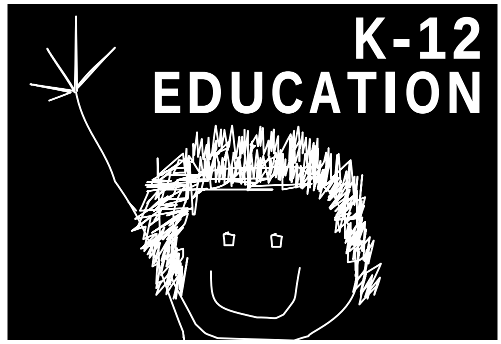


MAJOR ISSUES

Revenue Issues Dictate Budget Choices. The Legislature will face very different choices regarding Proposition 98 funding for schools depending on actual General Fund revenue growth and the Legislature's action on the Governor's proposed tax reduction. With the level of resources proposed in the budget, the Legislature must decide which programs must be cut due to the decline in the inflation-adjusted value of state and local funding. At the other end of the spectrum, using LAO revenue projections and assuming the tax cut is not enacted, the Legislature must decide how to spend a significant amount of additional resources—up to $856 million in 1996-97. (See page E-17.)

How Should the State Spend Any New Funds in K-12? Because of budget problems in recent years, the state has focused little attention on the issue of the best use of additional resources in K-12 education. As the resource picture improves, however, we see the need for a long-term plan, one that addresses how additional funding would meet the needs of the K-12 system and support the long-term goals of the state in improving public schools. We offer a long-term plan for the Legislature's consideration that emphasizes maintaining “base” levels of program spending and using additional funds to support (1) increased local revenue limits, (2) reducing class sizes beginning in grades K-3, and (3) supporting critical reform efforts. (See page E-20.)

K-12 Priorities for 1996-97. Our recommendations for Proposition 98 spending in the budget year are based on the level of

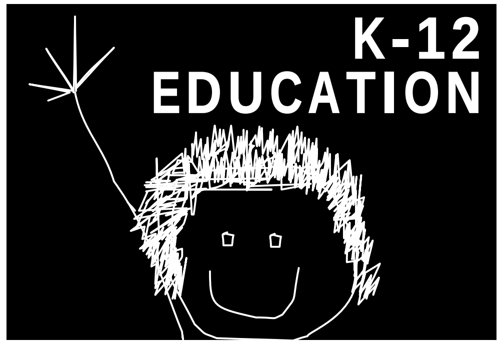
General Fund revenues projected by (1) the Governor's Budget, (2) the LAO forecast assuming enactment of the tax cut, and (3) the LAO forecast assuming no tax cut. Our recommendations are as follows:

- ***Governor's Budget Revenues***. We recommend the Legislature partially restore the existing "mega-item block grant," which the budget proposes to discontinue. We accomplish this restoration by redirecting funds proposed for new or expanded categorical programs and with savings we identify in other existing programs. (See page E-26.)

- ***LAO Revenue Projections.*** With the additional funds available under the LAO projections, we recommend full restoration of the mega-item block grant and cost-of-living-adjustments to selected other categorical programs. With the remaining funds, we recommend the Legislature develop its spending priorities based on our long-term plan. (See page E-32.)

School Safety Programs Overbudgeted. The Governor's Budget proposes an increase of $70 million in support of new school safety legislation. Our analysis indicates that the budget overestimates the additional cost of this new legislation. We are also concerned that, by fully funding these new programs, the budget sends the wrong signals to districts. We recommend the Legislature approve $30 million for community day schools and $10 million for county office population growth. (See page E-42.)

Child Development Fiscal Woes Continue. The state Department of Education (SDE) continues to be unable to provide accurate fiscal information for federal funds and General Fund carryover. The department also used the fiscal flexibility provided by its carryover authority to circumvent the Legislature's intent. We recommend the Legislature eliminate the SDE's statutory carryover authority. We also recommend requiring the SDE to contract for outside help to put the department's records in order and institute sound financial tracking procedures (See page E-71.)



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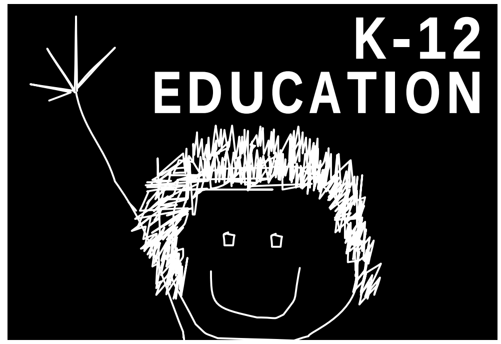


OVERVIEW

The budget includes an increase in K-12 Proposition 98 funding of $831 million in the budget year. On an average daily attendance (ADA) basis, this is an increase of $44 per ADA, or 1 percent, more than the revised estimate of per ADA expenditures in the current year. The budget also includes a revision to current-year K-12 Proposition 98 funding, proposing an additional $509 million above the level provided in the 1995 Budget Act enacted in August.

Figure 1 (see next page) shows that the budget proposes expenditures of $32.1 billion from all sources for K-12 education in 1996-97. This is an increase of $922 million, or 3 percent, more than estimated expenditures from all sources for the current year. K-12 Proposition 98 funding, which constitutes over three-fourths of overall K-12 funding, is projected to increase by $831 million, or by 3.5 percent, in comparison to the 1995-96 revised amount. However, student attendance is projected to increase by 2.3 percent, resulting in an estimated increase of only $44 per ADA, or 1 percent more than the 1995-96 per ADA amount.

The budget also includes a revision to current-year K-12 Proposition 98 funding, proposing an additional $509 million more than provided in the 1995 Budget Act. This represents a 2.2 percent increase in Proposition 98 expenditures, bringing the total per ADA increase for K-12 schools in 1995-96 to $184, or 4.3 percent.

Figure 1 includes funding related to the settlement of the *CTA v. Gould* lawsuit, which contests the legality of $1.8 billion in Proposition 98 loans made in the 1992 Budget Act and the 1993 Budget Act. While a final settlement has not yet been reached, the proposed budget includes the major elements of the tentative agreement. First, the budget appropriates $150 million for loan repayments in 1996-97—$100 million from within the Proposition 98 guarantee and $50 million above the level of the minimum guarantee. Second, the budget assumes spending of $377 million in Proposition 98 funds (primarily for revenue limits) in both 1995-96 and 1996-97. Under current law, these funds are not appropriated until the Director of the Department of Finance certifies a settlement agreement in this case. Below we discuss the *CTA v. Gould* case in greater detail.

Figure 1

K-12 Education Budget Summary 1994-95 Through 1996-97

(Funding in Millions)

	Actual 1994-95	Estimated 1995-96[a]	Proposed 1996-97[a]	Change From 1995-96	
				Amount	Percent
K-12 Proposition 98					
State (General Fund)					
Cash	$13,896	$15,276	$16,005	$729	4.8%
Loan repayment	50	100	150	50	50.0
Local property tax revenue	8,481	8,586	8,638	51	0.6
Subtotals, Proposition 98	($22,427)	($23,962)	($24,793)	($831)	(3.5%)
Other Funds					
General Fund					
Teachers retirement	$753	$775	$802	$27	3.5%
Bond payments	702	730	748	19	2.5
Other programs	143	134	128	-7	-4.9
State Lottery funds	643	638	638	—	—
Other state funds	53	47	51	4	8.3
Federal funds	2,523	2,573	2,582	8	0.3
Other local	2,248	2,271	2,311	40	1.8
Totals	**$29,493**	**$31,131**	**$32,053**	**$922**	**3.0%**
K-12 Proposition 98					
Average Daily Attendance (ADA)	5,185,271	5,303,143	5,423,585	120,442	2.3%
Amount per ADA	$4,316	$4,500	$4,544	$44	1.0%

[a] Includes $377 million set aside until the Director of the Department of Finance certifies a settlement agreement in the *CTA v. Gould* case.

PROPOSITION 98

Proposition 98, enacted in 1988 as a voter-approved amendment to the California Constitution (later amended by Proposition 111 in 1990), establishes a minimum funding level for K-12 schools and the California Community Colleges. Proposition 98 also provides support for direct educational services provided by other agencies, such as the state's special education schools and the California Youth Authority.

The minimum funding levels are determined by one of four specified formulas. Figure 2 (see next page) briefly explains each of the Proposition 98 "Tests" and some of its other major funding provisions. The formula used in any particular year depends on the relative level of growth in General Fund revenues. For example, generally in periods of strong revenue growth, a "Test 1" formula applies. Moderate growth requires using "Test 2." Low General Fund growth calls for using "Test 3" or "Test 3B." How the tests apply, however, depends on a variety of economic and fiscal circumstances.

Figure 3 (see page 9) shows the changes in the key Proposition 98 variables for the current and budget years. When the 1995-96 budget was enacted, the relevant Proposition 98 input factors resulted in a Test 3 funding level. Since that time the General Fund and ADA have grown beyond last summer's expectations. As shown in Figure 3, when the 1995 Budget Act was adopted, General Fund revenues were expected to increase by 4 percent in 1995-96. The revised estimate shows an increase of 6.2 percent. The ADA was projected to increase by 1.5 percent in the 1995 Budget Act but is now projected to increase by 2.3 percent. The combination of these factors moves the Proposition 98 calculation from Test 3 to Test 2. The net funding effect is an increase of $509 million in the current year.

Figure 2

Proposition 98 at a Glance

Funding "Tests"

Proposition 98 (1988), as amended by Proposition 111 (1990), mandates that a minimum amount of funding be guaranteed for K-12 schools, community colleges, and other specified agencies, according to one of four "tests."

Test 1—Percent of General Fund Revenues

Used in periods of strong revenue growth.
Requires that K-12 schools and the California Community Colleges receive at least the same share of state General Fund taxes as in 1986-87. This percentage was originally calculated to be slightly greater than 40 percent. In recognition of shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 34.5 percent.

Test 2—Maintenance of Prior-Year Service Levels

Used in years of moderate revenue growth.
Requires that K-12 schools and the California Community Colleges receive at least the same amount of combined state aid and local tax dollars as was received in the prior year, adjusted for statewide growth in average daily attendance and inflation (annual change in per capita personal income).

Test 3—Adjustment Based on Available Revenues

Used in years of low revenue growth.
Same as Test 2 except the inflation factor is equal to the annual change in per capita state General Fund revenues plus 0.5 percent—if that inflation factor is lower than the "Test 2" inflation factor.

Test 3B—"Equal Pain, Equal Gain"

Used during "lean" Test 3 years.
The change in K-14 funding per pupil must be not less than the change in non-Proposition 98 funding per person.

Other Major Funding Provisions

Suspension

Proposition 98 also includes a provision allowing the state to suspend the minimum funding level for one year through urgency legislation other than the Budget Bill.

Restoration ("Maintenance Factor")

Proposition 98 includes a provision to restore prior-year funding reductions (due to either suspension or the "Test 3" formulas) in years of moderate or strong General Fund tax revenue growth. The overall dollar amount that needs to be restored is referred to as the "maintenance factor."

Figure 3

Proposition 98 Funding Factors 1995-96 and 1996-97[a]

	1995-96				Change From
	Budget Act	Revised	Change	1996-97 Proposed	1995-96 Revised
Funding Factor Changes					
General Fund revenue	4.0%	6.2%	2.2%	2.3%	-3.9%
Population	1.7	1.7	—	1.8	0.1
Per-capita income	3.4	3.4	—	5.0	1.7
Local property taxes[b]	1.2	1.2	—	0.6	-0.6
K-12 average daily attendance	1.5	2.3	0.8	2.3	—
"Test" Application	Test 3	Test 2	—	Test 3	—

[a] Detail may not add to totals due to rounding.

[b] Property taxes declined in both 1994-95 and 1995-96 by approximately $100 million, keeping the rate of change between the years relatively the same. The General Fund was increased to offset these declines.

Slower Growth and Tax Reduction Dampen Proposition 98 in Budget Year. As shown in Figure 3, the budget assumes a much lower estimate of General Fund revenue growth for 1996-97—2.3 percent. This estimate reflects both the Governor's Budget expectation of moderate underlying General Fund revenue growth and the budget's proposal to reduce taxes by 15 percent, phased-in over the next three years. The budget projects growth in student attendance to once again increase by 2.3 percent in 1996-97. These factors result in a Test 3 calculation in the budget year and an increase in the minimum guarantee of $831 million for K-12 education. This amount is sufficient to pay for the growth in the student population and provide an overall increase per ADA of $44, or 1 percent, above the current-year revised amount.

Proposition 98 Split Among K-12, Community Colleges and Other Agencies. Figure 4 (see next page) displays the allocation of Proposition 98 funding by segment. The overall increase for Proposition 98 in the current year is $573 million. As Figure 4 shows, K-12 education's share of this amount is $509 million with the Community College allocation of $64 million accounting for the balance. Other agencies' funding is unchanged from the amount included in the 1995 Budget Act.

Figure 4

Proposition 98 Proposed Allocations 1995-96 and 1996-97[a]

(Dollars in Millions)

	1995-96				Change From
	Budget Act	Revised	Change	1996-97 Proposed	1995-96 Revised
Total Proposition 98	**$26,202**	**$26,776**	**$573**	**$27,702**	**$926**
K-12 Education					
Amount	$23,453	$23,962	$509	$24,793	$831
Share	89.5%	89.5%	—	89.5%	—
Community Colleges					
Amount	$2,658	$2,721	$64	$2,817	$96
Share	10.1%	10.2%	—	10.2%	—
Other Agencies					
Amount	$92	$92	—	$92	—
Share	0.4%	0.3%	—	0.3%	—

[a] Totals may not add due to rounding. Changes of less than $1 million are not shown.

The budget proposes $27.7 billion for Proposition 98 in 1996-97. The shares allocated to the three components remain unchanged from the 1995-96 revised shares. Community College Proposition 98 funding issues are discussed in the Higher Education section of the *Analysis* (please see Section F).

GOVERNOR'S BUDGET PROPOSALS FOR 1995-96 AND 1996-97

1995-96 Budget Proposals

The Governor's Budget proposes to spend most of the $509 million in additional current-year funds for one-time expenditures. Figure 5 highlights each of the major changes. A projected increase in ADA brings an added cost of $114 million, accounting for most of the $139 million in ongoing baseline budget changes in the current year. New programs totaling $315 million are proposed for the following on a one-time basis:

- $100 million for reading and math improvement in elementary grades.
- $100 million for education technology.

- $100 million block grant that would be allocated on a per pupil basis allocation for one-time costs such as deferred maintenance, instructional technology, and educational technology.
- $10 million for pilot projects to assist schools and public libraries to work together.
- $5 million to create 20 single-gender academies for students who have a high probability of doing poorly or dropping out of school.

In addition, the mid-year budget revisions include additional one-time expenditure increases of $41 million for deferred maintenance and $14 million for mandated costs for teacher evaluators. We discuss these proposals later in this *Analysis.*

Figure 5

Governor's Budget Proposals[a]
1995-96 Proposition 98

(In Millions)

1995-96 (budgeted)		**$23,453.0**
Baseline Adjustments		
District and county revenue limits	$114.3	
Equalization and deficit adjustments	17.2	
Deficiency for special education	5.7	
Other adjustments	1.9	
Subtotal		$139.1
One-Time Expenditures		
Deferred maintenance	$40.8	
Mandate claims for teacher evaluators	14.1	
Subtotal		$54.9
New Programs		
Block grant for one-time uses	$100.0	
Reading and math task force	100.0	
Educational technology	100.0	
School-public library joint use pilot projects	10.0	
Single gender school pilot projects	5.0	
Pupil residency verification	0.1	
Subtotal		$315.1
1995-96 (revised)		**$23,962.2**
Change from 1995-96 (budgeted)		**$509.1**

[a] Detail may not add to totals due to rounding.

1996-97 Budget Proposals

The budget year increase of $831 million is a net increase—reductions in some areas of the budget are proposed to provide other areas with growth and cost-of-living adjustment (COLA) increases. Figure 6 highlights each of the major changes proposed for K-12 Proposition 98 in the budget year. The budget proposes to provide enrollment growth ($453 million) and COLAs ($714 million) for revenue limits, special education, and summer school. In addition, a COLA is proposed for child development programs ($15.7 million). The total cost of these enrollment and inflation adjustments is approximately $1.2 billion.

The budget proposes to offset this increase by deleting $512 million: (1) $376 million in proposed one-time 1995-96 expenditures and (2) $136 million provided in the current year for growth and a COLA for programs funded through the categorical program mega-item.

The budget proposes to provide an additional $161 million for the following categories (1) $59 million for program expansions, (2) $51 million for new programs and (3) $50 million in additional Proposition 98 loan repayment. The detail of these changes are shown in Figure 6.

SPENDING BY MAJOR PROGRAMS

Figure 7 (see page 14) shows Proposition 98 spending for the major K-12 programs. Revenue limit funding accounts for $18.8 billion in 1996-97, or three-fourths of overall Proposition 98 expenditures. The General Fund supports about 55 percent of revenue limit funding, and local property taxes provide the remaining 45 percent.

Except for revenue limits, the largest K-12 education program is special education. Funding for special education is anticipated to reach $2.1 billion in the budget year, an increase of $161 million from the 1995-96 revised level of funding.

As Figure 7 shows, funding for categorical programs would not change significantly under the budget proposal. The amount proposed for the categorical program mega-item in 1996-97 does not change from the current-year amount. However, the budget proposes to eliminate the $136 million block grant appropriated in the current year to provide growth and a COLA for mega-item programs. Figure 7 shows the major mega-item categorical programs.

Figure 6

Governor's Budget Proposals[a]
1996-97 Proposition 98

(In Millions)

1995-96 (revised)		**$23,962.2**
Enrollment Increases		
District and county revenue limits	$382.4	
Special education	66.5	
Summer school	2.4	
Other adjustment (special education)	1.9	
Subtotal		$453.3
Cost-of-Living Increases		
Revenue limits	$615.5	
Special education	93.2	
Child development	15.7	
Summer school	4.9	
Subtotal		$729.3
Funding Reductions		
One-time reductions	-$376.4	
Mega-item	-135.7	
Subtotal		-$512.1
Program Expansions		
Child development	$20.0	
Healthy Start	10.0	
School safety	10.0	
Student assessment program	6.2	
Voluntary desegregation	4.6	
Elementary/middle grade alliances	3.6	
Partnership academies	3.1	
Beginning teacher staff development	1.5	
Subtotal		$58.9
New Programs		
Community day schools	$45.8	
Standard account code	4.0	
Governor's diploma	1.0	
Parent involvement	0.6	
Subtotal		$51.4
Proposition 98 Loan Repayment		$50.0
1996-97 (proposed)		**$24,792.9**
Change from 1995-96 (revised)		**$830.8**

[a] Detail may not add to totals due to rounding.

Figure 7

Major K-12 Education Programs Funded by Proposition 98 1995-96 and 1996-97[a]

(In Millions)

	Estimated 1995-96[b]	Proposed 1996-97[b]	Change From 1995-96 Amount	Change From 1995-96 Percent
Revenue Limits				
Schools and counties	$9,088	$10,044	$956	10.5%
CTA v. Gould deferral	347	347	—	—
Property tax revenue	8,369	8,421	52	0.6
Subtotals, revenue limits	($17,805)	($18,812)	($1,008)	(5.7%)
Special Education				
State General Fund	$1,727	$1,888	$162	9.4%
Property tax revenue	212	212	—	—
Subtotals, special education	($1,939)	($2,100)	($161)	(8.3%)
Mega-Item—Categorical Programs				
Desegregation	$502	$502	—	—
Home to school transportation	340	340	—	—
Economic impact aid	331	331	—	—
School improvement	320	320	—	—
Instructional materials	133	133	—	—
Other programs	404	404	—	—
Mega-item block grant	136	—	-$136	-100.0%
Subtotals, Mega Item	($2,165)	($2,029)	(-$136)	(-6.3%)
Other Programs				
Child development	$471	$507	$36	7.6%
Adult education	427	427	—	—
ROC/P	250	250	—	—
Summer school	143	150	7	5.1
Mandates	128	121	-7	-5.7
Deferred maintenance	90	41	-49	-54.4
Healthy Start	39	49	10	25.6
Student assessment program	33	39	6	19.0
Other programs	53	60	7	13.9
One-time expenditures	320	—	-320	-100.0
New programs	—	56	56	—
Subtotals, other programs	($1,954)	($1,701)	(-$253)	(-12.9%)
Proposition 98 loan repayment	$100	$150	$50	50.0%
Totals	**$23,962**	**$24,793**	**$831**	**3.5%**

[a] Detail may not add to totals due to rounding.

[b] Includes $377 million set-aside until the Director of the Department of Finance certifies a settlement agreement in the *CTA v. Gould* case. This amount includes $347 million in revenue limit funding, and $30 million for the following programs: California Assessment Program ($15 million), Healthy Start ($10 million), and Volunteer Mentor Program ($5 million).

CTA v. Gould Settlement Is Not Finalized

The amounts contained in Figure 7 for 1995-96 and 1996-97 include allocations related to the *CTA v. Gould* lawsuit, which contests the legality of $1.8 billion in Proposition 98 loans made in the 1992 Budget Act and the 1993 Budget Act. Because the parties are still negotiating a final settlement, the Departments of Finance and Education could not supply information on the progress and details of the settlement talks. However, the proposed budget includes the elements of the tentative settlement discussed last July.

First, the budget appropriates $150 million for loan repayments in 1996-97. Of this amount, $100 million is from within the Proposition 98 guarantee. The budget further proposes to appropriate $50 million in General Fund support above the Proposition 98 minimum guarantee for the loan repayment. This proposal is consistent with the tentative agreement reached in July 1995.

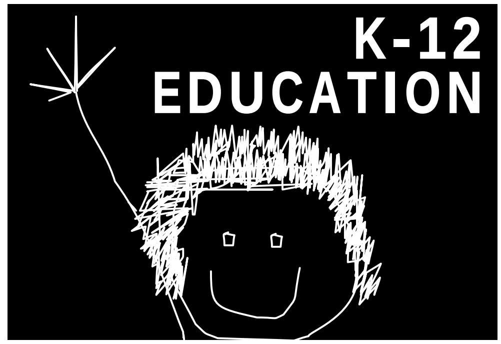
According to this agreement, the $1.8 billion in Proposition 98 loans would be repaid over an eight-year period with $825 million being repaid *within* the Proposition 98 minimum guarantee and $935 million being repaid *above* the minimum guarantee with state General Fund appropriations, as follows:

- ***Proposition 98 Funds.*** The tentative agreement calls for repayments with Proposition 98 funds of $50 million in 1994-95, $100 million per year for the next four years and $125 million per year for the final three years.
- ***Non-Proposition 98 General Funds.*** The tentative settlement requires $50 million in 1996-97, $100 million in 1997-98, $150 million in 1998-99, $185 million in 1999-00, and $225 million in each of the last two years. These funds are provided above the minimum Proposition 98 funding level.

The budget also includes the $50 million General Fund repayment in the "base" for Proposition 98 in future years. This means that this additional amount will be included in future growth and COLAs to Proposition 98. If this is part of the settlement agreement, we estimate that including these payments in the Proposition 98 base will add approximately $10 million to the overall state cost from 1997-98 through 1999-2000.

Finally, in accord with the July 1995 agreement, the budget assumes that $377 million in Proposition 98 funds are spent in both 1995-96 and 1996-97. Under current law, these funds are not appropriated until the Director of the Department of Finance certifies a settlement agreement in this case. As shown in Figure 7 these funds are primarily for school district and county office revenue limits. If the lawsuit is settled, the $377 million from the current year will be distributed to schools in August 1996. If there is no agreement during the spring of 1996, the Legislature's budget decisions would become substantially more complicated, as follows:

- ***The Revenue Limit Proposal for 1996-97 Assumed in the Budget Would Need to Be Recalculated.*** If the lawsuit is not settled, the revenue limit funds that are subject to the settlement would not be distributed. This would reduce district revenue limits for both 1995-96 and 1996-97.
- ***The $377 Million in Both the Current and Budget Year Would Become Available.*** Under Proposition 98, these funds must be spent for K-14 education to meet the minimum funding guarantee.
- ***The Legislature Would Be Faced With the Issue of How to Retire the $1.8 Billion in Proposition 98 Loans.*** Prior to the tentative settlement, the state planned to fully repay the loans with Proposition 98 funds.



BUDGET ISSUES

K-12 BUDGET PRIORITIES

REVENUE ISSUES DICTATE BUDGET CHOICES IN 1996-97

The budget's proposed income tax reduction and projected General Fund revenue growth would result in an annual growth rate in per-pupil funding available to schools that is significantly lower than inflation.

The 1996-97 Governor's Budget proposes to spend $24.8 billion in Proposition 98 support for K-12 education. This represents an increase of $831 million, or 3.3 percent, from the revised 1995-96 level. The proposed level of funding is insufficient to adjust all K-12 programs by the projected 2.27 percent growth in the student population and the 3.34 percent cost-of-living adjustment (COLA). To increase the K-12 base budget for these two factors would require a funding increase of 5.7 percent, or $1.4 billion. This is about $550 million more than the budget predicts will be available under Proposition 98.

As a result of this relatively low growth in Proposition 98 funds, the budget proposes full growth and COLA increases only for school district and county office apportionments and child development programs. Other categorical programs would receive no new funding, either for growth or to offset the cost of inflation. In addition, the budget proposes to discontinue the $136 million growth and COLA appropriation provided in 1995-96 for programs that are funded through the categorical program mega-item. The categorical program mega-item contains the funds for more than 30 programs. This mega-item growth/COLA “block grant” was established in the 1995 Budget Act.

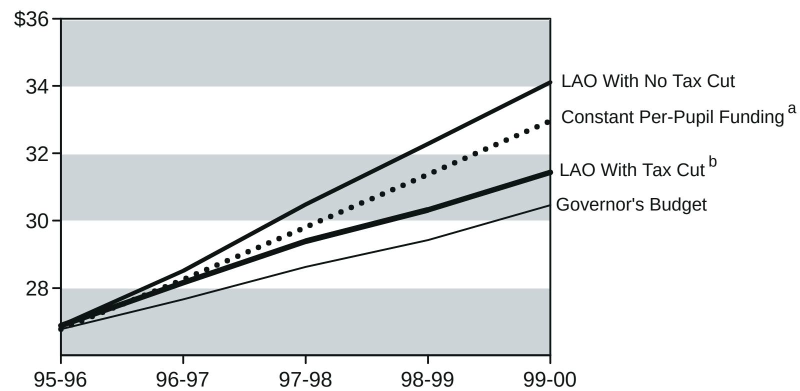
Proposition 98 Reflects Low General Fund Revenue Growth. There are two main reasons for the low level of funding provided under Proposition 98. First, the Governor's income tax reduction proposal would reduce General Fund revenues by $572 million in 1996-97 (and by increasingly larger amounts in out-years). Second, the Governor's Budget assumes that General Fund revenues will grow slowly, even though the overall health of the California economy is expected to grow at a moderate pace. The administration projects that General Fund tax revenues will increase by only $1 billion, or 2.3 percent in the budget year. At the same time, the budget expects the California economy to expand moderately—as shown by a 5 percent anticipated increase in per-capita personal income. Since Proposition 98 funding is based on the lower of: the growth in General Fund revenues or per-capita income, the low projected increase in the General Fund revenues translates into slow growth in the minimum guarantee in 1996-97.

To understand the impact of the Department of Finance's (DOF's) Proposition 98 funding projections on K-14 funding levels both in the budget year and beyond, we developed an alternative forecast using General Fund projections developed by the Legislative Analyst's Office (LAO). Figure 8 illustrates the LAO and Governor's Budget forecast of

Figure 8

Proposition 98 Minimum Funding Guarantee
LAO and Governor's Budget Scenarios
1995-96 Through 1999-2000

(In Billions)



[a] Revised 1995-96 Proposition 98 minimum adjusted annually for inflation.

[b] LAO long-term extrapolation of Governor's Budget revenue projections.

Proposition 98 funds available through 1999-2000 assuming the Legislature approves the proposed tax reduction. In addition, the figure shows the LAO forecast without the tax cut.

Figure 8 also includes a scenario assuming constant per-pupil funding for K-14 schools. This was calculated by increasing the revised 1995-96 minimum guarantee to adjust for the effects of inflation and student enrollment (all of the scenarios use the same enrollment assumptions). As the figure illustrates, both the Governor's Budget and the LAO tax cut scenario fall short of providing a per-pupil funding level which keeps pace with inflation.

As Figure 8 illustrates, the effect of the tax cut and the different revenue projections on the Proposition 98 minimum guarantee increases dramatically after 1996-97. For instance, in 1999-2000, our projection of Proposition 98 funds available assuming passage of the Governor's proposed tax cut is $31.6 billion, or $1 billion greater than available under the Governor's Budget forecast. If the Legislature does not approve the tax cut, an additional $2.7 billion would be available to schools in 1999-2000.

The LAO Outlook for Proposition 98 Is Brighter. Figure 9 shows in detail the Proposition 98 amounts available under the three scenarios for 1995-96 through 1997-98. For 1995-96, we estimate the Proposition 98 minimum guarantee at $26.9 billion, or $120 million higher than estimated by DOF. (This difference is due solely to our higher revenue projections, as the proposed tax reduction would have no impact on Proposition 98 in 1995-96.)

Figure 9

LAO and Governor's Budget Proposition 98 Forecasts[a]

(In Millions)

Forecast	1995-96	1996-97	1997-98
Governor's Budget	$26,776	$27,654	$28,626[b]
LAO with tax cut	26,896	28,159	29,383
Difference with Budget	**$120**	**$505**	**$757**
LAO with no tax cut	$26,896	$28,510	$30,474
Difference with Budget	**$120**	**$856**	**$1,848**

[a] Assumes funding at the minimum level required under Proposition 98.

[b] LAO long-term extrapolation of economic and revenue projection underlying the 1996-97 Governor's Budget proposal.

In 1996-97 and 1997-98, the proposed tax cut and the different General Fund revenue estimates affect the amounts projected for Proposition 98. In the budget year, the higher LAO estimate of General Fund revenues results in $505 million more in Proposition 98 funds. If the Legislature rejects the proposed tax reduction, a total of $856 million would be available. In 1997-98, the differences are substantially larger—an additional $757 million would be available to K-14 education due to the different revenue projections and $1.8 billion more would be expected due to the combined influence of the higher LAO forecast and the assumption of no tax cut.

1996-97 BUDGET SHOULD BE BASED ON A LONG-TERM PLAN

We recommend the Legislature develop its approach to funding K-12 education in 1996-97 based on a longer-term view of funding and priorities and the relative roles of the state and local school districts in the governance of public education.

As Figure 9 indicates, depending on the actual growth in General Fund revenues and whether the Legislature approves the proposed tax reduction, the Legislature will be faced with very different choices regarding funding for schools. With the level of resources projected in the Governor's Budget, there are not sufficient funds for all programs to keep pace with enrollment growth and inflation. The Legislature must decide which programs will decline in real, inflated-adjusted terms. At the other end of the spectrum, assuming the higher LAO projection of state revenues and no tax cut, the Legislature must decide how to spend a significant amount of additional resources that would not only maintain, but increase the real spending power of state and local funds.

How Should the State Spend Any New Funds in K-12?

Over the past five years, the state has focused little attention on the issue of the best use of additional resources in K-12. Because of the recession, funding under Proposition 98 grew more slowly than the increase in the number of students and the impact of inflation. As a result, the Legislature's budget plan over this period attempted to *maintain* past levels of school funding.

As the resource picture improves, however, we see the need for a different long-term plan, one that addresses how additional funding would meet the needs of the K-12 system and support the long-term goals of the state in improving public schools. The development of a long-term plan by the Legislature and Governor would have a number of important benefits.

A Considered Approach to Identifying K-12 Priorities. Without a long-term spending plan, the Legislature must make budget decisions on an ad-hoc basis. Unfortunately, the budget process does not always permit decision-makers the luxury of time to make these decisions. For example, the $377 million appropriated in the current year that is contingent upon conclusion of the *CTA v. Gould* lawsuit was crafted and adopted within a very short timeframe, giving most members little opportunity to develop a broad sense of the needs and priorities of the state in funding schools. A long-term K-12 spending plan would have provided a road map for determining the allocation of these additional funds.

A Way to Compare the Relative Benefits of New Spending Proposals. A long-term plan also creates a way for legislators to better evaluate the merits of new proposals that are made each year. Every year, the Governor and legislators make proposals for the use of K-12 funds—indeed there is no limit to the amount of funds the state could spend on "good ideas" in education. But, without the understanding of the impact of alternative uses of these funds, it is extremely difficult to assess whether these new ideas are worthy of support. A long-term plan requires the Governor and legislators to show that a new proposal would generate greater benefits than the activities identified in the plan.

A More Reliable Way for the State to Achieve Its Long-Term Goals. Some K-12 priorities appear to be too expensive to realistically afford. Class-size reduction, revenue limit "deficit reduction," and funding equalization require hundreds of millions or billions of dollars to achieve. On a year-by-year basis, it may seem impossible to achieve these goals. Yet, as the LAO projection of Proposition 98 resources suggests, substantial new funding may be available that would allow the Legislature to make possible substantial progress towards these goals. As a result, a long-term plan would focus the budgetary debate on a realistic timetable for achieving these goals over a number of years.

Stable and Predictable Funding That Allows School Districts Time to Plan. State law requires school districts to develop their annual budgets within the context of a multi-year revenue projection. Since the state budget process does not parallel these local requirements, districts must guess what the state may provide in future years. This leaves districts vulnerable to last-minute funding reductions or unprepared to implement new spending authorizations. A long-term state plan for K-12 funding would provide districts with better information about the state's plans in allocating school funds, which would ease some of the budgeting and administrative problems faced by schools.

Long-Term Plan Should Include Class-Size Reduction

We think the value of developing a long-term K-12 funding plan is clear. For this reason, we recommend the Legislature develop its priorities for the 1996-97 budget based on an assessment of K-12 priorities and revenues over the next five years. Figure 10 displays our recommended long-term plan for K-12 education funding priorities. We discuss the elements of the plan in more detail below.

Fund Continuing Costs. Protecting the inflation-adjusted value of revenue limits and honoring other funding commitments made by the state should take top priority for funding. This will ensure districts a steady source of general purpose funding that is available to provide a basic education to all students. The state also must honor other funding commitments, such as reimbursement of state mandates and other program deficiencies.

Review Whether Current Programs Are Consistent with Long-Term Goals. A long-term plan for K-12 funding should not address only the use of new funds. The Legislature should also periodically review whether existing programs further the long-term goals expressed in the plan.

Currently, we see three funding reform efforts as most important. First, school district revenue limit calculations need to be simplified and unwarranted disparities that result from the existing formula should be eliminated. Second, reform of the special education funding system as proposed by the recent joint report of the LAO and the Department of Education, and the DOF would go far to correcting problems with the existing financing structure. Third, reform of K-12 education categorical programs could refocus funding dedicated to these programs toward the state's long-term goals in a way that maximizes local flexibility and accountability.

Balance State and Local Funding Needs. After meeting basic program costs, any additional funds made available under Proposition 98 should be used to meet both state and local funding needs. In California's divided system of K-14 school governance, the Legislature, Governor and local school boards all play a role in setting school spending priorities. As a result, both the state and local school districts have needs and priorities that require funds. Under this system, it is our view that the state should be able to determine the priorities over some portion of K-12 funding and the remainder should be the responsibility of school boards.

Increase Local Revenue Limits. After the continuing costs of the current program are satisfied, we recommend that school districts should receive about half of all additional funds to meet local K-12 priorities. There is no “right” balance of responsibilities between the two levels of government. In recommending this split between the state and school districts, we recognize the two levels of government as equal in importance. The Legislature should distribute these funds in a way that increases funding for all districts and makes progress toward equalizing the amount provided to all districts.

Figure 10

LAO Long-Term Plan for K-12 Education Funding Priorities

Fund the Continuing Costs of the Current Program

- Increase revenue limit funding for growth and cost-of-living increases.
- Pay deficiencies and other funding commitments.

Review and Reform Current Programs Consistent with Long-Term Goals

- Simplify and eliminate disparities in the revenue limit calculation.
- Reform categorical programs to increase local program flexibility and increase local accountability for positive program outcomes.

Balance State and Local Funding Needs

- Allocate additional funds above the amount needed to fund the current program for meeting state and local priorities.
- Reflect shared state and local governance of the K-12 system in funding allocations.

Increase and Equalize Local Revenue Limits

- Allocate about half of any additional funds to increase and equalize local revenue limits.

Reduce Average Class Size

- Use about half of additional funds to reduce average class sizes, beginning with grades kindergarten through three.

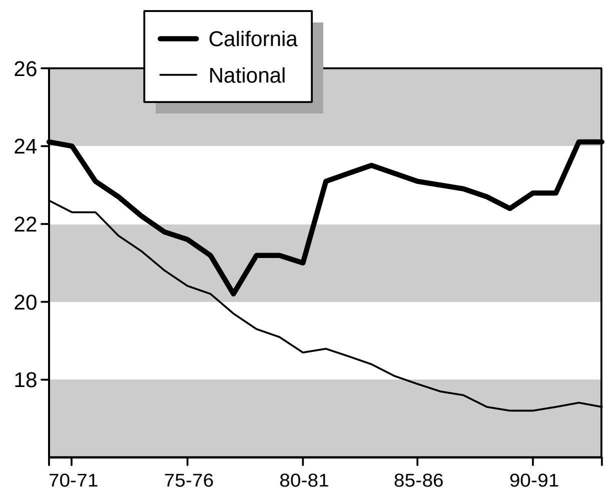
Support Critical Reform Efforts

- Use remaining funds to support critical school improvement programs.

Reduce Class Size. We recommend the Legislature use about half of any additional funds allocated to meet state priorities to reduce the average class size of California's schools. Consistent state data on class size are not available. Figure 11 (see next page) shows the average student-teacher ratio in California and the nation over the last 20 years. California is far out-of-line with other states in this area—California schools operate with 28 percent more students for every teacher than the national average. With moderate investments in smaller class sizes over time, we think the Legislature can reduce class sizes—especially in the critical early grades—to a level that allows teachers to be more effective.

Figure 11

California's Student-Teacher Ratio Is Far Above Average 1969-70 Through 1993-94



Recent research shows that smaller class sizes result in improved student learning. Tennessee's Student Teacher Ratio Project (Project STAR) is the most comprehensive study to date of the effects of reducing class size. The study measured the impact on student achievement of reducing class sizes from about 23 students to about 15 students. The research included a large number of schools and students and controlled for differences between students and schools. These features make the results of the study more reliable and definitive than any previous study on class size. The study found:

- By the end of third grade, students in small classes scored seven percentile points higher than students in regular classes on standardized tests.
- These achievement gains were sustained through the sixth grade, when students in small classes scored eight percentile points higher than students in regular classes.
- Gains for disadvantaged students were greater than for middle class students. For example, while suburban students in small classes achieved a seven percentile point advantage over suburban students in regular classes, inner city students in small classes achieved a 13 percentile point advantage over inner city students in regular classes.

There is no "right" answer to the question of how the state should best use additional funds to improve K-12 education. Unfortunately, there is little data to provide definitive answers on the costs and benefits of different ways to improve student achievement. Project STAR, however, shows that smaller class sizes produce broad, sustained, increases in student achievement. For this reason, we recommend the Legislature adopt the long term goal of reducing average class size to about 20 students per K-3 class in California schools.

Support Critical Reform Efforts. Remaining funds should be used to support critical reform programs. We see two areas where additional funds would be especially productive. First, the state should provide funds to support the development costs associated with local reform efforts. School improvement activities often take additional funds to plan and implement. A strategic use of state funds could spur local improvement efforts. Once the changes are in place, however, additional costs should be funded with revenue limit funds or other funds available to schools and districts. The Demonstration in School Restructuring and Healthy Start programs operate in this way, which allows the state to maximize the use of scarce resources and places responsibility for long-term support of the program at the local level. Second, there is a critical need to support a program of evaluation of local programs so that educators have good data on the effectiveness of different programs for different groups of students. Generally, good data connecting programs to student outcomes is not available to educators. We think supporting good evaluations would pay long-term dividends.

LEGISLATURE'S K-12 FUNDING OPTIONS

To assist the Legislature with its deliberations on K-12 funding priorities for the 1996-97 budget, we developed alternative budgets proposals for the funds that would be available to schools under these different revenue scenarios. First, we discuss the options for the use of Proposition 98 funds in 1996-97. Second, we discuss possible options for the Legislature using the 1995-96 "settle-up" funds—available because the improved economy has increased the amount of funds available in the current year above the level appropriated in the 1995 Budget Act.

Because of the large difference in the amount of funds that are available under the three scenarios for 1996-97, we developed three sets of recommendations for the Legislature's consideration. The first set addresses K-12 priorities using the level of Proposition 98 funds identified in the Governor's Budget. The second and third set of recommendations address the issue of the use of additional funds that would be available under the LAO projections of General Fund revenues—with and without the revenue loss created by the proposed income tax cut.

Options for 1996-97—Governor's Budget Revenues

Figure 12 displays the Governor's proposal and the LAO recommendations for the level of Proposition 98 funds assumed in the Governor's Budget. As the figure shows, our alternative proposes to fund K-12 priorities at the same total level of funding as included in the Governor's Budget—$140.5 million. This $140.5 million represents the K-12 Proposition 98 increases that are proposed in the budget after funding enrollment growth and COLAs for revenue limits and special education. Since we also make a number of recommendations later in this section to reduce funding for specific ongoing programs, we include these reductions in Figure 12.

Our alternative uses the available funds in a somewhat different manner than the budget proposal. Most significantly, our proposal for 1996-97 would restore $88.9 million, or two-thirds, of the $135.6 million that is currently provided in the mega-item block grant. We accomplished this restoration primarily by redirecting funds proposed in the budget for new programs or for program expansions. Our recommendations for reductions in specific ongoing programs also provided funds for the partial restoration of the mega-item.

Fund the Continuing Cost of the Current Program

We recommend approval of $88.9 million to provide partial restoration of the mega-item block grant.

Because the budget projects relatively low growth in funding for Proposition 98, our recommendations direct almost all of the available funding to maintaining the existing mega-item block grant. Restoring the mega-item block grant is the highest priority in this scenario because of the funding and flexibility it provides to districts in supporting the programs in the mega-item. The block grant represents the first general increase for enrollment and COLA adjustments these programs have received since 1991-92. To eliminate the block grant would require districts to reduce funding for programs just one year after these increases were provided.

The block grant creates significant flexibility for districts in deciding how to use targeted mega-item program funds in a manner that best meets district needs. Under the terms of the block grant, districts have complete flexibility to allocate the block grant funds to any program within the mega-item. This flexibility, along with the broad range of programs that are funded within the mega-item, allows districts to target the funds to meet the most urgent local needs.

Therefore, to maintain this local flexibility, we recommend the Legislature direct almost all available funds that are not required to satisfy other commitments to restoring this grant. We were able free up $88.9 million for this purpose.

Figure 12

1996-97 K-12 Proposition 98 Increases Governor's Budget Revenues

(In Millions)

	Governor's Proposal	Legislative Analyst's Office
Funding the continuing costs of the current program		
Mega-item block grant	—	$88.9
Pay program deficiencies and other funding commitments		
Child development	$20.0	20.0
County office—school safety	10.0	10.0
Student assessment	6.2[a]	-5.8[a]
Voluntary desegregation	4.6	4.0
Standard account code	4.0	4.0
Partnership academies	3.1	2.1
Review current programs consistent with long term goals		
Mandates	—[b]	-15.7[b]
County office growth	14.5	—
Support critical reform efforts		
Community day program	45.8	30.0
Beginning teacher support	1.5	3.0
Reject other proposed augmentations		
Healthy Start	10.0	—
Child development COLA	15.7	—
Elementary and middle grade alliances	3.6	—
Governor's diploma program	1.0	—
Parent involvement	0.6	—
Totals	**$140.5**	**$140.5**

[a] Governor's budget includes a $6.2 million increase for student assessment. We propose a reduction of $5.8 million from the current-year level.

[b] Governor's budget includes $121.2 million for the ongoing costs of mandates. We propose a $15.7 million reduction from this level.

Pay Deficiencies and Other Funding Commitments

We recommend approval of $34.3 million to satisfy program deficiencies and other commitments.

State statutes and past-year budgets contain funding commitments that sometimes span over two or more fiscal years. The budget proposes to spend $47.9 million to satisfy such commitments. We recommend approval of $34.3 million, as follows:

- $20 million to provide full-year funding for child development programs that were initiated in the current year. We recommend approval.
- $10 million to provide full-year funding for the increased cost of county office of education classes associated with increased student expulsions resulting from Ch 972/95 (SB 966, Johnston). We recommend approval of this amount. (Please see our discussion of school safety programs later in this section.)
- $6.2 million for development costs associated with the new statewide assessment program that was approved and funded by the Legislature in 1995. Because a substantial amount of the 1995-96 funds will be carried over into the budget year, we recommend a net *reduction* of $5.8 million from the level provided in the current year. Please see our discussion of the assessment program later in this section.
- $4.6 million to pay for voluntary desegregation costs in Compton Unified School District and Ocean View School District. We recommend approval of $4 million of this amount from 1996-97 funds and the remaining $528,000 from one-time 1995-96 funds. We discuss this issue further below.
- $4 million to continue the district implementation of standard accounting codes, which was approved and funded in legislation by the Legislature in 1995. We recommend approval.
- $3.1 million to supplement existing funding for the Partnership Academy program. We recommend approval of $2.1 million to provide first-year funding to the 50 schools that received start-up funds in the 1995 Budget Act. We discuss this issue later in this section.

Review Current Programs Consistent with Long-term Goals

We recommend the Legislature reduce funding for specific ongoing programs by $30.2 million in 1996-97.

As we discussed above, the Legislature should periodically review "base" programs to determine whether existing programs are still needed or providing services in an effective manner. In our review of K-12 programs in this *Analysis*, we recommend a reduction of $30.2 million in proposed expenditures for base programs that we believe could be used for higher priority activities:

- $15.7 million in proposed mandated local program reimbursements. Our recommendations reflect proposed program efficiencies, elimination of programs that no longer present a cost-effective manner of achieving their intended goals, and mandates that have been discontinued. Please see our recommendations in a later section of this *Analysis*.
- $14.5 million proposed to increase funding for county office alternative programs. This recommended reduction, which would limit the growth in the county community schools program, is part of our broader school safety write-up discussed below.

Support Critical Reform Efforts

We recommend approval of $33 million for new or expanded programs that hold the promise of significantly improving local K-12 outcomes.

The budget proposes to expand several existing programs and create a number of new programs. In general, we think these funds should be used to further restore the mega-item block grant. We think that, on balance, the following proposals warrant the Legislature's approval:

- $30 million for the new district community day program, which will provide district alternatives to sending expelled students to county community schools. The budget proposes $45.8 million for this program, which was authorized by Ch 974/95 (AB 922, Friedman). For fiscal and program reasons, we recommend approval of $30 million for the first year of operation. From a fiscal standpoint, we think the community day program should provide a higher quality program at lower cost than county community schools. From a program perspective, the state should encourage school districts to create alternative settings that address the needs of almost all students—even those students who present a disciplinary problem if left in the regular classroom. Please see our discussion of this proposal later in this section.
- $3 million to increase support for the Beginning Teacher Support Act (BTSA). The budget proposes a $1.5 million augmentation in 1996-97. In our discussion of state-mandated local programs

below, we recommend eliminating an existing mandate that, in part, requires support of newly hired teachers. Recognizing the success of BTSA in assisting new teachers, we also recommend redirecting part of the savings from eliminating the mandate to increase funding for BTSA, bringing the total augmentation to $3 million.

Reject Most Other Proposed Augmentations

We recommend the Legislature delete $30.9 million proposed in the Governor's Budget.

As Figure 12 displays, we recommend approval of most of the augmentations in the 1996-97 proposed budget. A few proposals, however, are relatively low priority in our view or lack the detail necessary for a complete evaluation of the proposal's costs and benefits. For these reasons, we recommend deletion of these proposals. Below, we summarize these program proposals:

- $15.7 million for a cost-of-living increase for child development programs in 1996-97. Providing COLAs for selected categorical programs is a policy choice. Since the budget proposes a *reduction* in funding for the mega-item programs, however, these funds should be used to restore the mega-item block grant instead.
- $10 million to expand the Healthy Start program. The program received a 50 percent increase in funding in 1995-96. The budget-year proposal would result in more than doubling of the program's support over a two-year period. Even without this increase, the program will continue to expand in 1996-97, as the budget provides three-year funding for a new set of local programs each year. In addition, districts that do not receive a state grant may use mega-item funds to begin and support a Healthy Start program. For these reasons, we recommend deleting these funds. Please see our discussion of the Healthy Start program later in this section.
- $3.6 million to increase support for elementary and middle school alliances. These alliances provide materials and staff development to schools that are interested in reforms consistent with SDE reform plans *It's Elementary* and *Caught in the Middle.* As we discuss in a later section of this *Analysis*, the budget does not clarify how the different reform proposals contained in the budget relate to each other or how the funds identified in these proposals would be spent. The alliance proposal could be funded

from federal Goals 2000 funds, for example. Because this proposal could be funded from another source, we recommend the Legislature delete these funds.

- $1 million for the proposed Governor's diploma program. The program would recognize exemplary student achievement. As we discuss later in this section, we were unable to obtain additional details on the program. Without information on the costs and benefits of this program, we recommend rejection of this proposal.
- $550,000 to establish a network of parent resource and information centers. We recommend deleting the funds because the impact on parental involvement of these centers is likely to be small and would duplicate local resources already providing assistance to parents. We discuss the proposed parental involvement program later in this section.

Options for 1996-97—LAO Revenue Projections

Figure 13 displays our recommendations for the additional funds that would be available under the Legislative Analyst's Office projection of General Fund revenues. These funds would be available *on top* of the

Figure 13

1996-97 K-12 Proposition 98 Increases Legislative Analyst's Revenues

(In Millions)

	With Tax Reduction	Without Tax Reduction
Fund the continuing costs of the program		
Mega-item block grant	$46.8	$46.8
COLAs		
Child development	15.7	15.7
Adult education	14.3	14.3
Regional Occupation Centers/Programs	8.4	8.4
Balance state and local needs		
Increase and equalize local revenue limits	149.0	271.5
Reduce K-3 average class size	149.0	271.5
Support critical reform efforts		
Special education funding reform	25.0	50.0
Totals	**$408.0**	**$678.0**

level of funding proposed in the Governor's Budget. As a result, in considering these increases, the Legislature should view our recommendations as supplementing the recommendations discussed above on the Governor's proposals.

Figure 13 contains our recommendations for both LAO funding scenarios—assuming the Legislature enacts the proposed income tax cut and assuming the tax cut is rejected. There is a significant difference between the two scenarios. Specifically, we project total increases in Proposition 98 funds for K-12 schools of $408 million (tax cut) or $678 million (no tax cut). To calculate these amounts, we allocated about 10 percent of the available funds to the community colleges, which are also funded from Proposition 98. First, however, we set aside $50 million (tax cut) and $100 million (no tax cut) for a Proposition 98 reserve.

Set-Aside Funds for a Proposition 98 Reserve

We recommend the Legislature set aside up to $100 million in a Proposition 98 reserve to protect against over-appropriating the minimum guarantee in the event General Fund revenues are lower than projected.

In the years after Proposition 98 was passed by the voters, the Legislature created a reserve account to protect the state in the event the projection of General Fund revenues assumed in the budget was too optimistic. During the lean years of the recession, the reserve was not used and, as a result, the state overappropriated the minimum funding guarantee several times.

As the experience with current-year funding shows, the amount of General Fund revenues can be hard to predict, especially as the state recovers from the recession. While Proposition 98 revenues are higher in the current year than when the budget was enacted, as we learned in the recession, it could easily be the reverse. In that event, a Proposition 98 reserve would give the Legislature some margin of safety without affecting the amount already appropriated to schools.

The reserve would not reduce the minimum funding guarantee under Proposition 98. The funds would be set aside until the spring, when a fairly complete tally of General Fund revenues for that year would permit the Legislature to allocate the funds, if appropriate, without overspending the minimum guarantee. The funds could then be used to support high-priority one-time expenditures, such as deferred maintenance. Therefore, we recommend the Legislature set aside $50 million (in the tax cut scenario) and $100 million (in the no tax cut scenario) as a Proposition 98 reserve.

Fund the Continuing Costs of the Current Program

We recommend the Legislature approve $85.2 million to increase support for "base" program costs in 1996-97.

As we discussed above, funding the "base" K-12 program is among the highest priorities for K-12 funding. In our view, this suggests the Legislature should use additional funds to (1) completely restore the mega-item block grant to its current-year level and (2) provide a COLA to selected categorical programs.

Backfill the Mega-Item Block Grant. We recommend the Legislature appropriate $46.8 million for this purpose, which along with the $88.9 million recommended above would restore the mega-item block grant to its current-year level.

We do not recommend a COLA for mega-item programs, however, for three reasons. First, with the mega-item block grant restored and the significant fiscal flexibility the mega-item provides to districts in transferring funds between programs in the mega-item, districts now have the ability to redirect funds to satisfy the highest priority program needs, including providing a COLA to certain programs.

Second, we no longer can advise the Legislature of the impact of a COLA increase for the mega-item. The flip side of the local flexibility is that the Legislature no longer can determine the amounts districts would spend for specific purposes. The Legislature may provide additional funds for a COLA, but districts may choose to focus the funds on one or two categorical programs rather than distribute the funds to all of the mega-item programs. Indeed, additional funding may have no impact on categorical spending if districts simply use the additional funding to reduce revenue limit spending on Home-to-School transportation, or other categorical programs.

Third, we think the funds that would otherwise support a mega-item COLA (about $68 million) would be better used to increase the amount of funding available for other state and local priorities. With class size reduction, for example, the Legislature would know what it is getting from the expenditure of funds and could hold schools accountable for the results. The Legislature also would be investing in a program that, unlike most mega-item programs, has a demonstrated impact on student achievement.

In our view, funding for categorical programs should be restructured. The Legislature could create a simple funding structure that provides more local fiscal and program flexibility than the mega-item and also provides a better focus for the Legislature's goals in creating the programs (please see our recommendations in the *Analysis of the*

1995-96 Budget). Until this restructuring occurs, we recommend the Legislature use mega-item COLA funds to increase the amount of funds available for class-size reduction.

Provide a COLA to Selected Categorical Programs. While we do not recommend providing a mega-item COLA, we do recommend appropriating funds for a limited number of categorical programs. Providing a COLA to Adult Education, Child Development, and Regional Occupational Centers and Programs (ROC/Ps) programs would supply the funding that these programs need to maintain the existing level of services.

These three programs are somewhat different from other categorical programs in that state funding for these programs is the primary source of support for program services. Like a district revenue limit, these programs must cover total program costs with state funding. In contrast, most other categorical programs *supplement* general purpose funding—they add to the level of resources provided through revenue limits.

These programs may have few other sources of funding available. Child development and vocational education programs are not operated by school districts in many cases. As a result, these agencies have few alternative ways to support program services. Therefore, to maintain the purchasing power of these three programs, we recommend the Legislature approve $38.4 million to provide a 3.34 percent COLA for adult education, child development, and ROC/P programs.

Balance State and Local Funding Needs

We recommend the Legislature (1) approve $149 million to $272 million to increase and equalize revenue limits and (2) provide between $149 million to $272 million to begin reducing class sizes in kindergarten through grades three.

Increase Revenue Limits. At this point, we estimate that between $323 million and $593 million remain from the additional resources we project. Given the large amount of additional funds available, the Legislature needs to consider both state and local funding needs. Because of the existing funding structure, school districts have few revenue sources available if the state is unwilling or unable to provide additional funds. Therefore, we recommend the Legislature increase revenue limits by roughly half of the available funds that are not needed to fund "base" programs. This share would range from $149 million under the tax cut scenario to $272 million if the tax cut is not enacted. Similar to the current year action, we recommend the Legislature distribute these funds to (1) increase revenue limits for all districts and (2) equalize the revenue limits of the lowest funded districts.

Reduce Average Class Size. With the additional funds that result from the LAO revenue projection, the Legislature can take a large first step in reducing the average class size in the primary grades. (The most recent data available show an average of about 28.5 students per K-3 class statewide.) We estimate the cost of reducing the average class size by one student at about $110 million. Therefore, the amounts we recommend for class size reduction would reduce the average K-3 class size by 1.4 student (tax cut scenario) to 2.5 students (no tax cut). We think this creates a real possibility of establishing a class size of about 20 students for these grades within the next several years.

We recommend that, in allocating funds for class size reduction, the Legislature allow districts to use the funds to: (1) reduce class sizes in some or all K-3 classes (2) provide additional teachers for part-day, small group sessions and/or (3) add a second teacher to some K-3 classrooms. This would provide flexibility to districts in using the additional teachers to best local advantage.

Support Special Education Funding Reform

We recommend the Legislature reserve $25 million to $50 million to permit more rapid equalization of special education funding upon enactment of the new special education funding model proposed in a recent report.

Supplemental report language directed the Departments of Education and Finance and the Legislative Analyst's Office to recommend to the Legislature a new special education funding formula that (1) simplifies the funding model, (2) equalizes the distribution of special education resources, and (3) eliminates negative incentives that exist in the current funding model.

In November 1995, the three agencies issued a joint report, which recommends a new funding model and a method for equalizing local revenues over a five-year period. We recommend the Legislature approve $25 million to $50 million in additional funds for special education—upon enactment of the new funding model— to permit equalization to proceed more quickly. Please see our discussion of special education for more description of this recommendation.

Options for 1995-96 Funds

As we discussed above, the budget also proposes to spend a significant amount of Proposition 98 funds that are available in the current year due to the higher-than-expected General Fund revenues that are now projected for 1995-96. Figure 14 (see next page) displays the Governor's Budget proposed use of these funds, and our recommendations for (1) the budget's level of proposed spending and (2) the higher level of spending based on the LAO's higher estimate of General Fund revenues for 1995-96. (The Governor's proposed tax reduction would not affect Proposition 98 in the current year.)

Figure 14

1995-96 Proposition 98 Increases Governor's Budget and LAO Revenues

(In Millions)

		LAO Recommendations	
	Governor's Proposal	Budget Revenues	LAO Revenues
Fund the continuing costs of the program			
Mandated costs	$14.1	$94.1	$94.1
Deferred maintenance	40.8	90.8	145.8
Voluntary desegregation	—	0.5	0.5
Balance state and local needs			
Local block grant for one-time needs	100.0	177.0	231.0
Educational technology	100.0	—	—
Support critical reform efforts			
School-to-work	—	7.5	7.5
Reject other policy initiatives			
Reading and math task forces	100.0	—	—
School-library joint use projects	10.0	—	—
Single gender pilot school projects	5.0	—	—
Totals	**$369.9**	**$369.9**	**$478.9**

Generally, we recommend the Legislature use the same principles discussed above to determine the expenditure of these funds. Finding high-priority uses for these funds is difficult, however. This is because our 1996-97 recommendations assume these 1995-96 expenditures are *one-time* in nature. As such, the funds become available in 1996-97 to support "base" activities, such as growth and COLA funding for revenue limits. We could identify only a few categories of one-time expenditures that qualify as a high priority for funding.

Funding the Continuing Cost of the Current Program

We recommend the Legislature appropriate (1) $94.6 million for prior-year costs of state-mandated local programs and desegregation claims, (2) up to $105 million to provide funding for deferred maintenance projects in all school districts and $40.8 million to support the state program that provides funding for critical deferred maintenance projects in specific districts.

As we discussed above, the Legislature should first use available funds to satisfy current program costs. In the case of these one-time funds, we looked for costs that are one-time in nature. We found three areas that deserve additional funding, as follows:

- $94.6 million to pay for prior-year state-mandated local costs ($94.1 million) and desegregation claims ($528,000). The $94.1 million includes (1) $80 million for unbudgeted prior-year mandate claims, (2) $14.1 million proposed in the budget for past Teacher Evaluator mandate claims, and (3) $528,000 for prior-year desegregation costs of Ocean View School District.

- $40.8 million for the "hardship" deferred maintenance program, as proposed in the budget. This program supports primarily smaller districts with critical deferred maintenance needs that are disproportionately large relative to the size of the district. We recommend approval.

- Up to $105 million to supplement $40.8 million proposed in the budget for deferred maintenance. In the *Crosscutting Issues* portion of the Higher Education section of this *Analysis*, we discuss the significant deferred maintenance backlog of higher education institutions. The problem in K-12 districts is much worse—the backlog reaches into the billions of dollars, which suggests a systematic underinvestment in routine maintenance. While this proposal does not solve the long-run problem, we feel it is appropriate to separately budget a large amount of funds for this purpose—with the required local match—so that districts may not spend the funds on other competing needs. Under the budget level of one-time funds, we recommend $50 million for this purpose. Under the higher LAO projections, we recommend $105 million.

Balance State and Local Funding Needs

We recommend the Legislature approve up to $231 million in a local block grant that may be used for any one-time purpose.

The budget proposes $100 million for a one-time block grant that would be distributed to school districts and county offices of education for any one-time purpose. We recommend increasing this block grant to up to $231 million.

As Figure 14 indicates, we do not recommend approval of the proposed $100 million allocation for education technology. Instead, we recommend that the Legislature include these funds in the local block grant. To separately schedule funds for education technology suggests

(1) an overriding need exists for requiring that schools spend these funds for education technology and (2) that districts would not make the appropriate trade-offs when considering local uses for these funds.

We think local priorities should dictate whether the funds are used for education technology or for other one-time purposes. As with deferred maintenance, it may be true that schools invest in too few computers. It is also true, however, that *requiring* schools to buy computers will not necessarily result in a higher quality education. Teachers must have the commitment and training required to use technology to enhance the educational program. Too often, however, teachers lack the training to take advantage of computers in the classroom. As a consequence, schools commonly use computers to replicate activities that could be done with pencil and paper.

Requiring districts to use the funds for computers risks generating significant purchases of technology that, ultimately, have little impact on the classroom. Placing the education technology funds into the local block grant permits districts to determine whether additional computers represent the best way to use one-time funds for program improvement. For this reason, we recommend the Legislature place the proposed education technology funds into the local block grant. Because our other recommendations would use a portion of the technology funds for other purposes, we recommend increasing the local block grant to $177 million (under the budget revenue projections). If the higher level of funds are available consistent with the LAO projection, we recommend a block grant of $231 million.

Support Critical Reform Efforts

We recommend approval of $7.5 million to establish a one-time grant program that provides start-up funding for district school-to-work efforts.

In our *Analysis of the 1995-96 Budget Bill*, we recommended using one-time funds to encourage the development of school-to-work programs at the local level. In our review of the Partnership Academy program later in this section, we discuss how California high schools need a number of different school-to-work models to meet different economic and student needs.

While the Partnership Academy program promotes one model, we think the state could play an important role in developing other alternatives by providing start-up funds to districts. Start-up costs can be significant. School-to-work programs require high schools to revise academic and vocational curriculum and work with a broad range of groups—parents, employers, community colleges, and ROC/P programs—in the development of local programs.

There are no funds, however, to support the development of other alternatives. California applied for, but did not receive, federal funding to support school-to-work start-up costs. Current budget and policy developments at the federal level suggest it is unlikely in the near future that federal funding will be available for this purpose.

School-to-work programs are designed to increase the rigor and relevance of high school curricula for both the college-bound and those who do not plan to attend college. Because of the importance of this reform, we recommend the Legislature appropriate $7.5 million in one-time funds to provide start-up funding for new school-to-work programs. Funds would be available to support the program model that best meets local needs—this could include models based on the Partnership Academy program or on other program designs. We further recommend the Legislature clearly state the one-time nature of the program and that the grant program would end once the funds were exhausted.

Reject Other Policy Initiatives

We recommend the Legislature delete $115 million in policy initiatives proposed in the Governor's Budget.

As we discuss below, we were unable to obtain the details of many of the policy initiatives included in the budget. As a result, we were unable to assess the costs and benefits for the Legislature of these proposals. Therefore, we recommend the Legislature delete the following funds:

- $100 million for one-time activities to improve reading and mathematics.
- $10 million for a school-public library joint-use program.
- $5 million to create 20 single-gender schools.

Legislature Needs Detail on Improvement Proposals

We recommend the Departments of Education and Finance report to the budget subcommittee (1) providing details on the various school reform proposals contained in the budget for which we could obtain no details and (2) indicating how these different proposals work together as part of a broader school reform strategy.

The Governor's Budget proposes to spend $161.6 million in 1996-97 on new school improvement programs. These new programs are as follows:

- ***$100 Million in One-time Proposition 98 Funds (and $422,000 in General Fund for Support of SDE) to Implement the Recommendations of the California Reading Task Force and California Mathematics Task Force.*** According to the Department of Finance, the funds will support various teacher training efforts and a per-pupil block grant for school districts that have a plan to improve in reading and mathematics "consistent with the goal of the task forces." No additional information was available.

- ***$42 Million in General Fund or Federal Fund Support for Programs Consistent with the Federal Goals 2000 Act.*** The federal act provides funds to the state and local districts to set state student performance standards and support local school improvement activities. The DOF advises that the Governor may choose not to accept the federal funds due to concerns about restrictions on the state's use of funds. If the Governor does not accept the funds, DOF advises that $42 million in state funds (non-Proposition 98) would be used in lieu of the federal funds. No information was available on the proposed use of the funds. In addition, the budget does not reflect any expenditures for Goals 2000 out of either state or federal funds.

- ***$10 Million in One-Time Funds for a Pilot Program to Encourage Schools and Public Libraries to Work Together to Meet the Needs of the Community.*** According to the DOF, the program may be modeled after a similar program operating in Wisconsin. We have no further information on the proposal.

- ***$5 Million in One-Time Funds to Establish 20 Single-Gender Academies to Improve the Achievement of Students At-Risk of Dropping out of School or Performing Poorly.*** We have no additional details on the program.

- ***$3.6 Million to Expand School Improvement Programs for Elementary and Middle Schools.*** Specifically, the budget proposes to expand the Alliance for Elementary Grades by $600,000 and the Middle Grades Partnership Network by $3 million. These programs provide support for local improvement efforts by providing workshops, conferences, and materials. These programs currently receive federal funding and support from local schools and districts. The additional funds would provide an expanded regional administrative base for the programs.

- ***$1 Million to Develop a Governor's Diploma Program to Recognize Demonstrated Mastery of a Broad Range of Subjects by Students.*** This program would be established through legislation. We have no additional details on the proposal.

The Legislature needs more information on these proposals in order to make an informed decision regarding the use of these funds. Most of the proposals do not have the supporting details that would allow the Legislature to evaluate their value. This is particularly true for the proposed $42 million in Goals 2000 funds. If the Governor does not accept the federal funds, the Governor proposes to permanently increase the minimum Proposition 98 guarantee by appropriating $42 million in General Fund money to provide funds to schools. Because we have no details on the use of funds, we cannot evaluate whether the proposed Goals 2000 activities are so essential that an overappropriation of the minimum guarantee is warranted.

In addition, the Legislature needs information describing how these proposals coordinate with each other and with other existing categorical programs that support school improvement activities. For instance, the per-pupil grants proposed in the Task Force proposal sound very much like the school district grants required under Goals 2000. Similarly, expansion of the elementary and middle school networks could be funded from Goals 2000 funds or with other federal funds. In fact, the state funds for these programs proposed in the budget would replace about $150,000 in federal funds that would be redirected to other unspecified purposes. Finally, existing state categorical programs may be meeting the needs identified in the proposals. For example, the Legislature needs to know why $100 million in support for the mathematics and reading task force recommendations is necessary when funds are available under the existing Demonstration Programs in Reading and Mathematics.

The Legislature needs this information prior to making a decision on these proposals. Therefore, we recommend the Departments of Education and Finance provide this information to the budget subcommittees by March 15, 1996.

SCHOOL SAFETY INITIATIVES

We recommend the Legislature partially fund the Governor's proposed increases in school safety programs, at $30 million for community day schools and $10 million for county community and juvenile court schools. We also recommend the Legislature establish a statutory cap for county office community and juvenile court school apportionments, limiting growth in this program to 11 percent in 1996-97. In total, these recommendations would save $30.3 million in 1996-97.

Budget Implements 1995 School Safety Legislation

The Governor's budget proposes the following increases to implement new school safety legislation in 1996-97:

- $45.8 million for community day schools created by AB 922 (Ch 974/95, Friedman).
- An increase of $10 million for the support of zero-tolerance mandatory expulsion requirements created by SB 966 (Ch 972/95, Johnston), for a total of $20 million in funds to support the additional cost of community school attendance that may result from the bill ($10 million was included in the 1995 Budget Act to pay for the half-year costs of the bill in 1995-96). In addition, the budget proposes an increase of $14.5 million in growth funding for community and juvenile court schools operated by county offices of education.

In this section, we discuss these school safety proposals in further detail.

OVERVIEW OF EXISTING ALTERNATIVES TO THE REGULAR CLASSROOM

School districts and county offices operate several programs that provide an alternative educational setting for pupils who have not been successful in a regular classroom setting or would place other students at risk because of their behavior.

Programs administered by districts include:

- ***Continuation Programs***. School districts must offer continuation schools or classes for high school pupils who cannot attend a regular school for reasons of school disciplinary action, juvenile court proceedings, parenting responsibilities, health, or employment. Districts that began a continuation school after 1982 receive about $500 per student in additional funds under the program.

- ***Opportunity Programs.*** School districts may offer opportunity programs or classes for pupils in grades 7-9 who are not benefiting from a school district's regular program because of truancy or discipline problems. Districts receive about $400 in additional funds for each student served that exceeds the number served by the district in 1982-83.

Programs administered by county offices of education include:

- ***Community Schools***. Community schools provide alternative instructional placements for pupils in grades 7-12 who, for various reasons, have not been successful in regular programs or who have broken the law. These pupils generally share the characteristics and problems of pupils in school districts alternative programs. To be eligible for community school funding, however, students must have been (1) expelled from school, (2) referred by the county probation department, (3) referred by a school attendance review board, or (4) homeless. Pupils in the first two categories are eligible for "Type C" funding, which is about $2,400 higher than the average district revenue limit.
- ***Juvenile Court Schools.*** County offices of education are required to provide educational programs in secured juvenile detention facilities, such as county juvenile halls and camps. County offices of education also offer educational programs in group homes and private residential facilities for juveniles, which for funding purposes are considered juvenile court schools. Funding for all of these programs is similar to the level of Type C funding.

Problems With Existing System

We reviewed these alternative programs in our *Analysis of the 1995-96 Budget Bill*. In this review, we identified a number of shortcomings with these programs, as follows:

- Community school Type C funding is not adequately controlled, which creates a fiscal incentive to place pupils in community schools. We also expressed concern about the short instructional day and high use of independent study common in community school programs.
- Existing district alternative and prevention programs are ineffective in preventing students from dropping out or engaging in criminal activities.

- The current system of multiple school safety programs and policies, each with its own limited purpose, limits the flexibility of districts and counties to deal with these problems in locally appropriate ways.

Overview of New School Safety Legislation

In 1995, the Legislature passed two major new school safety laws to supplement the existing programs described above. Figure 15 displays the major provisions of these two bills. Assembly Bill 922 (Ch 974/95, Friedman) creates community day schools as a new district alternative for pupils who are expelled or cannot benefit from regular district programs. Assembly Bill 922 also requires districts to develop education plans for each expelled student. Previously, neither districts nor county

Figure 15

Major New School Safety Legislation Enacted in 1995

AB 922

Creates Community Day Schools operated by districts:

- Additional $1,500 per student who attends for six-hour day. Attendance at day schools is limited to an average of 0.5 percent of district enrollment.
- Open to pupils that are expelled, referred by district, or referred by county probation department.

Requires districts when expelling students to:

- Recommend a rehabilitation plan upon expulsion.
- Provide an educational alternative upon expulsion.
- Establish regulations for readmitting expelled students.

Mandates districts and counties to:

- Maintain outcome data on expelled students.
- Develop a joint plan for providing services to expelled students.

SB 966

Adds new offenses requiring mandatory expulsion:

- Selling or furnishing a firearm.
- Brandishing a knife.
- Unlawfully selling a controlled substance.

Expands apportionments for county community schools:

- Permits counties to claim “Type C” apportionments for pupils in grades K-6.

offices of education were required to ensure that an educational option was available to expelled students. In addition, it requires districts and counties to collect data on expelled students and develop a joint plan to serve these students.

The bill provides up to an additional $1,500 for each student attending a community day program. To qualify for these funds, the district program must operate for at least six hours each day. Funding is limited, however, by a cap on the percentage of each district's enrollment that may be claimed under the day program. The unified district cap is 0.5 percent of student enrollment.

The new program is, in many ways, similar to county community schools. Figure 16 (see next page) compares the basic elements of the two programs. The two programs serve the same population of students. The main differences between the two programs are that community day schools (1) have caps on the number of students served, (2) have a longer school day, (3) receive less additional funding, and (4) cannot provide independent study.

Senate Bill 966 (Ch 972/95, Johnston) expands the list of offenses for which a student must be expelled from school (mandatory expulsion requirements) and provides county offices of education with the higher Type C apportionments for students in grades kindergarten through six. The additional mandatory expulsion requirements became effective January 1, 1996. Funding needed for additional county community school students resulting from the bill is provided automatically through the county apportionment process.

GOVERNOR'S BUDGET PROVIDES SIGNIFICANT NEW FUNDING FOR SCHOOL SAFETY PROGRAMS

The Governor's Budget proposes a total of $70 million in new funding for the support of community day schools and county office alternative programs in 1996-97. The Governor's proposals are based on the following assumptions about population growth:

- ***All Districts Will Fully Implement the New Community Day Programs Beginning in July 1996.*** To support these programs, the budget provides $46 million to serve 25,000 students in district-run community day schools. This number is equal to the maximum allowed by AB 922 (not including mandatorily expelled students, who are not subject to the cap). The $46 million would go to pay for per-pupil funding to districts for running the community day schools, and flat amounts to support small district programs.

Figure 16

A Comparison of County Community Schools And District Community Day Schools

	County Community Schools	District Community Day Schools
Population served	• Pupils expelled from a district • Pupils referred by district • Pupils referred by county probation department • Homeless	• Pupils expelled from a district • Pupils referred by district • Pupils referred by county probation department
Grade levels served	• K-12	• K-12
Program requirements	• Independent study permitted	• No independent study
Per-pupil funding levels	• About $2,400 above per-pupil level in district for a four-hour minimum day	• $1,500 above per-pupil funding level in district for six-hour day • $750 above per-pupil funding level in district for five-hour day • $1.40 per pupil per hour beyond a six-hour day
Funding caps	• None	• Maximum ADA of: 0.375 percent of ADA for elementary districts, 0.5 percent of total ADA for unified districts, 0.625 percent of total ADA for high school districts

- ***All Students Affected by the New Expulsion Requirements Will Attend County Community Schools.*** The budget includes a total of $20 million to pay for 8,200 additional students who will be expelled and referred to community schools as a result of SB 966's additional mandatory expulsion requirements. The $20 million would go to pay for the *additional* per-pupil funding levels received by county offices—above the amount already included in district apportionments for these students.

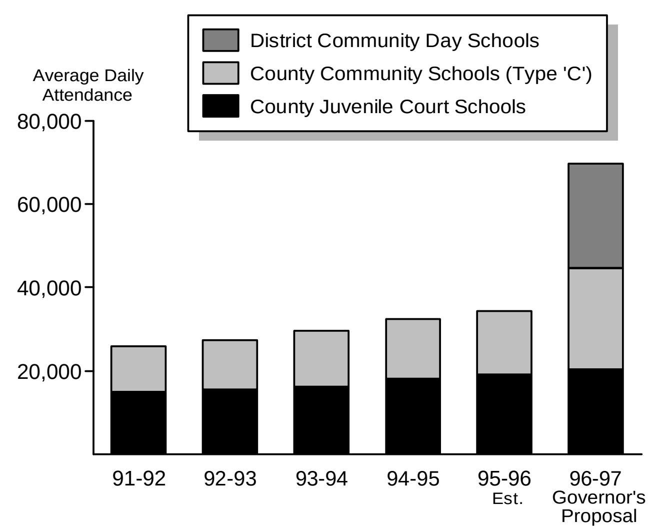
- ***High Continued Growth of County Programs.*** The budget proposes an increase of $14.5 million in county office apportionments to pay for a 6 percent growth in the number of students attending county community and juvenile court schools. The budget assumes that this growth will occur on top of the $20 million augmentation for SB 966. The Department of Finance (DOF) also advises it will propose a statutory growth cap for Type C funding in the education trailer bill, although no decision has been made regarding the level of the cap.

School Safety Programs Are Overbudgeted

Our analysis indicates that the amounts included for these alternative programs are much greater than needed to support the projected increase in alternative placements in 1996-97. Figure 17 shows the actual and estimated average daily attendance (ADA) of students attending county alternative programs from 1991-92 through 1996-97. The figure includes the proposed community day program ADA in the budget year. Total alternative program ADA is budgeted at almost 70,000 in 1996-97, a 100 percent increase from the 1995-96 estimated level. The increase proposed for community day programs alone would increase alternative program ADA by about 70 percent. The total increase in county community and court schools represents a 30 percent increase

Figure 17

Attendance at County and District Alternative Programs 1991-92 Through 1996-97



above estimated 1995-96 attendance levels. Our review of the individual budget proposals is discussed below.

Community Day School Population Overestimated. While it is difficult to accurately predict the funding needs of any new program such as the community day program, we believe it is likely that school district programs will not reach the funding cap in the first year of the program's existence, for two reasons. First, inevitable delays in the start-up of new programs will slow district use of the program in 1996-97. Second, not all school districts will implement the program in 1996-97.

Effect of SB 966 Is Overstated. We think the proposed 30 percent increase in county program attendance is unlikely to occur. One reason is that the new community day program will provide districts with new placement options for expelled students—including those students who are *currently* attending county programs. Second, anecdotal evidence indicates that district expulsion practices may not change significantly with the passage of SB 966. During our site visits to county offices of education, county officials indicated to us that SB 966 would have a minor additional effect on county enrollments. They pointed to mandatory expulsion requirements similar to those of SB 966 that districts had put into place before the bill was enacted. The county offices' own estimates for 1996-97 project a growth rate for the Type C and juvenile court school population of only 3.5 percent.

Inappropriate Fiscal Incentives. In addition to these fiscal concerns, we are also concerned that these large funding increases will send the wrong signals to districts. With virtually unlimited growth in county programs, for instance, districts would be able to send expelled students to be served in county-run programs, rather than in district community day programs. We think districts should be encouraged to serve expelled students in these new programs when appropriate. In many cases, they will provide a higher level of services than most county programs and increase the chance that students will be returned to their regular school.

However, fully funding the new district program could also create inappropriate fiscal incentives for districts. Because the community day program provides new funding for alternative programs at levels higher than existing programs (such as continuation schools), we are concerned that one possible outcome of fully funding the program in 1996-97 would be to encourage districts to transfer students in *existing* alternative programs to the new program for financial rather than programmatic reasons. By expanding the program more slowly than proposed in the Governor's Budget, the Legislature would encourage districts to serve those students with the greatest need for intensive alternative services offered by the community day program and minimize the possibility that districts could make placement decisions primarily for financial reasons.

Analyst's Recommendation. Therefore, to provide for a reasonable growth in alternative placements and avoid the negative fiscal incentives created by these budget proposals, we recommend the Legislature take the following actions:

- ***Budget District Community Day Schools at $30 Million.*** We recommend a funding level for 1996-97 of $30 million for the new district community day schools, in order to better reflect likely use of the program in 1996-97 and to prevent the creation of an incentive to inappropriately assign students to these programs. This action would result in a savings of $15.8 million that would be available for other K-12 funding priorities.

- ***Budget County Office Growth at $10 Million and Place a Cap on County Office Apportionments.*** We recommend providing the $10 million increase proposed in the budget for county office growth. This increase would allow for a growth rate in the Type C and juvenile court school population of 11 percent. We also recommend that the Legislature enact trailer bill language capping the growth rate for county office Type C and juvenile court school apportionments at that level in 1996-97. This expenditure cap would allow fairly rapid growth of county programs, while encouraging districts to develop community schools. This limit on enrollment also would result in savings of $14.5 million.

Local Mandates in New Legislation May Mean Millions in Claims

We recommend the Legislature approve the budget proposal to pay for mandated local costs through a direct grant program rather than through the claims reimbursement process. We will report to the subcommittees on progress in resolving outstanding issues regarding the design of the program and the amount needed.

The new school safety legislation contains a large number of state mandated local programs for which districts could claim reimbursements. The legislation requires districts to:

- Guarantee an educational program to expelled students.

- Provide a rehabilitation plan of counseling and other services for each expelled student.

- Adopt rules and regulations to readmit expelled students.

- Develop a joint plan with county offices of education to serve expelled students.
- Maintain outcome data on the performance of expelled students.
- Require districts to expel students for specific offenses.

These mandates may mean millions of dollars in future reimbursement claims by districts. For instance, based on the existing school crime data reporting requirement, the new requirement to maintain data on expelled students may result in costs of $1 million annually. Given the number and the nature of these new mandates, we expect to see claims for even greater amounts for AB 922 and SB 966.

As part of the $45.8 million proposed for the 1996-97 costs of AB 922, the budget includes $1 million to pay for the local costs of three mandates. Specifically, the budget proposes $160,000 for the district costs of establishing new rules and regulations regarding expelled students, $720,000 for the costs of developing the rehabilitation plan, and $120,000 to maintain the required data on expelled students. The DOF advises that it intends to distribute these funds to districts as grants in order to preclude districts from claiming for these costs through the Commission on State Mandates.

We think the concept of paying for these costs as a grant program makes sense. This is because the reimbursement process for local mandates has a number of significant disadvantages, both to districts and to the state (please see our discussion on K-12 state mandated program costs later in this section). These disadvantages include:

- ***Legislature Has No Control Over Costs.*** Categorical funding allows the Legislature to control costs by funding programs at predetermined levels. Under the mandate system, the state must reimburse districts for whatever costs they incur, so long as they are related to carrying out the mandate.
- ***District Funding Varies Widely.*** Not all school districts file claims for mandates. For some existing mandates, less than 40 percent of all districts file a claim. In addition, the per-ADA amount claimed for a particular mandate can vary widely on a district-by-district basis. There is no policy rationale for such wide variations.
- ***Districts May Delay Implementing New Legislation.*** Local mandate reimbursements are also a source of fiscal uncertainty for districts. Districts must wait for years to be reimbursed for costs, and may receive more or less than anticipated. Because of this uncertainty, districts may delay implementing new legislation until the state determines which costs it will reimburse.

- ***Administrative Costs Are High.*** Under the claims process, districts must prepare, and the state must evaluate and process, claims for reimbursement from districts, resulting in significant state and local administrative costs each year.

While the budget proposal holds the promise of limiting the mandated costs of AB 922 and SB 966, we have identified two potential problems with the proposal. First, the $1 million proposed in the budget is not likely to cover all mandated costs created in these bills. Compared to the level of claims for similar mandates, the budget estimates appear low. In addition, the budget does not propose *any* funding for other mandates created in the new legislation, such as the requirement that districts and counties develop a joint plan for expelled students.

Second, the budget proposal does not describe how the mandate "grant" funds would be distributed or how the state would effectively preclude a district from claiming any costs it incurred in excess of the amount contained in the grant. Clearly, the mechanics of the grant proposal are critical to the success of the proposal.

Pay for Mandates Up-Front. We recommend the Legislature approve the proposal to provide funds up-front to reimburse districts for AB 922 and SB 966 mandates through a grant process. We will work with the DOF to refine the cost estimates and the mechanics of the grant program and will report to the budget subcommittees on our progress in resolving these issues.

CALIFORNIA'S ASSESSMENT PROGRAM

The Governor's Budget proposes a $6.2 million increase in spending for the state's assessment program in 1996-97. This represents an increase of 19 percent over the current year amount of $32.6 million. The current year funds come from three sources:

- The 1995 Budget Act allocated $6.6 million for the state's assessment program.
- Assembly Bill 265 (Alpert, Ch 975/95) created two new testing programs and appropriated $11 million.
- Assembly Bill 825 (W. Brown, Ch 308/95) added $15 million, bringing 1995-96 funding to $32.6 million.

SDE Spending Plan for the 1996-97 Budget Is Not Available

As of this writing, the State Department of Education (SDE) has not yet developed a spending plan for its 1996-97 assessment program. We will provide recommendations on the department's spending plan during budget hearings. Below we discuss issues the Legislature should consider when evaluating the assessment budget.

Overview and History of California's Assessment Program

The California Assessment Program (CAP) generated annual school-level scores in core academic subject areas until it was discontinued in 1990. In 1991, Chapter 760 (SB 662, Hart) authorized the California Learning Assessment System (CLAS) testing program. The CLAS differed from CAP in two ways. First, CLAS focused on performance testing, which asks students to solve open-ended questions rather than answer multiple choice questions. Second, CLAS tests were designed to provide individual student scores, rather than school-level scores. The Governor vetoed CLAS funding from the 1995 Budget Bill after questions were raised over some test questions and the reliability of scores for individual students.

The SDE also administers other ongoing testing programs. The Golden State Examinations (GSE), offered in eight subjects to secondary school students, are designed by the department and serve as end-of-course examinations. Participation in the exams is optional and students receive special recognition for exemplary performance. About 585,000 GSE tests were administered in 1995. The Career Technical Assessment Program provides similar tests for students in various vocational/technical programs. The department also designs physical fitness examinations for local administration under a physical fitness testing mandate.

In 1995, Chapter 975 (AB 265, Alpert) created a new comprehensive statewide assessment program with the following components:

- ***Pupil Testing Incentive Program.*** The bill established a local testing incentive program that would pay districts $5 per pupil to administer a basic skills achievement test to all students in grades two through ten and report all school-level results at a district board meeting. Districts may use only tests approved by the State Board of Education (SBE). To be approved, achievement tests must (1) produce valid, reliable individual pupil scores, (2) permit measurement of changes in year-to-year achievement of individual students, (3) produce scores that are comparable—that is, permit a comparison of student scores—with other tests approved by the state board, and (4) adhere to state content and performance standards once they are adopted by the SBE.

- ***Statewide Assessment of Applied Academic Skills.*** The bill creates a new statewide testing program to generate school-level test scores through annual testing in grades four, five, eight, and ten in reading, writing, mathematics, history/social science, and science.

- ***Commission for the Establishment of Academic Content and Performance Standards.*** This 21-member commission is required to develop "academically rigorous" content and performance standards for the K-12 curriculum and submit them to the SBE for approval by July 1, 1997. The SBE must approve all core curriculum standards by January 1, 1998.

Senate Bill 430 Would Put New Constraints on Statewide Assessment Program. Pending legislation, SB 430 (Greene), as amended January 10, 1996, would affect the statewide testing program in two ways. The bill would:

- Prohibit SDE from beginning development of the statewide assessment until after the new standards commission completes its work. Current law allows the statewide test to be developed in parallel with development of the standards.

- Require that test questions be available for viewing by any member of the public at all school districts and county offices of education in California.

When he signed AB 265, the Governor asked for these modifications to the law, and SDE has agreed to delay development of the statewide assessment pending enactment of the new legislation. Below we discuss the new testing programs and the implications of changes included in SB 430.

Senate Bill 430 Would Delay Statewide Assessment

Under pending legislation, the statewide assessment would not be ready until spring 1999 and would not be fully implemented until 2000. We recommend the Legislature require the State Department of Education to report by April 1, 1996 on options for beginning statewide testing by spring 1997.

Statewide Test Development On Hold. Assembly Bill 265 allows SDE to begin development of the statewide assessment before the SBE adopts content and performance standards. This would allow parallel development of the test along with the standards and would therefore shorten the test development process. Because SB 430 is pending, SDE has delayed development of the statewide tests.

Development of the tests, however, is also a lengthy process. According to SDE staff, in order to administer tests in spring 1998, the SBE would need to adopt standards no later than January 1997. The standards commission has not yet been appointed, and development and adoption of standards may be a lengthy process. The SDE staff also advise that only two or three of the five subject area tests can be developed at one time. As a result, the delays in developing the statewide tests incorporated in SB 430 mean that the reading, writing, and mathematics tests would not be administered until spring 1999, while the science and history tests would not be administered until 2000.

Other Options for Statewide Testing Are Available. Without a statewide assessment to provide comparable school-level results, California will lack data needed to evaluate (1) the effectiveness of its K-12 educational programs and reform efforts and (2) the relative performance of individual schools.

We believe options are available that would allow California to collect school-level test data beginning spring 1997, two years earlier than pending legislation would allow. For example, the New Standards Project is a collaboration between several states, including California, to develop high performance standards in core subjects and tests consistent with those standards. According to the department and information provided to us by the New Standards Project, tests already developed by the project conform for the most part with California's curriculum.

Other options for beginning statewide testing in spring 1997 may be available as well.

To provide information to the Legislature on its options for putting in place a statewide test by spring 1997, we recommend that the department report to the subcommittees on these alternatives by April 1, 1996. The department's analysis should address at least the following issues: (1) the degree to which potential tests conform to California's curriculum frameworks, (2) the relative focus of potential tests on basic and applied skills, (3) a process for public review of the test before it is administered, and (4) the potential for a smooth transition from the interim test to the final statewide test.

Senate Bill 430 Would Front-Load Test Development Costs

We recommend the State Department of Education in its assessment spending plan provide estimates of year-by-year statewide test development costs of various options for obtaining public review of statewide tests.

Senate Bill 430 would require SDE to make available all test items in the statewide assessment for viewing by any member of the public in all school districts in the state. Wide distribution of the test items, however, means that students and teachers would have foreknowledge of the test questions. According to SDE, this problem could be minimized by developing a large enough pool of test items so that knowledge of some questions would not provide much of a benefit to any individual pupil or class.

The SDE advises it would need to develop this large pool of questions at the beginning of the testing program in order to minimize the chance that students and teachers have any foreknowledge of the questions. As a result of the requirements of SB 430, initial test development could cost several million more than originally planned, though the overall cost of test development may not change. To estimate the cost implications of this provision of SB 430, we recommend the department include, in its assessment spending plan, the cost of test development with (1) the SB 430 provision and (2) other alternative procedures for ensuring adequate public review.

Comparability Scale for Local Incentive Tests Will Take Years, Feasibility Unknown

We recommend the Legislature delete the statutory requirement for comparability among local incentive tests and allow the local testing incentive to go forward without this requirement.

The Pupil Testing Incentive Program allows districts to use any achievement test that has been approved by the SBE. Assembly Bill 265 requires SDE to develop and implement a methodology for reporting scores on various achievement tests on a common scale. We believe interschool and interdistrict comparability of test scores is essential to sound program evaluation. Our review of this particular approach to comparability, however, indicates that developing a common scale for disparate individual tests will be expensive and time consuming and may prove to be infeasible.

As of this writing, SDE had received almost 600 different achievement tests. There are a large number of tests because (1) for each test type, there is generally a different test for each grade, (2) test publishers offer several different versions of a given test, and (3) there are several major test publishers as well as some individual school districts that develop their own tests.

Comparability Scale May Be Infeasible and Will Cost Millions. The SDE estimates that the initial phases to develop and test a comparability methodology would cost over $1 million. The department did not estimate the cost of data collection and analysis to implement the methodology, but the scale of the project suggests that it could cost millions. In addition, the SDE’s plan for developing a common scale for scoring achievement tests would require three years or more to complete. Finally, given the complexity of a project of this scale, SDE is unsure whether developing such a scoring system is even feasible.

There are a number of factors that complicate comparisons between tests. These include (1) statistical factors, such as differences in the populations used to create each test's percentile scores, (2) curricular factors—for example, one math test may focus more on addition while another may focus more on multiplication, and (3) the use of different types of questions, such as multiple choice or open-ended performance questions. These factors create variation in the meaning of a score on one test when compared with another. Trying to compare across grade levels introduces further variation. As the number of tests proliferates, the task of putting all of the tests on a common scale becomes more complex.

Even if the project was successful, the comparability scale could be obsolete as soon as it is developed. In the 1960s, researchers attempted to develop a common scale for comparing seven or eight different tests. The project took over two years and was successful. However, by the time the project was completed, test publishers had developed new editions of the tests, rendering the newly created comparability scale obsolete. Because test publishers periodically revise their products, a comparability scale developed by the state would face a similar risk.

Eliminate Comparability Requirement. Based on these concerns, we recommend the Legislature delete the statutory comparability requirement for approval of local incentive tests and allow the local testing incentive to go forward without this requirement.

Millions in 1995-96 Assessment Funds Will Be Available in 1996-97

Based on preliminary information, we estimate that $12 million in 1995-96 carryover funds will be available in 1996-97. Since these funds will be available to support the assessment program in 1996-97, we recommend the Legislature delete $12 million from the 1996-97 testing budget.

As discussed above, AB 265 and AB 825 appropriated $26 million for assessment in 1995-96. Of this amount, $19.5 million was allocated to the $5 per-pupil testing incentive, $4 million was for development of the statewide testing program, and $2.5 million was to support technical analysis and reporting for both the local incentive and statewide tests. The new legislation also states legislative intent that any funds not spent in 1995-96 are available for the assessment program in 1996-97 and that the 1996-97 assessment budget be reduced to reflect the contribution of any carry-over funds.

Carryover Will Be Significant. The $19.5 million allocated to the incentive program provides enough money to test 3.9 million students, about equal to the total number of students in grades two through ten. However, there are two reasons why some of these funds will not be spent. First, some school districts may choose not to participate. Second, among participating districts, appropriate tests may be unavailable for some students, including some special education and some limited-English-proficient students. In total, these two groups account for about 25 percent of the student population.

As with any new program, it is difficult to project the extent to which districts will participate. Discussions with several large districts indicate that some will not participate in the incentive program. If we assume that two-thirds of the districts participate and 85 percent of students in grades two through ten in these districts take a test, then $11 million would be necessary to fund the incentive program, leaving $8.5 million in carryover.

In addition to the local test funds, most of the $4 million appropriated for the development of the statewide test also will carry over into 1996-97. The amount of the carryover will depend on when the department can begin development of the statewide test. In turn, this will depend on whether SB 430 becomes law, and if enacted, how quickly the standards commission completes its work. Even if SB 430 does not become law, the department may be unable to spend a substantial proportion of these funds before the end of the current year. We estimate that $3.5 million is likely to be carried over.

Reduce 1996-97 Funding to Recognize Carryover. Based on current information, we estimate that about $12 million in 1995-96 assessment funds will not be spent. Because the carryover funds will reduce the need for additional funding in 1996-97, we recommend the Legislature reduce the SDE's assessment budget by $12 million. We will update our estimate of carryover funds at the time of budget hearings.

STATE-MANDATED LOCAL PROGRAMS

The budget proposes $121 million to pay for the 1996-97 reimbursement claims of 27 state-mandated local K-12 programs. These programs include five retirement mandates ($54 million), the collective bargaining mandate ($28.1 million), and the Teacher Evaluators mandate ($11.5 million). The remaining mandates are proposed at levels below $3 million each. The budget also proposes $14.1 million from one-time 1995-96 "settle-up" funds to pay for prior-year claims of the Teacher Evaluators mandate. Because past-year claims for this mandate have exceeded the amount included in the annual Budget Act, additional funds are needed to satisfy district claims for reimbursement.

In this section, we discuss the K-12 state-mandated local programs. First, we review the growth in the costs of the state-mandated programs. Second, for five specific programs we discuss (1) whether the programs should be continued and (2) whether changes in state statutes would reduce the state and local cost of the requirements.

Budget Underestimates K-12 Mandate Costs

Mandate costs in recent years have far exceeded the amount provided in the annual Budget Acts. We recommend the Legislature (1) augment funding for K-12 mandated local program costs by $5 million and (2) appropriate $80 million in one-time "settle-up" funds to satisfy prior-year mandate claims.

Our review of appropriations and claims for K-12 mandated programs over recent years indicates that previous funding levels have been inadequate to meet district and county office of education claims. Specifically, mandate costs have exceeded the amount appropriated by about $20 million each year. This occurred because the cost of many mandates has increased substantially each year, but the amount included in the budget stayed relatively constant. The most dramatic example is the Teacher Evaluator mandate, which grew from $5.9 million in 1991-92 to $18.1 million in 1994-95. Most other mandate claims have grown as well, but at a more modest pace.

Based on the claims submitted for 1994-95 and 1995-96, we estimate 18 mandates will be at least $11 million above the level included in the 1996-97 Budget Bill. If our recommendation to eliminate the Teacher Evaluator mandate is adopted, the shortfall would be $5 million (please see our discussion below). Therefore, we recommend the Legislature increase funding for the 1996-97 costs of state-mandated local programs by $5 million.

Prior-Year Claims Should Be Funded. In addition to the budget-year shortfall, the state has developed a substantial backlog of claims for which no funding is available. Since the budget has routinely provided too little funding to meet ongoing mandate costs, additional funds will be needed once the claims are audited. According to the State Controller's Office (SCO), about $10 million is needed to satisfy district claims for 1993-94. The SCO could not estimate shortfalls for 1994-95 and 1995-96 because districts may still submit claims for these years.

A much larger backlog of unfunded claims has resulted from the Civic Center Act mandate. This mandate, which was terminated prior to 1993-94, required districts to allow local groups to use school facilities without charge. As of January 1995, the SCO has received $106 million in reimbursement claims while only $36 million has been appropriated for these claims. This leaves a potential liability of $70 million.

Since the SCO has not audited these claims, it could not estimate the likely level of approved claims once the audits are completed. We have asked the SCO to review a sample of claims to provide the Legislature with an estimate of funding that will be needed to satisfy the Civic Center claims. We will provide this information to the budget subcommittees during hearings.

Given the state's likely liability for these prior-year claims, we recommend the Legislature appropriate $80 million in one-time 1995-96 Proposition 98 funds to pay for the state/local-mandated costs for which funding has not been provided.

Eliminate Teacher Evaluators Mandate

We recommend the Legislature eliminate the Teacher Evaluators mandate and increase local assistance funding for the Beginning Teacher Support and Assessment program by $3 million, for a General Fund savings of $8.5 million from the level proposed in the 1996-97 budget.

The Governor's Budget proposes $11.5 million in the budget year for local costs associated with the Teacher Evaluators mandate. This mandate contains several requirements involving the evaluation of teacher performance and assistance for newly hired teachers. The proposed amount represents an increase of $10.8 million from the $687,000 included in the 1995 Budget Act. Claims for this mandate have grown from $5.9 million in 1991-92 to over $18 million in 1994-95. If future claims continue to increase at the same rate, the cost of this mandate could reach $30 million in the current year and over $35 million in the budget year.

Background. The Teacher Evaluators mandate was created by Ch 498/83 (SB 813, Hart) and requires each school district to:

- Certify that teacher evaluation personnel are competent in methods of teacher evaluation.
- Train and assist probationary teachers.
- Notify parents regarding complaint procedures and adjudication of any complaints that are filed.

Categorical Programs Better Fulfill the Purpose of the Mandate. Since the creation of this mandate, the Legislature has initiated programs to train and support beginning teachers. These include (1) the Beginning Teacher Support and Assessment (BTSA) program, which provides $4.8 million to 30 local programs serving 15 percent of new teachers, and (2) the Mentor-Teacher program, which is fully funded at $68 million and provides stipends to as many as 5 percent of teachers in each district who become mentor-teachers. In addition, the Legislature created the California School Leadership Academy (CSLA), currently fully funded at $5.4 million per year, to provide training to school administrators. An evaluation of BTSA shows the program reduced by two-thirds the attrition rate for new teachers compared to new teachers who receive no special support or training.

These programs provide the state with a number of advantages over the Teacher Evaluators mandate:

- ***Legislature Has No Data on Effectiveness.*** We could not find any evaluation of whether this mandate resulted in more effective local programs. With BTSA and similar activities conducted under the Mentor-Teacher program, the services have been shown to be effective.
- ***District Funding Varies Widely***. Most districts receive no funding for this mandate—over 600 of the 1,050 school districts did not even file a claim. Of those districts filing claims, some districts claimed 10 or 20 times as much money as other districts (on a per-student basis). We know of no policy basis for such wide variations in funding among districts for staff training.
- ***Legislature Has No Control Over Costs.*** Categorical funding allows the Legislature to control costs by funding programs at

predetermined levels. Under the mandate, the state must reimburse districts for whatever costs they incur, so long as they are related to carrying out the mandate. Indeed, there is anecdotal evidence that suggests the rapid increase in claims for this mandate is due, in part, to greater sophistication among districts in preparing claims.

Legislature Should Delete Mandate and Increase Beginning Teacher Support and Assessment Funding. At a cost of $678,000, the mandate might represent a reasonable policy—reminding districts of their obligation to provide training to administrators and new teachers. At $11.5 million or more, however, we think the funds could be better spent on direct programs for which there is demonstrated evidence of effectiveness. We therefore recommend that the Legislature eliminate the mandate.

To ensure that funds are available to provide support to new teachers, we also recommend that the Legislature redirect $3 million of these savings to BTSA. With these funds, support for BTSA in 1996-97 would increase by 60 percent—to $7.8 million in the budget year. We think this is the maximum amount that the program could expand in one year and would increase participation to about 25 percent of new teachers. Overall, these recommendations will result in General Fund savings of $8.5 million from the level in the proposed budget and possibly much more in future years given the current growth rate in claims.

Eliminate Credential Monitoring Mandate

We recommend the Legislature eliminate the Credential Monitoring mandate as of July 1, 1996, and instead provide $350,000 to county offices of education for credential monitoring activities, for an annual General Fund savings of $1.9 million.

The Governor's Budget proposes $2.2 million for ongoing mandated local costs to school districts and county offices of education for monitoring the assignment of teachers outside their credential area. This represents a 220 percent increase from the $687,000 budgeted for this mandate in the 1995 Budget Act. Claims on this mandate have ranged from $1.6 million to $2.8 million since 1989.

Background. State law generally requires credentialed teachers to teach only subjects in which they hold a credential. However, existing statutes allow teachers to teach in another subject area if (1) the teacher has completed a requisite number of semester units in the given subject and (2) he or she has received approval of the district governing board to teach that subject. A teacher not meeting these conditions is considered to be "mis-assigned."

Credential monitoring was originally required in 1987 to ensure that districts did not assign teachers to teach classes for which they are legally unqualified. This mandate requires the following:

- School districts must annually review teacher assignments for their legality, and report the results to the district governing board. About 85 percent of the total mandate costs are incurred by districts.

- County superintendents of schools must monitor the assignments of all certificated personnel in school districts within their jurisdiction on a three-year cycle, and report the number of mis-assignments annually to the Commission on Teacher Credentialing (CTC). The CTC directly monitors seven counties that each contain only one school district. About 15 percent of total mandate costs are incurred by counties.

Serious Mis-Assignments Appear Rare. When this mandate was created, there was evidence that teacher mis-assignment was fairly common. For example, the CTC found that during the 1985-86 school year, 8 percent of secondary school teachers were mis-assigned. By 1992, the end of the first three-year cycle of the mandate, the total mis-assignment rate had dropped to 4 percent. These figures include both cases in which a teacher had not completed requisite coursework, and also cases in which a teacher did not receive board approval but was otherwise qualified.

The CTC collects annual reports on teacher mis-assignment from county offices of education, but could not provide us with more recent data. In order to assess the current degree of teacher mis-assignment, we called several county offices of education. In general, the county offices told us the following:

- Cases in which a teacher is assigned to teach a subject for which he or she is unqualified are rare.

- Most mis-assignments are cases in which the teacher has fulfilled the coursework requirements for the assignment, but official action was not taken by the governing board.

- Teacher mis-assignment problems are most likely to occur in middle schools and almost never occur in elementary schools. High schools fall somewhere in between.

- As a result of monitoring, administrators are now far more conscientious and knowledgeable than they used to be about teacher assignments and education code requirements. As a result, fewer problems arise in the first place.

Legislature Should Delete Mandate. Since serious teacher mis-assignment is now rare, we believe spending $2.2 million to review all teacher assignments is not warranted. Indeed, based on our conversations with county office staff, we see no need to monitor elementary school assignments at all. Therefore, we recommend the Legislature delete the Credential Monitoring mandate as of July 1, 1996.

However, to prevent serious problems with teacher assignments in the future, we recommend the Legislature increase county offices of education budgets by $350,000 for the purpose of targeted credential monitoring of "problem" schools or districts. This funding level is about equal to the current level of mandate reimbursement claims filed by county offices. The recommendations would result in a general fund savings of $1.9 million per year.

We propose the following language be added to the Budget Bill to guide county offices in expenditure of credential monitoring funds:

> Of the amount provided in this Item, $350,000 is added to funding for county offices of education for the purposes of credential monitoring activities. County offices shall (1) monitor schools and districts likely to have problems with teacher mis-assignment based on past experience or other information available and (2) randomly check school districts with no history of problems.

Consolidate Pupil Health Mandates

We recommend the Legislature adopt trailer bill language to combine the pupil immunization records mandate and the pupil health screenings mandate, for an annual savings of $900,000. We also recommend the Legislature pay $6.1 million for past year claims for the pupil health screenings mandate out of one-time funds available in the current year.

The Governor's Budget proposes to spend the following amounts in 1996-97 to reimburse districts for complying with two state mandates:

- $2.1 million for 1996-97 costs of pupil immunizations records.
- $7.6 million for pupil health screenings for costs incurred in 1992-93 through 1996-97. Of this amount, $1.5 million would go to reimburse districts for their costs incurred in 1996-97 and $6.1 million would go to reimburse districts for their costs incurred in years 1992-93 through 1995-96.

What Are the Health Screening and Pupil Immunization Mandates? Current law requires that schools collect proof of immunization and proof of health screening for hearing and vision problems before allowing pupils to enroll. Schools typically verify immunizations when pupils are enrolling in kindergarten and verify health screenings when pupils are enrolling in the first grade. The state has reimbursed local costs of complying with the pupil immunization records mandate since 1975. Districts began incurring costs for the pupil health screenings mandate in 1992-93, but the state had not established reimbursement rates for this mandate until this year.

The state reimburses districts for the administrative costs of complying with the immunization records mandate at approximately $4.40 per pupil. The state recently established a reimbursement rate of approximately $3 per pupil for the administrative costs of complying with the pupil health screenings mandate.

Health Screening and Immunization Mandates Should Be Combined. Our review indicates that the two mandates should be combined into one process, for the following reasons:

- ***The state could save about $900,000, or about 25 percent, of the annual mandated local costs currently claimed for the two programs.*** This is because the state reimburses districts twice for similar administrative costs: notifying parents, ensuring compliance, maintaining records, and submitting data to the state for compliance purposes. If districts were to comply with both mandates at the same time, it could perform the administrative tasks simultaneously, thereby saving the state money in reimbursements.
- ***Districts and parents could comply more easily with the two mandates.*** There is no administrative or health-related reason for districts to comply with these mandates at separate times. Anecdotal evidence suggests that parents may be confused when contacted twice in two years regarding two different health requirements. Parents also may be more reluctant to comply at two separate times, especially if they must see a doctor in order to comply. As a result, combining the mandates would assist districts in carrying out the mandates.

Combining the two mandates is also consistent with legislative intent of the pupil health screening legislation, which states the intent of the Legislature that school districts provide the health screening notification as part of the same notice process for immunizations. By combining the two mandates, districts would be required to ask parents for proof of immunization and proof of a health screening at the same time.

Therefore, to streamline the administration of these health screenings and reduce the state costs of the two mandates, we recommend the

Legislature adopt trailer bill language combining these two mandates into one, thereby requiring that districts carry out immunization screenings and pupil health screenings simultaneously. We also recommend a reduction of $900,000 in the amount budgeted for these two mandates in 1996-97.

Legislature Should Pay for Past-Year Pupil Health Screenings Out of One-Time Money. The $7.6 million budgeted in 1996-97 for this mandate covers reimbursements for 1996-97 and for previous years, as explained above. These prior-year costs are one-time costs. In the past, the Legislature has used one-time revenues, when available, to satisfy one-time costs. By doing so, the Legislature reserves ongoing money available in the budget year for activities that are ongoing in nature. For this reason, we recommend the Legislature pay for past-year costs in the current year out of the one-time 1995-96 money that is available due to the higher level of General Fund revenues. This will free up $6.1 million in 1996-97 funds that can be used to fund other K-14 priorities.

Reports No Longer Mandated

We recommend the Legislature delete $1.5 million in reimbursements from the General Fund for the expulsion reports mandate because recently enacted legislation eliminates the state mandate. (Reduce Item 6110-295-0001 by $1.5 million.)

The Governor's Budget proposes $1.5 million in reimbursements for student expulsion reports. Chapter 498, Statutes of 1983 (SB 813, Hart) required districts to expel students for certain acts. However, if the district determined that expulsion was inappropriate, they were required to justify this in a formal expulsion report. Chapter 972, Statutes of 1995 (SB 966, Johnston) eliminated this mandate, effective January 1, 1996. Districts are no longer required to submit a report when they determine that a pupil should not be expelled.

Therefore, we recommend the Legislature reduce Item 6110-295-0001 by $1.5 million, for a General Fund savings of the same amount.

REVENUE LIMITS

Three-Agency Revenue Limit Review Could Yield Positive Results

We recommend the Legislature direct the Departments of Education and Finance and the Legislative Analyst's Office to jointly review the revenue limit calculation and make recommendations to simplify the process to (1) make it more understandable and (2) reduce unnecessary workload at the state and local levels.

Revenue limit funding accounts for $18.8 billion in 1996-97, or three-quarters of overall Proposition 98 expenditures. The revenue limit is the amount of revenue per unit of average daily attendance (ADA) that districts receive in general purpose funding from state aid and local property taxes. Each of the state's 1,001 school districts and 58 county offices submit information to the State Department of Education to claim their revenue limit funding.

In November 1995, the Departments of Education and Finance and the Legislative Analyst's Office completed a joint review of the Master Plan for Special Education. One of the major problems with the current special education funding formula is the complexity of the process to claim funds for special education. The report recommends a more straightforward process that the three agencies believe will make the funding of special education more easily understood by nonexperts and will reduce workload at both the state and local level related to claiming special education funding.

Revenue Limits Could Also Benefit. We believe that a similar three-agency review of the revenue limit funding calculation could yield similar results. The revenue limit calculation is complicated—so complicated that private consultants offer *beginning* and *advanced* workshops on how to complete the revenue limit worksheets in a way that maximizes district revenues.

While the revenue limit calculation may not be as Byzantine as in special education, the revenue limit process offers its own degree of complexity. For illustration purposes, we selected Pleasanton Unified School District as an example. In 1994-95, Pleasanton had all of the basic revenue limit adjustments resulting in the following four different revenue limits:

- $4,404—The district's *statutory base revenue limit*.

- $4,327—The *blended base revenue limit*, which is equal to the combination of the district's statutory base revenue limit for the number of students enrolled prior to 1982-83 and the lesser of (1) the district's statutory base revenue limit and (2) 105 percent of the statewide average statutory base revenue limit times any growth in ADA since 1982-83. Approximately 161 districts are affected by this adjustment.

- $3,851—The *deficited base revenue limit* which is equal to 89 percent of the blended revenue limit. The deficit factor reflects the experience of the early 1990s, when revenue limit entitlements were annually inflated by statutory COLAs each year, even though these COLAs were not fully funded. All school districts are affected by this adjustment.

- $3,797—The *adjusted funded base revenue limit*, which is equal to the deficited revenue limit less recaptured savings corresponding to the reduction in the Public Employees Retirement System (PERS) costs. With the exception of San Francisco Unified School District, which is not a part of PERS, every school district has a unique PERS adjustment.

Some district calculations require several other adjustments, including amounts for unemployment insurance, meals for needy pupils, and continuation high school adjustments. Some adjustments are subject to the deficit while others are not. The Department of Education also reports 24 other adjustments that apply to particular school districts which have been added over a number of years through legislation.

PERS Reduction Good Example of Complexity. The PERS revenue limit adjustment offers the best example of why revenue limits should be simplified. The PERS adjustment began in 1981-82. In that year the PERS rate paid by districts for their nonteacher employees was 13.02 percent. In 1982-83, when the rate declined to 12.045 percent, the Legislature enacted Budget Act language to recapture this savings through the revenue limit process. As the PERS rate and the number of covered employees within each district changes, the PERS adjustment changes. As a result, each year, districts make this adjustment to revenue limits.

This apparently simple process, however, greatly complicates district financial and accounting practices. One expert explains the impact of the PERS reduction process on LEAs as follows:

> It takes a whole page (Schedule H) of the Form K-12 revenue limit claim to go through the steps necessary to determine the PERS reduction rate. Then, the reduction is subtracted from the revenue limit total elsewhere on Form K-12, and the reduced total is what the district actually receives from the state.

> For accounting purposes, however, the PERS reduction amount is *added back* to the revenue limit on the J-200 Report. The district will never see this phantom income, so an offsetting phantom expenditure must be posted in the 'Other Outgo' category to keep the books in balance . . . .
>
> Certainly the public and bargaining units can't be expected to comprehend what is going on here. It is virtually unexplainable, and the way the mysterious-sounding 'Other Outgo' expenditure line jumps up and down from year to year can only invite suspicion. But even more disturbing is how error prone the whole process is . . . .

We think the revenue limit calculation can be made more understandable while at the same time reducing needless workload at the state and local level. We therefore recommend that the Legislature add supplemental report language to direct the three agencies to review the revenue limit process and forms and provide recommendations to the Legislature for change. As with the special education report, we recommend that the three agencies consult with appropriate parties at both the state and local level. We believe that a joint effort by the three agencies could produce preliminary recommendations by December 1, 1996 and final recommendations by May 1, 1997.

Specifically, we recommend the adoption of the following supplemental report language:

> It is the intent of the Legislature that the Superintendent of Public Instruction (SPI), the Director of Finance, and the Legislative Analyst, or a designee of these persons, shall review the revenue limit apportionment process and make recommendations to simplify the process to (1) make it more understandable and (2) reduce unnecessary workload at the state and local levels. In developing the recommendations, the three agencies shall consult with appropriate parties. The three agencies shall submit recommendations to the appropriate chairs of the committees that consider appropriations, the appropriate policy committee chairs, the Chair of the Joint Legislative Budget Committee and the Governor on or before May 1, 1997. The three agencies may submit a preliminary report by December 1, 1996 if the agencies deem it useful to the overall objectives of the project.

Technical Problem With Control Section on Attendance Reporting

We withhold recommendation on Control Section 24.05, which proposes several changes to average daily attendance reporting, pending further review.

The Budget Bill includes a new Control Section (24.05) proposing several changes in attendance accounting. These include:

- Denying funding for students in independent study for any of the days that the student is continuously outside the boundaries of California for 30 calendar days or more.
- Limiting revenue limit funding for excused absences to no more than ten consecutive schooldays in each instance.
- Requiring LEAs to use their own certificated employees to provide services which are the basis of a claim for state funding.
- Prohibiting the Superintendent of Public Instruction from issuing waivers related to: (1) revenue limits in county community schools and (2) pupil-teacher ratios in K-12 independent study.

In addition, Control Section 24.05 provides that if the Director of Finance determines that a management employee of a local education agency "knowingly and willingly" reported false apportionment information to the State Department of Education, the reasonable costs of the investigation leading to the determination shall be reimbursed by the local agency for which the false information was reported.

Control Section May Not Affect Revenue Limits. We are reviewing the provisions of the control section and will provide comments and recommendations, as appropriate, during budget hearings.

We have also requested an opinion from the Legislative Counsel on whether a Budget Bill control section can control funds that are not appropriated in the Budget Bill. District and county revenue limit apportionments are not appropriated in the Budget Bill. Depending on Legislative Counsel's opinion, changes of this type may be more appropriately considered in the budget trailer bill.

CHILD DEVELOPMENT

The 1996-97 Governor's Budget proposes $507 million from the General Fund for child development programs. This represents an increase of $35.9 million from the current-year level of funding for the program. The increase is the result of (1) a $10 million increase in state preschool programs, (2) a $10 million increase in General Child Care programs, (3) $15.7 million for a COLA, and (4) a $203,000 increase in General Fund expenditures for local administration of federal funds. The budget proposes to spend $140 million in federal funds, of which $29 million is carryover. General Fund carryover funds totaling $18 million are also proposed for expenditure in the budget year.

State Department of Education Unable to Provide Information On Expenditures of Federal Funds

We recommend the State Department of Education (SDE) provide by March 15, 1996, a detailed budget for the expenditure of federal child development funds in 1996-97. We further recommend SDE supply specific information to the budget subcommittees on the status of current and past federal fund expenditures.

Almost all of the department's federal child care funds are from the Child Care and Development Block Grant. Under federal law, these funds are divided into two groups. First, 25 percent of the federal funds (known as “25 percent” funds) are available for a wide range of activities including center-based child care and quality improvement programs. Second, federal law requires using the remaining 75 percent for voucher-based care. In California, the 75 percent funds are spent through the Alternative Payment (AP) program, which distributes the vouchers to low-income families.

In our *Analysis of the 1994-95 Budget Bill*, we identified about $85 million in federal child development funds that would be carried over into the 1994-95 fiscal year. These funds had not been included in the proposed budget and SDE had no plan for expenditure of these monies. The 1994 Budget Act included a plan to spend these funds over a three-year period for a variety of child development activities.

In our review of the 1995-96 child development budget, documents supplied by SDE indicated that there were not enough 25 percent carryover funds available to support the three-year plan. In March 1995, the department supplied updated figures showing that the three-year plan was actually not in jeopardy.

Below, we review the continuing problems experienced by SDE in tracking and controlling the use of federal child care funds.

The SDE Continues to Be Unable to Control or Track Federal Block Grant Expenditures. Documents supplied to us by the department now show a $4.9 million deficit in 25 percent funds in the current year. The department advises it believes the deficit is not real, but could not provide an accounting of actual expenditures of the federal funds to date. If 25 percent funds are indeed overspent, then some programs supported with these funds would have to be cut in 1996-97.

Unexplained $10 Million Drop in Expenditures of Federal Funds in the Current Year. The department estimates federal fund expenditures of about $128 million in 1994-95 and of $118 million in the current year. In both years, budget authority was about $135 million. The department was unable to explain why current-year expenditures have dropped.

The SDE Has No Plan for the Use of Federal Funds. The SDE has not yet developed a budget plan for the 1996-97 federal funds. We realize that the federal government will not inform the department of the total size of the 1996-97 block grant until September 1996. Nevertheless, given the funding mechanism governing this program, the department has already received the federal funds for the first three months of 1996-97 and also should know how much carryover is available from previous years. We believe the lack of budget planning contributes to SDE's continuing inability to control and track its expenditures of federal funds.

Without an accurate estimate of current-year spending and a spending plan for the budget year, we are unable to advise the Legislature on the use of the federal child care funds. Accordingly, we recommend the department provide by March 15, 1996, the following information:

- A detailed budget for 1996-97 expenditures of federal funds. This budget should include: (1) a program-by-program breakdown of planned expenditures and (2) a justification of the need for budgeted funds.
- A detailed accounting of actual expenditures and encumbrances of 75 percent and 25 percent federal block grant funds, broken down by federal and state fiscal year. This accounting should include an estimate of federal carryover that will be available in 1996-97.

To place the department on notice that the Legislature expects complete budget information for its consideration in January of each year, we also recommend the addition of supplemental report language requiring SDE to submit to the budget committees its 1997-98 budget plan for federal funds by January 10, 1997:

> The State Department of Education shall submit to the budget committee of each house of the Legislature and the Joint Legislative Budget Committee its 1997-98 budget for expenditure of federal block grant funds by January 10, 1997. The budget shall include details on (1) projected program-by-program expenditures and (2) an accurate accounting of new block grant funds and funds carried over from previous years.

Federal Carryover Plan Should Recognize New Funding Realities

We recommend reducing the budgeted amount of carryover to recognize lower expected funding levels for the federal child care block grant.

The three-year plan for expenditure of federal carryover funds was based on the assumption that the federal block grant would increase over the three-year period, so that ongoing federal funds would replace the carryover funds once the one-time monies were spent.

Federal budget cutting and welfare reform make it unlikely, however, that the federal block grant will rise significantly above current levels. Rather than recognize this new funding reality, the budget proposes to spend $29 million in carryover funds, or $8 million more than was called for in the three-year plan. We believe it is unwise to increase expenditures of federal carryover funds, given the current situation.

We continue to support the strategy of using federal carryover funds to increase the level of services available to eligible participants, but in a way that will not severely disrupt services to families when the carryover funds are exhausted. Therefore, we recommend that the remaining federal carryover funds be used to slowly transition over the next three years from the current budgeted level of federal funds down to the projected ongoing level of spending. Without an estimate of the amount of available carryover, we are unable to make a specific recommendation at this time on the amount to include in the Budget Bill. Based on information to be provided by SDE as described above, we will make specific recommendations during budget hearings.

General Fund Carryover Authority Weakens Legislative Control

We recommend the Legislature eliminate the statutory authority permitting the State Department of Education (SDE) to carry over unspent General Fund child care funds. We also recommend the SDE

provide the Legislature, by March 15, 1996, a detailed year-by-year accounting of General Fund carryover encumbrances and expenditures.

Section 8278 of the Education Code permits the SDE to carry over General Fund support for child development activities for two years. Funds that are not spent in one year may be carried over and spent on child development activities based on specific priorities described in statute. In general, carryover funds in the budget for a given year are generated from the child development appropriation from two years earlier. Thus, most of the carryover in the 1996-97 budget was generated in 1994-95.

According to the department, funds that are allocated for child care services may go unspent for a number of reasons—child care slots may go unfilled or certain costs may be disallowed by auditors, for instance. In recent years, General Fund carryover has been increasing and has far exceeded projections. For example, the department projected $10 million in carryover would be available in 1995-96, but the currently estimated figure is $22 million.

Unfortunately, SDE has been unable to pinpoint the reasons for this large increase. In the 1994-95 budget year, the SDE predicted that almost all of its child care providers would spend the full amount of their contracts and that General Fund carryover would shrink down to just a few million dollars per year. This does not appear to have occurred.

New SDE Initiatives May Reduce Level of Carryover in Future Years. The department advises it is collecting data that will reduce the amount of carryover beginning with contracts executed during the budget year. These data include: (1) a survey of child care providers to determine which providers have extra capacity to take on more children and (2) a review of the last three years of contracts for each child care provider to determine how much carryover is generated by each provider.

By combining these two sources of information, the department expects to be able to increase contract amounts for providers who can serve more children and decrease contract amounts for providers that have historically generated significant amounts of carryover. While these steps may reduce future carryover, we expect carryover amounts to stay high for at least two more years. This is because there is a two-year lag between the time that carryover is generated and the time that it may be spent.

Continuing Concerns With SDE's Use of Carryover Funds. In our *Analysis of the 1995-96 Budget Bill*, we provided examples of how the carryover provisions of the Education Code weaken legislative control over the SDE’s activities. For example:

- ***The SDE Created New Program Without Legislative Approval.*** In the 1994-95 fiscal year, SDE used carryover funds to initiate a new ongoing program without the Legislature's approval.
- ***The SDE Overruled Legislature.*** The department used $1 million in state carryover funds to replace $1 million in federal carryover funds that the Legislature included in the 1994 Budget Act for quality improvement activities. This allowed the department to overrule the Legislature's action and spend the federal funds on child care activities other than quality improvement.
- ***Lower Priority Activities Funded.*** The statutory carryover provision does not permit the Legislature to use unspent child care funds on other, higher priority activities in K-12 education.

The SDE Circumvents Carryover Statutes. More recent information indicates the department continues to have problems using its carryover authority responsibly. Specifically, in June 1995, the department still had not encumbered $6.5 million in carryover from 1992-93. These funds would have reverted if not encumbered by June 30, 1995. In order to retain the funds, the department substituted the 1992-93 carryover funds for $6.5 million in 1994-95 appropriations that were already encumbered for a direct services contract.

In this way, the department generated 1994-95 carryover from what had been 1992-93 carryover, and thereby added two years to the time available to encumber these funds. This circumvention of legislative intent gives SDE virtually unchecked ability to determine the amount of carryover funds that are generated each year. The department's action is contrary to the statute's intent to make carryover funds available for two years after the original appropriation before reverting back to the General Fund.

The SDE Cannot Provide a Consistent Account of Carryover Expenditures. Our analysis of the child development budget indicates ongoing problems with the department's accounting and expenditure of General Fund carryover funds. The department was not able to provide a consistent accounting of whether and for what purpose General Fund carryover funds were actually encumbered or spent. For example, we received conflicting information from different units within the department regarding how much carryover was available from different years and when (or if) it had been spent.

The department's handling of General Fund carryover funds continues to support our view that the statutory provision undermines legislative control. For this reason, we recommend the Legislature eliminate statutory carryover authority and, instead, appropriate the funds annually in the budget as it does with other K-12 unspent funds that have reverted. As an alternative to a statutory change, the budget subcommittees could include a reversion item in the budget so that unspent funds return to the General Fund and are available in 1996-97 for any Proposition 98 activity.

We also recommend the department provide the following information, by March 15, 1996:

- A breakdown of the amount of carryover funds by the fiscal year in which the funds became available and the year in which the funds were generated.
- An accounting of how carryover funds have been spent or encumbered.
- The results of SDE's efforts to reduce future carryover amounts.
- A comparison of actual carryover expenditures compared with expenditures listed in the department's annual carryover expenditure plans.

Problems Continue with General Fund Carryover And Federal Funds

We recommend the Legislature add Budget Bill language requiring the State Department of Education to spend $100,000 for external assistance to develop and institute management procedures to ensure the department's financial records will be accurate and understandable in the future.

As detailed above, the department continues to be unable to control or account for program expenditures. Our review of the 1996-97 child development budget found numerous discrepancies and irregularities in the department's financial records and expenditures.

Because the department has not been able to resolve these ongoing problems, we believe the department needs outside help to put its records in order and to adequately track and control expenditures. For this reason, we recommend the SDE contract with a public or private agency for the purpose of resolving these problems. We recommend adding the following Budget Bill language to Item 6110-001-0001 of the Budget Bill:

> Of the funds appropriated in this item, the State Department of Education (SDE) shall use $100,000 to contract for assistance in (1) developing effective financial tracking and control procedures for expenditure of General Fund carryover and all federal funds related to child development, and

(2) ensuring that the department will be able to present accurate records of expenditures in the future. The SDE will consult with the Department of Finance and the Legislative Analyst regarding (1) the content of the request for proposal for this study, (2) the choice of a contractor, and (3) monitoring and guiding the contractor throughout the life of the contract.

SPECIAL EDUCATION

The Governor's Budget includes $1.9 billion in General Fund support for special education in 1996-97. This is an increase of $162 million, or 9.4 percent, above the revised current-year amount. The budget-year request reflects the following General Fund increases:

- $68.4 million to pay for growth in the number of special education students ($66.5 million) and minor net revenue changes ($1.9 million). In general, growth for most special education programs is based on the percentage change in K-12 average daily attendance (ADA), which is projected to increase by 2.3 percent in 1996-97.
- $93.2 million for a cost-of-living adjustment (COLA) for special education programs, an increase of 3.3 percent. The percentage increase is the same as proposed for K-12 revenue limits.

In addition, the budget proposes a deficiency appropriation of $5.7 million for the current year to reflect enrollment increases that are higher than the level assumed in the 1995 Budget Act. This increase conforms to a similar enrollment estimate adjustment for general education revenue limits.

The Governor also proposes to change the manner in which the COLA for special education is applied. Budget Bill language proposes to allocate the COLA on a dollar amount rather than as a percentage increase. This proposal conforms to the way revenue limit COLAs are allocated. With a percentage increase, dollar differences in per student funding levels among districts become greater over time, whereas a uniform dollar allocation narrows these differences. Given the Legislature's concern with funding equity in special education as expressed in the *Supplemental Report of 1994 Budget Act*, we think this change is appropriate.

A NEW FUNDING FORMULA

In this section, we review the recent report on the special education funding formula, issued in November 1995, by the Departments of Education and Finance and the Legislative Analyst's Office. We also review the impact that the proposed funding formula would have on funding by Special Education Local Plan Areas (SELPAs). First, we provide some background information on California's Master Plan for Special Education (MPSE).

Background, Enrollment and Overall Funding

Federal law defines disabilities that qualify a child for special education and mandates school responsibilities and parental rights. Federal law sets out three basic principles that apply to children with disabilities: (1) all children with disabilities must be provided a free, appropriate public education, (2) each child's education must be determined on an individualized basis and designed to meet his or her unique needs in the least restrictive environment, and (3) the rights of children and their families must be ensured and protected through procedural safeguards.

Consistent with these federal requirements, MPSE requires schools to assess each child's unique educational needs and consider a range of service delivery options for each eligible child. The MPSE, implemented statewide in 1980 with the enactment of Ch 797/80 (SB 1870, Rodda), established an area-wide approach to the delivery of special education services. The current areas are called SELPAs.

The intent of the SELPA structure is to deliver special education services in an efficient and cost-effective manner. Differing population densities around the state has resulted in SELPAs that consist of either multiple counties, single counties, a group of school districts within a county or single school districts. In 1994-95, there were 116 SELPAs. Of these, three were multi-county SELPAs; 33 were county-wide SELPAs; 48 were multi-district SELPAs; and 32 were single district SELPAs.

In 1994-95, approximately 572,000 pupils ages 22 and under were enrolled in special education programs throughout the state. This is approximately 10.7 percent of the estimated total K-12 school enrollment for that year. The increase in special education enrollment between 1993-94 and 1994-95 was 3.5 percent. By comparison, the increase in overall K-12 enrollment was 1.4 percent.

The proposed 1996-97 General Fund appropriation of $1.9 billion discussed above does not reflect the total amount that would be spent on special education programs in the budget year. In addition to the state special education funds, federal funds and district revenue limit funds are also spent on special education. The most recent comprehensive accounting of expenditures and fund sources for special education found that in 1992-93 districts and counties reported spending $3.1 billion on special education programs (excluding transportation). The state's share of this amount was approximately 70 percent, the federal share was 5 percent and the local share was 25 percent.

New Funding Model Proposal

We recommend the Legislature enact a new special education funding formula consistent with the recommendations of the joint report issued in November 1995 by the Department of Education, Department of Finance, and the Legislative Analyst's Office. If additional Proposition 98 funding becomes available for 1996-97, we further recommend the Legislature set aside a portion—up to $50 million—of that funding to equalize funding levels among the Special Education Local Plan Areas contingent upon enactment of the funding reform legislation.

Two years ago in the *Analysis of the 1994-95 Budget Bill*, we cited a number of major problems with the state's current special education funding formula. Among the major shortfalls cited were (1) unjustified funding variations among local education agencies (LEAs), (2) unnecessary complexity, (3) constraints on local innovation and local response to changing requirements, and (4) inappropriate fiscal incentives.

Based on this analysis, the Legislature adopted language in the *Supplemental Report of the 1994 Budget Act* directing the State Department of Education (SDE), the Department of Finance (DOF), and the Legislative Analyst's Office (LAO) to jointly review the MPSE and propose a new funding model.

In November 1995 the three agencies released a joint report proposing a new funding model. The agencies spent 18 months developing the recommendations. A preliminary report was released in January 1995 and, during the spring, the three agencies held 11 regional meetings and met with 23 other groups to gather input and seek suggestions. The final report reflects extensive modifications based on these consultations.

Reflecting the Legislature's 1994 directive, the proposed model would:

- Equalize special education funds and simplify the allocation model.
- Allow local education agencies flexibility to tailor special education services based on local pupil needs.
- Enhance accountability to ensure that students receive needed special education services and benefit from the services provided.

Figure 18 highlights the proposed new model in comparison to the current model.

Figure 18

New Special Education Funding Model Compared With Current Model

Function	Current Model	Proposed Model
Area-wide cooperation	Requires area-wide planning. Requires Special Education Local Plan Areas (SELPAs) to distribute units.	Requires area-wide planning, shared responsibility, and accountability among member local education agencies (LEAs). Requires SELPAs to distribute funds.
Basis of funding	Funding based on identified pupils.	Funding based on total pupil population.
Distribution of funds	• Distributes "units" (classrooms) to SELPAs based on pupil counts. • Requires that SELPAs distribute units among LEAs. • Distributes funds to LEAs based on 40-page form reporting units operated, etc.	Distributes funds directly to SELPAs for distribution among constituent LEAs, consistent with a local plan that assures appropriate services to all eligible pupils.
Funding equalization	Widely varying funding levels. No equalization process; in fact, method for distributing COLA funds exacerbates inequities.	Over time, brings virtually all SELPAs to an equal per-capita funding amount. Exceptions are a very few extremely sparsely populated SELPAs.
Program flexibility	Dictates how services must be delivered.	Allows LEAs to configure programs based on local pupil needs and individual strengths of local staff.
Accountability	Emphasis on assessing whether the proper number and type of educational settings are being operated.	Emphasis on assessing whether pupils are receiving and benefiting from special education services.
Nonpublic school and agency placements (except for children residing in licensed children's institutions)	Open-ended funding of all placements, shared 70% state/30% LEA.	All current state funds (the 70%) included in the "base" to be distributed and equalized as indicated above.
Licensed children's institutions (placements by non-education agencies)	Open-ended 100% funding of placements that are (1) made by courts or (2) outside the pupil's home district.	Funding adjusted to account for the varying impact of licensed children's institutions.

Impact of the Proposed Model on SELPA Funding Levels. The *Supplemental Report of the 1994 Budget Act* directed a gradual phase-in of any new funding formula so as not to disrupt educational services to students enrolled in general or special education. In keeping with this directive, the model proposes a five-year phase-in period to bring expenditures to a uniform level. Specifically, the model uses state special education COLAs and all additional federal funding above the current level to increase funding for the lowest-funded SELPAs. The new model would (1) provide nearly all SELPAs an increase in total special education funding and (2) not reduce the existing level of funding for any SELPA. The model also provides all SELPAs with additional funds to reflect growth in the student population.

Figure 19 presents an illustration of the impact of these equalization proposals for 20 selected SELPAs. Figure 19 compares state and federal funding and amounts per ADA for these SELPAs and for the state as a whole in 1993-94 and 1998-99. The 1993-94 funding figures reflect the actual amount of state and federal aid provided to the member districts within each SELPA. The 1993-94 per ADA average for our sample is $346, which is almost identical to the state average of $345. As is the case for all 116 SELPAs, there is a wide variation in average per-ADA amounts in 1993-94. For example, Los Angeles Unified's per ADA amount is $394 compared to $281 per ADA for neighboring Long Beach Unified, a difference of 40 percent, or $113 per ADA.

The 1998-99 fund amounts display the projected SELPA state and federal support after implementation of the five-year equalization plan contained in the proposed funding model. By 1998-99, the statewide average would increase from $345 to $408, an increase of $63, or 18.3 percent. All districts in Figure 19 would experience increased funding from 1993-94 to 1998-99 reflecting the projected growth in the K-12 student population. In addition, almost all SELPAs would be equalized in per-ADA funding by 1998-99.

The three agency final report compares amounts for all 116 SELPAs and provides greater detail on all adjustment factors within the proposed model.

Additional Funds Would Speed Up the Phase-In. The joint report was developed under an assumption of no additional funding beyond normal growth and COLAs. Under that assumption all state COLAs and all additional federal funding was needed to equalize SELPA funding levels over a five-year period. The final report, however, notes that augmentations in excess of these amount would speed up the phase-in. According to the report, bringing all SELPAs up to the current statewide average would cost $142 million if it were done in one year.

Figure 19

Simulation of Proposed Special Education Funding Model 1993-94 and 1998-99[a]

(In Millions)

	State and Federal Aid		Amounts per ADA	
	1993-94	**1998-99**	**1993-94**	**1998-99**
Statewide	$1,761.6	$2,412.2	$345	$408
Selected SELPAs				
Marin County[b]	13.0	14.1	494	482
Contra Costa County[b]	29.4	33.8	414	409
Los Angeles Unified	239.4	272.8	394	408
Glenn County	2.3	2.8	393	408
Tehama County	4.1	4.9	386	408
San Diego Unified	45.4	58.5	368	408
East San Gabriel	42.3	57.4	342	408
Riverside County	52.0	82.5	333	408
San Bernardino County	13.9	20.4	332	408
East County (San Diego)	23.3	34.8	315	408
Ventura County	40.0	58.2	314	408
Fresno Unified	23.2	34.7	313	408
El Dorado County	6.8	10.1	311	408
West End (Los Angeles)	30.3	49.1	311	408
North Coastal	24.8	39.9	301	408
Placer-Nevada County	15.6	26.4	301	408
Antelope Valley	16.5	27.3	295	408
Kern County	23.5	38.7	291	408
Mid Cities/Downey-Montebello	33.3	53.3	289	408
Long Beach Unified	20.9	35.2	281	408

[a] Excludes funding for Licensed Children's Institutes.

[b] Marin and Contra Costa Counties experience a decline in per-ADA funding as new students are funded at the statewide average rather than their SELPA average. Note, however, that in each case their total budget increases.

The *Supplemental Report of the 1994 Budget Act* expressed the Legislature's interest to ensure equity in funding between school districts and county offices of education. As we discussed earlier in this analysis, there may be additional Proposition 98 funding available for 1996-97. Recognizing the Legislature's equalization goal, we recommend the Legislature set aside a portion of that funding—from $25 million to $50 million—to begin the equalization of SELPA funding. We recommend providing these funds only upon enactment of the special education funding formula reform legislation consistent with the three-agency report released in November 1995.

DEPARTMENT OF CORRECTIONS SPECIAL EDUCATION PROPOSAL

The budget proposal includes a $1.6 million General Fund augmentation (non-Proposition 98) in the Department of Corrections' budget to develop and implement special education programs in state prisons for inmates and wards who are under the age of 22. Our review of this proposal is still in process. We are particularly concerned about the Proposition 98 implications, if any, for ongoing special education costs related to this proposal. The request for the $1.6 million is discussed in the Department of Corrections section of this *Analysis*. (Please see Section D.)

HEALTHY START

The Governor proposes to increase local assistance funding for Healthy Start grants by $10 million in 1996-97. This is an increase of 34 percent above the program's current local assistance funding level of $29 million. The proposed $10 million increase would be used to fund three-year grants to new Healthy Start sites. The budget also includes $10 million for the Teenage Pregnancy Prevention program. This program was created last year by Ch 311/95 (SB 1170, Lockyer), and provides five-year Healthy Start-type grants targeted at teenage pregnancy prevention.

In this section, we describe the Healthy Start program and review the implementation of the program during its first four years of operation.

What Is Healthy Start?

The Healthy Start Support Services for Children Act (Ch 759/91 [SB 620, Presley]) established a grant program to provide health and other support services to pupils and their families at school sites. The purpose of the program is to provide an optimal learning environment by providing students and their families with integrated health and social services at the school site. Figure 20 (see next page) summarizes the Legislature's goals in creating the Healthy Start program. Local consortiums of schools, districts, community organizations, private foundations, and local health and welfare agencies may apply for three-year operational grants if the pupils enrolled at the school site meet certain income eligibility requirements.

In general, Healthy Start sites have the following characteristics:

- ***School as Access Point to Services for Pupils and Families.*** The Healthy Start program is based on a school-linked services model, in which families learn about available services at their children's local public school.
- ***Preventive, Coordinated Services.*** Healthy Start sites provide or assist families in obtaining coordinated preventive services, such as basic health, dental, and mental health services. Some sites may also provide job counseling, tutoring, parenting classes, and other services which the local consortium decides are needed by families. Service coordination is designed to prevent duplication and address the multiple needs of pupils and families.

Figure 20

Healthy Start Program Goals

Optimal Learning Environment	Create an optimal learning environment for children in need of assistance.
Interagency Collaboration	Promote local interagency collaboration and communication to deliver services more efficiently and effectively to children and their families.
Eliminate Duplication of Services	Encourage the full use of existing public and private resources to prevent duplication of services.
Continuous Self-Assessment by Local Sites	Encourage local sites to continually assess and improve the effectiveness of the services.

- ***Decentralized, Community-Based Programs.*** The Healthy Start program promotes a decentralized program model in which local programs are based on the needs and goals of the community. Consequently, programs at Healthy Start sites vary greatly depending on the local priorities and problems.

- ***Ongoing Self-Evaluation.*** Healthy Start statutes require local programs to perform ongoing evaluation as an integral part of their program. The evaluations are intended to provide feedback needed by sites to improve the effectiveness of services and better meet the needs of the community.

- ***Interagency Coordination.*** By their collaborative nature, Healthy Start sites promote interagency coordination among the different service providers *at the local level.* The original Healthy Start legislation also established a Healthy Start Program Council, to promote interagency coordination *at the state level* in the management of the program. The Council is composed of representatives from the following state departments: Health Services, Social Services, Alcohol and Drug Programs, and Mental Health. The Council also formed a partnership with the Foundation Consortium for School-Linked Services—a consortium of private foundations that lent financial and technical support to the Healthy Start program.

Funding

The State Department of Education (SDE) provides planning grants of up to $50,000 and three-year operational grants of up to $400,000. A site's district or supporting consortium must provide matching funds equal to 25 percent of the total grant amount from the SDE. The SDE is responsible for soliciting grant applications for Healthy Start grants, selecting sites to receive grants, providing technical assistance to grantees and evaluating the program.

Sites Must Seek Own Funding After Three Years. After the three-year grant period, local Healthy Start programs are expected to obtain operational funding from other sources, such as districts, other social services agencies or private organizations. Sites are expected to discuss their plan for obtaining long-term funding in their original grant application.

Number of Healthy Start Sites and Funding Level Have Grown

From 1991-92 through 1994-95, Healthy Start received funding of $19 million each year. In 1995-96, the Legislature increased the level to $29 million. Of this $29 million, $10 million will be available to SDE in August 1996 (1996-97) after the *CTA v. Gould* settlement has been finalized. (This is part of the $377 million connected with the settlement, discussed above.) The budget proposes Healthy Start funding of $39 million in 1996-97. The budget also proposes $2.3 million (non-Proposition 98) in 1996-97 to support state administration and provide technical assistance to Healthy Start sites.

Figure 21 (see next page) summarizes the number of operational and planning grants awarded by SDE since the inception of the Healthy Start program. The number of existing Healthy Start sites has grown from an initial level of 40 to the present level of 149 (this total does not include new sites that will receive funding in the current or budget years or sites that have only received planning grants). The SDE could not project the number of grants that would be awarded in the current and budget years.

Figure 21 illustrates two important features of the program. First, each operational grant usually involves more than one school. Through 1994-95, 469 schools participated in the 149 programs, or an average of three schools per grant. Second, the number of grants differs substantially from year to year. According to SDE, the number of grants awarded depends on a number of factors, including the number of awards made in the previous year and the quality of the new grant applications.

Figure 21

Healthy Start Grants
1991-92 Through 1994-95

	Planning Grants Awarded	Operational Grants Awarded	Number of Participating Schools
1991-92	110	40	128
1992-93	72	25	82
1993-94	44	47	162
1994-95	54	37	97
Totals	**280**	**149**	**469**

Eliminate $10 Million Augmentation

We recommend the Legislature delete the $10 million proposed augmentation for the Healthy Start program in 1996-97 because the base program budget contains sufficient funds to support new sites in the budget-year.

The Governor's Budget proposes to increase funding for the Healthy Start program by $10 million in 1996-97. This would increase the program's support to $39 million. The program received a $10 million augmentation as part of the 1995-96 budget. This new increase would result in more than doubling the program's support over a two-year period.

Given the competing needs for funding in other areas in the K-12 budget, we think the $10 million could be used for other higher priority activities (please see our K-12 Priorities section). Even without the proposed increase, the program will continue to expand, as the budget provides three-year funding for a new set of local programs each year. In addition, districts that do not receive a state grant may use mega-item funds to begin and support a Healthy Start program.

For these reasons, we recommend the Legislature delete the $10 million increase for the Healthy Start program.

Status of Early Healthy Start Sites Unknown

We recommend the State Department of Education survey Healthy Start sites that received operational grants in 1991-92 and 1992-93, and report to the fiscal committees by April 1, 1996 on their financial status and the status of their evaluation systems.

As we discussed above, Healthy Start funding lasts for three years. After that time, sites must find other funding sources to continue operations. The SDE was unable to provide information on two important aspects of the status of Healthy Start sites that received operational grants in 1991-92 and 1992-93 and are now in their fourth and third year of operation: (1) their financial status and (2) the status of their evaluation systems.

The SDE Does Not Have Information on the Financial Status of Early Sites. The department does not know whether the first group of Healthy Start sites (1991-92 operational grantees) have been able to obtain continuation funding. This group of sites is now in their fourth year of operation and no longer receiving operational grant money (although they may carry over some unused funds from the previous year). Although SDE indicates it has not heard of any sites having to terminate services completely, anecdotal evidence suggests that sites were in fact having trouble obtaining funding to sustain services.

The SDE had not done a thorough investigation as to their funding status by the time of our analysis, although the department plans to do a survey. A SDE survey of sites originally funded in 1992-93 showed that many sites did not know how they were going to fund their programs after their operational grants end in July of 1996.

The SDE Does Not Have Information on Early Sites' Evaluation Systems. The SDE does not know whether Healthy Start sites that received grants in 1991-92 and 1992-93 have local evaluation systems in place. The SDE is establishing an ongoing evaluation system for new Healthy Start sites. The department expects to complete the system and provide training to local sites by February 1996. However, the new system will not necessarily encompass older sites. While SDE believes—based on a statewide evaluation of the program—that older sites may have set up their own evaluation systems, it has not surveyed the sites to verify this belief. (Please see our discussion of the statewide evaluation below).

Without appropriate evaluation systems, Healthy Start sites will not be able to (1) adjust the program to best meet local needs and (2) demonstrate success to other organizations in order to obtain continuation funding after their third year of operation.

Legislature Needs Information on Status of Early Sites. The lack of information on the status of early sites compromises the Legislature's ability to assess the overall success of the program and the substantial investment of public funds. The financial status of these early sites is of particular concern. The Legislature, for instance, has already considered one bill (AB 1591, Alpert) in 1995 to provide one-time transition grants of up to $50,000 to sites that received operational grants in 1991-92. Without accurate information on the financial status, the Legislature cannot evaluate such proposals—or whether this fundamental aspect of the program's design is working.

Therefore, we recommend SDE survey the first two groups of Healthy Start sites and provide information to the fiscal committees by April 1, 1996 on the number of sites that have obtained or expect to obtain continuation funding, the amount and sources of funding, and problems in obtaining funding. We also recommend that SDE collect and report on the status of local evaluation systems at these sites.

Additional Information Needed

We recommend the State Department of Education (SDE) report to the budget subcommittees on (1) the results of the recent evaluation of Healthy Start and (2) its plans to coordinate Healthy Start and other SDE programs with other state agencies.

In our review of the program, we identified additional information the Legislature needs to assess the program's success. We discuss this information below.

Program Evaluation. In 1992 the SDE contracted with the private research company, SRI International, to perform an evaluation of the first two groups of grantees: those that received operational grants in 1991-92 and 1992-93. The SDE expects the evaluation to be completed in March, 1996. As part of its evaluation, SRI conducted two studies: (1) an outcomes study of how Healthy Start improved the health and education of pupils who received direct services at Healthy Start sites and (2) a process study on how well Healthy Start sites served as community collaboratives.

Interagency Coordination Efforts. As discussed earlier, state law requires an interagency council to coordinate state activities involving Healthy Start. According to SDE, this council meets quarterly. The SDE, the Department of Health Services (DHS), and other agencies also communicate on an as-needed basis at the state level.

However, our analysis suggests that there is still a need for more local and state-level coordination between the SDE, DHS, Department of Mental Health, and other participating agencies. For example, a Medi-Cal billing option for school-provided services is thought to be a viable option for sites to obtain long-term funding, but many sites have had trouble developing this option. Communication and better coordination between DHS and SDE may assist sites in accessing this option.

In addition, the Governor's proposal to create a teenage pregnancy prevention grant program presents a new need for coordination between SDE and DHS—specifically, a need for SDE to coordinate its new Teenage Pregnancy Prevention Grant Program with the Governor's proposal. The Governor proposes a new $34 million grant program, which is similar in purpose to the grants SDE plans to administer through the Teenage Pregnancy Prevention Grant Program. In this case, interagency coordination can be instrumental in avoiding duplication of effort.

To inform the Legislature of these program developments, we recommend SDE provide the following information to the budget subcommittees: (1) the results of the SRI program evaluation and (2) SDE's plan for interagency coordination of Healthy Start and the Teenage Pregnancy Prevention Grant Program with the DHS and other state agencies.

OTHER ISSUES

Parental Involvement

We recommend the Legislature delete this item from the budget for a savings of (1) $550,000 in Proposition 98 funds and (2) $1.8 million from non-Proposition 98 General Funds, as the budget proposal does not adequately demonstrate the need for additional funds.

The Governor's Budget proposes $2.3 million ($1.8 million from the General Fund for state operations and $550,000 in Proposition 98 local assistance funds) to initiate a family-school partnership program. The state operations funding would include creation of an eight-person unit in the State Department of Education (SDE) to plan, coordinate, and implement the program. Local assistance funds would go to augment 11 existing regional education consortia.

According to the budget proposal, the SDE and the regional consortia would engage in the following activities:

- Create a formal collaboration between the SDE, local agencies, and parents to develop a strategic plan for family-school partnerships.
- Develop a training curriculum and outreach materials for stakeholders in how to establish family-school partnerships at the school level.
- Develop a public awareness campaign to encourage parents and communities to become more involved in their children's education (the campaign itself would be privately funded).
- Coordinate with adult education programs and community organizations to include parent-school involvement as part of existing parenting education programs.
- Establish a network of parent resource and information centers.

Parental Involvement Raises Achievement Regardless of Socio-Economic Status. Research conducted over the last two decades indicates that children's educational outcomes improve if their parents are more involved. Furthermore, these gains are independent of socio-economic factors such as income or parents' educational attainment.

Parents improve their children's achievement by creating a supportive environment at home (for example by helping with homework and providing a quiet place for studies) and by greater involvement at their children's school and increased contact with teachers. Children whose parents exemplify these characteristics have higher test scores, better attendance, fewer special education placements, and higher graduation rates than children of similar backgrounds whose parents are less involved with their education.

Despite these research findings, the SDE's 1994-95 local program reviews found that about 20 percent of school districts reviewed in that year had not met basic compliance requirements for parental involvement programs. In addition, anecdotal reports suggest that while most schools have parental involvement policies and plans on paper, meaningful outreach and parent participation is less common.

Budget Proposal Ignores Past Efforts

We do not question the value of local parental involvement programs. The issue is: What is the appropriate role for the SDE in facilitating greater parental involvement at the school level? We think a more targeted parental involvement program could be accomplished with existing resources. Below we discuss our concerns with the department's proposal.

First, the proposal does not address how to use existing programs and resources to increase parental involvement. A number of state and federal laws and programs include a parental involvement component. For example:

- ***State Law Requires Parental Involvement.*** State law requires all school districts to have a board-adopted policy on parental involvement. In addition, state law makes low-performing schools' receipt of certain state categorical funds contingent on compliance.
- ***Several State Programs Stress Parental Involvement.*** These include the Demonstration Program on School Restructuring, School-Based Coordinated programs, the Elementary and Middle Grades Networks, Healthy Start, and the Superintendent's new Challenge initiative.
- ***Federal Education Reform Legislation Includes a Parental Involvement Component.*** The Improving America's Schools Act requires school districts to develop and successfully implement meaningful parental involvement programs as a condition for receipt of federal compensatory education. In addition, schools receiving funds under Goals 2000 and the School to Work Opportunities Act must include parental involvement as part of their reform plan.

While the SDE plan mentions the need to coordinate these programs and requirements, the proposed new programs would simply be added *on top* of these efforts, rather than promote coordination of resources.

Second, many of the proposed activities have been completed in the last few years. During the early 1990s, SDE conducted a variety of parental involvement efforts that the current proposal would duplicate:

- ***The SDE Already Has a Strategic Plan for Parental Involvement.*** This document, published in 1992, lays out a detailed framework for how state and local education agencies can generate meaningful parental involvement in K-12 education. We do not believe it is necessary for the department to develop a new strategic plan.
- ***Training Curricula and Outreach Materials Already Exist.*** "Parental Involvement Programs in California Public Schools," published by the SDE in 1991, includes information on California organizations that offer a range of education programs for both families and teachers. In addition, the SDE has already produced a number of parent information brochures. As a result, development of a whole new set of curricula and materials would be redundant.

Third, the broad-brush approach developed by the state department of education would spend significant resources on activities that may have little impact on actual parental involvement.

- ***Regional Centers Impact Is Likely to Be Small.*** The budget proposes $550,000 in local assistance to establish 11 regional parent resource centers to assist parents who seek to become more involved in their children's education. A resource center may be useful at a school or district level. With only 11 regional centers throughout the state, however, this expenditure is unlikely to substantially increase parents' access to this information.
- ***Media Campaign May Miss the Mark.*** The budget proposal also includes development of a public awareness campaign stressing parental involvement (implementation would be funded with private donations). Although such a campaign has the potential to increase broad public support for parental involvement, SDE could not explain why a media campaign would have much effect on those parents who are not now involved in their children's education. We believe that targeted outreach efforts by individual schools to the communities that attend them are far more likely to have a meaningful impact on parent participation in education.

Recommendation. There is an appropriate role for SDE in encouraging parental involvement. From our review, however, we conclude that a program already exists—the department simply needs to enforce state and federal laws and provide technical assistance to schools and districts that want to improve their local programs. In fact, SDE has already identified, through its compliance reviews, a number of schools and districts that have no parental involvement program, despite the requirements already in law.

The department currently has two positions for parental involvement to carry out these activities. Because it has these two positions and because it has not demonstrated the need for additional support to implement an effective parental involvement effort, we recommend the Legislature delete this item from the budget for a General Fund savings of $2.3 million.

Trim Partnership Academy Expansion

We recommend the Legislature approve a $2.1 million augmentation for partnership academies to support new academies that were provided start-up funds in the current year. We also recommend the Legislature reject the Governor's proposal to expand the program by an additional $1.7 million and that the State Department of Education report to the Legislature on a plan to improve the transition between school and work in the entire K-12 education system.

The Governor's Budget Proposes Significant Expansion of the Program. The Governor's Budget proposes to expand the partnership academy program from a funding level of $3.7 million to $7.5 million. Although the 1995 Budget Act contains $4.4 million for the program, this amount includes a one-time sum of $750,000 that the Legislature approved last year to pay for planning grants for 50 new academies in the current year. This one-time $750,000 would drop from the program's base funding level, leaving the amount needed for ongoing expenditures ($3.7 million) in the budget year. The proposed increase for 1996-97 is $3.8 million, to be spent as follows:

- $2.1 million for first-year funding for 50 partnership academies that were awarded planning grants in the current year.
- $1.7 million to further expand the program, by providing (1) first-year funding to 30 new partnership academies ($1.3 million) and (2) planning grants to 30 more new partnership academies ($0.4 million).

The cost of the Governor's proposal to expand the number of partnership academies would increase substantially over time. Assuming the addition of 110 new academy programs, the cost of the proposal would increase from $3.8 million in 1996-97 to approximately

$8.9 million a year by 1999-2000. This expenditure growth is due to the funding structure for partnership academies, which increases support each year during the first three years of an academy's operation. New academies typically begin the development of their program with an initial planning grant of $15,000 for one year. Operational funding for academies increases over time, from $42,000 in the first year to $81,000 in the third and subsequent years.

What Are Partnership Academies? Partnership academies create schools within high schools that provide an integrated academic and vocational curriculum focused on a particular career field, with a goal of improving student achievement and supporting successful transition to work. Local businesses participate in the development and implementation of partnership academies, and also provide internships and mentors. Partnership academies largely serve "at-risk" high school students that have records of irregular attendance, under-achievement, and low motivation. Legislation passed in 1993 limits the proportion of at-risk students that can attend partnership academies to 70 percent of the total.

Currently, there are 45 partnership academies that are funded by the state and at least 50 more that do not receive state subsidies. Each academy serves an average of 118 students. In total, the 45 state-supported partnership academies serve approximately 5300 students in grades 10 through 12, at an average annual additional cost of about $700 per student.

The Legislature Needs a Statewide Framework. The partnership academy model holds promise as an effective way to improve student achievement and create effective links to employment and continued education. A rigorous evaluation of the model is currently underway with preliminary outcome results expected in about two years.

As the primary statewide school-to-work program, however, the academy model has drawbacks. First, it is expensive. At an average additional cost of $700 per participant, we estimate it would cost well over $1 billion to enroll even 10 percent of high school students in an academy. Second, while the academy model appears promising for at-risk students, high schools need other models to meet the needs of different students or local economies. For instance, academies cannot meet the needs of many students with specific academic or occupational goals. Additionally, the model may not work well in areas that have no concentrations of industries that can offer good job opportunities to students upon graduation.

These two issues—how school-to-work efforts in high schools will be funded and the need for different program models that satisfy the range of student needs and economic circumstances found throughout the state—are central pieces of a statewide strategy for school-to-work. In this broad context, partnership academies could be one of several models employed by schools.

Currently, however, there is no overall strategy to improve the transition between school and work in the K-12 system. The state provides financial support to partnership academies, but not to other program models. In addition, there is no statewide plan to coordinate existing vocational education programs and resources, such as regional occupation centers and programs, high school vocational education classes and partnership academies. Without these plans, the Legislature cannot evaluate whether further expansion of partnership academies meets the statewide school-to-work needs of high schools.

For this reason, we recommend the Legislature deny the additional $1.7 million in expansion funds requested in the budget pending the development of a statewide school-to-work plan. To provide this information to the Legislature, we recommend the SDE report to the Legislature on its proposal to improve the transition between school and work in the entire K-12 education system. This plan would address the issues of funding, the development of alternate program models, and the effective and coordinated use of existing vocational resources in creating a statewide effort to improve high schools.

To follow through on its prior-year commitments, we recommend the Legislature approve $2.1 million in spending increases to support first-year funding for the 50 partnership academies that received planning grants in the current year.

School Desegregation Deficiencies

Chapter 308, Statutes of 1995 (AB 825, W. Brown), states legislative intent to pay districts for the full amount of 1993-94 audited claims for court-ordered and voluntary desegregation programs. According to the State Controller's Office, final audited costs will be available during spring 1996-97. The proposed budget contains no funds for any claims which exceed the amount appropriated in the 1993 Budget Act. We will provide the budget subcommittees with the amount of deficiency funds required, if any, to meet the legislative intent when the data are available.

Use One-Time Funds for Past-Year Claims

We recommend the Legislature pay $528,000 proposed to satisfy past-year voluntary desegregation claims out of one-time funds that are available in the current year.

The Governor's Budget proposes to spend $4.6 million on two new voluntary desegregation programs:

- $4 million for 1996-97 costs of a new program in the Compton Unified School District.
- $572,000 for costs incurred for a new program by the Ocean View Elementary School District for the years 1992-93 through 1996-97. Of this total, $528,000 would reimburse the district for costs incurred from 1992-93 through 1995-96 and $44,000 is proposed for the district's 1996-97 costs.

Legislature Should Pay for Past-Year Voluntary Desegregation Claims Out of One-Time Money. Generally, we think the Legislature should use one-time funds to pay for one-time costs. This permits the Legislature to maximize the amount of ongoing—or "base"—funds for annually recurring costs while still retiring obligations from past years. For this reason, we recommend the Legislature pay the $528,000 for past-year reimbursements out of the one-time 1995-96 funds and pay the $44,000 for 1996-97 claims with budget-year funds. This will free up $528,000 in 1996-97, which can be used to fund other K-14 priorities.

Adult Education in Correctional Facilities

We recommend the State Department of Education report to the Legislature on its plans to comply with language requiring the department to conduct a three-year study of the effectiveness of the Adults in Correctional Facilities programs.

Language in the 1994 and 1995 Budget Acts requires SDE to set aside $390,000 in federal funds each year to contract for a three-year evaluation of the effectiveness of Adult in Correctional Facilities programs in California. Identical language is proposed in the 1996-97 Budget Bill. The $1.2 million study would measure the impact of adult education programs on inmates in at least three counties, using the following indicators: educational achievement, employment and earnings, and jail recidivism.

In addition, the budget language requires the study to compare these indicators between a group of inmates participating in adult education and a control group of similar inmates not receiving educational services. The budget language also requires SDE to report to the Legislature on the progress of its report by April 1 of each year of the study.

The SDE Does Not Intend to Comply with Language; Proposes Smaller Study. The SDE has not awarded the $1.2 million contract to perform the three-year study, which is supposed to be in its second year. The department advises that it plans instead to go forward with a one-year, $390,000 study that would be smaller in scope.

Smaller Study Does Not Meet Legislative Intent. We have reviewed a draft of SDE's proposal for a smaller study, and our analysis indicates that it does not meet the Legislature's intent as stated in the 1994-95 and 1995-96 Budget Acts, for the following reasons:

- ***Smaller Scope.*** The lower funding level for the proposed smaller study means that the quality and scope of the study would not be as great as originally intended by the Legislature.
- ***Not Longitudinal.*** The SDE's proposal does not require that the shorter study be longitudinal, as originally intended with the three-year study.
- ***No Use of a Control Group and a Test Group.*** The SDE's proposal does not require that the contractor use a control group and a test group, as intended for the original study.
- ***No Use of Specific Outcome Data.*** The SDE's proposal for a shorter study does not require the contractor to use the specific outcome data mentioned in the Budget Act language.
- ***No Quality Control.*** The SDE's proposal does not include sufficient detail to adequately control for the quality of the study.

Our analysis indicates that the department has not complied with the intent of the Legislature to carry out a three-year study and that its proposal for an alternative study does not meet the Legislature's intent. Accordingly, we recommend the SDE comply with the Legislature's original intent as stated in the 1994 and 1995 Budget Acts to conduct a three-year study of the effectiveness of Adults in Correctional Facilities programs. We recommend that the SDE report to the Legislature on its plans to comply with this language.

LIST OF FINDINGS AND RECOMMENDATIONS

		Analysis Page
6.	**Support Critical Reform Efforts.** Recommend approval of $33 million for (1) first-year funding of district alternative programs ($30 million) and (2) additional funding for the Beginning Teacher Support Act ($3 million).	E-29
7.	**Reject Other Policy Initiatives.** Recommend the Legislature delete $30.9 million in policy initiatives proposed in the Governor's budget and redirect these funds to higher-priority programs, as discussed above.	E-30

1996-97 K-12 Priorities—-LAO Revenues

8.	**Establish a Proposition 98 Reserve.** Recommend the Legislature set aside up to $100 million in Proposition 98 funds as a reserve to protect against overappropriating the minimum funding guarantee in 1996-97.	E-32
9.	**Fund Continuing Program Costs.** Recommend argumentation of $85.2 million to fully restore the budget's proposed reduction to the mega-item categorical program ($46.8 million) and provide cost-of-living adjustments for child development ($15.7 million), adult education ($14.3 million) and Regional Occupational Programs / Centers ($8.4 million).	E-33
10.	**Increase and Equalize Local Revenue Limits.** Recommend augmentation of up to $272 million to increase support for local revenue limits.	E-34
11.	**Reduce K-3 Average Class Size.** Recommend augmentation of up to $272 million to reduce the average class size beginning in grades K-3.	E-34

	Analysis Page
12. **Special Education Funding Reform.** Recommend the Legislature set aside up to $50 million that would be made available upon enactment of legislation reforming special education finance consistent with the recent three-agency report on that issue.	E-35

1995-96 K-12 Budget Priorities

13. **Fund Continuing Program Costs.** Recommend approval of $94 million for state mandate payments, up to $151 million for deferred maintenance, and $528,000 for prior-year voluntary desegregation claims.	E-36
14. **Balance State and Local Needs.** Recommend the Legislature appropriate up to $237 million for a local block grant of one-time funds. Recommend the Legislature delete $100 million proposed for educational technology grants.	E-37
15. **Support Critical Reform Efforts.** Recommend redirecting $7.5 million to establish a one-time grant program that provides start-up funding for district school-to-work efforts.	E-38
16. **Reject Other Policy Initiatives.** Recommend the Legislature delete $115 million in policy initiatives proposed in the Governor's budget and redirect these funds to higher-priority programs, as discussed above.	E-39
17. **Reform Initiatives Lack Detail.** Recommend the Department of Education (SDE) and the Department of Finance (DOF) provide information on various school reform initiatives that are proposed in the budget.	E-39

Analysis Page

School Safety

18. **School Safety Programs Overbudgeted.** Recommend the Legislature provide $40 million of the $70 million proposed increase, to reflect more realistic population increases resulting from new school safety legislation. E-42

19. **School Safety Mandates May Cost Millions.** Recommend approval of the proposal to pay for state-mandated costs as a direct grant program. E-49

California's Assessment Program

20. **No Spending Plan Available.** Withhold recommendation on budget proposal pending receipt of SDE's assessment spending plan. E-52

21. **Options for Earlier Statewide Testing.** Recommend SDE report to the Legislature on options for beginning statewide testing by spring 1997—two years earlier than pending legislation would allow. E-54

22. **Public Review Front-Loads Costs.** Recommend SDE provide estimates of year-by-year development costs of various options for obtaining public input on questions used in the recently enacted statewide test. E-55

23. **Comparability May Be Infeasible.** Recommend the Legislature delete the statutory requirement for comparability among local incentive tests. E-55

24. **Reduce Funding to Reflect Carryover.** Recommend the Legislature delete $12 million from the 1996-97 assessment budget as this amount will likely be carried over from 1995-96. E-57

	Analysis Page
State-Mandated Local Programs	
25. **Pay Prior-Year Mandates.** Recommend the Legislature set aside $80 million in one-time funds to pay for prior-year mandate claims that have been submitted by school districts.	E-59
26. **Eliminate Teacher Evaluators Mandate.** Recommend eliminating the Teacher Evaluators mandate and increasing local assistance for the Beginning Teacher Support and Assessment program by $3 million.	E-60
27. **Delete Credential Monitoring Mandate.** Recommend the Legislature eliminate this mandate and instead provide $350,000 to county offices of education for targeted credential monitoring of problem schools.	
28. **Combine Pupil Health Mandates.** The budget proposes a total of $3.6 million for 1996-97 reimbursements for the pupil screenings and immunization records mandates. Recommend combining the two mandates for a savings of approximately $900,000 a year.	E-62
29. **Use One-Time Money for Past-Year Claims.** Recommend paying $6.1 million for past year reimbursements for the pupil health screenings mandate out of one-time money available in the current year.	E-64
30. **Delete Funding for Expulsion Reports**. Recommend deleting $1.5 million proposed to pay for the school expulsion report mandate, since recent legislation eliminated the mandate.	E-64

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Revenue Limits

31. **Review Revenue Limit Process.** Recommend that the Legislature direct SDE, DOF, and the Legislative Analyst's Office to jointly review the revenue limit calculation process and make recommendations to simplify the process to (1) make it more understandable and (2) reduce unnecessary workload at the state and local levels. E-67

32. **Impact of Attendance Accounting Language Is Unknown.** Withhold recommendation on proposed Budget Bill language pending further review. E-69

Child Development

33. **Department Unable to Track Federal Fund Expenditures.** Recommend SDE report to budget committees on (1) the status of current and past federal fund expenditures and (2) the 1996-97 federal fund child development budget. E-71

34. **Carryover Plan Should Reflect New Funding Realities.** Recommend reducing the budgeted amount of federal carryover funds to reflect lower expected future funding levels for the federal child care block grant. E-73

35. **Carryover Authority Weakens Legislative Control.** Recommend the Legislature eliminate statutory authority that permits SDE to carry over unspent General Fund child care funds. Further recommend SDE provide the Legislature with a detailed year-by-year accounting of General Fund carryover encumbrances and expenditures. E-73

	Analysis Page
36. **The SDE Needs Management Assistance.** Recommend Budget Bill language requiring SDE to spend $100,000 for management services to develop and institute effective financial management and record keeping procedures.	E-76

Special Education

37. **Special Education Funding Reform.** Recommend the Legislature enact a new special education funding formula consistent with the recommendations of the SDE, the DOF, and the Legislative Analyst's November 1995 joint report.	E-80

Healthy Start

38. **Healthy Start Augmentation.** Recommend deleting the $10 million augmentation for the Healthy Start program because sufficient funding is already available to expand the program.	E-88
39. **Legislature Needs Information on Healthy Start sites**. Recommend the SDE report to the Legislature on the status of early Healthy Start sites, the results of the SRI program evaluation, and the SDE's plans for interagency coordination.	E-88

Other Issues

40. **Parental Involvement.** Recommend the Legislature reject the proposal to add $550,000 in Proposition 98 funds and $1.8 million in non-Proposition 98 General Fund monies for state operations because the proposal does not adequately justify the need for additional funds	E-92

Analysis Page

41. **Scale Back Partnership Academy Expansion.** Recommend the Legislature approve $2.1 million of the proposed increase of $3.8 million for partnership academy expansion. Also recommend that SDE report on its overall strategy to improve the school-to-work transition in the entire K-12 system. E-95

42. **Use One-Time Funds For Past-Year Desegregation Claims.** Recommend the Legislature pay $528,000 in past-year voluntary desegregation reimbursements out of one-time money available in the current year. E-97

43. **The SDE Jail Education Study.** Recommend SDE report on its plans to comply with a 1994 and 1995 Budget Act requirement to evaluate the impact of the Adults in Correctional Facility program on county jail inmates. E-98