—	—	—	20.0
Early mental health ^d	10.0	—	—	—	10.0
New assessment system ^d	10.0	—	—	—	10.0
Adult independent study overfunding	7.2	—	—	—	7.2
Volunteer and Mentor Corps ^d	5.0	—	—	—	5.0
Prenatal substance abuse education	4.0	—	—	—	4.0
Other program changes	7.0	0.7	—	—	7.7
Subtotals, program changes	(-\$1,138.8)	(-\$19.3)	(\$21.0)	—	(-\$1,137.1)
1990-91 Expenditures (Proposed) ^e	\$16,268.5	\$683.6	\$8,027.6	\$1,775.6	\$26,755.2
Changes from 1989-90:					
Amount	\$779.7	-\$9.5	\$632.0	\$11.7	\$1,413.9
Percent	5.0%	-1.4%	8.5%	0.7%	5.6%

^a Based on 90 percent (K-12 teachers' share) of total STRF contributions.

^b Includes \$10 million loan to Oakland USD, \$9.5 million loan to Richmond USD, and \$ 4.4 million in child care "carryover" funds.

^c Assumes: (1) 2 percent reduction in reported ADA due to strict adherence to current-law attendance accounting standards and (2) enactment of proposed legislation related to property taxes.

^d Governor's proposal (set-aside for pending legislation).

^e Details may not sum to totals due to rounding.

No Funding for COLAs

We find that the budget eliminates funding for statutory cost-of-living adjustments (COLAs), for a General Fund savings of \$991 million.

As part of the administration's overall plan for reducing funding for K-12 education, the budget proposes no funding for statutory COLAs in 1991-92. Table 6 shows the amount of funding that would be required for each education program, in order to fully fund statutory COLAs at the required 4.77 percent level.

Table 6
K-12 Education
Statutory Cost-of-Living Increases
1991-92
(dollars in thousands)

<i>Programs:</i>	<i>1% Dollar Increase</i>	<i>Statutory Increase</i>
Apportionments		
District revenue limits	\$155,497	\$741,719
County offices of education	2,938	14,015
Supplemental summer school	794	3,786
Remedial summer school	305	1,457
Necessary small schools	732	3,494
Meals for needy pupils adjustment	395	1,882
Apprentice programs	84	400
Special education	24,883	118,692
Court-ordered desegregation	4,399	20,984
Voluntary desegregation	761	3,628
Adult education	2,940	14,025
Adults in correctional facilities	34	161
Economic Impact Aid	2,806	13,384
School Improvement Program (K-6)	2,765	13,188
School Improvement Program (7-12)	531	2,531
Regional Occupation Centers/Programs	2,438	11,628
Child development programs	2,235	10,660
Instructional materials (K-8)	1,074	5,121
Instructional materials (9-12)	271	1,291
Staff development programs ^a	999	4,765
Child nutrition	545	2,601
Gifted and Talented Education	327	1,559
American Indian Education Centers	4	17
Totals	<u>\$207,757</u>	<u>\$990,988</u>

^a Includes \$3,261,000 for mentor teacher program.

The table shows that, if the Legislature wishes to provide full funding for statutory COLAs, it will need to augment the budget by \$991 million. (Providing the same percentage inflation adjustment to programs with no COLA specified in statute would require an additional \$29 million.)

Ten-Year Funding History

Table 7 and Chart 1 display total funding for education programs, by source, for the 10 years, 1982-83 through 1991-92. The principal funding sources identified in the table are:

Local property tax levies—revenues raised by the tax on real property, including state property tax subventions.

State aid—revenues provided from the General Fund and state special funds.

Lottery—revenues provided from the California State Lottery.

Federal aid—all revenues received from the federal government.

Other local income—developer fees, grants, income from the sale of property and supplies, cafeteria revenues, interest income, and other revenues.

Table 7 shows total funding growing from \$12.7 billion in 1982-83 to \$26.8 billion in 1991-92—an increase of \$14.1 billion, or 111 percent. Since

Table 7
Total K-12 Education Funding
1982-83 through 1991-92

	<i>In Millions</i>						<i>Current Dollars</i>		<i>1982-83 Dollars^a</i>		
	<i>State Aid^b</i>	<i>Local Property Tax Levies^c</i>	<i>Lottery Funds</i>	<i>Federal Aid^d</i>	<i>Other Local Income^e</i>	<i>Total Funding</i>	<i>Per ADA</i>	<i>Percent Change</i>	<i>Per ADA</i>	<i>Percent Change</i>	
1982-83	\$7,884.8	\$2,941.8	—	\$963.2	\$871.0	\$12,660.8	4,231,431	\$2,992	0.2%	\$2,992	-4.4%
1983-84	8,724.2	2,975.5	—	1,016.6	858.8	13,575.1	4,260,873	3,186	6.5	3,046	1.8
1984-85	9,940.0	3,298.4	—	1,094.7	917.7	15,250.8	4,352,597	3,504	10.0	3,198	5.0
1985-86	10,805.0	3,595.5	\$556.0	1,125.9	1,002.7	17,085.0	4,469,821	3,822	9.1	3,360	5.1
1986-87	12,173.9	3,804.2	410.9	1,166.5	979.3	18,534.8	4,611,637	4,019	5.2	3,425	1.9
1987-88	12,486.1	4,132.2	650.9	1,344.5	1,616.9	20,230.6	4,722,792	4,284	6.6	3,497	2.1
1988-89	13,567.7	4,498.2	834.3	1,517.4	1,806.8	22,224.4	4,871,916	4,562	6.5	3,549	1.5
1989-90 (estimated)	14,810.4	4,824.5	788.9	1,682.1	1,937.6	24,043.5	5,050,944	4,760	4.3	3,542	-0.2
1990-91 (estimated)	15,568.1	5,317.7	613.7	1,763.9	2,077.9	25,341.3	5,294,211	4,787	0.6	3,408	-3.8
1991-92 (budgeted)	16,338.4	5,799.2	613.7	1,775.6	2,228.4	26,755.3	5,513,326	4,853	1.4	3,315	-2.7
Cumulative Change											
Amount	\$8,453.6	\$2,857.4	\$613.7	812.4	\$1,357.4	\$14,094.5	1,281,895	\$1,861	—	\$323	—
Percent	107.2%	97.1%	— ^f	84.3%	155.8%	111.3%	30.3%	62.2%	—	10.8%	—

Source: Financial Transactions of School Districts, J-41, J-73, J-200, J-400, and J-600 district and county financial and budget reports, Governor's Budget (various years). Details may not sum to totals, due to rounding.

^a Adjusted by the GNP price deflator for state and local government of goods and services.

^b Includes all General Fund and special fund monies in Budget Act Item 6110, contributions to the State Teachers' Retirement Fund (STRF), and nonbond state capital outlay expenditures. Also includes payments on general obligation bonds and PMIA loans. Excludes revenues from bond sales and funding for State Library programs.

^c Includes local debt, property taxes in excess of revenue limits, and state property tax subventions.

^d Includes funds from the Petroleum Violation Escrow Account for the replacement of school busses for 1988-89 through 1991-92. Also includes State Legalization Impact Aid Grants for 1987-88 through 1991-92 and excludes funding for State Library programs.

^e Includes revenue from developer fees, sales of property and supplies, cafeteria revenues, interest and lease income, and other income.

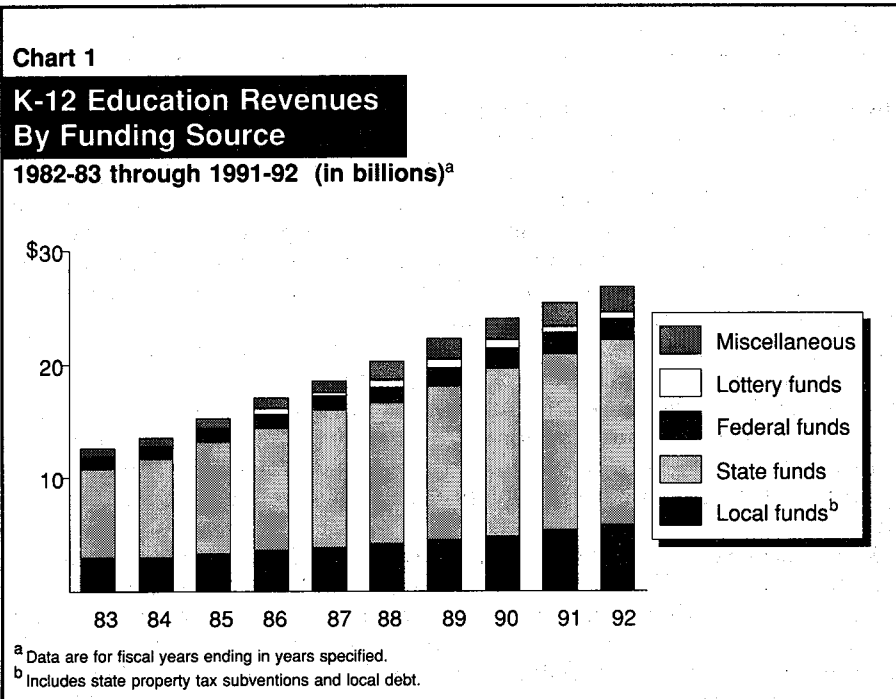
^f Not a meaningful figure.

1982-83, state aid from the General Fund and state special funds has grown by 107 percent, and support derived from local property taxes has increased by 97 percent.

Average daily attendance (ADA) over the 10-year period grew 30 percent, from 4.2 million to 5.5 million. This growth primarily results from a significant upturn in the school-aged population that began in the mid-1980s, due to (1) the “baby boom echo” and (2) increased immigration into the state.

Funding Per ADA. Table 7 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 62 percent since 1982-83 (from \$2,992 to \$4,853) Adjusted for inflation, the proposed 1991-92 per-pupil expenditure level as measured in constant dollars is \$3,315—or 11 percent above the 1982-83 amount.

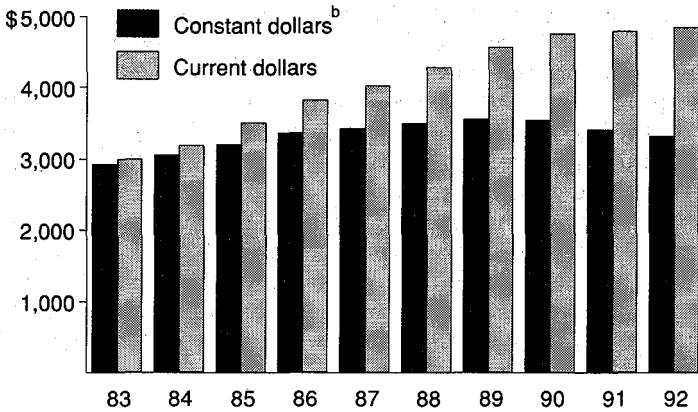
We note that comparisons with the level of 1990-91 funding are affected by the state’s decision to suspend funding for STRS in that year. If, for example, STRS funding is excluded, per-pupil funding in 1991-92 is \$4,757 which is 0.4 percent lower than the level of per-pupil funding in 1990-91 in current dollars, and 4.5 percent below the 1990-91 level in inflation-adjusted dollars.



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Chart 2
K-12 Education Funding per ADA
In Constant and Current Dollars

1982-83 through 1991-92^a



^a Data are for fiscal years ending in years specified.

^b As adjusted by the GNP deflator for state and local government purchases.

Major Sources and Uses of K-12 Programs Funding Growth

As noted, we estimate that the Governor's Budget proposal would result in a level of total funding per ADA in 1991-92 that is 11 percent higher—*after adjusting for inflation*—than the level of per-ADA funding in 1982-83. In other words, under the budget proposal, the total level of funding for K-12 education will be 11 percent higher than the amount that would have been needed to keep pace with overall enrollment growth and inflation-driven cost increases since 1982-83.

In this section, we describe the major *sources* of this funding growth: the specific state and federal education programs in which funding grew at rates significantly higher than that needed in order to keep pace with enrollment growth and inflation. We also describe the *uses* to which school districts have put these funds (in terms of object of expenditure), again focusing on those areas which have grown at higher-than-average rates.

Major Sources of Growth in Education Funding. Table 8 identifies the major areas of K-12 education funding growth, and our estimates of the amounts by which their proposed 1991-92 funding levels exceed the amounts that would have been needed to keep pace with overall enrollment growth and inflation since 1982-83. As the table shows, we estimate that total proposed funding for K-12 education in 1991-92 will exceed by \$2.7 billion (11 percent) the amount that would have been

needed in order to maintain 1982-83 funding levels, after adjusting for enrollment growth and inflation.

Table 8
K-12 Education
Major Sources of Funding Growth^a
1982-83 to 1991-92
(in millions)

	Actual 1982-83 Funding	Funding "Needed" ^b 1991-92	Proposed 1991-92 Funding	Funding in Excess of "Need" ^b	
				Amount	Percent
I. MAJOR PROGRAM AREAS					
GROWING FASTER THAN					
ENROLLMENT PLUS INFLATION					
Revenue limits	\$7,825	\$14,886	\$15,708	\$822	5.5%
(Longer school day/year) ^c	—	—	(680)	(680)	— ^d
(Equalization) ^c	—	—	(416)	(416)	— ^d
(Supplemental summer school) ^c	—	—	(79)	(79)	— ^d
(Beginning teacher salaries) ^c	—	—	(30)	(30)	— ^d
(Other)	—	—	(-384)	(-384)	— ^d
Lottery ^c	—	—	614	614	— ^d
Local miscellaneous revenues ^c	871	1,657	2,228	571	34.5
Special education	702	1,335	1,835	500	37.4
School facilities: state debt service ^c	—	—	343	343	— ^d
Desegregation	141	268	515	247	92.0
Supplemental grants ^c	—	—	185	185	— ^d
Education mandates	24	45	186	141	310.1
State Teachers Retirement System	212	404	529	125	31.0
Proposition 98 set-aside/reserve ^c	—	—	100	100	— ^d
II. MAJOR PROGRAM AREAS					
GROWING SLOWER THAN					
ENROLLMENT PLUS INFLATION					
Child development	\$249	\$473	\$406	-\$67	-14.2%
Home-to-school transportation	262	498	344	-154	-31.0
School facilities: local debt service	450	856	303	-553	-64.6
III. OTHER PROGRAMS (balance)					
	\$1,925	\$3,663	\$3,459	-\$204	-5.6%
TOTALS	\$12,661	\$24,086	\$26,755	\$2,669	11.1%

^a Details may not sum to totals, due to rounding.

^b "Need" is defined as the amount necessary to keep pace with growth in total average daily attendance and inflation (as measured by the GNP Deflator for State and Local Government Purchases).

^c New state program enacted after 1982-83.

^d Not a meaningful figure.

^e Includes developer fees.

Table 8 shows that, of the \$2.7 billion increase in funding above that needed to keep pace with enrollment growth and inflation, approximately \$2.4 billion is associated with funding for new state programs enacted since 1982-83. Examples of these programs include (1) incentive funding for increasing the length of the school day and year and for increasing beginning teachers' salaries, (2) "reforms" such as revenue limit equalization aid and funding for supplemental (nonremedial) summer school, (3) other legislatively-enacted special programs such as the state school facilities aid program and the supplemental grants

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program, and (4) voter-approved initiatives, such as the state lottery and Proposition 98.

Table 8 also shows the following additional programs with 1991-92 funding levels which significantly exceed the amounts that would have been needed in order to keep pace with enrollment growth and inflation:

- *Programs funded with local miscellaneous revenues:* \$571 million (35 percent) increase above amounts needed for enrollment and inflation for these programs, which include developer fee-funded school facilities projects.
- *Special education:* \$500 million (37 percent) increase above amounts needed for enrollment and inflation, for programs serving disabled students.
- *Desegregation aid:* \$247 million (92 percent) increase above amounts needed for enrollment and inflation, to reimburse school district costs of voluntary and court-ordered desegregation programs.
- *Education mandates:* \$141 million (310 percent) above amounts needed for enrollment and inflation, to reimburse school district costs of state-mandated local programs.

Finally, Table 8 shows three major areas in which funding levels have failed to keep pace with overall enrollment growth and inflation: (1) state child development programs, (2) home-to-school transportation aid, and (3) local debt service on school facilities bonds.

School Districts' Uses of Additional Funding. Table 9 shows the purposes to which school districts have put the additional funding described above. Specifically, the table shows the relative growth, by object of expenditure (teacher and nonteacher salaries, employee benefits, books and supplies, capital outlay, and other), of school districts' expenditures from the *local general fund*. (The local general fund is the fund into which districts deposit unrestricted revenues, and accounts for over 85 percent of all district spending.)

Table 9 shows that, in 1988-89 (the most recent year for which expenditure data are available), school districts' local general fund expenditures were \$2.3 billion (16 percent) higher than the amounts needed to keep pace with enrollment growth and inflation since 1982-83. In 1988-89, expenditures for employee compensation had grown to a level 15 percent higher than enrollment- and inflation-adjusted "needs," accounting for \$1.9 billion (81 percent) of the \$2.3 billion in additional expenditures.

Table 9 also shows that, within the employee compensation category, the fastest-growing components were spending for teacher salaries (14 percent above enrollment and inflation needs) and employee benefits (25 percent above enrollment and inflation needs). (It is not possible, using state-level data, to determine what portion of employee benefits spending is attributable to teachers versus other types of school district employees.)

Table 9
K-12 Education
School District Expenditure Growth, By Object^a
Local General Fund
1982-83 to 1988-89
(in millions)

Object of Expenditure	Actual 1982-83 Expenditures	Expenditures "Needed" ^b 1988-89	Actual Expenditures 1988-89	Expenditures in Excess of "Need" ^b	
				Amount	Percent
Employee Compensation					
Salaries					
Teacher salaries	\$4,520	\$6,685	\$7,604	\$919	13.8%
Other certificated salaries.....	922	1,363	1,508	144	10.6
Classified salaries	1,723	2,548	2,826	278	10.9
Subtotals, salaries.....	(\$7,146)	(\$10,596)	(\$11,938)	(\$1,342)	(12.7%)
Benefits	\$1,424	\$2,106	\$2,624	\$519	24.6%
Subtotals, employee compen- sation	(\$8,588)	(\$12,701)	(\$14,562)	(\$1,860)	(14.6%)
Books and Supplies.....	\$455	\$673	\$727	\$54	8.0%
Other Services	728	1,077	1,300	224	20.8
Capital Outlay	151	223	384	161	72.3
Totals	\$9,921	\$14,674	\$16,973	\$2,299	15.7%

^a Details may not sum to totals due to rounding.

^b "Need" is defined as the amount necessary to keep pace with growth in total average daily attendance and inflation (as measured by the GNP Deflator for State and Local Government Purchases).

Spending on Teacher Salaries. As noted, total spending on teacher salaries from 1982-83 to 1988-89 outpaced enrollment growth and inflation by \$919 million (14 percent). Some of this \$919 million increase is probably due to funding provided for supplemental summer school (\$58 million in 1988-89) and the mentor teacher program (\$63 million in 1988-89)—items which are typically "add-ons" to base teacher salaries. Thus, these data imply a net increase of \$798 million (12 percent) in spending on base teacher salaries.

This finding does not necessarily imply that the *average* teacher salary increased by 12 percent after inflation. In theory, at least, it is possible that some of the increase in spending on teacher salaries could have been the result of hiring more teachers than needed to keep pace with overall enrollment growth (thereby reducing the average pupil:teacher ratio).

Our review indicates, however, that the average pupil:teacher ratio in 1988-89 was *virtually unchanged* from the ratio in 1982-83. Moreover, data from an independent source—the California Basic Educational Data System (CBEDS)—indicate that the average base teacher salary in 1988-89 was *14 percent* higher, after inflation, than in 1982-83.

Having established that most of the additional spending on teacher salaries appears to be due to an increase of from 12 percent to 14 percent in the average, real (inflation-adjusted) teacher salary, we now turn to an exploration of the possible reasons for this increase. We have identified three possibilities:

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- **Higher teacher quality.** Some of the increase in average teacher salary may have been due to increases in the average levels of teacher quality, as measured by experience or education. Our review indicates, however, that the average level of teacher experience actually *decreased* slightly during this period (dropping from 11.9 to 11.8 years), while the percentage of teachers with at least a bachelor's degree plus 30 semester units (the "standard" for one with a teaching credential) also decreased, from 90 percent to 86 percent.
- **Increased teacher workload.** Another possibility is that some of the increase in the average teacher salary is attributable to "higher pay for more work." In particular, school districts in 1988-89 received approximately \$570 million attributable to incentives for increasing the length of the school day and year. Of this amount, we estimate that no more than \$500 million was needed in order to fully compensate teachers for the amount of actual, additional work time required to meet the minimum longer day and year targets. (Districts, however, may have negotiated additional workload increases beyond these minimum target levels.) This, in turn, implies that at least 7.5 percent of the 12 to 14 percent increase in average teacher salaries was attributable to increased workload.
- **Higher pay for the same work.** Finally, school districts simply may have granted salary increases in excess of amounts needed to compensate for inflation. Based on the information presented above, this appears to have been the case. Specifically, we estimate that average teacher salaries increased by *up to 6.5 percent* in excess of amounts needed to compensate for quality changes, workload changes, and inflation.

Conclusion. In sum, our review indicates that—even after the administration's proposed reductions—the Governor's Budget would result in a level of total funding for K-12 education that is \$2.7 billion (11 percent) higher than amounts that would have been needed to keep pace with overall enrollment growth and inflation since 1982-83. Based on school district expenditure data in 1988-89, it appears that the "additional" funding had resulted in no net reduction in pupil:teacher ratios, and that a significant portion of the "additional" funding had been spent on increasing average base teacher salaries—which in that year were 12 percent to 14 percent higher (after inflation) than in 1982-83. We further estimate that of the 12 percent to 14 percent increase, at least 7.5 percent was attributable to "higher pay for more work." Thus, *average teacher salaries in 1988-89 appear to have been up to 6.5 percent higher—after adjusting for workload changes and inflation—than in 1982-83.*

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 programs, and (7) other specialized education programs.

Table 10
K-12 Education
General Education Expenditures^a
1989-90 through 1990-91
(dollars in millions)

	<i>Actual</i> 1989-90	<i>Est.</i> 1990-91	<i>Prop.</i> 1991-92	<i>Change from</i> 1990-91	
				<i>Amount</i>	<i>Percent</i>
General-Purpose Revenue Limits ^b					
K-12 districts	\$13,417.3	\$14,391.2	\$14,766.4	\$375.2	2.6%
County offices	263.8	280.4	288.3	7.9	2.8
Subtotals, revenue limits	(\$13,681.1)	(\$14,671.6)	(\$15,054.7)	(\$383.1)	(2.6%)
Other General Education					
Contributions to STRF ^c	\$401.7	\$47.7	\$529.1	\$481.4	1,009.3%
Summer school supplemental	65.2	76.3	79.4	3.0	4.0
Remedial	29.4	29.1	30.5	1.4	4.8
Meals for needy pupils	36.3	38.3	39.5	1.1	3.0
Apprenticeship programs	6.7	5.7	8.4	2.7	47.1
Education mandates	114.2	124.8	181.4	56.5	45.3
One-time per-ADA funding (Ch 83/89) ...	90.5	—	—	—	—
Proposition 98 reserve	—	—	100.0	100.0	—
Federal P.L. 81-874	65.2	63.4	63.4	—	—
Lottery revenue	788.8	613.5	613.5	—	—
Miscellaneous	1,939.2	2,079.3	2,229.7	150.4	7.2
Subtotals, other general education	(\$3,537.2)	(\$3,078.2)	(\$3,874.9)	(\$796.6)	(25.9%)
Totals	\$17,218.2	\$17,749.8	\$18,929.6	\$1,179.7	6.6%
Funding Sources, revenue limits:					
General Fund	\$9,547.2	\$10,057.2	\$9,970.8	-\$86.4	-0.9%
Local funds ^d	4,119.3	4,592.5	5,062.0	469.5	10.2
State School Fund	14.6	21.8	21.8	—	—
Funding Sources, other general education:					
General Fund	\$744.0	\$322.0	\$968.2	\$646.2	200.7%
Local Funds	1,938.0	2,078.0	2,228.4	150.4	7.2
California State Lottery Education Fund ...	788.8	613.5	613.5	—	—
Federal funds	65.2	63.3	63.4	—	—
Special Deposit Fund	1.1	1.3	1.3	—	—

^a Details may not sum to totals due to rounding.

^b Excludes revenue limit amounts used to support special education.

^c Based on 90 percent of total STRF contributions (K-12 teachers' share).

^d Includes state property tax subventions.

DEPARTMENT OF EDUCATION—Continued**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/or are not associated with any specific pupil services program. The funds include (1) general-purpose revenue limits for school districts and county offices of education, (2) other general education funds, such as state contributions to the State Teachers' Retirement Fund (STRF), federal impact aid (P.L. 81-874) revenues and lottery revenues, and (3) other miscellaneous funds, such as revenues from the sale and lease of school district property. (The totals shown for miscellaneous revenues also include the proceeds of developer fees, which may only be used for purposes — such as school facilities — intended to mitigate the impacts of the related development. At the time this analysis was prepared, we were unable to identify separately the amounts of miscellaneous revenues specifically attributable to developer fees.)

As shown in Table 10, the budget proposes total general education expenditures (consisting of revenue limit funding and other expenditures) of \$18.9 billion in 1991-92. This is an increase of \$1.2 billion, or 6.6 percent, over the estimated current-year amount, and is composed of a \$560 million increase in General Fund support and a \$620 million increase in revenues from local sources. The increase in General Fund support is largely due to the increase in the state's contribution to the State Teachers' Retirement Fund, which is discussed below.

Within the total, the budget proposes \$15.1 billion in general-purpose revenue limit funding for K-12 districts and county offices of education — an increase of \$383 million, or 2.6 percent, over 1990-91. State funds contribute \$10 billion (66 percent) of this amount, while local property taxes account for \$5.1 billion (34 percent). Expenditures for the STRF are proposed at \$529 million, a \$481 million increase over expenditures in the current year, during which the state suspended its contribution towards fully funding the STRF liability. The remaining general education expenditures are proposed at \$3.3 billion — an increase of \$315 million, or 10 percent, over 1990-91.

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 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 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.

As Table 10 shows the budget proposes funding for school apportionments of \$15.1 billion in 1991-92 — an increase of \$383 million (2.6 percent) over current-year levels. This amount consists of \$10 billion from

the General Fund (a decrease of \$86 million), \$22 million from the State School Fund, and \$5.1 billion in local property taxes (an increase of \$470 million).

Within the proposed \$10 billion in General Fund support, the budget provides funding for 4.3 percent enrollment growth (\$635 million) and no COLA. Partially offsetting this increase is \$719 million in decreases, including:

- \$469 million due to anticipated local property tax growth (including a \$21 million increase in local property tax revenues based on the assumed enactment of proposed legislation).
- \$250 million due to strict adherence to minimum day attendance accounting requirements.

No Funding for Students Who Skip Classes

We find that the budget reduces funding for revenue limits by \$250 million, based on the assumption that strict compliance with current-law attendance accounting requirements will result in a 2 percent reduction in reported ADA.

Under current administrative practice, the SDE allows school districts to receive a full school day's apportionment for a student who leaves school prior to completing the minimum school day (generally four hours) without an authorized excuse, if the student (1) was *enrolled* for at least a minimum day's worth of classes and (2) was under the supervision of a district employee for *any* time period prior to leaving school. Thus, a school district may receive a full day's apportionment for a student who shows up long enough to have his or her attendance noted, but then skips classes for the remainder of the day.

Last year, the administration proposed Budget Bill language that, in effect, would have required that in order to receive a full day's apportionment, a district would have to ensure that a student actually attended classes for the statutorily specified minimum school day — or had a valid excuse for not doing so. At that time, we recommended approval of the proposed language because (1) it was consistent with current law (as confirmed by a Legislative Counsel opinion issued March 15, 1990) and (2) the current administrative practice gives districts little fiscal incentive to ensure that students attend classes for the full day.

The administration again proposes Budget Bill language (Provision 15 of Item 6110-101-001) which would require that students attend the minimum school day in order to generate a full day's apportionment.

\$250 Million Reduction in School Apportionments. The budget, however, also proposes reducing the General Fund appropriation for revenue limit apportionments by \$250 million, based on the assumption that the level of ADA reported for revenue limit purposes will drop by 2 percent as a result of complying with the Budget Bill language.

Our review indicates that the 2 percent figure may not be an accurate prediction of the decline in ADA, for two reasons.

First, the survey conducted by the Department of Finance which generated the 2 percent estimate may contain errors of unknown

DEPARTMENT OF EDUCATION—Continued

magnitude, because (1) the districts surveyed constitute a *nonrandom* sample, representing only one-third of statewide ADA and (2) of these, not all were able to provide precise estimates for the survey, because they do not track attendance on an hourly basis.

Second, the estimate does not appear to take account of the likely school district response to the financial incentive created by the proposed Budget Bill language. We believe that school districts will take steps to assure attendance for the minimum school day such as "closed campuses" and increased contact with parents. Such steps will likely reduce the number of students who skip classes or otherwise leave school before completing the minimum school day.

Conclusion. In sum, while we are generally supportive of the policy of basing apportionments on the number of students actually attending for the minimum day, we caution that the budget estimate of a 2 percent loss of ADA (and the corresponding \$250 million General Fund savings) may not materialize.

We also note that, in addition to the administration's proposal, the Legislature has other options for achieving the objective of full-day attendance. As noted below, we expect that forthcoming recommendations from SDE will explore these options. We will review and comment on them, as appropriate, during budget hearings.

Legislative Oversight: Recommendations on Attendance Tardy

As noted, the Legislature last year rejected the administration's proposal to require strict adherence to current-law attendance accounting standards. Instead, the Legislature included language in the 1990 Budget Act declaring that "average daily attendance claimed for purposes of apportionments needs to be in compliance with current law." This language further directed the SDE to develop recommendations on the most cost-effective means of confirming students' attendance and report its recommendations to the Legislature by December 1, 1990.

At the time this analysis was written, the Legislature had not received SDE's recommendations on this issue. We will review the SDE recommendations when we receive them and comment, as appropriate, during budget hearings.

Budget Assumes Enactment of Proposed Property Tax Changes

We find that the budget potentially underfunds general-purpose revenue limits by \$6 million, on the assumption that the Legislature will enact proposed legislation related to property taxes.

The Governor's Budget estimates of K-12 school property tax revenues include an increase of \$21 million, based on the assumed enactment of legislation changing the treatment for school apportionment funding of certain property tax-related revenues. The budget also makes a corresponding reduction of \$21 million to funding for school apportionments.

At the time this analysis was written, the administration had not yet introduced the legislation to implement the proposed changes. Based on information from the Department of Finance, however, we understand

that the legislation will require that the following be treated as property tax revenues for purposes of school apportionments funding (thereby resulting in a dollar-for-dollar reduction in state aid requirements):

- Property tax delinquency penalties and interest paid on judgments for the recovery of unpaid property taxes.
- Certain "tax increment" revenues distributed to school districts by redevelopment agencies.

Based on our initial review of the proposal, it appears that it could result in a net underfunding of general-purpose revenue limits of \$6 million (from state and local sources). This is because only \$15 million of the increase in property taxes represents real, new revenues to districts (a shift of penalty and interest income from counties) which could partially offset the reduction in state apportionment aid. The remaining \$6 million, however, may already be treated as local revenue for school apportionments purposes.

Thus, if the Legislature wishes to ensure that districts suffer no net reduction in revenue limit funding, it may need to augment school apportionments by \$6 million. We will review the administration's legislation when it is introduced and provide additional comments, as appropriate, during budget hearings.

Refusal to Pay Tax Collection Fees May Cause Deficiency

We find that school districts' refusal to pay property tax collection fees may lead to deficiencies in school apportionments funding of \$78 million in 1990-91 and up to \$100 million in 1991-92.

Chapter 446, Statutes of 1990 (SB 2557, Maddy) authorizes counties to bill other local government entities (including school districts and county offices of education) for the costs of collecting and distributing their respective shares of local property tax revenues.

Some local education agencies (LEAs) have refused to pay these tax collection fees, hoping to force the counties to deduct the fees from the amount of property taxes to which they would otherwise be entitled. In this manner, the LEAs further hope to force the *state* to bear the costs of the property tax collection fees — through automatic increases in state school apportionment aid to "backfill" the reductions in property tax receipts.

At the time this analysis was written, the SDE had requested that county auditors list the amount each LEA had been billed for property tax collection fees, but had not decided how to treat these amounts for purposes of school apportionments. The department, however, has also filed suit challenging the legality of the tax collection fees.

Based on information provided by SDE, we estimate that if the department chooses to consider the tax collection fees as a reduction to local property taxes (for which an offsetting amount of state aid is required) and/or if it prevails in its lawsuit against the state, this could result in deficiencies in school apportionments funding — and an equivalent reduction in funding counting towards meeting Proposition 98 minimum funding requirements — of at least \$78 million in 1990-91 and up to \$100 million in 1991-92.

DEPARTMENT OF EDUCATION—Continued
Adult Independent Study Overbudgeting

We recommend a reduction of \$7.2 million in funding for adults in K-12 independent study, to reflect the reduction in funding rates required by current law. (Reduce Item 6110-101-001 by \$7,200,000.)

Chapter 1089, Statutes of 1989 (SB 1563, Hart), among other provisions, requires the per-pupil funding rate for adults served in K-12 independent study programs to be reduced, over a three-year period beginning in 1990-91, to the statewide average revenue limit for adult education. Specifically, the measure requires the funding rate to be reduced to 166 percent of the average adult education revenue limit in 1990-91, 132 percent in 1991-92, and 100 percent in 1992-93. Consistent with this requirement, the current-year budget reduced funding for adults in independent study by \$10.7 million.

Our review indicates that the Governor's Budget proposal fails to take account of the statutorily required second phase of the reduction in funding rates in 1991-92, and instead provides the same level of funding for adult independent study as in the current year. As a result, we estimate that funding for adult independent study is overbudgeted by \$7.2 million.

Accordingly, we recommend that the Legislature reduce funding for school apportionments by this amount, in order to provide full funding for the rate specified in current law.

Legislative Oversight: Apprentice Programs Expenditure Report Delayed

The 1990 Budget Act directed the SDE to report to the Legislature, by October 1, 1990, on (1) the number of hours of related and supplemental instruction offered in apprentice programs during the 1989-90 fiscal year, (2) the associated expenditures, and (3) the hours of instruction proposed for 1990-91 and 1991-92 by school district, county office of education, program sponsor, and trade.

The SDE submitted this report in early February — too late for our review and inclusion in this analysis. We will review this information prior to budget hearings, and provide comments and recommendations at that time, as appropriate.

2. Proposition 98 Reserve — Control Section 12.31

We recommend the deletion of \$100 million proposed for a K-12 education Proposition 98 reserve, because a separate reserve for this purpose is not needed under the Governor's proposal to suspend Proposition 98 minimum funding requirements and significantly reduce K-12 education funding.

As noted in the overview to this analysis, the administration proposes to suspend the minimum funding guarantee provisions of Proposition 98. The administration further proposes a total of approximately \$15.1 billion in General Fund appropriations for K-12 education programs which count towards meeting Proposition 98 minimum funding requirements — an increase of \$233 million (1.6 percent) over estimated current-year

funding levels. Of this amount, \$100 million is appropriated as a Proposition 98 reserve for K-12 education in Control Section 12.31. (The Control Section 12.31 reserve also contains an additional \$10 million for community colleges.)

Why a Reserve Is Needed. As we noted in last year's *Analysis*, the K-12 portion of the Proposition 98 reserve is intended to serve two purposes:

First, to help ensure that the *subsequent appropriation* of funding for any deficiencies in K-12 education would not cause the state to exceed the Proposition 98 minimum funding requirements, and

Second, to help ensure that any subsequent changes in factors affecting the Proposition 98 guarantee (such as, for example, decreases in the state's total General Fund revenues, increases in school districts' local property tax revenues, and/or decreases in K-12 enrollments) would not cause the level of the minimum funding requirement to fall below the level of K-12 funding *already appropriated* in the Budget Act. (In order to avoid this possibility, the Legislature would initially appropriate for specific programs an amount that is *less* than the Proposition 98 guarantee, and "make up the difference" with a subsequent appropriation from the Proposition 98 reserve.)

While both purposes assume that the goal of the Legislature and the administration is to avoid appropriating funds in excess of the Proposition 98-required minimum, the first purpose primarily protects the interests of school districts. This is because the reserve ensures that there will be sufficient funds available within the overall level of the guarantee to pay for deficiencies. (In the absence of a reserve for this purpose, on the other hand, the Legislature could avoid exceeding the Proposition 98 guarantee by simply choosing not to provide funding for any deficiencies that would cause this to occur.)

The second purpose, in contrast, primarily protects the *state's* interest. This is because (1) factors that would cause the overall level of the Proposition 98 guarantee to change are largely outside of the Legislature's control and (2) appropriations for K-12 education, once made, may be difficult to "undo."

For these reasons, we believe that the Legislature should *primarily* base its determination of the need for a Proposition 98 reserve on the second purpose noted above.

Reserve Not Needed Under Governor's Proposal. Given this premise, it is clear that—in any year in which the Proposition 98 guarantee is suspended and funding for K-12 education is significantly reduced below the Proposition 98 "full funding" level — there is little or no need for a separate Proposition 98 reserve (apart from the state's overall Reserve for Economic Uncertainties). This is because, under these circumstances, there is little chance that changes in any of the factors noted above would cause the level of state funding actually appropriated to exceed the level that would have been required in the absence of suspension. (If there were no Proposition 98 reserve, the Legislature would still have the option of providing funding for any K-12 education deficiencies from the Special Fund for Economic Uncertainties, should it choose to do so.)

DEPARTMENT OF EDUCATION—Continued

For this reason, we recommend that the Legislature delete these funds from Control Section 12.31 and instead use them for other, higher-priority purposes. Should the Legislature choose *not* to suspend Proposition 98 (or to suspend, but reduce funding for K-12 education very little relative to the “full funding” level), it will need to re-examine the issue of an appropriate Proposition 98 reserve.

3. Lottery Revenues (Items 6110-006-814 and 6110-101-814)

We recommend approval.

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, the California State University, the Hastings College of the Law, the California Maritime Academy, the California Youth Authority, developmental centers operated by the Department of Developmental Services, and the state special schools.

Table 11 shows the estimated distribution of lottery revenues for public education as displayed in the Governor’s Budget. The amount estimated for K-12 education — \$614 million — is basically an extension of the current-year allocation and amounts to \$111 per unit of K-12 ADA. We review lottery expenditures in the budget analysis for each separate segment, as appropriate.

Table 11
Distribution of Lottery Revenues
1989-90 through 1991-92
(dollars in thousands)

Segment	Actual 1989-90	Est. 1990-91	Est. 1991-92	Change from 1990-91	
				Amount	Percent
K-12 education	\$788,800	\$613,542	\$613,542	—	—
Community colleges	122,433	95,230	95,230	—	—
California State University	47,699	33,438	33,438	—	—
University of California	24,106	18,750	18,750	—	—
California Youth Authority	634	1,317	1,382	\$65	4.9%
Hastings College of the Law	210	163	163	—	—
California Maritime Academy	71	133	133	—	—
Department of Developmental Services	390	599	599	—	—
State special schools	142	110	110	—	—
Totals	\$984,485	\$763,282	\$763,347	\$65	— ^a
Lottery revenues per K-12 ADA (actual dollars)	\$156	\$116	\$111	-\$5	-4.3%

^a Less than 0.1 percent

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.

School-Based Program Coordination

Chapter 100, Statutes of 1981 (AB 777, Leroy Greene), also known as the School-Based Program Coordination Act, authorizes schools and school districts to coordinate various categorical programs with one another, or with the regular program, at the school site level. The major programs which schools may coordinate under the act include:

- The School Improvement Program.
- Economic Impact Aid.
- Gifted and Talented Education.
- The Miller-Unruh reading program.
- Special education.
- Local staff development programs.

The act allows schools to combine materials and staff funded by these categorical programs, without requiring that schools use resources from each program to provide services exclusively to "eligible" students.

The act further requires the Legislative Analyst to report annually in the *Analysis of the Budget Bill* regarding its implementation.

Report on Implementation. The SDE indicates that, during the current year, 4,419 (62 percent) of the state's 7,089 schools have school-based coordinated programs, pursuant to provisions of Chapter 100 — an increase of 29 percent over the previous year. The level of participation has grown dramatically since 1986-87, when only 175 schools participated.

As we noted in the *Analysis of the 1990-91 Budget Bill*, the substantial participation increase is primarily due to three factors.

First, the June 30, 1987 "sunset" of the School Improvement Program (SIP) terminated the ability of SIP-participating schools to receive full-ADA reimbursement for a maximum of eight staff development days. Schools operating school-based coordination programs maintain this authority, and as a result, many of the SIP schools have begun such programs — although in many cases SIP is the only categorical program involved.

Second, many schools have established school-based coordinated programs because of increased flexibility under federal law to coordinate federal Chapter 1 (compensatory education) funding with that of state programs.

Third, SDE has increased its efforts to (1) educate local administrators on the advantages of school-based coordinated programs and (2) clarify program requirements.

DEPARTMENT OF EDUCATION—Continued

The SDE indicates that a recent trend has developed in which large school districts that support site-based management tend to have high percentages of schools participating in school-based program coordination. Large school districts that do not support site-based management, in contrast, tend to have low participation rates. The SDE is uncertain as to what is causing this trend, but intends to investigate it further in the budget year. We will continue to monitor this situation, and report to the Legislature as appropriate.

1. Programs Relating to Classroom Instruction

Table 12 summarizes local assistance funding from the General Fund and state special funds for programs relating to classroom instruction.

Table 12
K-12 Education
Support for Programs Relating to Classroom Instruction
Local Assistance
1989-90 through 1991-92
(dollars in thousands)

Programs	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
School Improvement Program.....	\$259,270	\$315,276	\$329,547	\$14,271	4.5%
Instructional materials	120,329	128,885	134,431	5,546	4.3
Class size reduction	—	30,994	—	-30,994	-100.0
High school pupil counseling	7,115	7,916	8,298	382	4.8
Demonstration programs in intensive in- struction ^a	4,570	4,707	4,707	—	—
Environmental education.....	765	515	804	289	56.1
Intergenerational education	165	177	175	-2	-1.1
School restructuring projects	—	6,345	—	-6,345	-100.0
Educational technology program.....	—	13,981	13,977	-4	— ^b
Institute of Computer Technology	338	428	428	—	—
Totals.....	\$392,552	\$509,224	\$492,367	-\$16,857	-3.3%
Funding Sources					
General Fund	\$391,787	\$508,709	\$491,563	-\$17,146	-3.4%
Environmental License Plate Fund	765	515	804	289	56.1

^a Formerly known as the demonstration programs in reading and math.

^b Less than 1.0 percent.

In total, the budget requests \$492 million for the classroom instruction-related programs in 1991-92 — a decrease of \$16.9 million (3.3 percent) below estimated current-year expenditures. This decrease primarily reflects (1) elimination of funding for class size reduction (\$31 million) and (2) the elimination of one-time funding for school restructuring planning grants (\$6.4 million). These reductions are partially offset by additional funding for (1) statutory program growth (\$20.2 million) and (2) environmental education (\$289,000).

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

- ***School Improvement Program (Item 6110-116-001)*** — \$329.5 million from the General Fund for the School Improvement Program (SIP). This amount includes (1) \$276.5 million for grades K-6 and (2) \$53.0 million for grades 7-12. The budget proposes \$14.3 million to fully fund a statutorily required workload adjustment, based on the expected rate of enrollment growth in grades K-6 (4.8 percent) and 7-12 (3.2 percent).
- ***Instructional materials (Items 6110-015-001, 6110-186-001, and 6110-187-001)*** — \$134.7 million from the General Fund for instructional materials local assistance, warehousing, and distribution. This amount includes (1) \$107.3 million for grades K-8 local assistance, (2) \$27.1 million for grades 9-12 local assistance, and (3) \$342,000 for state warehousing and shipping (not shown in Table 12). It represents an increase of \$5.5 million (4.3 percent) above the current-year level, in order to fully fund a statutorily required workload adjustment, based on the expected rate of enrollment growth in grades K-12.
- ***High school pupil counseling (Item 6110-109-001)*** — \$8.3 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 amount reflects an increase of \$382,000 (4.8 percent) to provide a statutorily required workload adjustment, based on the expected rate of enrollment growth in grade 10.
- ***Demonstration programs in intensive instruction (Item 6110-146-001)*** — \$4.7 million from the General Fund for programs that are intended to demonstrate innovative instructional techniques in a variety of subject areas. This amount reflects a continuation of the current-year level of funding.
- ***Environmental education (Item 6110-181-140)*** — \$804,000 from the Environmental License Plate Fund to provide grants to local education agencies, other government agencies, and nonprofit organizations to plan and implement education programs related to the environment, energy, and conservation. The proposed amount reflects an increase of \$289,000, primarily related to funding for the “Environmental Education Project,” a pilot project to test the development of a comprehensive, multidisciplinary curriculum.
- ***Intergenerational education (Items 6110-128-001 and 6110-129-001)*** — \$175,000 from the General Fund for programs that provide for the involvement of senior citizens in elementary and secondary schools. The budget includes an unallocated trigger-related reduction of \$2,000 in funding for grant recipients which do not qualify as local education agencies under Proposition 98. This reduction is included in the proposed budget for intergenerational education in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).
- ***Institute of Computer Technology (Item 6110-180-001)*** — \$428,000 from the General Fund to support the Institute, which provides

DEPARTMENT OF EDUCATION—Continued

education and training in computer technology for pupils in grades K-12 and for adults. The proposed amount is a continuation of the current-year funding level.

a. No Funding for Class Size Reduction

We find that the budget eliminates funding for class size reduction, for a General Fund savings of \$31 million.

Chapter 1147, Statutes of 1989 (SB 666, Morgan), authorized funding for two programs: (1) a program to reduce class size in grades 9 to 12 and (2) a language arts enrichment program in grades 1 to 3.

Under the program to reduce class size in grades 9 to 12, school districts may apply for an apportionment of \$250 per student in each participating grade level, if the district maintains an average class size of 20 pupils in any of the following subject areas: English, mathematics, social studies, or science. A district may receive \$125 per student if it reduces class size to a level which is a 50 percent reduction toward the goal of an average 20 students per class, and may receive the full apportionment in the future if it reaches the goal of 20 students per class.

Under the language arts enrichment program, districts may receive up to \$30 per student in grades 1 to 3 to increase "direct individual instruction in language arts" to students. Language arts, for the purposes of this program include reading, writing, spelling, speaking, and listening.

The 1990 Budget Act appropriated \$31 million for class size reduction in the current year, pursuant to Chapter 1147. Consistent with priorities specified by the Legislature, this funding has been allocated in its entirety to support the reduction of class sizes in grades 9 through 12. The amount appropriated, however, is insufficient to support the levels of per-pupil funding specified in Chapter 1147. As a result, districts which reduce class size to the 20 pupil goal in one of the subject areas listed above will receive \$130 for each pupil in the participating grade level. (Districts which reach 50 percent of the reduction goal will receive \$65 per pupil.)

Budget Proposal. The Governor's Budget proposes to eliminate funding for class size reduction in 1991-92, thereby resulting in a \$31 million General Fund savings.

b. School Restructuring Projects

The Legislature recently enacted Ch 1556/90 (SB 1274, Hart), which established demonstration programs in school restructuring. School restructuring involves making significant changes to many aspects of school operations, such as instructional methods, student schedules, teacher and parent roles, governance procedures, community relations, and assessment practices. As defined in Chapter 1556, it includes "shifting from the current system of accountability, which is based upon rules, to a system of accountability based upon performance." We describe in more detail the nature of school restructuring, and how it can potentially affect the quality of education in California, in our companion document, *The 1991-92 Budget: Perspectives and Issues*.

Chapter 1556 appropriated \$6.4 million in planning grants (of up to \$30 per student) to enable schools that are interested in participating in the restructuring program to prepare a proposal. (The department will also permit schools that do not receive planning grants to prepare and submit proposals.) Chapter 1556 authorizes schools with demonstration proposals that are approved by the State Board of Education (SBE) to receive *up to* \$200 per student annually (over a five-year period) for implementation. The measure specifies, however, that the board may fund a lesser amount per student, depending on the nature and magnitude of each proposal.

The department expects that the SBE will not approve proposals for implementation funding until February 1992.

Budget Proposal. The Governor's Budget proposes no funding to implement the demonstration projects during the budget year. According to the Department of Finance, however, the administration will consider requesting implementation funding for the *subsequent* fiscal year. (The budget *does* propose \$455,000 in Item 6110-001-001, in order to continue current-year administrative and evaluation activities.)

Given that the SBE will not approve restructuring proposals until well into the budget year, and in view of the state's current fiscal situation, we believe that the administration's budget proposal is reasonable and should be approved.

Report on Funding Levels

We recommend that the Legislature adopt supplemental report language which expresses its intent that the State Board of Education fund restructuring proposals at varying levels of per-pupil support.

Chapter 1556 requires the Legislative Analyst to submit annual evaluation reports on the School Restructuring Projects to the Legislature on specified subjects, including an assessment of the appropriate per-project funding level. Although it would now be premature for us to report on other aspects of the program, we are able to draw some conclusions regarding project funding levels, based on a review of a small number of schools that have initiated restructuring efforts with other funding sources.

Findings. During the course of our review, we found that the majority of schools undergoing restructuring required considerably less than the maximum \$200 per pupil amount for implementation specified by Chapter 1556. In fact, most schools incurred costs ranging from only \$30 to \$60 per pupil. These costs were, for the most part, associated with providing teachers with release time for (1) shared decisionmaking, (2) curriculum development, and (3) staff training. These figures, however, do not include any expenses associated with reducing pupil-teacher ratios, purchasing computers, or providing services to preschoolers, which are sometimes central components of restructuring efforts.

Expenditures of \$30 to \$60 per pupil appear to be consistent with the recommendations of the Coalition of Essential Schools, a group of schools undergoing restructuring nationally under the leadership of Dr. The-

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odore Sizer of Brown University. The Coalition recommends that “mid-sized” secondary schools undergoing restructuring should generally be provided \$50,000 annually for four to seven years, exclusive of any funding needed for reducing pupil-teacher ratios or purchasing equipment. This amount is equivalent to \$38 per pupil for the average size high school (which in California has 1,300 pupils), and \$60 for the average size intermediate school (which in California has 825 pupils). Thus, practices outside of California appear to confirm the reasonableness of providing a lower level of funding.

We did find, however, several instances of restructuring projects that were incurring considerably higher costs. For instance, one district which established alternative mini-schools for low-achieving youth within its regular high schools is spending \$400 per pupil in order to provide teachers with two release periods daily: one for curriculum planning and the other to discuss the needs of individual pupils. The district also spent approximately \$400 per pupil on a one-time basis, in order to purchase computers. Another example of a “high-cost” program is the Los Angeles County High School for the Arts, which spends approximately \$1,000 per pupil in excess of what is normally spent to educate pupils in the Los Angeles area.

Recommendation. Because we currently have no basis for concluding that one type of program model is more effective than another, we are unable to recommend a precise level of funding for implementing the demonstration projects.

On the one hand, some schools may have a need for a high level of funding; for instance, some schools (especially those with low levels of academic achievement) might require considerable amounts of staff development or might need to reduce pupil-teacher ratios (in order to increase teacher release time). Furthermore, the state may wish to have some schools experiment with high-cost models, such as the extensive use of computers, in order to assess the effectiveness of these approaches.

On the other hand, many schools are currently restructuring at a fairly low cost. Given the state’s fiscal situation, we believe that it would be advantageous to establish and evaluate a number of low-cost projects, since (1) more projects could be established and (2) they would be easier to replicate, where appropriate.

For these reasons, we believe that the SBE should approve proposals that reflect a *variety* of funding rates, so that there will be a mixture of low-cost, medium-cost, and high-cost projects. By using a range of different funding levels, the state could then evaluate whether (and under what circumstances) the various models would be appropriate.

Accordingly, we recommend that the Legislature adopt supplemental report language that expresses its intent that the SBE fund restructuring projects at a variety of rates per pupil. In order to implement this recommendation, the Legislature should adopt the following language in Item 6110-001-001:

It is the intent of the Legislature that, for purposes of funding demonstration projects in school restructuring pursuant to Ch 1556/90 (SB 1274, Hart), the State Board of Education approve proposals representing a range of funding rates per pupil.

C. Educational Technology (Item 6110-181-001)

We recommend approval.

The educational technology program, reauthorized by Ch 1134/89 (AB 1470, Farr), provides support for the use of educational technology in the public schools. The authorizing legislation defines the term "educational technology" to include computers, video tapes and discs, instructional television, and any electronic systems or networks that may be used as instructional devices for classroom instruction. The program supports a variety of activities, including (1) grants to schools and districts, (2) grants for statewide services, (3) grants for research and development, and (4) administration.

Budget Proposal. As shown in Table 12, the budget proposes to appropriate \$14 million from the General Fund to support the educational technology program. This amount represents a continuation of the current-year funding level, and we recommend that it be approved.

Legislative Oversight: Report on Leveraging Local Funds Delayed

In the *Supplemental Report of the 1990 Budget Act*, the Legislature required SDE to prepare a report describing options for "leveraging" local discretionary resources under the educational technology program. The intent of the requirement is to determine how state funds can be better used, in order to maximize the *total* level of resources — including local discretionary resources — that are allocated to educational technology purposes. The supplemental report language further required the SDE to submit its report, with specific recommendations for legislative action, to the appropriate legislative and fiscal committees and the Joint Legislative Budget Committee by November 1, 1990.

At the time this analysis was prepared, the Legislature had not received this report. Staff of the SDE have informed us that the report's submission may be delayed until the end of March. We will review the report when it is submitted, and make comments and recommendations to the Legislature as appropriate.

2. Programs Relating to Teaching and Administration

Local assistance funding in the prior, current, and budget years for programs relating to teaching and administration is shown in Table 13. All of these programs are either staff development programs, have staff development components, or relate in some way to teacher education and training.

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Table 13
K-12 Education
Support for Programs Relating to Teaching and Administration^a
Local Assistance
1989-90 through 1991-92
(dollars in thousands)

Programs	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
General Fund:					
Mentor teacher program	\$61,240	\$65,543	—	-\$65,543	-100.0%
Professional Development Program.....	— ^b	21,385	\$22,300	915	4.3
Administrator Training and Evaluation Program.....	5,025	5,372	5,602	230	4.3
New Teacher Project	1,580 ^c	3,255	—	-3,255	-100.0
Teaching improvement programs.....	1,185	1,224	1,276	52	4.2
Bilingual Teacher Training Program.....	881	942	982	40	4.2
Reader service for blind teachers.....	183	242	252	10	4.1
California International Studies Project....	921	—	1,000	1,000	— ^d
Geography education	100	104 ^e	104	—	—
Curriculum Resource Center.....	—	140	—	-140	-100.0
Regional Science Resource Center.....	523	—	—	—	—
Subtotals, General Fund.....	(\$71,638)	(\$98,207)	(\$31,516)	(-\$66,691)	(-67.9%)
Federal funds:					
Math and science teacher training grant ..	\$10,066	\$9,102	\$9,102	—	—
Totals.....	\$81,704	\$107,309	\$40,618	-\$66,691	-62.1%

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

^b Excludes \$20 million appropriated in 1988-89 by SB 98 (Ch 82/89, Hart) but made available in 1989-90.

^c Excludes \$1.3 million appropriated in 1988-89 by SB 98 (Ch 82/89, Hart) but made available in 1989-90.

^d Not a meaningful figure.

^e Funding provided by Ch 1292/90 (SB 522, Alquist)

As Table 13 shows, the budget proposes approximately \$31.5 million from the General Fund, a net decrease of \$67 million (68 percent) for the programs related to teaching and administration. The majority of this decrease reflects the elimination of funding for two programs: (1) the mentor teacher program (\$65.5 million) and (2) the New Teacher Project (\$3.3 million), which was intended to be a pilot project of limited duration. These decreases would be partially offset by additional funding for (1) program growth (\$1.3 million) and (2) restoration of the International Studies Project (\$1 million). (The previous administration eliminated funding for the project in the current year.)

We recommend approval of the proposed funding shown in Table 13 for the following programs relating to teaching and administration, which are not discussed elsewhere in this analysis:

- **Administrator Training and Evaluation Program [Item 6110-191-001(a)]** — \$5.6 million.
- **Teaching improvement programs [Item 6110-191-001(g)]** — \$1.3 million.
- **Bilingual Teacher Training Program [Item 6110-191-001(c)]** — \$982,000.

- *Reader service for blind teachers [Item 6110-191-001 (d)]* — \$252,000.
- *California International Studies Project [Item 6110-191-001 (e)]* — \$1 million.
- *Geography education [Item 6110-191-001 (f)]* — \$104,000.
- *Math and science teacher training grant (Item 6110-128-890)* — \$9.1 million.

The budget proposes to provide statutorily-required workload adjustments (based on the expected rate of enrollment growth in grades K-12) for the first four programs noted above.

a. Mentor Teacher Program

We find that the budget proposes to eliminate funding for the mentor teacher program in 1991-92, for a General Fund savings of \$65.5 million.

The mentor teacher program was established by SB 813 (Ch 498/83, Hart) as part of an effort to upgrade the teaching profession. The measure authorizes experienced teachers with exemplary teaching ability to serve as "mentors" to other teachers, particularly new teachers, and provides for each mentor to receive a stipend of approximately \$4,300 annually (adjusted for inflation) for performing this additional work. The Legislature appropriated \$65.5 million for the program in the current year.

The budget proposes no funding for the mentor teacher program in 1991-92. According to the *Governor's Budget Summary*, the administration's intent is to suspend funding of stipends for a one-year period, and not to eliminate the program on a permanent basis. The Governor will presumably therefore propose funding to restore the program at a later date.

Because (1) teachers are typically selected as mentors on a year-to-year basis, and (2) current law provides that stipends received by mentors are over and above their regular salary, most districts presumably have not entered into multiyear contracts with mentor teachers that require them to continue the program in 1991-92. The *financial* impact of the Governor's proposal on school districts and on individual teachers, therefore, would likely be minimal. (It will have some *programmatic* impact, however, to the extent that school districts are now using mentor teachers to improve the quality of instruction provided by other teachers.)

b. Professional Development Program [Item 6110-191-001(b)]

The Professional Development Program, established by Ch 1362/88 (SB 1882, Morgan), involves a major new system of providing staff development that is linked to school improvement objectives. The program consists of three major components: (1) staff development grants awarded to 250 high schools, to be expended in accordance with a school development plan, (2) 11 regional resource agencies which provide assistance with the development and implementation of school

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plans, and (3) University of California-based subject matter projects, which are designed to enhance teacher expertise in specific curricular areas.

The budget proposes \$22.3 million for the Professional Development Program. The proposed amount reflects an increase of \$915,000 (4.3 percent) to provide a statutorily required workload adjustment (based on the expected rate of enrollment growth in grades K-12).

Our review indicates that the requested level of support provides full funding for statutory workload adjustments, and we recommend that it be approved.

Better Quality Control of Local Plans Needed

We recommend that the Legislature adopt Budget Bill language requiring regional resource agencies to review and approve staff development plans, in order to ensure that such plans include specific provisions for ongoing staff development.

Chapter 1362 requires the Legislative Analyst to report annually (through the 1992-93 *Analysis*) on the implementation of the Professional Development Program. The measure requires this review to be based on input from teachers, school administrators, school governing board members, university faculty, and persons engaged in the delivery of staff development.

During the course of our review, a number of these parties indicated that many school development plans do not comply with the requirements specified in Chapter 1362. The measure specifically requires that these plans (1) strengthen the ability of teachers to understand and impart subject matter and (2) provide *follow-up* activities to assist teachers in using newly-acquired skills on the job. In many cases, however, much of the staff development provided does *not* relate to subject matter, and consists of teachers attending workshops on a one-time basis. Research has consistently shown that staff development which does not contain follow-up activities (such as peer coaching or group discussions) is ineffective because (1) it fails to provide teachers with support in resolving problems that arise while implementing new strategies and skills and (2) teachers are more likely to forget what was learned.

Chapter 1362 specifies that regional resource agencies shall provide a participating school with assistance in developing adequate plans *only if* the school requests such assistance. Because those schools with the weakest plans were — according to most of the individuals who we interviewed — also the ones *least* likely to request assistance, the provisions of existing law appear insufficient to ensure adequate quality control.

Recommendation. In order to ensure that schools expend staff development funds effectively, and in compliance with the intent of Chapter 1362, we recommend that the Legislature adopt Budget Bill language requiring the regional resource agencies to review and approve plans

based on a specified set of criteria. Specifically, all plans would have to (1) provide for subject matter training, or justify, based on a rigorous needs assessment, that training in other areas would be of higher priority, and (2) contain provisions for extensive follow-up training activities.

We also recommend that each school document in its plan that it has considered how best to link continuing education courses taken by teachers to the school's staff development goals. This additional step would help expand the amount of resources available for program-related training and follow-up at little additional cost.

The following language would implement this recommendation:

7. As a condition of receiving funds appropriated in category (b) of this item, regional resource agencies (including regional resource consortia) shall agree to review and approve all local staff development plans. These agencies shall approve plans which — in the judgment of the agency — meet the following three criteria:

- (a) The school or district has focused the plan upon improving subject matter knowledge or related instructional practices, as evidenced by the use of University of California subject matter project services, or by centering the majority of training activities on subject matter. This criterion shall not apply to schools that can present, in the judgment of the resource agency, a high-quality needs assessment that justifies why such training should not be the school's highest priority.
- (b) The school or district makes available follow-up activities, such as, for example, observation of demonstration lessons, practice opportunities for peer coaching, consultation and feedback in the classroom setting, or systematic observation during visits to other classrooms or schools, as required by Section 44670.5(c) and (g) of the Education Code.
- (c) The school or district describes how, and provides evidence that, it has considered how best to link educational credits earned by teachers in order to fulfill continuing education requirements (or to advance on the salary scale) to its staff development goals.

The resource agency may also provide participating schools and districts with written comments on their plans, as it deems appropriate. Resource agency staff shall be involved in the evaluation of school programs, including on-site observation of some training activities, at least once every three years.

8. As a condition of receiving funds appropriated in category (b) of this item, school districts shall agree to use such funds only for planning purposes, until such time as its local staff development plans are approved by the applicable regional resource agency.

Legislative Oversight: Staff Development Report Delayed

The *Supplemental Report of the 1990 Budget Act* requires SDE to provide the Joint Legislative Budget Committee with a report by December 31, 1990 on school staff development programs. Specifically, the report is to address barriers to the utilization of staff development resources in the Professional Development Program planning process.

The Legislature received this report on January 31, 1991 — too late for our review and inclusion in this analysis. We will review the report prior to budget hearings, and provide the Legislature with our comments and recommendations, as appropriate.

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Table 14
K-12 Education
Special Education
1989-90 through 1991-92
(dollars in thousands)

<i>Expenditures</i>	<i>Actual</i> <i>1989-90</i>	<i>Est.</i> <i>1990-91</i>	<i>Prop.</i> <i>1991-92</i>	<i>Change from</i> <i>1990-91</i>	
				<i>Amount</i>	<i>Percent</i>
<i>Local assistance</i>					
Master Plan for Special Education					
General Fund	\$1,311,019	\$1,427,182	\$1,479,083	\$51,901	3.6%
Federal funds	124,295	129,228	159,026	29,798	23.1
Local funding (excluding special education revenue limits) ^a	284,122	296,931	308,888	11,957	4.0
Special education revenue limit funds ^b	353,774	375,327	375,327	—	—
Subtotals, Master Plan for Special Education	(\$2,073,210)	(\$2,228,668)	(\$2,322,324)	(\$93,656)	(4.2%)
Federally funded programs					
Preschool program	\$33,228	\$33,228	\$33,228	—	—
Other programs	13,128	19,065	19,672	607	3.2
Subtotals, federally funded programs	(\$46,356)	(\$52,293)	(\$52,900)	(\$607)	(1.2%)
Alternative programs					
Early Intervention for School Success	\$620	\$620	\$1,620	\$1,000	161.3%
Totals, local assistance	\$2,120,186	\$2,281,581	\$2,376,844	\$95,263	4.2%
<i>Funding sources, local assistance</i>					
General Fund ^c	\$1,548,668	\$1,679,271	\$1,732,172	\$52,901	3.2%
Federal funds	170,651	181,521	211,926	30,405	16.8
Local support ^d	400,867	420,789	432,746	11,957	2.8
<i>State operations</i>					
State administration	\$8,933	\$8,810	\$9,979	\$1,169	13.3%
Clearinghouse depository	535	556	643	87	15.6
Southwest Deaf-Blind Center	1	1	1	—	—
Special schools	46,173	49,693	50,037 ^e	344	0.7
Special schools transportation	436	436	436	—	—
Totals, state operations	\$56,078	\$59,496	\$61,096	\$1,600	2.7%
<i>Funding sources, state operations</i>					
General Fund	\$43,575	\$46,665	\$47,095	\$430	0.9%
Federal funds	8,830	8,741	9,910	1,169	13.4
Special funds ^f	142	110	110	—	—
Reimbursements	3,531	3,980	3,981	1	—
Grand Totals	\$2,176,264	\$2,341,077	\$2,437,940	\$96,863	4.1%
<i>Funding Sources</i>					
General Fund	\$1,592,243	\$1,725,936	\$1,779,267	\$53,331	3.1%
Federal funds	179,481	190,262	221,836	31,574	16.6
Local funds	400,867	420,789	432,746	11,957	2.8
Other, lottery and reimbursements	3,673	4,090	4,091	1	—

^a Includes county taxes, local general fund contribution, and excess country funds reallocated to school districts (excluding special education revenue limits).

^b Revenue limit funds calculated for support of special day classes.

^c Includes state share (67 percent) of revenue limits.

^d Includes local share (33 percent) of revenue limits.

^e Includes General Fund support of \$105,000 from Item 6110-001-001.

^f Lottery funds.

3. Special Education

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 1990-91, the program will serve an estimated 474,000 students (including those in state special schools) who are learning, communicatively, physically, or severely handicapped.

Table 14 shows the expenditures and funding for the special education program in the prior, current, and budget years.

For 1991-92, the budget proposes total support for special education programs of approximately \$2.4 billion. This consists of \$2.3 billion in total local "entitlements" under the Master Plan for Special Education, \$50.5 million for the operation of the state special schools (including transportation), \$10.6 million for state administration, and \$54.5 million for other special education programs, including the federal preschool programs. The budget includes an unallocated trigger-related reduction of \$794,000, in lieu the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The budget proposes to fund these expenditures as follows: \$1.8 billion from the General Fund (including amounts budgeted in revenue limit apportionments that support special education, Item 6110-101-001), \$222 million in federal funds, and \$433 million in local funds and reimbursements, including the local share of revenue limits that support special education.

The total amount represents an increase of \$96.9 million (4.1 percent) above the current-year level including: (1) a net increase of \$95.3 million for local assistance and (2) an increase of \$1.6 million for state operations.

We recommend approval of the proposed funding shown in Table 14 for the following program elements, which are not discussed elsewhere in this analysis:

- *State Special Schools (Items 6110-005-001, 6110-006-001, and 6110-008-001)* — \$50.5 million for three state special schools, three diagnostic centers for the neurologically handicapped, and three assessment centers for visually and hearing impaired students, including funding for transportation (\$46.5 million from the General Fund for state operations, \$3.9 million in reimbursements, and \$110,000 from the Lottery Fund). The General Fund amount represents a net increase of \$343,000 including increases of: (1) \$1 million for salary adjustments and (2) \$100,000 to expand an existing program to develop educational strategies for "drug babies." These increases are partially offset by an unallocated, trigger-related reduction of \$785,000, in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The SDE estimates that the schools and diagnostic centers will serve a total of 1,080 residential students in 1991-92.
- *Alternatives to Special Education — Early Intervention for School Success (Item 6110-162-001)* — \$1.6 million for the Early Intervention for School Success (EISS) program, created by Ch 1530/85 (SB 1256, Watson). The EISS program is designed to identify and assist

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kindergarten students who are not at the stage of development needed in order to benefit from a kindergarten curriculum, thereby avoiding their later placement in special education. The budget proposal represents an increase of \$1 million (161 percent) from the current-year funding level, in order to expand the program to additional sites.

a. Master Plan for Special Education (Items 6110-160-001 and 6110-161-001)

We recommend approval.

Students in California's K-12 public schools receive special education and related services through the Master Plan for Special Education. 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 five 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.
- **Special day class or center (SDC)** — these classrooms (or facilities) meet the needs of students that regular education programs cannot accommodate.

Table 15
K-12 Education
Special Education Enrollments
By Type of Disability and Placement
April 1, 1990

Placement	Disability				Totals
	Communi- cation ^a	Learning ^b	Physical ^c	Severe ^d	
Designated instruction and services (DIS)	110,647	7,403	11,270	1,593	130,913
Resource specialist program (RSP)	5,649	180,928	3,197	1,681	191,455
Special day class (SDC)	13,843	75,534	13,176	40,900	143,453
Nonpublic schools (NPS)	177	1,162	272	5,154	6,765
State special schools	732	18	26	304	1,080
Totals	131,048	265,045	27,941	49,632	473,666

^a Speech impaired, hard of hearing, deaf.

^b Specific learning disability.

^c Orthopedically impaired, visually handicapped, other health impaired.

^d Mentally retarded, severely emotionally disturbed, deaf-blind, multihandicapped

- **State special schools** — these facilities serve pupils who cannot be served in a public school setting within their region.
- **Nonpublic schools (NPS)** — these schools serve residential students who cannot appropriately be served in a public school setting.

Table 15 displays the distribution of special education students by general disability and instructional setting, as of April 1, 1990.

Table 15 shows that, of the total 474,000 special education pupils in 1989-90, 265,045 (56 percent) were identified as having learning disabilities. Of these, roughly two-thirds were served in RSP settings. The table also shows that relatively few special education pupils — 49,632 (11 percent) — were severely handicapped. These students tend to be served predominantly in special day classes.

General Fund Requirements. The budget proposes a total of \$2.3 billion in local assistance under the Master Plan — an increase of \$93.7 million (4.2 percent) over current-year funding levels. This increase is primarily due to funding for program growth, as described below. Funding sources for the \$93.7 million increase consist of (1) \$51.9 million from the General Fund and (2) \$29.8 million in federal funds and \$12 million in local funds, both of which serve to offset the level of General Fund support that would otherwise be required.

Proposed General Fund expenditures include \$1.5 billion for direct assistance for program “entitlements,” and \$250 million for the state share of general school apportionments which is required, by law, to support special education. Included within the total General Fund amount is a trigger-related reduction of \$9,000 to funding which does not count towards Proposition 98, in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Funding for Enrollment Increases. Funding for enrollment growth is calculated pursuant to statutory requirements, using two rates of pupil population growth: (1) the majority of special education programs now receive growth funding based on the rate of increase in the *regular* K-12 population (4.28 percent), pursuant to Ch 82/89 (SB 98, Hart), and (2) certain ancillary programs in special education receive growth funding based on the actual rate of growth in the *special education* population (4.32 percent); these ancillary programs include funding for nonpublic schools, regionalized services, county longer-day and -year incentives, and extended-year programs.

The budget proposes to provide a total of \$95.3 million from the General Fund for statutory growth funding: (1) \$84.4 million to serve additional students (exclusive of those placed in nonpublic schools), including \$1.2 million associated with infants, (2) \$10.4 million for the ancillary programs, and (3) \$488,000 in other enrollment adjustments. Included within these amounts, the budget continues to provide \$500,000 for units approved by waiver for sparsely populated and rural SELPAs which would not otherwise be eligible for such units based on statutory funding standards.

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Our review indicates that the amount requested for the Master Plan for Special Education fully funds statutorily required workload increases, and we recommend that it be approved.

b. Special Education Federal Funds (Item 6110-161-890)

We recommend approval.

The federal 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 state receives several different federal grants for special education purposes. The budget proposes \$221.8 million in total federal funds expenditures consisting of (1) \$211.9 million for direct and indirect assistance to local programs and (2) \$9.9 million for state operations.

Specifically, the budget proposes federally funded local assistance expenditures of (1) \$159 million for the Master Plan, (2) \$33.2 million for preschool programs, and (3) \$19.7 million for other specific grant programs and direct and indirect assistance. The total federal amount is an increase of \$31.6 million (17 percent) above the current-year funding level — much of which is used to offset General Fund requirements.

4. Vocational Education Programs

Table 16 summarizes funding for all vocational education programs, including Regional Occupational Centers and Programs (ROC/Ps). In total, the vocational education budget requests approximately \$366.7 million for these programs in 1991-92—an increase of \$3.0 million (0.8 percent) above the estimated current-year level of expenditures.

Table 16
K-12 Education
Funding for Vocational Education Programs
Local Assistance
1989-90 through 1991-92
(dollars in thousands)

Programs	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Regional Occupational Centers/Programs ..	\$230,560	\$240,651	\$243,787	\$3,136	1.3%
School-based programs.....	74,098 ^a	79,484 ^a	79,484 ^a	—	—
Agricultural education	3,139	3,233	3,233	—	—
Student organizations	550	582	567	-15	-2.6
Special-purpose programs:					
Partnership academies.....	2,098	2,330	2,330	—	—
GAIN (JTPA matching funds)	6,103	7,200	6,912	-288	-4.0
GAIN (Control Section 22).....	3,000	3,000	3,120	120	4.0
Federal JTPA/other reimbursements	16,340	26,256	26,256	—	—
Subtotals, special-purpose programs.....	<u>(\$27,541)</u>	<u>(\$38,786)</u>	<u>(\$38,618)</u>	<u>(-\$168)</u>	<u>(0.4%)</u>
Totals	\$335,888	\$362,736	\$365,689	\$2,953	0.8%
Funding Sources					
General Fund	\$244,636	\$256,182	\$259,135	\$2,953	1.2%
Federal funds	74,912	80,298	80,298	—	—
Reimbursements.....	16,340	26,256	26,256	—	—

^a Excludes \$814,000 in federal funds for Partnership Academies.

We recommend approval of the proposed funding shown in Table 16 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)** — \$244 million from the General Fund to support vocational training provided to high school pupils and adults in ROC/Ps. The budget proposes \$3.1 million to fully fund a statutorily required workload adjustment, based on the expected rate of enrollment growth in grades 11 and 12 (1.3 percent).
- **School-based programs (Item 6110-166-890)** — \$79.5 million from the Federal Trust Fund for local assistance to vocational education programs which are provided as part of the regular school curriculum.
- **Agricultural Vocational Education Incentive program (Item 6110-167-001)** — \$3.2 million from the General Fund for grants to school districts to improve the quality of approved agricultural vocational education programs.
- **Vocational education student organizations (Item 6110-117-001 and 6110-118-001)** — \$567,000 from the General Fund for vocational education student organizations, including an unallocated trigger-related reduction of \$15,000 for grant recipients which do not qualify as local education agencies under Proposition 98. This reduction is included in the proposed budget for the vocational education student organizations in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).
- **Partnership academies (Items 6110-166-001 and 6110-166-890)** — \$2.3 million (\$1.5 million from the General Fund and \$814,000 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 (SB 605, Morgan).
- **GAIN-related funds (Item 6110-165-001 and Control Section 22)** — \$10 million including: (1) \$6.9 million from the General Fund to match available federal Job Training Partnership Act (JTPA) funds used to provide remedial education services as part of the Greater Avenues for Independence (GAIN) program and (2) \$3.1 million in GAIN allocations to vocational education programs (provided in Control Section 22). The budget proposal includes unallocated trigger-related reductions of (1) \$288,000 in GAIN/JTPA matching funds and (2) \$130,000 in allocations from Control Section 22. These reductions are included in the proposed budget for GAIN-related funding in lieu of the reduction that would otherwise be made pursuant to Chapter 458.
- **Federal JTPA/other reimbursements (Item 6110-165-001 — reimbursements)** — \$26.3 million in reimbursements, including \$25.1 million in federal funds for the JTPA.

With the exceptions noted above, funding for these programs is continued at the same levels as in the current year.

DEPARTMENT OF EDUCATION—Continued**5. Compensatory Education Programs**

Compensatory education programs include federal Education Consolidation and Improvement Act (ECIA) Chapter 1, Economic Impact Aid (EIA), 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.

Table 17 summarizes local assistance funding from the General Fund and federal funds for compensatory education programs in the prior, current, and budget years. As the table shows, the budget proposes a total of \$884 million for compensatory education programs — \$305 million from the General Fund and \$579 million from federal funds.

The amount shown in the table for the EIA program reflects an increase of \$9 million (3.3 percent) to provide a statutory adjustment for enrollment growth. We discuss this adjustment later in this analysis.

Table 17
K-12 Education
Funding for Compensatory Education Programs
Local Assistance
1989-90 through 1991-92
(dollars in thousands)

	<i>Actual</i> 1989-90	<i>Est.</i> 1990-91	<i>Prop.</i> 1991-92	<i>Change from</i> 1990-91	
				<i>Amount</i>	<i>Percent</i>
General Fund:					
Economic Impact Aid	206,032	\$271,589	\$280,589	\$9,000	3.3%
Miller-Unruh Reading program	20,863	22,409	22,409	—	—
Native American Indian Education pro- gram	382	410	410	—	—
Indian education centers	1,912	1,912	1,896	-16	-0.8
Subtotals	(\$229,189)	(\$296,320)	(\$305,304)	(\$8,984)	(3.0%)
Federal funds:					
ECIA Chapter 1	495,945	\$565,526	\$565,526	—	—
Refugee and immigrant programs	19,414	13,848	13,610	-\$238	-1.7%
Subtotals	(\$515,359)	(\$579,374)	(\$579,136)	(\$238)	(—) ^a
Totals	\$744,548	875,694	\$884,440	\$8,746	1.0%

^a Less than -0.1 percent.

Table 17 also shows that current-year funding for ECIA Chapter 1 is expected to increase by \$70 million (14 percent) over the 1989-90 appropriation level. The federal government augmented the existing entitlements to local education agencies to serve low-income, disabled, and neglected and delinquent children.

Funding for refugee and immigrant programs decreased by \$5.6 million (29 percent) between 1989-90 and 1990-91 because of the termination of the federal Transition Program for Refugee Children. The remaining \$13.6 million budgeted in 1991-92 for refugee and immigrant programs is from the federal Emergency Immigrant Education Program.

We recommend approval of the proposed funding shown in Table 17 for the following compensatory education programs which are not discussed elsewhere in this analysis:

- *Miller-Unruh Reading (Item 6110-126-001)* — \$22.4 million.
- *Native American Indian Education (Item 6110-131-001)* — \$410,000.
- *Indian education centers (Items 6110-151-001 and 6110-152-001)* — \$1.9 million, including an unallocated trigger-related reduction of \$16,000 to Item 6110-152-001. This reduction is taken from the non-Proposition 98 portion of the proposed budget for Indian Education Centers, in lieu of the reduction that would otherwise be made pursuant to Chapter 458.
- *Education Consolidation and Improvement Act — Chapter 1 (Items 6110-136-890 and 6110-141-890)* — \$565.5 million.
- *Refugee and immigrant programs (Item 6110-176-890)* — \$13.6 million.

Economic Impact Aid (Item 6110-121-001)

We find that the appropriation for Economic Impact Aid may be insufficient to fully fund statutory enrollment growth, resulting in a potential underfunding of approximately \$16 million.

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

Funding for the EIA program is distributed according to two formulas. The primary formula, which is used by SDE to allocate approximately 91 percent of the EIA funds, involves a complex multi-step process which (1) determines statewide and district share of "gross need" and (2) allocates available resources based (a) on maintaining at least 85 percent of each district's prior-year funding level and (b) using any remaining funds to address "unmet need."

This primary EIA funding formula is based on the sum of (1) the number of children ages 5 to 17 who are from families receiving Aid to Families with Dependent Children (AFDC) and (2) the number of pupils with limited English proficiency. Adjustments for enrollment growth are based on actual growth in these populations between the past year and the current year. (Thus, enrollment growth for the budget year is based on actual growth between 1989-90 and 1990-91.)

The budget proposes \$281 million from the General Fund for the EIA program in 1991-92. This is an increase of \$9 million (3.3 percent) over the 1990-91 appropriation, to adjust for enrollment growth.

Potential Increase in Enrollment Growth. Although the Governor's Budget provides for 3.3 percent enrollment growth, the State Department of Education (SDE) anticipates that the actual growth rate may exceed this amount by an additional 6 percent. The SDE bases its

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estimate on enrollment growth of 9.4 percent between 1988-89 and 1989-90, which was fully funded in the 1990 Budget Act.

We find that, if this growth trend is sustained through the current year (as SDE anticipates), full funding for statutory enrollment growth may require an augmentation of approximately \$16 million. We will review the enrollment growth data again at the May revision, and make additional comments and recommendations to the Legislature at that time, as appropriate.

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

State reimbursement of school desegregation costs is not required by the California Constitution. However, under the provisions of current law, the state reimburses school districts for the cost of both court-ordered and voluntary school desegregation programs. These reimbursements are funded from the General Fund based on claims filed by school districts. In the current year, 12 school districts receive reimbursement for court-ordered programs, and 42 school districts receive reimbursement for voluntary programs.

Table 18 shows the three-year funding history for these programs.

Table 18
K-12 Education
General Fund Appropriations for School Desegregation Programs
1989-90 through 1991-92
(dollars in thousands)

	<i>Actual</i> 1989-90	<i>Est.</i> 1990-91	<i>Prop</i> 1991-92	<i>Change from</i> 1990-91	
				<i>Amount</i>	<i>Percent</i>
Court-ordered desegregation	402,480	\$438,285	\$439,457	\$1,172	0.3%
Voluntary desegregation	74,549	78,505	76,072	-2,433	-3.1
Totals	\$477,029	516,790	\$515,529	-\$1,261	-0.2%

Budget Proposal. The budget proposes \$439.5 million for court-ordered programs and \$76.1 million for voluntary programs in 1991-92, for a total of \$515.5 million. This total represents a decrease of \$1.3 million (0.2 percent) below estimated current-year expenditures.

Table 18 shows that the budget proposes a net increase of \$1.2 million (0.3 percent) for court-ordered desegregation programs in 1991-92, consisting of:

- An increase of approximately \$50,000 for two new claims from Menlo Park City Elementary and Ravenswood City Elementary districts (both in San Mateo County).
- A decrease of \$10.2 million to reflect net reductions in 1990-91 claims from amounts appropriated.
- An increase of \$11.3 million in enrollment growth.

Table 18 also shows that the budget proposes a net decrease of \$2.4 million (3.1 percent) for voluntary desegregation programs, consisting of:

- An increase of \$1.5 million for four new claims from Sunnyvale Elementary, Oakland Unified, Norwalk-La Mirada City Unified, and Kerman Unified (Fresno County) districts.
- A decrease of \$6.2 million to reflect net reductions in the level of 1990-91 claims from amounts appropriated.
- An increase of \$2.3 million for enrollment growth.

Our review indicates that the budget proposal provides full funding for statutorily required workload adjustments (based on actual increase in the number of pupils between past and current years).

Prohibit Double-Funding of Year-Round Schools

We recommend that, in order to prevent double-funding, the Legislature adopt Budget Bill language prohibiting school districts from receiving reimbursement for costs related to year-round school operations, except to the extent that such costs exceed amounts provided through the state year-round school operating grant program. Consistent with this recommendation, we further recommend that the Legislature reduce funding for court-ordered desegregation by \$21.3 million. (Reduce Item 6110-114-001 by \$21,300,000.)

Under current law, school districts may receive reimbursement for their costs of operating desegregation programs. Both court orders and district plans (for voluntary programs) contain a wide variety of costs which have been claimed by school districts and for which funding has been provided by the state. For example, court orders and voluntary plans include funding for child development and preschool, gifted education, class size reduction, bilingual education, magnet schools, voluntary student transfer, and general program enrichment. In the case of at least one school district (Los Angeles Unified), the state has also provided reimbursement through the desegregation program for costs which the district claims are associated with operating schools on a year-round calendar.

School districts may also receive funding for year-round schools through the new year-round school operating grant program, created by Ch 1261/90 (AB 87, O'Connell). Under this program, school districts that accommodate overcrowding through the use of year-round schools, as an alternative to state-financed school construction, are eligible for operating grants. The amount of each school's grant is based on a formula which is intended to share with districts a percentage of the state's cost avoidance for school construction.

We estimate that, in 1991-92, the Los Angeles Unified School District will claim at least \$21.3 million in costs associated with year-round operations through court-ordered desegregation reimbursements. At the same time, we estimate that the schools for which such desegregation funding is claimed will receive *at least \$21.3 million* in funding through the year-round school operating grant program, which could be used to

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cover these costs. (This conclusion would still hold, even if the Legislature adopts our recommendation — presented elsewhere in this analysis — to reduce the funding rate for the year-round school operating grant program.)

The administration has proposed Budget Bill language in Item 6110-224-001 (year-round school incentives) which is intended to prohibit school districts from receiving funding through both programs. Our review indicates, however, that this language will not have the intended effect. When similar language has been included in the Budget Bill in past years, the Controller has interpreted it as requiring only that school districts show that amounts received from year-round school incentives were spent for different purposes (including discretionary program enhancements) than were amounts received through the desegregation program for costs of year-round schools. In essence, all a district need show is that it spent all of the money from both sources — and that costs claimed through the desegregation program were, in fact, incurred. We do not believe that this is the outcome that was intended by the Legislature when it adopted the Budget Bill language.

Our review also indicates, however, that this problem could be remedied through the adoption of Budget Bill language in the desegregation programs' budget items, prohibiting school districts from receiving any funding for costs associated with year-round school operations, except to the extent that such claimed costs exceed amounts provided for such schools through the year-round school grant program. Accordingly, we recommend that the Legislature delete Provision 3 of Item 6110-224-001 and adopt the following language in Items 6110-114-001 and 6110-115-001:

Funds appropriated in this item shall not be used to reimburse local education agency claims for costs related to the operations of year-round schools, except to the extent that audited and approved claims for such costs exceed amounts generated under the year-round school operating grant program (Item 6110-224-001) by the year-round schools for which such desegregation costs are claimed during 1991-92.

Consistent with this recommendation, we further recommend that the Legislature reduce funding for court-ordered desegregation programs by \$21.3 million.

Legislative Oversight: Report on Desegregation Funding Options Delayed

In the *Analysis of the 1990-91 Budget Bill*, we called the Legislature's attention to our finding that desegregation program costs were growing at rates far in excess of the K-12 budget in general. Our analysis indicated that the Legislature had a limited number of options for bringing these costs under control, including: (1) imposing stricter eligibility standards and cost controls, (2) increasing the required local cost share, and (3) providing funding on a formula basis.

In response to our analysis, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* directing the State Department of Education (SDE) to investigate options for bringing desegregation costs under control, with the intent that these options advance the

goal of desegregation plans — equality of educational opportunity — in the most cost-effective and equitable manner possible. The language further required the SDE to submit its report, with specific recommendations for legislative action, to the appropriate legislative and fiscal committees and the Joint Legislative Budget Committee by December 1, 1990.

In a memo to the Joint Legislative Budget Committee dated November 1, 1990, the SDE states that it would not submit the report until February 1, 1991 because of budget reductions resulting from Control Section 3.80 of the 1990-91 Budget Act. (This Control Section imposed on most General Fund state operations budget items an unallocated, 3 percent reduction.) Department staff have since informed us that the report will probably not be submitted until late February.

We will review the report when it is submitted, and make comments and recommendations to the Legislature as appropriate.

Table 19
K-12 Education
Support for Other Specialized Education Programs
Local Assistance
1989-90 through 1991-92
(dollars in thousands)

Programs	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Supplemental grants	\$180,000	\$185,400	\$185,400	—	—
Pupil dropout prevention and recovery.....	11,737	12,089	12,089	—	—
Foster youth services	859	938	1,353	\$415	44.2%
Federal drug and alcohol abuse preven- tion.....	20,480	33,940	33,940	—	—
Tobacco use prevention program	35,698	36,011	16,000	-20,011	-55.6
Prenatal substance abuse education ^b	—	—	4,000	4,000	— ^a
School/law enforcement partnership.....	650	650	650	—	—
Commissions on professional competence ..	30	30	30	—	—
Opportunity classes and programs	1,808	2,028	1,659	-369	-18.2
Gifted and Talented Education.....	24,520	29,426	32,685	3,259	11.1
Specialized secondary schools	2,198	2,264	2,264	—	—
Federal block grant (ECIA Chapter 2)	40,198	40,435	40,435	—	—
Driver training.....	21,236	1	21,001	21,000	— ^a
Healthy Start ^b	—	—	20,000	20,000	— ^a
Early mental health counseling ^b	—	—	10,000	10,000	— ^a
Volunteer and Mentor Corps ^b	—	—	5,000	5,000	— ^a
Totals.....	\$339,414	\$343,212	\$386,506	\$43,294	12.6%
Funding Sources:					
General Fund	\$221,802	\$231,887	\$294,777	\$62,890	27.1%
Federal funds	60,678	74,375	74,375	—	—
Special funds.....	56,934	36,950	17,354	-19,596	-53.0

^a Not a meaningful figure.

^b Governor's proposal (General Fund set-aside for pending legislation).

7. 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 supplemental grants, pupil dropout prevention and recovery,

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foster youth services, federal drug and alcohol abuse prevention, tobacco use prevention, prenatal substance abuse education, school/law enforcement partnership, commissions on professional competence, opportunity classes and programs, Gifted and Talented Education, specialized secondary schools, the ECIA Chapter 2 federal block grant, driver training, and three new programs proposed by the Governor (Healthy Start, early mental health counseling, and Volunteer and Mentor Corps). Table 19 summarizes local assistance funding for these programs.

Table 19 shows that the budget proposes a total of \$387 million for these specialized education programs. Of this amount, \$295 million is from the General Fund, \$74 million from federal funds, and \$17 million from special funds. The proposed total is an increase of \$43 million (13 percent) over estimated current-year expenditures.

We recommend approval of the proposed funding shown in Table 19 for the following programs which are not discussed elsewhere in this analysis:

- *Supplemental grants (Item 6110-108-001)* — \$185.4 million.
- *Pupil dropout prevention and recovery (6110-120-001)*—\$12.1 million.
- *Foster youth services (Item 6110-119-959)*—\$1.4 million, including an augmentation of \$415,000 from the Foster Youth and Parent Training Fund for two new sites.
- *Federal drug and alcohol abuse prevention (Item 6110-183-890)*—\$33.9 million.
- *School/law enforcement partnership (Item 6110-225-001)*—\$650,000.
- *Commissions on professional competence (Item 6110-209-001)*—\$30,000.
- *Opportunity classes and programs (Item 6110-119-001 (a))*—\$1.7 million, including a reduction of \$369,000 to reflect actual expenditure levels in the current year.
- *Gifted and Talented Education (GATE) (Item 6110-124-001)*—\$32.7 million, including increases of \$2.0 million to complete expansion to all districts that requested a program and \$1.2 million for enrollment growth.
- *Specialized secondary schools (Item 6110-119-001 (b))*—\$2.3 million.

With the exceptions noted above, these programs are continued at essentially the same levels as in the current year.

Governor's Initiatives

As noted, the Governor proposes to appropriate \$35 million to establish three new programs (these funds are not contained in the Budget Bill, but are shown in the Governor's Budget as reserved for pending legislation):

Healthy Start. \$20 million to establish a new Healthy Start program in grades K-6. This program will provide funding to school districts for

referrals to public health care and social service providers, with the aim of local coordination and integration of these services.

Early mental health counseling. \$10 million for an early mental health program for children in grades K-6. This program is intended to identify and remediate mental health problems in young children.

Volunteer and Mentor Corps. \$5 million to create a new "Volunteer and Mentor Corps," through which school districts will receive funds to recruit and train (1) volunteers for classroom assistance and (2) mentors to provide guidance and motivation to "at risk" students.

At the time this analysis was written, the Legislature had not received further details regarding the specifics of these proposals. We will review the enabling legislation when it is introduced, and make comments and recommendations to the Legislature as appropriate.

a. Driver Training (Items 6110-171-001 and 6110-171-178)

Current law authorizes the SDE to administer a driver training program, through which students who wish to drive before the age of 18 may qualify for a driver's license. Under this program, school districts that offer behind-the-wheel training may receive funding based on their actual costs in the prior fiscal year, up to a limit of \$97 per nondisabled pupil and \$290 per disabled pupil. School districts may also receive funding for 75 percent of their costs of replacing vehicles and simulators which exceed a specified per-pupil amount. Current law further requires that funding for these purposes be provided from the Driver Training Penalty Assessment Fund (DTPAF), which receives its revenues from traffic fines.

In acting on the 1990 Budget Act, the Governor vetoed all but \$1,000 in funding for driver training from the DTPAF. This action, in combination with Control Section 24.10 (which transfers the unencumbered balance in the DTPAF to the General Fund at the end of the fiscal year), resulted in the transfer to the General Fund of \$21.2 million in DTPAF revenues that would otherwise have been used for the driver training program in 1990-91.

In his veto message, the Governor stated that he would be willing to restore this funding, if it were provided from the General Fund (which counts towards meeting Proposition 98 minimum funding requirements). The Legislature, however, did not approve legislation to enact this proposal. As a result, at the time this analysis was written, there was only \$1,000 in funding available for driver training in the current year.

Table 19 displays funding for the driver training program in the past, current, and budget years. As the table shows, the Governor's Budget proposes \$21 million for driver training local assistance *from the General Fund*. (Under the budget proposal, the bulk of DTPAF revenues — \$52.4 million — would be transferred to the General Fund at the end of 1991-92, pursuant to Control Section 24.10.) The table also shows the virtual elimination of driver training funding in the current year.

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Restoration of Driver Training Not Justified

We recommend the deletion of \$21 million from the General Fund for driver training, because this program primarily serves individual, rather than statewide, interests. (Reduce Item 6110-171-001 by \$21,000,000.)

As noted, the Governor's Budget proposes to provide \$21 million from the General Fund to restore funding to the driver training program (plus an additional \$1,000 from the DTPAF fund to comply with current law). The administration also proposes Budget Bill language to change the funding mechanism. Specifically, the administration proposes to allocate funding to participating school districts based on an equal amount per pupil enrolled in the 11th grade during the prior year (1990-91).

Our review indicates that the Legislature has three main options with respect to the driver training program:

- **Provide Funding from General Fund.** Under this option (Governor's Budget proposal), funding appropriated for the driver training program would count towards meeting Proposition 98 minimum funding requirements. In any year in which Proposition 98 is operative, therefore, providing driver training funding in this manner would result in an equivalent decrease in the amount of General Fund support available for other Proposition 98-eligible purposes. (Please see our companion document, *The 1991-92 Budget: Perspectives and Issues*, for a more detailed discussion of Proposition 98.)
- **Provide Funding from DTPAF.** Compared to the Governor's Budget proposal, this option would result in a decrease in General Fund revenues of \$21 million and an equivalent decrease in General Fund expenditures in 1991-92.
- **Eliminate Funding.** This option would continue the *de facto* policy in the current year of not funding driver training. Under this option, school districts would have to decide whether to continue subsidizing the driver training program themselves from general-purpose revenues.

Our analysis indicates that there is little evidence to support the proposition that students who receive driver training through the public schools and qualify for their licenses before the age of 18 are safer drivers than those who either (1) receive privately provided driver training or (2) simply wait until age 18 to drive. We therefore find that the *primary* beneficiaries of a state-subsidized driver training program are the students who wish to drive before the age of 18 (and/or their parents).

Given the overall magnitude of the budget problem faced by the state, as well as the fact that the state subsidy for this purpose has already been eliminated in the current year, we can find little analytical justification for appropriating \$21 million from the General Fund for a program that primarily serves individual — rather than statewide — interests. Accordingly, we recommend that funding for this purpose be eliminated, for an equivalent General Fund savings.

b. Prenatal Substance Abuse Education (Item 6110-184-001)

We recommend the deletion of \$4 million requested from the General Fund for prenatal substance abuse education, because school district costs are likely to be minor. (Reduce Item 6110-184-001 by \$4 million.)

Chapter 540, Statutes of 1990 (AB 2282, Woodruff), requires that instruction on the effects of alcohol, narcotics, and other dangerous substances upon prenatal development be included in the curriculum of all secondary schools. (This chapter amended provisions of existing law which require instruction on the effects of alcohol, narcotics, and other dangerous substances upon the human system in general.) The budget proposes to appropriate \$4 million from the General Fund, to support school district costs of providing this instruction.

Our review indicates that such funding is not warranted, for three reasons.

First, the SDE has already prepared curriculum materials addressing the issues cited in Chapter 540 and is planning to distribute these to school districts, using existing funds. As a result, school districts should incur no additional costs for developing such materials.

Second, it is not clear that school districts will incur any significant costs to integrate this information into their existing health curricula. To the extent that districts do incur any costs, they may submit claims for funding through the existing state mandated cost reimbursement process.

Third, we can find no indication that the Legislature, in enacting Chapter 540, intended to implement a program costing \$4 million annually. (Our fiscal analysis of AB 2282 indicated that school districts could incur unknown, but probably minor, mandated costs.)

Accordingly, we recommend that this funding be deleted, for an equivalent General Fund savings.

c. Tobacco Use Prevention Program (Items 6110-001-231 and 6110-106-231)

We find that the budget proposes to redirect \$20 million in funding from the Tobacco Use Prevention program to a new perinatal insurance program.

The budget proposes \$16 million for the Tobacco Use Prevention program, a decrease of \$20 million (56 percent) below the current-year funding level. The Tobacco Use Prevention program, administered by SDE, provides grants to school districts to fund health education and tobacco information activities designed to reduce tobacco use among school children. This program received \$35.7 million in 1989-90 and another \$36 million in 1990-91.

The program is funded from the Cigarette and Tobacco Products Surtax Fund established by Proposition 99 (the Tobacco Tax and Health Protection Act of 1988). This measure established a surtax of 25 cents per package on cigarettes and an equivalent amount on all other tobacco products sold in California. This surtax generated almost \$1.7 billion in new revenues available for expenditure in 1989-90 and 1990-91. Chapter 1331, Statutes of 1989 (AB 75, Isenberg), allocated the vast majority of these funds.

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The administration proposes that \$20 million be redirected to a new perinatal insurance program, which would cover pregnancy and neonatal medical care for women with incomes between 185 and 250 percent of the federal poverty level. (For more information on this proposal, please see our analysis of the Major Risk Medical Insurance Board, Item 4280.)

Our review indicates that, absent a change in current law (requiring a four-fifths vote), the total level of support proposed for tobacco tax-funded health education programs would fall below the minimum level required by Proposition 99.

Our review also indicates that the proposed budget cut would likely result in a reduction in the level of per-pupil funding for grants to school districts. (These grants provide \$29 million annually to school districts based on their enrollment.) According to the SDE, school districts use these grants to provide for a wide variety of activities, including training teachers and purchasing prepared curriculum materials to teach students to resist peer pressure and abstain from smoking.

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

In 1982-83, the federal government consolidated approximately 30 categorical grant programs into a single block grant. The authorizing legislation for the block grant — the Education Consolidation and Improvement Act, Chapter 2 — requires that at least 80 percent of the grant be allocated to school districts using an enrollment-based formula. Federal law prohibits the state from specifying how these funds should be used by school districts. The balance of the Chapter 2 funds — up to 20 percent of the total grant — may be retained for discretionary expenditures by the state. These funds may be used for state operations or to finance grants for specific programs.

The budget proposes a total of \$48.9 million for ECIA Chapter 2 programs in the budget year (\$40,435,000 in Item 6110-101-890 and \$8,418,000 in Item 6110-001-890).

SDE Expenditure Plan Deficient

We withhold recommendation on \$48.9 million in funding from the federal ECIA Chapter 2 block grant, pending receipt from SDE of a more detailed expenditure plan.

The *Supplemental Report of the 1988 Budget Act* requires the SDE annually to submit to the Legislature an expenditure plan for ECIA Chapter 2 funds by January 5. The department submitted a one-page document on January 10 which purports to meet the requirements of the supplemental report language.

Our review indicates, however, that the information submitted by SDE is of little value for the Legislature in reviewing the ECIA Chapter 2 budget request. Specifically, the department's plan fails to include such basic information as (1) the formula that will be used to allocate funds among local education agencies or (2) a list and explanation of state operations and other projects to be supported with the funds.

In sum, our review indicates that the SDE "expenditure plan" provides no more information than is already contained in the Budget Bill. As such, it fails to respond to the intent of the Legislature in requesting such a plan.

Accordingly, we withhold recommendation on the \$48.9 million of federal ECIA Chapter 2 grant funds, pending receipt from SDE of a more detailed plan containing the information noted above. We will review the expenditure plan upon receipt and, if warranted, prepare a supplemental analysis for legislative review during budget hearings.

II. ANCILLARY SUPPORT FOR K-12 EDUCATION PROGRAMS

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

A. Transportation Aid

There are three elements to this program: the home-to-school transportation program, the small school district bus replacement program, and the school bus demonstration program.

Proposed funding for transportation programs is shown in Table 20.

Table 20
K-12 Education
Transportation Aid
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Home-to-school transportation.....	\$302,756	\$329,282	\$340,282 ^a	\$11,000	3.3%
Small school district bus replacement.....	3,297	3,400	3,400 ^b	—	—
School Bus Demonstration Program ^c	19,347	2,000	45,116	43,116	— ^d
Totals.....	\$325,400	\$334,682	\$388,798	\$54,116	16.2%
Funding Sources:					
General Fund.....	\$306,053	\$332,682	\$343,682	\$11,000	3.3%
Katz Schoolbus Fund (transfer from federal Petroleum Violation Escrow Account).....	19,347	2,000	45,116	43,116	— ^d

^a Budget Bill incorrectly shows appropriation as \$340,385,000.

^b Budget Bill incorrectly shows appropriation as \$3,297,000.

^c Discussed in Item 3360-001-465.

^d Not a meaningful figure.

Technical Error in Budget Bill. As shown in Table 20, the Governor's Budget proposes \$340.3 million for home-to-school transportation aid and \$3.4 million for small school district bus replacement. Our review of the Budget Bill indicates that, while the *total* appropriation for these two programs is correct, the specific amount shown for home-to-school transportation is overstated by \$103,000 and the amount for small school district bus replacement is understated by an equivalent amount. We have brought this error to the attention of staff at the Department of Finance, who indicate that it will be corrected at the May revision.

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Table 20 also shows that the Governor's Budget proposes to appropriate \$45.1 million from the Katz School Bus Fund (funded by the federal Petroleum Violation Escrow Account (PVEA)) in Item 3360-001-465 — the Energy Resources Conservation and Development Commission — for the School Bus Demonstration Program. This program was established pursuant to Ch 1426/88 (AB 35, Katz), to field test the fuel efficiency of different types of school buses and to enable local education agencies to purchase replacement school buses, as specified. Chapter 1426 appropriated \$59.6 million from the PVEA, of which \$2 million is estimated as current-year expenditures and \$45.1 million is proposed for the budget year.

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

- *Small school district bus replacement (Item 6110-111-001 (b))*— \$3.4 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 as is provided in the current year.

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

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

We recommend the enactment of legislation to revise the existing home-to-school transportation funding formula, because the present formula results in an inequitable distribution of state aid.

The home-to-school transportation program provides state reimbursement for the approved transportation costs of 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 plans for special education pupils.

Budget Proposal. The budget proposes \$340.3 million from the General Fund to fund home-to-school transportation in the budget year. The proposed amount is an increase of \$11 million (3.3 percent) from the current-year level of funding. This increase is primarily due to provisions of Ch 1601/88 (AB 3753, Johnston), which required eligible school districts to take their entitlement to small school district transportation aid (formerly a revenue limit "add-on") either as part of base revenue limit apportionments or as part of home-to-school transportation aid. As such, it does not represent an increase in actual funding available to school districts.

Funding Formula Continues to Need Revision. In our publication, *The 1988-89 Budget: Perspectives and Issues*, we identified two major problems with the formula for distributing home-to-school transportation aid: (1) the formula does not relate reimbursement to actual costs and (2) the formula results in an inequitable distribution of state funds. In response to these problems, we recommended in the *Analysis of the 1990-91 Budget Bill* the following solutions:

- Funding should be provided for only those costs in excess of a specified amount (in effect a “deductible”) because all local education agencies (LEAs — school districts and county offices of education) incur some “normal” transportation costs for which resources are available from the per-ADA revenue limit.
- Funding should be provided to fund no more than 80 percent of approved costs in excess of the “deductible” to provide an incentive for agencies to control costs.
- Funding in future years should be adjusted for changes in vehicle-miles traveled (rather than changes in ADA), with appropriate inflation adjustments as provided by the Legislature.
- LEAs providing their own transportation services should receive a bus depreciation allowance, because such costs are implicitly “built into” approved costs reported by LEAs that contract for transportation services.
- LEAs providing their own transportation services should be required to set aside the bus depreciation allowance in a separate account for bus replacement and maintenance.

Our analysis continues to indicate that the current funding formula results in an inequitable distribution of state aid, and that these changes would remedy this situation. Accordingly, we recommend the enactment of legislation to revise the formula, containing the elements specified above.

b. School Facilities Programs

School facilities programs include:

- Construction and modernization of school facilities.
- Purchase and lease of emergency portable classrooms.
- Air conditioning and insulation in year-round school facilities.
- Asbestos abatement in school facilities.
- Year-round school incentive payments.
- Deferred maintenance of school facilities (discussed in Item 6350, later in this *Analysis*).

Of these programs, funding for the first four is provided primarily through statutory appropriations, while funding for the latter two is included in the annual Budget Act. With the exception of year-round school incentive payments (which are allocated by SDE), the allocation of school facilities funds 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.

Statutory funding for the construction and modernization of school facilities and for emergency portable classrooms is provided from the proceeds of state general obligation bond sales. In 1990, the voters approved two bond measures, totalling \$1.6 billion: (1) the 1990 School Facilities Bond Act (Proposition 123, which authorized the sale of \$800 million in bonds) and (2) the School Facilities Bond Act of 1990 (Proposition 146, which authorized the sale of an additional \$800 million

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in bonds). The SAB estimates that, by the close of the current fiscal year, almost all of the proceeds from these measures will have been allocated to school districts.

Table 21 shows the total amount of school facilities funding which the SAB and the SDE allocated to school districts during the prior and current years, as well as the amount proposed for the budget year. We note that SAB allocations of funds to school districts may not equal the revenues from general obligation bond authorizations in a given year, because bond revenues are frequently carried over and used to finance school district projects in future years.

Table 21
K-12 Education
Revenues Available for School Facilities Aid *
1989-90 through 1991-92
(dollars in millions)

	Actual 1989-90	Estimated 1990-91	Proposed 1991-92	Change from 1990-91	
				Amount	Percent
<i>State Building Program (Construction and Modernization)</i>					
School Facilities Bond Act of 1990 (Proposition 146).....	—	\$760.0	—	-\$760.0	-100.0%
1990 School Facilities Bond Act (Proposition 123).....	—	710.0	—	-710.0	-100.0
1988 School Facilities Bond Act (Proposition 79).....	\$305.8	6.0	—	-6.0	-100.0
School Facilities Bond Act of 1988 (Proposition 75).....	24.1	20.0	—	-20.0	-100.0
Subtotals, state building program.....	(\$329.9)	(\$1,496.0)	—	(\$-1,496.0)	(-100.0%)
<i>Deferred Maintenance Program</i>					
General Fund ("excess repayments").....	\$54.1	\$53.9	\$53.3 ^b	-\$0.6	-1.1%
General Fund (Budget Bill).....	—	23.0	23.0	—	—
Subtotals, deferred maintenance program.....	(\$54.1)	(\$76.9)	(\$76.3)	(\$-0.6)	(-0.8%)
<i>Emergency Classroom Program</i>					
School Facilities Bond Act of 1990 (Proposition 146).....	—	\$25.0	—	-\$25.0	-100.0%
1990 School Facilities Bond Act (Proposition 123).....	—	27.0	—	-27.0	-100.0
School Facilities Bond Act of 1988 (Proposition 75).....	\$6.7	3.5	—	-3.5	-100.0
Rental Revenues.....	12.3	9.6	12.0	2.4	25.0
Subtotals, emergency classroom program.....	(\$19.0)	(\$65.1)	(\$12.0)	(\$-53.1)	(-81.6%)
<i>Year-Round School Programs</i>					
Year-round incentives (General Fund).....	\$35.5	48.4 ^c	\$82.9	\$34.5	71.3%
Air conditioning (bond funds).....	14.1	58.9	26.0	-32.9	-55.9
Orchard Plan (General Fund).....	0.3	0.2	—	-0.2	-100.0
Subtotals, year-round school programs.....	(\$49.9)	(\$107.5)	(\$108.9)	(\$1.4)	(1.3%)

<i>Asbestos Abatement Programs</i>					
General Fund	\$4.1 ^d	—	—	—	—
1988 School Facilities Bond Act (Proposition 79)	9.4	\$10.7	\$3.0	-\$7.7	-72.0%
Subtotals, asbestos abatement programs ..	(\$13.5)	(\$10.7)	(\$3.0)	(-\$7.7)	(-72.0%)
<i>Federally Funded Programs^e</i>					
Child care facilities	\$7.6	\$2.3	\$0.1	-\$2.2	-95.7%
Child care capital outlay	0.2	0.4	0.1	-0.3	-75.0
Air conditioning	—	0.4	—	-0.4	-100.0
Subtotals, federally funded programs	(\$7.8)	(\$3.1)	(\$0.2)	(-\$2.9)	(-93.5%)
Totals	\$474.2	\$1,759.3	\$200.4	-\$1,558.9	-88.6%

^a This table illustrates the resources available to facilities aid programs in a given year. The bulk of these resources are from state general obligation bond proceeds. Bond funds frequently are not fully apportioned to school districts in the year they are authorized. This table shows our estimates of the timing of fund commitments to school district projects.

^b The Governor's Budget incorrectly shows \$67.1 million.

^c The Department of Finance intends to request \$12.7 million of this amount through a deficiency appropriation.

^d Includes \$1.8 million in balances transferred to the General Fund in accordance with 1990 Budget Act provisions.

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

Budget Proposal. The SAB and SDE propose to allocate a total of \$200.4 million in school facilities aid during 1991-92. Of this amount, \$105.9 million is contained in the Budget Bill. (The figures below reflect our estimates of the actual timing of the major fund distributions and may differ from amounts shown in the Governor's Budget.)

- **Year-round school programs—\$108.9 million from the General Fund and unapportioned 1990 bond proceeds.** The budget proposes \$82.9 million from the General Fund for year-round school operating grants and year-round school implementation grants, both of which are authorized by Ch 1261/90 (AB 87, O'Connell). In addition, the budget proposes \$26 million from unapportioned 1990 bond proceeds to purchase air conditioning systems for year-round schools. The budget discontinues funding for the "Orchard Plan" year-round school demonstration project in accordance with provisions in the enabling legislation, Ch 1246/87 (AB 1650, Isenberg).
- **Deferred maintenance—\$76.3 million from the General Fund.** These funds would be used to finance deferred maintenance projects and support the program's state administrative costs.
- **Emergency Portable Classroom program—\$12 million from portable classroom rentals.** These funds would be used to finance the construction, installation, and relocation of portable classroom facilities under the Emergency Portable Classroom program.

In sum, the budget proposes a funding level of \$200.4 million, which is \$1.6 billion, or 89 percent, *less* than the level of funding provided in the current year.

Constitutional Amendment Proposed. The Governor's Budget indicates that the administration will support placing before the voters in 1992 a constitutional amendment to lower the voter-approval threshold on local school bond measures from the current two-thirds level to a

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a district's project. When the district meets specified criteria, the SAB disburses funds for the project. These funds are then typically deposited in the interest bearing accounts of the treasury of the county in which the district is located, until they are needed to pay for the project's costs.

Current law directs the SAB to collect "rents" from school districts participating in the Lease-Purchase program. These rents may not exceed (in addition to other specified monetary amounts and sources) the amount of the interest earned on state funds deposited in the county school lease-purchase funds. The state school construction bond acts of 1982 through 1988 further provide that project rents shall be transferred from the State School Building Lease-Purchase Fund to the General Fund to partially reimburse the state's debt service costs (estimated at \$343 million in 1991-92) for state school construction bond issues. Under existing law, the SAB is prohibited from disbursing to lease-purchase projects any funds required by law to be transferred to the General Fund.

Auditor General Report. In a January 1991 report, the Auditor General found that the Office of Local Assistance (OLA), the SAB's administrative agency, had not remitted to the General Fund approximately \$31.8 million in interest earnings on local accounts. This estimated amount reflects (1) \$18.4 million in total interest earnings that OLA "collected" from school districts but did not transfer to the General Fund and (2) \$13.4 million in uncollected interest earnings dating back to 1982. The Auditor General concluded that, because these amounts were not transferred to the General Fund, the state has paid at least \$31.8 million more to redeem school construction bonds than was required by law.

The OLA does not dispute the Auditor General's finding that it has failed to transfer to the General Fund interest earnings in the amounts noted. The office does, however, dispute the Auditor General's conclusion that such transfers are required by law. Specifically, OLA contends that it has merely complied with a policy, adopted by the SAB in 1980, that rental payments may take the form of either (1) a contribution toward the cost of an ongoing project or (2) a direct remittance. On the basis of this policy, OLA has treated interest earnings as contributions to the cost of ongoing district projects and has deducted an equivalent amount from the apportionment to which districts would otherwise be entitled. The OLA further argues that, because it has not actually *deposited* any interest earnings in the State School Building Lease-Purchase Fund, the requirement to reimburse the General Fund does not apply.

Legislative Counsel Opinion. In response to the OLA's contentions, the Auditor General asked the Legislative Counsel to review the issue and determine whether OLA, acting according to SAB policy, has the authority to apply a district's interest earnings toward the cost of the district's school construction project. According to the Auditor General:

"The Legislative Counsel stated that the intent of [current law] was not to make the transfer of the interest earnings dependent on whether the SAB chooses to directly debit the cost of a project or receive a direct

remittance from the district. Instead, according to Legislative Counsel, the intent of the law is to require those payments to be transferred to the General Fund to reimburse the General Fund for funds paid to redeem school construction bonds.”

The Legislative Counsel, therefore, disagrees with OLA’s interpretation of the statutes and concludes that the OLA is not authorized to apply “rent” payments toward the state’s share of school construction project costs.

To remedy OLA’s past errors, the Auditor General recommended that the SAB or the OLA, as appropriate (1) collect all interest earnings reported to OLA since 1982 and (2) transfer to the General Fund all interest earnings collected from school districts as rent.

Recommendation. We concur with the Auditor General’s conclusions that the OLA, contrary to provisions in current law, has failed to collect and transfer to the General Fund an estimated \$31.8 million in interest earnings on state school construction bond funds deposited in local interest bearing accounts. Based on past practice, however, we believe it is unlikely that OLA will make these transfers and, therefore, we believe that legislative action will be necessary to ensure that the accumulated amount of interest earnings is transferred. Accordingly, we recommend that the Legislature adopt the following new control section to require the Director of Finance to make the appropriate transfer during the budget year.

Section 24.30. Notwithstanding any provision of law to the contrary, the Director of Finance shall transfer from the State School Building Lease-Purchase Fund to the General Fund an amount equivalent to the interest earnings on state school construction bond funds (from state school construction bond acts enacted in 1982 through 1988, inclusive) deposited in county school lease-purchase funds, in accordance with Education Code Sections 17732, 17685, 17695.3, 17696.3, 17697.3, 17698.3, and 17708.5.

2. Year-Round School Incentives (Item 6110-224-001)

School districts that increase their enrollment capacity through the use of year-round education may be eligible for both one-time implementation grants and annual operating grants pursuant to Ch 1261/90 (AB 87, O’Connell). These grant programs replace the “SB 327” and “SB 813” incentive payment programs which had been established, respectively, by Ch 886/86 (Leroy Greene) and Ch 498/83 (Hart).

Under the *operating grant* program, school districts which accommodate through the use of year-round operations additional enrollment equal to at least 5 percent of each applicant school’s capacity (using a traditional, nine-month calendar) are eligible to receive incentive funding. The program is intended to “share” with such districts between 50 percent and 90 percent (depending upon the percentage of “excess capacity” accommodated) of the state’s avoided costs from not building a new school facility, based on a “statewide average” cost of land, construction, and financing. In exchange for receiving funding, school districts must withdraw any requests for state school facilities aid to build new facilities for the number of pupils accommodated through year-

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round operations and claimed for payment.

Under the *implementation grant* program, school districts may receive one-time grants of \$25 per pupil (not to exceed \$100,000 per school site) to help defray the costs of school-site conversion to year-round education.

To be eligible for either type of grant under the Chapter 1261 program, each school district must demonstrate that (1) there is "substantial overcrowding" in the school district or its high school attendance areas, (2) the district will use the grants to implement or operate year-round education programs, and (3) the district is eligible for state assistance to build new schools under the Lease-Purchase program.

Budget Proposal. The budget proposes \$77.9 million from the General Fund for year-round school operating grant payments in 1991-92. This amount, in combination with the \$5 million proposed for implementation grants, would provide a level of funding for year-round school grants of \$82.9 million in the budget year. As shown in Table 21, the budget estimates current-year expenditures of \$48.4 million for year-round incentives, including \$38 million for the SB 327 and SB 813 incentive payments and \$10.4 million for Chapter 1261 operating grants. The budget proposal is \$34.5 million (71 percent) above estimated expenditures in the current year.

In addition, the administration proposes Budget Bill language that requires:

- Districts to apply for Chapter 1261 funds by August 1 of the year for which payment is sought.
- All approved claims to be prorated if the Budget Act appropriation is not sufficient to pay them.
- Schools' claimed "excess capacity" gains to reflect only the additional enrollment capacity generated through the use of a year-round education program and not through any other means (such as the additional enrollment capacity generated through the installation of portable classrooms).

a. Year-Round School Operating Grants [Item 6110-224-001 (b)]

Last year, in response to a requirement contained in Ch 886/86 (SB 327, Leroy Greene), we prepared an in-depth evaluation of the value of year-round school incentive funding in reducing the need for school facility construction. In our report, we found that—while it might make sense to vary the percentage of state "savings" shared with school districts based on their individual responsiveness to monetary incentives—there was no evidence to support the notion that the percentage of savings shared should vary with the percentage of pupils accommodated in excess of normal facilities capacity (the methodology used in the then-existing programs). We also found that these year-round incentive programs had *little or no effect* in promoting the state's primary interest in year-round education—maximizing the amount of the state's net costs avoided by reducing demand for state-financed school construction.

Accordingly, we recommended that the Legislature repeal the existing incentive programs. Our review indicated that the programs could be

eliminated, with very little impact on the total number of pupils attending year-round schools.

We also recognized, however, that the Legislature might wish to continue some form of year-round school incentives to the extent that *some* school districts may respond by increasing the number of pupils attending year-round schools. We therefore further recommended that—if the Legislature wished to provide incentives based on sharing with school districts a part of the state's "savings," it enact an alternative program with all of the following features:

- Provide all eligible school districts a *uniform* percentage—not to exceed 50 percent—of the state's "savings."
- Reflect district-specific land and construction costs.
- Include safeguards to ensure that incentives are truly an alternative to new school construction, rather than a subsidy while waiting in line for a state-financed school.

The Legislature concurred with our recommendation to repeal the existing year-round incentive programs. As noted, the Legislature enacted in their place two new programs in Chapter 1261: a year-round school *implementation grant* program and a year-round school *operating grant* program (which, like the old programs, is based on sharing with school districts part of the state's "savings" from not building new schools).

In contrast to the features recommended above, however, the new year-round school operating grant program:

- Continues to provide school districts with a *variable* percentage of the state's "savings," based on the percentage of pupils accommodated in excess of facilities capacity. In theory, the percentage of "savings" shared is not to exceed *90 percent*.
- Is based on a "statewide average" land cost, rather than district-specific land costs.

While the new program *does* require school districts to reduce their eligibility for state school construction aid by the number of pupils accommodated through year-round operations for which incentive funds are received, districts may comply with this requirement by reducing their eligibility on applications for state aid which may have little chance of being funded in the foreseeable future. As a result, our analysis indicates that this latter change is likely to have little or no discernible impact on the level of demand for such aid.

In sum, our review indicates that the new year-round school operating grant program differs very little in its key features from the previous system of year-round school incentives. For this reason, we believe that the new year-round school incentive operating grant program will not promote the state's primary interest in year-round education (that is, avoiding costs of constructing new state-funded schools) and that funding for this purpose could be *eliminated entirely* with little or no effect on the numbers of pupils attending year-round schools.

Recognizing, however, that the Legislature has recently acted on this issue, we instead focus this analysis on an assessment of the extent to

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which the formulas specified in the new law actually achieve the stated objective of sharing with school districts up to 90 percent of the "statewide average" cost avoidance.

Incentive Payments Greatly Exceed State Cost Avoidance

We recommend that the Legislature reduce funding for year-round school operating grants by \$30.4 million in order to reflect a more realistic estimate of the statewide average cost avoided through not building school facilities. Consistent with this recommendation, we recommend that the Legislature adopt Budget Bill language in Item 6110-224-001 to reduce the assumed statewide average cost avoided from \$1,151 to \$702 per excess pupil. (Reduce Item 6110-224-001 (b) by \$30,400,000.)

As noted, the operating grants funding formula is intended to share with eligible school districts between 50 percent and 90 percent (depending upon the percentage of excess capacity accommodated) of the state's cost avoidance from not building new schools. For purposes of making this calculation, the measure further specifies that the statewide average cost avoided per excess pupil shall be deemed to be \$1,151 in 1990-91 and 1991-92. (The measure requires the SAB to recalculate the statewide average cost avoided in 1992 and every two years thereafter.)

Chart 3 shows the payment schedule under the year-round school operating grant program.

Chart 3**Year-Round School Operating Grant Payment Schedule**

Increase in School Capacity	District's Share of Statewide Average Cost Avoided	Assumed State-Wide Average Cost Avoided Per Excess Pupil ^a	Payment Per Excess Pupil
Less than 5 percent	--	\$1,151	--
Equal to or greater than 5 percent but less than 10 percent	50%	1,151	\$576
Equal to or greater than 10 percent but less than 15 percent	67	1,151	771
Equal to or greater than 15 percent but less than 20 percent	75	1,151	863
Equal to or greater than 20 percent but less than 25 percent	85	1,151	978
Equal to or greater than 25 percent	90	1,151	1,036

^a Per Ch 1261/90 (AB 87, O'Connell).

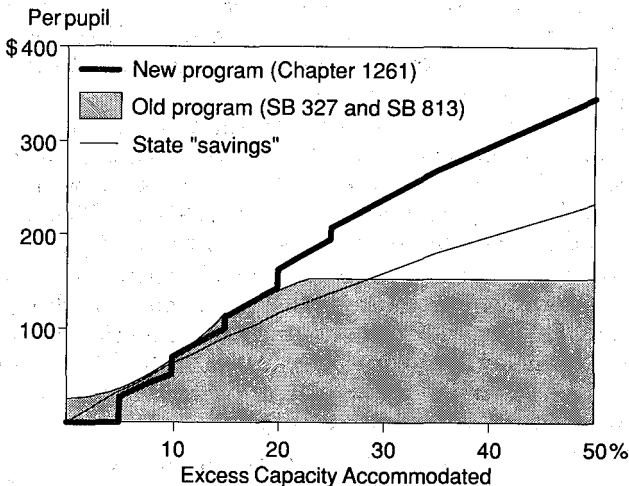
The chart shows that a school that accommodates and claims for payment 5 percent more pupils than its traditional-calendar enrollment capacity receives the minimum per excess pupil grant, which is 50 percent of the assumed statewide average cost avoided (50 percent of \$1,151), or \$576 for each excess pupil. A school which accommodates and claims for payment at least 25 percent excess capacity, in contrast, receives the maximum per excess pupil grant of 90 percent of the statewide average cost avoided, or \$1,036 for each excess pupil.

Per Excess Pupil Payment Exceeds State Cost Avoidance. Staff of the Department of Finance indicate that the amount of the statewide average cost avoided specified in the statute was intended to reflect the following assumptions:

- Statewide average land acquisition costs of \$250,000 per acre.
- Statewide average construction costs of \$9,000 per pupil.
- Financing costs equivalent to the cost of financing such projects at 7.5 percent interest over a 20-year period.

Our analysis indicates that these three assumptions are generally reasonable. When we used these assumptions to attempt to verify the amount of the statewide average cost avoided, however, we calculated instead a figure of \$702 per excess pupil — \$449 (39 percent) *lower* than the \$1,151 figure specified in statute. Only when we assumed that the statewide average cost of acquiring land was *\$1 million per acre* (rather than \$250,000 per acre) could we duplicate the \$1,151 figure.

Chart 4
State "Savings" Versus State Cost of Year-Round Incentives
Land Cost of \$250,000 per Acre



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Chart 4 shows how this overstatement of the statewide average cost avoided affects the level of incentive payments provided under the operating grant program. Specifically, the chart compares the per-pupil costs, of both the Chapter 1261 operating grants and the combined SB 813 and SB 327 incentive payments (assuming land acquisition costs of \$250,000 per acre), to the per-pupil state "savings" as the level of school enrollment capacity increases from 0 to 50 percent. (To make the comparison possible, we express the Chapter 1261 grant payment, which is paid for every *excess* pupil, as a per-pupil payment using *total* enrollment at year-round schools. The payments under the SB 327 and SB 813 programs needed no modification, as their formulas provided payment on this basis.)

As Chart 4 shows, for schools that increase their traditional-calendar enrollment capacity by more than 10 percent, the Chapter 1261 payment formula shares with districts *more than 100 percent of the state's cost avoidance* ("savings"). For schools achieving capacity increases of between 5 percent and 10 percent, we calculated that the Chapter 1261 formula shares up to 89 percent of the state "savings" — significantly more than the 50 percent share specified in Chapter 1261.

The chart further shows that, at levels of increased enrollment capacity above 15 percent, the Chapter 1261 formula is as generous — and at levels above 20 percent is even more generous — than the combined SB 813 and SB 327 formula.

In summary, the budget request is based on an assumed statewide average cost avoided of \$1,151 per excess pupil. Our analysis indicates, however, that, based on the Department of Finance's own assumptions, this figure should be \$702 per excess pupil. Moreover, contrary to the department's claim that the statewide average cost avoided is based on an assumption that land acquisition costs are on average \$250,000 per acre, we found that one would need to assume that such costs are \$1 million per acre in order to arrive at the \$1,151 figure for average cost avoided per excess pupil. We do not believe that, in approving Chapter 1261, the Legislature intended to pay districts on the assumption that statewide land costs averaged \$1 million per acre.

Our analysis indicates that, if the assumed statewide average cost were reduced to a more appropriate level of \$702 per excess pupil (based on average land cost of \$250,000 per acre), only \$47,537,000 would be needed for year-round school operating grants in 1991-92. This amount is \$30.4 million less than the amount requested in the budget.

Recommendation. In order to provide school districts with an incentive payment that reflects a more realistic estimate of the statewide average cost avoided, we recommend that the Legislature adopt the following Budget Bill language in Item 6110-224-001(b) to reduce the statewide average cost avoided in the Chapter 1261 funding formula from \$1,151 per excess pupil to \$702 per excess pupil:

Notwithstanding Section 42263(e) of the Education Code, the Superintendent of Public Instruction shall use a statewide average cost avoided of \$702 per

excess pupil in calculating year-round school operating grant payments in 1991-92.

Consistent with this recommendation, we further recommend that \$30.4 million of the \$77,937,000 requested for year-round school operating grants be deleted.

b. Year-Round School Implementation Grants [Item 6110-224-001 (a)]

We recommend approval.

In 1991-92, the budget proposes \$5 million from the General Fund for year-round school implementation grants. School districts may receive implementation grants to defray the costs associated with planning, one-time minor capital outlay and equipment acquisition, and deferred maintenance on year-round school facilities.

Chapter 1261 limits the amount of any one grant to \$25 for every pupil enrolled at a school, not to exceed \$100,000 for any site. Chapter 1261 also provides that the amount paid per pupil is to be prorated if districts' requests for implementation grant funds exceed the appropriation for this purpose.

Our analysis of the assumptions underlying the budget request indicates that the amount requested is reasonable. Accordingly, we recommend approval of this item.

3. School Facilities Inventory

Chapter 1680, Statutes of 1984 (AB 2743, Hughes) directed the SAB to develop an automated school facilities inventory (SFI). The SFI is intended to provide the first *reliable* estimates, by school district and for the state, of the current and projected need for K-12 facilities construction (new construction and modernization) and maintenance.

Subsequent to the enactment of Chapter 1680, the SAB delegated responsibility for the SFI project to the Office of Local Assistance (OLA), and OLA began collecting information from school districts in three phases. OLA collected information in phase I on each district, in phase II on each site, and in phase III on each building.

In the *Analysis of the 1990-91 Budget Bill*, we indicated that the SFI phase-III database was not sufficiently complete or accurate to use for making reliable estimates of district-specific or statewide facility needs. Specifically, the SFI phase-III database had data only from districts which represented less than 43 percent of the state's enrollment, and these data were incomplete and inaccurate.

Our analysis indicated that the low district-response rates and high error rates stemmed, in part, from poor project management as evidenced by (1) the extremely high number of SFI system programming and data entry errors, (2) the design of the phase III data collection instrument which overloaded districts with requests for too much information, some of which OLA already had on hand, and (3) an inadequate work plan for correcting the above problems and carrying out the project to completion.

The Legislature responded to these concerns by adopting Budget Act language requiring OLA to submit by September 1, 1990 a revised and detailed work plan for completing the SFI.

DEPARTMENT OF EDUCATION—Continued
Project Still Far From Completion

We recommend that the Office of Local Assistance report at the time of budget hearings on its progress in completing the School Facilities Inventory project.

Our review of the current status of the SFI project indicates that OLA has failed to comply with both the letter and spirit of the Budget Act language adopted by the Legislature in the current year. Specifically:

- OLA has submitted yet another work plan that is incomplete and inadequate for addressing identified problems associated with the SFI project.
- OLA is not devoting sufficient resources to complete the SFI project in a timely manner. We estimate the SFI might be completed in 1994 at the earliest — well beyond the time when SFI information could be most useful. We note, moreover, that OLA's work plan does not commit OLA to this or any other completion date.
- The SFI project has generally languished under the direction of three different managers since January 1990.
- Even when judged by its own, less-than-ambitious work plan, OLA's progress on the project is behind schedule.

At this juncture, the Legislature could pursue one of two options with regard to this project.

First, the Legislature could terminate the SFI project by repealing its statutory authorization. The Legislature should do this if it no longer views the SFI project as a high priority.

Second, the Legislature could give OLA specific direction on the Legislature's expectations for completing this project.

Our analysis continues to indicate that the information which the SFI is intended to provide could be very useful to the Legislature in developing state policy regarding the state's role in financing school facilities construction and maintenance. This is particularly true in view of (1) the Governor's proposal to shift the main responsibility for school facilities financing from the state to the school districts and (2) the current, significant gap between demand for and availability of state funds to finance school construction and maintenance. If the Governor's proposal is adopted, the SFI, coupled with data on school districts' assessed valuations and remaining bonded indebtedness capacity, could be used to develop a school facilities funding system in which limited state funds were targeted to districts that are both "high-need" and "low-wealth".

Accordingly, we recommend that the Legislature choose the second option — give OLA specific direction regarding the Legislature's expectations for completing the SFI — and also require the OLA at the time of budget hearings to give an accounting of its performance.

Condition State School Facilities Aid on SFI Participation

We recommend that the Legislature adopt a new Control Section 24.20 to condition state school facilities aid on districts' participation in the SFI project in 1991-92.

In addition to the project management problems noted above, the SFI's problems have — to a lesser extent — stemmed from the voluntary nature of the program. Recognizing this fact, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* stating its intent to condition 1991-92 K-12 school facilities funding if SFI participation remained too low for OLA to make reliable estimates of the need for K-12 school facilities funding.

Despite the fact that OLA has greatly simplified the phase III questionnaire, over 200 of the state's 1,013 school districts — representing 29 percent of the state's K-12 education enrollment — still decline to fully participate in the SFI project. Almost all of these nonparticipating districts receive state facilities aid of some kind. Without the participation of many of these districts, OLA would be unable to make reliable district-specific and statewide estimates of current and projected school facilities needs.

Our review indicates that participation in the SFI project could be greatly increased if districts were required to do so as a condition of receiving state school facilities aid. Therefore, consistent with the language in the *Supplemental Report of the 1990 Budget Act*, we recommend that the Legislature adopt the following new Control Section 24.20 to condition facilities aid on districts' participation in the SFI project in 1991-92:

SEC. 24.20. As a condition of receiving funds for state school facilities aid including, but not limited to, assistance from the (1) Deferred Maintenance program, (2) State School Building Lease-Purchase program, (3) Year-Round Schools Air Conditioning and Insulation program, and (4) Year-Round School Grant programs, school districts shall provide information requested by the Office of Local Assistance for the School Facilities Inventory (SFI) project. This information includes (1) completing a phase III questionnaire for each school building in the district and (2) responding to requests for verification of information provided by the district in phase I, II, and III of the SFI project.

4. Emergency Portable Classroom Program

Through the Emergency Portable Classroom program, the SAB allocates funds for the acquisition, installation, and relocation of portable classroom facilities, including furnishings, to be rented to districts with overcrowded schools. The SAB estimates that it will have about 6,100 portable classrooms available for rent during the budget year.

Districts rent portable classrooms from the SAB on a year-to-year basis, and the districts must annually justify their need to retain the facilities by showing that without them the district would be overcrowded in the ensuing year. Portable classrooms that are no longer needed, because of declining enrollments or the availability of new facilities, are to be relocated to another district. According to the SAB, this rarely occurs,

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because enrollments tend to outpace capacity additions in most of the districts participating in the program.

Since its inception in 1979, the Emergency Portable Classroom program has received a total of \$244 million in funding from tidelands oil revenues (\$87 million), the 1990 School Facilities Bond Act (\$27 million), the School Facilities Bond Act of 1990 (\$25 million) the School Facilities Bond Act of 1988 (\$50 million), the State School Building Lease-Purchase Bond Act of 1984 (\$15 million), and rental revenues (\$40 million). With these funds, OLA purchases fully furnished portable classrooms for approximately \$38,000 each, and administers the program at an annual cost of about \$600,000.

Current law prohibits SAB from charging annual rents in excess of \$2,000 per unit. The rental income is used by the SAB for the construction, installation, and relocation of additional emergency classrooms. Portable classrooms are expected to have a useful life of 20 years.

Budget Proposal. The Governor's Budget estimates that the program will generate rental income of \$12 million in 1991-92. (These funds are statutorily appropriated and, accordingly, there is no Budget Bill item for their expenditure.)

Our review indicates that, in the *current* year, the SAB will have a total of \$65.1 million available for program support, consisting of (1) \$9.6 million in rental revenues and (2) \$55.5 million in school facilities bonds which were allocated to the program in the current year and in prior years. In the budget year, however, no funding will be available from the latter source because previously authorized bonds will be fully allocated.

The budget-year proposal of \$12 million thus represents a \$53.1 million (82 percent) reduction in the level of support from that of the current year.

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

The budget includes \$1.4 million from the State School Building Lease-Purchase Fund for support of the School Facilities Planning Unit (SFPU) in the SDE. This is an increase of \$29,000 (2.1 percent) above estimated current-year expenditures. This increase reflects the amount needed to annualize the current-year cost-of-living adjustment for employee compensation.

C. Child Nutrition (Items 6110-021-001, 6110-201-001, 6110-202-001 and 6110-201-890)

The department's Office of Child Nutrition Services administers the state child nutrition and Pregnant and 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. Table 22 summarizes funding for child nutrition programs in the prior, current, and budget years.

Table 22
K-12 Education
Funding for Child Nutrition Programs
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Local Assistance					
General Fund	\$47,413	\$51,735	\$54,799	\$3,064	5.9%
Federal funds	559,819	610,862	610,862	—	—
Subtotals, local assistance	(\$607,232)	(\$662,597)	(\$665,661)	(\$3,064)	(0.5%)
State Operations					
General Fund	\$1,483	\$1,465	\$1,499	\$34	2.3%
Federal funds	7,710	8,045	8,149	104	1.3
Special Deposit Fund	4	1	1	—	—
Subtotals, state operations	(\$9,197)	(\$9,511)	(\$9,649)	(\$138)	(1.5%)
Totals	\$616,429	\$672,108	\$675,310	\$3,202	0.5%

Table 22 shows that child nutrition programs are supported primarily by federal funds. The budget proposes an increase of \$3.1 million (0.5 percent) in local assistance, and an increase of \$138,000 (1.5 percent) for state operations. The increase in local assistance funding is primarily due to funding for statutory growth (based on the number of meals served) for the state child nutrition program.

Technical Error in Budget Bill. Our review indicates that the total amount proposed for the state child nutrition program understates by \$80,000 the amount needed to fully fund statutory workload growth. It appears that this error stems from the budget's failure to include the current-year 3 percent COLA in the 1990-91 "base" used in calculating budget-year funding requirements. We have brought this error to the attention of staff at the Department of Finance, who presumably will rectify it at the time of the May revision.

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

- **State child nutrition program (Items 6110-201-001 (a) and 6110-202-001)**—\$54.4 million from the General Fund for state child nutrition subsidies, in order to provide 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 proposal is an increase of \$3.1 million (5.9 percent) over the current-year funding level, and reflects funding for statutory growth (based on the anticipated increase in the number of meals served). The budget includes an unallocated trigger-related reduction of \$283,000, for child nutrition subsidies provided to entities (primarily privately-

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operated child care centers) which do not qualify as Proposition 98-eligible local education agencies. This reduction is included in the proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

- *Pregnant and Lactating Students program (Item 6110-201-001 (b))*—\$157,000 from the General Fund to provide reimbursement for specified additional nutrition supplements served to students who are pregnant or lactating. In the current year, participating agencies receive 65 cents for each full supplement served to eligible students in addition to the basic rate for meal supplements.
- *Federal child nutrition programs (Item 6110-201-890)*—\$610.9 million from the Federal Trust Fund to provide nutrition subsidies to participating schools and eligible child care institutions under the following five programs: (1) National School Lunch, (2) School Breakfast, (3) Special Milk, (4) Child Care Food, and (5) Adult Day Care.
- *Nutrition education and training projects (Item 6110-021-001)*—\$593,000 from the General Fund for a program providing grants to local education agencies and child care agencies to implement nutrition education programs for the classroom. The program also provides nutrition education for food service personnel.

With the exceptions noted above, the budget proposal continues funding for these programs at the same levels as in the current year.

III. NON-K-12 EDUCATION PROGRAMS

This section analyzes those programs administered by the SDE which are not part of the K-12 education system. These include child development, adult education, and the Office of Food Distribution.

A. Child Development (Items 6110-195-001, 6110-196-001, and 6110-196-890)

The Child Development Division (CDD) within SDE administers a variety of subsidized child care and development programs which provide services directly to children from low-income families and to those with special needs. The major goals of these direct service 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 various support services to appropriate agencies. The CDD also administers several programs which provide indirect services such as capital outlay, child care referrals to parents, and training for providers.

Funding. Table 23 summarizes funding for the prior, current, and budget years for child development programs. For 1991-92, the budget proposes a total funding level of \$410 million for child development local assistance—a net increase of \$42 million (11 percent) above estimated current-year expenditures. This net increase primarily reflects:

- The Governor's proposal for a \$50 million expansion to the state preschool program. This amount is not contained in the Budget Bill, but is shown in the Governor's Budget as reserved for pending legislation. We discuss this proposal later in this analysis.
- An increase of \$3.2 million (0.9 percent) to provide a statutorily required workload adjustment (based on expected enrollment growth in the population of children up to age four).
- An unallocated trigger-related reduction of \$5.5 million in funding for privately operated child care. This reduction is included in the proposed budget in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 23
K-12 Education
Child Development Programs
Expenditures and Funding
1989-90 through 1991-92^a
(dollars in thousands)

Programs	Actual	Est.	Prop.	Change from 1990-91	
	1989-90	1990-91	1991-92	Amount	Percent
Local Assistance					
State preschool.....	\$38,884	\$40,916	\$91,277 ^b	\$50,361	123.1%
Preschool Scholarship Incentive Program.....	(301)	(301)	(300)	(-)	(-0.3)
General child care.....	217,985	228,650	230,666	2,016	0.9
Campus children's centers.....	6,699	7,025	7,088	63	0.9
School-Age Parenting and Infant Development (SAPID).....	7,263	7,617	7,685	68	0.9
Migrant child care.....	11,050	11,516	11,586	70	0.6
Special allowance for rent.....	461	483	487	4	0.8
Special allowance for disabled.....	774	811	818	7	0.9
Alternative payment.....	34,714	36,409	36,724	315	0.9
Resource and referral.....	7,945	9,518	8,441	-1,077	-11.3
Campus child care tax bailout.....	4,385	4,593	4,634	41	0.9
Protective services.....	1,119	1,172	1,182	10	0.9
California Child Care Initiative (Ch 1299/85).....	98	250	250	-	-
Extended day care (Ch 1026/85).....	16,826	17,681	17,837	156	0.9
Exceptional need.....	446	467	471	4	0.9
Special projects (carryover).....	2,531	4,438	(216 ^c)	-4,438	-100.0
Unallocated reduction.....	-	-4,000	-4,000	-	- ^d
Trigger-related unallocated reduction.....	-	-	-5,528	-5,528	- ^d
Subtotals, local assistance.....	(\$351,179)	(\$367,546)	(\$409,618)	(\$42,072)	(11.4%)
State Operations					
State preschool.....	\$456	\$429	\$469	\$40	9.3%
Child development.....	4,617	4,658	4,672	14	0.3
Subtotals, state operations.....	(\$5,073)	(\$5,087)	(\$5,141)	(54)	(1.1%)
Totals	\$356,252	\$372,633	\$414,759	42,126	11.3%
Funding Sources					
General Fund.....	\$352,679	\$368,652	\$410,828	\$42,176	11.4%
Federal funds.....	3,512	3,684	3,644	-40	-1.1
Reimbursements.....	61	297	287	-10	-3.4

^a Details may not add to totals, due to rounding.

^b Includes Governor's proposal for \$50 million expansion to state preschool program (General Fund set-aside for pending legislation).

^c Unknown total of unexpended funds from previous years. See discussion in this analysis.

^d Not a meaningful figure.

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In the current year, the child development budget sustained an unallocated reduction of \$4 million, which has been carried forward into the 1991-92 "base."

The budget also proposes \$5.1 million for state operations—an increase of \$54,000 (1.1 percent).

Participation. Table 24 summarizes the scope of SDE-administered child development services in each of the seven major types of programs funded on the basis of daily enrollment. During the current year, 497 public and private agencies will provide subsidized child care services for an average daily enrollment of approximately 55,147 children (full-time equivalent) who are from low-income families and/or have special needs. 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 SDE.

Additional preschool and child care services are provided by the following state-subsidized programs which are not funded on a daily enrollment basis: (1) state preschool, (2) alternative payment—county welfare department component, (3) extended day care (latchkey) program, (4) School-Age Parenting and Infant Development (SAPID), (5) protective services, and (6) special allowance for handicapped.

In 1989-90, the programs served 99,700 children, including those enrolled part- and full-time.

Table 24
K-12 Education
Child Development Services Participation
1990-91

<i>Program</i>	<i>Number of Contracting Agencies</i>	<i>Average Days of Service^a</i>	<i>Average Daily Enrollment^b</i>
General child care — public.....	105	243	27,125
General child care — private.....	203	240	13,673
General child care — family day-care homes.....	24	250	1,369
Campus children's centers.....	48	184	1,252
State migrant.....	42	167	3,894
Federal migrant.....	10	122	1,497
Alternative payment.....	65	247	6,337
Totals.....	497	— ^c	55,147

^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.

Governor's Preschool Initiative

As noted, the budget proposes a \$50 million General Fund expansion to the state preschool program, as one of the Governor's initiatives in education. (These funds are not contained in the Budget Bill, but are shown in the Governor's Budget as reserved for pending legislation.) The administration indicates that the budget proposal represents the first year

of a five-year plan, in which service will eventually be expanded to include all low-income four-year-olds.

Other proposed features of the Governor's initiative include:

- Changing staff:child ratios for *all* center-based programs (public and private) for preschool-age children from 1:8 to 1:10.
- Coordinating state preschool program funds with the new funding available from the federal Child Development Block Grant.
- Generally basing the expanded program on the federal Head Start program model.

At the time this analysis was written, the administration had not yet introduced legislation to implement the Governor's preschool initiative. Based on the information cited above, however, our review indicates that the proposal raises a number of important policy issues for the Legislature's consideration.

1. *Preschool versus Other Child Development Programs.* The Governor proposes to expand only the state preschool program, and not other child development programs. The Legislature may wish to consider other options for expansion of child development programs. The state preschool program is a half-day program which serves a limited population of families for approximately \$2,100 per child per year. The general child development programs, in contrast, provide part-time or *full-time* educational programs of similar quality, at a similar annual, per-child cost.

2. *Expansion to All Low-Income Four-Year-Olds.* Before approving this aspect of the proposal, the Legislature may wish to direct SDE to determine the number of low-income four-year-olds in need of a half-day program, using existing data compiled by the SDE and the U.S. Department of Health and Human Services Head Start Bureau, Region IX. Although both agencies require regional needs assessments from applicants, neither agency has data on the need *statewide* for a half-day educational program. We believe that SDE could compile this assessment, ascertaining the level of need for the proposed expansion. A needs assessment would be especially helpful in 1991-92, because the proposed expansion of the preschool program coincides with the federal government's expansion of the Head Start program; both programs serve the same population of low-income nonworking families.

3. *Changing Staff:Child Ratios.* In the *Analysis of the 1989-90 Budget Bill*, we recommended that the Legislature adopt Budget Bill language to phase in a change in staff:child ratios for preschool-aged children served through subsidized child development programs from 1:8 to 1:10, because this ratio would maintain a high-quality program while resulting in annual savings of \$19 million, when fully implemented. At the time, we estimated that the savings could be used to provide preschool services to an additional 4,300 children. (For additional information, please see our February 1989 report titled *The Child Development Program: A Sunset Review.*)

The Legislature did not adopt our recommendation, but in Ch 81/89 (SB 230, Roberti) directed the SDE to conduct a study of the impact on the quality of care in child development classrooms with staff:child ratios

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of 1:8, 1:9, and 1:10. The data collection for the study is currently in progress, and the study will not be completed until January 1992.

4. Coordination with New Federal Block Grant. The Governor's Budget indicates that the preschool expansion would be coordinated with funds from the federal Child Care and Development Block Grant. As we discuss below, we estimate that California could receive \$72 million in 1991-92, with additional amounts thereafter depending on actual appropriations. We have identified two issues related to the coordination of state and federal funds in expanding the state preschool program.

First, not all of the Child Development Block Grant funds will be available for expansion of the state preschool program. This is because the measure requires that eligible parents shall have the option to choose between direct services with a state-subsidized child care provider or a child care certificate to purchase nonsubsidized services. Preschool, however, is only one of several options for direct services.

Second, the Child Development Block Grant has different income eligibility requirements than the state preschool program. The federal measure limits eligibility to 75 percent of the state's median income, while the state preschool program extends eligibility to families with up to 84 percent of the state median income.

5. Moving to the Federal Head Start Model. Because detailed information is not yet available on the Governor's proposal, we are uncertain as to the particular elements the preschool expansion would borrow from the Head Start model. We note, however, that the Head Start model differs somewhat from the current state preschool program, as follows:

- **Amount of Funding per Child.** Head Start provides programs with approximately \$3,000 per child per year; state preschool provides \$2,100 per child per year.
- **Income Eligibility Requirements.** Head Start has more restrictive income eligibility requirements than the state preschool program. For example, a family unit of two persons (e.g., parent and child) with an annual income of more than \$8,420 per year is not eligible for Head Start. The state preschool program, in contrast, extends eligibility for a two-person family to an annual income of up to \$17,136 per year.
- **Grants versus Reimbursements.** The Head Start program gives providers a grant for serving a specified number of children within program quality requirements. The state preschool program reimburses providers for child days of enrollment, within similar requirements for program quality.
- **Staff Qualifications.** The Head Start program requires teachers to have at least 6 units of early childhood education credit when hired, with salary adjustments for up to 12 units of credit. The state preschool program requires teachers to have 24 units of early childhood education when hired (the equivalent of an A.A. degree), with increases in salary provided for education up to a bachelor's degree.

- **Options for Attendance Patterns.** Head Start allows providers to choose one of several options for children's weekly attendance, based on the needs of the community; funding is provided as a specified grant per child served. The state preschool program operates on a five-day week, with actual attendance determining the program's funding level.
- **Parent Participation.** Head Start has stricter parent participation requirements than the state preschool program.

Conclusion. Minimal information was available regarding the implementation of this proposal at time this analysis was written. We will review the enabling legislation when it is introduced, and make additional comments and recommendations to the Legislature as appropriate.

New Federal Budget Provisions

The 1991 federal budget and related legislation, enacted by Congress in October 1990, includes several provisions related to child care. Specifically, the budget (1) creates a new Child Care and Development Block Grant, (2) creates a new Title IV-A block grant to states, (3) expands the Head Start program, and (4) expands the availability of "earned income" tax credits for child care. In this section, we summarize these elements of the federal budget, estimate the amount of new funds that California may expect to receive from these provisions, and describe the changes relative to prior federal law.

Child Care and Development Block Grant. The 1991 federal budget provides \$732 million for the Child Care and Development Block Grant. Of this amount, the State Department of Education (SDE) estimates that California could receive \$72 million in 1991-92 (beginning September 1991). Based on information from the Federal Funds Information for States (FFIS), we estimate that California could receive an *additional* \$88 million in 1991-1992, \$99 million in 1992-93, and similar amounts in the two subsequent fiscal years. All of these estimates are subject to change, however, depending upon actual amounts appropriated.

Federal law specifies the following requirements, among others related to this new program.

- **Allowable Use of Funds.** Of the total funds received, the state must use:
 - No More than 75 Percent* for (1) direct child care services and (2) certificates (or vouchers) of commensurate value.
 - At Least 25 Percent* for improved quality (as defined in the Block Grant) and before- and after- school ("latchkey") programs. In addition, the measure requires that funds supplement, and not supplant, existing state appropriations for child care and other educational programs.
- **Income Eligibility Requirements.** Eligibility is limited to families that earn up to 75 percent of the state median income, in which (1) parents work, attend job training, or attend an educational program or (2) the child needs protective services. The family is required to pay a fee, according to the state's sliding fee scale for the specified range in incomes.

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- **Child Care Providers.** Providers of child care services may be either (1) an established child care center, family child care provider, or other child care provider who meets state licensing regulations; or (2) a relative or guardian, who meets state licensing regulations.
- **Parental Choice.** The law provides that eligible parents shall have the option to choose between direct child care services or a child care certificate/voucher payment. The statute also requires that parents be granted unlimited access to their children and to the providers, during normal business hours.

The new law requires the Governor to appoint a lead agency at the state level to administer the block grant, coordinate services, and develop a state plan. In developing the state plan, the lead agency is required to hold at least one public hearing and to consult with local governmental agencies on their needs and resources.

Title IV-A Block Grant. The federal budget appropriates \$300 million in grants to states for the provision of child care to low-income families who (1) do not receive Aid to Families with Dependent Children (AFDC) and (2) need child care services in order to work. The SDE indicates that California could receive \$37 million, with a \$37 million match in *existing* SDE funds through a reimbursement process with the Department of Social Services. The measure specifies that 50 percent of the federal funds must be used for training of child care providers.

Expansion of Head Start. The federal budget also provides an additional \$400 million to expand the Head Start program. Of this amount, the U.S. Department of Health and Human Services estimates that California could receive an increase of \$37 million (32 percent) over the 1990 appropriation, for a total of \$154 million in 1990-91 and annually thereafter. The Head Start reauthorization statute requires that a portion of these funds is to be used for quality improvements, staff training and salaries, care for infants and toddlers, and a comprehensive evaluation.

Earned Income Tax Credit. The budget package expands the availability of the "earned income" tax credit, for an estimated total reduction in federal income tax revenues of \$12.4 billion over five years. Of this amount, we estimate that eligible California parents could receive \$1.6 billion in income tax relief over the five-year period.

Governor's Proposes Different Priorities for Carryover Funds

We recommend that the Legislature review the Governor's proposed priorities for expenditure of child care "carryover" funds in light of its priorities as specified in the 1990 Budget Act.

In the 1990 Budget Act, the Legislature specified a list of priorities for the appropriation of unspent child care funds "carried over" from the previous fiscal years. Specifically, the Legislature required that (1) the SDE develop an expenditure plan for funds in excess of the amount necessary to pay local assistance contracts and (2) funds be distributed as follows:

- Not less than 50 percent for direct service.

- Not less than 20 percent for staff development.
- Not less than 20 percent for one-time-only special projects which will directly benefit children, including data collection and research.

In addition, in the *Supplemental Report of the 1990 Budget Act*, the Legislature listed specific activities to be funded within each of these categories. These funds are being expended in the current year according to the Legislature's stated preferences.

The *Supplemental Report of the 1989 Budget Act* requires SDE to submit its carryover funds expenditure plan for the budget year annually by January 1. At the time this analysis was written, the plan was not available. SDE informs us that it has begun using carryover funds from 1989-90— which would otherwise have been available for expenditure in 1991-92— to provide public and private child care providers with a COLA of 4.76 percent in 1990-91 (rather than the 3 percent COLA supported by funding appropriated in the 1990 Budget Act). It is not clear, however, whether SDE has the authority to use the funds in this manner. According to SDE, there will be *no carryover funds available for expenditure in the budget year*.

Budget Proposal. The administration proposes Budget Bill language to expend any available carryover funds as follows:

- \$216,000 appropriated to two programs: \$92,000 for the Los Angeles County Respite Pilot Program, pursuant to Ch 1394/90 (AB 3552, Roos); and \$124,000 for staff training related to caring for children with disabilities, pursuant to Ch 1596/90 (SB 2194, Morgan).
- \$4 million to offset an unallocated reduction, made in 1990-91, which continues in the "base" in the budget year.
- \$5.5 million to offset the unallocated trigger-related reduction to privately operated child care.

Our review indicates that the Governor's proposal differs substantially from both (1) the list of preferences which the Legislature expressed in the 1990 Budget Act and (2) SDE's declared intention to use the carryover funds for the 1990-91 COLA. Accordingly, we recommend that the Legislature review the Governor's proposal and SDE's actions in light of the Legislature's priorities.

Legislative Oversight: Report on School Age Community Child Care Delayed

In the *Analysis of the 1990-91 Budget Bill*, we noted that certain School Age Community Child Care ("latchkey") providers were having difficulty complying with the requirement, specified in Ch 1026/85 (SB 303, Roberti), that at least 50 percent of the enrollment in such programs consist of unsubsidized children. In response, the Legislature adopted language in the 1990 Budget Act, specifying that programs shall be eligible to receive waivers from this enrollment requirement *for the 1990-91 fiscal year only*. (In the absence of such waivers, current law provides that latchkey child care providers that are not in compliance with the enrollment requirement shall lose *all* state funding for those children eligible for subsidy in excess of 50 percent of enrollment.)

DEPARTMENT OF EDUCATION—Continued

In conjunction with the Budget Act language, the Legislature also adopted language in the *Supplemental Report of the 1990 Budget Act* requiring the Superintendent of Public Instruction to submit a report recommending specific incentive mechanisms for encouraging latchkey child care providers to fill at least 50 percent of their enrollment "slots" with unsubsidized children. The language also specified that the Superintendent could include recommendations regarding conditions under which certain providers should receive full or partial exemptions from the incentive mechanisms. The language required the Superintendent to submit his report by December 1, 1990.

At the time this analysis was written, the Legislature had not yet received this report. State Department of Education staff inform us that it has been delayed and will probably not be submitted until early February—too late for our review and inclusion in this analysis. We will review the report when it is submitted, and make comments and recommendations to the Legislature as appropriate.

Report on Infant Home Care Pilot Project

Chapter 1185, Statutes of 1989 (AB 1169, Allen) authorized the establishment of the Infant Home Care Pilot Project, a three-year pilot project to recruit, train, and monitor infant home care providers in the counties of Los Angeles, Orange, and Butte. This measure also required the Legislative Analyst's to evaluate the success of the program in the *Analysis of the 1991-92 Budget Bill*.

Although Chapter 1185 appropriated \$60,000 to implement the project in 1989-90, the Governor deleted the appropriation from the bill. In his veto message, he stated that it would be more appropriate to consider the merits of the program during the 1990-91 budget process. The 1990-91 Governor's Budget, however, proposed no funding for the project, and no funding was appropriated in the 1990 Budget Act.

As a consequence of this lack of funding, the Infant Home Care Pilot Project was never established. Accordingly, we simply present this information in compliance with the requirements of Chapter 1185, without specific recommendations for legislative action.

B. Adult Education (Items 6110-156-001, 6110-156-890, and 6110-158-001)

Adult education programs provide instruction to adults designed to (1) improve general literacy, English-speaking skills, employability, and knowledge of health and safety and (2) meet the special needs of older adults, parents, and the disabled. We estimate that, in 1991-92, average daily attendance in adult education will be 208,200 in K-12 schools and 85,900 in the community colleges. In addition, we anticipate that adult education providers will serve the equivalent of 133,000 ADA under the federal Immigration Reform and Control Act (IRCA), which provides amnesty for specified undocumented individuals.

Table 25 shows the state operations and local assistance funding for adult education provided through K-12 schools in the prior, current, and

budget years. (The budget proposal for community colleges is discussed in Item 6870-101-001 of the *Analysis*.)

We recommend approval of the proposed funding shown in Table 25 for the following adult education programs, which are not discussed elsewhere in this analysis:

- **Federal Adult Basic Education Act (Item 6110-156-890)**—\$12.6 million from the Federal Trust Fund for local assistance in adult education. The proposed amount reflects a continuation of the current-year level of funding.
- **Adults in correctional facilities (Item 6110-158-001)**—\$3.4 million from the General Fund for education of adults in correctional facilities. The budget proposes an increase of \$82,000 to fully fund a statutorily required workload adjustment of 2.5 percent, based on the expected growth of the adult population.
- **Immigration Reform and Control Act (IRCA)—Control Section 23.50**—\$35 million from the State Legalization Impact Assistance Grant (SLIAG) fund to provide English as a second language (ESL) and citizenship instruction to undocumented individuals applying for amnesty under IRCA. The proposed amount reflects a \$60.8 million decrease below the current-year funding level based on anticipated levels of federal funding. We estimate that the proposed funding level is sufficient to provide education services to the remaining individuals who need English and civics courses in order to gain permanent residency. (Please see our analysis of Control Section 23.50 for further discussion of issues related to IRCA.)

Table 25
K-12 Education
Adult Education Funding
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Local Assistance					
General Fund					
School districts	\$271,699	\$286,845	\$294,016	\$7,171	2.5%
Correctional facilities	3,121	3,295	3,377	82	2.5
Subtotals, General Fund	(\$274,820)	(\$290,140)	(\$297,393)	(\$7,253)	(2.5%)
SLIAG/IRCA	\$145,608	\$95,763	\$35,000	-\$60,763	-63.5%
Federal funds	12,041	12,605	12,605	—	—
Reimbursements	4,000	—	—	—	—
Subtotals, local assistance	(\$436,469)	(\$398,508)	(\$344,998)	(-\$53,510)	(-13.4%)
State Operations					
General Fund	\$228	\$301	\$231	-\$70	-23.3%
Federal funds	1,048	1,566	1,984	418	26.7
Special Deposit Fund	203	310	316	6	1.9
State Legalization Impact Assistance					
Grants (SLIAG)	2,308	2,164	1,000	-1,164	-53.8
Subtotals, state operations	(\$3,787)	(\$4,341)	(\$3,531)	(-\$810)	(-18.7%)
Totals	\$440,256	\$402,849	\$348,529	-\$54,320	-13.5%

DEPARTMENT OF EDUCATION—Continued

Table 26

**Department of Education
K-12 Education Programs
State Operations Funding^a
1989-90 through 1991-92
(dollars in thousands)**

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
<i>Funding</i>					
General Fund ^b	\$52,487	\$38,111	\$49,588 ^c	\$11,477	30.1%
Federal funds	45,534	48,744	49,323	579	1.2
State School Building Lease-Purchase Fund	1,341	1,393	1,422	29	2.1
SLIAG	2,308	2,164	1,000	-1,164	-53.8
Special Deposit Fund	363	745	750	5	0.7
Tobacco Products Surtax Fund	605	911	900	-11	-1.2
Driver Training Penalty Assessment Fund..	891	920	914	-6	-0.7
Subtotals	(\$103,529)	(\$92,988)	(\$103,897)	(\$10,909)	(11.7%)
Reimbursements	\$5,974	\$9,678	\$9,764	\$86	0.9%
Totals	\$109,503	\$102,666	\$113,661	\$10,995	10.7%

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

^b Includes Fiscal Oversight and Management Assistance.

^c Includes \$10 million for Governor's proposed new assessment program (General Fund set-aside for pending legislation).

Table 27

**Department of Education
Proposed 1991-92 General Fund Changes
State Operations^a
(dollars in thousands)**

1990-91 Expenditures (Revised)	\$38,111
Baseline Adjustments	
Restoration of 1990-91 reduction	\$2,800
Salary and benefits increases	654
Trigger-related reductions	-1,059
One-time CAP transition funding	-720
Federal audit exception	-189
Expiration of one-time legislation	-148
Other baseline adjustments	49
Subtotal, baseline adjustments	(\$1,387)
Program Changes	
New assessment program	\$10,000 ^b
Dropout rate data collection	90
Subtotal, program changes	(\$10,090)
1991-92 Expenditures (Proposed)	\$49,588
Change from 1990-91	
Amount	\$11,477
Percent	30.1%

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

^b Governor's proposal (General Fund set-aside for pending legislation). Includes \$5 million in proposed Proposition 98-eligible funding.

K-12 Programs State Operations (Items 6110-001-001, 6110-001-178 and 6110-001-890)

Table 26 shows state operations expenditures for the SDE (excluding the state special schools, the Office of Food Distribution, and the State Library) in the prior, current, and budget years. The budget proposes \$113.7 million in 1991-92, including \$49.6 million from the General Fund and \$49.3 million from federal funds. The General Fund amount is \$11.5 million (30 percent) above the estimated current-year level.

Significant General Fund Changes in 1991-92

Table 27 shows the elements of the \$11.5 million net increase in General Fund support proposed for SDE in the budget year. As the table shows, the budget proposes a net baseline increase of \$1.4 million. This net increase includes a proposed \$2.8 million partial restoration of reductions made in the current-year (discussed in greater detail below) which is partially offset by a \$1.1 million trigger-related reduction. This reduction is included in the proposed budget for the department in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The budget also proposes (1) an increase of \$10 million to fund a proposed new assessment program (including \$5 million in proposed Proposition 98-eligible expenditures) and (2) an increase of \$90,000 to expand data collection on dropouts to include grades 7 through 9.

Personnel. The budget proposes a total of 1,307.6 personnel-years (PYs) supported from all funds in 1991-92 (excluding the state special schools, Office of Food Distribution, and State Library)—a decrease of 13 PYs from the current-year level.

We recommend approval of the following budget proposal in Item 6110-001-001 that is not discussed elsewhere in this analysis:

- **Dropout data collection**—\$90,000 to expand data collection on dropout rates to include grades 7 through 9, pursuant to requirements of current law.

Partial Restoration of Current-Year Reductions

We recommend that the Legislature direct the SDE to present, at the time of budget hearings, its plan for accommodating a proposed \$1 million unallocated reduction.

In the current year, General Fund support for SDE state operations was reduced by \$12.8 million, consisting of (1) \$8.9 million in funding vetoed from the California Assessment Program (CAP), (2) \$3.5 million vetoed from the SDE main support item as an unallocated reduction, and (3) \$400,000 eliminated as an unallocated reduction by Control Section 3.80 of the Budget Act. (Control Section 3.80 of the 1990 Budget Act authorized the Director of Finance to reduce most General Fund support appropriations by up to 3 percent.)

The budget proposes to restore \$7.8 million of this funding (including \$5 million in state operations funding for a proposed new assessment program), in specified areas. The administration, however, also proposes

DEPARTMENT OF EDUCATION—Continued

\$1.1 million in unallocated trigger-related reductions to the state operations budget. The administration proposes Budget Bill language requiring the SDE to restore funding in the areas specified, unless the department elects to provide a lower level of funding in order to accommodate the \$1 million unallocated reduction.

Table 28
Department of Education
General Fund Reductions (1990-91) and Proposed Restorations (1991-92)
(in thousands)

<i>Department Branch and Programs</i>	<i>Reduction Implemented by SDE 1990-91</i>	<i>Administration's Proposed Restoration 1991-92</i>	<i>Remaining Amount Not Restored in 1991-92</i>
CURRICULUM AND LEADERSHIP			
Assessment program (CAP/Governor's initiative) ^a	\$7,000	\$5,000	\$2,000
Physical education exam	700	700	—
Golden State Exam	470	—	470
High school proficiency exam	300	300	—
School Leadership Academy	74	65	9
Language arts	67	—	67
Curriculum Commission	60	60	—
School Improvement Program	38	40	—
Bilingual education	13	15	—
Other programs	46	—	46
FISCAL ACCOUNTABILITY			
LEA management assistance ^b	495	—	495
Child development	292	30	262
LEA audit function ^b	249	—	249
Instructional materials	216	220	—
Fiscal oversight technical assistance	200	—	200
Child nutrition technical assistance	171	—	171
Fiscal oversight	162	147	15
School attendance manual	135	135	—
Teacher salary database	89	90	—
Local Assistance Bureau	75	—	75
Orchard Plan demonstration program	33	—	33
School organization handbook	23	—	23
Appropriations limit forms	3	3	—
SPECIALIZED PROGRAMS			
Partnership Academeis	238	115	123
Vocational education	167	—	167
Greater Avenues for Independence	98	100	—
Alternative education/independent study	82	—	82
Special materials for deaf/blind	70	70	—
Summer school assistance	66	—	66
Waiver processing	63	65	—
Compliance reviews	58	—	58
At-risk, low performing schools	15	15	—
School crime/climate reporting	117	120	—
Genetic diseases, toxic art supplies	116	50	66
Healthy Kids	63	—	63

MANAGEMENT AND POLICY

Management and special services programs..	862	—	862
Executive office.....	320	60	260
Restructuring study.....	250	250	—
Education Commission of the States.....	97	100	—
State Board of Education.....	49	50	—
Parent handbook.....	20	—	20
LEGAL AND AUDITS	<u>2</u>	<u>—</u>	<u>2</u>
Totals.....	\$13,664	\$7,800	\$5,884

^aThe \$7 million figure differs from \$8.9 million veto amount because SDE chose to implement only part of the reduction. The \$5 million figure is the state operations portion of the proposed new \$10 million assessment program (General Fund set-aside for pending legislation).

^bLEA: Local education agency.

Table 28 shows that the department has implemented a total of \$13.7 million in reductions in the current year. The table also shows how the department accommodated these current-year reductions, and the specific areas in which the administration proposes restoring \$7.8 million of these reductions. The table also shows how the remaining \$5.9 million in reductions would be distributed.

The table does not indicate, however, how the department would accommodate the additional \$1.1 million in unallocated, trigger-related reductions proposed for 1991-92. We believe that the Legislature needs to have this information, in order to determine (1) the ultimate impact of the administration's proposal and (2) whether SDE's plan for accommodating such reductions is consistent with the Legislature's priorities for SDE operations.

Accordingly, we recommend that the Legislature direct the SDE to present, at the time of budget hearings, its plan for accommodating the proposed \$1.1 million reduction, so that the plan may be reviewed in light of the Legislature's priorities.

Governor's Initiative: New Assessment System

Prior to the current year, the state assessed the proficiency of California pupils in grades 3, 6, 8, and 12 in specified subjects through the California Assessment Program (CAP). The purpose of CAP was to measure the effectiveness of school programs, and not to assess the skill levels of individual students. For this reason, SDE reported CAP results on a schoolwide and districtwide basis, rather than on an individual student basis. In addition to CAP, SDE also administered advanced "honors" exams, known as the Golden State Exams, in several subject areas.

In 1989-90, the Legislature appropriated \$9.5 million for both CAP and the Golden State Exams. Gubernatorial action, however, eliminated almost all funding in the current year for both programs.

The present administration is proposing \$10 million to implement a new pupil testing program—of which \$5 million would be provided as state operations and the remaining \$5 million would be provided as local assistance. (These funds are not contained in the Budget Bill, but are shown in the Governor's Budget as reserved for pending legislation.) The

DEPARTMENT OF EDUCATION—Continued

Governor's Budget indicates that the new testing program would consist of end-of-course exams to be administered in selective subjects and grade levels, and would provide individual pupil scores.

At the time this analysis was written, no further details were available regarding the specifics of the proposal. We will review the enabling legislation when it is introduced, and make comments and recommendations to the Legislature as appropriate.

Legislative Oversight: Report on SDE Studies and Pilot Programs Delayed

The *Supplemental Report of the 1990 Budget Act* requires SDE annually to provide the Joint Legislative Budget Committee with a report by November 15th that describes (1) all formal studies currently being conducted by the department outside its Program Evaluation and Research Division (PERD), and (2) all pilot programs that the department administers. The purpose of providing this information is to allow the Legislature to obtain a complete picture of the department's research activities—including efforts devoted to one-time, special studies—and to judge the quality and worth of these activities. In addition, the information is necessary in order to ensure that the department is properly evaluating all pilot programs.

At the time this analysis was written, SDE had not submitted its report to the Legislature. Department staff inform us that they expect to submit the report some time in February—too late for inclusion in this analysis. We will review the report when it is submitted, and provide the Legislature with our comments and recommendations, as appropriate.

Legislative Oversight: Paperwork Reduction Report Delayed

Chapter 1186, Statutes of 1989 (AB 1562, Wyman) required the SDE to report to the Legislature by November 1, 1990 on the number and utility of various reports which school districts are required or asked to file with the state. The bill also required the Legislative Analyst to review the SDE report and include recommendations in the *Analysis of the 1991-92 Budget Bill* on ways to reduce the burden of school district paperwork.

At the time this analysis was written, the Legislature had not received the SDE report. SDE staff inform us that it has been delayed and will be submitted prior to budget hearings. We will review the report when it is submitted, and make comments and recommendations to the Legislature, as appropriate.

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 to the General Fund the unencumbered balances from the appropriations made in Ch 1169/81 (AB 1379, Chacon)

for bilingual teacher training and Ch 1246/87 (AB 1650, Isenberg) for the "Orchard Plan" year-round school demonstration program.

These are technical reversions needed to clear minor remaining balances.

DEPARTMENT OF EDUCATION—STATE LIBRARY

Item 6120 from the General Fund and the Federal Trust Fund

Budget p. E 30

Requested 1991-92.....	\$47,985,000
Estimated 1990-91	54,824,000
Actual 1989-90	56,181,000
Requested decrease — \$6,839,000 (—12.5 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6120-011-001—Main support	General	\$11,190,000
6120-011-890—Federal support	Federal Trust	1,756,000
6120-211-001—Local assistance	General	12,972,000
6120-211-890—Federal local assistance	Federal Trust	11,664,000
6120-221-001—Public Library Foundation	General	10,176,000
Reimbursements		22,000
—Library construction	California Library Construction and Renovation	205,000
Total		\$47,985,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

- Public Library Foundation Program. We find that the budget reduces funding for the Public Library Foundation grant program by \$6 million. 996

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), the Public Library Foundation program, and the California Library Construction and Renovation program.

Its local assistance budget supports (1) state and federal grants to public libraries and library agencies for various purposes, including adult

DEPARTMENT OF EDUCATION—STATE LIBRARY—Continued

literacy programs and library construction, and (2) local resource-sharing through the creation and maintenance of a data base covering California public library materials.

The State Library has 198.4 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

Table 1 displays total funding for the State Library for the prior, current, and budget years.

As the table shows, the budget proposes a General Fund appropriation of \$34.3 million for the State Library in 1991-92—a decrease of \$6.4 million (15.8 percent) below the current-year funding level. Total expenditures, including federal funds and reimbursements, are proposed at \$48 million—\$6.8 million (12.5 percent) below the current-year level.

Table 1
California State Library
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change From 1990-91	
				Amount	Percent
Local Assistance					
Public Library Foundation	\$20,600	\$16,600	\$10,600	-\$6,000	-36.1%
California Literacy Campaign	3,929	3,063	3,063	—	—
Families for Literacy program	600	600	600	—	—
Other statewide library support	18,328	21,316	21,513	197	0.9
Unallocated reduction	—	—	-964	-964	— ^a
Subtotals, local assistance	(\$43,457)	(\$41,579)	(\$34,812)	(-\$6,767)	(-16.3%)
State Operations					
State library services	\$9,423	\$9,723	\$9,504	-\$219	-2.3%
Library development services	2,412	2,579	2,936	357	13.8
Automation services	889	943	913	-30	-3.2
Unallocated reduction	—	—	-180	-180	— ^a
Subtotals, state operations	(\$12,724)	(\$13,245)	(\$13,173)	(-\$72)	(-0.5%)
Totals	\$56,181	\$54,824	\$47,985	-\$6,839	-12.5%
Funding Sources					
General Fund	\$46,025	\$40,768	\$34,338	-\$6,430	-15.8%
Federal funds	9,989	13,833	13,420	-413	-3.0
California Library Construction and Renovation Fund	140	201	205	4	2.0
Reimbursements	27	22	22	—	—

^aNot a meaningful figure.

Table 2 identifies the major changes in the State Library budget proposed for 1991-92. The table shows that the total net decrease of \$6.8 million includes (1) General Fund reductions of \$6.4 million and (2) a net decrease in federal funds of \$413,000. Baseline adjustments include a net increase of \$714,000 from the General Fund, and a \$749,000 decrease in federal funds.

Program changes include (1) a reduction of \$6 million to the Public Library Foundation program, (2) an unallocated trigger-related reduc-

tion of \$1.1 million in funding to the State Library, which is included in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown), and (3) an increase of \$336,000 in federal funds for the acquisition of genealogical materials and planning for a statewide library network.

Table 2
California State Library
Proposed 1991-92 Budget Changes
By Funding Sources
(dollars in thousands)

	<i>General Fund</i>	<i>Federal Funds</i>	<i>Other^a</i>	<i>Totals</i>
1990-91 expenditures (revised)	\$40,768	\$13,833	\$223	\$54,824
Baseline Adjustments				
Employee compensation.....	\$181	\$20	\$4	\$205
Adjustments for nonrecurring expenses.....	-635	-769	—	-1,404
Transaction-based reimbursement system workload increases	1,168	—	—	1,168
Subtotals, baseline adjustments.....	(\$714)	(-\$749)	(\$4)	(-\$31)
Program Changes				
Public Library Foundation Program	-\$6,000	—	—	-\$6,000
Unallocated reduction	-1,144	—	—	-1,144
Acquisition of genealogical materials.....	—	172	—	172
Planning for a statewide library network.....	—	164	—	164
Subtotals, program changes	<u>(-\$7,144)</u>	<u>(\$336)</u>	<u>(—)</u>	<u>(-\$6,808)</u>
1991-92 expenditures (proposed)	\$34,338	\$13,420	\$227	\$47,985
Change from 1990-91:				
Amount.....	-\$6,430	-\$413	\$4	-\$6,839
Percent.....	-15.8%	-3.0%	1.8%	-12.5%

^a Includes \$22,000 in reimbursements.

Technical Error in Budget Bill. The Governor's Budget proposes \$10.8 million for state library services, and \$1.4 million for library development services. Funding for these two programs is provided in Item 6120-011-001 [schedules (a) and (b)]. Our review indicates that, while the total appropriation for these two programs is correct, the specific amount shown for state library services is overstated by \$1 million and the amount for library development services is understated by \$1 million. We have brought this error to the attention of staff at the Department of Finance, who presumably will rectify it at the May revision.

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

- **Main Support (Item 6120-011-001)**—\$11.2 million from the General Fund for support of the California State Library for such programs as reference and research for the Legislature and state agencies, State Library support services, and the Braille and Talking Book Institute.
- **Federal Support (Item 6120-011-890)**—\$1.8 million from the Federal Trust Fund for the support of state library services, as described above.

DEPARTMENT OF EDUCATION—STATE LIBRARY—Continued

- *Local Assistance (Item 6120-211-001)*—\$13 million from the General Fund for local assistance for support of the California Literacy Campaign, Families for Literacy Program, and direct loan and interlibrary loan programs.
- *Federal Local Assistance (Item 6120-211-890)*—\$11.7 million from the federal Library Services and Construction Act which provides grants to libraries for public library services, construction, and resource sharing.

Public Library Foundation Program (Item 6120-221-001)

We find that the budget reduces funding for the Public Library Foundation grant program by \$6 million.

Chapter 1498, Statutes of 1982 (SB 358, Nielsen) created the Public Library Fund to increase the amount of state funds provided to public libraries. Prior to Chapter 1498, public libraries under local jurisdictions were supported primarily from local funding sources. This chapter authorized an appropriation for state funds to supplement, by up to 10 percent of a "foundation program" level, the local funding of each library. A foundation program is defined as activities of a library related to its role as a provider of information, education, and cultural enrichment to the community, and excludes capital outlay expenses.

For the purposes of the act, the total cost of a library's foundation program in 1990-91 is defined as \$17 times the number of persons served within the library's jurisdiction. This per capita amount is adjusted annually by the average percentage increase in unified school districts' revenue limits for the previous fiscal year. In order to receive the full 10 percent state contribution, a library must certify that the amount of local revenues actually appropriated for its foundation program equals at least 90 percent of the computed foundation program level. If local revenues total less than 90 percent of the computed level, the amount of state aid is reduced proportionately. In the current year, the State Librarian certified that 165 libraries are eligible for these funds.

Budget Proposal. The budget proposes a total of \$10.6 million for the Public Library Foundation program in the budget year. This proposal is a decrease of \$6 million (36 percent) from the current-year funding level. Based on the entitlement formula provided by Chapter 1498 and the actual level of local support for each library's foundation program, the State Librarian has calculated that entitlements for this program in the *current* year will total approximately \$45.5 million, and will equal at least this amount in 1991-92. Since claims will exceed available funding by at least \$34.9 million, the proposed appropriation of \$10.6 million would not be sufficient to fully fund this program, and each public library's apportionment would be reduced proportionately.

Because these funds represent a general aid block grant to libraries we have no analytical basis for determining how much, if any, funding should be provided for the Public Library Foundation program in 1991-92. Elsewhere in this analysis, we identify savings which may be used by the

Legislature in crafting a budget based on its priorities, rather than those of the administration. Among other options, the Legislature may wish to consider using part of such savings to reject the administration's proposal, and restore funding for the Public Library Foundation program.

CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS

Item 6255 from the General
Fund and Special Deposit
Fund

Budget p. E 33

Requested 1991-92.....	\$1,229,000
Estimated 1990-91	1,196,000
Actual 1989-90	1,047,000
Requested increase \$33,000 (+2.8 percent)	
Total recommended reduction.....	None
Recommendation pending	1,229,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6255-001-001—Support	General	—
—Support	Special Deposit	\$535,000
Transfer from Item 6110-001-001	General	694,000
Total		\$1,229,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

*Analysis
page*

1. Audit Results Pending. Withhold recommendation on budget request, pending receipt of a legislatively required audit. 998

GENERAL PROGRAM STATEMENT

The California State Summer School for the Arts (CSSSA) was established by Ch 1131/85 (SB 45, Garamendi) and reauthorized by Ch 1515/88 (SB 2266, Garamendi) to provide talented high school students with an opportunity to receive art instruction from professional artists in a residential summer school program. Students from throughout the state compete for approximately 400 openings, and choose from six disciplines: dance, music, theater arts, visual arts, creative writing, and film/video. The first session was held in the summer of 1987.

The CSSSA is funded by the state General Fund, private contributions, and student fees. Chapter 1515, which was enacted prior to passage of Proposition 98, provides that state funding for the CSSSA shall be provided from K-12 school apportionments (which otherwise count towards meeting Proposition 98 minimum funding requirements). Because funding for the CSSSA does not count towards meeting Proposition 98 requirements, however, the budget provides support for the CSSSA

CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS—Continued

from the State Department of Education state operations budget item, in lieu of the mechanism specified in Chapter 1515.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the budget request, pending receipt of the results of a legislatively required audit of the CSSSA.

The budget proposes \$1,229,000 to support the CSSSA in 1991-92. This amount includes \$694,000 from the General Fund and \$535,000 from the Special Deposit Fund, composed of cash and in-kind contributions and student fees. The proposed General Fund amount is an increase of \$33,000, or 5 percent, above estimated current-year expenditures, and includes an unallocated trigger-related reduction of \$2,000. This reduction is included in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Audit Results Pending. Last year, we identified several problems with the fiscal operations of the CSSSA, including the program's difficulties in meeting the statutorily required level of matching funds. In response to these findings, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* directing the Auditor General to conduct an audit of the CSSSA. This audit is to include: (1) evaluation of the CSSSA's annual expenditures and revenues, (2) evaluation of the CSSSA's ability to meet its required level of matching funds from fees and private donations, (3) evaluation of the effects of the CSSSA's organizational structure on fiscal accountability and fund-raising capability, (4) evaluation of statutory constraints to improving the CSSSA's performance and fund-raising capability, and (5) recommendations for improvements in fiscal accountability, performance, and fund-raising capability.

The Auditor General's report is to be submitted to the Joint Legislative Audit Committee by March 15. We withhold recommendation on the CSSSA budget pending receipt of the results of this audit. Once we have reviewed the audit, we will make recommendations to the Legislature regarding the budget request.

CALIFORNIA STATE COUNCIL ON VOCATIONAL EDUCATION

Item 6320 from the General
Fund and Federal Trust Fund

Budget p. E 35

Requested 1991-92.....	\$328,000
Estimated 1990-91	328,000
Actual 1989-90	347,000
Requested increase: None	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6320-001-001—Support	General	\$103,000
6320-001-890—Support	Federal Trust	<u>225,000</u>
Total		\$328,000

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 (AB 257, Johnston).

The SCOVE consists of 13 members appointed by the Governor, and has planning, oversight, and evaluative functions. The council has 4.0 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures totaling \$328,000 from state and federal funds to support the SCOVE in 1991-92. This is the same as the current-year funding level, and is sufficient to maintain the current-year level of service.

CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE

Item 6330 from the Federal Trust Fund

Budget p. E 36

Requested 1991-92.....	\$273,000
Estimated 1990-91.....	276,000
Actual 1989-90.....	179,000
Requested decrease \$3,000 (-1.1 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The California Occupational Information Coordinating Committee (COICC) was established by Ch 972/78 (AB 2020, Lockyer), 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.

CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING COMMITTEE—Continued
ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes a total of \$273,000 from the Federal Trust Fund for support of the COICC in 1991-92. This is a decrease of \$3,000, or 1.1 percent, from estimated expenditures in the current year, and is sufficient to maintain the current-year level of service.

SCHOOL FACILITIES DEFERRED MAINTENANCE

Item 6350 from the General Fund	Budget p. E 37
<hr/>	
Requested 1991-92.....	\$90,090,000
Estimated 1990-91	77,069,000
Actual 1989-90	54,465,000
Requested increase \$13,021,000 (+16.9 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6350-101-001—Local assistance	General	\$23,000,000
Education Code Section 17780—Local assistance	State School Deferred Maintenance	66,917,000
Education Code Section 17780—Support	State School Deferred Maintenance	173,000
Total		<hr/> \$90,090,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

- Deferred Maintenance Funding. We find that the budget overstates by \$13.8 million the amount likely to be available for deferred maintenance in 1991-92. 1001

GENERAL PROGRAM STATEMENT

The State Allocation Board (SAB), which is staffed by the Office of Local Assistance (OLA) in the Department of General Services, is the state agency responsible for administering the Deferred Maintenance program. "Deferred maintenance" refers to projects that are needed to maintain, rather than change or enhance, a school facility. Examples of such projects include re-roofing buildings and re-paving playgrounds. In 1989-90, approximately 900 school districts and county offices of education received Deferred Maintenance program funds.

The SAB apportions funds from the State School Deferred Maintenance Fund on a dollar-for-dollar matching basis to school districts for their deferred maintenance projects. The state match for the Deferred

Maintenance program is currently provided from the General Fund and from "excess repayments." Excess repayments represent the amount by which school district principal and interest payments on State School Building Aid loans exceed the state's debt service costs.

Under current law, the maximum amount of state aid which a school district may receive is "equalized" on a per-ADA basis. Specifically, each district's apportionment is based on an average local general fund and adult education budget (of districts of similar size and type) per unit of average daily attendance (ADA), times the district's own ADA. A district is eligible for an amount of state matching funds, or a "basic apportionment," that is equal to one-half of 1 percent of the figure calculated above.

Current law also authorizes the SAB to provide an "additional apportionment," equal to the basic apportionment discussed above, to the extent that the Legislature appropriates funds for this purpose. (To date, the Legislature has not done so.) In addition, districts may apply for hardship funds for critical maintenance projects which (1) must be carried out in the ensuing year and (2) cost more than the combined state and local contributions to the district for deferred maintenance. Under current law, the SAB may reserve no more than 10 percent of the funds available for deferred maintenance for critical hardship requests.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes funding of \$90.1 million in 1991-92 for deferred maintenance. This amount includes a statutory appropriation of an estimated \$67.1 million in excess repayments and a continuation of the current-year Budget Act appropriation of \$23 million from the General Fund. Under the budget proposal, these funds would be transferred to the State School Deferred Maintenance Fund and \$173,000 would be used to support state administrative costs.

Information from the SAB indicates that in the current year there is \$77.1 million available in excess repayments and General Fund support to fund state operations (\$177,000) and an estimated \$153 million in deferred maintenance requests. These include requests for (1) the basic apportionment (\$106 million), (2) the additional apportionment (\$36 million), and (3) "critical hardship" projects (\$11 million). Thus, the funding shortfall compared to the level of funding requested is approximately \$76 million. To the extent that the state is unable to provide full funding for all 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) delay such deferred maintenance projects.

Budget Overstates Funding Available For Deferred Maintenance

We find that the budget overstates by \$13.8 million the amount likely to be available for deferred maintenance in 1991-92.

Our analysis indicates that the amount of excess repayments scheduled in the Governor's Budget overstates the amount of such funds that are likely to be available. More recent estimates indicate that excess repay-

SCHOOL FACILITIES DEFERRED MAINTENANCE—Continued

ments will be \$53.3 million, or \$13.8 million below the scheduled amount. After correcting for this overstatement, we find that the resources available to the program would be \$76.3 million, which is roughly equivalent to the amount available in the current year.

Our analysis also indicates that the proposed \$23 million appropriation from the General Fund will not be sufficient to prevent another shortfall in the budget year. In view of the continuing shortfall in funds, we find that the \$23 million requested in the budget will be readily utilized, and we recommend that it be approved.

COMMISSION ON TEACHER CREDENTIALING

Item 6360 from the Teacher Credentials Fund	Budget p. E 44
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Requested 1991-92.....	\$12,976,000
Estimated 1990-91	12,565,000
Actual 1989-90	11,962,000
Requested increase \$411,000 (+3.3 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6360-001-407—Support	Teacher Credentials	\$9,948,000
6360-001-408—Support	Test and Administration Account, Teacher Credentials	3,028,000
Total		<u>\$12,976,000</u>

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 111 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget, as shown in Table 1, proposes appropriations totaling \$13 million from the Teacher Credentials Fund (including the Test Development and Administration Account) for support of the commission in 1991-92. This is an increase of \$411,000, or 3.3 percent, above estimated current-year expenditures.

Table 1
Commission on Teacher Credentialing
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	<i>Actual</i>	<i>Est.</i>	<i>Prop.</i>	<i>Change from</i>	
				<i>1990-91</i>	
	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>Amount</i>	<i>Percent</i>
<i>Programs</i>					
Credential issuance and information	\$4,815	\$4,991	\$6,441	\$1,450	29.1%
Professional services.....	6,376	6,790	5,733	-1,057	-15.6
Professional standards.....	771	784	802	18	2.3
Administration	1,918	2,024	2,096	72	3.6
Distributed administration.....	-1,918	-2,024	-2,096	-72	3.6
Totals, expenditures	\$11,962	\$12,565	\$12,976	\$411	3.3%
<i>Funding Sources</i>					
<i>General Fund</i>	\$1,048	—	—	—	—
<i>Teacher Credentials Fund</i> ^a	7,326	\$9,601	\$9,948	\$347	3.6%
<i>Test Development and Administration Account</i>	3,472	2,964	3,028	64	2.2
<i>Reimbursements</i>	116	—	—	—	—
<i>Personnel-years</i>	128.3	111.3	135.0	23.7	21.3%

^a Excludes funds in the Test Development and Administration Account.

Table 2 shows that the \$411,000 increase in the commission's budget is primarily due to a number of program changes and miscellaneous adjustments, which are partially offset by the elimination of funding for one-time expenses. Specifically, the budget proposes the following four significant changes:

- **Additional Licensing Staff**—\$867,000 from the Teacher Credentials Fund for 21 additional positions to process credential applications.
- **Completion of the New Teacher Project Evaluation**—\$500,000 from the Teacher Credentials Fund for the commission to complete an evaluation of the New Teacher Project.
- **Exam Development and Administration**—\$402,000 from the Test Development and Administration Account to (1) develop a multiple subject matter exam for elementary school teachers, (2) oversee administration of single subject matter exams for secondary school teachers, and (3) continue development of a teacher assistant exam, as required by Ch 1345/89 (SB 156, Leroy Greene).
- **Office Automation**—\$299,000 from the Teacher Credentials Fund to continue 11 limited-term positions associated with the automation of records and related operating expenses.

COMMISSION ON TEACHER CREDENTIALING—Continued

Table 2
Commission on Teacher Credentialing
Proposed 1991-92 Budget Changes
By Funding Source
(dollars in thousands)

	<i>Teacher Credentials Fund^a</i>	<i>Test and Administration Account</i>	<i>Totals</i>
1990-91 Expenditures (Revised)	\$9,601	\$2,964	\$12,565
<i>Baseline Adjustments</i>			
Personnel increases	\$67	\$5	\$72
Nonrecurring expenditures ^b	-2,431	-482	-2,913
Miscellaneous adjustments	495	119	614
Subtotals, baseline adjustments	(-\$1,869)	(-\$358)	(-\$2,227)
<i>Program Changes</i>			
Additional licensing staff ^c	\$867	—	\$867
New Teacher Project evaluation ^c	500	—	500
Exam development and administration ^c	—	\$402	402
Office automation ^c	299	—	299
Compliance activities ^d	140	—	140
Office operations	129	—	129
Paraprofessional Teacher Training Program ^c	92	—	92
Retain staff to accreditation advisory council ^c	79	—	79
Emergency teaching credentials	66	—	66
Studies ^e	44	20	64
Subtotals, program changes	(\$2,216)	(\$422)	(\$2,638)
1991-92 Expenditures (Proposed)	\$9,948	\$3,028	\$12,976
Change from 1990-91:			
Amount	\$347	\$64	\$411
Percent	3.6%	2.2%	3.3%

^a Excludes funds in the Test Development and Administration Account.

^b Includes \$900,000 in limited-term expenditures restored by program changes.

^c Includes funding to continue limited-term projects initiated in the current year.

^d Includes \$79,000 to implement legislation relating to teachers assigned outside of their credential areas (Ch 1376/87—SB 435, Watson and Ch 1355/88—SB 148, Bergeson).

^e Includes \$44,000 for a study on administrator preparation programs, and \$20,000 for an evaluation of the California Basic Educational Skills Test.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

Our review of the budget proposal — including the augmentations noted — indicates that the requested amounts are appropriate in light of the CTC's workload needs. Accordingly, we recommend that the requested amounts be approved.

Credential Fee Level Recommendation

Chapter 572, Statutes of 1986 (AB 3843, Clute), requires the Department of Finance and the Legislative Analyst, as part of the annual budget review process, 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. A reserve is necessary because of a history of substantial annual fluctuations in revenues.

The budget proposes to maintain the credential fee at the current level of \$60. Based on the latest revenue forecasts prepared by the commission, we estimate that this level will provide for a prudent reserve in the Teacher Credentials Fund (including the Test Development and Administration Account) at the end of 1991-92 of \$3.3 million (25 percent). We concur with the appropriateness of this fee level.

Legislative Oversight: Teacher Employment Data Plan Delayed

In last year's *Analysis*, we discussed the desirability of having the CTC collect summary data on the average placement rates (by field of specialization) and starting salaries of teachers who graduate from individual teacher preparation programs. The purpose of collecting these data would be to assist individuals who wish to enter a teacher training program to decide which institution to attend (and in what field of specialization). To the extent that there are, in fact, differences among institutions in terms of graduates' placement rates and starting salaries (due to such factors as how well each program prepares its students, program offerings, geographic location, and institutional placement efforts), collection of the data would also encourage these programs to determine the reasons for the differences and — if necessary — to take corrective action. In response, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* requiring the CTC to submit a plan and cost proposal for collecting the data by November 1, 1990.

At the time this analysis was written, the CTC had not submitted a final version of this report to the Legislature. The agency's staff indicate that the report will probably be submitted some time in February, after the members of the commission formally review and approve it.

Because the report is to include a cost proposal for funding the data collection efforts, it may be necessary for the fiscal committees to take additional action on the CTC's budget — beyond approving the amounts requested by the Governor — at the time of budget hearings. We will, therefore, review the commission's report and cost proposal when it is submitted, and provide the Legislature with comments and recommendations, as appropriate, at that time.

OVERVIEW OF HIGHER EDUCATION

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California Postsecondary Education Commission (Item 6420)	1014
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Council for Private Postsecondary and Vocational Education (Item 6880)	1060
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OVERVIEW

Public higher education in California consists of formal instruction, research, public service, and other learning opportunities offered by educational institutions which are eligible for state fiscal support. Higher education institutions primarily serve persons who have completed their secondary education or who are beyond the age of compulsory school attendance.

This section of the *Analysis* presents overview data on higher education in California. It is intended to provide historical information and comparative statistics to supplement the individual budget analyses that follow.

ORGANIZATION

California's system of public higher education is the largest in the nation, and consists of 138 campuses serving approximately 2 million students. This system is separated into three distinct public segments—the University of California (UC) with 9 campuses, the California State University (CSU) with 20 campuses, and the California Community Colleges (CCC) with 107 campuses. The state also supports the Hastings College of the Law and the California Maritime Academy (CMA).

In addition to the public system, approximately 140 independent colleges and universities in California report serving an estimated 195,700 students.

ENROLLMENT AND STUDENT FEES

Enrollment

Table 1 compares headcount to the number of full-time equivalent (FTE) students or, in the case of the CCC, the average daily attendance (ADA) for the three public segments since 1982-83. Headcount enrollment is a count of the number of students actually in attendance on a given day. An FTE is one student taking 15 units; three students taking five units; or any variation thereof. One ADA is equal to one student under the immediate supervision of a certificated instructor for a total of 525 hours in an academic year.

On an FTE/ADA basis, the increase in enrollment budgeted for the three segments in 1991-92 is 3.2 percent. The community colleges are projected to experience the greatest increase—4.0 percent—while CSU and UC are projected to increase by 2.1 percent and 1 percent, respectively.

OVERVIEW OF HIGHER EDUCATION—Continued

Table 1

**Higher Education
Enrollment in Public Higher Education
1982-83 through 1991-92**

	UC		CSU		Community Colleges		Totals	
	Head-count	FTE	Head-count	FTE	Head-count	ADA	Head-count	FTE/ADA
1982-83	134,946	129,643	317,946	241,407	1,354,982	743,689	1,807,874	1,114,739
1983-84	137,175	130,822	315,904	241,989	1,248,916	680,745	1,701,995	1,053,556
1984-85	140,643	133,705	318,528	242,752	1,176,221	661,834	1,635,392	1,038,291
1985-86	144,040	136,928	328,818	248,456	1,176,712	656,421	1,649,570	1,041,805
1986-87	148,176	141,776	338,444	252,789	1,199,759	681,525	1,686,379	1,076,090
1987-88	152,943	145,983	347,441	258,243	1,264,409	698,588	1,764,793	1,102,814
1988-89	157,319	150,440	361,593	267,451	1,334,029	734,391	1,852,941	1,152,282
1989-90	159,848	152,863	368,787	272,608	1,403,391	775,885	1,932,026	1,201,356
1990-91 (Budgeted)	161,095	154,101	372,495	274,500	1,457,539	806,722	1,991,129	1,235,323
1991-92 (Budgeted)	162,682	155,710	380,172	280,220	1,513,878	838,848	2,056,732	1,274,778
Change from 1990-91:								
Number	1,587	1,609	7,677	5,720	56,339	32,126	65,603	39,455
Percent	1.0%	1.0%	2.1%	2.1%	3.9%	4.0%	3.3%	3.2%

Ethnic Composition of Students. Table 2 shows the latest available fall enrollment data on the racial and ethnic make-up of students within each of the three public segments from 1986 to 1989. These data, compiled by the California Postsecondary Education Commission (CPEC), reflect voluntary self-designations made by students. The data have not been verified and are not complete because many students choose not to report their racial or ethnic status to their campus.

Table 2 shows that the community colleges have the most diverse ethnic enrollment of any segment.

Table 2
Higher Education
Student Enrollment by Ethnicity
Fall Data^a
1986 through 1989

	CCC				CSU				UC			
	1986	1987	1988	1989	1986	1987	1988	1989	1986	1987	1988	1989
Undergraduate:												
White	66.7%	66.2%	64.0%	64.3%	67.9%	66.7%	65.6%	61.5%	65.7%	63.7%	61.6%	59.2%
Black	8.0	7.7	7.3	7.8	5.8	5.8	5.8	5.7	4.6	4.7	4.9	5.0
Hispanic	13.6	14.0	15.9	15.4	10.4	10.9	11.5	13.4	8.6	9.4	10.3	11.3
Asian	10.2	10.6	11.4	11.2	14.8	15.4	15.9	18.2	20.5	21.5	22.4	23.5
American Indian	1.4	1.4	1.4	1.4	1.1	1.1	1.0	1.2	0.6	0.7	0.9	1.0
Graduate:												
White	—	—	—	—	77.8%	77.5%	77.4%	76.7%	77.9%	77.1%	75.6%	74.8%
Black	—	—	—	—	4.5	4.5	4.4	4.3	3.7	3.7	3.7	4.2
Hispanic	—	—	—	—	7.2	7.6	7.9	7.6	6.4	6.5	6.9	7.3
Asian	—	—	—	—	9.4	9.3	9.2	10.4	11.4	12.0	13.1	13.1
American Indian	—	—	—	—	1.1	1.1	1.0	1.0	0.6	0.7	0.6	0.7

^a These data, compiled by the California Postsecondary Education Commission (CPEC), reflect voluntary self-designations made by students. The data have not been verified and are not complete because many students choose not to report their racial or ethnic status to their campus. Yearly percentages may not sum to 100 percent, due to rounding.

OVERVIEW OF HIGHER EDUCATION—Continued**Student Fees**

Table 3 shows the level of state-imposed fees for students at the public higher education institutions in the prior, current, and budget years.

Table 3
Higher Education
Student Fees in California Public Institutions
1989-90 through 1991-92

	<i>Actual</i> <i>1989-90</i>	<i>Actual</i> <i>1990-91</i>	<i>Prop.</i> <i>1991-92</i>	<i>Change from</i> <i>1990-91</i>	
				<i>Amount</i>	<i>Percent</i>
University of California					
Undergraduate/Graduate.....	\$1,476	\$1,624	\$1,949	\$325	20.0%
Medicine/Law	1,476	2,000	2,325	325	16.3
California State University					
Systemwide fee	\$708	\$780	\$936	\$156	20.0%
Hastings College of the Law					
Mandatory.....	\$1,476	\$2,000	\$2,325	\$325	16.3%
California Maritime Academy					
Mandatory.....	\$928	\$1,020	\$1,224	\$204	20.0%
Community Colleges					
Mandatory.....	\$100	\$100	\$120	\$20	20.0%

EXPENDITURES

Table 4 summarizes proposed expenditures for higher education in 1991-92. Total support for all public higher education is proposed at \$15.5 billion. Of the total, the state General Fund would provide \$5.7 billion, or 37 percent. The \$3.6 billion from the federal government is the second largest source of support for higher education; however, \$2.4 billion of this amount is allocated to the UC for support of the Department of Energy laboratories at Los Alamos, Livermore, and Berkeley.

The only segment of higher education receiving local support is the community college system, which will receive an estimated \$866 million from property tax revenues in the budget year.

Table 4
Higher Education
Summary of Estimated 1991-92 Budget
By Funding Source
(dollars in thousands)

	<i>General Fund</i>	<i>State Lottery</i>	<i>Other State</i>	<i>Federal</i>	<i>Property Tax</i>	<i>Student Fees</i>	<i>Other</i>	<i>Totals</i>
University of California.....	\$2,133,900	\$18,750	\$67,888	\$3,237,212 ^a	—	\$561,544 ^b	\$3,380,546 ^c	\$9,399,840
California State University	1,655,927	33,438	3,516	108,271	—	419,483	631,517	2,852,152
California Community Colleges.....	1,671,808	95,230	44,086	—	\$865,778	84,699	5,565	2,767,166
Hastings College of the Law	13,638	163	—	284	—	3,741	3,658	21,484
California Maritime Academy.....	7,075	30	—	401	—	740	1,847	10,093
Student Aid Commission	167,090	—	15,897	248,622	—	—	919	426,764
California Postsecondary Education Com- mission.....	3,605	—	—	4,309	—	—	—	7,914
Council for Private Postsecondary and Vocational Education	—	—	3,561	1,212	—	—	—	4,773
Totals	\$5,653,043	\$147,611	\$134,948	\$3,600,311	\$865,778	\$1,070,207	\$4,024,052	\$15,495,950 ^d
Percent of Totals	36.5%	1.0%	0.9%	23.2%	5.6%	6.9%	26.0%	100.0%

^a Includes \$2.4 billion budgeted within UC for three Department of Energy laboratories.

^b Includes education and registration fees (\$307 million), nonresident tuition (\$99 million), university extension fees (\$116 million), summer session fees (\$18 million), and application and other fees (\$21 million).

^c Includes reimbursements, hospital fees, private contributions, sales and service, and auxiliary enterprises.

^d Excludes capital outlay.

OVERVIEW OF HIGHER EDUCATION—Continued

Table 5 compares the average annual rate of growth in the state General Fund support per student for UC and CSU. The table also shows the average annual rate of growth in state and local support per student for the community colleges. These data show that expenditures per student in each segment have increased at a slightly higher rate than the government services index. After adjustment for price increases since 1982-83, both UC and CSU expenditures per student increased at an annual rate equal to 0.8 percent while the CCC increased at an annual rate of 0.7 percent. However, since 1986-87, the adjusted per student expenditures for UC, CSU, and the CCC actually *declined* at an annual rate of 3 percent, 2.8 percent, and 2 percent, respectively.

**Table 5
Higher Education
General Fund and Local Support per Student for UC, CSU and CCC
1982-83 through 1991-92**

	UC				CSU				CCC			
	General Fund ^a	Students (FTE)	Per FTE		General Fund ^{a,c}	Students (FTE)	Per FTE		General Fund and Local Support ^a	Students (ADA)	Per ADA	
			Current Dollars	1982-83 Dollars ^b			Current Dollars	1982-83 Dollars ^b			Current Dollars	1982-83 Dollars ^b
1982-83.....	\$1,125,425	129,643	\$8,681	\$8,681	\$907,338	241,407	\$3,759	\$3,759	\$1,448,774	743,689	\$1,948	\$1,948
1983-84.....	1,110,012	130,822	8,485	8,113	949,984	241,989	3,926	3,754	1,466,674	680,745	2,155	2,060
1984-85.....	1,457,144	133,705	10,898	9,948	1,142,928	242,752	4,708	4,298	1,549,879	661,834	2,342	2,138
1985-86.....	1,641,741	136,928	11,990	10,541	1,258,500	248,456	5,065	4,453	1,661,460	656,421	2,531	2,225
1986-87.....	1,788,304	141,776	12,614	10,749	1,354,673	252,789	5,359	4,567	1,773,568	681,525	2,602	2,218
1987-88.....	1,888,872	145,983	12,939	10,562	1,428,147	258,243	5,530	4,514	1,914,661	698,588	2,741	2,237
1988-89.....	1,970,047	150,440	13,095	10,186	1,489,260	267,451	5,568	4,331	2,104,375	734,391	2,865	2,229
1989-90.....	2,076,662	152,863	13,585	10,107	1,631,540	272,608	5,985	4,453	2,270,084	775,885	2,926	2,177
1990-91 (est.).....	2,135,733	154,101	13,859	9,868	1,699,014	274,500	6,189	4,407	2,515,584	806,722	3,118	2,220
1991-92 (prop.).....	2,133,900	155,710	13,704	9,362	1,655,927	280,220	5,909	4,037	2,537,586	838,848	3,025	2,066
Percent Change												
1982-83 to 1991-92.....	89.6%	20.1%	57.9%	7.8%	82.5%	16.1%	57.2%	7.4%	75.2%	12.8%	55.3%	6.1%
Annual Rate of Change												
Since 1982-83.....	7.4%	2.1%	5.2%	0.8%	6.9%	1.7%	5.2%	0.8%	6.4%	1.3%	5.0%	0.7%
Since 1986-87.....	3.1	1.6	1.4	-3.0	3.8	2.1	1.7	-2.8	7.3	4.7	2.5	-2.0

^a Dollars in thousands.

^b Change in prices measured by the implicit price deflator for purchases of goods and services by state and local government.

^c Excludes appropriated fee revenue.

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION

Item 6420 from the General
Fund and Federal Trust Fund

Budget p. E 49

Requested 1991-92.....	\$7,914,000
Estimated 1990-91	7,990,000
Actual 1989-90	6,841,000
Requested decrease \$76,000 (-1 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6420-001-001—Main support	General	\$3,590,000
6420-001-890—Administration	Federal	182,000
6420-011-001—Administration	General	15,000
6420-101-890—Local assistance	Federal	<u>4,127,000</u>
Total		\$7,914,000

GENERAL PROGRAM STATEMENT

The California Postsecondary Education Commission (CPEC) is composed of 17 members. It is an advisory body to the Legislature and the Governor, and has responsibility for postsecondary education planning, evaluation, and coordination. No one who is regularly employed in any administrative, faculty, or professional position by an institution of public or private postsecondary education may be appointed to the commission. There are two student representatives on the commission. Representatives of postsecondary institutions provide advice to the commission through a special advisory committee.

The commission has 50 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes \$3.6 million from the General Fund for support of CPEC in 1991-92. This is an increase of \$11,000, or 0.3 percent, from estimated current-year expenditures. Table 1 summarizes expenditures and funding sources for the commission in the prior, current, and budget years.

The Governor's Budget includes an unallocated trigger-related reduction of \$49,000 in funding for CPEC. This reduction is included in the proposed budget for CPEC in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1
California Postsecondary Education Commission
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Programs	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Executive	\$669	\$813	\$769	-\$44	-5.4%
Research and evaluation	1,123	5,498	5,525	27	0.5
Administration	4,308	938	915	-23	-2.5
Information services	676	673	682	9	1.3
W.I.C.H.E. ^a	65	68	72	4	5.9
Unallocated reduction	—	—	-49	-49	— ^b
Totals	\$6,841	\$7,990	\$7,914	-\$76	-1.0%
Funding Sources					
General Fund	\$3,478	\$3,594	\$3,605	\$11	0.3%
Federal funds	3,368	4,309	4,309	—	—
Special Deposit Fund	-15	67	—	-67	-100.0
Reimbursements	10	20	—	-20	-100.0
Personnel-years	50.2	49.7	49.5	-0.2	-0.4%

^a Western Interstate Commission for Higher Education.

^b Not a meaningful figure.

Table 2 shows the factors accounting for the change in the commission's planned General Fund expenditures between the current and budget years.

Table 2
California Postsecondary Education Commission
Proposed 1991-92 General Fund Budget Changes
(dollars in thousands)

1990-91 Expenditures (Revised)	\$3,594
<i>Baseline Adjustments</i>	
Annualization of 1990-91 compensation increase	\$60
Merit increases	47
Price adjustments	54
Subtotal, baseline adjustments	(\$161)
<i>Expenditure Adjustments</i>	
Backout merit increases	-\$47
Backout price increases	-54
Unallocated trigger-related reduction	-49
Subtotal, expenditure adjustments	(-\$150)
1991-92 Expenditures (Proposed)	\$3,605
Change from 1990-91:	
Amount	\$11
Percent	0.3%

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

We recommend approval of the proposed level of General Fund support for CPEC. In addition, we recommend approval of the following Budget Bill items:

- **Federal Trust Fund (Items 6420-001-890 and 6420-101-890)**—The budget proposes the expenditure of \$4.3 million from the Federal

CALIFORNIA POSTSECONDARY EDUCATION COMMISSION—Continued

Trust Fund for continued support of a grant program to improve the skills of teachers and the quality of instruction in mathematics, science, critical foreign languages, and computer learning in elementary and secondary schools. This is the sixth year of federal support for this program.

THE UNIVERSITY OF CALIFORNIA

Item 6440 from the General Fund and various other funds

Budget p. E 53

Requested 1991-92.....	\$9,399,840,000
Estimated 1990-91	8,972,653,000
Actual 1989-90	8,369,411,000
Requested increase \$427,187,000 (+4.8 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6440-001-001—Main support	General	\$2,069,493,000
6440-001-046—Research	Transportation	956,000
6440-001-144—Research	Water	100,000
6440-001-234—Research	Cigarette	26,852,000
6440-001-814—Lottery revenue	Lottery	18,750,000
6440-002-001—Subsequent year	General	(55,000,000)
6440-003-001—Revenue bonds	General	43,941,000
6440-013-001—Benefits	General	20,466,000
6440-490—Reappropriation	General	—
Subtotal, budget bill items		(\$2,180,558,000)
Non-Budget Bill Funding		
Expenditures from other fund sources		\$4,836,282,000
Department of Energy Laboratories		2,383,000,000
Subtotal, non-budget bill funding		(\$7,219,282,000)
Grand Total		\$9,399,840,000

Analysis page

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. Unallocated Reductions. Recommend that UC report to fiscal committees prior to budget hearings on its plan to implement the budget's proposed unallocated reductions. 1022
2. \$55 Million Deferred Payments. Recommend that the Department of Finance and UC report during budget hearings on various inconsistencies related to current-year and budget-year proposals to defer \$55 million in expenditures. 1023

3. Regents Disregard Legislative Directive. We find that the Regents decided not to comply with a directive in the *Supplemental Report of the 1990 Budget Act* related to collection of fees for the California Public Interest Research Group, Inc (CalPIRG). 1026

GENERAL PROGRAM STATEMENT

The University of California (UC) was established in 1868 as California's land grant university. It encompasses eight general campuses and one health science campus. UC has constitutional status as a public trust, and is administered under the authority of a 28-member Board of Regents.

Administrative Structure. Overall responsibility for policy development, planning, and resource allocation within the university rests with the president, who is directly responsible to the Regents. Primary responsibility for individual campuses is delegated to the chancellor of each campus. The academic senate is delegated the authority to determine admission and degree requirements, and to approve courses and curricula.

Curriculum. The UC offers a broadly based undergraduate curriculum leading to the baccalaureate degree at each general campus. The university has sole authority among public institutions to award doctoral degrees in all disciplines, although it may award joint doctoral degrees with the California State University (CSU). In addition, within the public higher education system, UC has exclusive jurisdiction over instruction in the professions of law, medicine, dentistry, and veterinary medicine and primary jurisdiction over research. The university has three law schools, five medical schools, two dental schools, and one school of veterinary medicine.

Faculty and Staff. The Legislature does not exercise position control over the university. Rather, the state appropriates funds to the university based on various workload formulas, such as one faculty member for every 17.61 undergraduate and graduate students. The university then determines how many faculty and other staff will actually be employed. Thus, review of actual and budgeted position totals is not as meaningful for the university as it is for other state agencies. In the current year, UC has a budgeted workforce totaling 58,498 personnel-years.

Admission. Admission of first-year students to UC is limited to the top one-eighth (12.5 percent) of California's high school graduates. The university is permitted to waive this admission standard for up to 6 percent of the newly admitted undergraduates.

Enrollment. Table 1 shows the projected student enrollment at each campus. The budget proposes increases at only the undergraduate level where enrollments are projected to increase by 1,644 FTE (1.4 percent) in 1991-92. This increase is offset by a budgeted decline of 35 FTE postbaccalaureate students (3.3 percent).

THE UNIVERSITY OF CALIFORNIA—Continued

Table 1
 The University of California
 Full-time Equivalent (FTE) Students
 (Three-Quarter/Two-Semester Average)
 1989-90 through 1991-92

Campus	1989-90 Actual	1990-91		1991-92 Prop.	Change from Budgeted 1990-91	
		Budgeted	Est. Actual		Number	Percent
Berkeley						
Undergraduate	20,251	20,125	19,701	20,113	-12	-0.1%
Postbaccalaureate	73	60	70	57	-3	-5.0
Graduate.....	7,601	7,577	7,736	7,577	—	—
Health Sciences.....	779	757	757	757	—	—
Subtotals.....	28,704	28,519	28,264	28,504	-15	-0.1%
Davis						
Undergraduate	16,198	16,812	17,399	17,029	217	1.3%
Postbaccalaureate	106	87	112	104	17	19.5
Graduate.....	3,274	3,081	3,357	3,081	—	—
Health Sciences.....	1,854	1,832	1,832	1,832	—	—
Subtotals.....	21,432	21,812	22,700	22,046	234	1.1%
Irvine						
Undergraduate	12,302	12,892	12,855	13,190	298	2.3%
Postbaccalaureate	186	260	188	254	-6	-2.3
Graduate.....	1,733	1,783	1,779	1,783	—	—
Health Sciences.....	1,094	1,040	1,040	1,040	—	—
Subtotals.....	15,315	15,975	15,862	16,267	292	1.8%
Los Angeles						
Undergraduate	20,718	20,636	20,405	20,673	37	0.2%
Postbaccalaureate	48	60	95	60	—	—
Graduate.....	7,751	7,634	7,852	7,634	—	—
Health Sciences.....	3,810	3,719	3,719	3,719	—	—
Subtotals.....	32,327	32,049	32,071	32,086	37	0.1%
Riverside						
Undergraduate	6,347	6,876	6,827	7,259	383	5.6%
Postbaccalaureate	180	220	220	207	-13	-5.9
Graduate.....	1,131	1,118	1,178	1,118	—	—
Health Sciences.....	53	48	48	48	—	—
Subtotals.....	7,711	8,262	8,273	8,632	370	4.5%
San Diego						
Undergraduate	13,446	13,554	13,554	13,940	386	2.8%
Postbaccalaureate	55	100	100	94	-6	-6.0
Graduate.....	1,955	2,000	1,944	2,000	—	—
Health Sciences.....	1,127	1,052	1,052	1,052	—	—
Subtotals.....	16,583	16,706	16,700	17,086	380	2.3%
San Francisco						
Health Sciences.....	3,639	3,574	3,574	3,574	—	—
Santa Barbara						
Undergraduate	15,683	15,491	15,369	15,443	-48	-0.3%
Postbaccalaureate	106	133	115	110	-23	-17.3
Graduate.....	2,003	2,147	2,255	2,147	—	—
Subtotals.....	17,792	17,771	17,739	17,700	-71	-0.4%

Santa Cruz						
Undergraduate	8,569	8,554	8,745	8,937	383	4.5%
Postbaccalaureate	97	125	130	124	-1	-0.8
Graduate.....	694	754	728	754	—	—
Subtotals.....	9,360	9,433	9,603	9,815	382	4.0%
Total University						
Undergraduate	113,514	114,940	114,855	116,584	1,644	1.4%
Postbaccalaureate	851	1,045	1,030	1,010	-35	-3.3
Graduate.....	26,142	26,094	26,879	26,094	—	—
Health Sciences.....	12,356	12,022	12,022	12,022	—	—
Totals.....	152,863	154,101	154,786	155,710	1,609	1.0%

MAJOR ISSUES

- Budget proposal is significantly below the amount needed to maintain current service levels in the budget year.
- Student fees are proposed to increase by 20 percent, or by 10 percent more than current statutory policy allows.
- \$55 million in 1991-92 program expenses are to be paid in 1992-93. However, language in the 1991 Budget Bill prevents UC from committing these funds in 1991-92.

OVERVIEW OF THE BUDGET REQUEST

Total Expenditures. The UC budget proposes total expenditures of \$9.4 billion in 1991-92. This is \$427 million (4.8 percent) above estimated current-year expenditures.

Table 2 provides a systemwide budget summary by program for the prior, current, and budget years. As the table shows, the budget has two components (1) budgeted programs, and (2) extramural programs. No direct state appropriations are provided for extramural programs, although UC does receive some state support for extramural programs through state agency agreements.

General Fund Support for Budgeted Programs. Table 2 shows that the budget proposes to expend \$2.1 billion from the General Fund for support of the UC system in 1991-92, a net decrease of \$1.8 million (0.1 percent) below 1990-91. However, student fees are proposed to increase by 20 percent in the budget year and a portion of the fee revenue—approximately \$51 million—will be used by the university for general program support in 1991-92. After adjusting for this student fee revenue, General Fund-supported program expenditures will actually

THE UNIVERSITY OF CALIFORNIA—Continued

increase by \$49 million (2.3 percent) from the 1990-91 level. However, in our companion document *The 1991-92 Budget: Perspectives and Issues*, we point out that the proposed level of funding for UC is substantially below the level needed to fully sustain the current service level. We estimate a \$206 million shortfall in the budget year.

Table 2
The University of California
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Budgeted Programs					
Instruction.....	\$1,510,523	\$1,665,917	\$1,688,209	\$22,292	1.3%
Research.....	271,823	244,813	239,716	-5,097	-2.1
Public service.....	97,856	89,691	89,691	—	—
Academic support.....	357,366	416,946	428,473	11,527	2.8
Teaching hospitals.....	1,222,124	1,453,111	1,558,155	105,044	7.2
Student services.....	202,894	195,627	195,627	—	—
Institutional support.....	319,779	318,218	318,218	—	—
Operation and maintenance.....	265,892	295,300	298,383	3,083	1.0
Student financial aid.....	95,267	88,103	88,564	461	0.5
Auxiliary enterprises.....	304,761	354,119	385,676	31,557	8.9
Special Regents.....	50,029	78,630	81,254	2,624	3.3
Unallocated adjustments.....	10,952	-24,992	90,509	115,501	— ^a
Unallocated reduction.....	—	—	-34,115	-34,115	— ^a
Subtotals, budgeted programs.....	(\$4,709,266)	(\$5,175,483)	(\$5,428,360)	(\$252,877)	(4.9%)
Extramural Programs					
Sponsored research and other.....	\$1,380,536	\$1,483,170	\$1,588,480	\$105,310	7.1%
Department of Energy labs.....	2,279,609	2,314,000	2,383,000	69,000	3.0
Subtotals, extramural programs.....	(\$3,660,145)	(\$3,797,170)	(\$3,971,480)	(\$174,310)	(4.6%)
Grand Totals	\$8,369,411	\$8,972,653	\$9,399,840	\$427,187	4.8%
Funding Sources					
Budgeted Programs					
General Fund.....	\$2,076,662	\$2,135,733	\$2,133,900	-\$1,833	-0.1%
State Transportation Fund.....	956	956	956	—	—
California Water Fund.....	100	100	100	—	—
Cigarette and Tobacco Product Fund.....	40,923	31,949	26,852	-5,097	-16.0
Capital Outlay Bond Fund (1988).....	2,200	—	—	—	—
Facilities Bond Act (1990).....	—	3,000	—	-3,000	-100.0
Lottery Education Fund.....	24,106	18,750	18,750	—	—
Federal funds.....	9,992	12,612	12,612	—	—
Higher education fee income.....	229,855	251,474	306,651	55,177	21.9
University general funds.....	229,876	263,788	288,124	24,336	9.2
University restricted funds.....	2,094,596	2,457,121	2,640,415	183,294	7.5
Extramural Programs					
Federal funds.....	\$741,973	\$790,200	\$841,600	\$51,400	6.5%
Energy labs (federal funds).....	2,279,609	2,314,000	2,383,000	69,000	3.0
State agency agreements.....	36,260	38,070	39,980	1,910	5.0
Private gifts, contracts and grants.....	275,458	300,300	327,400	27,100	9.0
Other university funds.....	326,845	354,600	379,500	24,900	7.0
Personnel-years.....	58,701	58,498	58,783	285	0.5%

^a Not a meaningful figure.

General Fund Budget Changes Proposed for 1991-92

The specific factors accounting for the net \$1.8 million decrease in General Fund support proposed for 1991-92 are identified in Table 3. As shown in Table 3, the proposed increases in General Fund support are fully offset by proposed expenditure reductions and student fee increases. The footnote to Table 3 shows that the budget also proposes to fund \$55 million in 1991-92 support expenditures in 1992-93. This deferred payment is similar to a provision in the 1990 Budget Act which funds \$55.6 million in 1990-91 support expenditures in 1991-92. The 1991 Budget Bill thus proposes to continue to rollover a payment of \$55 million into the next fiscal year.

Table 3 also shows that the Governor's Budget includes an unallocated trigger-related reduction of \$34.1 million in funding for UC. This

Table 3
The University of California
Proposed 1991-92 General Fund Budget Changes^a
(dollars in thousands)

1990-91 Expenditures (Revised)	\$2,135,733
<i>Baseline Adjustments</i>	
Annualization of 1990-91 compensation increase.....	\$49,283
Merit and promotion for faculty and staff.....	30,772
Price adjustment	20,679
Base budget adjustment.....	38,629
Income and other adjustments	-4,752
Subtotal, baseline adjustments.....	(\$134,611)
<i>Workload Changes</i>	
Undergraduate enrollment.....	\$10,136
Operation and maintenance of plant.....	6,083
Subtotal, workload changes.....	(\$16,219)
<i>Salary and Benefit Increases</i>	
Benefits.....	\$20,466
Faculty and staff salary.....	—
Subtotal, salary and benefit increases.....	(\$20,466)
<i>Capital Outlay Revenue Bonds</i>	
Additional lease payments on revenue bonds.....	\$33,441
<i>Expenditure Adjustments</i>	
Backout merit increase.....	-\$30,772
Backout price increase	-20,679
Reduce research, administration and equipment	-26,100
Unallocated reduction.....	-39,207
Unallocated trigger-related reduction	-34,115
Subtotal, expenditure adjustments	(-\$150,873)
<i>Revenue Adjustments</i>	
Increase resident student fees	-\$35,813
Increase nonresident student fees	-14,884
Increase UC income estimate.....	-5,000
Subtotal, revenue adjustments	(-\$55,697)
1991-92 Expenditures (Proposed).....	\$2,133,900
Change from 1990-91:	
Amount.....	-\$1,833
Percent	-0.1%

^aThe budget also proposes to fund \$55 million in 1991-92 support expenditures in 1992-93.

THE UNIVERSITY OF CALIFORNIA—Continued

reduction is included in the proposed budget for UC in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). In addition to the trigger-related reduction, the budget proposes (1) an additional unallocated reduction of \$39.2 million and (2) a reduction of \$26.1 million for research, administration, and equipment.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of all of the changes shown in Table 3 with the exception of the expenditure adjustments, revenue adjustments and deferred payment of \$55 million which are discussed elsewhere in this analysis. In addition, we recommend approval of the following Budget Bill items which are not discussed elsewhere in this analysis:

- *State Transportation Fund (Item 6440-001-046)*—\$956,000 for continued support of the Institute of Transportation Studies.
- *California Water Fund (Item 6440-001-144)*—\$100,000 for continued research on mosquito control.
- *Research Account, Cigarette and Tobacco Products Surtax Fund (Item 6440-001-234)*—\$26.9 million for a statewide program of tobacco-related disease research.
- *California State Lottery Education Fund (Item 6440-001-814)*—\$18.8 million for instructionally related items that supplement the university's budget.
- *Revenue Bond Payments (Item 6440-003-001)*—\$43.9 million for debt service payments related to capital construction projects approved by the Legislature in prior budget acts for financing by lease-purchase revenue bonds.
- *Benefit Increase (Item 6440-013-001)*—\$20.5 million to pay anticipated price increases in employee health and dental benefits in 1991-92. The budget does not propose a salary increase for faculty and staff. According to data from the California Postsecondary Education Commission, a full year faculty salary increase of 3.5 percent would be needed on July 1, 1991 for UC faculty to be at parity with its group of eight comparison universities. The cost of a full year 3.5 percent increase for UC faculty is \$35 million. In the current year the average salary for UC faculty is \$65,500.
- *General Reappropriation (Item 6440-490)*—a provision reappropriating unexpended General Fund balances, exclusive of specified federal overhead receipts, from UC's main support item. Expenditure of the reappropriated funds is limited to instructional equipment, deferred maintenance and special repairs. A similar provision was approved by the Legislature in the 1990 Budget Act.

Report Needed on Proposed Unallocated Reductions

We recommend that UC report to the fiscal committees prior to budget hearings on its plan to implement the budget's proposed unallocated reductions.

The budget proposes expenditure reductions of \$99 million in the budget year. As Table 3 indicates, the Governor's Budget assumes that

UC will incur roughly \$205 million in additional General Fund costs in the budget year from baseline adjustments, workload changes, benefit increases, and new revenue bond payments. The budget, however, does not propose sufficient funding for these costs. Instead, it proposes \$56 million in additional revenues and \$99 million in expenditure reductions. The additional revenue is almost entirely derived from increased student fees, which are discussed elsewhere in this analysis.

The \$99 million in expenditure reductions consists of (1) reducing research, administration, and equipment (\$26 million), (2) an unallocated reduction (\$39 million), and (3) an unallocated trigger-related reduction (\$34 million). The budget does not propose a specific allocation for these expenditure reductions.

There is a wide range of possible options that UC could take to allocate these reductions. Among these options are (1) increase user charges, (2) restrict course offerings, (3) increase class sizes, (4) rollback salaries, (5) reduce or eliminate noninstructional services, (6) increase student fee levels, and/or (7) restrict student admission.

The UC announced in January 1991 that its plan to allocate the reductions would be presented to the Regents in February. Because of the magnitude of the reductions and their potential impact on programs, service levels, and fee structures at UC, we recommend that UC report prior to budget hearings on its plan to allocate the proposed reductions. We will be prepared to comment on this plan during budget hearings.

Budget Proposes Deferred Payments But Budget Bill Doesn't Allow It

We find that language in the 1990 Budget Act and the 1991 Budget Bill prevent UC from implementing the administration's proposals to encumber \$55 million in one year with payment in the following year.

We recommend that the Department of Finance (DOF) and UC report during budget hearings on specific questions related to these proposals, including (1) how they plan to implement the budget proposals given the restrictive budget language, and (2) why the overall state budget does not reflect these deferrals in the reserve for liquidation of encumbrances.

The Budget Bill proposes to appropriate \$55 million in the budget year to UC for general purpose expenditures but precludes UC from expending or encumbering these funds prior to July 1, 1992. The 1990 Budget Act provided for a similar \$55 million deferral in the current year, but the administration now proposes an alternative use for these funds.

Current-year Deferral. The 1990 Budget Act (1) appropriated \$55 million specifically for UC Retirement Plan costs and (2) stated that these funds would not be available for expenditure nor encumbrance prior to July 1, 1991. Contrary to these provisions, the Governor's 1991-92 Budget proposes that in the current year UC (1) use \$33 million of this appropriation for non-Retirement Plan expenditures and (2) commit (or encumber) this \$33 million prior to July 1, 1991.

Background on Current-year Deferral. Section 3.80 of the 1990 Budget Act allowed the Governor to reduce General Fund support by up

THE UNIVERSITY OF CALIFORNIA—Continued

to 3 percent for specified agencies including UC. In September, the Governor used the Section 3.80 authority to reduce UC's baseline budget by \$26 million. At the same time, the Governor offset this reduction by allowing UC to retain a \$33 million baseline savings due to a rate reduction in the state's contribution to UC's Retirement Plan. The rate reduction was the result of an actuarial review that determined that the anticipated earnings from the Retirement Fund could sustain the fund for the next several years with no further state contribution. This reduction to a zero-contribution rate took effect in November 1990.

Our analysis indicates that the 1990-91 actions cannot be implemented without amending existing law to (1) expand the purpose of the 1990 Budget Act appropriation to include nonretirement-related expenditures and (2) remove the prohibition from encumbering the funds in the current year.

Budget-year Deferral. The Governor's Budget proposes to appropriate \$55 million in the budget year to UC for general purpose expenditures and to authorize UC to encumber but not expend these funds during the budget year. The Budget Bill, however, includes language stating that the \$55 million is "not available for expenditure or encumbrance prior to July 1, 1992."

What is the purpose of these deferrals? Our analysis indicates that the intent of the 1990 Budget Act and the 1991 Budget Bill is to allow UC to encumber but not expend the \$55 million. The language adopted in the Budget Act and proposed in the Budget Bill, however, not only prohibits spending the \$55 million but prohibits encumbering it as well. In addition, our analysis indicates that neither the 1990-91 budget nor the proposed 1991-92 budget reflect the \$55 million deferral in statewide totals. If the intent is to allow UC to encumber these funds, than this encumbrance should be reflected in the reserve for liquidation of encumbrances.

Given these conflicting provisions, we recommend that the Department of Finance and UC report during budget hearings with regard to the following questions on the deferrals:

- How do DOF and UC plan to implement the deferrals given the budget language restrictions?
- Why aren't the deferrals reflected in the reserve for liquidation of encumbrances? Given that the deferrals are not currently reflected, is the reserve for economic uncertainties overstated by \$55 million?
- Will UC's budget always include a \$55 million deferral?

Student Fee Increases Proposed For 1991-92

As shown in Table 4, the budget requests (1) an increase of \$325 (20 percent) in the systemwide resident student charges, and (2) an increase of \$1,608 (20 percent) in nonresident charges. The additional revenue generated by the fee increase, after allowing for financial aid, is \$51 million. The budget proposes to use this \$51 million to offset expenditures in UC's General Fund budget. In addition, the Budget Bill

includes a provision in Item 6440-001-001 to suspend the current-law restriction limiting student fee increases in any year to no more than 10 percent above the prior year.

Table 4
The University of California
Systemwide Student Charges *
1989-90 through 1991-92

Type of Student	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Resident Students					
Undergrad/Graduate	\$1,476	\$1,624	\$1,949	\$325	20.0%
Medicine/Law	1,476	2,000	2,325	325	16.3
Nonresident Students					
Undergrad/Graduate	\$7,275	\$8,040	\$9,648	\$1,608	20.0%
Medicine/Law	7,275	8,416	10,024	1,608	19.1

*In addition to systemwide charges, students also pay campus-based fees. In the current year, these campus-based fees average \$196 for undergraduates and \$482 for graduate students.

Fees at Comparable Universities. In the current year, UC's resident student charges are \$1,251 below the average charge at UC's four public comparison universities. These four universities, which are used to provide the benchmark for faculty salary comparisons, are the following: the University of Illinois—Urbana; the University of Michigan—Ann Arbor; the State University of New York—Buffalo; and the University of Virginia. Nonresident student charges are \$163 below the average charge at the four comparable universities.

Given the budget's proposed increase of \$325 for resident students and \$1,608 for nonresident students, it appears likely that UC resident student charges will remain below the average of these four benchmark universities in 1991-92. However, it is likely that nonresident charges will be above the average charge in the budget year.

Financial Aid. The budget also includes an additional \$7.2 million within UC's budget for student financial aid. In addition, the Student Aid Commission's (SAC) budget includes an additional \$11 million to offset the proposed fee increase for Cal Grant A and B awards for students attending UC and the California State University. (We discuss the Cal Grant Program in our analysis of Item 7980-101-001.) The Budget Bill also includes a provision in Item 6440-001-001 that automatically increases both financial aid within UC's budget and the SAC if the Regents increase fee levels beyond that proposed in the budget. This increased aid would be funded from revenue raised from the additional fee increase.

Report on Reassessment of UC's Long-range Enrollment Plan Delayed

In the *Supplemental Report of the 1990 Budget Act*, the Legislature directed the university to do the following with regard to new campus planning (1) expedite the planning for one new campus with the intent to open this campus as early as possible before 1998, and (2) reassess the enrollment assumptions associated with additional campuses. The supple-

THE UNIVERSITY OF CALIFORNIA—Continued

mental report also directed UC to provide a status report with regard to this request by December 1, 1990.

As of late January, UC was still working on this status report and planned to finish it in February. UC indicates that this delay was caused in part because the Department of Finance's revised long-term population projections were not available until late in December. We will be prepared to comment on this report during budget hearings.

UC Regents Disregard Legislative Directive

We find that the UC Regents authorized a positive check-off procedure for all registered student organizations when fees are solicited for the organization during the registration process.

However, the Supplemental Report of the 1990 Budget Act expressed the intent of the Legislature that specified student organizations have a right to use a negative check-off procedure to collect fees and further expressed that this right not be revoked by the Regents nor anyone acting in the Regents' behalf.

In the *Supplemental Report of the 1990 Budget Act* the Legislature expressed its intent that (1) UC students have the right to assess themselves fees in the registration process for specified organizations through a negative check-off procedure, and (2) this right should not be revoked by the Regents nor anyone acting on behalf of the Regents. The supplemental report also directed the Legislative Analyst to report to the Legislature on the extent to which UC has complied with its intent. A *negative check-off procedure* (also referred to as a deductible-fee system) means that students have to check that they do *not* wish to support the organization and the university must deduct the charge from their bill. A *positive check-off procedure* (also referred to as a donation system) means that students must check that they *do* wish to support the organization and the university must add the charge to their bill.

In addition, the supplemental report language defines the specified organizations eligible to participate in the negative check-off process as any student-directed, nonprofit, nonpartisan education and advocacy program. The supplemental report also states that the negative check-off procedure shall be included in the registration bill only if students have authorized such a fee in a referendum consistent with campus voting procedures in an election recognized by the student government.

Support for CalPIRG Central Issue. The negative/positive check-off issue was brought to the Legislature's attention by the California Public Interest Research Group, Inc. (CalPIRG) and the UC Student Association. CalPIRG is an independent, nonprofit corporation established by UC students for research and advocacy of contemporary public interest issues. Students propose and conduct CalPIRG projects with the aid of a professional staff, and policy is set by a nonpartisan board of directors made up of students. Four UC campuses have CalPIRG chapters—Berkeley, Los Angeles, Santa Barbara and Santa Cruz.

CalPIRG is currently the only UC student-directed organization that collects a fee on the student registration form through a negative

check-off. The average CalPIRG fee is approximately \$2 to \$4 per quarter or \$6 to \$12 per year. Since the founding of the first chapter in 1975 on the Los Angeles campus, CalPIRG has been supported through a negative check-off procedure. Every two to four years, students on the campuses vote to determine whether to continue this procedure. However, last year the UC administration proposed to change the collection of the CalPIRG fee from a negative check-off to a positive check-off procedure without a student vote.

Regents' Response. In September, the UC administration informed the Regents of the supplemental report directive and presented the Regents with four options on the use of the registration form to collect fees for registered student organizations. The four options were (1) authorize the UC President to approve the current negative check-off method (the method directed by the Legislature), (2) require the Regents' approval to use the negative check-off method, (3) authorize the President to approve only a positive check-off method for fee collection, or (4) disallow use of the registration process to collect any fee other than mandatory student fees approved by the Regents. After considerable debate and discussion, including testimony from the Treasurer of the CalPIRG Board of Directors and the Chair of the UC Student Association, the Regents approved option 3—to authorize the President to approve only the positive check-off method.

Thus, our review finds that although the Regents were fully informed of the supplemental report directive, they chose a procedure which is not consistent with the Legislature's intent.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 6440-301-660 for capital outlay expenditures in Higher Education. Please see our overview of the proposed Higher Education Capital Outlay Program in the capital outlay section of this *Analysis* which is in the back of this document. The University of California capital outlay analysis begins with Item 6440-301-660.

HASTINGS COLLEGE OF THE LAW

Item 6600 from the General	
Fund and various other funds	Budget p. E 82
<hr/>	
Requested 1991-92.....	\$21,484,000
Estimated 1990-91	21,339,000
Actual 1989-90	21,370,000
Requested increase \$145,000 (+0.7 percent)	
Total recommended reduction.....	None
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HASTINGS COLLEGE OF THE LAW—Continued
1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6600-001-001—Main support	General	\$12,739,000
6600-001-814—Lottery revenue	Lottery	163,000
6600-006-001—Financial aid	General	774,000
6600-013-001—Benefits	General	125,000
6600-490—Reappropriation	General	—
Subtotal, budget bill items		\$13,801,000
Non-Budget Bill Funding		
Expenditures from other fund sources		7,683,000
Grand Total		\$21,484,000

GENERAL PROGRAM STATEMENT

Hastings College of the Law was founded in 1878. It is designated by statute as a law school of the University of California, although it is governed by its own board of directors. Enrollment in 1991-92 is projected to total 1,225 students or 100 less than the current year. This enrollment reduction reflects the final phase of the Legislature's 1987 plan to improve the Hastings' faculty student ratio by reducing enrollment from 1,500 to 1,200.

OVERVIEW OF THE BUDGET REQUEST

Total Expenditures. The budget proposes total expenditures of \$21.5 million in 1991-92. This is \$145,000 (0.7 percent) above estimated current-year expenditures.

Table 1 provides a budget summary by program for the prior, current, and budget years. As the table shows, the budget has two components: (1) budgeted programs, and (2) extramural programs. No state appropriations are provided for extramural programs.

General Fund Support for Budgeted Programs. Table 1 shows that the budget proposes to expend \$13.6 million from the General Fund for support of Hastings in 1991-92, a net increase of \$107,000 (0.8 percent) above 1990-91.

The Governor's Budget includes an unallocated trigger-related reduction of \$217,000 in funding for Hastings. This reduction is included in the proposed budget for Hastings in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1
Hastings College of the Law
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	<i>Actual</i> 1989-90	<i>Est.</i> 1990-91	<i>Prop.</i> 1991-92	<i>Change from</i> 1990-91	
				<i>Amount</i>	<i>Percent</i>
<i>Budgeted Programs</i>					
Instruction	\$7,095	\$8,007	\$8,374	\$367	4.6%
Public services	147	207	207	—	—
Law library	1,854	1,811	1,834	23	1.3
Student services	1,956	2,090	2,175	85	4.1
Institutional support	3,927	4,049	4,107	58	1.4
Operation and maintenance	2,351	1,648	1,602	-46	-2.8
Provision for allocation	—	—	3	3	— ^a
Earthquake reimbursement	-291	—	—	—	—
Unallocated reduction	—	—	-217	-217	— ^a
Subtotals, budgeted programs	(\$17,039)	(\$17,812)	(\$18,085)	(\$273)	(1.5%)
Extramural Programs	<u>\$4,331</u>	<u>\$3,527</u>	<u>\$3,399</u>	<u>-\$128</u>	<u>-3.6%</u>
Grand Totals	\$21,370	\$21,339	\$21,484	\$145	0.7%
<i>Funding Sources</i>					
<i>Budgeted Programs</i>					
General Fund	\$13,346	\$13,531	\$13,638	\$107	0.8%
Hastings' general funds	3,251	4,048	4,284	236	5.8
Lottery Education Fund	210	163	163	—	—
Facilities Bond Fund (1988)	232	—	—	—	—
Facilities Bond Fund (1990)	—	70	—	-70	-100.0
<i>Extramural Programs</i>					
Federal funds	\$377	\$284	\$284	—	—
Private gifts, contracts and grants	812	694	518	-\$176	-25.4%
Other Hastings' funds	3,142	2,549	2,597	48	1.9
Personnel-years	221.7	217.7	222.2	4.5	2.1%

^a Not a meaningful figure.

Table 2 identifies the specific factors accounting for the net \$107,000 increase in General Fund support for 1991-92. As shown in Table 2, the proposed budget increases are almost fully offset by proposed expenditure reductions and student fee increases.

The budget requests: (1) an increase of \$325 (16 percent)—from \$2,000 to \$2,325—in resident student fees, and (2) an increase of \$1,608 (19 percent)—from \$8,416 to \$10,024—in nonresident student fees and tuition. The proposed levels are equal to those proposed for law students at the University of California (UC). As is the case with UC, the Budget Bill includes a provision in Item 6600-001-001 to suspend the current law restriction limiting student fee increases in any year to no more than 10 percent above the prior year.

HASTINGS COLLEGE OF THE LAW—Continued**Table 2****Hastings College of the Law
Proposed 1991-92 General Fund Budget Changes
(dollars in thousands)**

1990-91 Expenditures (Revised)	\$13,531
<i>Baseline Adjustments</i>	
Annualization of 1990-91 compensation increase	\$356
Merit and promotion for faculty and staff	182
Eliminate contribution for retirement program	-122
Price adjustments	162
Subtotal, baseline adjustments	(\$578)
<i>Program Changes</i>	
Clinical program improvements (Phase 3)	\$351
<i>Salary and Benefit Increases</i>	
Benefits	\$125
Faculty and staff salaries	—
Subtotal, salary and benefit increases	(\$125)
<i>Expenditure Adjustments</i>	
Backout merit increases	-\$182
Backout price increases	-162
Unallocated trigger-related reduction	-217
Subtotal, expenditure adjustments	(\$561)
<i>Revenue Adjustments</i>	
Resident student fee increase	-\$282
Nonresident student fee increase	-104
Subtotal, revenue adjustments	<u>(\$386)</u>
1991-92 Expenditures (Proposed)	\$13,638
Change from 1990-91:	
Amount	\$107
Percent	0.8%

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

We recommend approval of the proposed General Fund changes shown in Table 2. Among these changes is a request for \$351,000 for the third phase of a proposed three-year plan for improvements in Hastings' clinical skill program offerings. The Legislature approved \$599,000 during the past two years for support of phases one and two.

Among the objectives of these improvements are to (1) increase the number of law office and trial skills course offerings at Hastings and (2) improve the supervision of law office student placements. The phase three improvements include the addition of one full-time professor and two supervising attorneys in the clinical area. We also note that the American Bar Association's (ABA) accreditation standards now require law schools to offer skills training and that the ABA is satisfied with Hastings' plan for improvement in this area.

In addition, we recommend approval of the following Budget Bill items not discussed elsewhere in this analysis:

- *California State Lottery Education Fund (Item 6600-001-814)*—\$163,000 for instructionally related expenditures that supplement Hastings' budget.

- **Student Financial Aid (Item 6600-006-001)**—\$774,000 from the General Fund, an increase of \$66,000 (9.3 percent) above estimated current-year expenditures, to provide sufficient funds to offset the effect of the proposed student fee increase.
- **Benefit increase (Item 6600-013-001)**—\$125,000 to pay anticipated price increases in employee health and dental benefits for 1991-92. The budget does not propose a salary increase for faculty and staff.
- **General Reappropriation (Item 6600-490)**—a provision reappropriating unexpended General Fund balances from Hastings' main support item. Expenditure of the reappropriated funds is limited to instructional equipment, deferred maintenance and special repairs. A similar provision was approved by the Legislature in the 1990 Budget Act.

CALIFORNIA STATE UNIVERSITY

Item 6610 from the General
Fund and various funds

Budget p. E 87

Requested 1991-92.....	\$2,852,152,000
Estimated 1990-91	2,822,353,000
Actual 1989-90	2,682,180,000
Requested increase \$29,799,000 (+1.1 percent)	
Total recommended reduction.....	250,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6610-001-001—Support	General	\$1,617,938,000
6610-001-498—Support	Higher Education Fees and In- come	419,483,000
6610-001-814—Support	Lottery Education	(33,438,000)
6610-001-890—Support	Federal Trust	108,271,000
6610-002-001—Support	General	1,330,000
6610-003-001—Support	General	11,742,000
6610-021-001—Support	General	3,218,000
6610-021-036—Support	Special Account for Capital Outlay	3,500,000
6610-036-001—Support	General	21,699,000
6610-490—Reappropriation	General	—
Subtotal, budget bill items		(\$2,187,181,000)
Non-Budget Bill Funding		
Reimbursements		\$63,943,000
Expenditures from other fund sources		601,028,000
Subtotal, non-budget bill funding		(\$664,971,000)
Grand Total		\$2,852,152,000

CALIFORNIA STATE UNIVERSITY—Continued

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	<i>Analysis page</i>
1. Unallocated Reductions. Recommend that CSU report to the fiscal committees prior to budget hearings on its plan to implement the unallocated reductions proposed in the budget.	1038
2. <i>New Chancellor's Transition Funding. Reduce Item 6610-001-001 by \$250,000.</i> Recommend deletion of a \$250,000 General Fund augmentation for transition funding for a new Chancellor because CSU already has funding for this purpose in its budget.	1041

GENERAL PROGRAM STATEMENT

The California State University (CSU) system is composed of 20 campuses which provide instruction in the liberal arts and sciences as well as in applied fields which require more than two years of college education. In addition, CSU may award the doctoral degree jointly with the University of California or a private university.

Governance. The CSU system is governed by a 24-member Board of Trustees. The trustees appoint the Chancellor who, as the chief executive officer, assists the trustees in making policy decisions and provides for the administration of the system.

Admission. To be admitted to the CSU as a freshman, a student generally must graduate in the highest academic third of his or her high school class. An exemption, however, permits admission of certain students who do not meet this requirement, provided the number of such students does not exceed 8 percent of the previous year's undergraduate admissions.

Transfer students may be admitted from other four-year institutions or from community colleges if they have maintained at least a 2.0 grade point or "C" average in prior academic work. To be admitted to upper division standing, the student must also have completed 56 transferable semester units of college courses. To be admitted to a CSU graduate program, the minimum requirement is a bachelor's degree from an accredited four-year institution.

The system has an estimated 278,721 full-time equivalent (FTE) students and 36,564 personnel-years in 1990-91.

Enrollment. Enrollment in the CSU is measured in terms of full-time equivalent (FTE) students. One FTE equals enrollment in 15 course units. Thus, one FTE could represent one student enrolled in 15 course units or any other student/course combination (such as three students each taking five course units), the product of which equals 15 course units.

As Table 1 shows, the budget proposes enrollment of 280,220 FTE students in 1991-92, an increase of 5,720 FTE (2.1 percent) over the *budgeted* level for 1990-91, and an increase of 1,499 FTE (0.5 percent) from the *latest estimate* for the current year. We note that 18 of the 20

CSU campuses exceeded their budget enrollment targets in the current year.

The latest estimate of CSU enrollment in the current year (1990-91) is 278,721 FTE students, or 4,221 FTE (1.5 percent) above the enrollment budgeted for 1990-91.

Table 1
California State University
Annual Full-Time Equivalent Students
1989-90 through 1991-92

Campus	1989-90 Actual	1990-91		1991-92 Prop.	Change from Budgeted 1990-91	
		Budgeted	Revised Estimate		Number	Percent
Bakersfield	3,877	4,000	4,003	4,200	200	5.0%
Chico	14,324	14,000	14,445	14,000	—	—
Dominguez Hills	6,676	6,900	7,054	7,300	400	5.8
Fresno	15,682	15,800	15,902	16,300	500	3.2
Fullerton	17,519	17,800	17,812	18,100	300	1.7
Hayward	10,033	10,320	10,194	10,840	520	5.0
Humboldt	6,854	6,860	7,143	7,060	200	2.9
Long Beach	23,012	23,600	23,738	23,700	100	0.4
Los Angeles	15,678	15,800	16,226	15,975	175	1.1
Northridge	21,334	21,350	21,606	21,675	325	1.5
Pomona	16,379	16,150	16,527	16,550	400	2.5
Sacramento	19,000	19,150	19,500	19,800	650	3.4
San Bernardino	7,255	8,100	8,107	8,650	550	6.8
San Diego	26,446	26,000	26,439	25,975	-25	-0.1
San Francisco	20,637	20,080	20,584	20,095	15	0.1
San Jose	21,387	21,900	21,602	22,100	200	0.9
San Luis Obispo	16,681	16,250	17,003	16,400	150	0.9
San Marcos	—	250	281	750	500	200.0
Sonoma	5,386	5,600	5,862	5,800	200	3.6
Stanislaus	3,993	4,100	4,203	4,420	320	7.8
International Program	455	490	490	530	40	8.2
Totals	272,608	274,500	278,721	280,220	5,720	2.1%

MAJOR ISSUES

- Budget proposal is significantly below the amount needed to maintain current service levels in the budget year.
- Resident and nonresident student fees are proposed to increase by 20 percent, or by 10 percent more than current law allows.

OVERVIEW OF THE BUDGET REQUEST

Total Expenditures. Table 2 provides a budget summary for the CSU system, by program, for the prior, current, and budget years. As the table

CALIFORNIA STATE UNIVERSITY—Continued

indicates, the budget proposes total expenditures of \$2.9 billion in 1991-92. This amount is \$29.8 million (1.1 percent) higher than estimated current-year expenditures.

General Fund Expenditures. Table 2 also shows that the budget proposes General Fund expenditures of \$1.7 billion for support of the CSU system in 1991-92. This is a decrease of \$43.1 million (2.5 percent) below estimated current-year General Fund expenditures. Student fees are proposed to increase by 20 percent in the budget year and will generate net revenues of \$46.6 million. These revenues (which is the net amount after financial aid expenditures are taken into account) will be used by CSU to defray some of its budget-year costs. After adjusting for the effect of the General Fund reduction and the new fee revenues, we find that General Fund-supported program expenditures will increase \$3.5 million (0.2 percent) over the 1990-91 level. However, in our companion document *The 1991-92 Budget: Perspectives and Issues*, we indicate that the proposed funding for CSU is substantially below the amount necessary to fund current service levels. We estimate a shortfall of \$180 million in the budget year.

General Fund Budget Changes Proposed for 1991-92

Table 3 identifies the main components of the changes proposed in the CSU budget for 1991-92. As the table shows, increases in General Fund expenditures are fully offset by a combination of unallocated reductions and student fee increases.

The table also shows that the Governor's Budget includes an unallocated trigger-related reduction of \$27.9 million in funding for CSU. This reduction is included in the proposed budget for CSU in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). In addition to the trigger-related reduction, the budget proposes (1) an additional unallocated reduction of \$52.2 million and (2) a \$15.3 million reduction in administration and equipment. Specifically, the table shows that:

- **Baseline adjustments** result in a net increase of \$80.1 million. These include various adjustments in personnel costs, inflation, and reductions for nonrecurring expenditures.
- **Workload changes**, which include enrollment-related adjustments, result in an increase of \$26.7 million.
- **Program changes** result in an increase of \$529,000.
- **Salary and benefit increases** total \$21.7 million.
- **Lease payments on revenue bonds** result in an increase of \$10.1 million.
- **Expenditure adjustments**, which include various unallocated reductions, total \$135.8 million. These reductions are discussed later in this analysis.
- **Revenue adjustments** from the proposed 20 percent increase in resident fees and nonresident tuition amount to \$46.6 million.

Table 2
California State University
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

<i>Budgeted Programs</i>	<i>Actual</i> 1989-90	<i>Est.</i> 1990-91	<i>Prop.</i> 1991-92	<i>Change From</i> <i>1990-91</i>	
				<i>Amount</i>	<i>Percent</i>
Instruction	\$1,229,673	\$1,328,424	\$1,378,342	\$49,918	3.8%
Public service	1,118	1,251	1,276	25	2.0
Academic support	211,762	248,354	232,907	-15,447	-6.2
Student services	264,984	289,033	324,634	35,601	12.3
Institutional support	511,635	555,614	553,593	-2,021	-0.4
Independent operations	73,528	74,747	77,542	2,795	3.7
Auxiliary organizations	389,450	421,754	456,816	35,062	8.3
Provisions for allocation	30	-96,824	-166,787	-69,963	72.3
Unallocated employee compensation increase	—	—	21,699	21,699	— ^a
Unallocated trigger-related reduction	—	—	-27,870	-27,870	— ^a
Totals, budgeted programs	\$2,682,180	\$2,822,353	\$2,852,152	\$29,799	1.1%
Funding Sources					
<i>General Fund</i>	\$1,631,540	\$1,699,014	\$1,655,927	-\$43,087	-2.5%
<i>Special Account for Capital Outlay</i>	2,172	4,828	3,500	-1,328	-27.5
<i>Reimbursements</i>	61,882	63,178	63,943	765	1.2
<i>Higher Education Earthquake Account</i>	-670	851	—	-851	-100.0
<i>Higher Education Fees and Income</i>	327,219	357,663	419,483	61,820	17.3
<i>Continuing Education Revenue Fund</i>	54,604	54,911	54,250	-661	-1.2
<i>Dormitory Revenue Fund</i>	33,422	41,002	42,764	1,762	4.3
<i>Parking Revenue Fund</i>	16,405	13,562	13,744	182	1.3
1988 Higher Education Capital Outlay					
<i>Bond Fund</i>	5,489	8,415	—	-8,415	-100.0
1990 Higher Education Capital Outlay					
<i>Bond Fund</i>	—	10,600	—	-10,600	-100.0
<i>Lottery Education Fund</i>	56,801	49,167	33,438	-15,729	-32.0
<i>Federal Trust Fund</i>	103,863	97,392	108,271	10,879	11.2
<i>Special Projects Fund</i>	3	16	16	—	—
Auxiliary organizations					
<i>Federal</i>	65,817	71,276	77,202	5,926	8.3
<i>Other</i>	323,633	350,478	379,614	29,136	8.3
<i>Personnel-years</i>	36,629.6	36,563.9	37,507.8	943.9	2.6%

^a Not a meaningful figure.

CALIFORNIA STATE UNIVERSITY—Continued**Table 3****California State University
Proposed 1991-92 General Fund Budget Changes
(dollars in thousands)**

1990-91 Expenditures (Revised)	\$1,699,014
<i>Baseline Adjustments</i>	
Annualization of 1990-91 compensation increase.....	\$41,389
Annualization of 1990-91 positions.....	4,193
Merit and promotion for faculty and staff	27,320
Price adjustments	13,071
Backout one-time augmentations.....	<u>-5,838</u>
Subtotal, baseline adjustments.....	(\$80,135)
<i>Workload Changes</i>	
Enrollment	\$24,012
Student services.....	4,959
Financial aid for additional students.....	3,255
Operation and maintenance of plant.....	5,445
Backout reappropriations	<u>-10,949</u>
Subtotal, workload changes.....	(\$26,722)
<i>Program Changes</i>	
Contra Cost Off-Campus Center.....	\$279
New Chancellor's Transition Fund.....	<u>250</u>
Subtotal, program changes	(\$529)
<i>Salary and Benefit Increases</i>	
Benefits.....	\$21,699
Faculty and staff salary	<u>—</u>
Subtotal, salary and benefit increases.....	(\$21,699)
<i>Capital Outlay Revenue Bonds</i>	
Additional lease payments on revenue bonds.....	\$10,137
<i>Expenditure Adjustments</i>	
Backout merit increase	-\$27,320
Backout price increase.....	-13,071
Reduce administration and equipment.....	-15,300
Unallocated reduction.....	-52,195
Unallocated trigger-related reduction.....	<u>-27,870</u>
Subtotal, expenditure adjustments	(-\$135,756)
<i>Revenue Adjustments</i>	
Increase resident fees (net)	-\$42,293
Increase nonresident tuition.....	<u>-4,260</u>
Subtotal, revenue adjustments	<u>(\$46,553)</u>
1991-92 Expenditures (Proposed)	\$1,655,927
Change from 1990-91:	
Amount.....	-\$43,087
Percent.....	-2.5%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of (1) all baseline and workload adjustments and (2) the program change proposal for a \$279,000 General Fund augmentation to continue the development of the Contra Costa Off-Campus Center.

In addition, we recommend approval of the following Budget Bill items which are not discussed elsewhere in this analysis:

- **Federal Funds (Item 6610-001-890)**—\$108.3 million from the Federal Trust Fund for support of CSU. Our analysis indicates that the proposed use of these funds for financial aid is justified.
- **Fellows Program (Item 6610-002-001)**—\$1.3 million from the General Fund for the Senate, Assembly, and Executive Fellows Programs, which are administered by CSU, Sacramento. This is the same amount that is provided in the current year.
- **Revenue Bond Payments (Item 6610-003-001)**—\$11.7 million for debt service payments related to capital construction projects approved by the Legislature in prior budget acts for financing by lease-purchase revenue bonds.
- **Special Repairs and Deferred Maintenance (Items 6610-021-001 and 6610-021-036)**—\$3.2 million from the General Fund and \$3.5 million from the Special Account for Capital Outlay—for a total of \$6.7 million—for special repairs and deferred maintenance in 1991-92. This is the same amount provided in the current year. These funds are needed for CSU's ongoing special repair requirements.
- **Benefit Increase (Item 6610-036-001)**—\$21.7 million to fund anticipated increases in employee health, dental, and vision benefits in 1991-92. The budget does not propose a salary increase for faculty and staff in the budget year. Data from the California Postsecondary Education Commission indicate that a full year faculty salary increase of 4.1 percent would be needed on July 1, 1991 to put CSU faculty in parity with its 20 comparison institutions. The cost of a full year 4.1 percent increase for CSU faculty is \$43.2 million. In the current year, the average faculty salary is \$54,281.
- **Reappropriations (Item 6610-490)**—The Budget Bill contains language reappropriating any unexpended balances from CSU's 1990 Budget Act appropriation (main support item). The language specifies that these funds would be available for (1) unallocated reductions proposed for CSU in 1991-92, (2) instructional equipment replacement, (3) deferred maintenance and special repairs projects, and (4) the California Academic Partnership Program (CAPP). Our analysis indicates that this language is generally consistent with the Legislature's previous actions on the uses of reappropriated funds for the CSU.

Lottery Funds (Item 6610-001-814)

We recommend approval.

The budget estimates that CSU will spend \$49.2 million in lottery funds in the current year. This amount includes \$33.4 million in revenues and \$15.7 in prior-year balances. We note that current-year lottery expenditures include \$24.8 million for library volume acquisitions and \$11.8 million for instructional equipment replacement. These programs are normally supported by the General Fund. In the current year, however, due to unallocated reductions, these programs were not funded by the General Fund.

CALIFORNIA STATE UNIVERSITY—Continued

The budget proposes that CSU spend \$33.4 million in lottery funds in 1991-92. This amount is \$15.7 million less than the current-year amount because there is no expected carry-over funds from previous years.

The budget also proposes language to appropriate any additional funds that CSU receives from the lottery. The Trustees will determine the manner in which these funds will be expended. Because this procedure is in accordance with current state policy, we recommend approval of this item.

Impact of Current Year Reductions

The 1990-91 CSU budget contained various unfunded costs and unallocated reductions. Among these were unfunded nonfaculty merit salary adjustments and unallocated reductions.

Control Section 3.80. In addition to these reductions, Control Section 3.80 of the *Budget Act of 1990* allows the Governor to reduce General Fund support for specified agencies, including CSU, by up to 3 percent. In September, the Governor exercised this authority and reduced CSU's baseline budget by \$36.5 million.

The CSU was able to offset \$8 million of this reduction through a combination of delayed payments and use of one-time available revenue. The remaining reduction of \$28.5 million was allocated to the campuses and systemwide offices. The CSU administration directed the campuses to exclude from the reduction student financial aid and educational equity programs. The CSU further directed all campuses and systemwide offices to reduce management costs by 5 percent and reduce merit salary adjustments available for management personnel by 50 percent. Additional adjustments were left to the discretion of the campuses and systemwide offices.

Restricted Courses/Larger Classes. As a result of these actions, CSU campuses report that over 1,000 full-time equivalent positions were kept vacant. Of this total, 300 were instructional faculty. This means that of the 12,175 authorized faculty positions in the current year, roughly 2.5 percent are not filled. Assuming each of the 300 faculty would have taught four three-unit courses per semester, approximately 2,400 classes are not being offered in the current year as a result of the reductions. The CSU reports that keeping these faculty positions vacant resulted in increased class sizes and restricted course choices.

Report Needed on Proposed Unallocated Reductions

We recommend that CSU report to the fiscal committees prior to budget hearings on its plan to implement the unallocated reductions proposed in the budget.

The budget proposes expenditure reductions totaling \$95 million in the budget year. As Table 3 indicates, the Governor's Budget assumes that CSU will incur roughly \$139 million in additional General Fund costs in the budget year from baseline adjustments, workload changes, program changes, benefit increases, and new revenue bond payments. The budget, however, does not propose sufficient funding for these costs.

Instead, it proposes \$95 million in expenditure reductions and \$47 million in additional revenues, which are discussed elsewhere in this analysis.

The \$95 million in expenditure reductions consists of reducing administration and equipment (\$15 million), an unallocated reduction (\$52 million) and an unallocated trigger-related reduction (\$28 million). The budget does not propose a specific allocation for these expenditure reductions.

Our review indicates that CSU has a wide range of options to implement these reductions. They include (1) increase user charges, (2) restrict course offerings, (3) increase class sizes, (4) roll back salaries, (5) reduce or eliminate noninstructional services, (6) increase student fee levels beyond the Governor's proposal, and/or (7) restrict student admissions.

The CSU advises that it will present to the Board of Trustees in March a plan to implement the reductions. Because of the magnitude of the reductions and their potential impact on programs, service levels, and fee structures, we recommend that CSU report to the fiscal committees prior to budget hearings on its plan to allocate the reductions. We will be prepared to comment on the plan during budget hearings.

Student Fee Revenues—(Item 6610-001-498)

Table 4 shows that the budget proposes an increase of (1) \$156 (20 percent) in the systemwide resident student fee, and (2) \$1,234 (20 percent) in nonresident tuition. Under current law, resident fee increases are capped at 10 percent annually. The Budget Bill includes a provision to suspend this cap.

Table 4
California State University
Systemwide Student Charges^a
1989-90 through 1991-92

Charges	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change From 1990-91	
				Amount	Percent
Resident Students					
Systemwide Fees.....	\$708	\$780	\$936	\$156	20.0%
Nonresident Students					
Systemwide Fees.....	\$708	\$780	\$936	\$156	20.0%
Tuition	5,670	6,170	7,404	1,234	20.0
Totals, nonresidents	\$6,378	\$6,950	\$8,340	\$1,390	20.0%

^a In addition to systemwide charges, students also pay campus-based fees. In the current year, these campus-based fees average \$140 per student.

Resident Fees. The proposed 20 percent increase in resident fees would generate an estimated \$42.3 million after adjusting for financial aid. The Governor's proposal assumes that this fee increase will have no negative effect on growth in student enrollment. To put the resident charges in perspective, in the current year, CSU's resident-student charges (including campus-based fees) are \$1,013 below the average charge at CSU's 14 comparison public institutions. (These are the same institutions used as a benchmark for faculty salary comparisons.) It is reasonable to assume,

CALIFORNIA STATE UNIVERSITY—Continued

therefore, that even with a \$156 increase, CSU resident charges would still remain below the average resident charges of its comparison public institutions.

Nonresident Charges. The proposed 20 percent increase in nonresident tuition would generate an estimated \$4.3 million in additional revenue. This estimate assumes that because of the 20 percent increase, nonresident enrollment would decline by 10 percent in the budget year. Again using CSU's 14 comparison public institutions as a benchmark, CSU's current-year nonresident tuition is already \$510 above the average of those institutions. Therefore, it appears likely that the \$1,390 increase in nonresident charges would keep CSU nonresident charges above the average of its 14 comparison public institutions.

Based on the above illustration, it is reasonable to assume that the proposed fee increases would cause a decline in CSU's nonresident enrollment in the budget year. In the current year, for example, CSU nonresident enrollment is estimated to decline by 3.2 percent (269 students) from 1989-90 levels. Based on the available data, it is difficult to determine if the nonresident enrollment will decline by 10 percent as assumed by the budget. We do not have an analytical basis to either dispute or support the assumption or to offer an alternative projection.

Financial Aid. The CSU budget includes a total of \$12.6 million for additional financial aid in the budget year. Of this amount, \$9.3 million will be used to offset the 20 percent fee increase for those students receiving financial aid. The remaining \$3.3 million will be used to provide financial aid to more students.

In addition to CSU-based financial aid, the budget proposes to increase the Student Aid Commission's (SAC) budget by an additional \$11 million. This amount will be used to offset the fee increase for Cal Grant A and B recipients who attend the University of California and CSU. (We discuss the Cal Grant Program in our analysis of Item 7980-101-001.) The Budget Bill also includes a provision in Item 6610-001-001 that automatically increases both financial aid within CSU and the SAC budgets should the Board of Trustees decide to increase the fee levels beyond the level proposed in the budget. This increased aid would be funded from revenue raised from the additional fee increase.

Status of CSU Long-Range Enrollment Plan Reassessment

During the 1990-91 budget deliberations, the Legislature considered a CSU proposal to establish five new campuses based on its long-range enrollment projections. To address the concerns raised regarding the assumptions used for the projections, the Legislature, through the *Supplemental Report of the 1990 Budget Act*, directed CSU to reassess its long-range enrollment projections. The supplemental report also directed CSU to provide a status report on the reassessment by December 1, 1990.

In January 1991, CSU reported to the Legislature that it is in the process of developing a new enrollment projection model. The CSU advises that

projections from the new model and a consequent reassessment of the need for new campuses and off-campus centers will be ready for the next required-reporting date in August 1991.

Augmentation for New Chancellor Transition Funding Unnecessary

We recommend deletion of a \$250,000 General Fund augmentation for transition funding for a new Chancellor because CSU already has funding for this purpose in its budget. (Reduce Item 6610-001-001 by \$250,000.)

The budget proposes \$250,000 from the General Fund for "transition funding for a new Chancellor." The CSU advises that these funds will be used by the new Chancellor at his or her discretion.

In the Budget Act of 1982, the Legislature appropriated \$287,000 for the then new CSU Chancellor "to allocate as she or he deems appropriate." Then Chancellor Ann Reynolds later advised the Legislature of her expenditure plan for the discretionary funds as follows:

- Development, alumni relations and public affairs—\$119,368.
- Administrative study—\$69,722.
- Recognition of outstanding faculty—\$20,000.
- Artists in residence—\$20,000.
- Contingency funds—\$57,910.

Since the original appropriation in 1982, the Legislature has annually appropriated funds for the Chancellor's discretionary expenditures. In the current year, there is an estimated \$320,000 (after various adjustments through the years) available for this purpose. These funds are used to support positions in the Washington, D.C. office, the Chancellor's office, and the Public Affairs office.

We believe that the proposed augmentation is unnecessary because CSU's base budget already includes sufficient funds for the same purpose. With the departure of the former Chancellor, these funds could be freed up and made available to the new Chancellor. Therefore, we recommend that the Legislature delete the \$250,000 General Fund augmentation and direct CSU to use previously appropriated funds for this purpose. This action would allow the Legislature to use the \$250,000 to offset CSU unallocated reductions or to fund other legislative priorities.

Capital Outlay

The Governor's Budget proposes several appropriations beginning with Item 6440-301-660 for capital outlay expenditures in Higher Education. Please see our overview of the proposed Higher Education Capital Outlay Program in the capital outlay section of this *Analysis* which is in the back of this document. The CSU capital outlay analysis begins with Item 6610-301-525.

CALIFORNIA MARITIME ACADEMY

Item 6860 from the General
Fund and various other funds

Budget p. E 113

Requested 1991-92.....	\$10,093,000
Estimated 1990-91	9,758,000
Actual 1989-90	9,485,000
Requested increase \$335,000 (+3.4 percent)	
Total recommended reduction.....	None
Recommendation pending	100,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6860-001-001—Support	General	\$7,075,000
6860-001-814—Support	Lottery Education	(45,000)
6860-001-890—Support	Federal Trust	401,000
Subtotal, budget bill items		(\$7,476,000)
Non-Budget Bill Funding		
Reimbursements	—	\$2,587,000
Expenditures from other fund sources		30,000
Subtotal, non-budget bill funding		(\$2,617,000)
Grand Total		\$10,093,000

*Analysis
page*

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. Educational Equity Plan. Withhold recommendation on \$100,000 from the General Fund and two positions to expand the academy's minority outreach program pending submission of an Educational Equity Plan as required by the *Supplemental Report of the 1990 Budget Act*. 1045

GENERAL PROGRAM STATEMENT

The California Maritime Academy (CMA) was established in 1929, and is one of six institutions in the United States providing a program for students who seek to become licensed officers in the U.S. Merchant Marine. Students major in either Marine Transportation, Marine Engineering Technology, Business Administration, or Mechanical Engineering.

The CMA is governed by an independent seven-member board appointed by the Governor for four-year terms. The academy has 400 students and 136.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of \$10.1 million for support of the CMA in 1991-92. This consists of \$7.1 million from the General Fund, \$401,000 in federal funds, \$30,000 from other funds (lottery funds), and \$2.6 million in reimbursements. The total proposed expenditure is \$335,000, or 3.4 percent, more than is estimated to be expended in the

current year. The proposed expenditures from the General Fund reflect an increase of \$28,000, or 0.4 percent, over the current year.

The Governor's Budget also includes an unallocated trigger-related reduction of \$85,000 in funding for the CMA. This reduction is included in the proposed budget for the academy in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 1 summarizes expenditures and funding sources for the academy in the prior, current, and budget years.

Table 1
California Maritime Academy
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

<i>Programs</i>	<i>Actual</i> <i>1989-90</i>	<i>Est.</i> <i>1990-91</i>	<i>Prop.</i> <i>1991-92</i>	<i>Change from</i> <i>1990-91</i>	
				<i>Amount</i>	<i>Percent</i>
Instruction.....	\$5,242	\$5,187	\$5,405	\$218	4.2%
Academic support.....	1,223	1,400	1,448	48	3.4
Student services.....	3,020	3,171	3,325	154	4.9
Administration (distributed).....	(2,388)	(2,412)	(2,431)	(19)	(0.8)
Unallocated trigger-related reduction.....	—	—	—85	—85	— ^a
Totals, expenditures.....	\$9,485	\$9,758	\$10,093	\$335	3.4%
Funding Sources					
<i>General Fund</i>	\$6,772	\$7,047	\$7,075	\$28	0.4%
<i>Continuing Education Revenue Fund</i>	—	11	—	—11	—100.0
<i>CMA Trust Fund (Lottery)</i>	28	30	30	—	—
<i>Federal Trust Fund</i>	401	401	401	—	—
<i>Reimbursements</i>	2,284	2,269	2,587	318	14.0
Personnel-years.....	127.2	136.5	138.4	2.0	1.4%

^a Not a meaningful figure.

Table 2 shows the factors accounting for the change in the CMA's planned General Fund expenditures between the current and budget years. As the table indicates, General Fund expenditures are projected to have a net increase of only \$28,000. This is because the proposed increases are offset by a combination of unallocated reductions and student fee increases.

ANALYSIS AND RECOMMENDATIONS

As Table 2 indicates, this is essentially a status quo budget. We recommend approval of all baseline and workload adjustments. In addition, we recommend approval of the following Budget Bill items not discussed elsewhere in this analysis:

- **CMA Trust Fund—Lottery Revenues (Item 6860-001-814).** The budget projects that CMA will receive \$45,000 in lottery funds in 1991-92. Of this amount, the budget proposes that the academy spend \$30,000 during the budget year. The budget allocates these funds to the academy's instruction program. The remaining \$15,000 is allocated as a reserve.

CALIFORNIA MARITIME ACADEMY—Continued

Table 2

**California Maritime Academy
Proposed 1991-92 General Fund Budget Changes
(dollars in thousands)**

1990-91 Expenditures (Revised)	\$7,047
<i>Baseline Adjustments and Workload Changes</i>	
Annualization of 1990-91 compensation increase	\$126
Merit and promotion of faculty and staff	117
Backout carryover appropriation	-52
Social security increase	10
Price increase	93
Subtotal, baseline adjustments and workload changes	(\$294)
<i>Program Changes</i>	
Expand minority outreach	\$100
<i>Salary and Benefits Increases</i>	
Benefits	\$18
Faculty and staff salaries	—
Subtotal, salary and benefits increases	(\$18)
<i>Expenditure Adjustments</i>	
Backout merit increase	-\$117
Backout price increase	-93
Unallocated trigger-related reduction	-85
Subtotal, expenditure adjustments	(-\$295)
<i>Revenue Adjustments</i>	
Resident student fee increase (net)	-\$65
Nonresident tuition increase	-24
Subtotal, revenue adjustments	(-\$89)
1991-92 Expenditures (Proposed)	\$7,075
Change from 1990-91:	
Amount	\$28
Percent	0.4%

- **Federal Trust Fund (Item 6860-001-890).** The budget proposes \$401,000 from the Federal Trust Fund to provide financial aid to CMA students. Our analysis indicates that these expenditures are justified.
- **Reappropriation (Item 6860-490).** The budget proposes language reappropriating any unexpended balances from CMA's 1990 Budget Act appropriation (main support item), to be used for instructional equipment replacement, deferred maintenance, and special repairs. Our analysis indicates that reallocation of funds for these purposes is reasonable.

Student Charges

Table 3 shows the student charges at the California Maritime Academy from 1989-90 through 1991-92.

As is the case with UC, CSU, and CCC, the budget proposes a 20 percent increase in resident student charges at the CMA in 1991-92. These proposed fee increases would generate an additional \$81,600 in

Table 3
California Maritime Academy
Student Charges
1989-90 through 1991-92

Charges	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Resident students	\$928	\$1,020	\$1,224	\$204	20.0%
Nonresident students					
Mandatory fees	\$928	\$1,020	\$1,224	\$204	20.0%
Tuition	2,977	3,477	4,173	696	20.0
Totals, nonresidents	\$3,905	\$4,497	\$5,397	\$900	20.0%

revenues. Of this amount, \$16,000 would be used to increase the academy's campus-based financial aid program to offset the effects of the fee increase on resident needy students. The rest is used to reimburse the General Fund for CMA costs.

The budget also proposes a 20 percent increase in nonresident tuition. This increase would result in \$24,300 in additional revenues which are also used to reimburse the General Fund.

Submission of Education Equity Plan Delayed

We withhold recommendation on \$100,000 from the General Fund and two positions to expand the academy's minority outreach program pending submission of an Educational Equity Plan as required by the Supplemental Report of the 1990 Budget Act.

The budget proposes \$100,000 and two positions to expand the CMA's minority outreach program. The total cost of the program is estimated to be \$180,000. The remaining \$80,000 in costs would be funded by private donations.

The *Supplemental Report of the 1990 Budget Act* requires the CMA to submit a student affirmative action plan "to address the needs of underrepresented ethnic minorities, women, and low-income students" at the CMA. The supplemental report also requires that the CMA submit a progress report on this plan by September 1, 1990 and the final report by January 1, 1991.

The CMA submitted its progress report in October 1990. Our review indicates that while it outlines various activities the CMA plans to undertake, the report does not provide details that point to specific goals or a comprehensive strategy for reaching those goals. In October, the new President of the CMA had just assumed the position and the timing of the progress report did not allow her the opportunity to provide input and direction.

Subsequent to the progress report, in a letter to the Joint Legislative Budget Committee dated December 19, 1990, the CMA advised that it would not be able to meet the January 1, 1991 deadline for the final plan. Instead, it advised the Legislature that it would submit the final plan by March 1, 1991.

Without the final educational equity plan, we do not have adequate information to fully evaluate the merits of the budget proposal to expand

CALIFORNIA MARITIME ACADEMY—Continued

the CMA's minority outreach program. Specifically, without the educational equity plan, we are unable to determine if the Governor's proposal fits into the CMA's affirmative action goals and whether it is the best alternative for the academy to reach those goals. Therefore, we withhold recommendation on the proposed \$100,000 augmentation pending submission of the plan in March. We will be prepared to comment on the budget proposal and the educational equity plan at that time.

CALIFORNIA COMMUNITY COLLEGES

Item 6870 from the General
Fund and various funds

Budget p. E 119

Requested 1991-92.....	\$2,767,166,000
Estimated 1990-91	2,755,263,000
Actual 1989-90	2,538,599,000
Requested increase \$11,903,000 (+0.4 percent)	
Total recommended reduction.....	10,000,000
Recommendation pending	36,854,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6870-001-001—Support	General	\$14,575,000
6870-001-791—Support	Bond	142,000
6870-001-959—Support	Foster Parent/Child Training	105,000
6870-101-001—Local assistance	General	1,634,349,000
6870-101-814—Local assistance	Lottery	95,230,000
6870-101-909—Local assistance	Instructional Improvement	173,000 ^a
6870-101-959—Local assistance	Foster Parent/Child Training	900,000
6870-103-001—Local assistance	Lease-purchase	8,284,000
6870-111-001—Local assistance	General	—
Section 12.31	Reserve	10,000,000
Section 22.00	General	4,600,000
Subtotal, budget bill items		(\$1,768,358,000)
Non-Budget Bill Items		
Local revenues	—	\$865,778,000
Fee revenue	—	84,699,000
Reimbursements	Federal	43,944,000
Other Revenues	—	4,387,000
Subtotal, non-budget bill items		(\$998,808,000)
Grand Total		\$2,767,166,000

^a The Budget Bill incorrectly shows \$920,000.

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS*Analysis
page*

1. *Proposition 98 Reserve. Reduce Control Section 12.31 by \$10 million.* Recommend the deletion of \$10 million proposed for a Community College Proposition 98 reserve. 1053
2. *Growth Funds.* Withhold recommendation on \$36.9 million from the General Fund for ADA growth, pending receipt from the Chancellor's Office of sufficient justification for the standards used in the CCC's new program-based funding allocation methodology. 1054

GENERAL PROGRAM STATEMENT

In 1990-91, the California Community Colleges will provide instruction to approximately 1.5 million students at 107 colleges operated by 71 locally governed districts throughout the state. The community colleges are authorized to provide associate degrees, occupational certificates and credentials, remedial and basic skills instruction, citizenship instruction, and fee-supported community service instruction. Any high school graduate or resident over the age of 18 may attend a community college.

Governance. The Board of Governors of the California Community Colleges serves primarily as a planning, coordinating, reporting, advising, and regulating agency for the 71 community college districts. The board is composed of 14 members appointed by the Governor for six-year terms and two faculty members appointed for two-year terms.

The Chancellor's Office is the administrative arm of the Board of Governors, and assists the board in carrying out its statutory duties. The Chancellor's Office has 224 personnel-years in the current year.

Average Daily Attendance. Enrollment in the community colleges is measured in terms of average daily attendance (ADA). One ADA is equal to one student under the immediate supervision of a certificated instructor for a total of 525 hours in an academic year. Not all ADA in community colleges is funded by the state. Thus, there are two classifications for ADA: (1) state-funded ADA and (2) actual ADA, which is inclusive of all the ADA on the campuses.

State-Funded ADA. There are two types of state-funded ADA: (1) statutorily funded ADA, which represents a "base" amount of attendance hours and is increased annually, as determined by a "growth" formula established in statute, and (2) one-time funded ADA, which represents attendance hours for which funding is provided on a year-to-year basis, with no guarantee of future-year funding.

Actual ADA. Actual ADA represents *all* ADA served, as reported by community college districts — whether funded by the state or other sources — including nonresident ADA. Districts have the option to fund additional ADA beyond the state-funded ADA level. In 1989-90, 56 of the 71 districts funded additional ADA by using federal funds, local funds, and/or reducing services.

CALIFORNIA COMMUNITY COLLEGES—Continued

Table 1
California Community Colleges
Comparison of State-Funded ADA
to Actual ADA
1987-88 through 1991-92

	<i>State-Funded ADA</i>			<i>Total Actual ADA^a</i>	<i>State-Funded ADA as a Percent of Actual ADA</i>
	<i>Statutorily Funded</i>	<i>One-time Funded</i>	<i>Total State-Funded</i>		
1987-88.....	675,613	3,621	679,234	698,588	97.2%
1988-89.....	693,381	7,062	700,443	734,391	95.4
1989-90.....	714,228	6,395	720,623	775,885	92.9
1990-91 (est.).....	731,583	6,708	738,291	806,722	91.5
1991-92 (prop.).....	748,044	4,145	752,189	838,848	89.7
Change from 1990-91					
Amount.....	16,461	-2,563	13,898	32,126	—
Percent.....	2.3% ^b	-38.2%	1.9%	4.0%	—

^a As reported by the CCC districts.

^b Actual increase is 2.25 percent, but appears as 2.3 percent due to rounding.

MAJOR ISSUES

- The administration proposes to suspend Proposition 98 in 1991-92. The budget proposal is significantly below the amount needed to maintain current service levels in the budget year.
- The administration proposes a 20 percent increase in student enrollment fees at the community colleges.
- The budget proposal assumes that program-based funding (PBF) will not be implemented in 1991-92. However, the Budget Bill does not specifically prohibit implementation, and the Chancellor's Office indicates that it intends to implement PBF in 1991-92.

Table 1 shows that state-funded ADA is estimated to increase by 1.9 percent (or 13,898 ADA) in 1991-92, for a total of 752,189 ADA. This increase reflects a (1) 2.25 percent increase (or 16,461 ADA) in statutorily funded ADA — based on the estimated growth rate of the adult population and (2) 38.2 percent decrease (or 2,563 ADA) in one-time funded ADA. This decrease is primarily due to the termination of a one-time current-year appropriation that supported 2,091 “overcap” ADA.

Table 1 also shows that actual ADA, as reported by the community college districts, is estimated to increase by 4 percent (or 32,126 ADA) in 1991-92, for a total of 838,848 ADA. Thus, the budget proposes to fund approximately 90 percent of the projected actual ADA (752,189 of the projected 838,848 ADA). The remaining 10 percent, or approximately 86,700 ADA, would be funded by nonstate funding sources.

OVERVIEW OF THE BUDGET REQUEST

Total Expenditures. As shown in Table 2, the budget proposes total expenditures of \$2.8 billion for support of the California Community Colleges (CCC) in 1991-92. This is \$11.9 million (0.4 percent) above estimated current-year expenditures.

Table 2 provides a budget summary for the CCC for the prior, current, and budget years. In addition to General Fund support, the CCC receive funding from local property taxes, state lottery revenues, mandatory student fees, and other sources.

The CCC also receive support from sources that either flow directly to the districts or are revenues generated by a district. The Chancellor's Office does not currently have an estimate of the amount of these revenues. These funding sources are not included in the Governor's Budget, nor are they discussed in this analysis.

CALIFORNIA COMMUNITY COLLEGES—Continued

Table 2
California Community Colleges
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
<i>General Program Support</i>					
State operations	\$20,124	\$20,464	\$19,525	-\$939	-4.6%
Categorical programs	209,975	238,647	203,962	-34,685	-14.5
Apportionments	1,400,836	1,534,861	1,484,118	-50,743	-3.3
Proposition 98 reserve	—	—	10,000	10,000	— ^a
Subtotals, general program	(\$1,630,935)	(\$1,793,972)	(\$1,717,605)	(\$76,367)	(-4.3%)
Local Property Taxes	\$715,469	\$793,207	\$865,778	\$72,571	9.1%
<i>Other State Support</i>					
Lottery revenues	\$122,433	\$95,230	\$95,230	—	—
Enrollment fee	67,192	69,000	84,699	\$15,699	22.8%
State School Fund	2,570	3,854	3,854	—	—
Subtotals, other	(\$192,195)	(\$168,084)	(\$183,783)	(\$15,699)	(9.3%)
Grand Totals	\$2,538,599	\$2,755,263	\$2,767,166	\$11,903	0.4%
<i>Funding Sources</i>					
General Fund	\$1,554,615	\$1,722,377	\$1,671,808	-\$50,569	-2.9%
Local	715,469	793,207	865,778	72,571	9.1
Bond Funds	28,000	28,197	142	-28,055	-99.5
Other State/Reimbursements	47,088	41,688	43,944	2,256	5.4
Student Enrollment Fee	67,192	69,000	84,699	15,699	22.8
Lottery	122,433	95,230	95,230	—	—
Other	3,802	5,564	5,565	1	—
Personnel-years	193.3	234.1	224.2	-9.9	-4.2%

^aNot a meaningful figure.

General Fund Support. Table 2 shows that the budget proposes to expend \$1.7 billion from the General Fund for support of the CCC in 1991-92, a net decrease of \$50.6 million (2.9 percent) below 1990-91. However, student fees are proposed to increase by 20 percent in the budget year and a portion of the fee revenue — \$14.4 million — will be used by the CCC districts for general program support in 1991-92. The Governor proposes to suspend Proposition 98 in the budget year. In our companion document *The 1991-92 Budget: Perspectives and Issues*, we point out that the proposed level of funding for the community colleges is substantially below the level needed to fully sustain current service levels. We estimate a \$211 million shortfall due to the suspension of Proposition 98 in the budget year. This shortfall is discussed later in this analysis.

General Fund Budget Changes Proposed for 1991-92

Table 3 shows the proposed 1991-92 General Fund expenditures and displays the components of the \$50.6 million decrease from the current-year General Fund support for community colleges. The table includes the following changes:

- **Baseline adjustments**, which result in a net decrease of \$1.4 million. This decrease primarily reflects elimination of current-year funding for (1) various pilot programs completed in 1990-91 (\$1.1 million) and (2) the credentials program, which sunsets in June 1990 (\$617,000).
- **Workload changes**, which result in an increase of \$60.8 million from the General Fund. This increase primarily reflects increases of (1) \$39.5 million to fund statutory and discretionary growth of 2.25 percent in community college ADA and (2) \$5.1 million to fund a base ADA adjustment for 1989-90.

Table 3
California Community Colleges
Proposed 1991-92 General Fund Budget Changes
(dollars in thousands)

1990-91 Expenditures (Revised)	\$1,722,377
<i>Baseline Adjustments</i>	
Annualization of 1990-91 compensation increase.....	\$257
Merit and promotion for faculty and staff	188
One-time reductions:	
Pilots and teacher assistance planning grants.....	-1,135
Department of Social Services (GAIN)	-400
Credentials program.....	-617
Price adjustments	282
Subtotal, baseline adjustments.....	(-\$1,425)
<i>Workload Changes</i>	
Statutory growth (2.25 percent).....	\$36,854
Discretionary growth (2.25 percent).....	2,688
ADA adjustment to 1989-90 base	5,144
Reappropriation for overcap ADA	-4,664
Restoration of 1991-91 General Fund offset	20,750
Subtotal, workload changes.....	(\$60,772)
<i>Capital Outlay Revenue Bonds</i>	
Additional lease payments on revenue bonds.....	\$6,543
<i>Expenditure Adjustments</i>	
Backout merit increase	-\$188
Backout price increase	-282
Unallocated trigger-related reduction	-137
Subtotal, expenditure adjustments	(-\$607)
<i>Revenue Adjustments</i>	
Increase student fees — 20 percent (net)	-\$14,435
Local revenues	-99,802
Subtotal, revenue adjustments	(-\$114,237)
<i>Other Adjustments</i>	
Backout carryover reappropriation.....	-\$13,360
Proposition 98 reserve	10,000
Restoration of savings due to unsold bonds and other.....	1,745
Subtotal, other adjustments.....	(-\$1,615)
1991-92 Expenditures (Proposed).....	\$1,671,808
Change from 1990-91:	
Amount	-\$50,569
Percent	-2.9%

CALIFORNIA COMMUNITY COLLEGES—Continued

- *Expenditure adjustments*, which result in a net decrease of \$607,000 in funding for the Chancellor's Office. This decrease reflects (1) no funding for merit and price increases (\$470,000) and (2) an unallocated trigger-related reduction (\$137,000). This reduction is included in the proposed budget for the community colleges in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).
- *Revenue adjustments*, which result in a General Fund offset of \$114.2 million. This offset is due to (1) a \$14.4 million increase in fee revenues resulting from a 20 percent increase in the student fee and (2) a \$99.8 million projected increase in local revenues.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of all the changes shown in Table 3, with the exception of the proposed increase for statutory growth in ADA (\$36.9 million) and the proposed Proposition 98 reserve (\$10 million) which are discussed later in this analysis. In addition, we recommend approval of the following budget bill items which are not discussed elsewhere in this analysis:

- *Apportionments (Item 6870-101-001(a))* — \$1.6 billion from the General Fund for ongoing program support, statutory, and discretionary growth.
- *Lottery (Item 6870-101-814)* — \$95.2 million from the California State Lottery Education Fund.
- *Revenue Bond Payment (Item 6870-103-001)* — \$8.3 million from the General Fund for reimbursement of lease payments on revenue bonds.

I. LOCAL ASSISTANCE FOR COMMUNITY COLLEGES**Governor Proposes to Suspend Proposition 98 in the Budget Year**

As noted above, the Governor proposes to suspend Proposition 98 in the budget year and appropriate \$1.7 billion from the General Fund for community colleges. Of this amount, \$10 million is appropriated in Control Section 12.31 as a Proposition 98 reserve for community colleges.

Funding Under Three Tests. Under Proposition 98, the guaranteed minimum level of funding for K-12 and community colleges is based on one of three "tests." Specifically, in years of normal or high growth in General Fund revenues per capita, K-14 education is guaranteed an amount equal to the *greater* of:

- *Test 1 — Percent of General Fund Revenues.* Its 1986-87 percentage of General Fund revenues — about 40 percent.
- *Test 2 — Maintenance of Prior-Year Service Levels.* Its prior-year total state and local funding level, adjusted for enrollment growth and growth in California per capita personal income.

In low revenue-growth years (in which General Fund revenue growth per capita is more than 0.5 percentage point below per capita personal income growth), K-14 education is guaranteed an amount based on:

- **Test 3 — Automatic Reduction.** Its prior-year total funding level, adjusted for enrollment growth and growth in the greater of (1) *General Fund revenues per capita, plus 0.5 percent of the prior-year level* or (2) *General Fund expenditures per capita for non-K-14 education programs.*

(For a more detailed discussion of the Proposition 98 funding mechanism, please see our companion document *The 1991-92 Budget: Perspectives and Issues.*)

In the current year, due to a decline in General Fund revenues, the basis of the Proposition 98 guarantee calculation shifted from Test 2 to Test 3. Because of this, CCC funding in the current year is proposed to be reduced by approximately \$50 million.

In the budget year, the Governor proposes to suspend Proposition 98; that is, not base the CCC funding level on any of the Proposition 98 "tests." As a result of suspending Proposition 98, the Governor's Budget proposes a \$1.7 billion funding level for the community colleges — \$225 million *below* our estimated current service level. After accounting for the \$14 million increase in student fee revenue, this shortfall is \$211 million.

No Need for a Community College Proposition 98 Reserve (Control Section 12.31)

We recommend that the Legislature delete \$10 million proposed for a community college Proposition 98 reserve, because a separate reserve for this purpose is not needed. (Delete \$10 million from Control Section 12.31)

Control Section 12.31 appropriates \$10 million as a Proposition 98 reserve for California Community Colleges. The budget proposes that the reserve funds be "...for subsequent appropriation by the Legislature for deficiencies and other educational purposes in program areas which are funded under provisions of Proposition 98."

Use of a CCC Reserve. Elsewhere in this analysis (Item 6110), we point out that, while it may be fiscally prudent to set aside a portion of Proposition 98 funds as a reserve against deficiencies in K-12 education, a similar reserve is *not* necessary for the community colleges. This is because, unlike K-12 education, the state controls the total level of enrollment it wishes to fund in the community colleges. Specifically, current law provides a method for adjusting each district's total allocation of state funds in the event of a systemwide revenue shortfall.

Consequently, we find the proposal for a \$10 million community college Proposition 98 reserve to be unnecessary. We therefore recommend that the Legislature delete these funds from Control Section 12.31.

Community College Reform Phases I and II Fully Funded

Chapter 973, Statutes of 1988 (AB 1725, Vasconcellos), established a long-term framework for reforming the California Community Colleges.

CALIFORNIA COMMUNITY COLLEGES—Continued

To allow for effective implementation, Chapter 973 provides that the reform process consist of two phases. Phase I focuses on improving community college programs in order to prepare an appropriate environment for the subsequent "professionalization of faculty." Phase II implements program-based funding as the new funding allocation methodology.

In addition, Chapter 973 specifies that, before either phase of reform becomes operative, the CCC Board of Governors (BOG) must certify that sufficient funding has been provided to pay for the respective phase of the reform. The measure specifies that the total costs of the reform is \$140 million — \$70 million for each phase. In this section, we discuss the status and funding of the reform phases.

Phase I Funded in 1989-90. Proposition 98 implementing legislation, Chapters 82 and 83, Statutes of 1989 (SB 98, Hart and AB 198, O'Connell), appropriated \$70 million in 1989-90 for Phase I of the reform. In the fall of 1989, the BOG certified that, at the end of 1989-90, "adequate funding" will have been provided to community college districts for Phase I. Once Phase I is initiated, the reforms become mandatory ongoing administrative functions of community college districts.

Phase I, for the most part, required either community college districts or the BOG to establish and implement various employment-related activities. Based on discussions with the Chancellor's Office and site visits to various community college districts, we find that many of the reforms under Phase I have been completed, and the remainder are being implemented in accordance with Chapter 973.

Phase II of Reform Funded in the Current Year. The second and final phase of the reform process was fully funded in the current year. The 1990 Budget Act appropriated \$61.6 million as partial funding of the \$70 million required for Phase II. Subsequently, the Legislature enacted legislation, Ch 1321/90 (SB 1446, Presley), which appropriated the remaining balance of \$8.4 million. As previously mentioned, Phase II requires program-based funding (PBF), a new funding allocation method to be implemented on July 1, 1991 or on the date that the BOG certifies that adequate funding has been provided for Phase II of the reform — whichever is later. In November 1990, the board certified that "adequate funding" will have been provided at the end of the current year (June 1991) to community college districts for Phase II; as a result, PBF is expected to begin in 1991-92.

CCC Program-Based Funding Model Needs Additional Justification
(Item 6870-101-001 (a))

We withhold recommendation on \$36.9 million from the General Fund for growth in average daily attendance, pending receipt of additional justification for the standards used in the community college program-based funding model.

The budget (1) proposes \$36.9 million to fund ADA growth and (2) specifies that these funds be allocated to support a 2.25 percent growth in ADA (for the equivalent of \$2,239 per ADA). Information from the

Chancellor's Office, however, indicates that it intends to allocate the \$36.9 million using a new funding allocation method — the program-based funding (PBF) model — as required by Chapter 973. Under the PBF model, funds would be allocated to support a 1.5 percent growth in ADA (for the equivalent of \$3,617 per ADA).

Under current law, the level of funding per ADA is based on historical funding levels per ADA, which is not tied to any specified level of service. The PBF would allocate funds based on the estimated cost of meeting specified standards. Our analysis indicates that there is insufficient justification for many of the standards proposed by the CCC in its PBF model.

For example, the Chancellor's Office has provided little justification for proposing a student-faculty ratio of 25 to 1; the current student-faculty ratio is approximately 30 to 1. Likewise, there is little justification provided for the selection of CSU for faculty salary comparisons. Both the UC and CSU use comparable degree-granting institutions for their salary comparisons. The Chancellor's Office uses CSU, a baccalaureate degree-granting institution, for its salary comparisons, rather than other associate degree-granting colleges.

The standards used will ultimately determine how funds are allocated, thereby having significant policy and fiscal implications. In order to ensure the successful implementation of the reform proposed by Chapter 973, it is important that these standards be reasonable, reliable, and appropriate for the CCC. Therefore, we withhold recommendation on the \$36.9 million for ADA growth pending receipt of sufficient justification for the CCC's PBF model. This information should include, but not be limited to:

- The basis for selecting comparable institutions for faculty salary comparisons.
- The basis for using a student-faculty ratio of 25 to 1.

Student Fee Increases Proposed for 1991-92

The budget requests an increase of \$20 (20 percent) — from \$100 to \$120 per year — in the systemwide student enrollment fees. The additional revenue generated by the enrollment fee increase is \$14.4 million. The budget proposes to use this \$14.4 million to offset the General Fund budget. Under current law, which will sunset in January 1992, the maximum enrollment fee per year is \$100. The administration intends to propose legislation to (1) increase the enrollment fee from a \$100 maximum to a \$120 maximum per year and (2) delete the sunset provision.

Fees at Comparable Community Colleges. We selected five "large" public community college systems for purposes of comparing enrollment fees with those of California. The five systems were in Florida, Illinois, Michigan, New York, and Texas. These systems have enrollments of at least 200,000. As a result of our survey, we found that, in the current year, the CCC enrollment fee (\$100 per year) is \$794 below the average fee charged in these five comparable systems. Therefore, even with the \$20

CALIFORNIA COMMUNITY COLLEGES—Continued

increase, CCC enrollment fees should remain well *below* the average enrollment fee of the five comparison two-year public institutions.

Financial Aid. The budget also includes an additional \$2.5 million from the General Fund for financial aid to offset the proposed enrollment fee increase. Current law specifies the funding amounts to be allocated each fiscal year for purposes of providing financial aid to low-income students attending community colleges. The administration intends to propose legislation that would have the Budget Act, rather than current statutory law, specify the funding level for financial aid programs in the CCC. The Governor's proposal assumes this additional funding for financial aid would offset any — although unlikely — negative effects on enrollment due to the fee increase.

Federal Developments Affecting CCC

The 1990 federal budget act included provisions aimed at reducing defaults on federally guaranteed student loans. The new federal policy is incompatible with existing state policy in several areas. For example, one part of the new federal policy would deny admission to non-high-school graduates who do not make a passing score on a federally approved examination. State policy, however, allows the community colleges to admit all applicants while assessing their readiness to benefit from instruction before enrolling in specific courses.

The Chancellor's Office reports it has successfully obtained an injunction, until July 1, 1991, temporarily blocking the U.S. Department of Education from enforcing the new federal policy. It is unclear at this time what the impact will be for the budget year.

Community College Categorical Programs (Items 6870-101-001(b-m), 6870-101-909, 6870-101-959, 6870-103-001, 6870-111-001, and Control Section 22.00)

We recommend approval.

The budget proposes \$214 million to support categorically funded programs in 1991-92. This is a decrease of \$24.7 million (10.3 percent) from the amount available for these programs in the current year. Table 5 displays the proposed funding level for each program for the prior, current, and budget years. (Table 5 also displays the \$10 million funding provided for a CCC Proposition 98 reserve. Elsewhere in this analysis we discuss the reserve and recommend that it be deleted.)

The major funding proposals for the categorical programs include:

- \$2.7 million from the General Fund to support a 2.25 percent growth in enrollment as follows: Disabled Students Programs and Services — DSPS (\$752,000), matriculation (\$864,000), Cooperative Agencies Resources for Education — CARE (\$36,000), Extended Opportunities Programs and Services — EOPS (\$734,000), and Board of Financial Assistance — BFAP (\$302,000).
- \$2.5 million in additional financial aid to offset the proposed enrollment fee increase.

Table 5
California Community Colleges
Support for Categorical Programs
Local Assistance
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
<i>Educational Programs and Services</i>					
Under-represented students/vocational education	—	\$1,270	\$1,270	—	—
Vocational education projects/allocation..	\$30,537	37,174	35,174	-\$2,000	-5.4%
Transfer education/articulation	1,482	5,850	7,224	1,374	23.5
Instructional improvement	736	909	909	—	—
Economic development	5,797	5,256	5,256	—	—
Academic standards and evaluation	—	50	—	-50	-100.0
Faculty and Staff Development Fund	4,900	4,900	4,900	—	—
Subtotals, educational programs	(\$43,452)	(\$55,409)	(\$54,733)	(-\$676)	(-1.2%)
<i>Student Services Programs</i>					
EOPS	\$31,365	\$32,621	\$33,355	\$734	2.3%
CARE	1,479	1,614	1,650	36	2.2
Puente Project	229	224	224	—	—
Board of Financial Assistance	13,420	13,420	16,196	2,776	20.7
DSPS	30,055	33,356	34,108	752	2.3
Matriculation	35,870	38,413	39,277	864	2.2
Transfer centers	1,990	2,084	—	-2,084	-100.0
Foster parent training	819	900	900	—	—
Subtotals, student services	(\$115,227)	(\$122,632)	(\$125,710)	(\$3,078)	(2.5%)
<i>Physical Plant and Equipment</i>					
Instructional equipment	\$23,000	\$23,000	—	-\$23,000	-100.0%
Deferred maintenance	2,243	21,858	\$8,681	-13,177	-60.3
Hazardous substances removal	10,474	13,000	8,000	-5,000	-38.5
Earthquake repairs	129	135	—	-135	-100.0
Subtotals, physical plant	(\$35,846)	(\$57,993)	(\$16,681)	(-\$41,312)	(-71.2%)
<i>Other Programs</i>					
Proposition 98 reserve	—	—	\$10,000	\$10,000	— ^a
Academic senate	\$150	\$379	379	—	—
Faculty and Staff Diversity Fund	1,000	1,859	1,859	—	—
GAIN (federal match)	7,900	—	4,600	4,600	— ^a
Management information systems	6,400	375	—	-375	-100.0%
Subtotals, other programs	(\$15,450)	(\$2,613)	(\$16,838)	(\$14,225)	(544.4%)
Grand Totals	\$209,975	\$238,647	\$213,962	-\$24,685	-10.3%
<i>Funding Sources</i>					
General Fund	\$139,023	\$172,349	\$163,115	-\$9,234	-5.4%
Higher Education Bond Fund 1990	—	28,000	—	-28,000	-100.0
Higher Education Bond Fund 1988	28,000	—	—	—	—
Instructional Improvement Fund	—	173	173	—	—
Higher Education Earthquake Account	-12	51	—	-51	-100.0
Foster Children/Parent Training Fund	—	900	900	—	—
Proposition 98 Reserve	—	—	10,000	10,000	— ^a
Reimbursements	42,964	37,174	39,774	2,600	7.0

^a Not a meaningful figure.

CALIFORNIA COMMUNITY COLLEGES—Continued

- \$28 million reduction in general obligation bond funds for (1) instructional equipment (\$23 million) and (2) removal of hazardous substances — primarily asbestos (\$5 million). In recent years, bond funds have been the primary funding source for these activities. Given the voter *disapproval* of the Higher Education Bond Act of November 1990, no alternative funding is proposed in the budget year.
- \$8 million from the General Fund for removal of hazardous substances (this maintains the current-year level of General Fund support for this purpose).
- \$10 million from the General Fund as a set-aside in a Proposition 98 reserve.
- \$3.7 million from the General Fund allocation for the Disabled Student Program and Services for adult education programs provided by the community colleges at certain state hospitals. (We discuss a related issue in Item 4300-004-001 of this *Analysis*.)

II. COMMUNITY COLLEGE STATE OPERATIONS**Chancellor's Office (Items 6870-001-001 and 6870-011-001)**

We recommend approval.

The Chancellor's Office is the administrative arm of the Board of Governors of the California Community Colleges. The office is managed by the Chancellor, who is responsible for carrying out the board's directives and implementing statutes enacted by the Legislature.

Table 6 displays state operations funding for the Chancellor's Office in the prior, current, and budget years. As the table shows, the budget proposes \$19.5 million to support the Chancellor's Office in 1991-92 — a net decrease of \$939,000 (4.6 percent) from the amount available in the current year. This net decrease primarily reflects (1) the elimination of \$620,000 for state operations expenditures associated with the Credentials program — which sunsets in June 1990 as specified under Ch 973/88 (AB 1725, Vasconcellos), and (2) an unallocated trigger-related reduction of \$137,000 in funding for the Chancellor's Office. This reduction is included in the proposed budget for the CCC in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Capital Outlay

The Governor's Budget proposes several appropriations, beginning with Item 6440-301-660, for capital outlay expenditures in higher education. Please see our analysis of the proposed Higher Education Capital Outlay Program in the capital outlay section of this *Analysis* which is in the back of this document. The community college capital outlay analysis begins with Item 6870-301-660.

Table 6
California Community Colleges
State Operations Budget Summary
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
<i>Academic Affairs</i>					
Vocational education	\$1,921	\$3,027	\$3,158	\$131	4.3%
JTPA-employment training.....	719	647	671	24	3.7
Economic development	759	369	392	23	6.2
Transfer centers and education	938	615	655	40	6.5
Academic standards/evaluation	1,719	1,251	1,259	8	0.6
Academic affairs administration.....	319	303	318	15	5.0
Instructional improvement.....	17	—	66	66	— ^a
Faculty staff development.....	15	152	162	10	6.6
Subtotals, academic affairs	(\$6,407)	(\$6,364)	(\$6,681)	(\$317)	(5.0%)
<i>Student Services and Special Programs</i>					
EOPS.....	\$971	\$901	\$969	\$68	7.5%
DSPS	1,525	1,203	1,177	-26	-2.2
Foster parent training	81	103	105	2	1.9
Matriculation.....	587	504	534	30	6.0
Student services administration	324	572	383	-189	-33.0
Special services	1,001	1,160	814	-346	-29.8
Management information systems.....	582	2,518	2,658	140	5.6
Academic senate	257	41	41	—	—
Faculty and staff diversity.....	1,203	1,359	1,169	-190	-14.0
Student financial aid.....	459	494	523	29	5.9
Subtotals, student services	(\$6,990)	(\$8,855)	(\$8,373)	(-\$482)	(-5.4%)
<i>Administration and Finance</i>					
Apportionments.....	\$2,349	\$2,013	\$2,056	\$43	2.1%
Credentials.....	1,437	620	—	-620	-100.0
Facilities.....	2,941	2,612	2,552	-60	-2.3
Distributed administration	(5,696)	(4,189)	(4,275)	(86)	(2.1)
Trigger-related reduction.....	—	—	-137	-137	— ^a
Subtotals, administration	(\$6,727)	(\$5,245)	(\$4,471)	(-\$774)	(-14.8%)
Grand Totals, state operations	\$20,124	\$20,464	\$19,525	-\$939	-4.6%
<i>Funding Sources</i>					
General Fund	\$14,756	\$15,167	\$14,575	-\$592	-3.9%
Credentials Fund.....	1,151	—	—	—	—
Special Deposit Fund	93	483	533	50	10.4
Reimbursements.....	4,124	4,514	4,170	-344	-7.6
Foster Children/Parent Training Fund	—	103	105	2	1.9
1990 Higher Education Bond Fund	—	197	142	-55	-27.9
Personnel-years.....	193.3	234.1	224.2	-9.9	-4.2

^a Not a meaningful figure.

COUNCIL FOR PRIVATE POSTSECONDARY AND VOCATIONAL EDUCATION

Item 6880 from the Private
 Postsecondary and Vocational
 Education Administration
 Fund and various funds

Budget p. E 140

Requested 1991-92.....	\$4,773,000
Estimated 1990-91	2,688,000
Actual 1989-90	None
Requested increase \$2,085,000 (+77.6 percent)	
Total recommended reduction.....	None
Recommendation pending	4,773,000

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
6880-001-305—Support	Private Postsecondary and Vocational Education Administration	\$2,861,000
6880-001-890—Support	Federal Trust	<u>1,212,000</u>
Subtotal, budget bill items		(\$4,073,000)
Non-Budget Bill Funding		
Student tuition recovery	Student Tuition Recovery	<u>700,000</u>
Total		<u>\$4,773,000</u>

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Council Budget. Withhold recommendation on the entire \$4.8 million budget for the council because of inadequate information on its budget-year operations and activities. 1061

GENERAL PROGRAM STATEMENT

Effective January 1, 1991, a newly created Council for Private Postsecondary and Vocational Education (CPPVE) assumed the regulatory responsibilities for private schools in the state. This function was formerly performed by the State Department of Education's Private Postsecondary Education Division. The council 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. (This fund partially reimburses students when private postsecondary institutions close before students have completed their instructional programs.)

Two statutes—Ch 1239/89 (AB 1402, M. Waters) and Ch 1307/89 (SB 190, Morgan)—implemented numerous reforms to improve the licensing and regulation of private postsecondary institutions. Specifically, they

establish new minimum standards for such institutions and allow for an increase in the fees charged to these institutions for authorization, approval, and licensure.

The council has 30.5 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes \$4.8 million to support the council's operations in the budget year. This is an increase of \$2.1 million (78 percent) to reflect full-year funding for the council. Of this amount, \$2.9 million is from the Private Postsecondary and Vocational Education Administration Fund, \$1.2 million is from federal funds, and \$700,000 is from the Student Tuition Recovery Fund. The budget also proposes 61 personnel-years to support the council's operations in the budget year.

Table 1 shows funding levels for the council's programs in the prior, current, and budget years.

Table 1
Council for Private Postsecondary
and Vocational Education
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Programs	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Oversight and approval	—	\$2,688	\$4,773	\$2,085	77.6%
Administration (distributed)	—	(835)	(1,657)	(822)	(98.4)
Totals, expenditures	—	\$2,688	\$4,773	\$2,085	77.6%
Funding Sources					
PPVEA Fund ^a	—	\$1,432	\$2,861	\$1,429	99.8%
Federal Trust Fund	—	606	1,212	606	100.0
Student Tuition Recovery Fund	—	650	700	50	7.7
Personnel-years	—	30.5	61.0	30.5	100.0

^a Private Postsecondary and Vocational Education Administration

ANALYSIS AND RECOMMENDATIONS

Inadequate Information on Council's Budget-Year Activities

We withhold recommendation on the entire \$4.8 million budget for the council because of inadequate information on its budget-year operations and activities.

As indicated earlier, the council assumed its private postsecondary and vocational education regulatory responsibilities from the State Department of Education (SDE) on January 1, 1991. Although many of the SDE regulatory staff remained in their positions when duties were transferred to the council, as of the date of the preparation of this analysis, most of the new administrative positions authorized in the current year were vacant. In addition, the council had yet to appoint a permanent Executive Director. Hence, while many of the council's regulatory functions are staffed, most of its administrative positions are vacant.

At the time this analysis was prepared, we did not have adequate information to evaluate the council's budget-year funding proposal.

COUNCIL FOR PRIVATE POSTSECONDARY AND VOCATIONAL EDUCATION—Continued

Specifically, we do not have adequate information related to the council's (1) workplan, (2) regulatory workload and backlog, (3) revenue assumptions, and (4) progress in implementing the mandates of Ch 1239 and Ch 1307, among others. Therefore, we withhold recommendation on the council's entire budget pending submission of the above-mentioned information.

STUDENT AID COMMISSION

Item 7980 from the General Fund and various funds

Budget p. E 143

Requested 1991-92.....	\$432,528,000
Estimated 1990-91	422,338,000
Actual 1989-90	439,835,000
Requested increase \$10,190,000 (+2.4 percent)	
Total recommended reduction.....	None

1991-92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
7980-001-001—Support	General	\$3,719,000
7980-001-305—Support	Private Postsecondary and Vocational Education Administration	108,000
7980-001-951—Guaranteed Loan Program	State Guaranteed Loan Reserve	23,255,000
7980-011-890—Purchase of defaulted loans	Federal Trust	(237,526,000)
7980-011-951—Purchase of defaulted loans	State Guaranteed Loan Reserve	230,000,000
7980-101-001—Awards	General	163,371,000
7980-101-890—Awards	Federal Trust	11,096,000
7980-101-951—Awards	State Guaranteed Loan Reserve	60,000
Reimbursements	—	919,000
Total		\$432,528,000

Analysis page

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

1. Unallocated Reductions. Recommend that the Student Aid Commission report prior to budget hearings on its plan to implement the unallocated trigger-related reductions on the grants program. 1068

GENERAL PROGRAM STATEMENT

The Student Aid Commission (SAC) is composed of 15 members—11 appointed by the Governor, two appointed by the Senate Rules Committee, and two appointed by the Speaker of the Assembly.

The commission administers:

- Eight student grant programs.
- A program which guarantees federally-insured loans to students.
- An outreach program (known as Cal-SOAP) designed to promote access to higher education for disadvantaged and underrepresented students.
- A state-funded work-study program.
- A state-funded loan assumption program (known as APLE) designed to encourage students to pursue a teaching career.

The commission is also responsible for collecting and analyzing information on student financial aid, evaluating commission programs, assessing the statewide need for financial aid, and disseminating information on financial aid to students, parents, and California educational institutions.

The commission has 257.8 personnel-years in the current year.

MAJOR ISSUES

- The budget proposes no increase in the Cal Grant maximum award amount or in the number of awards.
- Cal Grant budget increased by \$11.1 million to fund systemwide fee increases at UC and CSU.
- The budget proposes a \$6.8 million unallocated reduction for SAC's General Fund-supported local assistance programs.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures by the SAC of \$432.5 million in 1991-92. This is an increase of \$10.2 million (2.4 percent) from the current-year level. This increase is due *primarily* to the proposed increases of \$7 million (4.4 percent) from the General Fund and \$3.3 million (27 percent) from the Guaranteed Loan Reserve Fund.

Table 1 shows funding levels for the commission's programs in the prior, current, and budget years. The Governor's Budget includes an unallocated trigger-related reduction of \$6.8 million in funding for the SAC. This reduction is included in the proposed budget for the SAC in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

STUDENT AID COMMISSION—Continued

Table 1
Student Aid Commission
Budget Summary
1989-90 through 1991-92
(dollars in thousands)

Expenditures	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
Local assistance programs	\$160,532	\$168,362	\$182,200	\$13,838	8.2%
Student loans guaranteed	(1,093,825)	(1,073,302)	(1,093,337)	(20,035)	(1.9)
Purchase of defaulted loans	192,679	230,000	230,000	—	—
Collections costs	55,204	—	—	—	—
Contractor costs	9,771	—	—	—	—
State operations	21,649	23,976	27,145	3,169	13.2
Unallocated trigger-related reductions	—	—	-6,817	-6,817	— ^a
Totals, expenditures	\$439,835	\$422,338	\$432,528	\$10,190	2.4%
Funding Sources					
General Fund	\$152,610	\$160,123	\$167,090	\$6,967	4.4%
Guaranteed Loan Reserve Fund	70,172	12,459	15,789	3,330	26.7
Federal Trust Fund	216,145	248,732	248,622	-110	—
PPVEA ^b	—	105	108	3	2.9
Reimbursements	908	919	919	—	—
Personnel-years	213.6	257.8	283.8	26	10.1%

^a Not a meaningful figure.

^b Private Postsecondary and Vocational Education Administration

Budget Changes

Table 2 displays the components of the changes proposed in the commission's budget for 1991-92. The request for 1991-92 is \$10.2 million, or 2.4 percent above estimated 1990-91 expenditures. The table shows that:

- **Baseline adjustments** account for a net increase of \$16.7 million. This increase is primarily due to a \$13.8 million increase in awards to (1) fully fund the mandatory fee increases at UC and CSU, (2) continue funding the new Cal Grant B grants awarded in 1988-89 and 1989-90, and (3) fund additional payments for the Assumption Program of Loans for Education. The table also shows a \$1.9 million increase to reflect pro rata adjustments.
- **Program changes** account for an increase of \$1.1 million primarily to provide additional administrative support to the loan program.
- **Expenditure adjustments** result in a reduction of \$7.7 million primarily due to unallocated trigger-related reductions.

The Budget Bill also includes provisions in Items 6440-001-001 (UC main item) and 6610-001-001 (CSU main item) that automatically increase financial aid within the Student Aid Commission budget if the UC Regents and/or the CSU Trustees increase fee levels beyond that proposed in the budget. This increased aid would be funded from revenue raised from the additional fee increase.

Table 2
Student Aid Commission
Proposed 1991-92 General Fund Budget Changes
(dollars in thousands)

	<i>General Fund</i>	<i>All Funds</i>
1990-91 Expenditures (Revised)	\$160,123	\$422,338
<i>Baseline Adjustments</i>		
Annualization of 1990-91 salary increase	\$41	\$222
Merit salary adjustment	32	255
One-time expenditures	-5	-30
Price increase	113	595
Social security for newly covered employees	3	16
Awards	13,778	13,778
Pro rata adjustments	—	1,895
Other base adjustments	-55	-10
Subtotals, baseline adjustments	(\$13,907)	(\$16,721)
<i>Program Changes</i>		
Increase data processing staff	\$22	\$127
Increase staff to support Cal-SOAP	—	60
Increase claims and loan processing staff	—	679
Increase investigative, legal, and bankruptcy staff	—	161
Increase student lender services staff	—	109
Subtotals, program changes	(\$22)	(\$1,136)
<i>Expenditure Adjustments</i>		
Backout merit increase	-\$32	-\$255
Backout price increase	-113	-595
Trigger-related reductions	-6,817	-6,817
Subtotals, expenditure adjustments	(-\$6,962)	(-\$7,667)
1991-92 Expenditures (Proposed)	\$167,090	\$432,528
Change from 1990-91:		
Amount	\$6,967	\$10,190
Percent	4.4%	2.4%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the baseline adjustments as shown in Table 2 and the following program changes, which our analysis indicates are justified on a workload basis, and which are not discussed elsewhere in this analysis:

- **Data Processing Staff**—an increase of \$127,000 (\$22,000 General Fund) and 1.9 positions to provide additional data processing support for the Financial Aid Processing System.
- **Cal-SOAP Expansion**—an increase of \$60,000 from the Guaranteed Loan Reserve Fund (the Loan Fund) to add financial planning and debt management services to the Cal-SOAP.
- **Claims and Loan Processing Support**—an increase of \$679,000 from the Loan Fund and 15 positions to meet additional workload in the commission's claims processing, preclaims processing, loan processing, and collections units.
- **Other Administrative Support**—an increase of \$270,000 from the Loan Fund consisting of (1) \$40,000 and one position for bankruptcy processing functions, (2) \$60,000 and one position in the legal division to develop regulations, (3) \$46,000 and one position to

STUDENT AID COMMISSION—Continued

respond to student inquiries, (4) \$63,000 and one position to train and provide technical assistance to lenders, and (5) \$61,000 and one position to investigate fraud and abuse in the loan program.

Student Financial Aid in California

Student financial aid awards primarily consist of three basic types of aid—grants, loans, and work study. *Grants* are awards that do not have to be repaid by the recipient. These awards are provided to students based on their financial need and academic achievement. *Loans*, on the other hand, must be repaid by the recipient. Generally, student loans carry a lower interest rate and a longer term than commercial loans. The third type of award—*work study*—involves some program of subsidized compensation in which a student's wages are supported by financial aid and employer funding. A student's financial aid "package" may consist of all three types of aid.

The Student Aid Commission administers most of the state-supported financial aid programs. Students attending higher education institutions in California, however, receive financial assistance from many sources other than the state.

The commission estimates that roughly \$2.4 billion in financial aid will be provided to students attending higher education institutions in California in 1990-91. This amount is approximately \$79 million (3.4 percent) more than the amount estimated to have been made available in 1989-90.

Data provided by SAC indicate that:

- State-supported financial aid programs provide \$209 million, or 8.8 percent of the total.
- Higher education institutions provide \$528 million, or 22 percent of the total.
- The California Educational Loan Program, the federal loan reinsurance program (discussed later in this analysis), provides \$1 billion, or 45 percent of the total.
- Federal programs, excluding the California Educational Loan Programs, provide \$585 million, or 25 percent of all student financial aid.
- Other programs provide \$37 million or 1.5 percent of the total.

Local Assistance Programs (Items 7980-101-001 and 7980-101-890)

Table 3 displays the funding levels for all the commission's local assistance programs for the prior, current, and budget years.

Table 3 shows that the budget proposes total local assistance funding of \$175.4 million in 1991-92—an increase of \$7 million (4.2 percent) from the amount available in the current year. General Fund support for these programs is proposed at \$163.4 million, an increase of \$7 million (4.5 percent) from the current-year level. Federal support is proposed at \$11.1 million, maintaining the current-year level. These changes reflect (1) a \$2.7 million increase in baseline funding, primarily to reflect the continuing costs of 1,026 additional Cal Grant B awards provided in

Table 3
Student Aid Commission
Local Assistance Programs
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
<i>Grant Programs</i>					
Cal Grant A (Scholarship).....	\$100,127	\$101,965	\$110,142	\$8,177	8.0%
Cal Grant B (College Opportunity).....	50,112	54,745	59,749	5,004	9.1
Cal Grant C (Occupational).....	2,752	3,003	3,003	—	—
Graduate Fellowship.....	2,514	2,969	2,969	—	—
Law Enforcement Personnel Dependents.....	10	14	14	—	—
Bilingual Teacher Development.....	85	4	—	-4	-100.0
Byrd Scholarship.....	790	866	866	—	—
Paul Douglas Teacher Scholarships.....	1,961	2,009	2,009	—	—
Subtotals, grant programs.....	(\$158,351)	(\$165,575)	(\$178,752)	(\$13,177)	(8.0%)
<i>Other Programs</i>					
Assumption Program of Loans for Educa- tion (APLE).....	\$854	\$1,400	\$2,001	\$601	42.9%
Work Study.....	750	810	810	—	—
Cal-SOAP ^a	577	577	637	60	10.4
Subtotals, other programs.....	(\$2,181)	(\$2,787)	(\$3,448)	(\$661)	(23.7%)
<i>Expenditure Adjustment</i>					
Unallocated trigger-related reduction.....	—	—	-\$6,807	-\$6,807	— ^b
Subtotals, expenditure adjustment.....	—	—	-\$6,807	-\$6,807	— ^b
Grand totals.....	\$160,532	\$168,362	\$175,393	\$7,031	4.2%
<i>Funding Sources</i>					
General Fund.....	\$146,667	\$156,400	\$163,371	\$6,971	4.5%
Federal Trust Fund.....	13,067	11,096	11,096	—	—
Guaranteed Loan Reserve Fund.....	—	—	60	60	— ^b
Reimbursements.....	798	866	866	—	—

^a Reflects \$60,000 administrative allowance transferred from state administration to local assistance in 1990-91 and 1991-92.

^b Not a meaningful figure.

1988-89 and 1989-90, (2) \$11 million in increased Cal Grant A and B funding to cover proposed 1991-92 fee increases at the University of California (UC) and the California State University (CSU), and (3) \$6.8 million in unallocated trigger-related reductions.

Number and Level of Grant Awards

Table 4 shows the maximum grant level and the total number of awards proposed by the budget for each of the local assistance *grant* programs in 1990-91 and 1991-92. The budget proposes neither an increase in the maximum grant nor an increase in the total number of *new* awards for any of the commission's grant programs. As mentioned, the increase in the number of Cal Grant B awards is due to the continuing costs of 1,026 additional Cal Grant B awards provided in 1988-89 and 1989-90. The decrease in the Law Enforcement Personnel Dependents Grant is due to a lower volume of qualified applicants. The decrease in the Bilingual Teacher Development Grant program reflects its statutorily-required elimination by January 1992.

STUDENT AID COMMISSION—Continued

Table 4
Student Aid Commission
Maximum Award Levels and Number of Awards
1990-91 through 1991-92

Programs	Maximum Award Level			Total Number of Awards ^a		
	1990-91	1991-92	Percent Change	1990-91	1991-92	Percent Change
Cal Grant A (Scholarship)	\$5,250	\$5,250	—	43,285	43,285	—
Cal Grant B (Opportunity)				31,250	32,275	3.3%
Tuition and Fees	5,250	5,250	—			
Subsistence Payments	1,410	1,410	—			
Cal Grant C (Occupational)				2,369	2,369	—
Tuition and Fees	2,360	2,360	—			
Books and Supplies	530	530	—			
Graduate Fellowship	6,490	6,490	—	744	744	—
Law Enforcement Personnel Depen-						
dents	1,500	1,500	—	12	5	-58.3
Bilingual Teacher Development	4,045	—	—	2	—	-100.0
Paul Douglas Teacher						
Scholarship	5,000	5,000	—	410	410	—
Totals	N/A ^b	N/A ^b	N/A ^b	78,072	79,088	1.3%

^a Includes new and renewal awards.

^b N/A: Not Applicable.

Unallocated Reductions Have Uncertain Impact on Grant Coverage at UC and CSU

We recommend that the Student Aid Commission report to the fiscal committees prior to budget hearings on its plan to implement the unallocated trigger-related reduction on the grant programs.

The budget proposes an increase of \$13.8 million in General Fund support for the commission's local assistance programs. Of this amount, \$11.1 million would be used to offset the 20 percent fee increases at the University of California and the California State University, and \$2.7 million would be used primarily to fund the continuing costs of Cal Grant B awards provided in 1988-89 and 1989-90. However, the budget also proposes \$6.8 million in unallocated trigger-related reductions from these programs.

At the time this analysis was prepared, the commission had not yet decided how it would achieve the reductions. However, as the Cal Grant programs make up over 95 percent of the commission's General Fund local assistance expenditures, it is very likely that most of the reductions would be taken from this program. We outline some of the options for implementing these reductions in the following discussion.

Background. The Student Aid Commission administers several state-supported local assistance programs. The largest of these are the two grant programs which are targeted to students attending higher education institutions. First, is the Cal Grant A program which provides grants to financially needy, academically-able students to assist them in completing a four-year degree program at a California college or university of their choice. The grant award covers tuition and fees only.

Second, is the Cal Grant B program which is designed to promote *access* to higher education, with grant awards covering both subsistence and fees. This program differs from the Cal Grant A program in that the selection of grant winners is based not only on the student's grade point average and family income, but also on the level of parental education, family size, and the student's career and life goals.

Options for Implementation of Unallocated Reductions. Based on discussions with commission staff, our review indicates that there are three options for implementing these reductions: (1) reduce the grant amounts/levels, (2) reduce the number of grants awarded, and (3) eliminate the overaward policy and allow attrition to naturally lower the number of recipients.

Reduce the grant amounts/levels. One way to achieve the proposed reductions is to reduce the individual grant amounts. For instance, the commission could implement an across-the-board cut on the amount of grants awarded. This could be either a percentage reduction or a specific dollar amount reduction for each grant awarded.

In the budget year, the amount of a Cal Grant award varies from \$1,071 to \$6,660, depending on the type of grant and the type of institution. According to the commission's estimate, an across-the-board 1 percent reduction in the amount of the Cal Grants awarded would result in \$1.7 million in savings. Hence, the commission would have to reduce awards by 4 percent in order to achieve the \$6.8 million reduction. By the same token, a \$10 reduction in the amount of each grant awarded would generate \$675,000 in savings. To generate \$6.8 million in savings, therefore, each award would have to be reduced by about \$100. We note that the commission could also choose not to apply a uniform cut on all the grants, but rather vary the reduction among grants.

Reduce the number of new grants awarded. Another option available to the commission is to reduce the *number* of grants awarded in the budget year. The budget proposes funding for 17,400 new Cal Grant A awards and 12,250 new Cal Grant B awards, or a total of 29,650 new awards in the budget year. (These figures do not reflect any reduction.) Based on commission data, 3,408 grants would have to be eliminated—allowing for 26,242 new grants rather than 29,650—in order to achieve a \$6.8 million reduction.

Eliminate the overaward policy and allow attrition to naturally lower the number of recipients. Every year, the commission initially awards more grants than the number specified in the Budget Act assuming that some recipients will drop out of the program, thereby bringing the number of grants down to the budgeted level. For example, the 1989 Budget Act authorized the commission to award 12,000 Cal Grant B grants in 1989-90. Although the commission initially awarded 14,015 grants, only 11,614 grants remained by the end of the year. Therefore, if the commission were to eliminate its overaward policy and allow attrition to naturally lower the number of recipients, it could generate some savings.

STUDENT AID COMMISSION—Continued

The actual amount of savings would depend on four main factors: (1) the number of recipients who do drop out, (2) the point during the school year at which the recipient drops out—the earlier in the school year, the more the savings, (3) the institution the student chooses to attend—awards to students who attend private institutions are generally higher than those who attend UC or CSU, and (4) the type of grant.

Recommendation. Because the commission has not yet adopted a specific plan for implementing the unallocated reductions, we are unable to provide the Legislature with an analysis of the impact of these reductions. Hence, we recommend that the commission report to the fiscal committees prior to budget hearings on its plans for implementing the unallocated trigger-related reductions. We will be prepared to comment on the commission's proposal during budget hearings.

Full Funding of Fee Increases Not Guaranteed

The 1990 Budget Act contains language that, in effect, guarantees full funding for the fee increases at UC and CSU. The 1991 Budget Bill does not contain similar language. If the Legislature intends to continue its policy of guaranteeing full funding of fee increases in the segments, it should restore the deleted language. However, we note that restoration of the language would eliminate one of the commission's options (discussed above) for implementing the unallocated reductions. Specifically, by requiring full funding of fee increases, the Legislature would preclude the commission from implementing an across-the-board cut on the amount of grants awarded.

California Student Loan Program (Items 7980-011-890, 7980-011-951, and 7980-021-951)

We recommend approval.

The California Educational Loan Program assists students in meeting higher educational expenses through federally reinsured, educational loans which are made available to students or their parents through conventional lenders at no cost to the state. The California Educational Loan Program includes (1) the Stafford Loan program—formerly the Guaranteed Student Loan (GSL) program, (2) the Supplemental Loans for Students (SLS), (3) the Parent Loan Program (PLUS), and (4) the Consolidated Loan Program.

Table 5 displays the total number of loans and the dollar volume for the combined loan programs. The table shows that the dollar volume of loans guaranteed increased 22 percent between 1987-88 and 1990-91. This increase can be attributed primarily to an additional 62,000 new loans guaranteed. The decreases in loan volume in the past two years are primarily due to new federal restrictions on loan eligibility.

Table 5
Student Aid Commission
California Educational Loan Programs
Volume of Loans Guaranteed
1987-88 through 1990-91
(dollars in millions)

	Number of Loans	Dollar Volume	Annual Dollar Change	
			Amount	Percent
1987-88.....	302,200	\$877.8	—	—
1988-89.....	401,900	1,150.1	\$272.3	31.0%
1989-90.....	371,200	1,093.8	-56.3	-4.9
1990-91 (est.).....	364,200	1,073.3	-20.5	-1.9
Change from 1987-88				
Amount.....	62,000	\$195.5		
Percent.....	20.5%	22.3%		

The Stafford Loan Program provides interest-subsidized loans to students that demonstrate financial need (the federal government subsidizes the interest payments). The other three loan programs do not provide interest subsidies and are available to any student (or parent of a student under the PLUS program) who wishes to borrow funds.

State Operations (Items 7980-001-001, 7980-001-305, and 7980-001-951)

We recommend approval.

Table 6 shows the commission's proposed administrative expenditures by operation unit for the prior, current, and budget years.

Table 6
Student Aid Commission
State Operations
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91	
				Amount	Percent
<i>Programs</i>					
Financial aid grants program.....	\$5,943	\$3,723	\$3,782	\$59	1.6%
California Educational Loan Program.....	15,536	20,095	23,255	3,160	15.7
Private postsecondary education audits.....	—	105	108	3	2.9
Administrative and support services.....	(6,471)	(6,765)	(6,975)	(210)	(3.1)
Subtotals, support.....	(\$21,479)	(\$23,923)	(\$27,145)	(\$3,222)	(13.5%) ^b
Unallocated trigger-related reduction.....	—	—	-10	—	—
Totals, support.....	\$21,479	\$23,923	\$27,135	\$3,212	13.4%
<i>Funding Sources</i>					
General Fund.....	\$5,833	\$3,670	\$3,719	\$49	1.3%
Guaranteed Loan Reserve Fund.....	15,536	20,095	23,255	3,160	15.7
PPVEA Fund ^a	—	105	108	3	2.9
Reimbursements.....	110	53	53	—	—

^a Private Postsecondary and Vocational Administration Fund.

^b Not a meaningful figure.

The budget proposes total support of \$27.1 million for the commission in 1991-92, a 13 percent net increase (\$3.2 million) from the current-year level. This increase is the net effect of (1) \$222,000 for the full-year costs of 1990-91 salary increase, (2) \$1.9 million increase for pro rata adjust-

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ment, and (3) \$1.1 million in various program changes. This increase is offset by (1) a \$40,000 reduction from one-time expenditures and miscellaneous baseline adjustments, and (2) \$10,000 from the unallocated trigger-related reduction. Of the total support for the administrative operations of the commission, the General Fund would provide \$3.7 million or 14 percent of the total, the Loan Fund would provide \$23.3 million or almost 86 percent, the PPVEA Fund would provide \$108,000, or less than 1 percent, and reimbursements would cover \$53,000 or less than 1 percent. The General Fund change in 1991-92 is a net increase of \$49,000 (1.3 percent) above 1990-91.
