

MAJOR ISSUES (February 1994)


%Revenue Shortfalls Result in Painful Choices. The budget overappropriates the Proposition 98 minimum guarantee in 1993-94 and 1994-95 to maintain K-12 education funding at \$4,217 per pupil and provide the proposed level of support for community colleges. As a result, a two-year total of about \$1.5 billion is set aside for K-14 education that the Legislature could, without suspending the Proposition 98 guarantee, use to fund other General Fund programs. In the likely event that General Fund revenues fall short of the administration's estimates, the Legislature may have to consider the unattractive options of reducing spending for K-14 education or funding some portion of the proposed level of K-14 spending through Proposition 98 loans. (See page E-21.)

%Categorical Program Funding. The budget proposes to continue funding most categorical programs through a single mega-item (\$4.6 billion). Local education agencies would have substantially more flexibility over the allocation of these funds than the current-year budget affords. In addition, in lieu of providing growth funding for categorical programs, the budget proposes about \$100 million in targeted program increases. Our review indicates that the budget proposal (1) provides too much local flexibility in allocating mega-item funding and (2) unnecessarily diverts funds from instructional programs to new policy initiatives. We recommend an alternative that provides a balance between legislative control and local flexibility. (See page E-28.)

%Special Education Funding Needs Complete Revision. The current Master Plan for Special Education (MPSE) funding model (1) is based on inappropriate variations in funding across school districts, (2) is too complex, (3) inhibits innovation, and (4) contains inappropriate fiscal incentives. We recommend a joint effort by the Legislative Analyst's Office, the State Department of Education, and the Department of Finance to develop recommendations for a new MPSE funding formula for the Legislature's consideration by May 1, 1995. (See page E-41.)

%Child Development Carryover Funds Are Available. The budget fails to provide a plan for \$6.5 million in state child development carryover funds and \$80 million to \$93 million in federal child care block grant carryover funds. The funds may be used to increase child development services or fund services that would otherwise be provided with Proposition 98 funds. We recommend that \$26.5 million (\$6.5 million in state carryover and \$20 million in federal carryover) be used to free up a like amount of Proposition 98 support included in the proposed 1994-95 budget. We also recommend using \$20 million of the federal carryover to increase child development services. (See page E-56.)

%California Learning Assessment System (CLAS) Plan Needed. The budget proposes to reduce the amount of performance testing included in state CLAS tests. While this would permit expansion of the program at a minimum level of state costs, the proposal leaves unanswered long-term issues about the direction of the CLAS that could have a significant impact on the 1994-95 program and expenditure plan. To ensure the Legislature has all the information needed to understand its options, we recommend the Departments of Finance and Education provide specified information on their long-term plans for the CLAS. (See page E-67.)



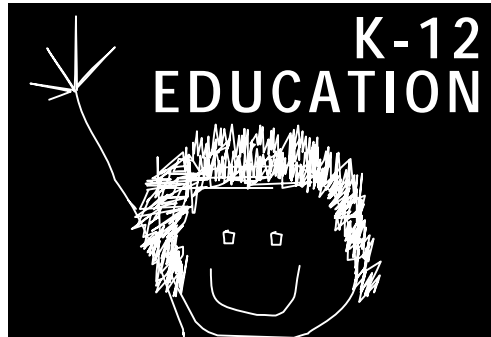
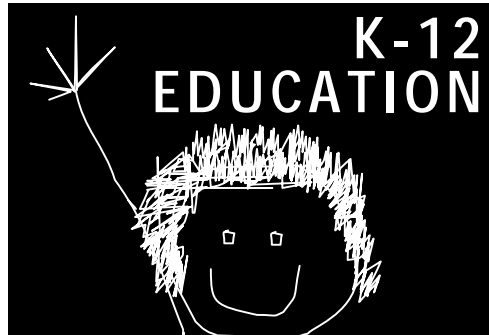


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OVERVIEW

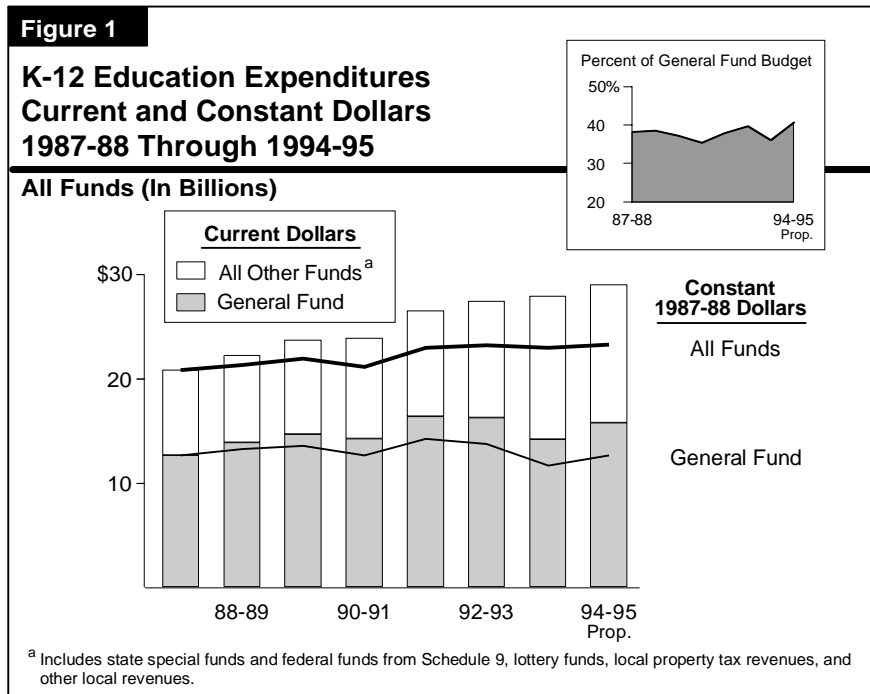
The K-12 education budget reflects a substantial General Fund increase of \$1.6 billion, due primarily to a proposed shift of local property tax revenues from schools to other local government agencies, and an increase in the Proposition 98 minimum funding requirement.

The budget proposes expenditures of \$29 billion from all sources for K-12 education in 1994-95, including \$15.8 billion from the General Fund. This is \$1.1 billion, or 3.9 percent, more than estimated expenditures from all sources in the current year. This increase is primarily the net result of a \$1.6 billion General Fund increase (11 percent) and a \$566 million reduction (6.5 percent) in local property tax revenues. The reduction in local property tax revenues is the net result of baseline revenue growth and a proposal to shift revenues from schools to other local government entities.

Figure 1 shows that K-12 education expenditures from all sources have increased by \$8.2 billion since 1987-88, representing an average annual increase of 4.8 percent. When these figures are adjusted for inflation, spending increased by an average of 1.5 percent annually. The share of General Fund spending allocated to K-12 education has increased from 38 to 41 percent over the period. The decrease in the K-12 share of General Fund spending in 1993-94 and the increase in 1994-95 are explained primarily by changes in the share of local property taxes allocated to schools.

Figure 1 shows the amount of K-12 education funding from state, local, and federal sources as reflected in the Governor's Budget. For the period 1990-91 through 1993-94, however, this is not an accurate picture of the *actual* funding available to K-12 programs. This is because there are

funding shifts and off-budget loans that change the actual amounts available in a given fiscal year. For instance, much of the budget-year increase in total spending that appears in Figure 1 is explained by the administration's proposal to support from the General Fund expenditures that were supported in 1993-94 by an off-budget loan.



In our discussion of Proposition 98 (later in this overview), we provide a detailed description of these funding shifts and loans and discuss year-to-year changes in the amounts actually available for spending for Proposition 98 programs. In 1994-95, Proposition 98 funding accounts for \$22.3 billion, or 77 percent, of the \$29 billion in K-12 spending from all sources.

SPENDING BY MAJOR PROGRAMS

Figure 2 shows funding for K-12 programs from all sources since 1992-93. The budget proposes local assistance expenditures of \$27.2 billion for the State Department of Education (SDE) from state, federal, and local

sources. This is an increase of \$870 million, or 3.3 percent, from estimated 1993-94 expenditures.

Figure 2				
K-12 Education Expenditures				
1992-93 Through 1994-95				
(Dollars in Millions)				
	1992-93	1993-94	1994-95	Percent Change From 1993-94
State Department of Education (SDE)				
local assistance	\$26,024.2	\$26,377.4	\$27,247.7	3.3%
Retirement program contributions (State Teachers' Retirement System)	628.8	690.0	744.7	7.9
Debt service	482.8	510.4	685.2	34.3
State-mandated local costs	157.0	160.7	142.7	-11.2
SDE state operations	138.7	145.4	149.1	2.6
State Library	46.2	49.2	51.9	5.7
Commission on Teacher Credentialing	12.5	14.8	14.9	0.7
School Facilities Aid Program	-38.4	-14.0	-13.9	0.8
Secretary for Child Development and Education	1.6	2.0	7.1	251.0
Summer School for the Arts	0.6	0.6	0.6	2.5
Council on Vocational Education	0.3	0.3	0.3	0.9
Occupational Information Coordinating Committee	0.2	0.3	0.3	2.6
Totals	\$27,454.5	\$27,937.0	\$29,030.7	3.9%
<i>General Fund</i>	<i>\$16,266.1</i>	<i>\$14,161.9</i>	<i>\$15,780.2</i>	<i>11.4%</i>
<i>Local property tax revenues</i>	<i>6,476.7</i>	<i>8,768.8</i>	<i>8,202.5</i>	<i>-6.5</i>
<i>Other local revenues</i>	<i>2,086.0</i>	<i>2,124.0</i>	<i>2,162.0</i>	<i>1.8</i>
<i>Federal funds</i>	<i>2,101.1</i>	<i>2,302.3</i>	<i>2,313.8</i>	<i>0.5</i>
<i>Lottery funds</i>	<i>495.4</i>	<i>540.6</i>	<i>540.6</i>	<i>—</i>
<i>Special funds</i>	<i>29.3</i>	<i>39.4</i>	<i>31.5</i>	<i>-19.9</i>

The budget also proposes General Fund increases of \$175 million, or 34 percent, for debt service on school construction bonds, and \$55 million, or 7.9 percent, for contributions to the State Teachers' Retirement System. The sharp increase in support for the Secretary of Child Development and Education reflects a proposal for \$5 million to implement the Volunteer Mentor Program authorized by Ch 901/92 (SB 1114, Leonard). These funds would support a program to match children with academic mentors.



MAJOR BUDGET CHANGES



Figure 3 displays the major budget changes resulting in the net increase of \$1.6 billion in General Fund spending. The figure shows that the major changes fall into four categories: (1) funding changes, (2) statutory growth adjustments, (3) other cost and revenue changes, and (4) program proposals.

Figure 3




K-12 Education Proposed Major Changes for 1994-95 General Fund

Funding Changes

-  • \$958 million to account for proposed property tax shift
-  • \$609 million increase in apportionments to backfill 1993-94 loan

-  • \$190 million to eliminate funds to repay 1992-93 recapture loan
-  • \$420.8 million to reflect local property tax revenue growth (assumes adoption of proposed legislation to address lower-than-anticipated revenue from the 1993-94 property tax shift)

Statutory Growth Adjustments

-  • \$412.8 million for statutory growth in school district revenue limits
-  • \$70.4 million for enrollment growth in special education
-  • \$15.8 million for enrollment growth in county offices of education

Continued

Other Cost and Revenue Changes



- \$174.8 million for additional debt service payments on general obligation bonds
- \$54.7 million to pay State Teachers' Retirement System costs
- \$147.3 million to reflect elimination of funding proposed in the current year for 1992-93 and 1993-94 deficiencies, related to property tax revenue shortfalls



- \$25 million to eliminate funding for the Long Beach desegregation claim
- \$20 million to eliminate funding for emergency loans to the Compton Unified School District
- \$40.5 million net change in K-12 mandates

Program Proposals



- \$42.8 million (part one-time funds) to pay for new mandates and mandates deferred in current- and prior-year mandate claims bills
- \$25.4 million for school safety programs
- \$25 million to expand the preschool program
- \$21 million to expand the Healthy Start Program
- \$13.4 million (one-time funds) to support the Adults in Correctional Facilities Program on a current-year basis
- \$12.2 million to fund loans for school districts that experience declining enrollment due to military base closures (Ch 886/93, AB 160, Farr)

PROPOSITION 98

The Governor's proposal keeps K-12 funding levels constant on a per-pupil basis by overappropriating the Proposition 98 minimum guarantee in the current and budget years.

In the current year, the budget proposes to provide \$24.4 billion (cash basis) for Proposition 98 programs in schools and community colleges, a reduction of \$68 million below the amount provided in the 1993 Budget Act. These figures include Proposition 98 funding as adjusted for various funding factors necessary to accurately display what schools and community colleges will actually receive during the fiscal year. The reduction primarily reflects a decline in estimated local property tax revenues for community colleges that is not backfilled from the General Fund. In order to maintain constant per-pupil funding for K-12 schools, the budget proposes to provide Proposition 98 General Fund appropriations of \$13.6 billion, \$326 million more than the minimum guarantee level.

In 1994-95 the budget proposes to provide \$25.2 billion for Proposition 98 programs, an increase of \$714 million above revised current-year funding. The increase consists of \$586 million for schools, \$122 million for community colleges, and \$6 million for other agencies. Major proposals include a shift of \$1.1 billion in local property tax revenues from schools and community colleges to local governments, an increase in community college fees from \$13 to \$20 per unit, and overappropriation of the minimum guarantee level by \$336 million.

OVERVIEW OF PROPOSITION 98

Proposition 98, the "Classroom Instructional Accountability and Improvement Act of 1988," establishes a constitutionally guaranteed minimum level of funding for K-12 schools and community colleges in 1988-89 and thereafter. Proposition 98 was amended by Proposition 111 of 1989 and implemented by various legislative statutes.

Minimum Funding Guarantee

The core of Proposition 98 is the minimum funding guarantee, which is determined based on one of three so-called "tests." Proposition 98 guarantees K-14 education a level of funding based on the *greater* of:

- **Test 1—Percentage of General Fund Revenues.** This is defined as the 1986-87 percentage of General Fund tax revenues provided K-14 education—currently about 34 percent.
- **Test 2—Maintenance of Prior-Year Service Levels.** This is defined as the prior-year level of total funding for K-14 education from state and local sources, adjusted for enrollment growth and for growth in per-capita personal income.

In low-revenue years, defined as years in which General Fund revenue growth per capita is more than one-half percentage point *below* growth in per-capita personal income, the minimum funding guarantee is based on:

- **Test 3—Adjustment Based on Available Revenues.** This is defined as the prior-year total level of funding for K-14 education from state and local sources, adjusted for enrollment growth and for growth in General Fund revenues per capita, *plus* one-half percent of the prior-year level. However, the increase in per-pupil funding must be at least equal to the increase in per capita expenditures for all other General Fund supported programs (provided that the total amount of Proposition 98 funding does not exceed the Test 2 level). This per-pupil funding floor (the so-called “equal pain, equal gain,” or Test 3b provision) was intended to ensure that K-14 education is treated no worse, in years of low revenue growth, than are other segments of the state budget.

Suspension

Proposition 98 provides that the minimum funding guarantee may be suspended for one year, through urgency legislation, in a bill other than the Budget Bill. The Legislature may suspend the minimum funding guarantee for any reason that meets the general criterion for urgency legislation specified in the California Constitution (“necessary for the immediate preservation of the public peace, health, or safety”). Once the minimum funding guarantee is suspended, which requires a two-thirds vote of each house, the Legislature may appropriate any level of funding for K-14 education.

Restoration

In years following a suspension or use of Test 3, the state may have to make specified minimum payments toward restoring K-14 education funding to the level that would have been required had funding not been reduced. In practice, the process of suspension and restoration works as follows:

- **Creation of a “Maintenance Factor.”** In any year in which funding for the minimum guarantee is reduced below the level that would otherwise have been required by either Test 1 or Test 2, a “maintenance factor” is created in an amount equal to the underfunding.
- **Computation of Guarantee.** In the following year, the minimum funding guarantee is computed using Test 1, 2, or 3 (as appropriate), with the prior year's *actual* level of funding as the new “base.”
- **Computation of Adjusted Maintenance Factor.** The amount of the maintenance factor is increased annually, using the adjustment factors specified in Test 2 (enrollment growth and growth in per-capita personal income).
- **Minimum Restoration Payment.** In any year in which General Fund revenue growth per capita exceeds per-capita personal income growth, the state must make a minimum payment towards restoring the maintenance factor, equal to one-half of the difference in these growth rates, times total General Fund tax proceeds. The restoration payment serves to reduce the amount of any maintenance factor outstanding.

The restoration payments serve to restore K-14 education funding to pre-reduction levels (as adjusted for enrollment growth and inflation). Amounts that the state saves due to suspension or use of Test 3 do not have to be repaid.

Proposition 98 Funding Versus “Cash” Available for Programs

In practice, the amount of Proposition 98 funding from state and local sources in any fiscal year now differs from the amounts actually available for programs in that fiscal year. There are several reasons for the differences:

- **Shifts Between Fiscal Years.** The Legislature has counted funds originally appropriated in one fiscal year—and allocated to districts in that year—against the Proposition 98 funding guarantee in a different year.
 - **Loans From Future Appropriations.** Loans of \$973 million in 1992-93 and \$787 million in the current year support Proposition 98 programs but do not count as Proposition 98 funding. They will count as Proposition 98 funding when they are repaid in some future year.
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- **Other Adjustments.** Various other funding sources (such as community college fees) are not counted as appropriations for purposes of Proposition 98 but are available to fund programs.

In determining the impact of the budget on schools and community colleges—for example, in calculating the amount of funding per student—it is the amount *actually available* that matters, not the Proposition 98 appropriations recorded on the state's books. Accordingly, our tables generally show both (1) Proposition 98 funding as it appears on the state books (that is, “budgetary” basis) and (2) adjusted cash totals reflecting actual funds available (“cash” basis).

PROPOSED REVISIONS AFFECTING 1992-93

The budget proposes General Fund deficiency appropriations totaling \$121 million to maintain K-12 general purpose and special education funding at levels consistent with the 1992 budget agreement.

The budget proposes a deficiency appropriation of \$121 million from the General Fund for K-12 general purpose funding (\$111 million) and special education (\$10 million). This appropriation, which must be provided through a deficiency bill, backfills lower-than-anticipated revenues from local property taxes. This is necessary to maintain total funding for these programs (state General Fund plus local property tax revenue) at the per-pupil funding level agreed upon by the Legislature and the administration. With this appropriation, total Proposition 98 appropriations for 1992-93 would exceed the Department of Finance (DOF) estimate of the 1992-93 Proposition 98 guarantee level by \$79 million.

PROPOSED REVISIONS AFFECTING 1993-94

The budget proposes to backfill property tax losses for K-12 schools in the current year—in order to maintain K-12 spending at a constant level per ADA—but does not propose to backfill property tax and fee revenue losses for the community colleges. The budget proposes to overappropriate the Proposition 98 guarantee by \$326 million in the current year.

The budget proposes \$24.4 million in 1993-94 Proposition 98 cash spending, \$68 million less than assumed in the 1993 Budget Act. This reduction consists of a \$17 million reduction in funding for K-12 schools (\$117 million loss due to property tax shortfalls offset by a \$100 million increase in General Fund spending) and a \$51 million reduction for the

community colleges (\$41 million due to property tax shortfalls plus a \$10 million reduction in student fee revenues). The property tax revenues for K-12 schools and community colleges are actually projected to be \$200 million lower than shown in the budget. The DOF, however, assumes enactment of legislation to fix problems in the 1992-93 and 1993-94 property tax shift legislation that are causing a portion of the declines.

The budget maintains spending for K-12 schools at \$4,217 per pupil. The \$17 million reduction in spending for schools represents a revision in the amount required for this purpose due to minor changes in enrollment and spending.

The result of these proposals is to reduce spending that counts toward the Proposition 98 minimum requirement by \$58 million. The budget estimate of the Proposition 98 requirement, however, is \$384 million less than the June estimate, primarily due to lower estimates of General Fund tax revenues. As a result, proposed Proposition 98 General Fund spending exceeds the budget estimate of the Proposition 98 guarantee by \$326 million.

Figures 4 and 5 show the proposed funding levels compared to the 1993 Budget Act funding levels.

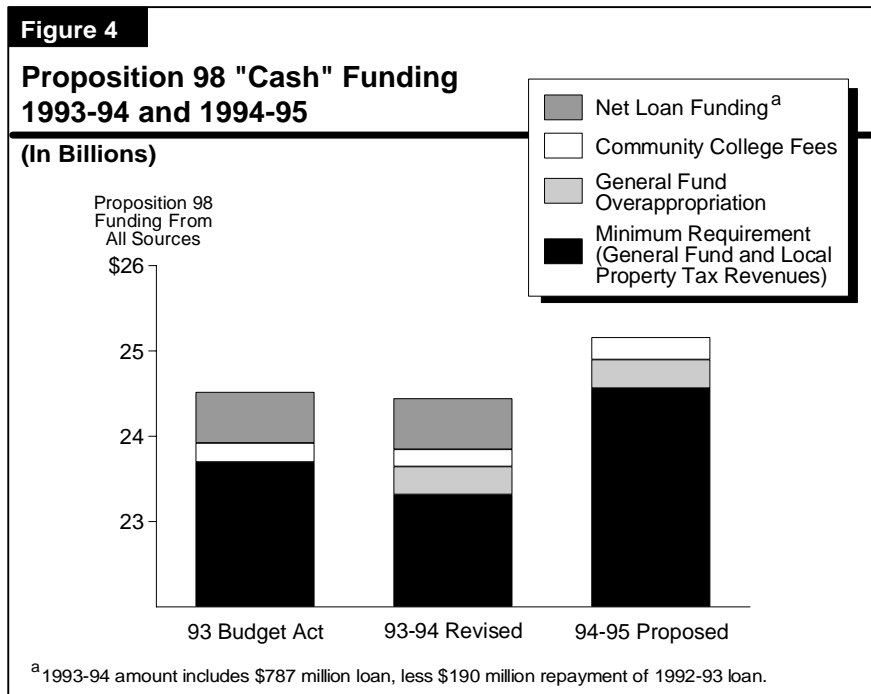


Figure 5

**Proposition 98 Programs
"Cash" Funding
1993-94 and 1994-95^a**

(Dollars in Millions)

	1993-94			1994-95	
	Budget Act	Revised ^b	Change	Proposed	Change From 1993-94 Revised
Proposition 98 funding sources (budgetary basis)					
State appropriations	\$13,506	\$13,606	\$100	\$15,508	\$1,902
Local property taxes	10,189	10,031	-158	9,391	-640
Subtotals	(\$23,695)	(\$23,637)	(-\$58)	(\$24,899)	(\$1,262)
Funding adjustments					
Loan repayments	-190	-190	—	—	190
1993-94 loans	787	787	—	—	-787
Community college fees	217	207	-10	254	48
Adjusted cash totals	\$24,509	\$24,441	-\$68	\$25,153	\$714
K-12 schools					
ADA (Proposition 98)	\$21,758	\$21,741	-\$17	\$22,327	\$586
Amount per ADA ^c	5,157,538	5,155,690	-1,848	5,294,490	138,800
Community colleges	\$4,219	\$4,217	-\$2	\$4,217	—
Community colleges	\$2,673	\$2,622	-\$51	\$2,744	\$122
Other agencies	\$77	\$77	—	\$83	\$6

^a Detail may not add to totals due to rounding.

^b Excludes \$121 million proposed in 1993-94 to backfill 1992-93 property tax shortfalls in K-12 apportionments and special education.

^c In dollars. Per-pupil funding in 1993-94 was actually greater than the agreed-upon amount (\$4,217) primarily because of unanticipated spending changes.

PROPOSAL FOR 1994-95

To maintain constant per-ADA funding for K-12 programs and fund growth and program augmentations for the community colleges, the budget proposes to (1) overappropriate the estimated General Fund guarantee by \$336 million and (2) increase community college fees to \$20 per unit.

Figures 4 and 5 show that the budget proposes to provide \$25.2 billion in Proposition 98 funding on a cash basis in 1994-95. This is an increase of \$714 million above cash funding proposed for 1993-94. As shown in Figure 5, this increase is allocated to:

- K-12 schools—\$586 million to fund enrollment growth of 138,800 ADA (2.7 percent) at \$4,217 per pupil.
- Community colleges—\$122 million, including \$48 million resulting from a proposal to raise student fees to \$20 per unit, primarily to fund enrollment growth, backfill a current-year property tax shortfall, and fund various new programs.
- Other programs—\$6 million to fund program growth.

The budget proposes \$24.9 billion from funding sources counting towards the Proposition 98 minimum funding requirement, an increase of \$1.3 billion above the proposed current-year levels. This consists of a General Fund increase of \$1.9 billion, offset by reductions in property taxes totaling \$640 million. The property tax reduction is the net effect of a proposal to shift \$1.1 billion in property tax revenues from schools to other local governments and baseline growth of \$460 million in local property tax revenues.

The budget proposes to overappropriate the DOF estimate of the Proposition 98 guarantee—the General Fund portion of the minimum funding requirement—by \$336 million. The estimated guarantee is based on assumptions that the Legislature adopts (1) the 1993-94 budget actions proposed by the administration, (2) the proposed 1994-95 property tax shift, and (3) proposed legislation to fix problems with the property tax shifts of 1992-93 and 1993-94. Given these assumptions, the budget projections of General Fund tax revenues and per capita personal income growth result in a guarantee determined under Test 2. A restoration payment of \$785 million is required. Because the budget overappropriates the guarantee, however, it actually provides a restoration payment of \$1.1 billion.

BUDGET ASSUMES LEGISLATION TO ADDRESS PROPERTY TAX REVENUE SHORTFALLS

The proposed Proposition 98 General Fund spending level assumes adoption of legislation to address property tax revenue shortfalls.

The administration currently estimates that Proposition 98 local property tax revenues from the 1993-94 property tax shift will be about \$2.3 billion, or \$300 million less than anticipated in the 1993 budget agreement. The DOF advises that the administration will propose legislation to address some of the problems that have resulted in this shortfall and thereby avoid about \$200 million of it in 1993-94. As discussed above, the level of Proposition 98 General Fund spending

proposed by the budget in both the current and budget years assumes adoption of this legislation. If the legislation is not adopted, about \$200 million in additional General Fund appropriations would be necessary in 1993-94 and about \$210 million in 1994-95 to achieve the proposed levels of Proposition 98 funding.

LAO ESTIMATE OF GUARANTEE DIFFERS FROM THE BUDGET ESTIMATE

We estimate that the 1993-94 General Fund guarantee is \$271 million lower than estimated by the DOF, and the 1994-95 guarantee is \$63 million higher than estimated by the DOF.

Our review of the various assumptions underlying the administration's estimate of the Proposition 98 General Fund guarantee indicates that it is \$271 million too *high* for 1993-94 and \$63 million too *low* for 1994-95. As a result, we estimate that the proposed level of Proposition 98 spending for K-14 programs overappropriates the guarantee by \$597 million in 1993-94 and by \$273 million in 1994-95. The differences between our estimate and the budget estimate result from three factors: (1) our adjustment for technical errors in General Fund tax revenue estimates for the period 1992-93 through 1994-95, (2) our lower estimate of General Fund tax revenues for 1993-94 and 1994-95, and (3) our higher estimate of per capita personal income growth in 1994-95.

Figure 6 shows General Fund tax revenues, personal income growth, and the guarantee for 1993-94 and 1994-95 based on three alternative sets of assumptions: (1) the estimates shown in the Governor's Budget, (2) the budget estimates corrected for the technical errors, and (3) our estimate.

Technical Errors in General Fund Tax Revenues. The budget incorrectly (1) counts revenues transferred to the trial courts as General Fund tax revenues (this overstates revenues by \$343 million in 1992-93 and \$317 million in 1993-94) and (2) fails to reduce 1994-95 General Fund tax revenues to account for a proposed income tax reduction (this overstates 1994-95 revenues by \$95 million). Figure 6 shows that adjustment of the budget estimates to correct these errors yields a higher estimate of growth in per-capita General Fund tax revenues for the current and budget years. This, in turn, yields a higher estimate of the guarantee—and a lower overappropriation—in both years.

Lower Estimate of General Fund Revenues. We take a more pessimistic view of the California economy than the Department of Finance. (Please see Part III of *The 1994-95 Budget: Perspectives and Issues.*) Specifically, we

estimate that General Fund revenues will be \$486 million less than the budget estimate in 1993-94 and \$751 million less in 1994-95. As shown in Figure 6, the combined effect of our lower forecast of General Fund revenues and correction of the technical errors is a larger decline in per-capita General Fund tax revenues than predicted by the administration for 1993-94 and slower growth for 1994-95. In 1993-94, consequently, our estimate of the guarantee is lower than the budget estimate by \$271 million. In 1994-95, however, the effect of our lower estimate of General Fund tax revenue growth is more than offset by our higher estimate of per-capita personal income growth.

Figure 6

**Proposition 98 Minimum Funding Guarantee
Governor's Budget and Legislative Analyst's Office
Estimates
1993-94 and 1994-95**

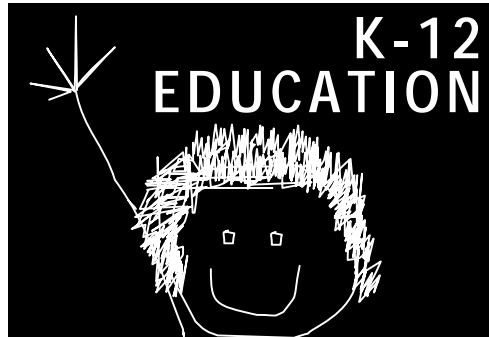
(Dollars in Millions)

	Governor's Budget	Governor's Budget Adjusted	Legislative Analyst's Office
1993-94			
Estimated General Fund tax revenues			
1992-93	\$39,888	\$39,544	\$39,544
1993-94	38,887	38,586	38,100
Per-capita General Fund revenue growth	-4.37%	-4.28%	-5.49%
Estimated guarantee	\$13,280	\$13,302	\$13,009
Funding proposed in Governor's Budget	13,606	13,606	13,606
Overappropriation of guarantee	\$326	\$304	\$597
1994-95			
Estimated General Fund tax revenues			
1993-94	\$38,887	\$38,586	\$38,100
1994-95	40,347	40,258	39,507
Per-capita General Fund revenue growth	1.85%	2.41%	1.78%
Per-capita personal income growth	-2.04%	-2.04%	0.20%
Estimated guarantee	\$15,172	\$15,283	\$15,235
Funding proposed in Governor's Budget	15,508	15,508	15,508
Overappropriation of guarantee	\$336	\$225	\$273

Higher Estimate of Per-Capita Personal Income. As shown in Figure 6, the budget estimates that per-capita personal income will decline by 2.04

percent in 1994-95. Our review indicates that the per-capita personal income change, when a final estimate is available in April, will likely be in the range of a 0.2 percent increase, not a decrease. This change results in an increase in the guarantee as compared to the budget estimate. As a net result of our projections of per-capita personal income and tax revenue growth, our estimate of the 1994-95 guarantee exceeds the budget estimate by \$63 million.

No Direct Effect on Budget Levels. The differences between our estimate of the guarantee and the administration's estimate have no direct effect on the budgeted level of spending for K-14 Proposition 98 programs. This is because the administration proposes to overappropriate the guarantee in both 1993-94 and 1994-95. As shown in Figure 6, however, our estimate of the guarantee changes the size of the overappropriations. Our estimate indicates that there is more room to reduce General Fund appropriations for K-14 programs without suspending the guarantee, if the Legislature wishes to do so.



BUDGET ISSUES

PROPOSITION 98 ISSUES

Revenue Shortfalls Result in Painful Choices

Due to projected General Fund revenue shortfalls, the Legislature may need to consider alternatives to overappropriating the Proposition 98 guarantee.

As discussed in our overview of Proposition 98, we estimate that General Fund revenues will be less than projected in the budget by \$486 million in 1993-94 and by \$751 million in 1994-95. This is primarily because our assessment of California's short-term economic outlook is less positive than the administration's. On a two-year basis, this overestimate means that funding available for support of General Fund programs will be \$1.2 billion less than the amount assumed in the budget. Moreover, as we discuss in Part III of *The 1994-95 Budget: Perspectives and Issues*, it is likely that the budget estimate of General Fund revenues will be further eroded because the state will not receive as much new federal aid or be as successful in court as assumed by the administration. Thus, the Legislature is likely to be faced with the painful prospect of significant spending reductions in addition to those already proposed in the budget.

In this context, the Legislature has three options with respect to the proposed level of Proposition 98 funding for K-14 education programs. All of these options are unattractive from the standpoint of either K-14 programs and/or non-Proposition 98 General Fund programs. The Legislature could:

- Maintain the budget level of Proposition 98 spending through overappropriations and reduce spending in non-Proposition 98 program areas.
- Maintain the budget level of Proposition 98 spending through loans, instead of overappropriations, thereby minimizing reductions in non-Proposition 98 program areas.
- Reduce proposed spending levels for Proposition 98 and for non-Proposition 98 General Fund programs.

Given the Legislature's stated intent to provide \$4,217 per pupil in Proposition 98 K-12 programs in 1993-94 and 1994-95, the analysis that follows makes no recommendation for reducing the level of spending for K-12 programs proposed in the budget, and discusses only the first two options in detail. We have, however, identified \$117.6 million in available Proposition 98 funds that we recommend be redistributed to meet high-priority local K-12 needs. Should the Legislature decide to reduce the level of K-12 funding per pupil, we suggest that it first eliminate these funds. If further reductions are desired, the Legislature could look to certain school improvement programs, identified as low-priority categorical programs in the *Analysis of the 1993-94 Budget Bill*, for savings of up to \$270 million.

Overappropriations Versus Loans— Each Option Has Drawbacks

Using loans instead of overappropriations to maintain Proposition 98 spending at budgeted levels would reduce budget-year pressure for spending reductions in non-Proposition 98 General Fund programs, but would require more borrowing in 1995-96 to maintain K-12 per-pupil spending, and would reduce growth in per-pupil funding into the next decade.

Based on our estimates of General Fund tax revenues and other factors that determine the Proposition 98 guarantee, the budget provides a two-year total of \$1.5 billion more than is required by Proposition 98 for K-14 programs. This level of additional spending is necessary to maintain an annual funding level of \$4,217 per pupil for K-12 programs—articulated by the Legislature and the administration in the 1993 budget agreement as a major funding priority. On the other hand, setting more funds aside for K-14 education programs than is required under the State Constitution reduces the Legislature's flexibility to fund other General Fund programs. It means that non-Proposition 98 General Fund programs would bear disproportional spending reductions, while Proposition 98 programs would be spared.

In both 1992-93 and 1993-94, the state addressed a similar policy dilemma by (1) keeping Proposition 98 General Fund support at the level of the minimum guarantee and (2) providing the difference between that level of funding and the desired level of spending for K-14 programs through off-budget loans. The loans are to be repaid to the state by reducing future-year Proposition 98 appropriations. In this way, loans support today's pupils with "future" dollars by reducing the level of support that would otherwise have been available under Proposition 98 to pupils in the future. This option may be closed by the superior court decision in *CTA v. Gould*, which declared the 1992-93 and 1993-94 loans invalid. (We discuss this decision in the next section.)

Figure 7 compares the short- and long-term fiscal consequences for K-12 schools and non-Proposition 98 programs of two scenarios: (1) Proposition 98 funding provided through overappropriations and (2) Proposition 98 funding provided through loans. The comparison assumes (1) our estimates of growth in General Fund tax revenues, local property tax revenues, and personal income; (2) \$1.8 billion in existing Proposition 98 loans remain valid, and are repaid as required in existing law; and (3) no changes are made to existing law that affect the level of General Fund revenues.

Overappropriations. Figure 7 shows that maintaining the budgeted K-14 spending levels by overappropriating the guarantee would significantly reduce the Legislature's flexibility to fund non-Proposition 98 programs now and in the long term. This is because for every dollar overappropriated, a corresponding reduction must be made in non-Proposition 98 programs. For the two-year period 1993-94 through 1994-95, non-Proposition 98 programs would get \$1.5 billion less than they would with no overappropriations, and \$700 million to \$1.5 billion less annually in future years. Modest growth in K-12 per-pupil funding would occur for the period 1995-96 through 1997-98 (probably not sufficient, however, to fully fund statutory COLAs) while schools repay the existing Proposition 98 loans. In the late 1990s and early 2000s, schools could see significant growth in per-pupil funding.

Loans. The loan scenario assumes that new Proposition 98 loans of \$1.4 billion are made in 1993-94 and 1994-95. It also assumes that a new loan of \$150 million is provided in 1995-96 (necessary because estimated Proposition 98 minimum required spending in 1995-96 is not sufficient to fund \$4,217 per K-12 pupil and enrollment growth in community colleges). As a result, Proposition 98 loans would total \$3.4 billion by the end of 1995-96.

Figure 7

Maintaining Budgeted Level of K-14 Spending Overappropriations Versus Loans Short- and Long-Term Fiscal Consequences

	Maintain K-12 Per-Pupil Spending Through	
	Overappropriation	Loan
Immediate effect: 1993-94 and 1994-95		
Spending per K-12 pupil	\$4,217 per pupil	\$4,217 per pupil
Funds available for <i>non</i> -Proposition 98 programs	Two-year total of \$1.5 billion less in the overappropriation scenario (\$597 million less in 1993-94, \$886 million less in 1994-95)	
Short-term effect: 1995-96 and 1996-97		
Additional overappropriation or loan necessary to maintain \$4,217 per pupil	None	\$150 million in 1995-96 None in 1996-97
Spending per K-12 pupil	\$4,383 per pupil in 1996-97 (4 percent above 1994-95)	\$4,275 per pupil in 1996-97 (1.5 percent above 1994-95)
Funds available for <i>non</i> -Proposition 98 programs	In 1996-97, \$700 million less in the overappropriation scenario	
Long-term effect: late 1990s through early 2000s		
Total Proposition 98 loans	\$1.8 billion	\$3.4 billion
Final loan payment	1997-98	Early 2000s
Spending per K-12 pupil	Annual growth in overappropriation scenario about twice the level of growth in loan scenario	
Funds available for <i>non</i> -Proposition 98 programs	Annually, \$1.5 billion less in the overappropriation scenario	

Maintaining the budgeted levels of K-14 spending through loans instead of overappropriations would give the Legislature significantly more flexibility in funding non-Proposition 98 programs, but would reduce rates of K-12 per-pupil funding growth (and community colleges funding growth) in future years. The new loans would slow per-pupil spending growth in two ways. First, in the years loans are made, they would reduce the budgetary level of Proposition 98 spending and,

therefore, reduce the amount of funding guaranteed in future years under Tests 2 and 3 (full restoration payment would still be made, but over a longer period of time). As a result, there would be no growth in spending per K-12 pupil until 1996-97. Second, the new loans would increase the total amount loaned to K-14 programs by \$1.6 billion. As a result, we estimate that the loan repayments would be required beyond 1997-98—into the early 2000s. This would lengthen the period of slow growth in K-12 per-pupil funding, in which half of any annual growth in per-pupil funding guaranteed by Proposition 98 would be “returned” to the state as a loan repayment.

In summary, neither overappropriation of the guarantee nor loans provide a painless way of maintaining the budgeted level of Proposition 98 spending for K-14 education programs. Overappropriation of the guarantee requires the Legislature to consider significant budget-year spending reductions in non-Proposition 98 programs, and reduces its long-term flexibility in funding these programs. New Proposition 98 loans would help relieve pressure for budget-year spending reductions in non-Proposition 98 programs, but would result in the need for more borrowing in 1995-96 and would lead to a significantly longer period of slow growth in K-12 per-pupil spending as compared to the overappropriation scenario. The Legislature will need to choose the option or combination of these options that best fits its short- and long-term policy priorities.

Court Ruling Poses Major General Fund Threat

If upheld on appeal or let stand without appeal, a superior court ruling that invalidates prior- and current-year Proposition 98 loans could pose a major General Fund threat.

In *CTA v. Gould*, a state superior court ruled invalid the prior- and current-year loans to schools from future-year Proposition 98 revenues. This decision, if it is upheld on appeal or if it stands without appeal, would have two effects. First, it would worsen the state's General Fund condition by \$1.8 billion. This is because, as a result of the decision, \$1.8 billion in Proposition 98 loans would likely be treated as expenditures on the state's books, and there would not be any repayment to the state.

Second, it would increase the 1994-95 guarantee. This is because the court's ruling appears to require the state to add about \$600 million to Proposition 98 “base” spending in 1993-94. (At the time this analysis was prepared, the court had not issued its written opinion.) The 1994-95 guarantee is calculated under Test 2—1993-94 base spending plus growth

adjustments. Under our assumptions about General Fund tax revenues and per-capita personal income growth, adding \$600 million to base spending in 1993-94 would increase the 1994-95 Proposition 98 guarantee to a level that exceeds the proposed level of Proposition 98 General Fund appropriations by about \$340 million.

This major threat to the General Fund significantly increases the uncertainty faced by the Legislature in determining the level of resources available to fund state programs in 1994-95.

Revenue Decision Prevents Decline in Guarantee

The administration's treatment of \$1.4 billion in sales tax revenues proposed to be shifted to local governments results in a higher Proposition 98 General Fund guarantee than is required under existing law, and could reduce the Legislature's flexibility in allocating General Fund monies.

The administration's estimate of 1994-95 General Fund tax revenues includes \$1.4 billion in sales tax revenues even though its realignment proposal would shift these revenues to local government agencies. By continuing to show these funds as General Fund tax revenues, the administration prevents a decline in the Proposition 98 guarantee that would occur as a result of a revenue loss. (Under existing statutory law, a decline in the guarantee related to shifts of state General Fund revenues could occur only in years where the guarantee is calculated under Test 2—as in the budget year—or Test 3. This is because, under current statutory law, schools are protected from such reductions when the guarantee is calculated under Test 1.)

Counting the realignment revenues as General Fund revenues reduces the Legislature's flexibility in allocating General Fund monies. It does this by raising the level of funding guaranteed under Proposition 98 programs higher than is required under existing statute and the State Constitution. For example, in the likely event that General Fund revenues fall short of the level estimated in the budget, the Legislature may wish to consider more extensive program reductions than those already proposed in the budget. The higher guarantee that results from including the \$1.4 billion as General Fund tax revenues would limit the extent to which the Legislature could, without suspending the guarantee, shift funds from Proposition 98 programs to fund non-Proposition 98 program priorities.

Moreover, if the superior court ruling in *CTA v. Gould* (discussed above) is upheld on appeal or stands without appeal, how the realignment revenues are treated makes a big difference in the 1994-95 General Fund effect of the decision. If the \$1.4 billion is included as

1994-95 General Fund tax revenues, the 1994-95 General Fund guarantee we estimate under the terms of *CTA v. Gould* would *exceed* proposed Proposition 98 General Fund spending by about \$340 million, and thus pose a significant threat to the General Fund. If the \$1.4 billion is excluded from state revenues, the estimated guarantee would *not* exceed proposed spending.

In summary, how to treat the \$1.4 billion in realignment revenues poses a major policy choice for the Legislature. It could adopt the DOF estimate of 1994-95 General Fund tax revenues, including the realignment revenues, and hold the Proposition 98 minimum funding requirement entirely harmless for the effects of the proposed revenue shift. By doing so, however, the Legislature would reduce its flexibility in responding to a likely shortfall in General Fund revenues and runs the risk of having to increase General Fund appropriations for K-14 education by around \$340 million above the level proposed in the budget.

K-12 BUDGET PRIORITIES

Budget Funds \$100 Million in Policy Initiatives

The budget funds \$100 million in policy initiatives by holding funding constant in most categorical programs.

The Governor's Budget proposes to set total state and local Proposition 98 funding (cash basis) for K-12 programs at \$4,217 per pupil, which is the same amount as in the current year. Because the pupil population is estimated to grow 2.7 percent, the budget includes an additional \$585.8 million to keep per-pupil funding constant. Figure 8 shows how the 1994-95 proposed budget allocates the K-12 share of Proposition 98 funding to major program categories. The figure also illustrates how the budget allocates prior-year Proposition 98 funds, which are estimated to total \$45 million in 1994-95.

Figure 8

K-12 Education Proposed Expenditures 1993-94 and 1994-95

(Funding in Millions)

	Revised 1993-94	Proposed 1994-95	Change From 1993-94		
			Amount	Percent	Per Pupil
General purpose	\$16,707.5 ^a	\$17,163.5	\$456.0	2.7%	\$3,217
Special education	1,780.0	1,820.3	40.3	2.3	344
Other programs	3,318.5 ^a	3,388.1	69.6	2.1	640
Totals	\$21,806.0	\$22,371.9	\$565.9	2.6%	\$4,225
<i>Proposition 98 funds (cash basis)</i>	<i>\$21,741.0</i>	<i>\$22,326.9</i>	<i>\$585.8</i>	<i>2.7%</i>	<i>\$4,217</i>
<i>Prior-year funds</i>	<i>65.0</i>	<i>45.0</i>	<i>-20.0</i>	<i>-30.8</i>	<i>8</i>

^a Supplemental grant funding is included as part of general-purpose funding for display purposes.

As Figure 8 indicates, the 1994-95 Governor's Budget proposes \$17.2 billion for school district and county office of education general-purpose funding. This is an increase of \$456 million, or 2.7 percent, above

1993-94. The increase includes \$428.6 million for expected statutory growth and \$21 million for policy initiatives. The remaining change is due to various one-time adjustments.

The budget proposes \$1.8 billion for special education services, an increase of \$40.3 million, or 2.3 percent, above the current year. The increase is the net effect of an increase of \$70.4 million for growth, a reduction of \$13.4 million due to the availability of additional federal funds, and other baseline changes. Including federal funding for special education, which is not shown in the figure, the increase is \$53.7 million, or 2.7 percent. In later sections of our analysis of K-12 issues, we review the special education budget and identify options for reform of the special education funding model.

The “other” category in Figure 8 includes all categorical program spending other than special education. The budget proposes total spending of \$3.4 billion in 1994-95, an increase of \$69.6 million, or 2.1 percent, above the current year. The budget does not propose any growth funding for these programs. The \$69.6 million increase is the net effect of a \$9.3 million reduction due to baseline adjustments and an increase of \$78.9 million due to policy initiatives.

Figure 9 summarizes the proposed K-12 Proposition 98 budget changes for 1994-95.

Figure 9				
K-12 Education				
Proposed Budget Changes by Category				
(Dollars in Millions)				
	Baseline Adjustments	Growth	Policy Initiatives	Total
General purpose	\$6.4	\$428.6	\$21.0	\$456.0
Special education	-30.1	70.4	—	40.3
Other programs	-9.3	—	78.9	69.6
Totals	-\$33.0	\$499.0	\$99.9	\$565.9

1994-95 Mega-Item Proposal

The budget proposes to provide school districts new flexibility over the allocation of funds among categorical programs funded through the “mega-item.”

The budget proposes to fund 38 categorical programs through a “mega-item”—Item 6110-230-001—which is structured like similar items that were contained in the 1992 and 1993 Budget Acts. Some of the major programs included in the 1994-95 mega-item are special education (\$1.7 billion in the item), voluntary and court-ordered desegregation (\$500.8 million), child development (\$452.6 million in the item), adult education (\$409 million), school improvement (\$317 million), home-to-school transportation (\$332 million), and Regional Occupational Centers and Programs (\$240 million).

The budget proposes to continue provisions in the 1993 Budget Act that govern the distribution of mega-item funds to districts. Specifically, the funds are distributed to programs in proportion to the total amount each program was allocated during the previous year (through the mega-item or in a separate appropriation). Program allocations are then distributed to school districts based on statutory provisions governing their distribution. For some programs, separate appropriations provide additional funds above the “base” amount included in the mega-item. For example, special education growth funding is provided through a separate appropriation.

The Governor's Budget proposes to increase district flexibility over the use of mega-item funding once it is allocated. Language in the 1993-94 mega-item permits school districts to redirect up to 5 percent of any program's funding to another program. The language provides, however, that the redirection cannot increase any program's funding above the level received during 1991-92. The budget proposes to increase from 5 to 10 percent the amount of any program funds that could be redirected to a different mega-item program. In addition, the budget proposes to eliminate the 1991-92 cap on the amount of funding any program could receive through a redirection of mega-item funds.

Governor's Budget Threatens Legislature's Program Priorities

We recommend the Legislature approve the proposal to increase mega-item flexibility from 5 to 10 percent but disapprove the proposal to lift the 1991-92 cap on redirections of mega-item funds.

By funding specific policy initiatives rather than categorical program growth and providing school districts significant new funding flexibility over the allocation of mega-item funds among programs, we believe the proposed budget would have negative effects.

First, the budget proposal could substantially erode the Legislature's ability to establish categorical program priorities. Our research on

categorical programs suggests that the state has a legitimate role in allocating resources. Categorical programs exist, in many cases, to protect funding for specific services. Proposed changes to increase local mega-item flexibility, however, could result in substantial shifts of funds among categorical programs and from categorical programs to activities supported by general-purpose funds.

Specifically, by lifting the cap on the amount that may be directed to any one program, the proposed budget language would allow some very large fund redirections. For instance, the proposed language would permit redirecting up to \$320 million in mega-item funding to special education. Because most districts spend a significant amount of general-purpose funds for special education, this flexibility would permit LEAs to substitute categorical funding for general-purpose funds, thereby freeing up the general-purpose funds. Thus, the budget proposal could greatly reduce the Legislature's control over how categorical funds would be used. The cap on redirections imposed in the 1993 Budget Act does not permit any redirection of mega-item funds into special education for most districts.

Second, the lack of growth funding for most mega-item programs will exacerbate a severe funding shortfall in some programs. Most mega-item programs have received a 3.5 percent reduction in state funding over the last two years, a period in which enrollment has increased by 3.6 percent. For some programs, such as Economic Impact Aid, the target population (poor and limited-English-proficient pupils) is increasing faster than overall enrollment, so there is an especially large gap between "need" as calculated by statutory funding formulas and actual funding. Deferred maintenance also is far below its statutory entitlement due to lack of growth funding and budget reductions. In effect, the funding mechanism of the mega-item has created winners and losers among categorical programs. This trend would be magnified by the lack of growth funding in the proposed 1994-95 budget.

Finally, the proposed augmentations would divert funds from K-12 instructional programs. The proposed policy initiatives would not result in additional funds to schools for the regular K-12 program but would, instead, increase support for supplemental programs such as child development, health, and "school climate" programs.

Local Flexibility or State Priorities? Even though total per-student funding for K-12 education has been maintained during the past few years, the effects of inflation and other cost factors have increased district costs while state funding has held constant. This pressure has resulted in increased class sizes, fewer book purchases, and reductions in elective courses and after-school programs. Districts are currently preparing for another round of budget—and service—cuts for 1994-95.

The Legislature is faced with the task of structuring the K-12 budget in a way that best helps districts cope with these budget pressures while also ensuring that its priorities are met. This places the Legislature in a dilemma. Helping districts cope generally means providing as much local flexibility as possible. However, the Legislature's priorities generally involve restricting the use of funds through state categorical programs, which reduces local flexibility.

There is no "right" way to resolve these conflicting priorities. However, we believe that the budget proposal (1) unnecessarily diverts funds from instructional programs to new policy initiatives and (2) provides too much local flexibility in allocating mega-item monies in ways that are not consistent with legislative priorities.

For these reasons, we recommend the Legislature make a number of changes to the proposed 1994-95 budget. Specifically, we recommend that the Legislature:

- *Approve the proposal to increase mega-item flexibility from 5 to 10 percent, but not approve the deletion of the 1991-92 cap.* This change would provide school districts more latitude to set local priorities within a range that would not substantially erode the Legislature's priorities.
- *Redirect most funding proposed for policy initiatives in a manner that provides significant local flexibility in using the funds for local priorities.*

The details of the policy initiatives and our suggestions for how the funds should be redirected are in the next sections.

Most Policy Initiatives Should Be Rejected

We recommend the Legislature delete \$78.5 million proposed for policy initiatives.

The Governor's Budget proposes \$99.9 million in funds to expand specific programs and create new programs. Our review indicates these proposals have merit—each would attempt to improve the quality or level of services to K-12 students. Some of the proposals have a preventive aspect that may result in long-term savings to the education system and the state.

The proposed augmentations, however, drain funding from existing programs, which also have merit. They also drain administrative resources, because many of the policy initiatives involve a competitive process to obtain funding. We believe these new categorical funds should be available to offset reductions to instructional programs or other purposes as determined by districts. For this reason, we recommend the

Legislature eliminate \$78.5 million of the proposed program increases. We recommend approval of the remaining amount, \$21.4 million, because these funds fulfill a previous state commitment or contribute to local fiscal and programmatic accountability.

Below we summarize the program augmentations and indicate the portions of each augmentation that we recommend be approved and deleted:

- \$25 million to expand child development programs beginning January 1, 1995. Of this amount, \$12.5 million would be used to expand preschool programs and a like amount to expand general child care services. Given the fiscal condition of school districts, we recommend that this augmentation be deleted and the funds used more flexibly to meet local needs. (We also recommend deletion of a related \$1 million augmentation in the SDE support budget.) Please see our review of the child development budget in later sections of this analysis.
 - \$20 million for the Healthy Start Program, bringing its total funding to \$39 million. The budget also proposes \$1 million for state support. Given the fiscal condition of school districts, we recommend that this augmentation be deleted. We recommend that the local assistance funds be redirected to be used flexibly to meet local needs. Please see our discussion of this augmentation in a later section of this analysis.
 - \$20 million for county offices of education juvenile offender programs. We recommend deletion of these funds because the proposal is incomplete and raises a number of issues that should be discussed in a debate in relevant policy committees. Please see our discussion of this augmentation in a later section of this analysis.
 - \$13.4 million to the Adults in Correctional Facilities Program to place the program on a current basis. The program now operates as an entitlement, with expenses reimbursed to providers the year *after* services are provided. Funding needs for this program from 1990-91 through 1993-94 have grown \$6.7 million, or more than 145 percent. Because the budget proposal would increase legislative control over this rapidly growing program, we recommend approval.
 - \$10 million for early mental health programs. We recommend deletion of these funds. Given the fiscal condition of school districts, we believe this augmentation is unwarranted. Please see our analysis of the health and social services budget (Item 4440) for additional information on this recommendation.
-

- \$7 million to continue development and implementation of the California Learning Assessment System (CLAS) program. These funds would bring total program funding in the budget year to \$33.7 million. We recommend approval. For a detailed review of the CLAS budget, please see our discussion in later sections of this analysis.
- \$3 million to create a program on hate crime awareness and conflict resolution. The budget also proposes \$100,000 in state support for this program. The program is designed to reduce violence in schools by training students and staff in the use of collaborative conflict resolution and mediation techniques. Current resources already provide support to schools for using conflict resolution programs. The School Safety Partnership, for example, is authorized to provide \$5,000 matching grants to districts for the implementation of school safety plans, which can include such activities as conflict resolution. Given the fiscal condition of school districts, we do not believe creating a new program is warranted. We therefore recommend deletion of both the local assistance and associated support funds.
- \$1 million to augment county office of education fiscal review capability as required by Ch 924/93 (AB 1708, Murray). We recommend approval of this proposal.
- \$513,000 to provide increased funding for the 45 partnership academies that are currently funded by the state (\$363,000) and provide start-up funding for 10 new partnership academies (\$150,000). Chapter 574, Statutes of 1993 (SB 44, Morgan), authorized these activities, but left their funding subject to the annual Budget Act. The increased funding for the existing partnership academies is, in essence, a rate increase. Providing start-up funds would commit the Legislature to providing up to \$420,000 for operating costs of these ten new sites in 1995-96. In the current fiscal environment, we do not believe these increases are warranted. We recommend deletion of these funds.

Block Grant Provides Local Flexibility

We recommend the Legislature use \$117.6 million in freed-up Proposition 98 funds to create a categorical program block grant.

If the Legislature rejects the Governor's policy proposals, as we suggest, \$78.5 million would be available to support the Legislature's priorities. In addition, other recommendations regarding the 1994-95 proposed budget would make available \$39.1 million in Proposition 98 funds for the Legislature's use, for a total of \$117.6 million. Given the fiscal state of local school districts, we recommend the Legislature use the

funds to create a categorical program block grant, which could be used for any program that receives funds as part of the mega-item, with the exception of special education (because it is receiving program growth). We presume that most districts would use funds to offset planned funding cuts. Under our proposal, the funds would be distributed to all K-12 schools in an equal amount per student.

The advantage of a block grant is that it provides flexibility to school districts while giving the Legislature better control over the distribution of funds. Because 37 of the 38 programs funded through the mega-item would be eligible for these funds, districts would have broad latitude to decide how these additional funds would best meet local needs. Creating a block grant still permits the Legislature to expressly choose how these funds would be distributed among school districts. Because many categorical program allocation formulas favor certain types of schools or districts, specific categorical program increases could result in greater proportionate increases for some districts. Creating a categorical block grant gives the Legislature more control over the distribution of funds.

Creating the categorical block grant and maintaining the 1991-92 limit on mega-item flexibility work hand in hand. The block grant would provide the Legislature a way to provide local funding flexibility to LEAs. Maintaining the 1991-92 cap on mega-item redirections maintains the Legislature's priority-setting authority through the mega-item. Together, we believe our recommendation would provide the best balance between local flexibility and the Legislature's priorities.

GENERAL-PURPOSE FUNDING

Budget Funds Statutory Growth

Proposed current- and budget-year funding for school district and county office of education general-purpose spending is consistent with the levels supported by the 1993 budget agreement.

General-purpose funding is the largest single source of revenue for school districts and county offices of education (jointly referred to as local education agencies, or LEAs). These funds can be used by LEAs at their discretion with few restrictions. In contrast, LEAs must spend categorical program funds for the specific purposes of the state programs under which they are awarded. As shown in Figure 10, the budget proposes \$17.2 billion in general-purpose spending in 1994-95, including \$16.8 billion for school districts and \$360.3 million for county offices of education. This is about three-fourths of the \$22.3 billion in total Proposition 98 funding proposed to support both general-purpose spending and categorical programs.

General-purpose funding is primarily provided through the revenue limit system. In this system, LEAs receive funding based on a specific per-ADA amount known as a revenue limit. Revenue limits are funded by a combination of local property taxes and state aid. State funding makes up the difference between each LEA's property tax revenues and its revenue limit. Each district has one general-purpose revenue limit. County offices of education may have several different revenue limits, each for a different program.

In crafting the 1993 Budget Act, the Legislature decided to let revenue limit funding be determined according to statutory formulas, subject to provisions that in effect suspend statutory cost-of-living adjustments for 1993-94 and 1994-95. The state General Fund automatically provides whatever resources are necessary to fill the gap between this statutorily determined level of funding and the amount of support available from local property tax revenues allocated to LEAs.

School Districts. Figure 10 shows the budget estimate of required general-purpose funding for school districts in 1993-94 and 1994-95. Total general-purpose funding per pupil in 1994-95 is estimated to be \$3,197, slightly less than the level of \$3,201 estimated for 1993-94. This difference is due to minor cost and expenditure changes between years.

Figure 10				
K-12 General-Purpose Funding School Districts and County Offices of Education 1993-94 and 1994-95				
(Dollars in Millions)				
	1993-94 Final Budget	1993-94 Revised	1994-95 Proposed	Change From 1993-94 Revised
School districts				
Revenue-limit funding	\$16,263.3	\$16,246.1	\$16,658.9	\$412.8
State appropriations	(7,183.0)	(7,222.9)	(8,768.2)	(1,545.2)
Local and other revenues	(8,292.8)	(8,235.6)	(7,711.9)	(-523.7)
Loan	(608.7)	(608.7)	—	(-608.7)
Supplemental grant roll-in	(178.9)	(178.9)	(178.9)	—
Year-round attendance (AB 1186)	—	—	4.0	4.0
Summer school/apprenticeships	137.3	141.7	143.7	2.0
Subtotals	(\$16,400.6)	(\$16,387.8)	(\$16,806.6)	(\$418.8)
K-12 ADA (district apportionments)	5,122,400	5,119,700	5,256,300	136,000
General-purpose spending per ADA ^a	\$3,202	\$3,201	\$3,197	-\$4
County offices of education				
Revenue-limit funding	\$317.1	\$319.4	\$335.2	\$15.8
State appropriations	(50.3)	(86.4)	(115.7)	(29.3)
Local revenues	(266.9)	(233.0)	(219.5)	(-13.5)
Expulsions (SB 1130)	—	—	2.4	2.4
Safe schools initiative (pending)	—	—	20.0	20.0
Fiscal oversight (AB 1200 and AB 1708)	1.8	1.8	2.8	1.0
Subtotals	(\$318.9)	(\$321.1)	(\$360.3)	(\$39.2)
Totals	\$16,719.5	\$16,709.0	\$17,167.0	\$458.0
<i>Proposition 98 funds ("cash" basis)</i>	<i>\$16,723.6</i>	<i>\$16,707.5</i>	<i>\$17,163.5</i>	<i>\$456.0</i>
<i>Proposition 98 local revenues used in other programs</i>	<i>-7.1</i>	<i>-10.4</i>	<i>-8.4</i>	<i>2.0</i>
<i>Non-Proposition 98 local revenues</i>	<i>11.1</i>	<i>11.9</i>	<i>11.9</i>	<i>—</i>

^a In dollars.

Since the 1993 Budget Act, there have been minor changes in enrollment and expenditures that have caused the administration to revise its estimate of statutory requirements for school district general-purpose spending in 1993-94. The revised estimate is \$12.8 million less than the Budget Act estimate. However, the administration also estimates that school district property tax revenues will be \$57.1 million less than the Budget Act estimate. To maintain the required amount of spending,

therefore, the budget reflects an increase of \$44.3 million in General Fund spending. Most of this increase, \$39.9 million, will occur automatically as a result of statutory provisions that control revenue limit funding. The budget proposes an additional \$4.4 million increase in General Fund spending to fund higher than anticipated enrollment in the mandated (remedial) summer school program. This amount is proposed to be funded in a deficiency bill.

Figure 10 shows that the budget proposes to provide \$16.8 billion in total school district general-purpose funding in 1994-95. This is an increase of \$418.8 million above the level of funding proposed for 1993-94. The increase consists of a General Fund increase of \$1.6 billion, offset by property tax reductions totaling \$523.7 million and a reduction of \$608.7 million to reflect 1993-94 funding from a Proposition 98 loan that will not be available in 1994-95. The property tax reduction is the net effect of a proposal to shift property tax revenues from schools to other local governments and baseline growth in local property tax revenues.

Of the \$418.8 million increase in total general-purpose spending, \$414.8 million funds enrollment growth and some minor cost changes. The remaining \$4 million funds Ch 569/93 (AB 1186, Aguiar), which requires the state to fund pupils who enroll late in certain year-round school programs as if they had started on time, provided that they fully compensate for their late enrollment by taking makeup classes.

County Offices of Education. Figure 10 also shows the budget estimate of required general-purpose funding for county offices of education in 1993-94 and 1994-95. The budget estimate of required funding in 1993-94 is \$2.3 million more than the Budget Act estimate. In order to fund this increase in estimated total spending and backfill a local property tax revenue shortfall of \$33.9 million, the budget reflects a \$36.2 million increase in General Fund support of county offices. This increase will occur automatically as a result of statutory provisions that control revenue limit spending.

Figure 10 shows that the budget proposes to provide \$360.3 million to support county office general-purpose spending in 1994-95. This is an increase of \$39.2 million above the revised 1993-94 estimate, consisting of a General Fund increase of \$52.7 million offset by property tax reductions totaling \$13.5 million. The property tax reduction is the net effect of a proposal to shift property tax revenues from schools to other local governments and baseline growth in local property tax revenues.

Of the \$39.2 million increase in General Fund spending, \$15.8 million is necessary to fund statutory growth—primarily enrollment growth. The remaining \$23.4 million is proposed to fund:

- The administration's school safety proposal—\$20 million. The administration advises that these funds would support increased enrollment in juvenile court and community schools operated by county offices of education.
- Chapter 1257, Statutes of 1993 (SB 1130, Roberti)—\$2.4 million. This statute authorizes pupils expelled for various serious offenses to be placed in community schools operated by county offices of education, and allows county offices to receive the higher “Type C” community school revenue limit for these pupils (generally, unless a pupil is on probation, community schools receive the same revenue limit as a pupil's school district of residence).
- Chapter 924, Statutes of 1993 (AB 1708, Murray)—\$1 million. This statute requires county offices of education to make additional efforts to ensure that school districts operate in a fiscally responsible manner. The proposed funding would support these new activities and staff development for school district business officials. The state currently provides \$1.8 million to support the county offices in their fiscal oversight role.

We discuss the school safety and Chapter 1257 proposals in greater detail later in this analysis.

Budget Overfunds Mandated Summer School Program

We recommend reductions of \$1.2 million from current-year deficiency funding and \$1.2 million from the 1994-95 appropriation for summer school, because the budget overfunds enrollment growth in the mandated (remedial) summer school program. (Reduce deficiency funding and Item 6110-104-001.)

Existing law requires school districts to provide summer school instruction for pupils in grades 7-12 who would otherwise not meet graduation requirements or district-adopted proficiency standards. In keeping with the 1993 budget agreement, the 1993 Budget Act appropriated \$38.6 million for this mandated summer school program to cover the prior-year level of spending plus enrollment growth. The Governor's Budget proposes a 1993-94 deficiency appropriation of \$4.4 million for this program, which would bring total 1993-94 appropriations to \$43.1 million.

Based on our review of the most recent estimates of ADA in mandated summer school programs for 1993-94, we find that this is \$1.2 million more than necessary to fund enrollment growth. Our review also indicates that the amount proposed in Item 6110-104-001 of the Budget Bill for the mandated summer school program, \$44.1 million, is \$1.2 million more than necessary to fund 1994-95 enrollment growth.

We recommend that the Legislature reduce both the proposed 1993-94 deficiency appropriation and Item 6110-104-001 by \$1.2 million. As discussed below, the Legislature could use these funds in 1993-94 and 1994-95 to fund other K-12 program priorities or reduce the amount by which the budget proposes to overappropriate the Proposition 98 guarantee.

SPECIAL EDUCATION

The Governor's Budget includes \$1.6 billion in General Fund support for special education in 1994-95. This is an increase of \$53.4 million, or 3.4 percent, above the revised current-year amount. The budget-year request reflects the following adjustments for enrollment growth:

- \$58.2 million for growth in instructional units, infant programs, and other specified programs, an increase of 2.7 percent. This percentage change is based on the projected increase in K-12 average daily attendance (ADA).
- \$12.1 million for growth in nonpublic schools (\$6 million), extended-year programs (\$4 million), and regionalized and county incentive programs (\$2.1 million). The growth factor applied to these programs is 3.6 percent rather than 2.7 percent.

The budget also reflects the following funding adjustments:

- Increase of \$13.1 million related to a proposed property tax shift and property tax growth.
- Reduction of \$13.4 million related to increases in federal funding.
- Reduction of \$16.7 million due to changes in revenue limit funding and funding adjustments.

The Governor's Budget also proposes General Fund appropriations related to property tax adjustments for 1992-93 (\$10.1 million) and 1993-94 (\$26.5 million).

The proposed budget does not include language adopted in the 1993 Budget Act that capped the amount of General Fund support for nonpublic school placement.

REVIEW OF THE MASTER PLAN FOR SPECIAL EDUCATION

We recommend that the Legislature direct the State Department of Education, the Department of Finance, and the Legislative Analyst's Office to jointly review the Master Plan for Special Education (MPSE) and to propose a new funding model for the MPSE by May 1, 1995.

In this section, we provide background on the MPSE, discuss problems with the funding model, and recommend actions the Legislature can take to develop needed reforms.

Background on the Program

Prior to the development of the MPSE in 1974, state funding for special education was primarily based on an amount per child that varied depending on the disabling condition (for example, the 1974 categories included “trainable mentally retarded,” “emotionally disturbed,” “deaf,” and so on). At the discretion of local districts and county boards of education, taxes could be levied to supplement the state allowances. Development of the MPSE began in 1971 when the SDE conducted a series of conferences throughout the state with parents, teachers, and administrators to discuss every aspect of special education. Opinions gathered at these conferences were then developed into the MPSE in 1974 by the State Board of Education. In that same year, the Legislature enacted Ch 1532/74 (AB 4040, Lanterman), which provided for testing of the MPSE in a limited number of districts and counties. The Legislature provided for statewide implementation of the MPSE in 1980 with the enactment of Ch 797/80 (SB 1870, Rodda).

The MPSE predates the 1975 enactment of PL 94-142 at the federal level, which mandates states to provide a free and appropriate education to all individuals with disabilities. Special education must be provided in the least restrictive environment, and it must be based on individual needs, as determined by an individualized education program (IEP) team. This federal legislation has been amended several times, most recently in 1990 by PL 101-476, the Individuals with Disabilities Education Act.

The MPSE requires an assessment of each child's unique educational and service needs and a consideration of many service delivery options for each eligible child. Under the MPSE, a child is assessed to determine if special education is necessary or if the child can be served within the regular classroom, with modification of the regular instructional program and related services. If specialized instruction or services are needed and the child meets eligibility guidelines, an individualized educational program (IEP) is written for the child that defines the services to be provided. The aim is to place the child in the least restrictive educational setting (environment). The MPSE requires participation of parents as part of this process and establishes specific due process procedures to protect the rights of the child and parents.

The MPSE established special education local plan areas (SELPAs) throughout the state (in 1992-93 there were 115 SELPAs statewide) that

are required to provide a continuum of program options to meet the needs of pupils with disabilities. Generally, these options are provided in one of three basic education settings: (1) designated instruction and services (DIS) such as speech and language services, adapted physical education, or other specialized services; (2) resource specialist programs (RSPs), in which the child remains in the general education program and is served by a resource specialist teacher in the areas of need; and (3) special day classes or centers (SDCs) that provide special education services for a majority of the school day. Generally, these settings are for students whose disabilities are less severe (DIS), of moderate severity (RSP), or more severe (SDC).

Within the MPSE, placement is also available in a nonpublic school if the child cannot be served appropriately in a public school setting. In addition to these settings, the state provides support for six special schools (two schools for the deaf, one school for the blind, and three diagnostic schools).

Figure 11 shows the number of children enrolled in these special education settings for the period 1990-91 through 1992-93 and the growth in K-12 enrollment. As shown in the figure, the growth in special education (8.7 percent) has been much higher than the growth in K-12 enrollment (5 percent) during that time period.

Figure 11

Special Education and K-12 Enrollment 1990-91 Through 1992-93

	1990-91	1991-92	1992-93	Change From 1990-91	
				Amount	Percent
Special education enrollment					
Designated instruction and services	135,825	139,305	142,094	6,269	4.6%
Resource specialist program	203,348	216,837	227,804	24,456	12.0
Special day class	150,229	157,204	161,702	11,473	7.6
Nonpublic school	7,669	8,269	8,872	1,203	15.7
State special schools	1,071	1,091	1,103	32	3.0
Totals	498,142	522,706	541,575	43,433	8.7%
K-12 enrollment	4,950,474	5,107,145	5,195,777	245,303	5.0%

Figure 12 shows the distribution of special education enrollments by type of disability and placement. For example, “specific learning disabilities” account for 56 percent of total special education enrollment, and 42 percent of the total enrollment are served in RSP settings. As the figure shows, under the MPSE students with the same disability are placed in a variety of settings based on the child's need.

Figure 12

**Special Education Enrollments
By Placement and Type of Disability
1992-93**

	Disability ^a				Total	Percent of Total
	Communications	Specific Learning	Physical	Severe and Other		
Placement						
Designated instruction and services	121,153	8,149	10,516	2,276	142,094	26.2%
Resource specialist program	10,602	211,199	3,604	2,399	227,804	42.1
Special day class	17,258	83,665	15,275	45,504	161,702	29.9
Nonpublic school	210	1,537	260	6,865	8,872	1.6
State special schools	870	—	13	220	1,103	0.2
Totals	150,093	304,550	29,668	57,264	541,575	100.0%
Percentage of total	27.7%	56.2%	5.5%	10.6%	100.0%	

^a “Communications” includes speech and language impaired, hard of hearing, and deaf. “Specific learning” includes some types of dyslexia, among others. “Physical” includes orthopedically impaired, visually impaired, and other health impaired. “Severe and other” include mentally retarded, seriously emotionally disturbed, deaf-blind, multihandicapped, autism, traumatic brain injury, and noncategorical.

Funding Model

The funding formula for special education involves calculations of “entitlements” that are based primarily on what each agency spent in 1979-80, the base year for MPSE funding. The different types of entitlements are:

- **Instructional Personnel Service (IPS)** entitlements are for salaries and benefits for special education teachers and, in some cases, classroom aides. This entitlement is equal to the number of authorized “units,” or classes, multiplied by a “unit rate.” Authorized units are calculated based on prior-year authorized units adjusted for growth (or declines), and are subject to a cap. The cap is constructed so that no district can receive special

education funding for slots that exceed 10 percent of its total K-12 enrollment. The “unit rates” vary by type of setting—DIS, RSP, and SDC—and are based on an agency’s 1979-80 average costs of salaries and benefits adjusted for statutory cost-of-living adjustments (COLAs).

- **Support** entitlements provide funding for the direct and indirect support costs for special education. These costs include, among others, identification and placement, equipment and supplies, and administration and overhead. The support entitlement is calculated based on a ratio equal to a percentage of each agency’s unit rate. The ratio is also based on 1979-80 costs adjusted by legislation enacted in 1981 to “squeeze” down ratios that exceeded the statewide average.
- **Extended-year** entitlements provide funding for programs operated during the summer or during intersession for year-round schools.
- **Nonpublic school** entitlements provide funding for nonpublic schools. The amount is equal to 70 percent of the excess cost (cost above the revenue limit amount) for most nonpublic schools, and 100 percent of the excess cost for nonpublic school placements involving students in foster family homes and licensed children’s institutions (LCIs).
- **Administrative unit** entitlements include three separate entitlements: (1) regionalized services such as administration, data collection, and evaluation; (2) program specialists who supervise the program and consult with instructional personnel; and (3) the Low Incidence Fund providing an allowance for specialized books, materials, and equipment for pupils with low-incidence disabilities.
- **County longer-day and longer-year** entitlements provide incentive funding for longer-day and longer-year programs for pupils in county-operated SDCs.

The state special schools are provided direct appropriations through the annual Budget Act. The other programs are funded from state aid, federal aid, and local revenues available for some programs. Specifically, the state aid amount is calculated based on the entitlements for these programs less the following amounts:

- Revenue limit funding associated with average daily attendance of certain special education students.
 - Federal local assistance.
-

- “Local general fund contribution” (LGFC).
- County special education property taxes.

Deficits and Encroachment. Two terms deserve explanation with regard to the entitlement process: (1) special education deficits and (2) encroachment. As mentioned above, the unit and support rates are based on 1979-80 expenditures, adjusted by annual statutory COLAs. In the past few years, the department has increased entitlements even when the Legislature did not provide the funds for a COLA, resulting in an entitlement amount that exceeds available state aid. Thus, special education has incurred a “deficit.” To accommodate available funding, the SDE makes across-the-board reductions to district allocations. In the current year, the special education deficit is estimated to be 14.9 percent. This “deficit” is directly due to unfunded and underfunded COLAs since 1990-91. In other words, if the department had applied only the funded COLAs in calculating entitlements, there would be no “deficit.”

“Encroachment” is the difference between the amount spent on a particular program and the amount of aid received for that program. In special education the local general fund contribution (LGFC) is referred to as “computed encroachment.” The LGFC is a required “maintenance of effort” for special education costs, calculated based on a district's spending for special education in 1979-80. Districts fund the LGFC from general-purpose revenues. “Real encroachment” has been defined as the difference between the cost of special education services and available special education funding. In most districts, spending for special education services exceeds available special education funding.

Real encroachment, based on current reporting methodologies, has been estimated to total approximately \$770 million statewide, of which \$168 million is the required LGFC. The LGFC would be in the range of \$400 million if it had been adjusted for inflation and K-12 enrollment growth since 1979-80.

Computed encroachment varies by whether the district was among the first in the MPSE or on the extent to which the district offered special education services and programs in 1979-80. Real encroachment varies depending, in general, on districts' internal decisions on salaries and wages and the extent to which districts have more special education pupils than the number for which they receive state funding. For example, COLAs for special education funding have been less than those granted for general education. If a district chose to grant salary COLAs based on the percent change in general education revenue limits, or in some cases decided to grant COLAs greater than even those granted for general education, then the increase in the special education unit rates

would be less than the increase granted to the special education teachers and aides within the district. Thus, the district would have to “encroach” on the regular program to provide the extra dollars.

Problems With Funding Model

Since 1981-82, we have consistently found the MPSE funding model to be inadequate on several dimensions. Among other problems, we found that the funding model (1) is based on inappropriate variations in funding across school districts, (2) is too complex, (3) inhibits local innovation, and (4) contains inappropriate fiscal incentives. We discuss these in detail below.

Funding Variations Are Not Appropriate. Three key components point out the inequities of the current funding model. These are (1) unit rates for instructional personnel service units, (2) support service unit ratios, and (3) the LGFC. All three of these factors are based on actual expenditures of local education agencies in 1979-80. This, in itself, might not be a problem except that the 1979-80 reports contained numerous inconsistencies, primarily because (1) it was the first year for which expenditure reports were required of all education agencies and (2) at the time the reports were prepared, the state's expressed interest in them was informational only.

Unit rates are intended to provide funding for the salary and benefits for the average teacher and in some cases aide salaries as well. While some variation in these rates is to be expected, the actual variation is enormous. The SDE reports that in the current year, unit rates for DIS vary from \$17,600 to \$61,400, with an average of \$38,800. Unit rates for RSPs and SDCs vary from \$22,500 to \$54,300, with an average of \$39,600. The reasons for the wide variation include faulty reporting in 1979-80, employment by districts of lower-paid “permit” teachers in 1979-80 rather than fully credentialed teachers, and the mix of new versus experienced teachers in the base year.

Support ratios also exhibit great variation. The support entitlement provides funding for psychologists and nurses, equipment and supplies, administration and overhead, and so on. The support services entitlement is calculated as a percentage—or ratio—of each agency's unit rate, with this ratio being based on each agency's expenditures for support services in the 1979-80 base year. While the average support services ratio is about 52 percent in the current year, the ratios vary from 0 to 60 percent. Reasons for the variation include faulty reporting in 1979-80, and the open-ended nature of the category, which allowed districts to claim a wide variety of costs as “overhead.”

The third factor is the LGFC. As indicated earlier, the LGFC is a required maintenance of local effort, calculated from a district's 1979-80 general fund support for special education. The LGFC varies from zero to over \$100 per ADA (regular ADA). The state "bought out" the LGFC of some of the initial pilot test districts—thus they have no LGFC. County offices of education do not have a computed LGFC. Districts that did not operate programs in 1979-80 also have no LGFC, while districts that did not operate many programs in 1979-80 have a low LGFC. On the other hand, if the district was not among the first in the MPSE but was operating extensive programs in 1979-80, then its LGFC is high.

Too Complex. In 1983 our office noted that since the adoption of the MPSE in 1980 the entitlement system had grown increasingly complex. At that time the SDE entitlement form for special education, referred to as the J-50, was 27 pages long. We also reported that staff from the SDE were conducting workshops throughout the state to teach local special education directors and district business managers how to fill out the form correctly.

In the 11 years that have passed since 1983, the J-50 form has grown from 27 pages to 39 pages. A private consultant industry centered on the J-50 has emerged. Consultants offer "beginner" and "advanced" workshops on how to complete the J-50 to maximum advantage. While some complexity is probably necessary, we believe that the funding model should be understandable. The current model is way past that point.

Inhibits Local Innovation. The special education funding formula inhibits local innovation in several ways. First, the funding formula is based on providing services under one of three program models, each with a certain array of associated staff and, in some cases, a prescribed number of pupils per staff member. While these requirements may reflect "best practices" at a certain time in history, they severely restrict how services may be delivered. Later in this analysis, we discuss problems associated with trying to make the funding model accommodate the new practice of "full inclusion."

Second, funding generally can be spent only for providing special education services to pupils who have been assessed as needing special education placement. Consequently, special education funds cannot be used to support innovative ways of preventing placement of pupils in special education, or assisting pupils who have "graduated" from special education. In this way, the funding formula discourages provision of these services, which in some cases could reduce special education costs.

Similarly, the restriction on the use of special education funds discourages innovative approaches toward integration of special education into "regular" education. This contributes to fragmentation of services.

Contains Inappropriate Fiscal Incentives. The special education funding model contains incentives for schools to act in ways that are not in the best interests of students. This is the case in a number of programs that allocate funds based on the number of students identified as needing special services.

While such a funding structure encourages schools to identify students with special needs, it also creates an incentive for schools to identify students who are not strictly eligible in order to increase funding. In special education, the broad definition of "learning disabled" permits wide discretion over student classification. Educators and researchers believe the financial incentives, matched with the broad definition of eligibility, result in districts identifying students as special-education-eligible who should be served in other programs instead. This problem has been exacerbated by funding reductions in general and categorical programs. In the same way, the funding system encourages educators to retain pupils in special education even after they could move back to "regular" education.

The nonpublic school funding method provides another example of negative fiscal incentives. This program supports the costs of special education students placed in a private school. Under state law, this placement should represent the most appropriate way to serve these special education students. The program funding mechanism, however, also provides financial incentives to place students in more expensive nonpublic schools rather than serving them locally. For students who require expensive services, this cost-avoidance can easily exceed \$10,000 per student.

Reform Needed

There is widespread agreement on the need to reform the current MPSE funding model. In December 1993, the SDE held a symposium in Sacramento with the purpose of beginning discussions on development of a new special education funding model. The department's goals are that the model be capable of accommodating pupils with a wide variety of needs in multiple settings, and be equitable, flexible, and easy to administer and understand. We share each of the concerns cited by the SDE.

There have been numerous recommendations and studies in the past several years on how to change the current model. Among these recommendations and studies are the following from the Legislative Analyst's Office (LAO), the SDE, and the Department of Finance (DOF):

- The Legislative Analyst offered criteria for a new funding model in the *Analysis of the 1983-84 Budget Bill* and proposed a block grant for special education funding in an April 1993 report entitled *Reform of Categorical Education Programs: Principles and Recommendations*.
- In the 1986 Budget Act, the Legislature directed the Superintendent of Public Instruction to appoint a task force to develop several alternatives to the existing funding model for special education. The Legislature directed that this report be submitted to both the DOF and the Joint Legislative Budget Committee. The superintendent's 40-member task force submitted its 495-page report in July 1988.
- In 1983 the Department of Finance offered *A Fair Share Proposal* for reform of special education funding.

None of these efforts resulted in any fundamental changes to the model. There were several proposals for changes presented and discussed at the SDE's December 1993 symposium. Most of these were offered by special education administrators. Among the topics discussed were reform of the funding model to achieve greater funding equity, increases in the flexibility of the funding model to allow for full inclusion programs and preventive services, and changes in the model to make it understandable and easy to administer.

However, the pervading attitude among the teachers and administrators present at the December symposium was that changes to the model could not result in "losers" in terms of current funding levels. In other words, reform is impossible unless significant additional funding is available. Given the state's fiscal situation, however, it is unlikely that significant additional funding can be provided. Consequently, substantive recommendations for reform of the MPSE funding model are not likely to emerge from the education community. Essentially, special education teachers and administrators wear two hats: one that looks for the greater public good in given funding models and another that views any proposed change in terms of its effect on a particular district or SELPA budget. We believe that it is unrealistic to expect a group primarily composed of teachers and administrators to produce substantive recommendations to the Legislature on a new MPSE funding model.

In the past the LAO, the SDE, and the DOF have collaborated on thorny educational problems to produce joint products for the Legislature. In particular, we note the joint efforts in the late 1970s and early 1980s to manage evaluations of the MPSE, School Improvement Program, and bilingual-bicultural programs. With the exception of information on full inclusion and prevention programs, we believe that

there is an abundance of information and reports already available for these three agencies to review.

We therefore recommend that the Legislature direct these three agencies to review the MPSE funding model and provide recommendations for change. The three agencies should seek consultation from appropriate parties, at both the local and state levels, in the development of a new MPSE funding model.

We believe that a joint effort by the three agencies could produce preliminary recommendations by November 15, 1994 and final recommendations by May 1, 1995. With a concentrated effort by all three agencies we believe that proposals for MPSE funding reform can be made available to the Legislature within the May 1, 1995 time frame.

In order to provide a comprehensive yet manageable review, we offer below some guidelines for the process. We suggest that the review include three general areas: (1) services and programs, (2) costs, and (3) funding formula options.

MPSE Services and Programs

As a first step, we recommend a review of the current array of MPSE services and eligibility for those services. The purpose of this review is to update the categories used in the funding model before turning to cost and funding issues. For instance, our field visits revealed a need to review (1) coordination between regular and special education services, (2) prevention services (especially in the lower grades), (3) the emerging practice of inclusion of special education pupils in regular classrooms, and (4) clarification of responsibilities for disabled children among various state agencies. This review should include a comparison of federal requirements for services (and funding methodology) in contrast to the state's current MPSE.

MPSE Costs

We believe that the next step in the review process is examination of program costs. As mentioned above, the current MPSE funding formula bases entitlements on what each agency spent in 1979-80, the base year for MPSE funding, and not on current-year expenditures. Also as shown above, the funding formula involves tremendous variation in unit and support rates. What we believe is needed is an assessment of how much the services and programs, identified from the above review, should cost above the cost for a nonspecial education pupil. We believe that the Department of Education's cost reporting system (the J-380 and J-580 forms) will be helpful as a starting point in determining what are reasonable and necessary service and program costs. This assessment of

costs is necessary as a basis for developing reasonable approaches to sharing the costs.

Funding Formula Options

The current funding model provides for a haphazard sharing of costs among the federal government, the state, and local districts. We believe that the Legislature should require LEAs to share in the costs of special education in order to (1) provide appropriate fiscal incentives in placement and service decisions and (2) encourage local cost control. The proportion of costs paid at the local level should be consistent among districts.

The formula should be fiscally neutral with respect to placement decisions. Ideally, the model should yield no financial rewards or penalties to districts choosing among the various educational alternatives. The decision to place a student in a particular program should be guided primarily by an assessment of the pupil and the pupil's individualized education program. Similarly, a district should not face financial rewards and penalties when choosing to expand or contract its overall special education program.

We suggest that consideration be given within the formula to allow districts to allocate funds to provide innovative programs within special education. That is, the districts should be allowed to allocate funds for programs or in ways that are not specifically identified as part of the funding formula. A blending of state funds from other education and noneducation sources might also be desirable, especially to address the need for preventive services for children.

Finally, the formula should be understandable and easy to administer. We also recommend that any funding formula change be made gradually, but that any change be fully implemented without "grandfather" clauses.

OTHER SPECIAL EDUCATION ISSUES

Full Inclusion Waivers

We recommend that the Legislature adopt Budget Bill language prohibiting the State Board of Education from granting certain full inclusion waivers in 1994-95. We also recommend a report on the additional cost to the districts for full inclusion programs.

The MPSE requires an assessment of each child's unique educational and service needs and a consideration of many service delivery options for each eligible child. Under the MPSE, a child is assessed to determine the most appropriate placement, based on the principle that every child should be served in the "least restrictive educational setting or environment."

In an increasing number of cases, and consistent with efforts to place children in the "least restrictive" environment, school districts are placing students with severe disabilities in regular classrooms. Referred to as "full inclusion," this means that a child with disabilities would be served in the school and classroom that he or she would otherwise attend if not disabled. The student may receive supplemental services where these services can be provided most successfully. However, the child's primary placement is in the general education class.

The practice of full inclusion has raised an issue related to the funding formula for special education. The primary problem is that the basic premise of the funding formula is that all severely disabled pupils would be placed in special day classes for the majority of the day, not in regular classrooms. Specifically, current law (Education Code Section 56364) provides that pupils can receive the higher level of funding associated with SDC placement only if they spend a majority of the day in an SDC.

A number of districts have sought waivers from Section 56364, so that they may receive the SDC funding amount for fully included pupils. The State Board of Education has approved waivers requested by 14 districts for 1993-94, up from 9 in 1992-93.

Our concern centers on attempts by districts to obtain enhanced funding for fully included pupils in a different way—by seeking waivers to allow their fully included pupils to be treated as having "low-incidence" disabilities (hearing impairment, vision impairment, and severe orthopedic impairment, or any combination thereof) in funding calculations. Under Education Code Section 56364.1, school districts may receive enhanced funding for fully included pupils who have low-incidence disabilities. In this case, enhanced funding consists of full funding for an SDC placement *plus* regular revenue limit funding, which is available for general purposes. In the current year, the state board has approved three of these waivers, denied one, and tabled four, while one was withdrawn.

During our field visits, we found most districts were looking to see how the state board would deal with Section 56364.1 waiver requests this year. With the emerging practice of full inclusion, districts are waiting to see how the state board responds. In the districts that we visited, it was not readily apparent that full inclusion necessarily implies any additional cost to the district above the SDC funding level. However, if the state board begins to grant waivers of Section 56364.1 on an ad-hoc basis, we

believe that districts currently operating full inclusion programs will seek waivers to garner the additional revenue. The revenue from the regular revenue limit does not have to be spent on the full inclusion programs or even in support of special education students. It is general revenue to the district.

Both the Department of Finance and the State Department of Education have estimated that if all SDC students statewide were to be served under Section 56364.1 waivers, the state's special education "entitlement" would increase by about \$400 million. Others have suggested a much lower amount based on fewer students being served under these waivers. Until there is information on the excess costs, if any, associated with full inclusion, we recommend that the Legislature adopt Budget Bill language prohibiting the state board from granting waivers under Section 56364.1. We also recommend that the State Department of Education, the Department of Finance, and the Legislative Analyst's Office review the excess cost related to full inclusion of SDC students during 1994-95. This could be part of the larger study of the MPSE funding model we recommend above.

Nonpublic School Funding

We withhold recommendation on the proposed increase of \$6 million for nonpublic schools contract costs, pending review of the nonpublic school report required by Ch 939/93 (AB 2355, Eastin), which is due on March 1, 1994.

The Governor's Budget proposes \$172 million for nonpublic school contract costs for 1994-95. This is an increase of \$6 million (3.6 percent) over the current-year budgeted amount. The proposed budget does not include language adopted in the 1993 Budget Act that capped the amount of General Fund support for nonpublic school placements. In past years, nonpublic school growth had been significantly greater than growth in special education generally.

Our *Analysis of the 1993-94 Budget Bill* included an extensive discussion of the growth in nonpublic school placements and costs. The Legislature took two actions in 1993 with regard to funding for nonpublic schools. First, the Legislature adopted language in the 1993 Budget Act to cap funding for nonpublic schools at the level appropriated for 1993-94. Second, the Legislature enacted Ch 939/93 (AB 2355, Eastin), which made several substantive changes to the provision of services by nonpublic schools and requested a report on specific programmatic and funding issues related to special education services provided by nonpublic, nonsectarian schools and agencies.

The legislatively directed work group responsible for this report submitted its preliminary report on December 1, 1993, as specified in Chapter 939. The final report is due to the Legislature by March 1, 1994.

We withhold recommendation on the budget proposal, pending review of the final Chapter 939 report.

CHILD DEVELOPMENT

The 1994-95 Governor's Budget proposes \$487.6 million from the General Fund for child development programs. This represents an increase of \$27.4 million from the current-year level of funding for the program. The increase is the result of three changes: (1) a \$25 million augmentation in lieu of an increase based on a statutory growth formula, (2) \$2.7 million to provide ongoing support for certain activities (in the center and alternative payment programs) that were funded from carryover monies in 1993-94, and (3) the reduction of \$315,000 in one-time expenditures that were included in the 1993-94 budget. (Table 2 in the budget document, which shows current and proposed mega-item program expenditures, contains incorrect figures for child development programs for both 1993-94 and 1994-95.)

The budget also displays an additional \$7.5 million in expenditures from state carryover funds, which are unencumbered funds from earlier years. Under current law, child development funds may be carried over for two years.

No Plan for State Carryover Funds

We recommend the Legislature (1) reappropriate \$6.5 million in available state carryover funds to the categorical mega-item and (2) reduce the General Fund appropriation to the mega-item by a like amount in order to make additional funds available for the Legislature's priorities.

Although the proposed 1994-95 budget for child development assumes \$7.5 million in state carryover funds, the SDE has identified the need for about \$1 million of this amount. There is no spending plan for the remaining funds at the current time.

In the past two years, the Legislature has used carryover funds to meet a variety of budgetary needs. In the 1992 Budget Act, the Legislature reappropriated carryover child development funds to the mega-item. This made \$22 million in Proposition 98 funds available for the Legislature's priorities. In the 1993 Budget Act, carryover funds were used to address program needs created by the federal child care block grant funds. The 1994-95 proposed budget satisfies those program needs through augmentations in the mega-item appropriation.

In 1994-95, only \$1 million in carryover funds is needed for child development program purposes. Because the remaining \$6.5 million in carryover funds will be available, we recommend the Legislature reappropriate \$6.5 million in carryover funds to the mega-item and reduce Proposition 98 support for the mega-item by \$6.5 million. We further recommend the freed-up Proposition 98 funds be added to our proposed categorical program block grant (discussed elsewhere in this section).

Significant Carryover of Federal Funds

We recommend the SDE provide to the budget subcommittees by March 15, 1994, specific information that will help the Legislature address the issues raised by the large amount of federal block grant carryover funds that will be available in 1994-95.

In addition to state child development funds, the budget proposes federal funds of \$96.7 million, an increase of \$10.2 million from estimated current-year expenditures. The budget proposal reflects the level of federal block grant funding that the SDE anticipates will be received during 1994-95.

The budget does not reflect, however, a substantial amount of federal block grant carryover funds that will be available in 1994-95. We reviewed the department's block grant expenditure records for the past three years. From this review, we have concluded that roughly \$80 million to \$93 million in carryover funds will be available for expenditure in the budget year. With the addition of the \$96.7 million in federal block grant funds already scheduled in the budget, at least \$176.7 million in federal funds will be available in 1994-95.

There are two factors that account for the uncertainty over the amount of carryover funding that will be available next year. First, the estimate is based on the existing level of program activity in the current year. Actual program expenditures may be higher or lower than the scheduled amount, which would affect the amount of carryover funds available in 1994-95. For instance, the SDE may spend up to \$5 million in the current year to repair child care facilities that were damaged in the Los Angeles earthquake.

Second, the SDE is not sure whether federal law permits funds that were originally budgeted during 1991-92 to be spent for services in 1993-94. While the federal government has given its verbal approval, the department is waiting for written confirmation. If approval is not forthcoming, about \$13 million will have to be returned to the federal government.

Causes for Carryover. The department advises that a number of different problems resulted in the large amount of carryover federal funds. According to the SDE, the \$13 million is at risk because the department did not track expenditure of the federal funds to ensure that all federal funds were used within the allowable time frames. For the 1991-92 grant, federal law required that funds be obligated within a one-year period that spanned two state fiscal years. Thus, any federal funds not obligated within the first state fiscal year could be obligated within the second year. The department did not track first-year expenditures closely enough to ensure that all available amounts were committed in the second state fiscal year.

In addition, \$38 million in federal block grant funds were transferred to the Department of Social Services (DSS) in 1991-92. Only \$10 million of these funds have been spent. The funds were transferred to the DSS to pay for child care expenses of adults collecting Aid to Families with Dependent Children (AFDC) who worked or were participating in education or training. After the program was underway, however, the federal government advised the DSS that state health and safety standards for child care providers are not sufficient to meet federal block grant requirements. As a result, it appears the block grant funds may not be used to support the DSS program.

Outstanding Issues. There are still significant questions that remain concerning the DSS use of the federal block grant funds:

- **Is the state liable for any DSS costs that have been supported with block grant funds?** The state may be required to reimburse the federal block grant program for the \$10 million the DSS has already spent.
- **Have the federal administrative cost guidelines been followed by the DSS?** The SDE agreement with the DSS permitted the DSS to use 11 percent of the \$38 million (or \$4.2 million) for administrative costs. The SDE is concerned that a significant part of the \$10 million in DSS claims may be administrative costs. If so, much of the \$28 million in unspent DSS money would be available for child care grants only—not for administrative costs—due to caps on the percent of federal block grant funds that may be spent for administration.
- **How will the DSS and the SDE resolve the issue of health and safety requirements?** According to the SDE, both agencies are working with the federal government to resolve barriers to using the block grant funds for DSS programs.

At the time this analysis was written, the department was reviewing its past block grant expenditures and procedures to (1) determine more precisely how much federal funding is available and (2) create an internal process to ensure that all federal funds are spent. The SDE also was developing a multi-year plan for spending the carryover federal block grant funds.

To provide the information the Legislature needs to develop a plan for the use of federal block grant funds, we recommend the SDE provide the budget subcommittees by March 15, 1994, the following information on the federal block grant funds: (1) an estimate of the amount of federal carryover funds, by program component, that will be available in the budget year and the department's proposal for the use of the funds, (2) the proposed process for ensuring that all future block grant funds are spent in a timely manner, (3) an update on the issues raised by the transfer of funds to the DSS, (4) the department's proposal for resolving the health and safety issues, and (5) the department's plan for the expenditure of federal block grant funds for state administration.

How Should the Legislature Use The Federal Carryover Funds?

We recommend that the Legislature use the carryover federal block grant funds to (1) supplant \$20 million in Proposition 98 funds in 1994-95 and (2) increase the availability of child care for low-income families.

The block grant is divided into two parts: 25 percent may be used to support preschool, center-based programs, and latchkey programs; and the remaining 75 percent must be used for voucher-based care. Federal law prohibits using block grant funds to supplant state expenditures, and there is a maintenance-of-effort requirement based on state spending in 1990-91. The state could reduce its own spending to the 1990-91 level—or about \$50 million less than proposed spending in 1994-95—and still meet this requirement.

The Legislature has a number of options for how the federal block grant carryover funds may be used. We believe a combination of these options is the best solution. The apparent amount of carryover is so large that it would take years for the SDE to spend these funds through its contractors. In addition, General Fund relief—for both education and the overall budget—is desirable in this very tight fiscal time. For these reasons, we recommend that the Legislature:

- Allocate available funds from the 25 percent portion of the block grant carryover funds to replace General Fund preschool or center program support, for a savings of about \$20 million in Proposition 98 funds.
- Increase the SDE's child care budget for 1994-95 by \$20 million from 75 percent carryover funds.

The net effect of these actions is to (1) save \$20 million in Proposition 98 funds and (2) increase services by \$20 million. At least \$20 million of the remaining federal funds should be carried over to 1995-96 to support the child care slots created by the addition of \$20 million in federal funds in 1994-95. This would leave roughly \$20 million to \$30 million of the federal carryover funds for which no expenditure plan has been identified.

One option the Legislature might consider for the remaining funds is a transfer to the DSS. This could work only if the problems with the federal health and safety standards can be resolved. Specifically, the Legislature could transfer up to \$20 million of carryover funds to the DSS, thereby eliminating the need for \$10 million in General Fund support budgeted for 1994-95. The Legislature could then use these General Fund monies to increase support for high-priority programs within the DSS or redirect the funds to other priority uses elsewhere in the budget.

CALIFORNIA LEARNING ASSESSMENT SYSTEM

The Governor's Budget proposes \$33.7 million for the California Learning Assessment System (CLAS), which is an increase of \$7 million, or 26 percent, over the current-year appropriation. In this section, we discuss the Legislature's options in acting on this proposal.

CLAS Legislation Charts an Ambitious Course

California has long used standardized testing to measure learning achievement in public elementary and secondary education. Until 1990, the state system was known as the California Assessment Program (CAP). The CAP tests calculated average student scores that indicated how well students fared in mathematics, reading, writing, social sciences, and science in four grade levels—third, sixth, eighth and twelfth grades.

The CAP results were not intended to be reliable for *individual students*. Instead, the results were designed to provide a reliable gauge of the average achievement at a particular *school or district*. Not “reliable,” in this case, means that tests were not designed to develop a student score that could be trusted to be accurate. To minimize costs and test-taking time, students took only part of each test and the results were aggregated at the school or district level.

Chapter 760, Statutes of 1991 (SB 662, Hart), substantially revised state testing policy. Chapter 760 charted an ambitious course for state testing in California. Major goals identified in the legislation include:

- **Student Scores.** CLAS tests should provide a “reliable, valid” score for each student—“reliable,” in that the score can be trusted to reflect actual student achievement and “valid” in that CLAS tests reflect the skills and content matter that state curriculum frameworks recommend for students at different grades. Tests would be given in mathematics, reading, and writing in fourth, eighth, and tenth grades.
- **Performance Testing.** Tests should include more “authentic” assessment—or performance exams—where tests measure students' ability to accomplish a specific task rather than answer a multiple-choice question. Under CAP, only writing tests contained a performance component.

- **Curriculum Improvement.** Test results should provide teachers and administrators a diagnostic tool for understanding how and where to improve the instructional program. One study, for instance, found that teachers gave students a significantly greater number of writing exercises after the performance-based CAP writing tests were initiated.
- **Accountability.** Tests should enhance accountability within the public education system. Specifically, school or district scores should be displayed in ways that allow comparison with other schools or districts to provide a relative sense of how well students are learning. In addition, individual student data must be tracked to assess school and district performance over time.
- **Integrated Testing Framework.** Senate Bill 662 intended to reduce the number of different tests schools administer by developing a statewide system that integrates state and local testing in a “common framework.”

This is a very ambitious agenda. First, requiring individual student scores increases testing costs and intrudes on classroom time. This is because each student must be tested on a full range of content matter to obtain a reliable score for that student. School-level scores, in contrast, can be obtained using sampling techniques.

Second, performance testing (rather than multiple-choice testing) in education is in its early stages of development. Much remains unknown about how best to obtain reliable, valid student-level results at a reasonable cost. In performance testing, students demonstrate what they can do. For example, they may write an essay or perform a science experiment. Performance testing has two major drawbacks: (1) it is costly to score and, in some cases, to administer and (2) each test measures one aspect of performance rather than a full range of subject material. To obtain reliable student scores using *only* performance tests, each student must complete four to six performance tests. As a result, the budget proposes using both performance and multiple-choice questions.

Finally, creating an integrated statewide testing framework requires the department create a “vision” of how state and local testing would work together to meet the many potential needs of parents, teachers, districts, and state and federal policymakers.

Senate Bill 662 recognized that the SDE could not accomplish all elements of the agenda at once. Therefore, it established as the highest priority the development and implementation of tests at the individual student level. New performance-based assessments were assigned a lower priority.

The 1993-94 CLAS Program Falls Short

Our review of the CLAS program as enacted in the current year indicates the program is trying to accomplish too many diverse goals with the amount of available funding. As a result, the program is not

adequately accomplishing its main mission. Some of the specific problems we identified are as follows.

The 1993-94 testing program may not provide reliable results. Figure 13 displays three different CLAS plans: the 1993-94 plan as proposed by SDE, the 1993-94 plan as enacted in the 1993-94 budget, and the 1994-95 proposed plan contained in the Governor's Budget. The figure describes the level at which tests results were expected to be reliable (student versus school) and the mix of performance and multiple-choice testing that was planned. The current CLAS tests use a combination of performance tests (which indicate student ability to perform a specific task) and multiple choice questions (which can test a greater range of material).

As the figure indicates, the SDE had originally planned to obtain student-level scores only in eighth grade during 1993-94. The proposed program called for two performance tests for the three primary subjects (reading, writing, and mathematics) supplemented with multiple-choice questions. The department had planned to obtain school-level data for fourth grade in 1993-94. Accordingly, the SDE planned one performance test in each subject area, but no multiple-choice questions, for fourth grade.

The enacted budget plan, however, called for student-level scores for both fourth and eighth grades. To accomplish this, the eighth-grade tests were scaled back to one performance test in reading and mathematics, supplemented with multiple-choice questions. The fourth-grade test was expanded slightly to include multiple-choice questions for the mathematics test.

The 1993-94 plan as enacted, however, raises reliability issues—that students answer too few questions to generate trustworthy scores. After further study, the SDE concluded the fourth-grade test results will not be considered reliable for individual pupils. The department indicated that it does not know whether the eighth-grade results will yield reliable scores.

Figure 13

**California Learning Assessment System
Comparison of Testing Plans**

	Fourth	Eighth	Tenth
1993-94 SDE proposed plan			
Reliability level	School	Student	School
Reading	1P	2P, MC	1P
Mathematics	1P	2P, MC	1P
Writing	1P	2P	1P
Science	pilot only	pilot only	pilot only
Social science	1P	pilot only	pilot only
1993-94 plan as enacted			
Reliability level	Student	Student	School
Reading	1P	1P, MC	1P
Mathematics	1P, MC	1P, MC	1P
Writing	1P	2P	1P
Science	1P	pilot only	pilot only
Social science	1P	pilot only	pilot only
1994-95 plan as proposed			
Reliability level	Student	Student	Student
Reading	1P ^a , XMC	1P ^a , XMC	1P ^a , XMC
Mathematics	1P ^a , XMC	1P ^a , XMC	1P ^a , XMC
Writing	2P	2P	2P
Science	1P ^a , XMC	1P ^a , XMC	pilot only
Social science	1P ^a , XMC	1P ^a , XMC	pilot only
<p>1P = one performance test MC = multiple choice 2P = two performance tests XMC = expanded multiple choice</p>			
<p>^a Scored for half the students. Schools could choose to score tests of the remaining students.</p>			

CLAS data will provide limited information on individual students and student characteristics, thereby limiting its use in holding schools accountable for outcomes. CLAS results at every level (school, district, and state) can be heavily influenced by the characteristics of students. Changes in a school's or district's student characteristics makes interpreting CLAS data virtually impossible without information on these characteristics. The SDE currently collects information on student characteristics as part of its testing program. To use the CLAS data to understand school and district performance, the state needs to maintain a data base that identifies individual students along with their scores and characteristics. The department has investigated creating a student-level data base, but not for the purpose of using CLAS scores for comparison purposes. Without this data base, CLAS data will be of limited use in achieving the Legislature's goal of enhancing school accountability.

The CLAS program is not based on a framework or strategy for coordinating state and local testing practices. Senate Bill 662 sought to reduce the amount of state and local testing by creating an integrated testing program. Ideally, state tests would substitute for or augment, rather than duplicate, local testing programs. In addition, the CLAS was intended to encourage educators to view testing as a tool to improve local programs. For example, local teachers and administrators could use CLAS scores to identify problem areas in local programs. Unfortunately, current local testing programs are often driven by the demands of state and federal programs rather than a desire to measure the success of local programs, curricula, or teaching practices.

The design of the CLAS program does not reflect an integrated testing framework. The development of a state and local framework would supply the "vision" or long-term strategy for the development of CLAS and the state's testing program. While the department has identified in general terms the elements of a framework, it has not applied these elements to the design or operation of the CLAS program.

Governor's Budget Proposes to Further Reduce Performance Testing

In response to the CLAS reliability problems and the increasing cost of the CLAS test, the Department of Finance proposes to change the direction of the CLAS program in 1994-95. The \$7 million increase proposed for 1994-95 consists of a \$5.5 million increase in testing costs, (2) a \$1.6 million increase for end-of-course examination development and administration, (3) a \$900,000 increase for other test development, and (4) a \$1 million reduction to reflect the expiration of the Alternative Assessment Pilot Project. The specific increases are shown in Figure 14.

Figure 14**California Learning Assessment System Budget
1993-94 and 1994-95****(Dollars in Millions)**

Program Component	Estimated 1993-94	Proposed 1994-95	Change From 1993-94	
			Amount	Percent
CLAS testing				
Fourth grade	\$8.5	\$9.5	\$1.0	11.6%
Eighth grade	7.7	8.8	1.1	14.6
Tenth grade	2.5	5.9	3.4	131.4
Subtotals	(\$18.8)	(\$24.2)	(\$5.5)	(29.2%)
Alternative Assessment Pilot Project	1.0	—	-1.0	-100.0
End-of-course examinations	2.6	4.2	1.6	63.2
Test development	2.0	2.9	0.9	45.0
Administration/other	2.4	2.4	—	—
Totals	\$26.7	\$33.7	\$7.0	26.2%

The amount requested for testing assumes a reduction in the amount of performance testing for almost all CLAS tests. Specifically, the budget plan proposes to obtain reliable individual scores in reading, mathematics, science, and social science with one performance test, which would be scored for only half of all students, plus an expanded multiple-choice test. Schools would be permitted to score the performance tests of the remaining students if desired. The proposed testing program is displayed in Figure 13.

The writing tests would still contain two performance tests. By reducing the scoring of performance tests in fourth and eighth grades, the proposed budget would have sufficient funding to expand the tenth-grade tests to obtain individual student scores.

Our review of the 1994-95 budget indicates that it reflects a reasonable plan for the CLAS in the budget year. Its strengths are:

- Reliable student-level scores for all three grades (fourth, eighth, and tenth) in reading, writing, and mathematics. Reliable performance test scores would be available at the school and district level.

- Low-cost testing that relies on multiple-choice questions rather than performance tests for student-level scores. In fact, the proposed budget represents a fully implemented CLAS program in reading, writing, and mathematics. Future funding needs would increase primarily to increase the amount of performance testing as desired.
- Performance-based scores at the school and district levels that are designed to stimulate improved teaching and curriculum.
- Continued development and administration of end-of-course tests for use by districts.

The budget proposal, however, also has weaknesses, which are discussed below.

The 1994-95 CLAS Budget Should Reflect a Long-Term Plan

We recommend the Department of Finance and the SDE report to the budget subcommittees by April 1 on the amount of performance testing that is desirable when the CLAS is fully implemented and how those long-term plans would affect the 1994-95 CLAS budget.

The 1994-95 proposal contained in the Governor's Budget potentially guides the CLAS tests away from performance testing and toward tests based on multiple-choice questions. While the emphasis on individual student scores is consistent with priorities established in SB 662, the budget proposal is not based on a long-term plan for the state's testing program. Specifically, it does not address the following questions:

- *What amount of performance testing is contemplated when the CLAS is fully implemented?* The Legislature should be assured that results from 1994-95 tests are comparable to results in future years when CLAS is fully implemented. This may mean scaling back the level of multiple-choice testing, in favor of performance testing, if in the long run the Legislature intends to implement additional performance tests. This is because the results from the 1994-95 proposed test would not be comparable to a future CLAS test that contained a performance test for all students..
- *What level of responsibility should school districts have for testing?* The proposed 1994-95 plan appears inconsistent in its treatment of local responsibility for testing. On the one hand, the plan proposes to let schools and districts decide the need for individual student scores on the performance tests in reading and mathematics. On the other hand, the budget proposes to pay the *full cost* of administering and scoring the writing and end-of-course examinations. Similarly, the budget plan would end funding for the Alternative Assessment Pilot Program, which supports (1) local test development and (2) teacher training in translating test results into changes in curriculum and teaching practices. This type of

staff development activity is crucial to the success of the CLAS in improving the quality of local programs.

- *How would test data be maintained so that it could be used for accountability purposes?* The budget plan has no provision for creating a state data base for collecting student-level scores and characteristics, thereby severely limiting the usefulness of CLAS data for comparison purposes.

Cost Tradeoffs in Levels of Performance Testing and Local Responsibility. The first two issues—levels of performance testing and local responsibility—are related, and have major cost implementations. To understand the Legislature's tradeoffs in resolving these issues, we developed cost projections for three different CLAS scenarios. These projections are shown in Figure 15. The scenarios differ in two ways: (1) the amount of performance testing (and the extent to which individual student scores reflect the results of performance tests) and (2) the level of local responsibility for administering and scoring tests. All three scenarios would provide student-level data in reading, writing, and mathematics.

Figure 15

**California Learning Assessment System
Costs of Three Scenarios
Assuming Full Implementation**

(Dollars in Millions)

	1993-94 SDE Plan	1994-95 Budget Plan	SDE Plan With Local Cost Sharing
CLAS testing	\$46.3	\$26.1	\$28.8
End-of-course examinations	4.2	4.2	2.1
Alternative assessment program	1.0	—	0.5
Test development	2.9	2.9	2.9
Administration/other	2.4	2.4	2.4
Totals	\$56.8	\$35.6	\$36.7

The first scenario is full implementation of the SDE plan originally proposed for 1993-94. (The 1993-94 budget proposal represented partial implementation of the plan.) This plan would provide two performance tests in all subject areas, including science and social science. The more extensive performance testing results in fully implemented costs of \$56.8 million.

The second scenario is full implementation of the 1994-95 proposed CLAS budget plan. This plan is based on limited performance testing and school-level scores in science and social science. This scenario costs \$35.6 million when fully implemented, or about \$1.9 million more than the proposed 1994-95 amount for these activities. This scenario would cost \$21.2 million less than the fully implemented SDE plan. These savings

would come at the expense of including performance data in student level scores.

The third scenario is based on increasing the local responsibility for test administration and scoring. Specifically, the third scenario generally adopts the 1993-94 SDE proposal in its overall design, but with three exceptions: it assumes that (1) teachers score the performance tests, (2) school-level results are sufficient for science and social science, and (3) school districts pay half the cost of end-of-course tests and the alternative assessment program. To encourage schools to participate in scoring the tests, scoring would be linked to staff development. In addition, the state would provide incentive funding to schools. In our estimates, we assume that 80 percent of districts would participate.

This scenario is based on the concept that local school districts should maintain policy and fiscal responsibility for tests. By charging LEAs for half the cost of end-of-course tests, this scenario recognizes that the benefits of these tests are primarily local. Similarly, by including CLAS scoring as part of local staff development activities, the scenario recognizes the benefits that teachers and administrators can derive from reviewing student performance on the tests. As the figure indicates, this scenario would cost \$36.7 million when fully implemented. This is \$20.1 million less than the SDE scenario and \$1.1 million more than the 1994-95 budget plan.

The possibility of involving all teachers in local scoring of tests as part of local staff development functions is discussed in the 1993-94 SDE CLAS plan. Involving teachers in this way would accomplish two goals. First, it would provide a forum for training staff in the use and implications of the CLAS tests. Second, it promises the potential for savings in scoring costs.

Legislature Needs Additional Information. The budget proposal asks the Legislature to make decisions about the CLAS program in 1994-95 that have significant long-term implications. For instance, we would not recommend the Legislature approve the 1994-95 budget proposal to base individual student scores solely on multiple-choice questions if its intent is, over the long term, to develop student scores based on both performance tests and multiple-choice questions. If the Legislature wants to include performance assessments in student scores, we suggest delaying the implementation of student-level scores in the tenth-grade test and redirecting the savings to include more performance testing in fourth and eighth grades.

Similarly, we would not recommend approval of the 1993-94 SDE proposal as the basis for the 1994-95 budget until a more developed and realistic framework for an integrated state and local testing program is developed. As our analysis indicates, the long-term cost of the CLAS is greatly affected by this framework. Until better information is provided to the Legislature on the design and implementation of a framework, we cannot advise the budget subcommittees of the long-term cost of the SDE proposal.

Finally, the Legislature needs information on the cost and implementation of a CLAS database for student-level data. We do not believe the database would create a substantial new program cost because the SDE already keeps student-level test data. The barriers involve issues of creating a unique student identifier and confidentiality. We believe that better information on cost and implementation barriers would help the Legislature resolve this issue.

For these reasons, we recommend the Department of Finance (DOF) and the SDE to provide to the budget subcommittees by April 1 specific information regarding the long-term development of the CLAS, as follows:

- The DOF should identify how its 1994-95 proposal fits into the long-term implementation of CLAS. Specifically, the DOF should indicate (1) what amount of performance testing it believes is desirable and (2) how state and local testing responsibilities should be defined and how this division would affect the 1994-95 proposed CLAS budget.
- The SDE should provide its proposed framework for dividing state and local testing responsibilities. The department should specifically identify (1) state and local roles in testing, (2) the impact on the 1994-95 CLAS budget of this division, (3) how its proposed division of responsibilities would be implemented without creating a state mandate requiring local involvement in test scoring, and (4) the cost and implementation timelines of developing and implementing a student-level data base that is needed to use CLAS scores for comparison purposes.

OTHER ISSUES

School Crime Reporting—Make Mandate Optional

We recommend the Legislature make optional the School Crimes Reporting mandate until a reliable school crime reporting system can be established, for a General Fund savings of \$902,000. (Reduce Item 8885-111-001.)

The Governor's Budget proposes \$100,000 in the State Department of Education (SDE) support budget (Item 6110-001-001) for the development of an improved school crime reporting system. The budget also proposes \$902,000 in the mandates item (Item 8885-111-001) for the ongoing cost of school crime reporting.

Background. The school crime report was originally mandated by Ch 1607/84 (AB 2483, Stirling) and was modified by later legislation in 1988 (AB 2583, Stirling) and 1989 (SB 271, Stirling). This legislation required the SDE annually to compile school crime statistics from school districts and distribute these statistics to county offices of education and a number of other agencies and organizations.

The SDE experienced a number of difficulties in meeting this requirement. Districts used different definitions of crime categories and different data collection procedures, resulting in disparities between districts in statistics for the same types of crime. These problems were exacerbated by funding reductions at the SDE, and led to a decision by the department in 1990 to suspend the program's operation. The SDE directed districts to cease sending their data to the state but encouraged them to continue collecting the data.

Although the state ceased compiling the information, the districts were still required to collect it. They sought reimbursement through the mandate claims process, and the Commission on State Mandates approved parameters and guidelines in 1991 for reimbursing school districts for their costs. The Department of Finance first requested funding for the mandate in the 1993-94 budget. The DOF requested \$4.4 million to cover 1988-89 through 1992-93 costs and \$873,000 for ongoing costs in 1993-94. Funding for past-year claims was deferred from the 1993-94 budget, though ongoing costs for the 1993-94 fiscal year were funded. (The budget proposes to defer the prior-year costs again in 1994-95.)

Budget Proposal. According to the Office of Child Development (OCD), the budget proposal for \$100,000 in support funds would be used to revive the discontinued school crime report. Specifically, the department would (1) analyze problems in detecting, classifying, and reporting school crime; (2) prepare a revision of the existing school crime report form; (3) train district personnel in reporting school crime, and (4) develop appropriate audit and compliance procedures. At the time this analysis was prepared, neither a spending plan for the \$100,000 augmentation nor a timeline for these activities were available.

We believe these activities are necessary in developing school crime statistics that are useful and accurate. Based on the time that would be necessary to analyze data reporting problems, consult with appropriate school and law enforcement groups on reporting issues, develop revised data reporting standards, and train personnel from over 1,000 school districts, however, we believe a new crime statistics reporting system would not be in place until 1995-96. Therefore, we recommend the requirement that schools collect and report school crimes be made optional until a reliable reporting system can be established. We recommend deletion of the \$902,000 in Item 8885-111-001 associated with the mandate in 1994-95. We also recommend that the SDE submit, prior to budget hearings, a spending plan for \$100,000 proposed in the support budget and a timeline for implementing the new reporting system.

School Safety Initiatives

We recommend the Legislature delete the \$20 million set-aside in the budget for school safety legislation until more information is available on the fiscal and program impacts of such legislation.

The Governor's Budget proposes \$2.4 million for county offices of education to offset increased expenditures resulting from recently enacted school safety legislation. The budget also proposes a set-aside of \$20 million for county offices of education for expenditures resulting from proposed legislation that would enact further requirements concerning school safety. At the time this analysis was prepared, details of the proposed legislation were unavailable.

In October 1993, three pieces of legislation concerning school safety were enacted—Ch 1255/93 (AB 342, Boland), Ch 1256/93 (SB 1198, Hart), and Ch 1257/93 (SB 1130, Roberti). Together, this legislation represents efforts to increase the safety of school campuses by establishing “zero tolerance” of specific dangerous activities—including possession of a firearm or other dangerous object, injury of another individual, robbery, extortion, or sale of a controlled substance. The legislation limits choices available to school officials when dealing with students who commit such offenses. A likely result of this policy will be a greater number of students expelled. The legislation further provides that pupils expelled for certain of these offenses may not enroll in any school other than a community school or juvenile court school during the period of expulsion. Before, such pupils could transfer to another school district.

When in community school, pupils expelled for the specified dangerous activities will be considered “Type C” pupils, and therefore be funded at a per-pupil level that is, on average, \$2,400 higher than the per-pupil level of general-purpose funding of school districts. Previously, the Legislature had restricted the “Type C” level of funding to community school pupils under the supervision of a probation officer.

The effect of this legislation is to increase the number of expulsions, the caseload in community schools, and the cost to the state. The \$2.4 million proposed in the budget reflects Department of Finance estimates of the additional state support that will be needed for county offices of education for these purposes.

Budget Proposal. The \$20 million set aside in the budget for pending legislation anticipates the passage of more laws intended to increase the safety of schools. Details of this legislation were not available at the time this analysis was prepared. There are a number of issues the Legislature should consider when evaluating such legislation:

- Can county offices absorb the increased caseload in existing facilities? What measures are needed to ensure adequate capacity?
- What “due process” safeguards need to be in place to ensure pupils' rights are protected? What is the cost of necessary hearings?
- Can existing resources be reallocated to address priorities in the “zero tolerance” legislation and the forthcoming proposed legislation? For example, the Legislature might consider tightening statutory restrictions so that only the most serious offenders at community schools are eligible for the higher “Type C” level of funding.
- What will be the effect of proposed policies on behavior? The success of “zero tolerance” policies should be measured in terms of reduced violence at schools, not increased caseloads at community schools.

Most important, the Legislature should consider the “whole picture”—involving law enforcement and social services as well as schools—when formulating new policies for ensuring school safety.

For example, juvenile diversion projects such as those operated by county probation departments and the cities of Berkeley, Vallejo, and Eureka are potential means of coordinating local education and law enforcement efforts to prevent juvenile offenses. These programs involve county probation officers earlier than usual in the monitoring and prevention of juvenile crime. For example, when a juvenile is apprehended, rather than simply being given a warning by the police, juvenile offenders enter into informal probation and must sign a contract with a probation officer. Attendance at the county community school may be a condition of the contract. Failure to meet this condition may result in the student's referral to and incarceration in the county juvenile facility. In these projects, the schools, county offices of education, local law enforcement, and the county probation department all work together to reduce delinquency and supervise the youthful offender in the community. (For a detailed description of the role of county probation departments in juvenile crime prevention and consideration of major issues facing them, please see the crosscutting issues portion of the Judiciary and Criminal Justice Section.)

Given the complexity of the issues facing the Legislature on this subject, we believe that its interests would be best served by a policy debate on school safety strategies in relevant committees. This would also permit the selection of an approach that best fits the state's current fiscal condition. For this reason, and the lack of information on pending school safety legislation, we recommend that the \$20 million set-aside be deleted from the budget.

Juvenile Court and Community School Funding Cap

The administration advises that it will propose legislation to maintain a cap on community schools spending.

In past years, when county office of education apportionments were funded through the Budget Act, funding for pupils in juvenile court schools (classes in juvenile detention centers) and probation-referred (“Type C”) pupils in community schools was capped in Budget Bill language. (The juvenile court/Type C per-pupil funding level is about \$2,400 higher than the statewide average general-purpose funding per pupil.) Traditionally, the cap was based on the administration's estimates of enrollment and statewide average per-pupil funding in these programs. For the current year, the cap is included in statute—Ch 66/93 (SB 399, Hart)—because county offices of education are now funded through statutory appropriations instead of the Budget Act.

The current statutory cap applies only to the current year. The Department of Finance advises that the administration will propose 1994-95 budget trailer legislation that will include a cap on funding for

Type C community school pupils, and that it will propose no cap on juvenile court school funding.

We will evaluate the administration's proposal when details become available. Generally, however, a cap on Type C community school funding is desirable as one means of ensuring that the higher level of funding per pupil is claimed by county offices of education only for those community school pupils who are under the active supervision of county probation departments. A cap on juvenile court school spending is not necessary as a control mechanism. This is because the number of students for whom the county offices must provide juvenile court school classes is determined by (1) the courts—not the county offices of education—and (2) the capacity of county juvenile detention facilities.

Healthy Start

We recommend deletion of a \$20 million augmentation proposed for the Healthy Start Program and redirection of the funds to address needs determined locally. We also recommend deletion of a related \$1 million augmentation in the state operations budget. (Reduce Item 6110-001-001 by \$1 million.)

The Governor's Budget proposes a \$21 million augmentation to the Healthy Start Program, an increase of 105 percent above the current-year funding level. This increase consists of \$20 million for local assistance and \$1 million for state operations. The increase would raise the total funding of the program to \$41 million, of which \$39 million would be for local assistance and \$2 million would support state operations.

The Healthy Start Program, authorized by Ch 759/91 (SB 620, Presley), provides planning and operational grants to consortia consisting of local education agencies (LEAs), county agencies, and community-based organizations. Planning grants, for a maximum of \$50,000 over one or two years, are awarded to agencies for the purpose of developing a plan for comprehensive, collaborative, and integrated school-linked services. Operational grants, for a maximum of \$400,000 over a three-year period, are awarded to consortia that have already developed a services plan. Over the last two years, the department has awarded 182 planning grants serving 547 schools, and 65 operational grants serving 210 schools. At the time this analysis was prepared, the SDE had not yet awarded any grants using current-year funds. Grant awards provide full multi-year funding to recipients, so each year's budget allocation funds a new cohort of program participants.

We believe the Healthy Start Program has merit, though no quantitative data on its outcomes are currently available. During field visits to various program sites around the state, we observed a high degree of collaboration among agencies and organizations at the local level. All of the Healthy Start programs we saw sought to provide more effective access to the variety of services needed by children and their families.

We anticipate more information to be available in June 1994 when the SDE submits to the Legislature its report of the experiences consortia have had in implementing their programs. We also expect later in 1994 evaluations of program outcomes and the success consortia have had in obtaining funding from nonstate sources to support their activities.

Given the fiscal condition of school districts, however, we recommend that the proposed augmentation be deleted. We recommend that the local assistance portion of the funds be redirected to address needs determined locally. This is consistent with recommendations we make in the "K-12 Budget Priorities" section of this analysis regarding a number of policy initiatives proposed in the budget. We note that maintaining the current-year funding level in the budget year would still allow the program to expand to new schools. This is because existing grant recipients have received multi-year funding and, thus, do not need an allocation from the 1994-95 budget.

School Breakfast Startup Funding

We withhold recommendation on \$3 million proposed for school breakfast startup grants until more data are available.

The Governor's Budget proposes \$3 million for school breakfast startup grants. This is the same amount available for the program in the current year.

This program was authorized by Ch 1164/91 (AB 745, Moore). It provides one-time \$10,000 grants to schools for the purpose of establishing breakfast programs. The funds are used for equipment and items such as plates, trays, and coolers. Ongoing costs for providing school breakfasts are partially reimbursed by the state and federal government.

In discussing the need for the program in the current year, the SDE estimated that approximately 568 California schools qualify to receive startup funds based on criteria established in the legislation. At \$10,000 per school, the current- and budget-year appropriations would be sufficient to establish programs at all these schools.

It appears that school districts are not participating in the program to the extent anticipated. The program has so far received only \$759,000 in applications for school breakfast startup grants for 96 schools in 1993-94. This figure, combined with an additional \$150,000 statewide outreach grant the program anticipates awarding in March 1994, represents only \$900,000 of the \$3 million appropriated for the program in 1993-94.

The department believes that there are at least three main causes for the lack of participation in the program. First, to receive the funds, schools must make a commitment to operate the program for at least three years. Schools may be reluctant to make such a commitment given the uncertain fiscal environment in which they operate. Second, schools may encounter difficulty in arranging transportation for students in time for them to eat before school starts. Third, the department believes that the eligibility criteria in the law may be too narrow, limiting the number of schools that may participate. Currently, schools qualify for assistance under this program if (1) 40 percent or more of school enrollment consists of children who receive free and reduced-price lunches, (2) the school does not currently participate in the school breakfast program, and (3) the school has not been awarded federal startup funds to initiate a school breakfast program.

The SDE has decided to accept another round of applications due in March 1994 for school breakfast startup grants in the hope that additional schools will take advantage of the program. The department also has plans to survey nonparticipating school districts to ascertain the reasons they are not applying for the grants, and intends to use this information in outreach efforts beginning in March 1994. Should schools continue to be reluctant to apply for these grants, we believe that the Legislature should either (1) reduce the appropriation for the program to a level commensurate with the interest in it or (2) modify the program to encourage more schools to participate. We withhold recommendation until more data are available on the second round of applications for 1993-94 funds.

Volunteer Mentor Program

We recommend the Legislature delete \$5 million from the General Fund (non-Proposition 98) proposed for the Volunteer Mentor Program on the basis that revenues in the budget year are not sufficient to justify establishing a new program. (Eliminate Item 0558-101-001.)

The Governor's Budget proposes \$5 million from the General Fund (non-Proposition 98) to implement the Volunteer Mentor Program, which was established by Ch 901/92 (SB 1114, Leonard). This program, to be administered by the Governor's Office of Child Development (OCD), is

designed to fund local projects to recruit, screen, train, and place volunteers who want to act as mentors to children.

The 1993-94 Governor's Budget requested funding to implement this program. The Legislature deleted the funds, however, due to budget constraints. In the *Supplemental Report of the 1993 Budget Act*, the Legislature requested that the Governor's Office or a designee develop and submit by January 1994 a state plan for administering the program. The purpose of this requirement was to ensure that the program could be implemented in 1994-95 if funding were available. The legislation establishing the program requires a lengthy developmental process involving state-level planning, formation of local planning councils, and development of local plans before funds can be awarded.

The OCD submitted a preliminary state plan for the program in January 1994. The plan includes a timeline with a projected date of October 1994 for grant awards to local mentor projects. Although we believe this timeline is somewhat optimistic, we believe the OCD is in a position to implement this program.

Given the likelihood of a large General Fund revenue shortfall and the difficult choices facing the Legislature in the budget year, however, we believe there are currently higher-priority uses of \$5 million in General Fund support than establishing a new program. We therefore recommend the deletion of this item, without prejudice to the merits of the program.

Technical Budgeting Issues

We recommend adoption of two technical budgeting actions that would make available \$10.5 million in Proposition 98 funds to meet the Legislature's priorities in 1994-95. We recommend adding these funds to the proposed categorical block grant.

In our review of the 1994-95 proposed budget, we identified two technical actions the Legislature can take to increase the amount of Proposition 98 funds available in the budget year. First, we identified \$6.2 million in savings that result from an overestimate of mandated costs associated with the State Teachers' Retirement System (STRS) program. Second, we identified \$4.3 million in prior-year Proposition 98 funds that are available for the Legislature's use in the budget year.

STRS Mandate Costs Overbudgeted. The 1994-95 budget proposes \$57.3 million in Item 8885-111-001 to reimburse school districts for state-mandated STRS costs during the budget year. Our review indicates this proposal is based on an estimate of 7.3 percent growth in local teacher and administrator payrolls in 1994-95. Actual data suggest that total school district payrolls are stable or declining slightly. Allowing for modest growth in payrolls in the budget year, we estimate that the proposed reimbursement level for STRS costs is overbudgeted by \$6.2 million.

To make these funds available for other priorities, we recommend a reduction of \$6.2 million in STRS Proposition 98 mandate costs. We

recommend these funds be added to the categorical block grant in order to provide local districts flexibility over the use of these funds. (For more detail on this issue, please see our discussion of state-mandated costs, Item 8885.)

1992-93 Mega-Item Funds Available. Like the 1994-95 proposed budget, the 1992 Budget Act provided most categorical funds through a mega-item. The mega-item was funded, in part, by a reappropriation of prior-year child development funds. The Budget Act assumed that \$22 million would be available from this source.

According to the SDE, \$26.3 million in child development funds actually became available. The department did not distribute the amount above \$22 million—or \$4.3 million—to local education agencies in 1992-93. As a result, the \$4.3 million will not be spent unless the SDE distributes the funds as part of a supplemental distribution. This would require a great deal of effort for a relatively small amount of funds.

An alternative to SDE distribution of the funds is for the Legislature to include the funds in a reappropriation item in the 1994 Budget Bill. The funds would then be available to support any Proposition 98 priority identified by the Legislature. In addition, including the \$4.3 million in our proposed categorical block grant would result in an outcome similar to the SDE making a supplemental distribution of the 1992-93 mega-item funds.

To make the funds available to meet the Legislature's priorities and to use the 1992-93 mega-item funds in a manner similar to the Legislature's original intended use, we recommend the Legislature reappropriate the \$4.3 million in child development funds to our proposed categorical block grant.

CHAPTER 1 REAUTHORIZATION

The United States Congress is currently considering the reauthorization of the Chapter 1 program. The Clinton Administration's proposed changes to the program would result in significantly increased funding for California.

Chapter 1 is the major federal compensatory education program for poor children. The program was created in 1965 as part of the Elementary and Secondary Education Act (ESEA), a comprehensive law that provides federal support in such areas as bilingual, adult, vocational, and Indian education. Chapter 1 (originally known as Title 1) was designed to provide support for the educational needs of poor children by targeting funding to the lowest-achieving students in the poorest areas. The program is reauthorized by Congress every five years.

Chapter 1 consists of several individual grant programs. The largest ones, representing 83 percent of the \$761 million in Chapter 1 funds allocated to California in 1993-94, are "basic" and "concentration" grants. Figure 16 summarizes all of the grant programs in Chapter 1.

Basic and Concentration Grant Funding

California received \$634.3 million (10 percent) of the \$6.1 billion spent nationwide on basic and concentration grants in the 1993-94 school year, an increase of 17 percent over 1992-93. Figure 17 lists the Chapter 1 funding from basic and concentration grants that California has received over the last four years.

California received a large increase in 1993-94 because the federal Department of Education updated the formula calculations for Chapter 1 using population data from the 1990 decennial United States census. Previously, the department had used data from the 1980 census, which did not accurately reflect nationwide population shifts and changes over the last decade in the distribution of poor families and children.

Figure 16		
Chapter 1 Grant Programs		
(Dollars in Millions)		
Type of Grant	California 1993-94 Funding	Percent of Total^a
Basic Provides funds to schools according to a formula involving the number of children in poor families	\$549.9	72.3%
Concentration Provides additional funding to schools in the poorest areas	84.4	11.1
Even Start Literacy program for the parents of Chapter 1 students	8.4	1.1
Migrant education Grants to states for the purpose of providing supplementary instruction for migrant children	101.0	13.3
Neglected and delinquent youth Grants to states for the purpose of educating neglected and delinquent youth	3.5	0.5
Capital expenses Grants to states for the capital expenses for services to private school children	4.4	0.6
Program improvement Grants to states for extra assistance to nonperforming Chapter 1 schools	2.7	0.4
State administration Grants to states for reimbursement of costs associated with operating Chapter 1 programs	6.5	0.9
Totals	\$760.8	100.0%

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

Figure 17				
California Basic and Concentration Grant Funding 1990-91 Through 1993-94 School Years				
(Dollars in Millions)				
	1990-91	1991-92	1992-93	1993-94
Basic and concentration grant funding	\$463.2	\$511.6	\$541.4	\$634.3
Percent growth	16.9%	10.4%	5.8%	17.2%

Below we discuss the funding formulas and how the funds are used.

Funding Formulas

Basic grant funds are allocated to school districts using a formula that counts the number of eligible children and multiplies it by 40 percent of the average per-pupil expenditure from state and local sources. The population of eligible children consists of four groups:

- The number of children ages 5-17 with family incomes below the poverty level identified by the most recent decennial census (92 percent of the total eligible for California).
- The number of children ages 5-17 in families receiving Aid to Families with Dependent Children (AFDC) payments when these payments are above the current census poverty level (2.3 percent of the total eligible for California).
- The number of children ages 5-17 in institutions for neglected and delinquent children that are not state-operated (1.9 percent of the total eligible for California).
- The number of children ages 5-17 in foster homes supported with public funds (3.4 percent of the total eligible for California).

Concentration grants are additional funds allocated to districts in counties where at least 15 percent or 6,500 (whichever is less) of the children are eligible for funding under the basic grant formula. Districts must satisfy the same criteria as counties to be eligible to receive the grants.

Basic and concentration grant funding is pooled at the district level. Schools within a district are eligible for funds if they have a poverty rate that is relatively high for their district; typically, poverty rates are determined based on data from the subsidized school lunch or AFDC programs. Districts have some discretion in allocating funds to eligible schools based on the number and needs of eligible students. Although funding formulas are based on poverty rates, within eligible schools student eligibility for services is determined based on academic achievement. The lowest-achieving students on district-selected assessment tests are those students eligible for Chapter 1 services.

How Funds Are Used

Chapter 1 basic and concentration grants are used to provide supplemental instructional resources, such as specialists or materials, to eligible students. The funds may not be used to supplant state or local funds. Eligible students may receive extra services during school hours, outside regular school hours, or during the summer or intersession periods. Usually, resources or services paid for with Chapter 1 funds are exclusively to benefit eligible students. However, districts have the option of implementing "school-wide" projects at schools where the

concentration of poor students is at least 75 percent of the student population. At these schools, Chapter 1 funds can be used to benefit every student in the school, regardless of individual eligibility. Additionally, districts can limit Chapter 1 services to designated grade spans, in order to concentrate the funds and services for the eligible students at those levels.

The Chapter 1 Reauthorization Proposal

The Clinton Administration submitted its ESEA reauthorization proposal in September 1993. Its implementing legislation (H.R. 3130) is on a "fast track" in the United States Congress, and will probably be completed in late spring or early summer of 1994.

The proposal's changes to the Chapter 1 program (renamed Title I in the proposal) place a greater emphasis on poor children, with the intention of maximizing funding for the schools with the greatest concentrations of poor students. Major features of the reauthorization proposal are listed below.

- ***Increase in Overall Program Funding.*** The proposal includes an 11 percent increase in the overall level of funding for Chapter 1 from \$6.3 billion to \$7 billion in the federal fiscal year ending September 30, 1995. These additional funds would first be available in the 1995-96 school year.
- ***Greater Proportion Allocated for Concentration Grants.*** The proposal would increase the proportion of Chapter 1 funds spent on concentration grants from 10 percent to 50 percent, with corresponding reductions in basic grants. Furthermore, it would raise the required minimum concentration of poor children in eligible counties from 15 percent to 18 percent, thereby reducing the number of counties eligible for such funding.
- ***Increased Eligibility for School-Wide Projects.*** The proposal would enable more schools to implement school-wide projects by lowering the threshold for participation from 75 percent poor to 50 percent poor over two years.
- ***Funding Targeted to Schools With the Greatest Concentrations of Poor Children.*** Within school districts, all schools with at least 75 percent poor children would have to be funded first, without regard to grade level. Currently, most districts use Chapter 1 funds primarily in the lower grades. In addition, the proposal would remove the existing requirement that schools use low achievement as the main criterion for student eligibility.
- ***Program Assessment Tied to National Standards.*** Assessment of the progress of Chapter 1 schools would be made using state standards to be developed in conjunction with national standards articulated in the proposed Goals 2000: Educate America Act.

Nationwide, according to the federal Department of Education, these proposed changes would shift approximately \$500 million in Chapter 1 (Title I) funds to the poorest counties at the expense of those with the least poverty. California would receive an increase of about \$95 million, or 14 percent, in the 1995-96 school year and another increase about half as large in 1996-97. California's increase for any one year is limited due to existing "hold-harmless" provisions that protect other states from reductions exceeding 15 percent in any given year, thereby limiting their losses.

Within California, effects across schools would vary, with the probable result of urban schools gaining at the expense of rural ones because of the larger numbers of poor children in urban areas. Four of the 42 California counties currently eligible for concentration grants would fail to meet the higher minimum threshold of poor children required under the reauthorization proposal, making them ineligible for such funding. The remaining 38 counties that currently receive concentration grants would get more funding for those grants—the concentration grant formula changes alone would generate an 18 percent increase in funding to Chapter 1 schools in Los Angeles County. In addition, the proposal would allow the number of school-wide projects in the state to more than double to over 2,000 schools by lowering the eligibility threshold for school-wide projects.

Reauthorization Issues

In this section, we discuss some of the major Chapter 1 reauthorization issues currently under discussion. Considerable debate in Congress over the Chapter 1 funding formulas and other changes can be expected, due to the significant funding changes many states would experience from them.

Concentration Grants. The proposed changes to concentration grants have the effect of allocating more Chapter 1 funding to districts in counties with the highest concentrations of poverty while reducing the number of counties that could be eligible for such funding. Those counties which lose eligibility for concentration grants would experience reductions of at least 50 percent of their Chapter 1 allocation, although this would be offset somewhat by the increase in overall Chapter 1 funds. For this reason, the proposal to increase concentration grants to 50 percent of Chapter 1 funding will encounter strong opposition from rural counties and states where poverty is not highly concentrated.

Basic Grant Formula. The current formula uses average per-pupil expenditures in each state as a factor in determining the size of basic grants. The administration does not propose to change this factor. Because California has low per-pupil expenditures relative to many other states, the formula results in relatively lower allocations for counties in California. Alternative factors currently under consideration include a nationwide average of per-pupil expenditures, an index of teacher salaries, and an index of general wages. These changes would generate funding increases

of 9 percent, 33 percent, and 25 percent for California, respectively. The increases would be at the expense of other states.

Limited-English Proficiency. California and some other states have proposed a modification to Chapter 1 that would target more aid to limited-English-proficient (LEP) children. Currently, the basic grant funding formula does not include a factor for the number of LEP children. Including an LEP factor in the formula would provide more aid to California and partially offset the costs of educating the large numbers of such children in this state. Again, any increases in California's allocation would come at the expense of other states.

Migrant Education. The reauthorization proposal also includes a provision that would limit the years migrant students may receive services through the Chapter 1 Migrant Education Program. The intent of this change is to concentrate resources on the newest migrant students, and direct formerly migrant children to bilingual education and other programs. The SDE maintains that formerly migrant children would not be adequately served by other services, and argues against this change.

Updating Census Data for the Formula. Currently, the United States decennial census is used to determine the numbers of poor children. This practice does not keep pace with yearly shifts in the distribution or growth of California's population. The reauthorization legislation includes a proposal for a "design study" on the feasibility of producing estimates of poor children between decennial census counts. There is also a separate proposal in Congress to mandate such estimates. More timely updates of the data used to calculate Chapter 1 allocations would enable California to better handle growth in the population of poor students.

K-12 EDUCATION FUNDING— TEN-YEAR HISTORY

Per-ADA funding from all sources, in inflation-adjusted dollars, has decreased by 1.1 percent since 1985-86.

Figures 18 through 21 provide a ten-year history of funding for K-12 education programs from all funding sources. This funding history differs from the information provided elsewhere in the *Analysis* because it (1) includes all funding sources, (2) covers a longer time period, and (3) shows funding in the year when it was actually *allocated* to school districts, rather than the year when funding is shown as an expenditure in the Governor's Budget. This distinction is necessary because monies from Proposition 98 loans and funding shifts between fiscal years are not shown as expenditures by the Governor's Budget in the years they are actually spent by districts. The various funding categories presented in the figures and other technical factors are detailed in the concluding section.

Figures 18 and 20 show that funding from all sources has increased by \$11.9 billion, or 70 percent, since 1985-86. Increases in the two largest funding sources, state funds and local property tax levies, account for \$10 billion of the \$11.9 billion increase. There are significant differences in the percentage increase for state funds (46 percent) and for local property tax levies (138 percent) due to net shifts of \$2.4 billion in property tax revenues to schools from other local government entities. This figure consists of (1) shifts totaling \$3.5 billion in 1992-93 and 1993-94 offset by (2) a proposed shift of \$1.1 billion from schools back to counties in 1994-95.

Figure 18

**K-12 Education Funding
By Funding Source
1985-86 Through 1994-95**

(Dollars in Millions)

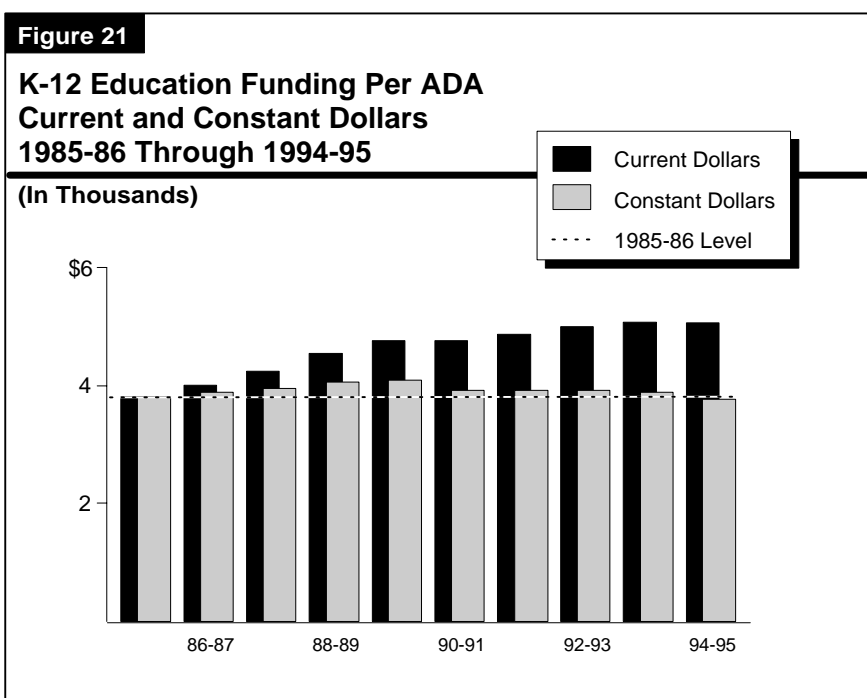
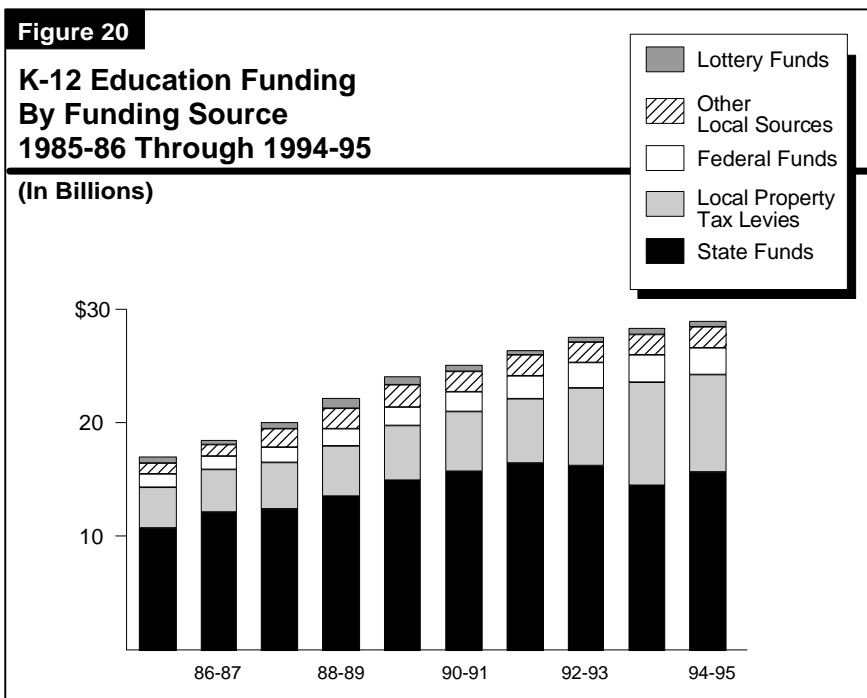
	State Funds	Local Property Tax Levies	Lottery	Federal Funds	Other Local Sources	Totals
1985-86	\$10,805	\$3,596	\$556	\$1,126	\$1,003	\$17,085
1986-87	12,174	3,804	411	1,167	979	18,535
1987-88	12,486	4,108	590	1,345	1,592	20,121
1988-89	13,568	4,466	911	1,517	1,767	22,229
1989-90	15,013	4,797	781	1,634	1,943	24,168
1990-91	15,770	5,252	602	1,770	1,770	25,164
1991-92	16,510	5,642	432	2,041	1,845	26,470
1992-93	16,263	6,848	479	2,257	1,786	27,633
1993-94 (revised)	14,562	9,115	541	2,375	1,800	28,393
1994-95 (proposed)	15,760	8,564	541	2,365	1,800	29,030
Cumulative change						
Amount	\$4,955	\$4,968	-\$15	\$1,239	\$797	\$11,945
Percent	45.9%	138.2%	-2.7%	110.1%	79.5%	69.9%

Figure 19

**K-12 Education Funding Per ADA
In Current and Constant Dollars
1985-86 Through 1994-95**

(ADA in Thousands, Total Funding in Millions)

	ADA	Current Dollars		Constant Dollars	
		Total Funding	Per ADA	Total Funding	Per ADA
1985-86	4,470	\$17,085	\$3,822	\$17,085	\$3,822
1986-87	4,612	18,535	4,019	17,950	3,892
1987-88	4,723	20,121	4,260	18,703	3,960
1988-89	4,872	22,229	4,563	19,828	4,070
1989-90	5,060	24,168	4,777	20,759	4,103
1990-91	5,273	25,164	4,772	20,733	3,932
1991-92	5,416	26,470	4,887	21,311	3,934
1992-93	5,520	27,633	5,006	21,695	3,930
1993-94 (revised)	5,581	28,393	5,088	21,752	3,898
1994-95 (proposed)	5,722	29,030	5,073	21,630	3,780
Cumulative change					
Amount	1,252	\$11,945	\$1,251	\$4,545	-\$42
Percent	28.0%	69.9%	32.7%	26.6%	-1.1%



Funding Adjusted for Inflation and Enrollment Growth

Figures 19 and 21 show total funding on a per-ADA basis, both in current dollars and constant (inflation-adjusted) dollars. They show that per-ADA funding in inflation-adjusted dollars has decreased by 1.1 percent during the ten-year period. Levels of per-ADA funding increased on an inflation-adjusted basis for the first five years of this period, and are projected to decline for the last five years. The levels of per-pupil funding presented in these figures for 1993-94 and 1994-95 differ from the \$4,217 per-pupil level of Proposition 98 funding discussed elsewhere in this analysis, primarily because the spending figures include funding sources that are not counted under Proposition 98. These funding sources include federal funds, lottery funds, non-Proposition 98 local revenue, and non-Proposition 98 state aid.

Technical Highlights

In order to keep these figures in perspective, it is helpful to understand various technical factors that are highlighted below.

State Aid. This category includes General Fund and special fund monies in Item 6110, contributions to the State Teachers' Retirement Fund, state payments on general obligation bonds and Pooled Money Investment Account loans, and support for other expenditures categorized as K-12 for purposes of Proposition 98 (mandates, deferred maintenance, Office of Criminal Justice Planning, and Department of Mental Health).

Proposition 98 loans and funding shifts between fiscal years are reported in the following manner:

- 1990-91 figures include \$1.233 billion loaned from 1991-92.
- 1991-92 figures include \$1.083 billion loaned from 1992-93 and exclude \$1.233 billion used in 1990-91.
- 1992-93 figures include \$190 million loaned from 1993-94 and \$732 million loaned from future fiscal years and exclude \$1.083 billion used in 1991-92.
- 1993-94 figures include a \$609 million loan from future fiscal years, and exclude \$190 million used in 1992-93.

The 1993-94 estimate is \$197 million greater than the estimate contained in the report, *State Spending Plan for 1993-94* (Legislative Analyst's Office, September 1993). This is primarily because the Governor's Budget proposes current-year appropriations to backfill a current-year property tax shortfall of \$100 million and 1992-93 deficiencies totaling \$121 million in general-purpose and special education funding.

Local Property Tax Levies. This category includes Proposition 98 local property taxes, property taxes in excess of revenue limits, and state property tax subventions. These figures assume that legislation proposed

by the administration is adopted to address implementation problems with the 1993-94 property tax shift. If this legislation is not adopted, local property tax revenues would be \$200 million less than shown in 1993-94 and \$210 million less than shown in 1994-95.

Federal Aid. This category includes federal funds in Item 6110, Petroleum Violation Escrow Account funds for the School Bus Demonstration Program, and State Legalization Impact Assistance Grant funds for 1988-89 through 1993-94.

Other Local Income. This category includes revenue from developer fees, sales of property and supplies, cafeteria revenues, interest and lease income, and various other sources. Our figures for 1992-93 and 1993-94 are lower than those shown in the report, *State Spending Plan for 1993-94* (Legislative Analyst's Office, September 1993), because the latter were estimates based on the assumption that year-to-year growth in other local income would occur at the same rate actually observed in 1991-92 (about 4 percent). Other local revenue for 1992-93, however, was actually about \$60 million less than in 1991-92. This is in part because the 1991-92 figure included an unusually high amount of one-time revenue, \$60 million, from the exercise of purchase options under lease-purchase agreements. Moreover, interest earned on local education agency accounts in 1992-93 was about \$35 million less than in 1991-92, due to falling interest rates.

Excluding the one-time revenue in 1991-92, other local income was essentially unchanged from 1990-91 through 1992-93. We have revised our estimate to assume no growth in 1993-94 and 1994-95, because we do not see any near-term change in the California economy that would lead to a significant departure from the trend of the past three years.

Inflation Adjustments. Inflation adjustments are based on the GNP price deflator for state and local government purchases of goods and services.

Sources of Information. Data are from *Financial Transactions of School Districts*, J-41, J-73, J-200, J-400, and J-600 district and county financial reports, and the Governor's Budget (various years).

LIST OF FINDINGS AND RECOMMENDATIONS

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Proposition 98 Issues

1. **Revenue Shortfalls Result in Painful Choices.** Due to projected General Fund revenue shortfalls, the Legislature may need to consider alternatives to overappropriating the Proposition 98 guarantee. E-21
2. **Overappropriations Versus Loans—Each Option Has Drawbacks.** Using loans instead of overappropriations to maintain Proposition 98 spending at budgeted levels would reduce budget-year pressure for spending reductions in non-Proposition 98 General Fund programs, but would require more borrowing in 1995-96 to maintain K-12 per-pupil spending, and would reduce growth in per-pupil funding into the next decade. E-22
3. **Court Ruling Poses Major General Fund Threat.** If upheld on appeal or let stand without appeal, a superior court ruling that invalidates prior- and current-year Proposition 98 loans could pose a major General Fund threat. E-25
4. **Revenue Decision Prevents Decline in Guarantee.** The administration's treatment of \$1.4 billion in sales tax revenues proposed to be shifted to local governments results in a higher Proposition 98 General Fund guarantee than is required under existing law, and could reduce the Legislature's flexibility in allocating General Fund monies. E-26

K-12 Budget Priorities

5. **Policy Initiatives.** The budget funds \$100 million in policy initiatives by holding funding constant in most categorical programs. E-28
6. **1994-95 Mega-Item Proposal.** The budget proposes to provide school districts new flexibility over the allocation of funds among categorical programs funded through the "mega-item." E-29
7. **Governor's Budget Threatens Legislature's Program Priorities.** Recommend the Legislature approve the proposal to increase mega-item flexibility from 5 to 10 percent but disapprove the proposal to lift the 1991-92 cap on redirections of mega-item funds. E-30
8. **Most Policy Initiatives Should Be Rejected.** Recommend the Legislature delete \$78.5 million proposed for policy initiatives. E-32
9. **Block Grant Provides Local Flexibility.** Recommend the Legislature use \$117.6 million in freed-up Proposition 98 funds to create a categorical program block grant. E-34

General-Purpose Funding

10. **Budget Funds Statutory Growth.** Proposed current- and budget-year funding for school district and county office of education general-purpose spending is consistent with the levels supported by the 1993 budget agreement. E-36
11. **Budget Overfunds Mandated Summer School Program. Reduce \$1.2 Million From Deficiency Funding and the Same Amount From Item 6110-104-001.** Recommend reductions from current-year deficiency funding and from the 1994-95 appropriation for summer school, because the budget overfunds enrollment growth in the mandated (remedial) summer school program. E-39

Special Education

12. **Review of the Master Plan for Special Education.** E-41
Recommend that the Legislature direct the State Department of Education, the Department of Finance, and the Legislative Analyst's Office to jointly review the Master Plan for Special Education (MPSE) and to propose a new funding model for the MPSE by May 1, 1995.
13. **Full Inclusion Waivers.** E-52
Recommend that the Legislature adopt Budget Bill language prohibiting the State Board of Education from granting certain full inclusion waivers in 1994-95. We also recommend a report on the additional cost to the districts for full inclusion programs.
14. **Nonpublic School Funding.** E-54
Withhold recommendation on the proposed increase of \$6 million for nonpublic schools contract costs, pending review of the nonpublic school report required by Ch 939/93 (AB 2355, Eastin), which is due on March 1, 1994.

Child Development

15. **No Plan for State Carryover Funds.** E-56
Recommend the Legislature (a) reappropriate \$6.5 million in available state carryover funds to the categorical mega-item and (b) reduce the General Fund appropriation to the mega-item by a like amount in order to make additional funds available for the Legislature's priorities.
16. **Significant Carryover of Federal Funds.** E-57
Recommend the SDE provide to the budget subcommittees by March 15, 1994, specific information that will help the Legislature address the issues raised by the large amount of federal block grant carryover funds that will be available in 1994-95.
17. **How Should the Legislature Use the Federal Carryover Funds?** E-59
Recommend that the Legislature use the carryover federal block grant funds to (a) supplant \$20 million in Proposition 98 funds in 1994-95 and (b) increase the availability of child care for low-income families.

California Learning Assessment System (CLAS)

18. **The 1994-95 CLAS Budget Should Reflect a Long-Term Plan.** Recommend the Department of Finance and the SDE report to the budget subcommittees by April 1 on the amount of performance testing that is desirable when the CLAS is fully implemented and how long-term plans would affect the 1994-95 CLAS budget. E-67

Other Issues

19. **School Crime Reporting—Make Mandate Optional.** Recommend the Legislature make optional the School Crimes Reporting mandate until a reliable school crime reporting system can be established, for a General Fund savings of \$902,000. E-71
20. **School Safety Initiatives.** Recommend the Legislature delete the \$20 million set-aside in the budget for school safety legislation until more information is available on the fiscal and program impacts of such legislation. E-72
21. **Juvenile Court and Community School Funding Cap.** The administration advises that it will propose legislation to maintain a cap on community schools spending. E-74
22. **Healthy Start. Reduce Item 6110-001-001 by \$1 Million.** Recommend deletion of a \$20 million augmentation proposed for the Healthy Start Program and redirection of the funds to address needs determined locally. We also recommend deletion of a related \$1 million augmentation in the state operations budget. E-75
23. **School Breakfast Startup Funding.** Withhold recommendation on \$3 million proposed for school breakfast startup grants until more data are available. E-76
24. **Volunteer Mentor Program. Eliminate Item 0558-101-001.** Recommend the Legislature delete \$5 million from the General Fund (non-Proposition 98) proposed for the Volunteer Mentor Program on the basis that revenues in the budget year are not sufficient to justify establishing a new program. E-77
25. **Technical Budgeting Issues.** Recommend adoption of two technical budgeting actions that would make available \$10.5 million in Proposition 98 funds to meet the E-78

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Legislature's priorities in 1994-95. We recommend adding these funds to the proposed categorical block grant.

Chapter 1 Reauthorization

26. **Chapter 1 Reauthorization.** The United States Congress is currently considering the reauthorization of the Chapter 1 program. The Clinton Administration's proposed changes to the program would result in significantly increased funding for California. E-80

K-12 Education Funding—Ten-Year History

27. **K-12 Education Funding.** Per-ADA funding from all sources, in inflation-adjusted dollars, has decreased by 1.1 percent since 1985-86. E-86