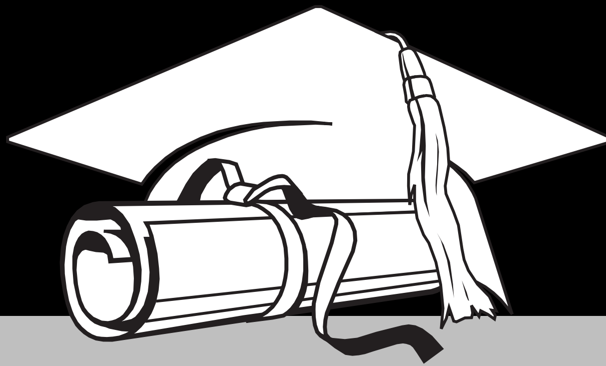
EDUCATION



LAO
55 Years of Service

2000-01 Analysis

MAJOR ISSUES

Education

☑ Relative Needs of Education Segments

- The budget's allocation of funds between the University of California (UC) and California State University (CSU) on the one hand, and K-12 education and the community colleges on the other, does not match the relative needs of these distinct segments of education.
- We recommend transferring, for Proposition 98 purposes, $134 million budgeted for base adjustments at UC and CSU. The General Fund budgets for UC and CSU still would exceed current-year amounts by 9 percent and 7.4 percent, respectively (see page E-19).

☑ Options for More Education Spending

- We make various recommendations that would increase Proposition 98 spending above the Governor's proposed 2000-01 level by $172 million.
- Given the state's current positive fiscal situation, the Legislature may wish to add even more funds to education programs. If so, we suggest that the Legislature place as much emphasis as possible on general purpose funds for K-12, equalization funds for K-12 and community colleges, various block grants for K-12, and Cal Grants for higher education students (see page E-13).

☑ Accountability Should Be Linked With Local Discretion

- K-12 accountability reforms adopted in 1999 Special Session logically lead to a shift in the state's budgeting emphasis from a focus on *inputs* to attention to *outcomes*.

- To maximize chances for improving educational results, we believe the state should give local schools more flexibility to match funds with local needs (see page E-67).

☑ Teacher Quality and Supply

- The budget focuses attention on the problem of recruiting teachers to "hard-to-staff schools," but fails to target the neediest schools. The effectiveness of its various proposals would be limited by the lack of local discretion.
- We recommend redirecting the funding for four proposed programs into a $122 million block grant to school districts for teacher recruitment/retention at the one-fifth of K-12 schools with the most pressing needs (see page E-22).
- We recommend restoring funding for the Cal Grant T program and retargeting the Assumption Program of Loans for Education to schools with the most serious recruitment/retention needs (see pages E-187 and E-189).

☑ Use Demographically Based Growth Projections to Budget Enrollment

- The budget bases funding for higher education enrollment growth on rates which exceed demographically based projections by the Department of Finance (DOF) and the California Postsecondary Education Commission, which already assume increased college participation rates.
- We recommend basing funding on the higher of these two projections (DOF's), resulting in reductions to community colleges ($13 million), CSU ($31 million) and UC ($17 million) (See page E-140).

☑ Annual Budget Process Is the Appropriate Partnership

- The Governor's proposed "partnership" would guarantee UC and CSU annual base funding increases twice the rate of inflation, and greater than for any other state agency.
- There is no need for such a multiyear guarantee. The annual budget process allows the Legislature to hold the segments accountable and maintains the Legislature's flexibility in balancing its annual budget priorities (see page E-137).

TABLE OF CONTENTS

Education

OVERVIEW

Education

The Governor's budget includes a total of $35.8 billion in Proposition 98 funding for K-12 schools for 2000-01. This is an increase of $1.9 billion, or 5.7 percent, over estimated expenditures in the current year. Looking at all funding sources—state, local, and federal—proposed K-12 spending increases from an estimated $43.1 billion in 1999-00 to $45.6 billion in 2000-01 (excluding capital outlay debt service). This is an increase of $2.5 billion, or 5.8 percent. The budget includes a total of $10.1 billion in state General Fund and local property tax support for higher education. This is an increase of $864 million, or 9.3 percent, over estimated expenditures in the current year.

Figure 1 shows Proposition 98 and General Fund support for K-12 and higher education for three years.

Figure 1

K-12 and Higher Education Funding[a]

1998-99 Through 2000-01
(Dollars in Millions)

	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Change from 1999-00 Amount	Change from 1999-00 Percent
K-12 Proposition 98	$31,652	$33,842	$35,787	$1,945	5.7%
Higher Education	$8,652	$9,272	$10,136[b]	$864	9.3%

[a] Includes spending from state General Fund support and local property taxes. Excludes Proposition 98 loan repayment under *CTA v. Gould*.

[b] Excludes $75 million General Fund for capital outlay.

The Proposition 98 request for K-12 in 2000-01 represents $6,313 per student, as measured by average daily attendance (ADA). Proposed spending from all funding sources (excluding capital outlay debt service) totals more than $8,000 per ADA.

The Proposition 98 budget request for community colleges represents $4,055 per full-time-equivalent (FTE) student. The proposed General Fund budget for the California State University (CSU) represents $8,169 per FTE student, and the proposed General Fund budget for the University of California (UC) represents $17,856 per FTE student.

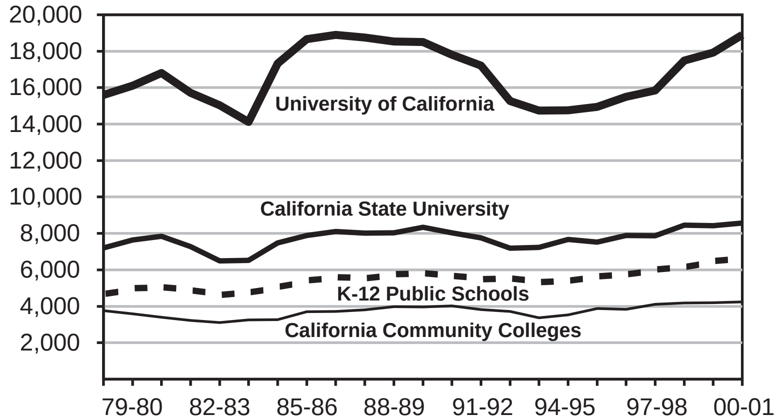
HISTORICAL PERSPECTIVE OF FUNDING PER STUDENT

To place funding for K-12 and higher education into a historical perspective, we have compared funding per FTE student for the four public segments from 1978-79 through 2000-01, adjusting for the effects of inflation over this 22-year period (see Figure 2). As the figure shows, per student funding for each segment, after adjusting for the effects of inflation, is at a high for this 22-year period.

Figure 2

Funding for K-12 and Higher Education Per Student[a] 1978-79 to 2000-01

Constant 2000 Dollars



[a] K-12 data include state and local funding. Higher education data include state and local funding for segments and Cal Grants.

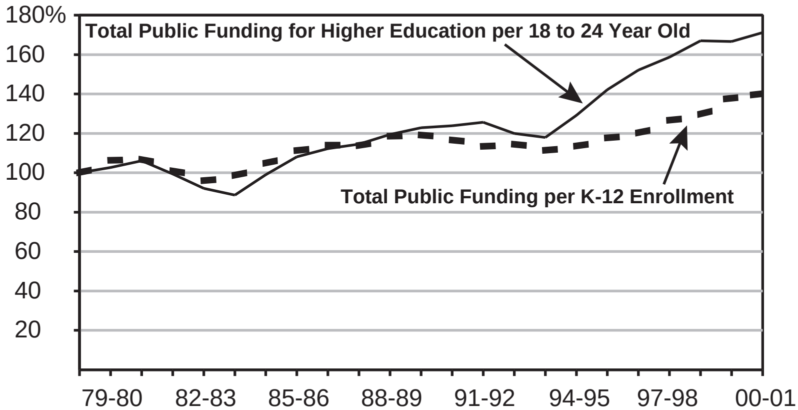
Funding Effort

Figure 3 provides another perspective on inflation-adjusted funding over time for K-12 and higher education purposes. The figure shows changes in total state, local, and federal funding for K-12 education per student and funding for each segment per 18 to 24 year old. (These numbers are expressed as a percentage of funding levels in 1978-79, so that growth trends can be compared.) The figure indicates that total state, local, and federal funding efforts for the two groups tracked fairly closely through 1993-94. Since 1993-94, however, college funding per 18 to 24 year old has outpaced funding per K-12 enrollment. Growth in funding per 18 to 24 year old reflects, in large part, the significant increase in college participation among the college-age population. Proposed state, local, and federal funding for college per 18 to 24 year old in California is 71 percent higher than it was in 1978-79, even after adjusting for the effects of inflation. Proposed state, local, and federal funding per K-12 student, which is also at a high for this 22-year period, is 41 percent higher than it was in 1978-79.

Figure 3

Growth in Total Public Funding For K-12 and College-Age Students[a]

Percent of 1978-79 Funding Level Adjusted for Inflation



[a] K-12 data include state, local, and federal funds. Higher education data include state and local funds plus federal grant aid. Figures for 2000-01 reflect funding proposed in Governor's budget.

PROPOSITION 98

The voters enacted Proposition 98 in 1988 as an amendment to the California Constitution. That act, which was later amended by Proposition 111, 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 schools for the deaf and the blind and the California Youth Authority. Proposition 98 funding constitutes over three-fourths of total K-12 funding.

The minimum funding levels are determined by one of three specific formulas. Figure 4 briefly explains the workings of Proposition 98, its "tests," and many other major funding provisions. The five major factors involved in the calculation of each of the Proposition 98 tests are: (1) General Fund revenues, (2) state population, (3) personal income, (4) local property taxes, and (5) K-12 ADA.

Proposition 98 Allocations

Figure 5 (see page 12) displays the budget's proposed allocations of Proposition 98 funding for K-12 schools and community colleges. The budget estimates a net increase in current-year Proposition 98 appropriations of $247 million, based on revised estimates (primarily in ADA), and newly proposed one-time spending.

The budget proposes $40.4 billion for Proposition 98 in 2000-01. This proposed appropriation total exceeds the administration's estimate of the constitutionally required minimum level by $257 million. The state has "over appropriated" the required minimum level in each of the last three fiscal years (1997-98 through 1999-00). As a consequence, the budget's proposed appropriation level (including the $257 million over appropriation) is $1.2 billion higher than would have been required under Proposition 98 if none of these over appropriations had occurred.

The shares allocated to the four components in 2000-01 remain similar to the 1999-00 revised shares. Proposition 98 funding issues are discussed in more detail in the "K-12 Education Introduction" and "California Community Colleges" sections of the *Analysis*.

Enrollment Growth

Figure 6 (see page 12) displays budgeted enrollment growth for K-12 and higher education. The increase in K-12 enrollment—1.3 percent—is considerably lower than growth during the 1990s. The K-12 enrollment is expected to grow even more slowly in coming years, as the children

Figure 4

Proposition 98 at a Glance

Funding "Tests"

Proposition 98 mandates that a minimum amount of funding be guaranteed for K-14 school agencies equal to the greater of:

- A specified percent of the state's General Fund revenues (Test 1), or
- The amount provided in the prior year, adjusted for growth in students and inflation (Tests 2 and 3).

Test 1—Percent of General Fund Revenues

Approximately 34.5 percent of General Fund plus local property taxes.

Requires that K-12 schools and the California Community Colleges (CCC) 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—Adjustments Based on Statewide Income

Prior-year funding adjusted by growth in per capita personal income.

Requires that K-12 schools and the CCC 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

Prior-year funding adjusted by growth in per capita General Fund.

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. Test 3 is used only when it calculates a guarantee amount less than the Test 2 amount.

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 formula). The overall dollar amount that needs to be restored is referred to as the "maintenance factor."

Figure 5

Proposed Proposition 98 Allocations

1999-00 and 2000-01
(Dollars in Millions)

	1999-00			2000-01	Change
	Budget Act	Revised	Change	Proposed	From 1999-00 Revised
Proposition 98 "Test"	Test 2	Test 2	—	Test 2	—
K-12	$33,613	$33,842	$229	$35,787	$1,945
Community Colleges	3,874	3,887	13	4,138	251
Other agencies	85	90	5	94	4
Loan repayment	310	310	—	350	40
Totals, **Proposition 98**[a]	**$37,882**	**$38,128**	**$247**	**$40,369**	**$2,241**

[a] Totals may not add due to rounding.

of the baby boomers move out of their K-12 years. In contrast, enrollment numbers for higher education are more substantial and are projected to stay that way for several years. Funding issues regarding enrollment growth are discussed in the Higher Education "*Intersegmental Issues*" section of this *Analysis* (see page E-140).

Figure 6

Budgeted Enrollment[a]

1999-00 and 2000-01

			Change From 1999-00	
	1999-00	2000-01	Amount	Percent
K-12	5,598,202	5,669,005	70,803	1.3%
Community Colleges	990,703	1,020,424	29,721	3.0
University of California	164,566	170,566	6,000	3.7
California State University	279,403	291,900	12,577	4.5

[a] Enrollment shown in average daily attendance for K-12 and in full-time equivalent students for UC, CSU, and CCC.

CROSSCUTTING ISSUES

Education

EDUCATION PRIORITIES

In the analysis and recommendations in this chapter we take broad issue with the priorities and approach to higher education and K-12 education taken by the budget. The net effect of our various recommendations result in a Proposition 98 spending total for 2000-01 that is $172 million above the Governor's proposed level. We think the circumstances of this budget justify at least this level. Given the Legislature's interest in addressing K-14 needs, the Legislature may wish to allocate even more resources to Proposition 98 programs. In that event, we suggest areas where the Legislature could spend more money effectively.

In the analysis and recommendations in this chapter we take broad issue with the priorities and approach to higher education and K-12 education taken by the budget. In the first of the cross cutting issues that follow, we conclude that the administration's relative allocation of resources between the University of California (UC) and California State University (CSU) on the one hand, and K-12 education on the other, does not match the relative needs of these distinct parts of the education spectrum. In that cross cutting issue we recommend that the Legislature redirect to K-12 education $134 million budgeted for base adjustments at UC and CSU.

With regard to K-12 education, one of the salient aspects of the Governor's 2000-01 budget is the lack of discretion given to local school districts. The budget adds to the major area of general purpose funds for K-12—"revenue limits"—only what existing law requires to cover cost-of-living adjustments (COLAs) and enrollment growth. The budget proposes spending the remainder of new funds for K-12 education on a long list of new and expanded categorical programs. As well-intentioned as these programs are, we believe most will be diminished in effectiveness because of the constraints on local discretion.

In our view, the K-12 reforms adopted in the 1999 Special Session create both the opportunity and the need for a K-12 budget that grants greater local flexibility. In particular, the accountability framework established by Chapter 3x, Statutes of 1999 (SB 1x, Alpert), and the high school exit exam established by Chapter 1x, Statutes of 1999 (SB 2x, O'Connell), logically lead to a shift in the state's budgeting and oversight emphasis—from a focus on educational *inputs* to attention to educational *outcomes*. (Please see Figure 1 for an update on the status of the special session reforms.) The accountability framework constructed by the Governor and the Legislature puts into place a means for defining and assessing desired outcomes and incentives for achieving them. To maximize the chances for improving educational results, however, the state must give local school districts and school sites more flexibility to fit budgetary resources to local circumstances and needs. The approach we take to the state's education budget in the following pages builds on this foundation.

Figure 1

1999 Education Special Session Reforms—An Update

Public Schools Accountability Act (Chapter 3x [SB 1x, Alpert])

- Rewards to schools (up to $150 per student) meeting growth targets on newly created Academic Performance Index (API).
- API based only on the nationally norm-referenced Stanford-9 test scores. State cannot currently collect the other required data, including graduation rates, and student and teacher attendance rates.
- API scores and first-year growth targets recently released for each school. Find scores on web page (www.cde.ca.gov/psaa).
- First rewards distributed to schools summer 2000.

Immediate Intervention and Underperforming Schools Program (Chapter 3x)

- State and federal funds ($96 million in current year) support school-wide reform efforts at 430 below-average schools based upon the federal Comprehensive School Reform model.
- All eligible schools in first cohort received planning grants of $50,000 in the current school year, and will receive implementation grants of $168 per student in the 2000-01 year.
- Governor's budget provides for a second cohort of 430 schools to receive $50,000 planning grants starting in the fall of 2000.
- First cohort from volunteering schools selected at random from below state's 50th percentile based on Stanford-9 exam scores. Criteria for selection of second cohort unclear at present.

Continued

High School Exit Exam (Chapter 1x [SB 2x, O'Connell])

- Beginning with Class of 2004, passing state-adopted High School Exit Exam condition for receiving diploma.
- Test development on fast track in attempt to administer test in spring 2001.
- Test must be aligned to state academic content standards, and Governor is encouraging inclusion of algebra.
- State Department of Education (SDE) issued request for proposal to design the test in the fall, but no companies bid.
- SDE subsequently issued an "informal bid," and is currently deciding which proposal to accept.
- To offer test in Spring 2001, selected contractor must finish design and "field test" the questions in spring 2000. (Further discussion of High School Exit Exam later in this chapter.)

Teacher Peer Assistance and Review Program (Chapter 4x [AB 1x, Villaraigosa])

- Eliminates Mentor Teacher Program effective July 1, 2001; establishes Peer Assistance and Review Program in its place. Districts may transition to new program starting in current year.
- Participating districts must establish integrated professional development and performance assessment systems. Program provides additional professional development funding above resources provided in Mentor Teacher Program.
- Requires participating districts to negotiate program details with teacher bargaining unit.
- Districts transitioning in 1999-00 receive ongoing augmentations of $2,800 per mentor. Districts transitioning in 2000-01 receive ongoing augmentations of $1,000 per mentor.
- Over half of districts have applied so far to transition in 1999-00. Districts have until June 30, 2000, to apply for 1999-00 transition.
- At time of this *Analysis*, no funds yet disbursed to districts for 1999-00.

Elementary School Intensive Reading Program (Chapter 2x [AB 2x, Mazzoni and Cunneen])

- $75 million budgeted in current year.
- Number of districts and students participating in program unknown until SDE reviews first principal apportionment in late February.
- SDE to survey districts in April regarding implementation experience.
- Districts will be reimbursed in July.

Another significant aspect to the Governor's budget is the extent to which it proposes new funds to address K-12 purposes, but which are budgeted in *non*-K-12 entities (and thereby are "outside" Proposition 98). These proposals include—but are not limited to:

- $71 million for expansion and creation of teacher training programs to be administered by UC.
- $50 million for a Teachers Home-Buyers Assistance Program at the Department of Housing and Community Development.
- $25 million for a contract between the Secretary for Education and CSU to provide computer training to K-12 teachers.

Later in this chapter we address these proposals in detail and recommend transferring the funds to where they can be deployed more effectively—directly to school districts. The net effect of the above transfers, taken in combination with other recommendations that we make, would result in a Proposition 98 spending total for 2000-01 that is $172 million *above* the Governor's proposed level, as shown in Figure 2. (The Governor's budget overappropriates its estimate of the minimum Proposition 98 guarantee by $257 million.)

In prior analyses of the annual budget bill, we have not recommended Proposition 98 spending levels that exceeded the Governor's proposal unless our estimate of the constitutionally required minimum was higher. For 2000-01, our estimate of the constitutionally required minimum is higher than the Governor's estimate, but *lower* than his proposed spending total.

Figure 2

Proposition 98 Programs—Net Effect of Analyst Recommendations

2000-01
(In Millions)

Governor's General Fund	**$27,884**
Analyst's Recommendations:	
Transfers from non-Proposition 98	$281
Transfers to current-year funding	-100
Net program reductions	-9
Subtotal	($172)
LAO General Fund	**$28,056**

We think the circumstances of this budget, however, justify a different approach than in the past and, therefore, we are recommending spending above the Governor. As detailed in our *The 2000-01 Budget: Perspectives and Issues*, we estimate that the state will have significantly more

General Fund revenues that the Legislature can reasonably commit to ongoing purposes—which could include a mix of tax relief, local government fiscal relief, and state program augmentations. Based on the Governor's statements that K-12 education is his highest priority and based on many indications of the Legislature's interest in addressing K-12 needs, a recommended increase in Proposition 98 spending of at least $172 million is within reason.

The Legislature may wish to allocate even more resources to Proposition 98 programs and other education programs. To the extent the Legislature wishes to do this, we would suggest that it place as much emphasis as possible on the following:

- ***Increase General Purpose Funding.*** During the recession years of the early 1990s, statutory COLAs for K-12 revenue limits were not fully funded, producing a statutory "deficit" for revenue limits. This deficit is presently at 6.996 percent. We recommend in a later discussion augmenting revenue limits by almost $70 million to reduce this deficit. The Legislature could provide more funds for this purpose which would help stop the decade-long downward trend in general purpose funding as a share of Proposition 98 resources. (Every $100 million of additional funds "buys" about 0.4 percentage points of deficit reduction.)
- ***K-12 Equalization***. This option is actually another form of general purpose funding but addresses present inequalities in the per-pupil distribution of revenue limit funding. In our later discussion on discretionary funding we recommend a $65 million augmentation for K-12 equalization. This level of funding, if followed by similar augmentations in the subsequent five years, would result in 90 percent of the K-12 system's average daily attendance receiving the same revenue limit. To the extent the Legislature provides more funds, it could shorten the time frame.
- ***Community Colleges Equalization***. In our analysis of the community colleges we recommend a $28 million augmentation for equalization purposes, enough to make general purpose funding equal for slightly more than 50 percent of the system's full-time equivalent students (FTES). An additional $25 million, roughly, could make funding equal for 60 percent of the FTES.
- ***Block Grants for Disadvantaged Schools.*** The Governor's budget gives significant attention to the problems of recruiting and retaining qualified teachers in low-performing schools. This attention is warranted, as we detail in our discussion of teacher quality and supply. We point out in that discussion, however, that the administration's definition of "low-performing" schools

is overly broad. We also point out problems related to the lack of meaningful local discretion in the operation of the proposed programs. Our analysis indicates that the state could usefully deploy more funds to address not just the problem of teacher recruitment/retention, but the larger array of problems facing disadvantaged schools—which tend to be schools serving large numbers of children in poverty. We believe the most effective way to deploy additional resources to these schools is through one or several block grants that would allow school districts broad discretion to meet their particular local needs.

- ***Block Grants for One-Time Purposes.*** The state has significantly more revenues that could be used for one-time purposes beyond those already reflected in the Governor's budget. In addition, under the rules governing Proposition 98, the Legislature could assign large amounts of additional spending for one-time purposes, count it towards the Proposition 98 requirement *for 1999-00*, and thereby avoid unnecessary increases in the long-term Proposition 98 "base" that might otherwise constrain future legislative options. The level of such one-time augmentations would be roughly equal to whatever amount the Legislature decides to go above the minimum guarantee for 2000-01. Again, we would emphasize the advantages of block grants for one-time funding which could allow local districts broad discretion to meet one-time needs, including, but not limited to, deferred maintenance, safety improvements, and staff development.
- ***Cal Grants for College Students.*** To the extent that the Legislature directs additional funds to higher education purposes, we recommend it direct them to the Cal Grant program. By providing more Cal Grant aid, the Legislature would target resources to students facing the greatest financial challenges and would allow them to choose among colleges and universities that best meet their educational and career objectives. This would be an effective way for the Legislature to provide additional access to higher education.

BASE BUDGET ADJUSTMENTS

We recommend a reduction of $148.8 million in General Fund support for the California State University (-$65.8 million), University of California (-$82.6 million), and Hastings College of the Law (-$0.4 million), because the proposed 6 percent increase in base funding far exceeds a reasonable cost-of-living adjustment. We recommend that the $148.8 million be shifted to K-12 schools ($134.3 million) and community colleges ($14.5 million) in a combination of general-purpose funding (including provisions for funding equalization) and block grants for program improvements.

Annual increases in base general purpose and categorical funding generally are intended to offset the effects of inflation from one budget to the next, thereby allowing K-12 education and higher education to maintain existing program levels and quality. It is from these increases that K-12 schools, colleges, and universities pay for salary and wage increases for staff and faculty and for increased prices of goods and services. The budget provides for these base adjustments, as well as proposed increases for added enrollments and new program initiatives in both K-12 and higher education. (We discuss proposals for enrollment growth and program initiatives elsewhere in the analysis.)

Base Increases Are Proportionately Larger for Higher Education. As Figure 1 (see next page) shows, the budget proposes to increase general purpose and categorical funding for K-12 education by $947 million, or 2.84 percent. The budget proposes to increase base general purpose and categorical funding for the California Community Colleges (CCC) by $103 million, or the same 2.84 percent. By contrast, the Governor proposes to increase base funding for California State University (CSU) by $125 million, for the University of California (UC) by $157 million, and for Hastings College of the Law (Hastings) by $798,000—increases of 6 percent each. These 6 percent increases consist of an annual 5 percent base increase the Governor proposes as part of a new partnership with CSU, UC, and Hastings, and an additional 1 percent increase for 2000-01. (Please see page E-137 of this analysis for a discussion of the Governor's proposed partnership with CSU, UC, and Hastings.)

Figure 1

Proposed Increases in Base General Purpose and Categorical Budgets

1999-00 and 2000-01 (Dollars in Millions)

	1999-00 Base	2000-01 Proposed	Increase Percent	Increase Amount
K-12[a]	$33,334.5	$34,281.2	2.84%	$946.7
CCC[a]	3,629.6	3,732.7	2.84	103.1
Hastings	13.3	14.1	6.00	0.8
CSU	2,081.3	2,206.6	6.00	124.9
UC	2,610.9	2,768.4	6.00	156.7
Total	**$41,670.7**	**$43,002.9**	**3.20%**	**$1,332.2**

[a] Includes local property tax allocations under Proposition 98.

It is not clear why the Governor has chosen to provide CSU and UC with base increases that are over twice the level provided to K-12 and CCC. This difference is difficult to reconcile for several reasons.

K-12 Schools Appear to Face Greater Challenges of Program Quality. Based on test results of their students, K-12 schools appear to face significant challenges to improve academic performance. Many students fail to obtain the necessary skills desired by employers which in part gave rise to the Legislature's decision to adopt a high school exit exam. Furthermore, many high school graduates that go on to college arrive ill-prepared for college-level work. (Approximately 70 percent of CSU freshmen and 32 percent of UC freshmen must take some form of remedial course work.) Public concern for improved program quality seems to focus more on the K-12 schools than on CSU, UC, and Hastings.

K-12 Schools Appear to Face Greater Challenges in Obtaining Quality Faculty. The K-12 schools face a difficult challenge attracting and maintaining high-quality staff and faculty. Similar concerns have not been raised concerning the quality of staff and faculty at CSU, UC, and Hastings.

K-12 Schools and Community Colleges Have Accountability Measures, While the Universities Do Not. The Governor and Legislature last year agreed on a comprehensive set of new programs to hold K-12 schools and districts accountable for their performance in educating their students. Under the Partnership for Excellence program, community colleges must develop and attain performance goals in return for obtaining some additional funding. (Please see our discussion of the Partnership Program on page E-178 of the analysis.) In contrast to these requirements, the Governor proposes to provide large base increases for CSU, UC, and Hastings in this and future budgets ". . .contingent on progress by the segment[s] to achieve certain accountability goals." These goals, however, have yet to be established. So while the state has established or is establishing rewards and sanctions for K-12 schools and community colleges for meeting or falling short of specific performance measures, the Governor proposes to provide 6 percent base increases to CSU, UC, and Hastings in 2000-01 on the *prospect* of establishing accountability measures in the future.

Recommend Equalizing Base Funding Increases. We recommend the Legislature provide the same base increases for K-12 schools and higher education—based on the expected 2.84 percent inflation rate. So, rather than increase the base budgets of CSU, UC, and Hastings by 6 percent, we recommend, instead, that the Legislature increase them by 2.84 percent. This would reduce the increase for CSU from $124.9 million to $59.1 million, a reduction of $65.8 million. It would reduce the increase for UC from $156.7 million to $74.2 million, a reduction of $82.6 million. The reduction for Hastings would be $378,000.

These recommended reductions would still leave UC, CSU, and Hastings with significant budget increases. The UC General Fund budget would still be increased by $245.1 million, or 9 percent over current-year expenditures. The CSU General Fund budget would still be increased by $160 million, or 7.4 percent (after adjusting for one-time expenditures in the current year).

We recommend that the $148.8 million reduction of CSU, UC, and Hastings base increases be shifted to the K-12 schools and the community colleges for general purpose funding (including provisions for greater funding for equalization). We recommend that these redirected monies be allocated in proportion to the K-12 schools' and community colleges' base budgets. This would provide additional funds totaling $134.3 million for K-12 schools and $14.5 million for community colleges. Please see pages E-71 and E-174 of our analysis for discussions of how these funds could be used.

TEACHER QUALITY AND SUPPLY

The *2000-01 Governor's Budget* devotes significant attention to (1) expanding existing programs; and (2) creating new programs aimed at increasing the supply of, and improving the professional preparation of, teachers for the state's K-12 schools. The budget approaches this area with an array of programs spread across many state entities—including the University of California (UC), California State University (CSU), Commission on Teacher Credentialing (CTC), Student Aid Commission (SAC), State Department of Education (SDE), Secretary for Education, and even the Department of Housing and Community Development (HCD). These programs can be divided into three basic groups:

- Programs to recruit/retain credentialed teachers, targeted toward "low-performing" schools.
- Programs to recruit/retain credentialed teachers generally in the public schools.
- Staff development.

Figure 1 lists the Governor's proposals, categorized on the above three purposes. The figure indicates the degree of specificity with which resources are proposed for allocation—through 21 state categorical programs, including 12 new ones. What the figure cannot convey is the degree of specificity in terms of programmatic detail and state control. Generally, the administration's approach leaves local school districts and school sites without meaningful discretion over the allocation or deployment of these significant fiscal resources. We believe the budget's approach will limit the effectiveness of the dollars provided. We consider this problem further in the discussions below, which are organized in the same three groupings used in Figure 1.

Figure 1

K-12 Teacher Quality and Supply New and Expanded Programs

(In Millions)

	Agency	1999-00	2000-01
Recruit/Retain Teachers in Low-Performing Schools			
Credentialed Teacher Recruitment	CTC	—	$ 52.9
Housing down-payment assistance	HCD	—	50.0
National Board Certification incentive	SDE	—	10.0
Regional teacher recruitment centers	SDE	—	9.4
Assumption Program Loans for Education	SAC	$2.5	6.7
Teaching Fellowships	CSU	—	3.5
Subtotals		($2.5)	($132.5)
Recruit/Retain Teachers Generally			
Alternative Certification	CTC	$11.0	$ 31.8
Cal Teach	CSU	2.0	11.0
National Board Certification incentive	SDE	3.8	5.0
FCMAT assist school personnel offices	SDE	—	1.0
Cal Grant “T”	SAC	10.0	—
Subtotals		($26.8)	($48.8)
Teacher Professional Development			
Beginning Teacher Support and Assessment	SDE	$71.7	$87.2
California Subject Matter Projects	UC	15.0	35.0
Reading Professional Development Institutes	UC/ SDE	12.0	40.0
High School English Institutes	UC/ SDE	—	24.0
English Language Learner Institutes	UC/ SDE	10.0	20.0
High School Math Institutes	UC/ SDE	—	16.0
Math Specialist Institutes	UC/ SDE	—	12.5
Algebra Institutes	UC/ SDE	—	5.0
Intensive Algebra Institutes	UC/ SDE	—	3.2
Technology training	OSE/ CSU	—	25.0
New Teacher Center	UC	—	0.6
Subtotals		($108.7)	($268.5)
Totals		**$138.0**	**$449.8**

CTC = Commission on Teacher Credentialing; HCD = Department of Housing and Community Development; SDE = State Department of Education; SAC = Student Aid Commission; OSE = Office of Secretary for Education; and FCMAT = Fiscal Crisis Management Assistance Team.

RECRUITMENT/RETENTION OF TEACHERS IN LOW-PERFORMING SCHOOLS

As shown above in Figure 1, the budget proposes five new programs—and expands another program—in a significant effort to recruit and retain teachers in low-performing schools. Below, we provide background on the problem that this major budgetary initiative attempts to address.

The Nature of the Problem

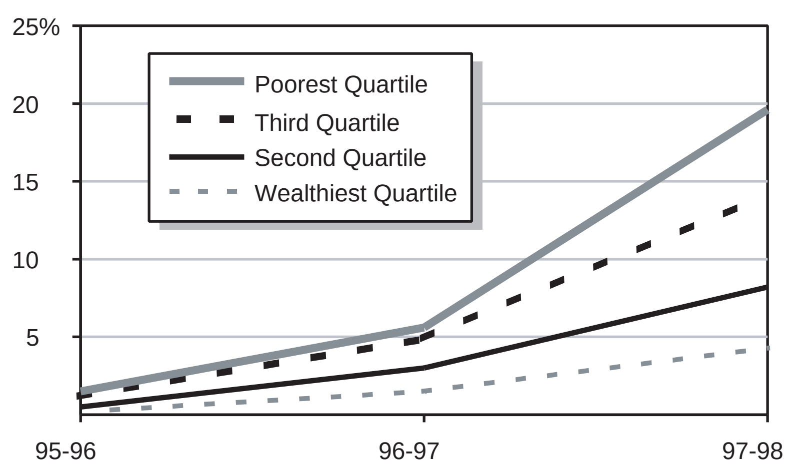
Over the last few years the number of teachers in California's public schools lacking a teaching credential has risen dramatically. In 1995-96 approximately 16,000, or about 7 percent, of the "teachers of record" in California's public K-12 schools (that is, assigned as the regular teacher for a classroom) lacked a teaching credential. By 1998-99, that number approximately doubled to about 32,000, or 11 percent, of the teaching force. This number includes 28,500 teaching under an "emergency permit" issued by the CTC, and the rest teaching under various waivers issued by the CTC.

Schools that face extra challenges in attracting and retaining qualified staff—which tend to be schools in poor neighborhoods and, to some extent, rural areas—have been especially hard hit. A recent definitive study of this problem prepared by SRI International (SRI) found extraordinarily high percentages of noncredentialed teachers in such schools. For example, SRI found that, on average, 16 percent of the teaching staff lacked credentials in schools where 75 percent or more of the student body received free or reduced-price lunches (an indicator of low family income). In contrast, 4 percent of the teaching staff lacked credentials in schools where 25 percent or less of the student body received free or reduced-price lunches. At many schools the percentage of teachers without credentials was significantly higher, in extreme cases exceeding 50 percent.

Many factors contribute to the extra challenges that schools serving poor—and in some cases—rural populations have faced in teacher recruitment and retention. Probably the single greatest factor in the recent increase in noncredentialed teachers in these schools, however, has been K-3 class size reduction (CSR)—or, to be precise, the rapidity and near-universality of CSR implementation across the state. The CSR Research Consortium in a multiyear study funded by state, federal, and private funds found that in 1995-96, just before implementation of K-3 CSR, there was little difference between the percentage of noncredentialed K-3 teachers in schools serving the poorest quartile of pupils (2 percent) and schools serving the most affluent quartile (0.5 percent). Two years later, the share of K-3 teachers lacking credentials at schools serving the poorest pupils jumped to almost 20 percent, while the share of K-3 teachers lacking credentials at schools serving the most affluent pupils rose to less than 5 percent. (Please see Figure 2.) The state's rapid implementation of CSR not only stressed the supply of credentialed teachers on a systemwide basis, it created a strong differential dynamic. Schools in affluent areas were able to meet the challenge not only by recruiting new credential holders, but by drawing credentialed teachers away from schools in poor areas with the offer of attractive classroom settings (only 20 pupils) in attractive schools. In contrast, schools in many poor areas saw their recruiting efforts essentially collapse, in some cases unable to hire *any* credentialed teachers.

Figure 2

K-3 Teachers Lacking Credentials, by Schools With Different Proportions of Low-Income Students



We note that teaching credentials are not necessarily synonymous with teaching quality. The ability to inspire children and teens to learn rests on a mix of personal qualities, knowledge, and energy that are not guaranteed by a document issued by the state. There are individuals teaching on emergency permits who have these attributes, just as there are individuals with credentials who don't. What the credential does certify is that the individual has received at least a basic level of preparation in subject matter and pedagogy. The above observations are relevant to an important finding in the SRI study—that many relatively "well off" districts and schools hire teachers on an emergency permit basis for *strategic* reasons, while the districts or schools with the most serious recruitment challenges hire emergency permit holders out of *desperation*.

When districts or schools hire emergency permit holders strategically, they are selecting highly promising candidates, often moving them through an internship program that will soon result in the teacher becoming credentialed. In these cases, the "problem" of noncredentialed teachers isn't really a problem at all. At the other extreme of desperation hiring, however, the new teachers are less promising candidates. (Some teachers in these schools have failed the state's basic skills exam for teachers [C-BEST] and are teaching under a waiver.) Thus, as outlined above, the SRI study found both quantitative and qualitative differences in the situations faced by schools that are "advantaged" in terms of attracting and retaining teachers and schools that are "disadvantaged" in this regard.

One of the key findings of the study was that there is a "tipping point," beyond which the daily situation faced by schools becomes essentially unmanageable. The following passage from the study describes this essential point (*The Status of the Teaching Profession*, pages 31 and 32):

> As the percentage of underqualified teachers in a school increases, serious problems begin to arise. In schools with few underqualified teachers, these teachers tend to be hired for some desirable characteristics, and they are supported by a large portion of veteran teachers. . . At some point, as the percentage of underqualified teachers grows, [a] school's overall functioning is impaired. The exact point at which this occurs depends on the strength of professional development and induction systems in the district and at the school. . .However, we observed in case studies that schools with more than 20 percent underqualified teachers were hard pressed to provide adequate professional support to their entire faculty. These are the hard-to-staff schools in the state, those where a child's opportunities to receive the kind of instruction needed to meet the state standards are severely compromised.

The SRI study concluded that one in five public schools in the state falls across this tipping point where a manageable situation crosses into dysfunction. Thus, for approximately 80 percent of the state's schools, the problem of attracting and retaining teachers is being managed more or less successfully. Approximately 20 percent of the state's schools face a severe problem that calls for state attention.

Concerns With Governor's Proposals

The Governor's proposal targets schools scoring in the lower half of the state's Academic Performance Index (API). Although this approach recognizes that there is a relationship between low test scores and schools facing extraordinary recruitment challenges, the chosen target is far too broad for the problem at hand. The administration's approach also concentrates almost all control over the resources and operating details of these programs with state agencies rather than school district and school site administrators. We discuss each of these concerns below, as well as recommend an alternative approach to the problem.

Misplaced Target. As noted above, the available research indicates that the real problem of too few credentialed teachers is concentrated in about 20 percent of the state's public schools. These are the schools where the systems for providing professional mentoring and support have been overwhelmed by the imbalance between veteran and novice teachers. These are also the schools that face the most serious problems in terms of poor academic performance.

Although the administration's various proposed teacher recruitment incentives are targeted to low-performing schools, the administration's definition of performance is overly broad. Under the Governor's various proposals, any school scoring below the 50^{th} percentile on the state's API is considered low performing. Thus, by definition, half of the state's schools are "low-performing" and would qualify for the targeted recruitment/retention incentives. (Because the API is a California-only measure, this definition of performance means that 50 percent of the state's schools would *always* be low-performing no matter how much the state's schools improve over time.) This definition is overly broad and has no relationship to the problem that the proposals seek to address. This misplacing of the target not only would dissipate large amounts of state funds, it could leave the fundamental problem largely unaddressed. By offering the same incentives for teaching at a relatively attractive school as for teaching at a school in distress, the incentives would divert qualified teachers away from the schools that need them the most.

Misplaced Discretion. As noted above, the administration's various incentive programs leave the people who must manage teacher recruitment and retention problems on a daily basis—school district and school site administrators—without meaningful discretion over either the allocation of resources or their application. For example, the administration's $50 million housing down-payment program for teachers, to be managed by HCD, would provide payments to individuals on a first-come, first-served basis. The proposal completely bypasses local school officials, who would have no way of assuring that incentives reach the individuals that they need to hire. In fact, under the program's design, the state could grant a $10,000 payment to a teacher for committing to teach for the next five years at a school that does not wish to retain that teacher. (For a more detailed discussion of the administration's housing incentive proposal, please see our analysis of the HCD budget [Item 2240] in the General Government chapter of this analysis.)

This bypassing of the people who must make the day-to-day decisions for operating local schools is a problem running through several of the administration's proposals in this area, including proposed awards for individuals attaining National Board certification and the new Credentialed Teacher Recruitment program to be administered by the CTC. The regional recruitment centers proposal ($9.4 million under Item 6110-229-0001) has additional problems, including (1) being poorly conceived and defined; and (2) potentially duplicating other state and local efforts already underway, including those of the California Center for Teaching Careers (Cal Teach) established by the Governor and Legislature last year.

Analyst's Recommendation

In order to maximize the effectiveness of state efforts to improve teacher recruitment at the state's hard-to-staff schools, we recommend that the Legislature redirect the monies for four programs for low-performing school teacher recruitment—a proposed total of $122.3 million—into a block grant to school districts for teacher recruitment, retention, and support targeted to the schools most in need of this help. We recommend targeting schools where at least 20 percent of the teaching staff lack credentials. For these targeted schools, we recommend that annual decreases in the percentage of teachers without credentials be a condition of ongoing receipt of the block grant.

We have noted above the two fundamental problems in the Governor's proposals to recruit teachers to low-performing schools: (1) the overly broad set of schools to be targeted and (2) the lack of local discretion. In our analysis of the CSU budget request, we recommend moving the $3.5 million Teaching Fellowship program to SAC, and recommend adjusting the target set of schools for which fellowships apply to schools where at least 20 percent of the teaching staff lack credentials. In our analysis of the SAC budget, we recommend adjusting the target set of schools for the Assumption Program of Loans for Education to the same schools.

We recommend that the Legislature redirect the monies for the administration's other four programs for low-performing school teacher recruitment—a proposed total of $122.3 million in the budget year—into a block grant to school districts for teacher recruitment, retention, and support. Again, we recommend targeting to schools where at least 20 percent of the teaching staff lack credentials. For these targeted schools, we recommend that annual decreases in the percentage of teachers without credentials be a condition of ongoing receipt of the block grant. Under our recommended approach, school districts and school sites would have broad discretion to pick from an extensive menu of options for recruiting and retaining credentialed teachers, including the provision of mentoring and other means of supporting the development of new teachers.

RECRUITMENT AND RETENTION OF TEACHERS GENERALLY

The Governor's budget makes six proposals to address teacher recruitment and retention in a nontargeted fashion. Five of these are shown in Figure 1. The sixth concerns the State Teachers' Retirement System's (STRS) earnings cap for retirees. These proposals have a combined General Fund cost of $48.8 million in the budget year.

In three cases—the CalTeach, the Alternative Certification program expansions, and a new initiative to provide Financial Crisis and Management Assistance Team (FCMAT) services to school districts—we recommend approval of the changes as proposed:

- The budget provides $20.8 million from the General Fund to expand the Alternative Certification program to 5,400 additional participants and increase grant amounts. This program provides an alternative route for individuals entering teaching as a second career and, as such, provides an additional source of qualified teachers.
- The budget proposes $9 million in ongoing funds to expand CalTeach, a teacher recruitment program using print, television, radio, and Internet media. Early evidence suggests that CalTeach's initial efforts have been effective and further investment appears warranted.
- The budget proposes $1 million to provide FCMAT technical assistance to school districts to streamline teacher hiring practices. We think this is a worthwhile investment that should help to lower barriers that keep some candidates from joining the teaching ranks in public schools.

Our analysis finds that the proposed elimination of the Cal Grant T program, administered by SAC, would have negative consequences on teacher recruitment, especially among low-income teaching candidates. More discussion of the Cal Grant T program and the likely consequences of its elimination for statewide recruitment efforts is provided in our SAC analysis, later in this chapter.

In this section, we examine the two remaining proposals. We find that the budget's proposal to provide $15 million in awards to teachers earning National Board certification lacks sufficient justification. Instead we recommend providing these resources to school districts through block grants to allow greater local discretion over the allocation of resources. While we support the proposal to lift the STRS earnings cap for retirees returning to teach in public schools, we think one modification would increase the program's effectiveness. We discuss both the National Board Certification and STRS proposals below.

National Board Certification

We recommend the Legislature delete $15 million proposed for awards for National Board certified teachers because it is unclear that these awards would lead to improved teacher quality. Instead, we recommend that the $15 million be included in staff development block grants for districts.

The National Board for Professional Teaching Standards certificates teachers who demonstrate substantial achievement in subject matter knowledge, teaching skill, school leadership, and community participation. Applicants for certification undergo a rigorous year-long review based on videotaped classroom sessions, written exercises, oral interviews, and student work samples.

The budget proposes $10 million to provide $20,000 awards to National Board certified teachers who commit to teaching for four years in California public schools ranked below the 50th percentile on the API. The one-time award would be given in a single payment at the time a teacher commits to teaching in one of these schools for at least four years. In addition, the budget proposes $5 million to provide one-time $10,000 awards for teachers employed in a California public school who, though recipients of these awards, would not be required to make prospective teaching commitments.

Enforcement Costs Could Be High. The program would require recipients of the $20,000 awards to repay their awards if they failed to honor the four-year teaching commitment. In the event recipients fail to repay their awards, the program would require the CTC to take steps to recover the funds, including initiating administrative and civil procedures. Depending on the number of teachers failing to complete their teaching commitments, these procedures could prove burdensome and costly.

Effect on Teacher Quality Is Debatable. While National Board certification is certainly an honor, it is less clear that the certification process improves an individual's teaching abilities. It is likely that many of the individuals who attain certification would have been superior teachers even in the absence of the certification process. However, it is possible that rewarding teaching excellence may work to recruit and retain highly qualified teachers.

Let Districts Decide if Rewarding Certification Improves Their Teaching Corps. Districts are best able to determine if providing awards for National Board certification is a cost-effective way to improve teacher quality in *their* local schools or whether other approaches would be better. For this reason, we recommend that $10 million be redirected to our recommended Hard-to-Staff Schools block grant and $5 million be redirected to our recommended Nontargeted Staff Development block grant. (We discuss these block grants in detail elsewhere in this section.)

Lift STRS Earnings Cap

We recommend that the Legislature enact legislation adopting the Governor's proposal to remove the statutory earnings limitation for current retirees of the State Teachers' Retirement System in order to induce retirees to reenter the teaching workforce. We further recommend that the Legislature expand coverage of this proposal to include retirees returning to employment as principals and vice principals.

Current law requires a dollar-for-dollar reduction in pension for each dollar earned by a STRS retiree from employment in a public school, above an annual cap of $19,050. The budget proposes that the Legislature enact legislation to remove this earnings cap for STRS retirees who retired on or before January 1, 2000, and who return to work in public K-12 classrooms as teachers or as support providers for teachers in the Beginning Teacher Support and Assessment, alternative certification or Paraprofessional Teacher Training programs. Because the retirement date cutoff is in the past, there is no threat that this change would create an incentive for current employees to retire in order to take advantage of the cap removal.

Difficult to Estimate Participation Rate. Due to the many factors involved, it is difficult to estimate how many additional teachers would be enticed from retirement based on the proposed changes to the STRS earnings cap. In an action very similar to that being proposed, Chapter 965, Statutes of 1998 (AB 2765, Honda), lifted the STRS earnings cap for retirees returning to fill teaching vacancies caused by grades K-3 CSR. Under that statute, between 1,000 and 1,500 teachers returned to public school classrooms during the 1998-99 school year. While this gives an indication of the possible magnitude of effect, differences between the two cases, including the categories of eligible teaching positions, prevent that earlier experience from being an accurate estimator of the number of retirees who would return to teaching under the current proposal.

Program Should Be Extended to Cover Principals. In addition to shortages of qualified teachers and teacher support providers, many districts across the state face a shortage of fully qualified applicants for principal positions. The importance of principals to school success has always been critical. The state's new accountability framework places even greater expectations on principals. Thus, the state's public schools need qualified, experienced individuals to serve as principals and vice principals. Accordingly, we recommend that the removal of the STRS earnings cap be extended to include principals and vice principals.

TEACHER PROFESSIONAL DEVELOPMENT

The *2000-01 Governor's Budget* proposes $156.3 million in General Fund spending for new programs and program expansions for professional development for teachers and school site administrators, as shown in Figure 3. This is an increase of $119.3 million over current-year funding.

Figure 3

Governor's Proposals for UC Institutes for K-12 Professional Development

1999-00 and 2000-01 (In Millions)

	1999-00	2000-01
Expanded Programs		
California Subject Matter Projects		
UC	$15	$35.0
Reading Professional Development Institutes (PDIs)		
UC	6	20.0
SDE[a]	6	20.0
English Language Learner PDIs		
UC	5	10.0
SDE	5	10.0
New Programs		
High School English PDIs		
UC	—	$12.0
SDE	—	12.0
High School Math PDIs		
UC	—	8.0
SDE	—	8.0
Mathematics Specialist PDIs		
UC	—	7.5
SDE	—	5.0
Algebra PDIs		
UC	—	2.5
SDE	—	2.5
Algebra Academies		
UC	—	1.7
SDE	—	1.5
New Teacher Center		
UC	—	0.6
Totals	**$37**	**$156.3**

[a] State Department of Education.

These programs would be administered by UC in coordination with CSU, CCC, independent colleges and universities, and SDE. Eligibility criteria vary among the programs, but most would target teachers from low-performing schools as defined by pupils' Standardized Testing and Reporting (STAR) scores and number of beginning teachers (see Figures 4 and 5 for program details).

Figure 4

UC Institutes for K-12 Professional Development Proposed Program Expansions

2000-01

California Subject Matter Projects, Grades K-12

- ***Program:*** Team-based training in nine subject matter areas, currently provided at 99 locations across the state.
- ***Subject Matter:*** Various
- ***School Eligibility Criteria:*** Various
- ***Current-Year Participants:*** 11,567 educators
- ***Proposed Budget-Year Participants:*** 35,000 educators

Reading Professional Development Institutes[a], Grades Pre-K-3

- ***Program:*** Team-based training in reading education, currently conducted at 33 locations. Participants receive $1,000 stipend.
- ***Subject Matter:*** Reading
- ***School Eligibility Criteria:*** Standardized Testing and Recording (STAR) reading scores at or below the 40th percentile, high numbers of new or noncredentialed teachers, staff commitment, three-year commitment to Elementary School Intensive Reading Program.
- ***Current-Year Participants:*** Over 6,000 educators
- ***Proposed Budget-Year Participants:*** 20,000 educators

English Language Development Professional Institutes[b], Grades 4-12

- ***Program:*** Team-based training in English language learner instruction. Participants receive $1,000 stipend.
- ***Subject Matter:*** English language development
- ***School Eligibility Criteria:*** STAR language arts scores at or below the 40th percentile, number of teachers without cross-cultural or bilingual cross-cultural certification, percentage of pupils scoring below grade-level on the English language development assessment, over 25 percent English language learners, staff commitment.
- ***Current-Year Participants:*** 5,000 educators planned for summer 2000
- ***Proposed Budget-Year Participants:*** 15,000 educators

a Established by Chapter 2x, Statutes of 1999 (AB 2x, Mazzoni and Cunneen).
b Established by Chapter 71, Statutes of 1999 (AB 1116, Ducheny).

Figure 5

UC Institutes for K-12 Professional Development Proposed New Programs

Algebra Professional Development Institutes (PDIs), Grades 9-12

- ***Program:*** Team-based training in algebra instruction. Participants receive $1,000 stipend.
- ***Subject Matter:*** Algebra
- ***School Eligibility Criteria:*** Standardized Testing and Recording (STAR) mathematics scores at or below 40th percentile, number of beginning and noncredentialed teachers, staff commitment, adoption of standards-based materials approved by the State Board of Education (SBE).
- ***Proposed Participants:*** 2,500 educators

High School Math PDIs, Grade 9-12

- ***Program:*** Team-based training in mathematics instruction. Goal of assisting students to pass the High School Exit Exam and prepare for college-level work. Participants receive $1,000 stipend.
- ***Subject Matter:*** Mathematics
- ***School Eligibility Criteria:*** STAR mathematics scores at or below 40th percentile, number of beginning and noncredentialed teachers, staff commitment, adoption of standards-based materials approved by the SBE.
- ***Proposed Participants:*** 8,000 educators

High School English PDIs, Grades 9-12

- ***Program:*** Team-based training in English language arts instruction. Goal of assisting students to pass the High School Exit Exam and prepare for college-level work. Participants receive $1,000 stipend.
- ***Subject Matter:*** English language arts
- ***School Eligibility Criteria:*** STAR English language arts scores at or below the 40th percentile, number of beginning and noncredentialed teachers, staff commitment, adoption of standards-based materials approved by the SBE.
- ***Proposed Participants:*** 12,000 educators

Mathematics Specialist PDIs, Grades 4-6

- ***Program:*** Team-based training in elementary mathematics instruction. Participants receive $1,000 stipend.
- ***Subject Matter:*** Mathematics
- ***School Eligibility Criteria:*** STAR mathematics scores at or below 40th percentile, number of beginning and noncredentialed teachers, staff commitment, adoption of standards-based materials approved by the SBE.
- ***Proposed Participants:*** 5,000 educators

Continued

Algebra Academies, Grades 7-8
• ***Program:*** Team-based training in elementary mathematics instruction. Educators receiving this training are to serve as instructors in the proposed Intensive Algebra Academies. Participants receive $1,500 stipend. • ***Subject Matter:*** Mathematics • ***School Eligibility Criteria:*** STAR mathematics scores at or below 40th percentile, number of beginning and noncredentialed teachers, staff commitment, adoption of standards-based materials approved by the SBE. • ***Proposed Participants:*** 1,000 educators
New Teacher Center, Pre-Kindergarten-12
• ***Program:*** The center, based at UC Santa Cruz, currently operates on private funding. The budget proposes providing UC with funding for the center to provide technical assistance to school districts, colleges, and universities. • ***Subject Matter:*** Various

All of these programs, with the exception of the New Teacher Center, are professional development courses based on a model developed by the California Subject Matter Projects (CSMP), a UC-based teaching professional development network. This model involves training school site teams comprised of new teachers, experienced teachers, and administrators. The training consists of an intensive one-week session, typically located on a college or university campus, followed by shorter sessions held each month at the school site during the academic year.

The Governor proposes funding the institutes in both the UC and SDE budgets. The UC budget (Item 6440-001-0001) contains $97.3 million (including $71.3 million in new funding) for the various programs. The SDE budget (Item 6110-135-0001) contains $59 million in Proposition 98 funds (including $48 million in new funding) to pay teachers stipends of $1,000 to $1,500 each for attending the institutes.

Concerns With the Proposal

These proposals represent a significant expansion of state programs for K-12 staff development. While we recognize that school districts need more staff development resources, we outline below our concerns with the Governor's proposals and then offer an alternative approach.

Proposals Micromanage K-12 Staff Development. Staff development needs vary among schools and among local school districts. Accordingly, school districts need flexibility to choose the types of staff development programs that best meet their particular needs. Under the Governor's proposal, new professional development funding would be available *only* for training provided by the UC-administered institutes, *only* in the specific subject areas and grade levels offered, and *only* in the funding portions allocated "from the top down." Figures 4 and 5 illustrate the degree of specificity proposed. There are many other staff development opportunities that school districts may view as high priorities, but the new funding would not be available for these purposes. In our view, this degree of state-determined specificity will reduce the programmatic effectiveness of the expenditures.

Inefficient Allocation of Resources. The Governor's proposal allocates new staff development resources across eight specific training programs. To the extent that the Governor's allocations fail to reflect the needs of individual districts, the new resources are not efficiently allocated. This problem would be avoided by providing funding directly to school districts in a block grant, allowing them to purchase staff development services based on local priorities.

Monopoly Provider. Under the Governor's proposal, the UC-administered institutes would operate as a virtual monopoly provider of these staff development programs to school districts. This arrangement could reduce pressure on the UC institutes to improve program quality or service delivery because they would not compete for school districts' business. In addition, by keeping other staff development providers out of the market, the proposal would limit the training options available to school districts.

Expansion Is Too Rapid. The Governor proposes increasing the number of educators trained at the institutes from 22,500 in 1999-00 to 93,500 in the budget year, more than quadrupling their output. The administration's proposal does not make clear how UC would accomplish a one-year expansion of this magnitude without undermining training quality. Our concerns are amplified by the fact that all the institutes rely, in part, on the intellectual and administrative capacity of the CSMP. In our view, such a rapid expansion risks overtaxing the CSMP infrastructure and undermining program quality.

Low-Performing Indicator Rewards Low Performance. The Governor proposes targeting most of this investment in staff development to low-performing schools, defined as schools whose pupils on average score at or below the 40th percentile on the Stanford-9 exam. Using a STAR-based mechanism to allocate funding rewards schools for low performance, running counter to the principles of a well-designed accountability system. A more appropriate targeting would be toward disadvantaged schools—those facing additional challenges due to demographic factors. To do this, we suggest using a socioeconomic targeting mechanism, such as the number of pupils eligible for free and reduced-price lunches. While the two indicators are highly correlated, our targeting method would compensate schools for actual challenges faced at the school site level rather than reward low performance itself.

For the above reasons, we recommend deleting $119.3 million proposed in new funding for the UC-administered institutes. Instead, we recommend providing these funds directly to districts through staff development block grants. (Our detailed recommendations for two staff development block grants are outlined below.)

Staff Development Block Grants

We recommend that the Legislature provide $149.3 million from the General Fund to school districts for staff development training to address teacher quality training needs. Of this amount, we recommend that the Legislature target $100 million to school districts facing demographically based challenges and provide $49.3 million in untargeted funding available to all districts.

Given our concerns, noted above, we cannot recommend that the Legislature approve the Governor's proposal to expand the UC-administered institutes for K-12 staff development. Below, we present an alternative approach to funding increased staff development.

Provide Flexible Funds Through Block Grants. To provide resources for districts to address their unmet staff development needs, we recommend that the Legislature provide $149.3 million for two staff development block grants. Figure 6 shows the sources for these funds and our recommended allocation among the two block grants.

Figure 6

LAO Proposal
Professional Development Block Grants

(In Millions)

LAO Proposed Block Grants	
Needs-Based Staff Development Block Grant	$100.0
Nontargeted Staff Development Block Grant[a]	49.3
Total	**$149.3**
Proposed Funding Sources	
Delete expansion of UC Professional Development Institutes	$119.3
Delete CSU information technology staff development (one-time funds)	25.0
Delete proposed $10,000 National Board certification awards	5.0
Total	**$149.3**

[a] Includes $25 million in one-time funds.

The grants would be funded from three reductions we are recommending to budget proposals:

- $119.3 million for UC Professional Development Institutes (as described above).
- $25 million in one-time funds for CSU information technology staff development (as described later in this section).
- $5 million for National Board certification awards (as described earlier in this section).

Districts would have broad discretion in using funds in the following two block grants to address their staff development needs, including contracting with the UC institutes, or whichever provider can best meet those needs.

- ***Needs-Based Staff Development Block Grant ($100 million).*** This block grant would provide additional staff development resources to schools facing serious challenges associated with educating poor and limited-English-proficient children. We recommend that, of the funds provided in this block grant, $90 million be allocated to school districts based on a socioeconomic poverty indicator and $10 million be allocated to school districts based on the number of English-language learners. This split of resources between disadvantaged schools ("low-performing"in the Governor's proposal) and English-language learners approximately mirrors the distributions proposed in the Governor's budget. However, in our proposal, districts would have flexibility and appropriate operational control over how funds are used. Also, our targeting mechanism for disadvantaged schools would recognize district needs rather than reward low test scores.
- ***Nontargeted Staff Development Block Grant ($49.3 million).*** The remainder of the funds made available by our recommendations would be provided in a block grant to provide flexible resources to *all* districts for staff development needs. This grant would be distributed based on average daily attendance. Of this amount, $25 million would be one-time funding (to match it with the $25 million one-time funding source).

GOVERNOR'S SCHOLARS PROGRAM

The Governor's budget provides $111 million from the General Fund (non-Proposition 98) for the "Governor's Merit Scholarship program." The new program and its funding would be authorized under legislation separate from the budget bill. The Governor proposes to reward public school 9th, 10th, and 11th grade students demonstrating high achievement in the state's Standardized Testing and Reporting (STAR) program with $1,000 higher education Merit Scholarships. The awards would be made to students scoring (1) in the top 10 percent *statewide* on the content standard-aligned portion of the STAR exam (STAR augmentation), or (2) in the top 5 percent of their *school* on the nationally norm-referenced Stanford Achievement Test version-9 (SAT-9) portion of the STAR program. The $1,000 scholarship would be placed into a Scholarshare Trust Fund account in the name of the student (see box below). During high school, a student could receive up to $3,000 in Merit Scholarships and—for some of these students—an additional $2,500 for the Governor's Distinguished Math and Science Scholarship Program (discussed later in this chapter), for a possible total of $5,500.

What is Scholarshare?

The Legislature enacted Chapter 851, Statutes of 1997 (AB 530, Assembly Higher Education Committee and Senate Education Committee), to create the Golden State Scholarshare Trust Act. The act creates a tax-deferred savings account program to help families save for college. Through the program, any adult can open an account on behalf of any designated beneficiary, and deposit funds into it. The State Treasurer invests the funds on the beneficiary's behalf, and all interest earned on the savings is tax-deferred until the beneficiary withdraws the funds. The funds must be used to pay for the cost of post-secondary education, including tuition, fees, supplies, certain room and board costs, books, and required educational equipment. When the beneficiary withdraws the funds, the interest income is taxed at the marginal income tax rate of the beneficiary, which is generally a lower rate than that of the contributor.

Merit Scholarships Address Two Policy Objectives

The Governor's Merit Scholarship program addresses two policy concerns by: (1) creating an incentive for students to improve academic performance and (2) providing early college outreach to some students who otherwise might not consider going to college.

Student Incentives. Student scores on the STAR (including the SAT-9 and the STAR standards-based augmentation) are not used currently to determine high school graduation or college admittance for individual students. As a result, students do not have a strong incentive to try their hardest on these tests. However, the state is holding high schools accountable for their students' performance on the STAR test. The Governor's Merit Scholarship program provides an incentive for at least some students to try their best, thereby increasing the appropriateness of using the STAR results as the yardstick for the accountability system's rewards and sanctions for schools.

On the other hand, virtually all the students who would receive scholarships at the high-achieving high schools would be college-bound in the absence of this program. In addition, these college-bound students take many other high-stakes tests that already encourage them to work hard during high school, as shown in Figure 1. For these students, it is questionable what further incentive for strong academic work the scholarships would provide.

Figure 1

High-Stakes Tests for High School Students

- ☑ ***Course finals and midterms*** determine a student's grade point average, which influences college admittance.
- ☑ ***Scholastic Aptitude Test (SAT)*** used for college admittance and scholarships.
- ☑ ***SAT II (subject test)*** used for college admittance and required by University of California (UC).
- ☑ ***PreSAT*** (PSAT) determines National Merit Scholars.
- ☑ ***Advanced Placement Exams*** provide college course credits and can affect college admittance.
- ☑ ***Golden State Exams*** determine eligibility for the Golden State High School Diploma.
- ☑ ***High School Exit Exam*** will be implemented with the Class of 2004 to determine whether a student graduates.

Early College Outreach. Since the Governor's proposal would provide scholarships to students as early as 9th grade, students at low-performing high schools may be provided with early exposure to the idea of higher education as a realistic option in their lives. Providing $1,000 to students at low-achieving high schools could create a strong incentive for some of these students to attend college or find other post-secondary training (such as trade schools). If students see going to college as a possibility in their future, they may also take a more rigorous course load in high school to qualify them for the California State University or University of California. In view of the above, the proposal has an element of college outreach. The same outreach effect is not likely to occur at the state's higher-achieving high schools, where virtually all potential recipients of the proposed scholarships are likely to attend college anyway.

Restructure the Distribution of Scholarship Eligibility

We recommend providing scholarships to the top 10 percent of students at each high school in order to (1) provide incentives for a more diverse set of students across the state and (2) increase the program's college outreach effect.

Under the Governor's proposal a predominant share of the scholarship funds would go to students in high-achieving high schools. Figure 2 shows our estimate of the number of students who would qualify for Governor's Merit Scholarships at 50 high-achieving high schools and 50 low-achieving ones. At these high-achieving schools, we estimate that 5,900 of 16,600 students taking the SAT-9 (36 percent) would receive scholarships by placing in the top 10 percent statewide. In contrast, an estimated 1,520 of 30,400 students taking the SAT-9 at the low-performing schools would receive scholarships based on the requirement that a minimum of 5 percent from each school qualify under the terms of the Governor's proposal.

Figure 2

**Who Would Receive Merit Scholarships?
Governor's 2000-01 Budget—LAO Estimate**

		Qualifying for Merit Scholarship	
	Number of STAR Test Takers[a]	Number	Percent of STAR Test Takers
50 high-performing schools[b]	16,600	5,900	35.5%
50 low-performing schools[c]	30,400	1,520	5.0

a 9th graders taking the Stanford-9 reading test.
b Fifty highest-performing public high schools in the state.
c Fifty lowest-performing public high schools (excluding continuation high schools).

Few Disadvantaged Students Would Qualify. As Figure 2 indicates, scholarship recipients under the administration's proposal would be concentrated at the higher-performing schools. From available STAR data, we can also predict that relatively few of the scholarships would go to (1) students living in poverty (as measured by free and reduced priced lunches) or (2) English language learners. By changing the distribution, a more diverse group of students, both across socioeconomic groups and on a racial/ethnic basis, would have access to the Merit Scholarships. This type of distribution would also increase the scholarship program's college outreach effect, by reaching more students who otherwise might not be college bound.

The Governor's budget provides 111,000 students with scholarships. We estimate that the proposed $111 million funding level could instead provide the same number of scholarships to the top 10 percent of the pupils *enrolled* at each school with a Merit Scholarship. In order to (1) reach a more diverse set of students and (2) increase the college outreach effect of the program, we recommend that the Legislature provide Merit Scholarships to the top 10 percent of students at each high school.

Use One Test to Reinforce Academic Content Standards

We recommend using only the Standardized Testing and Reporting (STAR) program augmentation test scores to determine which students receive scholarships because (1) using the two tests causes unnecessary confusion, and (2) using the standards-aligned STAR augmentation test reinforces the central role the state's academic content standards must play in the state's accountability framework.

As mentioned above, the Governor proposes using both the STAR augmentation and the SAT-9 test results to determine eligibility for the Merit Scholarships. We believe that using both tests (1) creates unnecessary confusion, and (2) is a missed opportunity to reinforce the central role that the state's academic content standards ultimately must play in the state's accountability system. (Please see nearby box on the state academic content standards for more detail.)

The state has invested heavily—in every sense of the word—in the development of the academic content standards. These investments have taken many forms, including aligning tests to the standards, providing instructional materials, and providing staff development for teachers. The state should structure the merit scholarship incentives in a way that builds on these important investments. In view of the above, we recommend using only the STAR augmentation test scores be used to determine Merit Scholarship recipients.

State Academic Content Standards

The California Assessment Academic Achievement Act (Chapter 975, Statutes of 1995 [AB 265, Alpert]), required the State Board of Education (SBE) to adopt academically rigorous content standards in the four core curriculum areas—math, English-language arts, science, and social science. The standards provide a framework for what a student should learn in four core subject areas in each grade. Since adoption of the standards, the state has taken several actions to emphasize the importance of the standards to schools and teachers.

- ***Developed STAR Augmentation.*** In 1998-99, the SBE added an augmentation to the STAR test in math and English-language arts, consisting of questions specifically aligned to state content standards. In the current year, student performance standards will be developed around the STAR augmentation to determine which students have met basic, proficient, and advance levels of performance.
- ***Provide Funding to Align Instructional Materials.*** The Schiff-Bustamante Standards-Based Instructional Materials Program (Chapter 312, Statutes of 1998; AB 2041) is providing school districts with $1 billion over four years to purchase instructional materials aligned with the academic content standards.
- ***High School Exit Exam.*** The High School Exit Exam was authorized by the Legislature by Chapter 1x, Statutes of 1999 (SB 2x, O'Connell). This legislation requires the test to be aligned to the state academic standards, and the Governor has proposed that the test include algebra in the academic content areas tested.
- ***Other Actions to Emphasize Standards.*** The state has also aligned the Golden State Exams, developed curriculum frameworks, and provided staff development based on the standards.

Defer Implementation One Year

We recommend that the Legislature appropriate funds for the Merit Scholarship program for expenditure in the 2001-02 fiscal year instead of 2000-01 because the program needs to be in effect prior to students taking the test in order to affect their effort. Adoption of this recommendation would create $111 million of one-time non-Proposition 98 savings and $1 million in one-time Proposition 98 savings for other legislative priorities.

To create the incentive effect desired of the Merit Scholarship program, students first must be made aware of the program and then must be given time to adjust their behavior in reaction to it. Assuming this proposal is adopted as part of the 2000-01 budget, the program would not be established and funded until July 2000 at the earliest. Nonetheless, under the administration's proposal, students would receive scholarships rewarding performance on the *spring 2000* test. Because students will have taken the test *before* the scholarship program is in effect, it is hard to conceive how the program could create a retroactive incentive for students to try harder.

We recommend that the Legislature appropriate the $111 million, but redesignate it for expenditure in the 2001-02 fiscal year. This would give students full opportunity to become aware of the new program approved by the Legislature and to prepare thoroughly for the test offered in the spring of 2001. Under this recommended change, students would first receive Merit Scholarships in the summer of 2001—that is, in the 2001-02 fiscal year. This recommendation, if adopted, would create $111 million of one-time non-Proposition 98 savings and $1 million in one-time Proposition 98 savings for other legislative priorities in the budget year.

Governor's Distinguished Math and Science Scholars Program

We recommend deleting $6 million provided for the Governor's Distinguished Math and Science Scholars Program because the funding would not create an additional incentive for California's highest achieving students.

The Governor proposes providing $2,500 scholarships to high school students scoring at the highest achievement level on advance placement (AP) tests in both calculus and science. Alternative qualifications are proposed for students at schools with no or minimal AP course offerings and for students taking advanced calculus or advanced physics. Based upon historical data, the Department of Finance (DOF) estimates that 2,400 students would score a five (the highest score) on both tests. On this basis, the budget allocates $6 million from the General Fund (non-Proposition 98) for this new program. The program and its funding would be authorized under legislation separate from the budget bill. The Governor's budget states the intent of the program is to encourage high school students to pursue rigorous course work leading to careers in scientific fields. We question whether this program would have much of an effect in this regard, since the students targeted by the scholarships are already highly motivated.

Students who receive a score of five on both AP calculus and AP science tests generally now receive a semester's credit for the college-equivalent class. The college credits can accelerate a college student's graduation date, which can result in significant savings in the cost of college. Thus, high school students already have a strong fiscal incentive to try hard on AP tests.

These elite students, representing approximately the top seven-tenths of 1 percent of the state's high school students, are likely to receive other scholarships from public and private sources based upon their achievement. The proposed $2,500 scholarship under this program—targeted to students who already are bound to the best universities and in line for numerous other scholarships—is a low pay-off investment of General Fund monies. In view of the above, we recommend that the Legislature reject the Distinguished Math and Science Scholars proposal and use the $6 million for other legislative priorities.

ADVANCED PLACEMENT COURSES

The Governor's budget includes $16.5 million in new funds for initiatives aimed at increasing the availability of, and student access to, Advanced Placement (AP) courses by providing:

- $8 million (Proposition 98) in grants of up to $20,000 to at least 400 high schools for AP expansion activities.
- $5 million in federal funds for tutorial assistance and teacher support under the Advancement Via Individual Determination (AVID) program.
- $500,000 for the Office of the Secretary for Education (OSE) to contract for services to districts without AP courses and to assess the current availability of AP courses.
- $3 million (General Fund, non-Proposition 98) for the University of California (UC) to expand its on-line AP course development efforts. The budget also includes a one-time appropriation of $175 million in Proposition 98 funds for OSE to help schools purchase computers, including an unspecified amount for high schools without AP courses so that students can access such courses on-line. (We discuss the $175 million in further detail under the Education Technology write up later in this chapter.)

BACKGROUND

What Are Advanced Placement Courses?

The AP program, overseen by the College Board (a national nonprofit organization), provides high school students the opportunity to take—and receive college credits for—college-level courses. High schools may offer up to 32 AP courses in 21 different subject areas, including biology, calculus, computer science, economics, English, music theory, psychology, and U.S. history. Near the end of a course, students can take a standardized exam administered by the Educational Testing Service called the AP test. In 1998, about 90,000 public high school students (or about 8 percent of enrollments in grades 10 through 12) in California took AP tests.

Students who complete AP courses and take the national AP tests can receive three benefits. First, many colleges and universities credit students who complete an AP course with an extra bonus point in the calculation of their grade-point-average (GPA). For example, a student receiving a B in an AP course gets four grade points instead of three, making the grade equivalent to an A in a non-AP course. Both UC and the California State University (CSU) grant bonus points for AP courses.

Second, UC campuses consider the number of AP courses students complete in their admission policy. If a student's scores on AP tests are available, UC campuses will consider the scores in their assessment of the applicant's academic achievement. Third, the UC and CSU also reward high school students who have scored three or higher (on a scale of one to five) on an AP exam with college credit for that course, thus shortening their stay at the university.

Availability of AP Courses

The Governor proposes that every high school in California offer at least four AP courses by fall 2001. Data on the number of AP courses at each California high school is somewhat unreliable. The California Basic Educational Data System (CBEDS), maintained by the State Department of Education (SDE), provides the number of AP courses available at each high school as reported by the school. However, the CBEDS data is subject to error, because the state does not verify what schools report.

A recent study by the CSU Institute for Education Reform reported on the availability of AP courses based on 1997-98 CBEDS data that was cross-checked with other sources. This report represents the most comprehensive review on the distribution of AP courses in California. The report noted that out of 868 regular public high schools (as of October 1997):

- 64 offered no AP courses.
- 216 offered between one and four AP courses.
- 311 offered between five and ten courses.
- 231 high schools offered more than 11 courses.
- 46 had self-reported AP data that could not be reconciled.

The OSE attempted to update the CBEDS data and the CSU Institute for Education Reform report in order to verify how many schools currently offer no AP courses. Based on the data we received from the OSE, we estimate that there are 73 regular public high schools in California that do not currently offer AP courses. Figure 1 presents a profile of these schools.

Figure 1

Profile of 73 Regular High Schools Without AP[a] Courses

	Number of Schools
By Enrollment	
Less than 200	36
200 - 400	18
401 - 600	7
601 - 800	7
801 - 1,000	2
More than 1,000	3
Total	**73**
By Location	
Rural	46
Suburban	20
Urban	7
Total	**73**
By Alternatives to AP Courses	
International baccalaureate	3
Honors course offerings:	
4 or more	16
1 - 3	14
None	40[b]
Total	**73**

a Advanced placement.
b Five schools are charter schools.

As Figure 1 indicates, most high schools without AP classes have small student enrollments. Of the 73 schools, 84 percent serve 600 or fewer students. In terms of location, 63 percent of the schools lacking AP courses are in rural areas. As we discuss below, these demographic characteristics provide some indication why schools may not offer AP courses.

Why Some Schools Do Not Offer AP Courses

The OSE surveyed the 73 high schools in order to identify why they offer no AP courses. The most common reason reported was that the school was too small to provide AP courses. For instance, small schools may not offer an AP course due to (1) lack of student demand, (2) difficulty of hiring AP teachers, or (3) excessive costs. Some of the small high schools stated that only a handful of students would sign-up for an AP course if it was offered, and it would be prohibitively expensive to offer a class to so few students.

Many schools reported that they provide other opportunities for students who want to take challenging and rigorous coursework. For example, 16 of the high schools offer four or more UC-approved honors courses. Both UC and CSU grant an extra GPA point for students completing an honors, international baccalaureate (IB), or college-level course. These schools generally provide honors courses rather than AP courses because (1) the curricular restrictions from the College Board give teachers less flexibility in AP courses, (2) AP courses require additional teacher training, and (3) there may be less demand for AP courses. When available, schools encourage their students to take courses at their local community college. Finally, many of the schools located in rural areas plan to provide their students with access to on-line AP courses because their students may not have access to courses at a community college. The Governor's budget proposes to help these schools access AP courses online (see below).

The Governor has established a goal that each high school offer at least four AP courses (the number of courses recommended by the College Board for a standard AP program) on-site by fall 2001. The budget includes initiatives to address the unequal distribution of AP courses across California public high schools. Last July, the American Civil Liberties Union filed a class action lawsuit (*Daniel v. California*) against the state challenging this unequal distribution. The plaintiffs, four students from Inglewood High School, claim they were denied equal and adequate access to AP courses by the state and their local school district because their school offered only three AP courses.

LEGISLATIVE ANALYST'S RECOMMENDATIONS

Recommend Approval of Expansion in Two Ongoing Programs

In order to increase student access to AP courses, the budget proposes to expand two ongoing programs, as described below.

The AVID Program. The budget provides a total of $12 million ($1 million in General Fund (non-Proposition 98) and $11 million in federal Goals 2000 funds) for the AVID program. This represents an increase of $5 million (all federal funds) above estimated current-year expenditures. The AVID program is a precollege readiness program for underachieving students who are (1) from low-income families, (2) from groups historically under-represented in colleges, or (3) will be the first in their family to attend college. The program currently serves 36,000 students from about 600 middle and high schools. The Governor's budget proposes expanding AVID to include support for AP teachers and tutorial assistance for students in AP courses.

The UC's On-Line AP Program. The budget provides a total of $7 million for UC (General Fund, under Item 6440-001-0001) to deliver on-line AP courses to students who attend high schools with few or no AP courses. This total includes a proposed augmentation of $3 million for UC to develop and provide five on-line AP courses to about 1,000 students per semester (for a total of 2,000 course enrollments). The UC initiated the on-line AP program as a pilot project in 1998-99 and began receiving funding from the state for this program in the current year. For 1999-00, UC is using courses supplied by outside vendors and is currently delivering 12 courses to about 200 students from 34 schools. The budget provides funds for UC to develop its own AP courses, as well as provide a few courses supplied by outside vendors. The goal of developing UC's own courses is to offer a higher quality course than those available from outside vendors. The on-line courses are taught by experienced AP high school teachers or content-area college and university instructors.

We recommend approval of the proposed augmentations of $5 million for the AVID program and $3 million for the UC's on-line AP program.

Premature to Propose AP Grant Program

We recommend that the Legislature adopt budget bill language requiring the Office of the Secretary for Education to submit a report addressing the problem of access to Advanced Placement (AP) courses, including a comprehensive solution. We further recommend that the Legislature redirect $8 million for the AP grant program to other legislative priorities, because the grant funds are premature until the Secretary completes his study, identifies the problem, and develops a plan to address the issue.

Secretary to Develop Plan. The budget proposes $500,000 from the General Fund (non-Proposition 98, under Item 0650-011-0001) for the OSE to contract for services to assist school districts that do not currently offer AP courses in developing options to ensure access to such courses. The

OSE would also use these funds to assess the current availability of AP courses, and determine a strategy to meet the Governor's goal of providing at least four AP courses at every high school. At the time of this analysis, OSE could not provide specific information on how it would complete these tasks.

The AP Grant Program. The budget includes $8 million under Item 6110-193-0001 to provide grants of up to $20,000 to at least 400 high schools to use for AP professional development, necessary instructional equipment and materials, and other course start-up costs. The Governor's proposal authorizes SDE to distribute the grants through a competitive evaluation process based on the following priorities: (1) schools offering three or fewer AP classes, (2) schools not offering AP classes in either math or science, (3) schools with low college participation rates, and (4) schools with a majority of students who qualify for free or reduced-price meals. Schools receiving grants would be expected to offer AP courses in a minimum of four subject areas, including math and science, and build an academic support system for low-income, minority students in AP courses. At the time of this analysis, the administration was unable to specify to what extent this $8 million program would advance the state toward the Governor's goal of at least four AP courses in each high school. It was also unclear from the budget proposal why four courses in each high school should be the state's policy goal.

We concur with OSE that further study is necessary to develop a comprehensive strategy to address the issue of access to AP courses. Accordingly, we recommend that the Legislature (1) provide OSE with the $500,000 requested for a comprehensive study; and (2) adopt budget bill language requiring the OSE to submit a report to the Legislature addressing the problem of access to AP courses, including a comprehensive solution. However, until such a report has been completed and the Legislature can review its strategy for equitable access to AP courses, we believe it is premature to start the $8 million grant program. Accordingly, we recommend that the Legislature delete the $8 million budget-year request. (Reduce Item 6110-193-0001 by $8 million.)

Some of the issues the study should address are :

- ***What Is the Current Distribution of AP Courses?*** The OSE needs reliable data on the number of AP courses available at each high school in California in order to develop a plan to increase student access to such courses.
- ***Why Do Schools Offer No or Few AP Courses?*** In order for OSE to develop a plan to increase student access to AP courses, it needs to first gather detailed information on why schools offer no or few AP courses. We believe this information is needed to deter-

mine the appropriate solution strategy. For example, based on the study's information, the plan might provide a different solution for small high schools versus large high schools.

- ***Access to AP or Access to UC?*** The UC grants extra GPA points for students completing AP courses, as well as IB, honors, and college-level courses. As a result, we believe that the study needs to fully examine to what extent access to UC is constrained by the lack of AP courses at high schools. At this point, available evidence is mostly anecdotal.
- ***Rural or Urban Problem?*** The OSE's preliminary findings suggest that many of the schools without AP courses are located in rural areas. However, the plan proposed by the administration does not propose different strategies for increasing access to AP courses at rural schools versus urban schools.
- ***What Are the Long-Term Costs?*** The OSE staff acknowledge that the Governor's goal of ensuring at least four AP courses in each high school would result in additional costs in the long run. However, OSE cannot provide an estimate of these costs. We believe that any plan to increase student access to AP courses should account for the long-term costs of implementing the plan.

INTRODUCTION

K-12 Education

The budget includes an increase in K-12 Proposition 98 funding of over $1.9 billion in the budget year. This is $268 per pupil, or 4.4 percent, more than the revised estimate of per-pupil expenditures in the current year. The budget also proposes significant increases in spending related to K-12 that is "outside" Proposition 98.

Figure 1 (see next page) shows the budget from all significant sources for K-12 education for the budget year and the two previous years. As the figure shows, K-12 spending from all sources is projected to increase by over $2.5 billion, or 5.7 percent, above the current-year level.

Proposition 98 funding constitutes about three-fourths of overall K-12 funding. For 2000-01, the budget proposes to increase K-12 Proposition 98 funding by over $1.9 billion above revised current-year estimated expenditures. This represents an increase of $268 per pupil, or 4.4 percent, on an average daily attendance (ADA) basis, bringing Proposition 98 per-pupil spending to $6,313.

Governor's Budget Proposals

The budget proposes a General Fund K-12 Proposition 98 funding increase of approximately $1.2 billion. An increase in local property taxes allocated to school districts and county offices of education of $732 million brings the total Proposition 98 increase for K-12 education to more than $1.9 billion. Figure 2 (see page 55) highlights the significant changes proposed for K-12 Proposition 98 funds in the budget year.

The major budget proposals funded under Proposition 98 include:

- $947 million for a 2.84 percent cost-of-living-adjustment (COLA).
- $428 million for enrollment growth, based on a projected ADA increase of 1.26 percent in 2000-01.
- $75 million for grants for schools to purchase computers.

- $62 million to increase the reimbursement rate for various supplemental instructional programs, including summer school and after school.
- $52 million for various incentives to recruit and retain teachers.

Figure 1

K-12 Education Budget Summary

1998-99 Through 2000-01
(Dollars in Millions)

	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Change From 1999-00	
				Amount	Percent
K-12 Proposition 98					
State (General Fund)	$22,190.8	$23,782.9	$24,996.2	$1,213.2	5.1%
Local property tax revenue	9,461.4	10,058.7	10,791.0	732.3	7.3
Subtotals, Proposition 98	($31,652.2)	($33,841.7)	($35,787.2)	($1,945.5)	(5.7%)
Other Funds					
General Fund					
Teachers' retirement	$245.1	$864.4	$929.2	$64.8	7.5%
Bond payments	846.6	906.4	1,040.5	134.1	14.8
Other programs	53.5	503.0	584.1	81.1	16.1
State lottery funds	674.1	744.4	744.4	—	0.0
Other state funds	55.8	46.8	45.5	(1.3)	-2.7
Federal funds	3,510.8	4,150.5	4,455.8	305.3	7.4
Other local funds	3,093.4	3,093.4	3,093.4	—	0.0
Subtotals, Other Funds	($8,479.4)	($10,308.9)	($10,893.0)	($584.0)	(5.7%)
Totals	**$40,131.5**	**$44,150.6**	**$46,680.1**	**$2,529.5**	**5.7%**
K-12 Proposition 98					
Average Daily Attendance (ADA)	5,498,312	5,598,202	5,669,005	70,803	1.3%
Amount per ADA (excluding loan)	$5,757	$6,045	$6,313	$268	4.4%

Figure 2

Governor's K-12 Budget Proposals Proposition 98

(Dollars in Millions)

1999-00 (revised)	**$33,841.7**
Enrollment Growth	
Revenue limits	$319.1
Categorical programs	109.2
Subtotal	($428.3)
Cost-of-Living Increases	
Revenue limits	$667.8
Categorical programs	278.9
Subtotal	($946.7)
Funding Adjustments	
After School Learning (one-time to ongoing)	$50.0
CalWORKs child care shift	50.0
Mandates	49.2
Special education prior-year correction	36.0
Deferred maintenance	22.3
Other	28.4
Subtotal	($235.9)
Program Expansions	
Supplemental Instruction hourly rate	$61.9
Professional Development Institute stipends	48.0
State Preschool	46.8
CalSAFE	34.7
Alternative Certification Program	20.8
English Language Learners	20.0
Beginning Teacher Support and Assessment	15.4
Special Ed WorkAbility I	7.0
Academic Volunteer and Mentor	5.0
Partnership Academies	1.4
Subtotal	($261.0)
New Programs	
Education Technology	$75.0
Teacher hiring incentives	52.0
Algebra Academies	18.0
National Board Certification Awards	15.0
Teacher recruitment centers	9.4
Advance Placement grants	8.0
Subtotal	($177.4)
Offsetting Adjustments	-$103.8
2000-01 (proposed)	**$35,787.2**
Change from 1999-00 (revised)	
Amount	$1,945.5
Percent	5.7%

Proposition 98 Spending by Major Program

Figure 3 shows Proposition 98 spending for major K-12 programs. "Revenue limit" funding (available for school districts and county offices to spend on general purposes) accounts for $23.8 billion in 2000-01, or about two-thirds of Proposition 98 expenditures. The state General Fund supports about 56 percent of revenue limit funding, and local property taxes provide the remaining 44 percent.

The largest "categorical" program (an expenditure earmarked for a specified purpose) is special education. The budget proposes to increase special education funding by $160 million, or 7 percent. Class size reduction in K-3 and ninth grade is the second largest categorical spending program in 2000-01 at $1.7 billion. A modest increase of $31 million (1.8 percent) is due to the COLA and a slight downward revision in estimated K-3 enrollment.

One-Time Spending

Current-Year Spending. The budget makes new proposals totaling $139 million for one-time expenditures for the current year. These expenditures are made possible, in part, by recently identified savings from prior Proposition 98 appropriations ($121 million). The budget draws upon one-time General Fund monies for the remaining $18 million of proposed expenditures. Figure 4 (see page E-58) summarizes the sources of the above funds and their proposed new uses.

Reappropriations. The budget also proposes reappropriating unspent balances from current-year Proposition 98 appropriations to use for one-time purposes in the budget year (under Item 6110-485). Figure 5 (see page E-59) summarizes these proposed savings and expenditures.

Significant New Spending Outside of Proposition 98

The *2000-01 Governor's Budget* proposes significant new expenditures that are directed at K-12 education problems, although the funding does not go to local education agencies and is therefore "outside" of Proposition 98. These include—but are not limited to—$118 million for scholarship awards for high school students who score high on standardized tests, $71 million for expansion of teacher training programs administered by the University of California, $50 million for a Teachers Homebuyers Assistance Program, and $50 million for the Air Resources Board to replace polluting school buses. We discuss the first three of these programs under Education Crosscutting Issues and we discuss the last program under our analysis of the Air Resources Board (Item 3900).

Figure 3

Major K-12 Education Programs Funded by Proposition 98

(Dollars in Millions)

	Estimated 1999-00	Proposed 2000-01	Change from 1999-00 Amount	Change from 1999-00 Percent
Revenue Limits				
General Fund	$12,959.8	$13,267.3	$307.6	2.4%
Local revenue	9,800.8	10,504.2	703.4	7.2
Subtotals, revenue limits	($22,760.6)	($23,771.5)	($1,011.0)	(4.4%)
Existing Programs				
Special education	$2,256.7	$2,416.9	$160.2	7.1%
Class size reduction	1,694.9	1,726.1	31.2	1.8
Child development	854.8	1,046.0	191.3	22.4
Desegregation	643.0	677.6	34.6	5.4
Instructional materials	566.6	572.8	6.3	1.1
Adult education	542.4	571.8	29.4	5.4
Home to school transportation	459.9	478.9	19.0	4.1
Economic Impact Aid	394.1	425.6	31.5	8.0
School improvement	385.9	399.4	13.5	3.5
Summer school	309.8	378.7	69.0	22.3
ROC/P	320.4	336.3	15.9	5.0
Staff development day buy-out	225.1	242.5	17.4	7.7
Categorical supplemental grants	212.2	221.6	9.4	4.4
Other	2,056.1	2,201.9	145.8	7.1
Subtotals	($10,921.8)	($11,696.2)	($774.4)	(7.1%)
New/Revised Programs				
CalSAFE	$48.4	$83.1	$34.7	71.8%
Education technology	100.0	75.0	-25.0	-33.3
Teacher stipends (UC institutes)	11.0	59.0	48.0	436.4
Teacher hiring incentives	—	52.0	52.0	
Algebra Academies	—	18.0	18.0	—
National Board Certification	—	15.0	15.0	—
Teacher recruitment centers	—	9.4	9.4	—
Advance Placement Grants	—	8.0	8.0	—
Subtotals	($159.4)	($319.5)	($160.1)	(100.4%)
Totals	**$33,841.7**	**$35,787.2**	**$1,945.5**	**5.7%**

Figure 4

K-12 Education Governor's Budget Proposals for Current-Year Revenue

1999-00
(In Millions)

Proposed Augmentations	
Education technology	$100.0
Child Care Facilities Revolving Fund	25.0
County Office of Education apportionment growth estimate	8.2
State agency employee compensation increase	4.4
Deferred maintenance (loan repayment)	1.1
Total	**$138.8**
Sources	
Proposition 98 Savings	
Offset available from property tax	$69.3
CalWORKs child care veto	50.0
Military loan repayment	1.7
Peer review adjustment	0.1
Subtotal	($121.1)
General Fund reserve	$17.7
Total	**$138.8**

Figure 5

K-12 Education Governor's Budget Proposed Uses for One-Time Savings

2000-01
(In Millions)

Proposed Expenditures (Item 6110-485)	
Digital high school	$88.0
Special education ADA[a] (1999-00)	16.8
Summer school deficiency (1997-98)	4.5
Voluntary desegregation	8.0
FCMAT[b] professional management assistance	1.0
Child nutrition deficiency (1998-99)	0.8
Student friendly services	0.3
Unspent residual	4.9
Total	**$124.3**
Sources (Proposition 98 Savings)	
Staff development day buy-out	$43.2
After School Program	27.0
CCC[c] property tax savings	17.7
Mandates	15.2
CCC—Lease-purchase savings	11.6
Reversion balance	8.6
Pupil assessment	1.0
Total	**$124.3**

[a] Average daily attendance.
[b] Fiscal Crisis and Management Assistance Team.
[c] California Community Colleges.

BUDGET ISSUES

K-12 Education

CALIFORNIA'S PER-PUPIL SPENDING RELATIVE TO THE NATION'S

While the Governor's budget does not directly address the matter of California's per-pupil spending and the national average, there has been growing legislative interest in the topic. In this section, we discuss why measurements of per-pupil spending vary, estimate current per-pupil spending levels, and offer some considerations on the issue of spending to the national average.

How does California compare to the nation in per-pupil spending in K-12 public schools? While it is generally accepted that California spends less than the national average, estimates of this "gap" vary widely—from less than $300 to over $1,200 per pupil—depending on the source and depending on how the gap is defined. Multiplied by the state's enrollment of over six million public school pupils, these different estimates yield cost estimates for closing the gap that range from less than $2 billion to over $7 billion annually.

Why Do Estimates of the Gap Vary?

The great variation in reported measurements of the gap is largely attributable to the following five factors.

Choice of Index. The U.S. Department of Education's National Center for Education Statistics (NCES) and the National Education Association (NEA) produce the two national indices of K-12 expenditures that are most widely used by researchers and policy makers. Both organizations publish extensive data on public school student populations and funding, including data on revenues and expenditures per pupil. For both organizations, the most often cited measure of per-pupil funding is "current" expenditures (operating expenditures) per pupil. Recent NEA and NCES data on current expenditures per enrollment are shown in Figures 1 and 2. Due to differing methodologies, the two indices produce somewhat different measurements of California and national expenditures per K-12 enrollment. For example, NCES includes state administrative expenditures for K-12 education while NEA does not. Despite these differences, the two indices tend to track together.

Figure 1

National Education Association (NEA)
Current Expenditures Per Fall K-12 Enrollment[a]

1992-93 Through 1997-98

	U.S.	California	Gap	Rank
1992-93	$5,149	$4,570	$579	33
1993-94	5,319	4,675	644	34
1994-95	5,526	4,740	786	36
1995-96	5,695	4,876	819	36
1996-97[b]	5,943	5,191	752	—
1997-98	6,174	5,580	594	31

[a] From NEA, *Rankings of the States*, various years.
[b] The NEA did not publish rankings for 1996-97. Data provided by NEA.

Figure 2

U.S. Department of Education
National Center for Education Statistics (NCES)
Current Expenditures Per K-12 Fall Enrollment[a]

1992-93 Through 1996-97

	U.S.	California	Gap	Rank
1992-93	$5,170	$4,614	$556	33
1993-94	5,325	4,718	607	32
1994-95	5,528	4,799	729	35
1995-96	5,689	4,937	752	35
1996-97	5,923	5,260	663	35

[a] From NCES, *Statistics in Brief: Revenues and Expenditures for Public Elementary and Secondary Education*, various years.

Which Expenditures Are Counted. One reason measurements of per-pupil spending vary is the "basket" of expenditures counted. Expenditures can be categorized based on whether they are funded from state, local, and/or federal revenues; and clearly per-pupil estimates will vary widely depending on the extent to which these sources are included or excluded. In California, we often pay special attention to per-pupil funding provided under Proposition 98. For 2000-01, the Governor proposes Proposition 98 funding of $6,313 per average daily attendance (ADA). A more comprehensive measure of per-pupil spending is total funding from all sources. For the budget year, the Governor proposes total funding from all sources of about $8,200 per ADA.

Expenditures can be categorized by narrowly defined purposes—such as spending on teacher salaries, instructional materials, administration, or facilities. A broader distinction is that made between spending on capital outlay and operating expenditures. The most often referenced expenditure category in the NEA and NCES indices is that of "current expenditures," which consists of operating expenditures, or those expenditures made in the day-to-day operation of schools.

Average Daily Attendance Versus Enrollment. Enrollment measures the number of pupils registered to attend school while ADA measures the number of pupils *attending* school each day averaged over the course of the school year. Essentially, the difference between the two measures is due to absences. Inevitably, enrollment totals are larger than the corresponding ADA totals. Therefore, any given expenditure total measured on a per-enrollment basis will always yield a *lower* dollar figure than if measured on a per-ADA basis.

In the context of national comparisons, however, another matter arises. Until 1998-99, California was unique among the states in including excused absences in its ADA counts. As a result, for data collected prior to 1998-99, California ADA totals are not comparable to ADA totals in other states unless an adjustment is made to exclude excused absences. For example, NEA reports that California's operating expenditures per fall enrollment in 1997-98 were $5,580, ranking us 31st in the nation. However, for the same year, NEA reports that California expenditures, measured by ADA, were $5,627, ranking us 40th in the nation. The difference between the 31st and 40th rankings essentially is a distortion due to different definitions of ADA.

Chapter 855, Statutes of 1997 (SB 727, Rosenthal), eliminated excused absences from ADA, thereby aligning California's definition of ADA with the definition used by the other states. As a result, data from 1998-99 and beyond should no longer have this incongruity with national data. (We note that care should be taken to ensure data from 1998-99 and beyond does indeed reflect California's revised ADA definition. The NEA's recently reported *preliminary* ADA figure for 1998-99 still includes excused absences because it is a projection based on data from prior years.)

Time Lags. An often misunderstood point relating to comparisons of state and national per-pupil spending is that the latest reliable data always lag two to three years behind the present. This is due to the difficulties in collecting data from thousands of local educational agencies across the country and assuring that data is reported on a consistent basis. For example, the most recent *actual* data available in the most recent NCES index is from 1996-97. The most recent actual data from NEA is from 1997-98. Thus, any attempt to estimate the *current* gap requires projecting per-pupil growth rates in California and national spending for the intervening years. Therefore, in considering estimates of the gap, it is important to be specific about the year to which the data applies, as well as assumptions used in making projections.

Accuracy of Data and Estimates. Sometimes, inaccurate data or estimates create discrepancies in measurements of the gap. For example, NEA's preliminary report for 1998-99 shows California's expenditures per enrollment *declining* by $280, from $5,580 in 1997-98 to $5,300 in 1998-99. Based on budget actions, however, we know that spending actually *increased* by over $250 per enrollment in this period. As a consequence, NEA's estimate for 1998-99 overstates the gap by over $500 per enrollment—translating to an overstatement of the total cost of closing the gap of about $3 billion.

What Is the Current Gap?

Estimating the current difference between California and national expenditures per pupil requires projecting measurements of the gap forward from the most recent available data—1996-97 for NCES and 1997-98 for NEA. This, in turn, requires making assumptions about growth rates in per-pupil spending for the intervening years. This is relatively straightforward for California data since we know how state school spending has grown during the time. There is, however, no way to know how spending has changed in all other states.

In order to give the Legislature a sense of where California educational spending stands relative to the nation's at this time, we assumed the following:

- California expenditures per enrollment have grown at the same rate as Proposition 98 funding per pupil.
- National expenditures per enrollment have grown at an annual rate equal to the average for the last three years for which NCES and NEA have published data. Small differences in these growth rates significantly change the estimated gap. For this reason, we calculated a range in the national spending amount for each index.

Using the methodology described above, we estimate the current gap to be between $370 and $500 per enrollment as measured by the NCES index and between $450 and $550 per enrollment as measured by the NEA index. Multiplied by the state's enrollment, the estimated total cost of closing the gap today would be between $2.2 billion and $3.3 billion above the Governor's K-12 budget proposal for 2000-01.

Considerations Regarding Per-Pupil Spending

In evaluating California's position relative to the nation's, the Legislature should consider the following points:

- While comparisons to the national average may have illustrative value, the analytic basis for pursuing the national average as a spending goal is unclear. The level of spending necessary for California to provide quality K-12 programs depends on many variables, and may be higher or lower than the national average. Accordingly, we believe the Legislature should approach spending for K-12 education based on identifiable needs and opportunities for investment, rather than general funding targets.
- Education spending is an *input*, not an *output*. That is, spending is a measurement of what goes *into* the educational process, not what *results* from it. With its accountability reforms of recent years, the Legislature has recognized the importance of focusing on outcomes. Thus, the state should continue to be concerned more with how its students *perform* rather than on how state spending compares with other states.
- Research and experience suggest that *how* we spend available education resources is at least as important as *how much* we spend on education. In considering where to set overall spending levels, we believe the Legislature should also consider whether the state has in place the right organizational structures and incentives at every level of the K-12 system in order to assure that all educational funding is spent to maximum effect.

Options for Closing the Gap

Above, we raise some important cautions about setting national average spending as a policy goal. However, the Legislature may conclude that such a target would serve as a proxy for addressing basic K-12 program needs. If the Legislature were to decide that reaching the national average on K-12 per-pupil spending is a desired objective, it could not realistically get there all at once. As such, a multiyear phase-in would be necessary to achieve this objective.

Possible Phase-In Schedules. To illustrate how the Legislature might move state spending to the national average, we identify below the cost of two different phase-in schedules. Calculating these cost estimates requires projecting "baseline" rates of growth for per-pupil spending in California and the nation. Under our baseline assumptions, California K-12 per-pupil spending grows at a faster rate than the nation. In other words, if the state makes no special effort to reach the national average and instead spends amounts consistent with the minimum funding levels required under Proposition 98, we assume that the gap between California and national per-pupil spending would narrow over the next several years. The question then becomes: How much *additional* spending would be required to fully close the gap?

We estimate that the following levels of additional annual spending would be required to close the gap (above the Governor's proposed K-12 spending level and future growth in the Proposition 98 guarantee):

- Between $1.7 billion to $3.3 billion if phased in by 2002-03.
- Between $1.2 billion and $3.4 billion if phased in by 2004-05.

We illustrate, in Figure 3, these two possible phase-in schedules of additional state spending to reach the national average by 2002-03 and by 2004-05. In both cases, we have used the midpoints of our ranges of estimated costs. In these examples, each year's increment of spending is a bit higher than the prior year, reflecting the compounding effects on the Proposition 98 minimum guarantee caused by each year's "over-appropriation." The Legislature could, of course, construct different phase-in "paths" than the ones displayed here.

Figure 3

Possible Phase-In Schedules On Reaching National Spending Average

(In Millions)

Three-Year Phase-In		Five-Year Phase-In	
2000-01[a]	$800	2000-01[a]	$420
2001-02	840	2001-02	440
2002-03	860	2002-03	460
		2003-04	480
		2004-05	500
Total	**$2,500**	**Total**	**$2,300**

[a] Represents appropriations above those proposed in the Governor's budget.

DISCRETIONARY FUNDING

Little Local Discretion Over New Spending

A significant feature of the proposed budget is its failure to provide any additional general purpose funds for local school districts and county offices above increases required by law. The budget's only increases in discretionary funds are the statutorily required cost-of-living adjustments (COLAs) ($668 million) and enrollment growth adjustments ($319 million) to revenue limit funding. These funds, totaling $987 million, represent about half of the $1.9 billion in new Proposition 98 funding for K-12 education proposed in the Governor's budget.

This budget continues a long-term trend in reduced local discretion over K-12 education spending. Figure 1 (see next page) depicts this decline in local discretion by showing revenue limit (general purpose) funding as a percent of total K-12 Proposition 98 funding.

In our view, this decline in local discretion over spending runs counter to the increased emphasis the state has placed on accountability in K-12 education in recent years. If the state is going to hold local school districts accountable for improving student performance, it is essential that these same districts be given the resources and local budgetary discretion to allocate resources based on local needs. Without these resources and flexibility, districts are severely constrained in their ability to make necessary changes and improvements in programs and operations. (For a more detailed discussion of the need for local flexibility within a school accountability system, see *A K-12 Master Plan*, Legislative Analyst's Office, May 1999).

In our cross cutting discussion on COLAs in K-12 and higher education, we identified $134.3 million that we recommend shifting from the four-year universities to K-12 education. Below, we propose two methods for providing that $134.3 million to K-12 schools as additional discretionary spending. Both recommendations use revenue limits as the mechanism for disbursing the new resources.

Figure 1

K-12 Proposition 98 Discretionary Spending Share

1988-89 Through 2000-01
(Dollars in Billions)

Year	K-12 Proposition 98	Revenue Limits	Percent Discretionary
1988-89	$17.2	$13.3	77.5%
1989-90	18.7	14.4	77.0
1990-91	18.6	15.5	83.4
1991-92	21.0	15.8	75.3
1992-93	21.5	15.7	73.2
1993-94	21.2	15.9	75.0
1994-95	22.6	16.7	73.9
1995-96	24.8	18.0	72.7
1996-97	26.8	19.6	73.1
1997-98	29.2	20.6	70.7
1998-99	31.7	21.8	69.0
1999-00	33.8	23.0	68.0
2000-01	35.8	24.1	67.2

Background on Revenue Limits

Revenue limits provide general purpose support for school districts and county offices of education. Revenue limits were established in Chapter 1406, Statutes of 1972 (SB 90, Dills), as part of the state's response to the *Serrano v. Priest* state Supreme Court decision of 1971. The revenue limit was calculated to be equal to the per-student amount of general purpose student aid and local property taxes that a district received in 1972-73. The limits do not include state categorical funds (such as state aid for special education or class size reduction), lottery revenue, or any federal aid to local districts. Currently, approximately two-thirds of state support to K-12 school districts is provided through the revenue limit mechanism. Each year, as required by statute, revenue limit funding is adjusted for changes in enrollment and COLA.

Deficit Factors

During the recession years of the early 1990s, the statutory COLA was not fully funded. Instead of adjusting base revenue limits to reflect these lower COLAs, a second set of revenue limits were created—so called "deficited" revenue limits. Deficited revenue limits reflect the amount that the state actually provides to school districts and county offices of education.

The state keeps track of the difference between base revenue limits and deficited revenue limits—referred to as the revenue limit deficit factor. The deficit factor reduces base revenue limits for school districts and county offices of education by a percentage that is approved as part of the annual budget process. The size of the deficit has decreased over the last few years because the Legislature has approved "deficit reduction" funding as part of recent annual budget acts. Since 1994-95, the state has reduced the deficit factor from 11 percent to 6.996 percent for school districts and from 11 percent to 8.628 percent for county offices of education.

Revenue Limit Equalization

The Legislature has, since the first Supreme Court *Serrano* decision in 1971, periodically enacted legislation to equalize revenue limits among the state's school districts. Chapter 894, Statutes of 1977 (AB 65, L. Greene), established a school finance funding mechanism that provided school districts with different COLA amounts depending upon their per-pupil revenue limits. In general, a district with a revenue limit above the statewide average would receive a smaller COLA than a district with a revenue limit below the statewide average. Under this system, per-pupil funding levels would be drawn to the statewide average (squeezed) over time. Thus, funding disparities stemming from differences in district wealth gradually would be reduced.

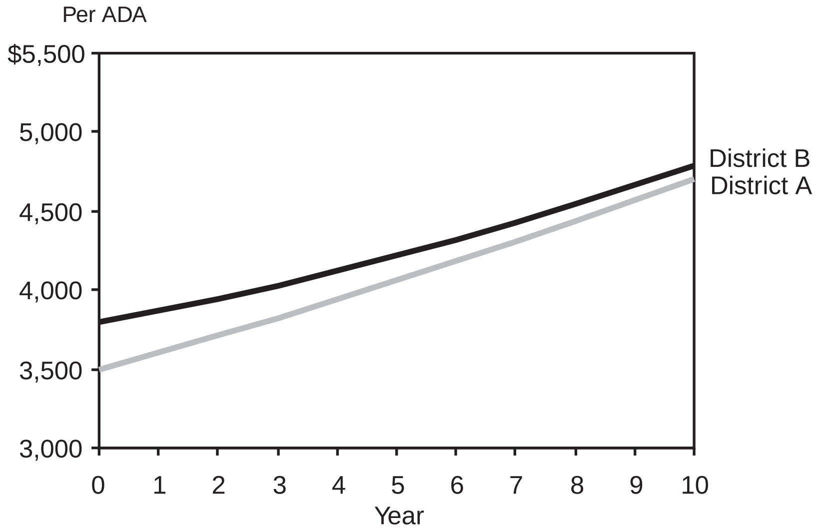
Current revenue limit COLA and equalization policy is based on Chapter 498, Statutes of 1983 (SB 813, Hart). Senate Bill 813 eliminated the "squeeze" formula, and instead provides that all districts of the same type (elementary, high school, and unified) receive the same fixed dollar amount as a COLA. In 1995-96, for example, all elementary school districts received a COLA of $82 per ADA, high school districts received $100 per ADA, and unified districts received $86 per ADA. This approach does nothing to reduce the dollar differentials among districts and only slightly reduces the *percentage* differentials.

Since the enactment of SB 813, the Legislature has provided periodic "leveling-up" funds for revenue limit equalization. That is, funds are provided periodically to increase the revenue limits of below-average districts to the state average. In calculating equalization adjustments, districts are divided into six categories by type (elementary, high school, and unified) and ADA (small and large). The amount of equalization aid a district qualifies for depends on the amount necessary to bring its revenue limit to the average revenue limit in its category.

Sliding-Scale COLA Would Better Equalize Revenue Limits. We recommended in the *1997-98 Analysis* that the Legislature replace the existing uniform COLA with a sliding-scale COLA, and Chapter 156, Statutes of 1998 (AB 2460, Leach and Runner), states the Legislature's intent to do this. Under the sliding-scale approach, the COLA varies based on the relationship of district's revenue limits to the statewide average. For example, a sliding scale can be constructed under which the farther above the average, the smaller the COLA. In this example, the savings from granting smaller COLAs to above-average districts are used to supplement the COLAs of below-average districts. The approach is similar to the AB 65 COLA, which was in effect from 1977 to 1983. As Figure 2 shows, the sliding-scale approach results in the dollar difference between the two hypothetical districts decreasing over time.

Figure 2

LAO Proposal for COLA Distribution: Effect on District Revenue Limits



This type of adjustment can be constructed to guarantee a COLA to every school district. The important point, however, is that no matter what parameters are chosen, a sliding-scale COLA eventually does reach a point at which revenue limits are equal.

Analyst's Recommendations

We recommend that the Legislature provide $134.3 million, identified in our crosscutting discussion on education base budget adjustments, as additional revenue limit funding for school districts and county offices of education. These funds would provide additional general purpose funding for K-12 schools. Of this amount, we recommend that $65 million be provided for equalization and the remainder—$69.3 million—be provided for deficit factor buy-out. We further recommend that the Legislature adopt legislation to replace the current uniform revenue limit COLA with a new formula that equalizes revenue limits over time. We recommend making this change in 2001-02 rather than in the budget year to allow districts time to adjust to the change.

In our crosscutting discussion of base budget adjustments for the K-12 and higher education segments, we note that the base adjustments proposed for the four-year universities are far in excess of the amount needed to offset the effects of inflation. In that section, we recommend that $134.3 million budgeted for the universities be reallocated to K-12 education where program performance is a matter of greater concern.

We recommend that these funds be provided as general purpose funding to K-12 schools in approximately equal parts for equalization and deficit reduction. Our proposal would provide $65 million in revenue limit equalization funds to school districts and county offices of education based on a sliding-scale formula. This amount would be in addition to the statutory 2.84 percent COLA that *all* districts and county offices will receive for the budget year. This level of augmented funding, if followed by similar augmentations in the subsequent five fiscal years, would result in 90 percent of the state's ADA receiving the same revenue limit (within each of the six district types).

Our proposal would also provide $69.3 million in deficit reduction. This amount would lower the deficit factors from 6.996 percent to approximately 6.7 percent for school districts and from 8.628 percent to approximately 8.4 percent for county offices. These new resources also would provide more general purpose funding for local priorities.

EDUCATION TECHNOLOGY

The Governor's budget provides a total of $433 million to increase the use of technology in education. Of that amount, $233 million in state and federal funds are to continue ongoing education technology programs, as displayed in Figure 1. Generally these programs make schools and districts work toward integrating technology into the classroom by requiring (1) planning prior to implementation, (2) staff development integrated into the curriculum, and (3) ongoing technical support.

Regarding new proposals, the Governor's budget provides (1) $175 million in one-time grants to buy computers and support on-line advanced placement (AP) courses and (2) $25 million in one-time funds to provide technology staff development.

PROPOSED $175 MILLION FOR COMPUTERS AND ON-LINE AP COURSES

The budget provides $175 million in one-time Proposition 98 funds for grants to districts to (1) support start-up costs of providing advanced placement (AP) courses on-line at high schools that currently have no AP courses, and (2) increase the number of computers in the classroom. The Governor's budget does not specify how much of the $175 million would be for the AP technology support grants, nor how much would be used to assist schools in purchasing computers. Under the administration's proposal, the grants would be administered by the Secretary for Education. The budget indicates that the Governor will seek approval of the program and $100 million as a current-year appropriation through legislation separate from the budget bill. The budget proposes the remaining $75 million from *ongoing* Proposition 98 funding, even though it is for *one-time* spending.

Below, we offer an alternative plan for the expenditure of these one-time monies that we believe will: (1) match budget-year spending needs with demand, (2) encourage more efficient purchases and use of technology, and (3) best leverage nonstate funds available for education technology. In addition, we recommend the Legislature redesignate the $75 million of one-time funds as applying towards the *1999-00* Proposition 98 guarantee. This redesignation would provide the Legislature with greater flexibility in the budget year and beyond for its general fiscal priorities.

Figure 1

Existing Education Technology Programs

Digital High School—$164 Million

- ***Program.*** Provide integrated access to technology at every high school.
- ***Funding.*** Gives $300 per-pupil installation grants to all high schools over four-year period. Provides $45 per-pupil ongoing for staff training and technical support. Last of four cohorts funded 2000-01.
- ***Requirements.*** Each high school must develop a comprehensive technology master plan which is certified by the local California Technology Assistance Project (CTAP). Must invest in the maintenance of the technology and ongoing staff development.

California Technology Assistance Project—$12.4 Million

- ***Program.*** Established 11 regional organizations to help districts implement technology. CTAP assists schools with technology, staff development, operating and maintaining infrastructure, hardware, learning resources, and telecommunications.
- ***Funding.*** Provides $12.4 million directly, plus $1.4 million through the Digital High School Program.

Federal Literacy Challenge Grants—$45.2 Million

- ***Program.*** Competitive grants to districts (1) with high numbers of poor children or (2) that are technology-poor. Funds can be used for staff training, software and hardware, and to create links with community.

Statewide Education Technology Services—$8.8 Million

- ***Program.*** Supports four statewide technology efforts: (1) professional development for district and site administrators, (2) professional development for technology support staff, (3) learning resources, and (4) discount pricing and coordinating purchasing of state licenses.

Education Technology Staff Development, Grades 4-8—$2.1 Million

- ***Program.*** Grants to schools for training teachers in use of technology in the classroom.
- ***Funding.*** Provides $20 per student.
- ***Requirements.*** School must (1) develop technology plan, (2) have access to computers and connectivity, and (3) integrate technology staff development with other staff development activities.

Total—$233 Million

Fund On-Line Advanced Placement Courses

We recommend that the Office of the Secretary for Education (OSE) report to the fiscal committees prior to budget hearings on the amount needed to support on-line advanced placement (AP) courses. For legislative planning purposes, we recommend that the Legislature provisionally allocate $10 million for technology grants for AP courses until the OSE provides a detailed estimate. We further recommend that the Legislature designate the State Department of Education to administer the Advanced Placement Technology Support Grant Program, instead of OSE.

As detailed in the Crosscutting Issues section of this chapter, the Governor is trying to address potential inequities in access to higher education created by unequal student access to high school AP courses. The budget provides $7 million to the University of California to develop and offer AP courses on-line.

Our analysis indicates that 73 high schools offer no AP courses. These high schools may need some additional infrastructure funding to be able to facilitate AP distance learning. However, since 99 percent of high school enrollment either has or will participate in the Digital High School (DHS) program by the budget year, most of the infrastructure needs for providing distance learning already will have been met. At the time of this analysis, the Office of the Secretary for Education (OSE) had no estimate of the outstanding need.

We recommend that OSE report to the fiscal committees, prior to budget hearings, on the estimated infrastructure costs to support on-line AP courses that will not have been met by the DHS program. In determining the appropriate amount to provide in assistance, the Legislature should also consider that most of the infrastructure projects needed to offer AP courses on-line would be eligible for federal E-rate subsidies (we discuss E-rate further below). E-rate subsidies range from 20 percent to 90 percent of the infrastructure costs. In addition, some ongoing costs of offering AP courses on-line could be subsidized by California Teleconnect Grants (see gray box for details). We recommend the Legislature structure the AP grant program to encourage schools to apply for E-rate subsidies and California Teleconnect Grants, which could further reduce the cost of providing AP on-line courses. For the Legislature's planning purposes, we recommend that the Legislature *provisionally* allocate $10 million for the AP program until the secretary reports to the Legislature on the demand for the program.

The State Department of Education (SDE) Should Administer AP Grant Program. The Governor proposes that OSE administer the Advanced Placement Grant Program. The Secretary for Education serves primarily as a policy advisor to the Governor. His office is not designed to administer grant programs. The SDE already administers almost all the state's K-12 education programs, including several involving education technology. The SDE is better positioned to administer this grant program. Accordingly, we recommend deleting $180,000 and two positions for administering both the AP course technology grants and one-time computer grants from the OSE budget (reduce Item 0650-011-0001 by $180,000). Because SDE will have an increase in workload associated with the AP course technology grants, we recommend the Legislature provide SDE one personnel-year and related state operations funding (increase Item 6110-001-0001 by $70,000).

What Is California Teleconnect?

- The California Teleconnect Fund, established by the California Public Utilities Commision (CPUC), provides $50 million per year of discounted telecommunications services for schools, libraries, hospitals, and community-based organizations. The CPUC collects fees from general users of telecommunication services to pay for the subsidies.
- Qualifying schools receive a 50-percent discount off the best rate they can negotiate from competing telecommunication providers.
- Funding is on a first-come, first-serve basis, but the CPUC estimates that less than $30 million of the $50 million available will be used in the budget year.

Redirect One-Time Technology Grants

We recommend the Legislature redirect $165 million from education technology grants to better ways of meeting these needs.

The Governor's budget provides the remainder of the $175 million not used for AP technology support grants for his second priority, namely providing computers to schools with the lowest computer-to-student ratios. (Although this is the stated goal, the proposal does not specify precisely the criteria for eligibility in the program.)

We have several concerns with the proposal. First, the program would effectively reward those schools and districts that have decided not to invest their own funds in technology. Furthermore, the Governor's proposal requires schools to develop a technology plan, but does not require a plan in advance of funding. In addition, the proposal does not require a local match, so districts would not be committed by virtue of their own investment to ensuring that the purchased technology would be used effectively and maintained over time.

This commitment is essential to ensure that schools and districts have incentives to fully integrate technology into the classroom. To quote from the conclusions of recent research at the University of California, Berkeley, titled *Managing Technology Efficiently in California K-12 Schools*,

> "California is determined to integrate technology into schools; however, simply placing computers in schools will not improve student achievement or learning. Implementing a technology program, one that incorporates technology into the curriculum, creates problems for schools because owning technology is expensive. The cost of technology is not simply the purchasing price; it consists of a variety of costs that accumulate over the technology's 'life'."

The research uncovers three fundamental problems K-12 schools owning technology face: (1) lack of technical expertise, (2) lack of sustained funding, and (3) lack of incentive to manage technology efficiently. Since the Governor's proposal provides funds to those schools with the *least* experience with technology, the schools are not likely to address the long-term issues raised by the study. Without the appropriate long-term investment, many recipients would not use the funding provided in the Governor's budget in the most efficient way.

For all these reasons, we recommend deleting $165 million of one-time Proposition 98 funds provided for education technology grants. We recognize the Legislature's interest in supporting the use of technology in the classroom and, therefore, recommend two ways of using the one-time funds to help schools improve their use of technology: (1) a technology revolving loan fund and (2) E-rate start-up grants. These two programs are described below and summarized in Figure 2.

Figure 2

LAO Recommended Use of One-Time Technology Funds

(In Millions)

	Amount
Governor's Proposal	
Advance placement (AP); technology support grants; computer grants	$175
LAO Recommendations	
AP technology support grants	$10
Technology Revolving Loan Fund	160
E-rate start-up grants	5
Total	**$175**

Establish a Technology Revolving Loan Fund

We recommend that the Legislature (1) establish an Education Technology Revolving Loan Fund to support school districts' technology implementation plans and (2) provide $160 million in one-time monies to finance the fund.

We recommend the Legislature establish an Education Technology Revolving Loan Fund and make $160 million available to schools and districts with a five-year repayment period. Schools could use the funds to purchase computers, equipment, wiring, or other infrastructure needs. The loans would (1) encourage and support those schools and districts which are ready to implement their comprehensive technology plans, while not wasting funds on those schools which are not prepared to fully use technology in the classroom; (2) allow schools to spread the cost of investing in technology over several years; and (3) help schools leverage funding from other sources. To encourage districts to use these funds, we recommend providing two fiscal incentives: (1) make the loans interest-free, and (2) forgive 20 percent of the loan principal over the life of the loan.

As discussed above, simply providing computers to a school often is not an efficient use of state resources. Technology has to be implemented in a comprehensive way. Some schools are ready to implement comprehensive technology plans while others are not. By establishing a Revolving Technology Loan Fund, the Legislature could provide assistance to those schools which are prepared and willing to invest their own funds to implement their plans. In contrast, the Governor's proposal would provide free computers with no local match. Under the Governor's proposal, any eligible school could apply whether they could efficiently use technology in the classroom or not. Under our recommendation, districts would have to repay 80 percent of what they borrow from the revolving fund, so districts would have a strong incentive to ensure that the funds are not wasted. Districts also would have to determine whether investing in technology and its ongoing maintenance and staff development costs was a higher priority for the district than the numerous competing priorities. The Governor's budget would provide one-time grants to a small number of schools, while most would not receive funding. In contrast, over time our proposal would allow more schools access to funds. If fully utilized, the Revolving Loan Program could provide loans in excess of $480 million over the first ten years. The real value of the principal balance of the fund would depreciate over time because of inflation and the loan forgiveness incentive, but we estimate the fund would still have at least $80 million in principal in 2010.

Schools could also use these funds to leverage (1) federal funds through E-rate (discussed below) or Literacy Challenge Grants, (2) California Teleconnect funds, or (3) other public and private grant funds.

Provide Start-Up Funds for E-Rate Participation

We recommend that the Legislature create a task force headed by the Secretary for Education to develop a state plan to increase the number of schools receiving E-rate subsidies. We further recommend that the Legislature provide $5 million to school districts for planning grants to develop E-rate subsidy proposals.

E-rate is a multibillion dollar federal subsidy program that helps schools and libraries improve their technology and telecommunications. (See gray box for details.) California's public and private schools and libraries received subsidies of $252 million in the current year, making this California's largest education technology program. However, California so far has received a disproportionately low share of these federal funds (see Figure 3). We believe that with a better state effort, the state could help its local education agencies (LEAs)—charter schools, school districts, and county offices—secure more funds. The estimated funding available nationally for the budget year is $2.25 billion. The average grant size has been around $65,000.

The Federal E-Rate Program

What Is E-Rate?

- The federal Telecommunication Act of 1996 created the E-rate program, administered by the Federal Communications Commission (FCC) to provide discounts on telecommunication services to public and private schools and libraries.
- Through E-rate, schools and libraries can receive discounts ranging from 20 percent to 90 percent of the cost of telecommunication services determined by the percentage of its students eligible for a free or reduced price lunch.
- Discounts are for (1) Internet access, (2) internal connections, and (3) telecommunications and dedicated servers.
- The program does *not* provide discounts on "end user" equipment such as computers.

How Does it Work?

- Districts must develop a comprehensive plan of what services and equipment they need.
- The project plan must go through a competitive bidding process.
- The district must meet numerous filing dates, beginning almost a year in advance of receiving the funding.
- The forms are reviewed by the FCC to determine the eligibility of the projects.

Figure 3

E-Rate Funding: How California Has Fared

(Dollars in Millions)

Year	Federal Funds Allocated	California Funding	California Percent of National Funding	California Percent of National Title I Students
1998-99	$1,660	$206	12.4%	13.5%
1999-00	2,250	252	11.2	13.5
2000-01	2,250[a]	N/A	N/A	13.5

[a] Expected funding level.

Many LEAs do not have (1) the technical capacity to develop plans or (2) experience with evaluating bids and contracts in this area. Given the amount of funding available through E-rate, the state has a strong incentive to assist districts in maximizing their E-rate subsidies. The Legislature can take several actions to help California LEAs receive the maximum amount of federal E-rate discounts.

Provide Statewide Leadership. School and library telecommunications cut across several state and local government entities. The Secretary for Education could play a key leadership role in coordinating with the Department of General Services, SDE, the state's federal liaisons, and county offices of education to streamline and assist schools with the application process; and to increase awareness of the E-rate program. We recommend that the Legislature create a task force headed by the Secretary for Education to develop a state plan to increase the number of schools receiving E-rate subsidies.

Provide Planning Grants. The planning process to participate in E-rate starts almost a year in advance. Schools and districts need assistance in (1) understanding how the program works, (2) developing the planning documents and their technology plan, and (3) making sure that all deadlines are met. We recommend that the Legislature appropriate $5 million in one-time Proposition 98 funds (redirected from the Governor's education technology proposal) to provide planning grants to school districts to develop districtwide E-rate proposals and coordinate E-rate proposals at their schools. We recommend providing differential planning grants to small and large districts, respectively. School districts could use the funding to contract for assistance with:

- County offices of education which have expertise in developing E-rate related contracts.
- California Technology Assistance Project which can assist the districts with their technology plans.
- Other districts which have experience with the E-rate process to provide assistance and staff development.
- Outside consultants.

Preference for the planning grants should be given to districts that have never received an E-rate subsidy. Once a district has successfully made it through an E-rate application round, the next year's application process would be much easier. By making this one-time investment in helping schools and districts apply for E-rate subsidies, the state's schools will benefit in future years as these LEAs continue to access E-rate funds.

PROPOSED $25 MILLION IN TECHNOLOGY STAFF DEVELOPMENT

We recommend that the Legislature redirect $25 million (one-time non-Proposition 98 funds) directly to school districts as part of a larger staff development grant (described earlier in this chapter).

The budget provides $25 million in one-time non-Proposition 98 funds to the Secretary for Education to contract with the California State University (CSU) to offer staff development to teachers in the use of technology in the classroom. Similar to the Governor's other staff development proposals, this proposal takes a "top down" approach to teacher training.

By combining these technology staff development funds with other professional development funds, districts and schools can provide teachers with staff development training that integrates technology training into their professional development for reading, math, or other subject areas. We therefore recommend that the Legislature redirect the $25 million for the CSU contract directly to school districts as part of a larger staff development block grant described earlier in this chapter. Under our recommendation, districts would be free to contract with CSU for training or seek other providers who might be better suited to meet local needs.

HIGH SCHOOL EXIT EXAM

We recommend the State Department of Education report at budget hearings on whether the High School Exit Exam will be administered in the budget year.

Chapter 1x, Statutes of 1999 (O'Connell, SB2x), requires students to pass the High School Exit Exam (HSEE) as a condition of receiving a high school diploma, commencing with the Class of 2004. The test development has been on the "fast track" since the adoption of SB 2x. The State Department of Education (SDE), assisted by the HSEE Standards Panel, is currently addressing two main issues: (1) the test's content and format and (2) ensuring that the test will be legally defensible.

On October 27, 1999, the department released a request for proposals (RFP) for designing and administering the HSEE. The RFP noted that the content to be assessed by the HSEE was still a topic of ongoing discussion. Although five companies had expressed interest in the project, none submitted proposals. Generally, the companies had concerns about the lingering uncertainty over the design. In January 2000, SDE used an alternative bidding process and was able to attract two bids. At the time of this writing, the department had selected the American Institutes of Research to develop the test, but was still negotiating a contract with them.

Test Questions Must Be Designed by This Spring. Questions used on a standardized test must first be "field tested" at the same time of year that the test will eventually be administered. In order to administer the HSEE for the first time in the spring of 2001, as called for by the implementing legislation, potential questions must be field tested by this May. To do this, the contractor must develop and field test 800 multiple-choice questions and 20 essay questions aligned with the state academic content standards. Over the ensuing 12 months, the contractor must develop three more forms of the test which will require developing and field testing an additional 2,400 multiple-choice questions and 60 essay questions. Test questions can be used from existing state-owned tests, including the Standardized Testing and Reporting (STAR) Augmentation, the Golden State Exam, the California Assessment Programs, or developed by the test contractor. Since three months is an extremely short time period for the development of a major test, we have concerns that the quality of the test could suffer because of the short time line. This is especially the case given the litigious nature of state exit exams.

Legal Issues Surrounding High School Exit Exam. Most states that have implemented a high school exit exam have had to defend against lawsuits challenging the exam. The Legislature will want to continue to evaluate four questions which could affect the state's ability to defend against such lawsuits.

- Does the test measure what it was intended to measure?
- Are the outcomes consistent across time and evaluators?
- Does the exam test what is actually taught?
- Were students given adequate notice?

We recommend that SDE report to the Legislature at budget hearings on the status of the development of HSEE. If the contractor will not be able to conduct field tests this spring, we recommend that the Legislature delay the initial administration of the test by a year, which would result in a one-time savings of $15.4 million (Proposition 98) in test administration costs.

SUPPLEMENTAL INSTRUCTION

In order to increase the effectiveness of the state's various supplemental instructional programs, we recommend that the Legislature (1) expand the Governor's consolidation proposal to include the Elementary School Intensive Reading Program and (2) increase the combined enrollment cap for these programs accordingly. We further recommend that the Legislature redirect (1) the $18 million budgeted for proposed Intensive Algebra Academies to increase the funding base of these consolidated programs and (2) the $3.2 million proposed for teacher training institutes in pre-algebra and algebra to school districts as part of a larger staff development block grant.

The *2000-01 Governor's Budget* proposes to consolidate the existing remedial and core summer school programs in an effort to simplify the administration of these programs. The budget provides a total of $379 million for these programs under Item 6110-104-0001. In addition, the budget allocates $86 million for the Elementary School Intensive Reading Program under Item 6110-205-0001. The above totals include a proposed augmentation of $61.9 million to increase the reimbursement rate given to school districts for these supplemental instructional programs from $2.53 to $3 per-pupil hour.

The budget also includes $21.2 million—$19.5 million of Proposition 98 funds and $1.7 million from the General Fund for the University of California (UC)—to establish "Intensive Algebra Academies" at local school sites for 50,000 pupils in grades 7 and 8. This proposal includes the establishment of UC training institutes for 1,000 algebra teachers who would subsequently instruct an estimated 15,000 of these pupils.

Therefore, altogether the Governor's budget proposes to increase funding for supplemental instructional programs reimbursed by the state from $385 million in the current year to $486 million in the budget year, as shown in Figure 1 (see next page).

Figure 1

Major Supplemental Instructional Programs Reimbursed by the State

1999-00 and 2000-01
(In Millions)

	1999-00	2000-01
Remedial supplemental instruction, grades 2-6	$77.6	—
Remedial supplemental instruction, grades 7-9	30.0	—
Remedial summer school, grades 7-12	80.1	—
Core academic summer school, grades K-12	122.2	—
Remedial and core summer school consolidation	—	$378.7
Elementary School Intensive Reading Program, grades K-4	75.0	86.2
Intensive Algebra Academies, grades 7-8	—	21.2[a]
Total	**$384.9**	**$486.1**

[a] Includes $1.7 million appropriated to University of California.

Overview of Existing Supplemental Instructional Programs

School districts offer a variety of instructional programs outside the "regular" classroom day to improve the academic skills of students. Some of these supplemental instructional programs provide remedial assistance to students lacking the skills for successful academic performance, others enhance the learning of all students. Some of the programs are funded through federal funding or competitive grants. Others are funded by state reimbursements. Figure 2 outlines the supplemental instructional programs reimbursed by the state. This analysis focuses on these state-funded programs.

As the figure shows, school districts are required to provide remedial instruction to pupils (1) in grades 2 through 9 who have been retained (not promoted to the next grade) and (2) in grades 7 through 12 who are at risk of not passing the high school exit exam. The figure also shows that some of the programs overlap in terms of their content and target populations.

Figure 2

Existing Supplemental Instructional Programs Reimbursed by the State

Remedial Supplemental Instruction, Grades 2-6

- ***Program.*** Districts must, and charter schools may, offer to retained pupils in grades 2-6; districts and charter schools may offer to pupils in grades 2-6 at risk of retention or deficient in math, reading, or written expression. Chapter 743, Statutes of 1998 (AB 1639, Sweeney).
- ***Current Funding Rules.*** Reimbursed for 120 hours times hourly rate times up to 5 percent of enrollment. May be reimbursed for more pupils, provided *statewide* reimbursement does not exceed 10 percent of grades 2-6 enrollments.
- ***When.*** Summer, after school, Saturdays, intersession, or in any combination.

Remedial Supplemental Instruction, Grades 7-9

- ***Program.*** Districts must, and charter schools may, offer to retained pupils in grades 7-9. Chapter 743, Statutes of 1998 (AB 1639, Sweeney).
- ***Current Funding Rules.*** Reimbursed for pupil hours times hourly rate; no cap on number of pupils.
- ***When.*** Summer, after school, Saturdays, intersession, or in any combination. Regular school day, under limited conditions.

Remedial Summer School, Grades 7-12

- ***Program.*** Districts must, and charter schools may, offer to pupils in grades 7-12 not demonstrating sufficient progress toward passing high school exit exam. Chapter 1x, Statutes of 1999 (SB 2x, O'Connell).
- ***Current Funding Rules.*** Reimbursed for pupil hours times hourly rate; no cap on number of pupils.
- ***When.*** Summer, after school, Saturdays, intersession, or in any combination.

Core Academic Summer School, Grades K-12

- ***Program.*** Districts and charter schools may offer to pupils in all grades; courses in math, science, English as a second language, and other core curriculum areas given first priority.
- ***Current Funding Rules.*** Reimbursed for 120 hours times hourly rate times up to 7 percent of all grades enrollment. Small districts reimbursed at higher rate.
- ***When.*** Summer; in some cases Saturdays or before or after school.

Elementary School Intensive Reading Program, Grades K-4

- ***Program.*** First priority for pupils in K-4 having difficulty learning to read; second priority for enrichment opportunities for all pupils "to enhance their enjoyment of reading." Chapter 2x, Statutes of 1999 (AB 2x, Mazzoni and Cunneen).
- ***Current Funding Rules.*** Reimbursed 120 hours times hourly rate times up to 10 percent of enrollment. Small districts reimbursed at higher rate.
- ***When.*** Summer, before or after school, Saturdays, intersession, or regular instructional day (under limited conditions).

Governor's Proposals for Supplemental Instructional Programs

The budget proposes to change the funding basis for existing supplemental instructional programs, as well as provide supplemental instruction in pre-algebra and algebra to 50,000 pupils in grades 7 and 8. Figure 3 outlines the Governor's proposals for supplemental instructional programs. We summarize the key components of the proposals below.

Figure 3

Governor's Proposals for Supplemental Instruction

Remedial and Core Summer School Consolidation

- ***Program.*** Consolidate existing remedial and core summer school programs. Prioritize use of funds: (1) retained pupils in grades 2-9 and pupils in grades 7-12 not demonstrating sufficient progress toward passing high school exit exam; (2) pupils in grades 2-6 at risk of retention or deficient in math, reading, or written expression; and (3) pupils in all grade levels for core academic summer school.
- ***Proposed Funding Changes.*** Increase hourly reimbursement rate from $2.53 to $3 per-pupil hour. Establish combined enrollment caps of 18 percent of enrollments for unified school districts, 16 percent for elementary districts, and 22 percent for high school districts.

Elementary School Intensive Reading Program

- ***Program.*** No programmatic changes.
- ***Proposed Funding Changes.*** Increase hourly reimbursement rate from $2.53 to $3 per-pupil hour.

Intensive Algebra Academies

- ***Program.*** Establish pre-algebra/algebra academies at participating school sites. Districts and charter schools may offer to pupils in grades 7 and 8 having difficulty learning pre-algebra and algebra. Provide instruction four hours per day for six weeks during the summer or intersession.
- ***Proposed Funding Changes.*** Reimburse districts for pupils in grades 7 and 8 (120 hours times $3 times up to 6 percent of enrollment).

Increase State Reimbursement Rate. The budget includes $61.9 million to increase the reimbursement rate for the supplemental instructional programs listed in Figure 2 from $2.53 to $3 per-pupil hour, in order to more closely approximate the full costs for districts to offer these programs.

Consolidate Remedial and Core Summer School Programs. The budget proposes to combine the remedial and core academic summer school programs into a single funding allocation. (This would consolidate the funding for the first four programs listed in Figure 2.) The programs would be funded based on a combined cap of 18 percent of prior fiscal-year enrollment for unified school districts (16 percent for elementary school districts and charter schools and 22 percent for high school districts). The proposal requires districts to use the funds first for pupils in grades 2 through 9 who have been retained and in grades 7 through 12 who are not making sufficient progress toward passing the high school exit exam. Remaining funds would be available first for assistance to students in grades 2 through 6 who are at risk of retention and then for core academic summer school to students in all grade levels.

The Governor's consolidation proposal keeps the funding allocation for the Elementary School Intensive Reading Program separate from the remedial and core summer school programs. The reading program, however, would be funded at the same proposed rate of $3 per-pupil hour for up to 10 percent of prior fiscal-year enrollment in kindergarten and grades 1 through 4. Districts with fewer than 500 units of average daily attendance would continue to be reimbursed by the state at a higher funding rate. For the current year, that rate is $4.51 per-pupil hour. For the budget year, the rate will be $4.64, based on the budget's 2.84 percent cost-of-living-adjustment.

Establish Intensive Algebra Academies. The budget includes $18 million under Item 6110-204-0001 to establish "Intensive Algebra Academies" for pupils in grades 7 and 8 experiencing difficulty learning pre-algebra and algebra. The budget proposes providing 50,000 pupils with pre-algebra and algebra instruction during the summer or intersession, for six weeks, four hours per day. Participating districts would be reimbursed at the proposed rate of $3 per-pupil hour for 120 hours for up to 6 percent of prior year enrollment in grades 7 and 8.

The budget also includes a $1.7 million appropriation (General Fund, non-Proposition 98) to UC (Item 6440-001-0001) for it to sponsor one-week algebra and pre-algebra training institutes for 1,000 teachers prior to the start of the student academies. The budget proposes an additional $1.5 million (Proposition 98) under Item 6110-135-0001 for stipends of $1,500 each to compensate these teachers for the time and expenses of attending the training institutes. The Governor's initiative assumes that 15,000 of the 50,000 pupils in the algebra academies would be taught by teachers who attend the training institutes. The remaining 35,000 pupils would receive instruction from teachers not participating in UC's training institutes. At the time this analysis was prepared, neither the administration nor UC could specify where the training institutes would be located, how teachers would be selected to participate in the institutes, and how the non-participating teachers would prepare themselves to teach in the academies.

LAO Survey on Supplemental Instruction

Last fall, we surveyed 46 school districts of varying sizes for information on the implementation of supplemental instructional programs for pupils retained/at risk of retention and pupils not demonstrating sufficient progress toward passing the high school exit exam. A total of 33 districts responded to our survey, of which 21 answered additional questions in an attachment distributed in December. As of this writing, we continue to receive completed surveys from the other districts. We summarize below the initial findings from our survey on supplemental instruction.

General Implementation Problems. In the survey, we asked school districts to indicate the degree to which different factors presented problems in implementing their supplemental instructional programs. The five most significant factors reported were (1) transportation, (2) space shortage/scheduling conflicts, (3) ability to serve all identified students, (4) adequacy of funding, and (5) state funding/programmatic restrictions. Some districts indicated that transporting students to schools for supplemental instruction is expensive to the point of inhibiting program delivery. This was particularly the case for districts located in rural areas. About 70 percent of the large school districts surveyed indicated that lack of classroom space is a significant obstacle in providing supplemental instruction. (Most of these districts are operating their regular school program on a year-round schedule.)

Pupils Who Need Supplemental Instruction. Districts reported widely varying percentages of their enrollments as retained/at risk of retention, or not demonstrating sufficient progress toward passing the high school exit exam. For example, estimates of pupils retained in grades 2 through 9 ranged from less than 1 percent to over 20 percent of enrollments. The survey responses revealed no clear relationship between a district's size and the percent of its students who require supplemental instruction. However, districts with a disproportionate number of students in poverty reported a relatively higher percentage needing supplemental instruction. For example, all districts reporting more than 3 percent of their pupils in grades 2 through 9 retained in 1999 also had more than 60 percent of their enrollment in a free or reduced-price meal program.

Districts reported relatively higher percentages of students either at risk of retention or of not passing the high school exit exam. For instance, estimates of pupils not demonstrating sufficient progress toward passing the high school exit exam ranged up to 65 percent of enrollments (grades 7 through 12). The survey data show strong correlations between the percent of students not demonstrating sufficient progress and the percent of students (1) in families receiving cash grant assistance, (2) in a free and reduced-price lunch program, and (3) identified as English language learners. For example, all but one district reporting 30 percent or more of their pupils in grades 7 through 12 not on track of passing the high school exit exam also had more than 60 percent of their enrollments in a free or reduced-price meal program and also had 28 percent or more identified as English language learners.

Ability to Serve All Identified Students. More than 80 percent of the districts responding to our survey reported that "adequacy of funding" is a significant problem in implementing their supplemental instructional programs. Some districts noted that the state reimbursement of $2.53 per-pupil hour was not enough to provide supplemental instruction to all students needing assistance. Lack of funding appeared to be most problematic with regard to serving all students in kindergarten and grades 1 through 9 who are retained or at risk of retention. Several districts reported that the level of state reimbursement did not allow them to provide supplemental instruction for all eligible pupils in kindergarten and grades 1 through 9. Most of these districts reported that 25 percent or more of these students did not receive supplemental instruction due to lack of funding.

Lack of funding has also made it difficult for many districts to recruit qualified teachers for the supplemental instructional programs. About 40 percent of the districts rated the average skill level of staff teaching supplemental instruction as *lower than* their regular classroom teachers. Many districts also report that inadequate funding forces them to provide instruction with very high student to teacher ratios. For example, most of these districts reported student to teacher ratios ranging from 20:1 to 35:1 and requested additional funding to decrease their ratios to about 5:1. Many of the districts surveyed pointed out that supplemental instructional programs are most effective when students receive individual assistance in small group settings.

State Funding/Programmatic Restrictions. The survey results underscore the programmatic and financial challenges districts face in implementing supplemental instructional programs. About 70 percent of the districts identified "state funding/programmatic restrictions" as a significant problem in providing supplemental instruction. Most districts noted that the state does not allow them to maximize their resources because of its administrative and instructional requirements. Many districts suggested that all supplemental instructional programs be funded through one block grant. These districts stated that a block grant would provide them greater flexibility in hiring teachers and less administrative work in tracking student attendance and funding allocations. In addition, several districts requested greater flexibility in determining how to best meet the needs of their students.

RECOMMENDATIONS

In view of the challenges districts face in providing supplemental instruction to their pupils, we make the following recommendations regarding the Governor's proposals on supplemental instructional programs.

Consolidate Intensive Reading Program With Remedial and Core Summer School Programs

We recommend that the Legislature approve the Governor's program consolidation proposal, but that it be expanded to include the Elementary School Intensive Reading Program in order to provide even greater flexibility to local districts. We further recommend that the combined enrollment cap for these programs be increased to 24 percent of enrollment for all school districts, due to the additional funding available to reimburse districts for more pupil enrollments.

The budget proposes to consolidate the remedial and core summer school programs in an effort to simplify the local administration of these programs. It is evident from the survey discussed above and from many other indicators that districts need greater flexibility in using funds to improve the academic skills of students. We believe that the administration's proposal for program consolidation is an important step in the right direction in providing greater local flexibility. The proposal would allow school districts to select a locally appropriate mix of remedial and summer school programs and determine the necessary amount of resources needed for each program.

We believe the proposal would be improved, however, by including the Elementary School Intensive Reading Program in the consolidation. According to staff at the Office of the Secretary for Education, the administration excludes the reading program because the reading program provides instruction in a specific subject area to a select group of pupils. In unsolicited comments appended to our survey, two districts reported that the reading program has been very difficult to implement at the local level, primarily because its funding restrictions do not allow districts to provide the most effective assistance to students. For example, one of these districts complained that it had to hire a teacher who, under the program rules, could provide only reading instruction. In order to afford to pay the teacher, the district filled its intensive reading class with students who did not need assistance in reading. To make matters worse, because the teacher could only be paid to teach reading, the district was hampered in providing necessary assistance in other subjects.

We recommend that the Legislature consolidate the Elementary School Intensive Reading Program with the remedial and core summer school programs in order to give districts a wider range of choices over program models, funding allocations, when to offer instruction, and the subjects in which instruction would be offered. To accommodate this change—as well as our proposed recommendation discussed below on the Intensive Algebra Academies—we further recommend increasing the combined program enrollment cap to 24 percent of enrollment for all districts (whether unified, elementary, or high school). This is a blended enrollment cap based on the Governor's proposed caps for the consolidated programs, the reading program, and the Intensive Algebra Academies, and factors in the relative enrollments of different grade levels targeted by the Governor's proposals.

Transform Proposal for Intensive Algebra Academies

We recommend that the Legislature redirect the $18 million proposed for Intensive Algebra Academies to increase the funding base of the consolidated programs, because the need for improved algebra can be met better through locally determined supplemental instructional programs. We further recommend redirection of the $3.2 million ($1.7 million from the University of California and $1.5 million of Proposition 98 funds) for teacher training institutes in pre-algebra and algebra to school districts as part of a larger staff development block grant.

The need for supplemental instructional programs in specific subject areas varies widely among districts. Although well intended, the Governor's proposal for a new, state-directed program of algebra academies overlooks this variation in needs. The budget's allocation formula for the academies illustrates the point. Specifically, the budget proposes to serve 50,000 pupils (nearly 6 percent of statewide enrollment in grades 7 and 8) in the algebra academies. It also proposes a 6 percent enrollment cap for each district, thereby implicitly assuming that the pupils in need of help in algebra are evenly distributed across districts. Because it ignores the wide variation of need among school districts, the proposed budgeting formula will make it impossible to allocate the entire $18 million or to reach the desired number of 50,000 pupils.

Our analysis indicates that districts can provide specialized instruction to students who are experiencing difficulty learning pre-algebra and algebra through existing programs, if given the resources. Rather than create yet another state categorical program, school districts should be given flexibility to meet the particular needs of their students in the manner that best works for them. Indeed, districts responding to our survey expressed concern about the establishment of additional categorical programs that restrict funding to targeted populations and subjects.

In view of the above, we recommend that the Legislature redirect the $18 million proposed for Intensive Algebra Academies to increase the funding base of the consolidated programs. Under our recommendation for program consolidation, school districts could still offer algebra academies, but they would be able to do so on a basis that better meets their local needs.

The same principles of local discretion apply with regard to teacher training institutes in pre-algebra and algebra. School districts should be able to choose the type of staff development training that best meets the needs of their teachers and pupils. For this reason, we recommend redirection of the $1.7 million for teacher training institutes in algebra from UC to school districts as part of a larger staff development block grant. We also recommend redirection to this block grant of the $1.5 million of Proposition 98 funds for teacher stipends proposed in Item 6110-135-0001. (Please see our recommendations for a staff development block grant in our earlier discussion of teacher quality and supply issues.)

Consider Adjusting Enrollment Cap Based on Measures of Disadvantage

We recommend that the Legislature consider upward adjustments to the enrollment caps for the consolidated programs, based on measures of socioeconomic disadvantage, in order to recognize extraordinary areas of need.

Many factors affect the needs that different districts have for supplemental instructional programs. For example, the characteristics of the pupil population (such as the number of English language learners) can influence the needs of local districts. As our survey indicated, many districts with a high percentage of students receiving cash assistance, or in a free or reduced-price lunch program, reported relatively high percentages of their students as retained or at risk of retention. These percentages ranged as high as 50 percent of students in grades 2 through 9 in some cases.

In order to recognize extraordinary areas of need, we recommend that the Legislature consider adjusting the enrollment caps of the consolidated programs upward, based on measures of socioeconomic disadvantage. We will advise the fiscal committees at budget hearings regarding different cap adjustment and funding options.

Lift Restrictions on When Districts Can Provide Instruction

We recommend that the Legislature enact legislation allowing school districts to provide supplemental instruction to students before school, in order to give them the flexibility to best use available resources.

Under existing laws, districts *cannot* provide supplemental instruction before school to students in grades 2 through 6 who are retained or at risk of retention, grades 7 through 9 who are retained, and grades 7 through 12 who are at risk of not passing the high school exit exam. In our view, districts should be allowed to operate their supplemental instructional programs during times that best match community needs and best use available resources. Accordingly, we recommend that the Legislature enact legislation to make it permissible for school districts to provide supplemental instruction to these students before school.

Require SDE to Report on Evaluation of Elementary School Intensive Reading Program

***We recommend the State Department of Education report to the Legislature prior to budget hearings on its time line for the evaluation of the Elementary School Intensive Reading Program for which the Legislature approved $500,000 in the* 1999-00 Budget Act.**

Chapter 2x, Statutes of 1999 (AB 2x, Mazzoni and Cunneen), as amended by Chapter 78, Statutes of 1999 (AB 1115, Strom-Martin), required the Superintendent of Public Instruction, with input from an advisory committee, to evaluate the Elementary School Intensive Reading Program on or before November 1, 2001. The *1999-00 Budget Act* provided the State Department of Education (SDE) $500,000 in federal funds to collect baseline data and evaluate the program. At the time this analysis was prepared, SDE had not collected data because it was waiting for the Office of the Secretary for Education to provide a list of performance measurements that would be used in the evaluation. Therefore, we recommend that SDE report prior to budget hearings on the status of its efforts and its plan for completing the evaluation in a timely manner.

CHILD CARE

CHILD CARE FOR CALWORKS FAMILIES AND THE WORKING POOR

In 2000-01, the budget proposal for child care is $2.6 billion and about half of this amount will be spent on child care for current or former California Work Opportunity and Responsibility to Kids (CalWORKs) recipients with the other half provided to non-CalWORKs working poor families. In contrast to the non-CalWORKs working poor (where waiting lists for child care are common), the budget fully funds the estimated need for child care for both former and current CalWORKs recipients.

Compared to California, the Wisconsin child care system (1) provides child care to more families, (2) treats welfare and nonwelfare families more equitably, and (3) requires higher copayments from the participating families. In order to determine the impacts of a Wisconsin-style subsidized child care system on families and on public costs, we recommend enactment of legislation to conduct a pilot test of the Wisconsin system in up to four California counties.

Background

The State Department of Education (SDE) and the Department of Social Services (DSS) provide state supervision over most of the state's child care programs. Figure 1 summarizes the various child care programs in California. As the figure shows, California provides full-time child care slots (on an average monthly basis) for approximately 383,000 children and part-time preschool or after school programs for an additional 198,000. Of the full-time slots, about 250,000 (65 percent) are for CalWORKs recipients. (For a description of the CalWORKs three-stage delivery system for child care, please see the inset box on page E-96.)

Figure 1

California Child Care Programs

2000-01
(Dollars in Millions)

Program	State Control[a]	Estimated Enrollment	Governor's Budget
Full-Time Programs			
CalWORKs			
Stage 1	DSS	83,000	$424.2
Stage 2	SDE	115,000	609.6
Community Colleges (Stage 2)	CCC	3,000	15.0
Reserve for Stage 1 and 2	DSS & SDE	28,000	150.4
Stage 3 set-aside	SDE	20,500	115.7
Subtotals		(249,500)	($1,314.9)
Non-CalWORKs			
General child care	SDE	70,000	$463.5
Alternative payment programs	SDE	35,500	194.3
Stage 3 for working poor	SDE	10,000	56.9
Migrant and latch key programs	SDE	13,000	140.8
CalSAFE	SDE	5,000	37.2
Subtotals		(133,500)	($892.7)
Totals, Full-Time Programs		**383,000**	**$2,207.6**
Part-Time Programs			
State pre-school[b]	SDE	100,500	$253.7
After school programs	SDE	97,500	87.8
Totals, Part-Time Programs		**198,000**	**$341.5**
Grand Totals—All Programs		**581,000**	**$2,549.1**

a Department of Social Services (DSS); State Department of Education (SDE); California Community Colleges (CCC).
b Some of these programs are full-time.

CalWORKs Child Care Is Fully Funded. For 2000-01, the estimated need for child care for current and former recipients is proposed to be fully funded. CalWORKs recipients on aid will receive necessary child care to meet their participation mandate (through a combination of work and/or training for 32 to 35 hours per week). If child care is not available, then the recipient does not have to participate in CalWORKs activities for the required hours, until child care becomes available.

CalWORKs Child Care Is Delivered in Three Stages

Stage 1. Stage 1 begins when a participant enters the CalWORKs program. In Stage 1, county welfare departments (CWDs) refer families to resource and referral agencies to assist them with finding child care providers.

Stage 2. Families transfer to Stage 2 when the county determines that the families' situations become "stable"—that is, they develop a welfare-to-work plan and find a child care arrangement. Stage 2 is administered by the State Department of Education (SDE) through its voucher-based Alternative Payment (AP) programs. Participants can stay in Stage 2 while they are on CalWORKs and for up to two years after the family stops receiving a CalWORKs grant. Although Stage 1 and Stage 2 are administered by different agencies, families do not need to switch child care providers upon moving to Stage 2.

Stage 3. Stage 3 refers to the broader subsidized child care system administered by SDE that is open to both former CalWORKs recipients and the non-CalWORKs working poor. Once CalWORKs recipients leave aid, they have two years of eligibility in Stage 2. During this time, they are expected to apply for "regular" Stage 3 child care. We note, however, that typically there are waiting lists for such child care.

Stage 3 "Set-Aside." In order to provide continuing child care for former CalWORKs recipients who reach the end of their two-year time limit, the Legislature created the Stage 3 set-aside in 1997. Recipients timing out of Stage 2 are eligible for the Stage 3 set-aside if they have been unable to find "regular" Stage 3 child care. Assuming funding is available (and the practice has been to fully fund the estimated need), former CalWORKs recipients may receive Stage 3 set-aside child care as long as their income remains below 75 percent of the state median and their children are below age 14.

After leaving aid, former CalWORKs recipients receive up to two years of Stage 2 child care. Although funding for this child care is capped by the budget appropriation, current practice suggests that it is highly unlikely that a former CalWORKs Stage 2 family would lose its child care. Specifically, these recipients in Stage 2 would have the highest priority for funds. Consequently, if there were not sufficient funds for the Stage 2 former CalWORKs recipients, the Alternative Payment programs (APs) that administer Stage 2 would either draw on the child care reserve and/or transfer *aided* Stage 2 recipients back to Stage 1, thus freeing-up funding for nonaided Stage 2 child care recipients.

Former CalWORKs families who have exceeded their two years of Stage 2 child care will move into either "regular" Stage 3 child care or Stage 3 "set-aside." Regular Stage 3 child care is the broader system of subsidized child care operated by SDE. The Stage 3 set-aside was specifically established for former recipients who have reached their two-year time limit. Like Stage 2, funding for Stage 3 set-aside is capped by the appropriation. Nevertheless, the Legislature's and the administration's practice has been to fully fund this program on a year-by-year basis. In the current year, the administration has notified the Legislature that it will address a shortfall of about $10 million mostly through a transfer of prior-year savings. For 2000-01, the budget proposes $115 million for the Stage 3 set-aside, an increase of almost $90 million compared to the current year.

Non-CalWORKs Child Care Has Waiting Lists. In contrast to the CalWORKs child care system, child care for the non-CalWORKs working poor is not fully funded. Typically, there are waiting lists for non-CalWORKs subsidized child care because there are significantly more eligible families than available slots. Families with incomes up to 75 percent of the state median are eligible for regular SDE child care, but priority is given to families with the lowest income. Most of the available slots go to families with incomes at or below 50 percent of the state median. Although a family may retain its subsidized child care slot as its income rises up to 75 percent of the state median, it is very unusual to initially obtain a subsidized slot with an income above 50 percent of state median.

As we mentioned in our *Analysis of the 1999-00 Budget Bill*, there are no reliable data to predict how many eligible families are not receiving child care. Since many families sign up on a waiting list with more than one child care agency, the waiting lists likely double-count some families. We note that the budget for SDE proposes $1.5 million for a pilot project to analyze waiting lists and begin to collect data on the unmet demand for subsidized child care.

Current Law Treats Similar Families Differently

As described above, families on CalWORKs receive child care if they need it. Families that leave CalWORKs are eligible for two years of post-assistance child care, and on a year-by-year basis may continue to receive child care in the Stage 3 set-aside. Conversely, working poor families that have never been on CalWORKs receive subsidized child care *only if space is available*. The incomes of these families may be quite similar. During 1999-00, a family of three becomes ineligible for a CalWORKs grant when its income reaches $1,477 per month (about 44 percent of state median income). A working poor (never-CalWORKs) family with an identical income would only receive child care if slots are available and preference goes to families with the lowest incomes. In all likelihood, such a family would end up on a waiting list, rather than receive a slot.

The current system ensures that CalWORKs recipients have uninterrupted child care. The policy rationale for this practice is that former

CalWORKs recipients—having received aid in the past—may be more likely to go back on CalWORKs if they lose their child care than would a non-CalWORKs working poor family, even though the incomes of the two respective families may be very similar. We know that some persons who leave CalWORKs later go back on aid, but we are aware of no data to assess the validity of the rationale that former CalWORKs recipients are more likely to return to aid if their child care is terminated than are persons with similar incomes but who have never been on aid.

Options for Modifying the California Child Care System

The administration expects to complete a comprehensive review of child care policies for CalWORKs recipients and the working poor during the spring of 2000. The review will cover eligibility standards, family fees, state and federal subsidy levels, and how existing resources may be more efficiently focused to serve more equitably the state's low-income families. In addition, the SDE will hold hearings on revisions to the family fee schedule that are proposed by a legislative and staff working group.

To assist the administration and the Legislature in considering the future of California's subsidized child care system, we examine different policy options. Below we discuss (1) options for treating welfare/former welfare families and nonwelfare families more similarly, and (2) modifying eligibility and copayment amounts (sliding scale fees paid by the families) for both populations so as to treat CalWORKs and the non-CalWORKs working poor more equitably.

Increasing or Decreasing Child Care Funding. A decision on whether to increase or decrease spending on child care is a policy choice for the Legislature. If the Legislature elects to increase funding for the non-CalWORKs working poor, this would increase equity between the two populations. Due to data limitations, we cannot estimate the cost of fully funding the child care needs for non-CalWORKs working poor families. In addition, we note that expenditures for CalWORKs child care have been increasing more rapidly than for the working poor. In 2000-01, the budget for the Stage 3 set-aside (exclusively for former CalWORKs recipients) is $116 million. Preliminary estimates from the DSS indicate the cost for the Stage 3 set-aside will increase to about $200 million in 2001-02 and $265 million in 2002-03 because more former CalWORKs recipients are expected to reach their two-year post-assistance time limit.

Another way to increase equity, of course, would be to reduce funding for child care for former CalWORKs recipients. This would achieve more equity but could lead to more former recipients returning to assistance.

Modifying the Copayment Structure. An alternative approach to providing child care for more families without increasing state expenditures is to increase copayments (the sliding scale fees paid by families that receive subsidized child care). Currently, families with incomes below 50 percent of state median income have no copayment obligation. Families at 50 percent of the state median ($1,669 per month for a family of three) pay a monthly fee ($44) which is 2.6 percent of their income. As family income rises, the copayment amounts increase. At 75 percent of the state median (the highest level of income at which a family is eligible for subsidized child care), the monthly copayment is $200, which is about 8 percent of the family's income. The fees are the same regardless of the cost of child care or the number of children in the family receiving the child care. Because most families receiving subsidized child care have incomes below 50 percent of the state median, total copayments in California are relatively low. In 1998-99, total parent copayments were $12.7 million, which was less than 1 percent of the state budget for subsidized child care.

Decisions on copayment amounts involve trade-offs between the conflicting goals of (1) cost-effectiveness to government and (2) not overburdening poor families. Higher copayments increase the amount of child care that can be purchased within existing resources (or reduce state costs if the amount of child care purchased statewide remains constant), but also increase the financial burden on low-income families. Varying copayment amounts by the type or cost of child care raises similar issues. Higher copayments for more costly child care arrangements will tend to lead to more cost-effective allocation of resources because parents will have a financial incentive to choose less costly child care options. On the other hand, this may lead parents to select lower quality child care arrangements.

Modifying Eligibility Rules. Another policy option is to change eligibility rules. Currently families with incomes up to 75 percent of the state median income are eligible for subsidized child care. Because there are no reliable data indicating the distribution of subsidized child care benefits by family income, it is difficult to predict the impact of changing financial eligibility rules. If the Legislature were to reduce the maximum income limit for program eligibility, it would result in savings that could be used to reduce the waiting lists for the families with lower incomes. As with copayments, changes in eligibility present difficult trade-offs between applying resources to the most needy families and serving more families.

In the above discussion, we have (1) explained how the existing child care system favors former CalWORKs recipients over the working poor and (2) examined the advantages and disadvantages of different policies with respect to resource allocation, modifying copayments, and changing financial eligibility rules. Below we describe how the State of Wisconsin has addressed these issues in its child care system.

The Wisconsin System. In Wisconsin, eligibility for child care is independent of welfare status. Since the program is fully funded, it serves all eligible families. Effective March 2000, a family's income must be below 185 percent of the federal poverty guideline ($2,082 for a family of three) to enter the state's program for subsidized child care. Once enrolled, families remain eligible as long as their income remains at or below 200 percent of the federal poverty guideline. All Wisconsin families make monthly copayments even if they are also receiving a welfare grant. The copayments vary depending on family income, the type of child care purchased, and the number of children receiving child care. For families on assistance and for families with earned incomes up to 70 percent of the federal poverty guideline, the copayment for one child in "licensed" care is $17 per month (up to 2.7 percent for a family of three). For a family at 200 percent of the federal poverty level, the monthly copayment for one child in licensed care is $216 per month (about 11.8 percent of the family's income). Copayments are generally higher for more children and lower if the family elects lower-cost "certified" child care instead of the higher-cost "licensed" child care. Regardless of the number of children, the maximum copayment for a family is about 11.8 percent of income. As a point of reference, we note that 200 percent of the federal poverty level is about 70 percent of the California state median income for a family of three and 75 percent of state median income for a family of four. (Eligibility for subsidized child care in California, as noted above, is set at 75 percent of the median income for a family of three, although few families above 50 percent actually receive services because of funding limitations.)

In general, Wisconsin's copayments are higher than California's, ranging up to 12 percent of family income. Total annual copayments are estimated to be about $20 million, which is about 10 percent of the state's total program budget. Figure 2 compares copayments in California and Wisconsin, at selected income levels.

Although there is significant uncertainty, we estimate that a Wisconsin-style program in California would cost roughly the same as California's existing subsidized child care program ($2.6 billion). This is because the cost of providing child care to more persons generally would be offset by additional reimbursements from changes in the copayment structure.

Analyst's Recommendation. With respect to subsidized child care, the Legislature has many options. The current system treats families with similar incomes differently, depending on whether or not they have received public assistance in the CalWORKs program. Although the current system is not completely equitable, it does tend to ensure that former CalWORKs recipients do not return to aid because of a lack of subsidized child care.

Compared to California, the Wisconsin system provides proportionately more child care to more families and treats welfare and nonwelfare families more equitably. It achieves these objectives by collecting higher copayments from the participating families. We think this is a trade-off worth considering.

Figure 2

Monthly Child Care Copayments
Comparison of Wisconsin and California
Family of Three—Licensed Child Care

(Actual Dollars)

Selected Income Levels	Monthly Income	Wisconsin Copayment for		California Copayment for	
		1 Child	2 Children	1 Child	2 Children
Equivalent of CalWORKs grant	$626	$17	$30	—	—
Working full-time at California minimum wage	998	39	56	—	—
Federal poverty guideline	1,157	61	91	—	—
50 percent of California median income	1,669	147	182	$44	$44
185 percent of poverty	2,140	199	251	128	128

In deciding whether to adopt the changes contained in the Wisconsin program, the Legislature would want to have some knowledge of the system's effects on families and on public costs. Accordingly, we recommend enactment of legislation to conduct a pilot test of the Wisconsin-style child care program in up to four counties in California. The pilot project would include an evaluation that would assess the impact on public costs and identify the effects on families. We estimate that the evaluation would cost about $1.5 million over a three-year period. Although we anticipate that child care costs in the pilot counties would be similar to costs under current law, there should be some provision for funding potential additional costs. This could be accomplished by setting aside funds in a child care reserve that could be used to pay for any child care cost increases in the pilot counties, with authorization for a deficiency request if necessary.

SPECIAL EDUCATION

With the exception of a technical issue of the appropriate rate of growth for new students, we recommend approval of all the budget proposals for special education for the current year and 2000-01.

The Governor's budget includes $2.4 billion in General Fund support for special education in 2000-01. This is an increase of $160.2 million, or 7.1 percent. The budget reflects the following changes:

- $84.7 million for a 2.84 percent cost-of-living adjustment (COLA), the same increase proposed for K-12 revenue limits and other categorical programs.
- $40.4 million to pay for new special education students. This is an increase of 1.31 percent. The budget funds 1.26 percent growth for average daily attendance (ADA) in the K-12 system as a whole. This difference is discussed below.
- $36 million to fund a deficit resulting from prior-year adjustments.
- $33.2 million for funding equalization for Special Education Local Plan Areas (SELPAs). Chapter 854, Statutes of 1997 (AB 602, Davis and Poochigian), specified a methodology to bring all SELPAs to at least the same "target" amount. The target is equal to the 1997-98 average spending per ADA adjusted annually by the statutory COLA. This $33.2 million augmentation provides 76 percent of the remaining funds needed to reach that objective. Thus, $10.8 million in additional funding would be needed to fully fund Chapter 854 equalization.
- $27.6 million for the "incidence multiplier." This incidence multiplier provides additional funding to SELPAs having higher incidences of children whose service costs are significantly above average. This $27.6 million augmentation provides 76 percent of the remaining funds needed to reach that objective. Thus, $9 million in additional funding would be needed to fully fund this adjustment.

- $7 million increase to expand the workability program from the current service level of 50,000 students to 75,000 students. Current-year funding totals $15.4 million ($6.9 million from the General Fund and $8.5 million from federal funds). This program provides comprehensive preemployment training, employment placement and follow-up for high school students in special education who are making the transition from school to work, independent living or postsecondary education or training.

Increases in federal funds of $60.8 million offset the amounts for equalization and the incidence multiplier, while local property tax increases of $24.6 million also partially offset the above increases. The budget also includes $16.8 million in both 1999-00 (funded from redirected savings) and 2000-01 (General Fund) to adjust for a higher than budgeted increase in students in 1999-00.

Background and Enrollment

In 1998-99 approximately 650,000 pupils age 22 and under were enrolled in public-funded special education throughout the state. Federal law defines the 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, California's Master Plan for Special Education (MPSE) requires schools to assess each child's unique education needs and to develop an individualized educational plan. The MPSE, implemented statewide in 1980 with the enactment of Chapter 797, Statutes of 1980 (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 have resulted in SELPAs of differing geographical size, ranging from multiple-county SELPAs to single-school district SELPAs. In 1998-99 there were 116 SELPAs. Of these, 3 were multicounty, 33 were countywide, 48 were multidistrict, and 32 were single district SELPAs.

Technical Issue on Rate of Growth for New Students

We recommend that the rate of growth for new special education students be equal to the rate of change in average daily attendance for general education (for a General Fund savings of $1.5 million). We further recommend that this savings be used to provide additional funding for equalization and the incidence multiplier.

The budget proposes an increase of 1.31 percent for new special education students versus an increase of 1.26 percent for new ADA. A new funding framework for special education was recently adopted with the enactment of Chapter 854. With respect to funding for new special education students, our analysis indicates that Chapter 854 provides for the same rate of growth for special education as that provided for general education. The Department of Finance (DOF) reading of Chapter 854 led them to use slightly different figures to calculate growth from those we would select. We are conferring with them on the differences in our interpretations. However, one of the underlying principles of this funding reform legislation was to make the special education funding system more straightforward and understandable. Given this context, there is no reason to use a slightly different method to count ADA for general and special education. Accordingly, we recommend that the Legislature reduce the growth rate for special education to 1.26 percent for a General Fund savings of $1.5 million. We further recommend that this savings be redirected to augment equalization and incidence multiplier funding to bring amounts for these purposes closer to full funding.

Update Suggested on Compliance Issues

We recommend that the Legislature direct the State Department of Education to testify during budget hearings on progress toward (1) resolution with the U.S. Office of Education on California's compliance with federal laws for special education and (2) development of its Quality Assurance and Focused Monitoring Pilot Program.

For the past several months there have been a series of letters between the U.S. Department of Education's Office of Special Education and the State Department of Education (SDE) regarding the state's compliance with federal special education requirements. Most recently, the U.S. Department of Education requested answers to 79 specific questions on California's compliance monitoring system. The SDE responded to each of these questions. Federal funds totaling $513 million are contingent upon the SDE and the U.S. Office of Education reaching agreement on the compliance issues raised by the federal agency.

On a related matter, the budget includes $1.4 million for local assistance grants for the SDE's Quality Assurance and Focused Monitoring Pilot Program. Budget bill language requires the SDE to report to the Legislature by December 1, 2000 and April 15, 2001 on the progress and results of this pilot program and on any statutory or fiscal adjustments needed.

We recommend that SDE provide an update during budget hearings on: (1) its progress toward resolution of issues raised by the U.S. Department of Education, and (2) its progress with the pilot program. It may also be desirable to invite the U.S. Department of Education to this budget hearing to allow the Legislature to hear their viewpoint and to question them on the issues they have raised on California's compliance efforts.

Status of Special Education Mandate Claim

The budget does not mention pending action by the Commission on State Mandates (COSM) on a special education test claim that could result in significant claims for reimbursement by eligible school districts. The claimants (a number of school districts) alleged that state law—enacted in 1980—required 19 programs and services for special education students that *exceeded* the requirements set forth in federal law.

The COSM issued a Statement of Decision in November 1998 identifying eight of these activities as state mandates. These eight activities represent relatively modest elements of the overall special education program. However, given the 20 years since the initial special education claim, and the nearly 1,000 school districts potentially eligible for reimbursement, there is a potentially large state liability if the claimants' position as to mandates and costs are upheld, even in part. It is important to note that any state funds ultimately received by school districts under this claim would be general discretionary revenues and would most likely have no impact on special education.

In October 1999 our office provided two analyses to COSM and to the Legislature on this mandate. Our analysis found that while the state did create new mandated programs, it also provided funds sufficient to offset any state-mandated costs.

In December 1999, at the request of the COSM, the claimants and the DOF agreed to negotiate a possible resolution to this mandate claim. The claimants and the DOF will provide a progress report on their negotiations to the COSM by March 15, 2000.

We discuss this issue in more detail in the *2000-01 Budget: Perspectives and Issues* ("Three Legal Challenges: What is the State's Fiscal Threat"). In addition, we will provide the Legislature with updates on this issue during budget hearings.

Delay in Report on Licensed Children's Institutions

The *1999-00 Budget Act* directed the DOF, the SDE, and the Legislative Analyst's Office to convene a working group to review funding for Licensed Children's Institutions (LCIs), including nonpublic school/agency (NPS) services for the LCI population. The three agencies were to report to the Legislature on any recommended changes in status or funding for LCIs or NPSs by November 1, 1999. The budget act language calling for this study was requested by the DOF.

Due to key staffing changes within the DOF, the three agencies were unable to issue a report by the due date. The agencies will provide the Legislature with a status report on this study during budget hearings.

OTHER ISSUES

CALIFORNIA SCHOOL INFORMATION SERVICES

The California School Information Services (CSIS) is a multiyear project to develop, implement, and manage a statewide student-level database and information-transfer network. The program is administered by the Fiscal Crisis and Management Assistance Team (FCMAT), a part of the Kern County Office of Education. The FCMAT, under a contract with the state, provides fiscal advice, management assistance, and training to school districts. Although FCMAT administers CSIS, the Department of Education (SDE) is the state's responsible agent for the local assistance grants to FCMAT and is integrally involved in advising on the student-level data base.

The CSIS has three main program goals:

- Enable school districts and school sites to electronically transfer student records (such as transcripts, test scores, and health records) to any other district or school in the state.
- Transfer student transcripts to institutions of higher education.
- Simplify and increase the accuracy of district data reported to the state.

Meeting these goals will provide the state with several benefits, as summarized in Figure 1 (see next page).

The Proposed Budget for CSIS

The Governor's budget proposes up to $10 million from one-time General Fund monies for local assistance for CSIS. Figure 2 (see page E-109) summarizes what the Legislature provided for CSIS in the *1999-00 Budget Act*, and what the Governor proposes for 2000-01.

Figure 1

California School Information Services (CSIS) Benefits of Student-Level Database

Supporting School Accountability

- State to use multiple measures to hold schools accountable: Standardized Test and Report (STAR) data, graduation rates, student and teacher attendance data, and other standardized test data when available.
- Currently, only STAR results are being used since the State Department of Education (SDE) does not currently collect the other data.
- The SDE has identified CSIS as the best way to collect graduation rates and student attendance rate.

Tracking Drop-Outs

- Currently, the state and districts have difficulty tracking mobile students and determining whether they have dropped out or simply transferred to another school.
- A student level data system would help the state identify where these students "fall through the cracks."

Evaluating State and Local Programs

- Districts and SDE could improve their ability to evaluate programs by linking students served by a program to changes in standardized test scores or class grades.
- The CSIS would also allow SDE and districts to conduct longitudinal studies to measure effects over time.

Improving State Data and Lowering District Costs

- A student level database would allow districts to generate state reports more easily and at a lower cost.
- The state would benefit also since the data SDE receives would be standardized and contain fewer errors with less duplication of effort.

Figure 2

California School Information Services (CSIS) Budget Summary

1999-00 Budget Act

☑ **Funding for FCMAT**[a]

- $5 million one-time Proposition 98 reversion funds for CSIS implementation.
- $1 million from audit recovery funds (deposited in the Educational Telecommunications Fund) for implementing CSIS. Up to $9 million more, based on actual audit recoveries.
- $250,000 Proposition 98 for project management services.

☑ **Funding for Department of Education (SDE)**

- $150,000 for SDE to contract for assistance in preparing to receive state reporting documents sent electronically by CSIS (vetoed by Governor).
- $75,000 for SDE to contract for independent project oversight, with quarterly reporting to Legislature and administration. First report due March 1, 2000. (Represents half-year costs.)
- $159,000 for SDE to conduct a management study of the department's data-collection systems.

☑ **Trailer Bill Language**

- Trailer bill language (Chapter 78, Statutes of 1999 [AB 1115, Strom-Martin]) establishes CSIS in the Education Code (commencing with Section 49080).

2000-01 Budget Proposal

☑ **Funding for FCMAT**

- Up to $10 million from audit recovery funds for implementing CSIS.
- $250,000 Proposition 98 for project management services.

☑ **Funding for SDE**

- $150,000 to continue the contract for independent project oversight, with quarterly reporting to Legislature and administration.

[a] Fiscal Crisis and Management Assistance Team.

Based upon concerns about inadequate state oversight of CSIS and potential risks inherent in large database projects, the Legislature provided funding for an ongoing independent evaluator and ongoing project management services. Both the independent evaluator and project management funding are continued in the Governor's budget.

Current Status of CSIS Implementation

Currently CSIS is in Phase I of a multiple phase implementation plan. Phase I involves three main components: (1) providing incentive grants to consortia of districts voluntarily participating in CSIS; (2) establishing the infrastructure of CSIS to administer the transfer of data among school districts, and to the state; and (3) developing a long-term implementation plan including potential costs and benefits. Instead of mandating participation in CSIS, FCMAT is attempting to entice districts to participate with the benefits of a student-level database (outlined below), and incentive grants.

In Phase I, FCMAT provided incentive grants totaling $8.8 million to five consortia of districts representing almost 760,000 students. The five consortia are listed in Figure 3.

Figure 3

California School Information Services Phase I Consortia, Enrollment, and Grants

1999-00 (Dollars in Thousands)

Consortia (Lead Agency)	Districts	Enrollment	Incentive Grants
Alameda County Office of Education	31	476,500	$3,530
San Diego County Office of Education	24	112,600	1,117
Novato Unified School District	4	78,500	1,256
Los Angeles County Office of Education	10	41,800	2,719
San Bernardino City Unified School District	1	48,900	175
Total	**70**	**758,300**	**$8,797**
Percent of State	**7%**	**13%**	**N/A**

Each consortium is working with a specific software vendor to develop its local system to be able to transfer student records to CSIS. The data collected and maintained by each consortia will periodically be transferred to CSIS, which will maintain a data repository to facilitate both records transfer and reporting to the state.

The FCMAT will provide Phase II implementation grants in the late spring 2000. It estimates that it will have approximately $5.3 million for Phase II grants, but this amount could change depending upon available audit recovery funds. An estimate of audit recovery funds will be available in early spring. In Phase I, CSIS was not able to provide incentive grants to 15 consortia which applied due to lack of funds. These 15 consortia represent 690,000 students. Based on this experience, there should be more than enough demand for the estimated $5.3 million for Phase II incentive grants.

Progress Reports Expected Soon

We withhold recommendation on $10 million proposed for the California School Information Services (CSIS) in Item 6110-101-0349 pending receipt and review of the first CSIS oversight report and the CSIS charter.

The SDE has contracted with an independent project oversight consultant funded in the *1999-00 Budget Act*, and will be providing its first quarterly CSIS project report to the Legislature by March 2000. In addition, the CSIS administrator is required to submit an annual implementation plan to the State Board of Education (SBE) for approval. The CSIS administrator is planning on submitting a CSIS founding charter to the SBE this spring. The CSIS charter will contain the long-term implementation time line as well as estimated costs and benefits of the project. These documents should contain important information for the Legislature to consider regarding the funding augmentation for CSIS. Thus, we withhold recommendation pending receipt and review of the CSIS oversight report and of the CSIS charter.

Provide CSIS with Funding Assurance

We recommend backfilling audit recovery funds with one-time Proposition 98 reversion funds if audit recovery funds are less than expected.

The budget provides CSIS with *up to* $10 million in audit recovery funds in 2000-01. Since there is uncertainty in the amount available from audit recovery funds, FCMAT cannot know how much it has available for incentive grants until the end of the budget year. This uncertainty could slow CSIS implementation. If the Legislature determines that CSIS is a worthwhile project, and can effectively use $10 million in the budget year, then it is in the Legislature's interest to assure that the necessary funding will be available. Accordingly, we recommend that the Legislature adopt budget bill language to backfill audit recovery funds up to the level proposed in the budget with one-time Proposition 98 funds in the event that audit recovery funds are less than expected.

Plan Needed for Electronic Reporting

We recommend that the State Department of Education report to the Legislature prior to budget hearings on its plan to facilitate the California School Information Services' electronic reporting.

The Legislature provided $150,000 to the SDE in 1999-00 to contract for assistance in preparing the department to receive state reporting documents sent electronically by CSIS. The Governor vetoed this augmentation and indicated in his veto message that (1) CSIS conflicted with his Y2K Executive Order and (2) SDE was not adequately prepared to begin this project. Last year, the department was proposing to conduct this study as a first step toward creating an "enterprise database," which would consolidate more than 50 disparate databases at SDE into one main data collection system.

Department of Education Needs to Prepare to Receive Data Electronically. As mentioned above, one of the benefits of the CSIS program is that districts will be able to electronically report information that the state requires instead of sending hard copy reports. Electronic reporting will lead to increased efficiency for SDE, local school districts, and county offices. However, SDE will have to coordinate with the FCMAT, to ensure that CSIS will be able to generate state reporting forms automatically and transfer the data electronically to SDE. The department must be integrally involved in CSIS to ensure that FCMAT's design is coordinated with state reporting goals, and that the department is prepared to receive the data electronically. Based on the CSIS Phase I timetable, the Phase I consortia should be prepared to submit California Basic Education Data System data—the largest set of school and district information reported—electronically by the fall 2000. This will be the first big test of the ability of CSIS to support state reporting. Currently, the department is unprepared to receive the data.

The department advises that it has changed its proposal from developing an "enterprise database" to the less ambitious task of preparing to receive the data that CSIS will be able to provide. This is a significant reduction in scope, and is a much more manageable project. However, at the time this analysis was written, the department had not yet completed a revised plan. We recommend that prior to budget hearings, the department submit a detailed plan to the Legislature, including (1) how it is going to prepare to receive CSIS data and (2) related staffing and equipment needs.

CHARTER SCHOOLS

Charter School Direct Funding Model

We recommend that the State Department of Education report to the fiscal committees prior to budget hearings on charter school enrollment, and that the Legislature adjust the Charter School Direct Funding Model appropriation (Item 6110-211-0001) accordingly. The amount needed to fully fund the Charter School Direct Funding Model is uncertain at present because of (1) lower-than-expected participation in the funding model by existing schools and (2) uncertain enrollment growth at charter schools participating in the model.

The budget provides $22.6 million for the Charter School Categorical Block Grant, an increase of $2.6 million, or 13 percent, from the current year. Chapter 34, Statutes of 1998 (AB 544, Lempert), required the SDE to develop a new "direct block grant" funding model for charter schools. Prior to this direct funding mechanism, charter schools received funding on a program-by-program basis through negotiation with their sponsoring school district or county office of education. Chapter 78, Statutes of 1999 (AB 1115, Strom-Martin), adopted the Charter School Direct Funding Model, which provides funding to charter schools through three funding streams:

- ***Revenue Limit.*** Charter schools receive revenue limit funding equal to the state average revenue limit as determined by type (elementary, high school, or unified).
- ***Charter School Categorical Block Grant.*** The block grant provides charter schools a per-pupil amount equivalent to what a school district receives for the average student through 34 specified categorical programs. For 33 of those programs the Superintendent of Public Instruction calculates a per-student amount each charter school will receive based upon the school's average daily attendance (ADA). For the remaining categorical program (Economic Impact Aid), the amount is based on the number of English language learners and the number of pupils eligible for a free or reduced-price lunch. The amount is either a fixed amount (for charters with less than 74 eligible students) or a per-student amount (for those with 74 or more eligible students). Figure 4 (see next page) shows the amounts provided for the categorical block grant in 1999-00.
- ***Direct Application Programs.*** Charter schools must apply directly for numerous programs, and must adhere to all laws governing those programs. These programs include K-3 class size reduction, staff development buyout, after school and summer school

programs, home-to-school transportation, state testing, all federal programs, and numerous other programs.

Figure 4

Charter School Categorical Block Grant

1999-00

	Per Student	Total
Per Average Daily Attendance Funding[a]		
Grades K-3	$317	—
Grades 4-6	324	—
Grades 7-8	237	—
Grades 9-12	301	—
Disadvantaged/English Language Learner Enrollment[b]		
Less than 10 students	—	$4,484
11 to 73 students	—	6,729
Greater than 73 students	$92	—

a In lieu of 33 categorical programs.
b In lieu of economic impact aid.

One-Time Savings From Low-Participation Rate. Schools chartered before June 1, 1999 have the option in 1999-00, 2000-01, and 2001-02 of (1) continuing their current funding arrangement with their chartering school districts or (2) participating in the Charter School Direct Funding Model. Schools chartered June 1, 1999 or later *must* participate in the funding model for 1999-00. Beginning in 2002-03 *all* charter schools must participate. Figure 5 shows that only 153 charter schools chose (or were required) to participate in the direct funding model for 1999-00, accounting for only 44 percent of charter school enrollment. This was much lower than expected. Since the funding model provides a charter school with the state average for revenue limit and categorical aid, some charter schools might have opted out of the model if their sponsoring district received an above average share of revenue limit and/or categorical aid and was willing to pass that above-average share (per pupil) to the charter school.

In the *1999-00 Budget Act*, the Legislature provided $20 million for the Charter School Categorical Block Grant on the assumption that all, or nearly all, charter schools would participate in the funding model. Since the participation rate in the funding model was much lower than expected, there will be one-time savings from the block grant. If there is no further enrollment growth for charter schools in the current year, we estimate that approximately $13 million of the $20 million provided in the 1999-00 budget would be needed to fully fund the Charter School Categorical Block Grant. By the end of February, SDE will collect an official ADA count for all schools, including charter schools, as part of the first principal apportionment (P-1). When these data are available, the Legislature will have a better idea both of the amount of one-time savings available from the 1999-00 appropriation, and the appropriate amount to provide in the 2000-01 budget.

Figure 5

Charter School Funding Model Participation

1999-00

	Number of Schools in Operation	Estimated Average Daily Attendance[a]	Percent of Average Daily Attendance
Participation in the Model	**129**	**36,898**	**44%**
Operating prior to June 1999	79	29,608	
Starting after June 1999	50	7,288	
Not Participating in the Model	**94**	**46,401**	**56%**
Totals	**223**	**83,299**	

[a] Based on estimates made by individual charter schools.

Budget-Year Cost Will Depend Largely on Enrollment Growth. The budget-year cost of the categorical block grant will depend upon two factors—increases in noncharter school categorical funding and charter school enrollment growth.

- ***Per-ADA Cost.*** The per ADA cost of the block grant will increase slightly in the budget year in response to (1) cost-of-living adjustments given to programs upon which the block grant is based and (2) new categorical programs. We estimate the average per-pupil block grant will increase by about 6 percent in 2000-01.

- ***Enrollment Growth.*** Figure 6 (see next page) shows recent trends in enrollment growth. We expect continued strong charter school enrollment growth in the budget year. However, it is difficult to predict the increase in charter school enrollment since new charter schools are being created so frequently. In addition, charter school enrollment growth could jump significantly in the near term if Proposition 26 on the March 2000 ballot passes. Proposition 26 would require school districts to provide charter schools with facilities sufficient to accommodate the charter schools' students.

Figure 6

Charter School Growth

1995-96 Through 1999-00

Year	Number of Charter Schools	Charter School Enrollment	Enrollment Growth
1995-96	95	40,253	—
1996-97	109	45,758	13.1%
1997-98	122	54,919	20.0
1998-99	144	67,853	23.6
1999-00 (est.)	223	86,600	27.6

We recommend that the SDE report to the fiscal committees prior to budget hearings on official ADA numbers reported by charter schools at the P-1 count of ADA, and provide an updated estimate of charter school enrollment growth for the budget year. Based on this information, the Legislature will be able to determine the amount of one-time savings available in 1999-00 from the $20 million appropriated for the Categorical Block Grant, and the appropriate amount to provide for the budget year.

Charter School Evaluation

We recommend the Legislature provide $333,000 in Goals 2000 monies (federal funds) to begin a previously authorized multiyear charter school evaluation in the budget year.

Background on Charter School Law. The Charter Schools Act of 1992 (Chapter 781, Statutes of 1992 [SB 1448, Hart]), authorized the establishment of up to 100 charter schools. Four years later, Chapter 767, Statutes of 1996 (AB 2135, Mazzoni), required the Legislative Analyst's Office (LAO) to contract out for an "interim evaluation of the effectiveness of the charter school approach." SRI International, Inc. conducted this initial *Evaluation of Charter School Effectiveness,* which was released in December of 1997.

Chapter 34, Statutes of 1998 (AB 544, Lempert), made significant changes regarding how charter schools can be formed and operated. The legislation increased the cap on the number of charter schools to 250 schools for 1998-99, and allowed an additional 100 charter schools each year thereafter. The legislation also required the LAO to (1) contract for a neutral evaluator to conduct an evaluation of the effectiveness of the charter school approach; and (2) using data from that evaluation, report to the Legislature and the Governor, by July 1, 2003, with recommendations to modify, expand, or terminate the charter school approach. Chapter 673, Statutes of 1998 (AB 2471, Mazzoni), later modified that directive so that the LAO and the neutral evaluator each make a report with recommendations to the Legislature and the Governor by July 1, 2003.

The Governor's budget includes no funds for the study in 2000-01.

Begin Evaluation in the Budget Year. With no monies for the evaluation in this year's budget, the earliest it could be funded would be next year (July 2001). With time for selection of an evaluator, that would leave only about 18 months for the evaluation period (prior to the July 2003 report deadline). We recommend instead that the evaluation begin in the budget year, thereby allowing about two and one-half years to complete the evaluation. The longer evaluation period is preferable for three reasons:

- ***Provide Greater Accuracy***. Given the significant public policy questions that the Legislature has asked this evaluation to address, we feel that it is important that the findings be as accurate as possible. Having a longer study allows the evaluator to be more certain that any findings are not simply one-time occurrences, but are ongoing trends. For example, only looking at one year's data on dropout rates, fiscal data, or the charter granting review process could provide insufficient data to support conclusive findings.
- ***Allow for Longitudinal Study.*** Longitudinal studies allow the evaluator to collect a set of "baseline" data in the first year of the evaluation, then use that data to make comparisons to data collected in the second year of the evaluation. Sometimes, baseline data can be reconstructed after the fact, but often these data can be incomplete and inaccurate. Being able to compare baseline data would be beneficial in this study, especially in addressing student outcome questions.
- ***Provide Early Findings.*** We believe that sufficient data would be available for analysis between fall 2000 and fall 2001 to provide the Legislature and the Governor with valuable initial findings on the effectiveness of the charter school approach prior to the July 1, 2003 deadline. Such findings also may improve the state's

charter school policies prior to 2003. The final evaluation would build upon the initial findings.

Provide Goals 2000 Funds in the Budget. The list of topics that the Legislature specified that the evaluation cover is long, and to a large extent, the ability of the evaluator to address all of the areas, and the quality of the analysis, will depend upon the budget for the evaluations. The preliminary evaluation completed in December 1997 pursuant to Chapter 767, Statutes of 1996, required the same extensive list of topics to be covered, but received only $187,000 in funding. As a result, the initial evaluation was not able to address many of the areas outlined in the legislation or the request for proposal. After reviewing significant education evaluations in the state that have been conducted recently or are being conducted, we believe that the cost of a quality charter school evaluation would be at least $1 million. Accordingly, we propose that the Legislature provide $333,000 for each of the three fiscal years in the study, beginning in 2000-01.

The goals of this evaluation are consistent with the federally funded Goals 2000 program, so this is an appropriate funding source. Based on the budget, the administration has committed all available 2000-01 Goals 2000 monies. However, we recommend on page E-120 of this analysis to delete $500,000 in Goals 2000 funding for an evaluation of the Parental Involvement Program because the program has not yet begun.

VOLUNTARY DESEGREGATION PROGRAMS

We withhold recommendation on the $8 million proposed for new voluntary desegregation programs at Delano, Alameda, and Visalia Unified School Districts because these districts have not submitted plans or other supporting detail either to the Administration or the Legislature.

The budget includes $8 million (Item 6110-115-0001, one-time funds available from prior-year Proposition 98 savings) for new voluntary desegregation programs at Delano, Alameda, and Visalia Unified School Districts. At the time of this analysis, both the Delano and Alameda school districts had not submitted their plans for voluntary desegregation to the Department of Finance or the Legislature. Although the Visalia Unified School District submitted a plan, it has not provided necessary budget detail. Accordingly, and without prejudice to the proposals, we withhold recommendation on the requested $8 million.

DEPARTMENT OF EDUCATION—SUPPORT (6110)

The Governor's budget provides $240 million to the State Department of Education (SDE) from the General Fund, federal funds, and other sources as displayed in Figure 1. This is an increase of 3.3 percent, reflecting workload increases and new programs. Major new SDE workload results from (1) the special education quality assurance program, (2) the Public School Accountability Act (PSAA), and (3) the After School Learning and Safe Neighborhood program. The budget proposes funding for two new programs—$1 million for a public information campaign on the PSAA, and $1.5 million for the distribution of curriculum frameworks aligned to the state academic content standards. Since the federal government adopted its budget late, the Governor's budget does not reflect numerous changes in federal funds. Those changes will be included in the Governor's May Revise.

Figure 1

State Department of Education
State Operations Budget

(Dollars in Millions)

	1999-00	2000-01	Percent Change
Non-Proposition 98 General Fund	$70.1	$77.0	9.8%
Proposition 98 General Fund	30.3	32.3	6.5
Subtotal, General Fund	($100.4)	($109.3)	(8.9%)
Federal funds	$99.0	$97.9[a]	-1.2%
Other	33.0	32.8	-0.3
Total	**$232.3**	**$240.0**	**3.3%**

[a] Budget year federal funds will be updated in the Governor's May Revise.

Parental Involvement Evaluation

We recommend the Legislature redirect $500,000 in federal Goals 2000 funds from an evaluation of the newly created parental involvement programs to other evaluation needs.

The Governor's budget proposes $500,000 in federal Goals 2000 funds to SDE to contract for an evaluation of the newly created parental involvement programs. Chapter 734, Statutes of 1999 (AB 33, Soto), provided $20 million to support three newly created parental involvement programs—(1) the Nell Soto Parent/Teacher Involvement Program, (2) Teresa Hughes Family-School Partnership Award and Grant Program, and (3) Tom Hayden Community-Based Parent Involvement Grant. None of the programs have begun yet, and SDE is waiting for guidance from the Office of the Secretary of Education to begin the programs. One of the causes for the delays in implementing these programs is that the Governor vetoed $221,000 from the SDE support budget to implement the program since the budget bill passed before Chapter 734 was enacted. No support funds were provided in Chapter 734. The department reports that the programs will be running in the budget year.

The Governor's budget provides no additional funds to support continuation of the parental involvement programs, so it is uncertain if the program will continue beyond the budget year. We believe that it is premature to be evaluating a program that has not yet begun.

We believe the Legislature should consider evaluating existing programs for which the state provides millions of dollars annually. A partial list of programs not currently being evaluated that we believe would be of higher priority than a new program include charter schools, 9th grade class size reduction, alternative certification programs, and Assumption Program of Loans for Education. In view of the above, we recommend the Legislature redirect $500,000 proposed for the parental involvement evaluation to higher evaluation priorities.

Public Information Campaign for Accountability

We recommend the Legislature redirect $1 million in one-time funds provided for an information campaign for the state's accountability program because the accountability system attracts significant media coverage on its own.

The Governor's budget provides $1 million (General Fund, non-Proposition 98) to the State Board of Education to conduct a public information campaign explaining the state's K-12 accountability system. According to the Office of the Secretary for Education, the funding would be used to provide information targeted at parents using printed materials and the press, although no formal plan has been developed. We recognize the need for parents to understand how the state's accountability system works. However, parents will be able to obtain that information from various other sources.

The accountability system has already received significant media coverage. In January, the SDE released the baseline Academic Performance Index (API) scores and the growth targets for each school to receive rewards from the state. Within a day, the scores were published in every major newspaper in the state, publicized on the local television news, and on numerous web sites providing information on local schools. Parents also have received information from local school districts and school sites. All of this was accomplished without a publicity campaign. We believe that in July, when the SDE releases the spring 2000 Standardized Testing and Reporting test results (the 1999-00 API scores), and determines which schools receive rewards, the program will be in the news again. Since public outreach on this issue is available at no cost to the state, we recommend the Legislature redirect the $1 million to other legislative priorities. (Reduce Item 6110-001-0001 by $1 million.)

Facility Repairs at California School for the Deaf, Riverside

***We withhold recommendation on $1,920,000 of one-time General Fund support requested for roof replacement and bathroom renovations at the California School for the Deaf, Riverside, pending completion of our review of state special schools needs requested by the Legislature in the* Supplemental Report of the 1999-00 Budget Act.**

The budget includes $1,920,000 of one-time General Fund support under Item 6110-005-0001 to replace roofs on 16 buildings and renovate 57 bathrooms at the California School for the Deaf, Riverside. In the *Supplemental Report of the 1999-00 Budget Act*, the Legislature asked our office to prepare a report detailing the security, safety, deferred maintenance, and information technology needs, and costs to meet those needs, at the state special schools. In connection with this request, we visited the School for the Deaf in Riverside, the School for the Deaf in Fremont, and the School for the Blind (also in Fremont). We have also been reviewing a substantial amount of material documenting the needs at the schools. At the time this analysis was prepared, we had not completed our review. Accordingly, at this time we withhold recommendation on this facility renovation request.

CALIFORNIA STATE LIBRARY
(6120)

The goal of the California State Library (CSL) is to make information available to users in a coordinated, effective, and efficient manner. The State Library provides services to the legislative and executive branches of government as well as to members of the public and other California public libraries. It develops and promotes outreach programs such as the California Literacy Campaign and it develops information technology systems to improve resource sharing and access to information.

The library's budget from all sources is $118.3 million for 2000-01. The budget requests General Fund augmentations of $4.5 million, as shown in Figure 1. (Offsetting reductions of limited-term funds and carry-over funds result in a total budget request that is essentially unchanged from the current-year level in terms both of the General Fund and all funds.)

Budget Proposals Lacking Adequate Justification

We recommend that the Legislature deny several budget requests totaling $694,000 because the requests are not adequately justified, and we withhold recommendation on two requests totaling $2 million pending receipt of additional information from the library.

Based on our review, we recommend that the Legislature deny the following requests.

Government Publications. This request is for $176,000 for three new positions to add 6,000 University of California (UC) publications and California state serials records to the library's online catalog. Since materials within the UC library system are already accessible to any borrower through an interlibrary loan, we do not see the need for the CSL to "acquire" this material. Accordingly, we recommend that the Legislature deny this request.

Photographer. The budget proposes $170,000 for a "chief photographer" (who would be appointed by the Governor and exempt from civil service) and an office technician to establish a unit to coordinate and systematize photographic documentation of the official ceremonies and functions of the State of California. The State of California has managed without an official "chief photographer" for 150 years without suffering any significant problems as a result. We do not see what has changed to justify such a position or the attendant expense. Accordingly, we recommend that the Legislature deny this request.

Figure 1

State Library General Fund Budget Change Proposals

2000-01
(In Thousands)

	Increases
State Operations	
California Research Bureau staffing	$500
Modular furniture	393
Access to California history—manuscripts	228
Government publications staffing	176
Chief photographer	170
Human resources staffing	138
Catalog staffing	132
Library annex maintenance	96
Rent increase for facilities	78
Sutro library special repairs	25
Subtotal, State Operations	($1,936)
Local Assistance	
Transaction Based Reimbursement Program	$1,802
Families for Literacy Program	508
California Newspaper Project	300
Subtotal, Local Assistance	($2,610)
Total	**$4,546**

Human Resources Staffing. The budget requests $138,000 for two new positions for human resources. According to the budget change proposal, this additional staff is necessary to handle additional workload created by the establishment of new programs, expansion of current operational programs, and new responsibilities. This, however, may just be a temporary situation. Before hiring additional full-time staff, the CSL should consider other alternatives—including temporarily discontinuing low-priority services and delegating some services back to the programs to perform. These alternatives were mentioned in the proposal but not pursued. Accordingly, we recommend that the Legislature deny this request.

Catalog Staffing. The library requests $132,000 for two new positions to provide timely access to materials in various formats and to make material available for use. The CSL reports that budget change proposals approved in 1997-98 and 1998-99 increased their acquisition budget by $944,000. The need for cataloging should have been anticipated by the CSL. Accordingly, we recommend that the Legislature reduce the new material budget by $132,000 and redirect the funds to cataloging.

Augmentation for Rent Increase. The library's budget includes $78,000 to offset increased costs for 120,000 square feet of space in which the CSL is a tenant. Our review of all state departments found that only CSL and four other agencies—the Departments of Justice, Industrial Relations, and Fair Employment and Housing, and the State Treasurer's Office—received budget augmentations for rental increases in 2000-01. Presumably, all other state departments will absorb the rent increases. We can find no analytical basis for granting an augmentation to pay rent increases for these five departments when other departments and agencies are not provided such funds. We note that the administration's own budgeting guidelines indicate that departments will not receive funding for such price increases. Thus, we recommend that the requested augmentation be denied. (See the write-up on the Department of Finance in the General Government chapter for more detail.)

Based on our review we withhold recommendation on the following two requests pending further information from the library.

Access to California History. The library requests $228,000 for three new positions to catalog its collection of historic manuscripts and archival material. The library annually receives 150 cubic feet of manuscripts. Materials range from hand-written Gold Rush letters to the plans for the Transamerica Pyramid in San Francisco. The CSL reports a six-year backlog of over 900 cubic feet of this material and is requesting staff to organize, catalog, and make the materials accessible. Since, according to the CSL, the Bancroft Library at the University of California, Berkeley (UCB) is the leading manuscript repository in the western United States, we recommend the CSL explore the possibility of locating its California history manuscript collection at UCB. We see no benefit to users of the collection to have it dispersed between these two state-funded libraries. Accordingly, we withhold recommendation on this request pending further information from the library.

Transaction Based Reimbursement (TBR) Program. This request augments the TBR program by $1.8 million, bringing total program support to $10.9 million. The TBR program reimburses local libraries for a portion of the costs they incur when they loan materials to residents outside their normal lending area. There are two rates of reimbursement—one for interlibrary loans and one for direct loans. Interlibrary loans are loans between libraries. Direct loans are over-the-counter loans to people who do not live in the jurisdiction of the loaning library. In 1998-99, 1.2 million interlibrary and 11.1 million direct loans were made. Estimates of the handling costs for these loans are made annually by the CSL and Department of Finance.

The budget request for a $1.8 million augmentation is an estimate based on the number of transactions in 1998-99, with reimbursement rates equal to about 89 percent of the actual 1998-99 cost. Using 100 percent of actual costs increases the program's "shortfall" to $3.1 million, or $1.3 million more than requested. The budget request discusses in detail the problems this program is having due to underfunding. However, the budget proposal does not present a plan to solve this problem. We recommend that the Legislature direct the CSL to consider a small user charge to balance shortfalls. A small charge, with waivers for students and low income users, might contribute in part to a long-term solution. Until the library submits a long-term plan to the Legislature, we withhold recommendation on this program.

COMMISSION ON TEACHER CREDENTIALING (6360)

The Commission on Teacher Credentialing (CTC) was established in 1970 to ensure that high standards are set and met for teacher preparation and licensing of public school educators. It issues permits and credentials to all classroom teachers, student services specialists, school administrators, and child care instructors and administrators. In total, CTC issues over 100 different types of documents.

The Governor's budget proposes $139 million in funding for CTC in 2000-01. This is an increase of $72 million, or 109 percent, over the current year. Most of this new funding is directed toward the Credentialed Teacher Recruitment Program, discussed later in this section.

Management Study Update

In response to concerns raised in budget hearings regarding CTC's efficiency and customer service, the *1999-00 Budget Act* authorized and funded a comprehensive management study to:

- Identify regulations and statutes related to teacher credentialing that may be modified to improve the efficient processing of credentials.
- Evaluate the extent to which CTC's information technology plans achieve improvements in efficiency and timeliness in credential processing and other service areas, and make further recommendations in this area.
- Recommend the appropriate level of staff to process credentials in an efficient and timely matter.
- Recommend any customer service improvements including, but not limited to, those affecting accessibility.
- Recommend an appropriate credential fee structure to support CTC's full average cost to process a credential.
- Recommend further topics for study.

The budget act provided $250,000 for the Legislative Analyst's Office (LAO) to contract for this study. Since the passage of the budget, a triagency group comprised of representatives from LAO, the Department of Finance, and CTC have worked together to develop a request for proposals, select a contractor, and provide oversight to the contractor during the course of the study. The management study will be completed and a report will be distributed to the Legislature by March 1, 2000, as required by the budget act.

Wait for Management Study Findings

Pending release of the Commission on Teacher Credentialing (CTC) management study report, we withhold recommendation on the $864,000 and 12.5 additional positions requested in the budget for various divisions of CTC because the study's findings should assist the Legislature in making sound budgeting decisions on these matters.

As described above, in the *1999-00 Budget Act*, the Legislature decided to invest in a management study to provide information useful in making decisions regarding CTC's budget. Pending our review of the study to be released on March 1, 2000, we withhold recommendation on the CTC's request for the following additional funds and positions:

- $443,000 from the Teacher Credentials Fund for 7.5 positions and overtime in the Certification, Assignment, and Waivers Division.
- $157,000 from the Teacher Credentials Fund and $8,000 from the Test Development and Administration Account for two positions in the Division of Professional Practices.
- $108,000 from the Teacher Credentials Fund for a toll-free information line.
- $99,000 from the Teacher Credentials Fund for two positions in the Office of Governmental Relations.
- $49,000 from the Teacher Credentials Fund for one position in the Executive Office.

Delete Position for Governor's Teaching Fellowship Tracking

We recommend that $79,000 and one position for administration of the Governor's Teaching Fellowships be shifted to the Student Aid Commission to conform with our recommended changes in the design of the proposal.

In our analysis of the California State University (CSU) budget, we recommend shifting $3.5 million provided to establish the Governor's

Teaching Fellowship program to the Student Aid Commission (SAC). As part of this program, the budget proposes $79,000 (General Fund) and one position at CTC to track fellowship recipients and identify recipients who fail to complete their commitment to teach four consecutive years in a low-performing school. Our central concern with the proposed program is the large share of the funding that would go to program development and administration—almost 30 percent of the proposed funding is provided to CSU for these purposes. This administrative inefficiency is due, in part, to the multiple parties and administrative layers in the program as proposed. Conforming to the recommendation on the program, we recommend shifting $79,000 and one position proposed in the CTC budget for participant tracking to SAC. (Reduce Item 6360-001-0001 by $79,000.)

Delete Funds and Positions for Credentialed Teacher Recruitment Program

We recommend that the Legislature delete $52.9 million from the General Fund and ten positions to establish the Credentialed Teacher Recruitment program and, instead, shift the funds to a Hard-to-Staff Schools block grant.

In our section on Teacher Quality and Supply for low-performing schools, we outline our concerns regarding the proposed Credentialed Teacher Recruitment program. Conforming to that recommendation, we recommend reducing Item 6360-101-0001 by $52 million and reducing Item 6360-001-0001 by $896,000. We further recommend that the Legislature, instead, provide these funds to K-12 schools through a teacher recruitment and retention block grant for hard-to-staff schools.

INTRODUCTION

Higher Education

The budget proposes a $750 million increase in General Fund expenditures for higher education in 2000-01. This is an increase of 9.8 percent above estimated expenditures in the current year. This funds enrollment growth above demographic projections for all three segments. It also funds base increases at twice the rate of inflation for the University of California and the California State University and at the rate of inflation for the California Community Colleges. The budget also provides funding for several new and expanded program initiatives.

As Figure 1 (see next page) shows, the 2000-01 budget proposal provides a total of $25 billion from all sources for higher education. This amount is $1.2 billion, or 5.2 percent, more than estimated expenditures in the current year. The total consists of funding for all activities of the University of California (UC), California State University (CSU), California Community Colleges (CCC), Hastings College of the Law, the California Student Aid Commission, the California Postsecondary Education Commission, and various other costs. The total includes funding for activities at UC that are only marginally related to instruction, such as providing medical care at its hospitals ($1.8 billion) and managing three major U.S. Department of Energy laboratories ($3.2 billion).

The 2000-01 budget proposes General Fund expenditures of $8.4 billion for higher education. This amount is $750 million, or 9.8 percent, more than estimated expenditures in the current year. The budget also projects that local property taxes will contribute $1.7 billion for the community colleges in 2000-01, an increase of $114 million, or 7.2 percent, over the current year. In addition, student fee and tuition revenue at all the higher education segments account for $1.9 billion of proposed expenditures. This amount is $71 million, or 4 percent, greater than student fee revenue in the current year. The increase in student fee revenue results almost entirely from proposed enrollment growth (3.4 percent). The Governor does not raise fees for resident students. He does propose a 4.5 percent increase, however, in the nonresident tuition component of student fees at UC. Lastly, the budget includes $13 billion in other funds, which in-

Figure 1

Higher Education Budget Summary

(Dollars in Millions)

	Estimated 1999-00	Proposed 2000-01	Change	
			Amount	Percent
University of California				
General Fund	$2,717.9	$3,045.7[a]	$327.7	12.1%
Student fee revenue	1,044.2	1,092.1	47.9	4.6
Federal and other funds	9,454.6	9,693.3	238.7	2.5
Totals	**$13,216.7**	**$13,831.1**	**$614.3**	**4.6%**
California State University				
General Fund	$2,194.1	$2,385.1	$191.0	8.7%
Student fee revenue	585.1	603.4	18.3	3.1
Federal and other funds	1,669.7	1,676.4	6.7	0.4
Totals	**$4,448.9**	**$4,664.9**	**$216.1**	**4.9%**
California Community Colleges				
General Fund	$2,373.0	$2,532.9	$159.9	6.7%
Local property tax revenue	1,580.3	1,694.4	114.2	7.2
Student fee revenue	152.7	157.2	4.6	3.0
Other funds	1,188.5	1,256.5	68.0	5.7
Totals	**$5,294.4**	**$5,641.1**	**$346.7**	**6.5%**
Student Aid Commission				
General Fund	$388.5	$459.9	$71.3	18.4%
Federal and other funds	415.5	415.5	—	—
Totals	**$804.0**	**$875.4**	**$71.4**	**8.9%**
Other[b]				
General Fund	$18.0	$18.1	$0.1	0.6%
Student fee revenue	12.4	12.9	0.5	3.8
Federal and other funds	14.8	13.4	-1.4	-9.6
Totals	**$45.2**	**$44.4**	**-$0.9**	**-1.9%**
Grand totals	**$23,809.3**	**$25,056.9**	**$1,247.6**	**5.2%**
General Fund	$7,691.6	$8,441.6	$750.1	9.8%
Property tax revenue	1,580.3	1,694.4	114.2	7.2
Student fee revenue	1,794.4	1,865.7	71.3	4.0
Federal and other funds	12,743.1	13,055.2	312.1	2.4

[a] Does not include $75 million for capital outlay.

[b] Includes Hastings College of the Law and the California Postsecondary Education Commission.

cludes federal funds, restricted funds, and funds from private sources. The numbers in Figure 1 do not include the General Fund costs of paying off general obligation bonds. These costs are estimated to be $259 million in 2000-01, an increase of 2.1 percent.

The budget proposes General Fund expenditures for UC of $3 billion, which is $328 million, or 12.1 percent, more than estimated General Fund expenditures in the current year. For CSU, the budget proposes General Fund expenditures of $2.4 billion, an increase of $191 million, or 8.7 percent, over the current year. After accounting for $35 million in one-time spending in 1999-00, the actual increase in General Fund support for CSU is $226 million, or 10.5 percent. For CCC, the combined amount from the General Fund, property tax revenue, and other funds totals $5.6 billion, which is $347 million, or 6.5 percent, above 1999-00 estimated expenditures.

MAJOR BUDGET CHANGES

Figure 2 (see next page) describes the major General Fund budget changes proposed by the Governor for UC, CSU, and CCC. The largest change in the UC and CSU budgets is a 6 percent increase in their General Fund base—5 percent of which is entirely discretionary and 1 percent which is targeted by the segments for "core" purposes. The budget provides $157 million to UC and $125 million to CSU for this base increase. For CCC, the budget contains $103 million for a statutory cost-of-living-adjustment (COLA) of 2.84 percent.

ENROLLMENT GROWTH

As Figure 3 (see page 133) shows, the budget proposes total higher education full-time equivalent (FTE) student enrollments of 1.5 million, or 3.4 percent, over the budgeted enrollments for the current year. The budget provides funding for a 3.65 percent, or 6,000 FTE, increase in enrollment at UC, and a 4.5 percent, or 12,577 FTE, increase in enrollment at CSU. The Governor provides $8,554 and $5,813, respectively, in General Fund support for each additional student at UC and CSU. Thus, the total cost of accommodating enrollment growth at UC is $51 million and the total cost at CSU is $73 million. The budget includes $106 million for CCC to accommodate a 3 percent, or 29,721 FTE, increase in enrollment.

Figure 2

Higher Education
Proposed Major General Fund Changes

University of California	Requested:	$3.0 billion	
	Increase:	$328 million	(+12.1%)

- $156.7 million for 6 percent base increase.
- $51.2 million for 6,000 full-time-equivalent (FTE) enrollment growth (3.65 percent).
- $19.3 million in lieu of 4.5 percent fee increase.
- $69.6 million for expansion of Governor's Teacher Professional Development Programs.
- $5.7 million for other K-14 and outreach initiatives.
- $25 million in one-time equipment funding for UC teaching hospitals.

California State University	Requested:	$2.4 billion	
	Increase:	$191 million	(+8.7%)

- $124.9 million for 6 percent base increase.
- $73.1 million for 12,577 FTE enrollment growth (4.5 percent).
- $15 million in lieu of 4.5 percent fee increase.
- $9 million for California Center for Teaching Careers' teacher recruitment campaign.
- $3.5 million for Governor's Teaching Fellowships.

California Community Colleges	Requested:	$2.5 billion	
	Increase:	$160 million[a]	(+6.7%)

- $103.1 million for statutory cost-of-living adjustment (2.84 percent).
- $105.7 million for 29,721 FTE enrollment growth (3 percent).
- $25 million for Partnership for Excellence.
- $10 million for scheduled maintenance and special repairs.

[a] Budget changes add to more than $160 million General Fund increase because they are funded by both General Fund and local property tax revenue.

Figure 3

Higher Education
Full-Time Equivalent (FTE) Students

1998-99 Through 2000-01

	Actual 1998-99	Budgeted 1999-00	Proposed 2000-01	Change From 1999-00	
				Amount	Percent
University of California					
Undergraduate	122,789	125,686	130,130	4,444	3.5%
Postbaccalaureate	438	584	975	391	67.0
Graduate	25,629	26,130	27,195	1,065	4.1
Health Sciences	12,544	12,166	12,266	100	0.8
UC totals	**161,400**	**164,566**	**170,566**	**6,000**	**3.6%**
California State University[a]					
Undergraduate	233,155	237,297	247,988	10,691	4.5%
Postbaccalaureate	18,856	19,263	20,131	868	4.5
Graduate	21,917	22,613	23,631	1,018	4.5
Calstate Teach[b]	—	230	230	—	—
CSU totals	**273,928**	**279,403**	**291,980**	**12,577**	**4.5%**
California Community Colleges	957,201	990,703	1,020,424	29,721	3.0%
Hastings College of the Law	1,140	1,122	1,165	43	3.8%
Grand totals	**1,393,669**	**1,435,794**	**1,484,135**	**48,341**	**3.4%**

[a] The FTE totals for CSU accurately reflect proposed enrollment growth, but the detail shown by enrollment type is subject to change.

[b] The number of FTE students in teacher preparation distance education may change once campus enrollment targets are identified for 2000-01.

STUDENT FEES

Figure 4 (see next page) shows student fee levels at California's public colleges and universities. The Governor holds resident student fees constant across the segments. The budget includes $19 million for UC and $15 million for CSU to compensate them for revenue they would have otherwise obtained if they raised fees by 4.5 percent. The budget assumes that if fees were to rise, they would rise with California per-capita personal income.

Figure 4

Higher Education Annual Student Fees

1998-99 Through 2000-01

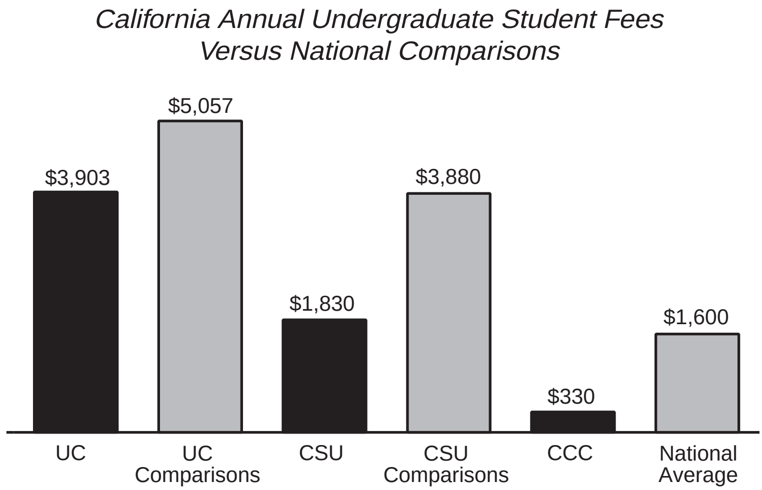
	1998-99	1999-00	Proposed 2000-01	Change from 1999-00
University of California				
Systemwide Fee				
Undergraduate	$3,609	$3,429	$3,429	—
Graduate studies	3,799	3,609	3,609	—
Professional studies				
Business	$9,609	$9,609	$9,609	—
Dentistry	8,609	8,609	8,609	—
Law	9,985	9,985	9,985	—
Medicine	8,895	8,895	8,895	—
Nursing	5,409	5,409	5,409	—
Optometry	6,609	6,609	6,609	—
Pharmacy	6,609	6,609	6,609	—
Theater, film, and TV	5,609	5,609	5,609	—
Veterinary medicine	7,609	7,609	7,609	—
Additional campus fees, average				
Undergraduate	$428	$474	$474	—
Graduate	839	969	969	—
Additional fee, nonresidents	9,384	9,804	10,244	4.5%
California State University				
Undergraduates	$1,506	$1,428	$1,428	—
Graduates	1,584	1,506	1,506	—
Additional campus fees, average	383	402	402	—
Additional fee, nonresidents	7,380	7,380	7,380	—
California Community Colleges	$360	$330	$330	—
Hastings College of the Law				
Residents	$11,167	$11,191	$11,191	—
Additional fee, nonresidents	8,770	8,770	9,121	4.0

Figure 5 shows that student fees at California's public colleges and universities are among the lowest in the country. The proposed fee for UC resident undergraduates in 2000-01 is $3,903, or 23 percent, lower than the average current fee at UC's four public comparison institutions. The proposed fee for CSU resident undergraduates is $1,830, or 53 percent, lower than the average fee at CSU's 15 public comparison institutions. The 1999-00 budget year was the fifth consecutive year the state either reduced fees or held them constant. Unlike UC and CSU, the CCC do not have a comparison group, but their proposed fee level for 2000-01—$330 per year for a full-time student—is the nation's lowest. Students attending CCC pay only one-fifth of the national average for public two-year institutions.

Figure 5

Resident Undergraduate Fees Are Significantly Below Public Comparison Institutions

1999-00



K-12 IMPROVEMENT INITIATIVES

Figure 6 (see next page) identifies major K-12 initiatives involving UC and CSU. The budget provides $113 million to UC and CSU to fund these initiatives. Of this amount, the budget allocates $75 million to UC, $12.5 million to CSU, and $25 million to the Office of the Secretary for Education to contract with CSU for services. The following sections on UC and CSU describe the specific initiatives in more detail.

Figure 6

K-12 Initiatives Involving UC and CSU

(In Millions)

University of California—Requested $75.3 Million	
Governor's Teacher Professional Development	
California subject matter projects	$20.0
Governor's reading professional development institutes	14.0
California algebra institutes	2.5
California mathematics institutes	7.5
English language development professional institutes	5.0
High school math and English professional development institutes	20.0
New teacher center	0.6
Subtotal	($69.6)
Advanced Placement On-Line Initiative	$3.0
California State Summer School for Math and Science	$1.0
Intensive Algebra Professional Development Institutes	$1.7
California State University—Requested $37.5 Million	
California Center for Teaching Careers' Media Campaign	$9.0
Governor's Teaching Fellowships	$3.5
Staff Development on Use of Technology	$25.0[a]

[a] Included in budget of the Office of the Secretary for Education for contract with CSU.

BUDGET ISSUES

Education

INTERSEGMENTAL ISSUES

ANNUAL BUDGET PROCESS PROVIDES A BETTER HIGHER EDUCATION PARTNERSHIP

We recommend the Legislature not endorse the proposed "partnership" with the California State University (CSU) and University of California (UC) because it would reduce legislative flexibility in balancing its budget priorities and it could reduce incentives for CSU and UC to increase productivity.

The Governor proposes a "higher education partnership" with the California State University (CSU) and University of California (UC). As Figure 1 (see next page) shows, the partnership would provide annual funding for base increases of 5 percent, enrollment growth, high-priority initiatives, and necessary capital outlay. According to the budget summary document (A pages): "These annual funding commitments will be contingent on progress by the segments to achieve certain accountability goals." The document says further "The administration, UC, and CSU will continue discussions focused on finalizing the accountability goals in the spring." Figure 1 shows the accountability goals being considered, but the partnership currently does not contain any measurable performance measures or rewards and sanctions to ensure that CSU and UC achieve them.

Partnership Sweetened in 2000-01. Under the partnership, CSU and UC would be guaranteed a 5 percent increase in base funding each year. For 2000-01, the Governor sweetens the pie by providing base General

Figure 1

Elements of Higher Education Partnership With CSU and UC

Annual Funding

- 4 percent General Fund increase for purposes determined by CSU and UC.
- 1 percent General Fund increase for core needs identified by CSU and UC.
- Full enrollment funding.
- Funding for high-priority initiatives.
- Funding for capital outlay as necessary.

Accountability Goals

- Admission for all eligible California students.
- Improved outcomes, such as graduation rates and timeliness to degree completion.
- Increasing the number of community college transfers.
- Assume greater responsibility to help improve K-12 schools.
- Increasing utilization of existing facilities and resources.

Fund increases for CSU and UC of 6 percent "to be allocated by [UC and CSU] based on [their] priorities." In our section on Education Crosscutting Issues (please see page E-19 of this analysis), we contrast this 6 percent increase with the 2.84 percent cost-of-living adjustment the budget proposes for K-12 and the community colleges.

The Governor does not provide a rationale for guaranteeing CSU and UC annual funding increases rather than budgeting them on a year-by-year basis, as is done for other agencies. In our August 1999 report, *Higher Education "Compacts": An Assessment*, we noted that guaranteed annual funding for CSU and UC is not necessary because:

- ***The Annual Budget Is a Partnership Already***. The key features of the proposed partnership—funding commitments and accountability—already exist in the annual budget process. Through the annual budget process, the Legislature and Governor commit resources to departments to accomplish specific state policy objectives. The Legislature and Governor then hold departments accountable for accomplishing the objectives. These annual funding agreements are fundamental to the operation of our state government.

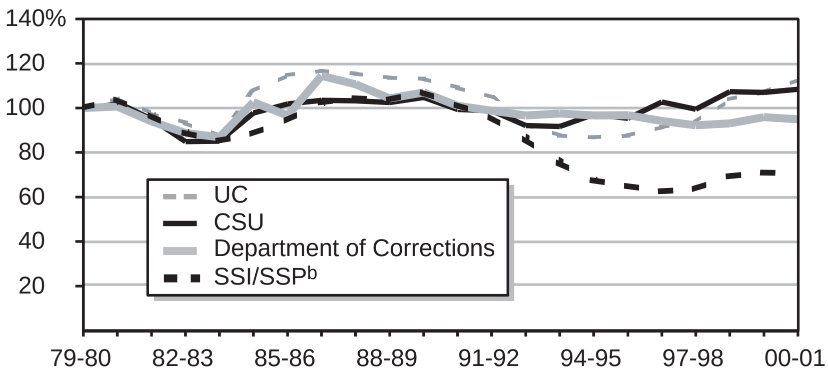
- ***The Master Plan Provides Long-Term Direction***. The *Master Plan* has been the state's road map for higher education policy since being published in 1960. The *Master Plan* has provided enduring policy goals and guidelines that the Legislature and the Governor have sought to fund to the extent possible within available resources.

- ***The CSU and UC Have Fared Well Without a Compact***. We found that CSU and UC have fared well historically, whether we compare their funding levels to their own historical budgets or to those of other state programs. For example, funding per student at CSU and UC are at historical highs, even after adjusting for the effects of inflation. Figure 2 shows that until recently, funding per student at CSU and UC has tracked rather closely funding per inmate in the California Department of Corrections, and funding per aid recipient in the Supplemental Security Income/State Supplementary Program (SSI/SSP) cash assistance program. Recently, CSU and UC funding levels per student have outpaced the other two agencies.

Figure 2

General Fund Appropriations Adjusted for Caseload[a] UC, CSU, and Selected Programs

Percent of 1979-80 Funding Level Adjusted for Inflation 1979-80 Through 2000-01



[a] Caseload in FTES for UC and CSU, inmates and parolees for Corrections, and aid recipients for SSI/SSP.
[b] Supplemental Security Income/State Supplementary Program

- ***Auto-Pilot Funding Reduces Legislative Discretion.*** The Legislature makes budget decisions within a context of changing fiscal and policy conditions. Providing a multiyear funding commitment to CSU and UC would reduce legislative discretion and make balancing its budget priorities an even more difficult task.
- ***Guaranteed Budget Increases Could Reduce Incentives for Efficiency and Quality Improvements.*** Providing a multiyear funding guarantee to CSU and UC risks undermining incentive and accountability mechanisms present in an annual budget process. Over a long term, such changes could erode program quality and cost-effectiveness.

In sum, the proposed higher education partnership would guarantee CSU and UC base increases of 5 percent when the inflation rate is roughly half that. This guaranteed base increase is higher than that given to any other state agency. Accordingly, we recommend that the Legislature not endorse the proposed higher education partnership.

MODERATE SUSTAINED ENROLLMENT GROWTH PROJECTED FOR NEXT DECADE

In 1998, approximately 2 million students ("headcounts") were enrolled either full-time or part-time in the California Community Colleges (CCC), CSU, or UC. This was 30,000, or 1.5 percent, *fewer* students than in 1990. (In 1998, there were 15 percent fewer 18 to 24 year olds in California than there were in 1990.) After declining for five years following a peak in 1990, enrollments grew by about 3.2 percent per year from 1995 to 1998. The Demographics Unit in the Department of Finance (DOF) projects that headcount enrollments will grow by 790,000 from 1998 to 2010, or an average annual increase of 2.4 percent over this 12-year period. This is equal to approximately 540,000 additional full-time-equivalent (FTE) students.

Figure 3 shows actual enrollments from 1963 to 1998 and DOF projections through 2010, for the state's public colleges and universities. The figure shows DOF's main enrollment growth-rate projection, which assumes that rates of college participation among high school graduates and adults will increase significantly. The figure also shows DOF's estimate of enrollments if current college-participation rates continue through 2010. Although projecting enrollments is subject to much uncertainty, enrollments are likely to fall somewhere between these two levels.

Figure 3

California Public Higher Education Actual and Projected Headcount Enrollments

1963 Through 2010
(In Millions)

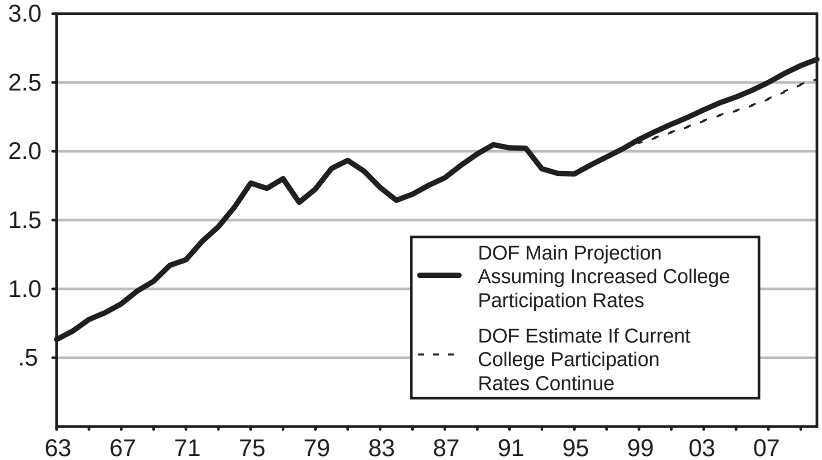


Figure 4 (see next page) puts projected higher education enrollment growth into historical perspective. As the figure shows, DOF projects that total enrollments in CCC, CSU, and UC will grow by an average of 2.2 percent from 2000 to 2010. Although this rate is somewhat higher than those of the previous two decades, it is a much lower rate than in the 1960s and 1970s. After 2010, enrollment growth rates should fall to around 1 percent per year as growth in the college age population slows.

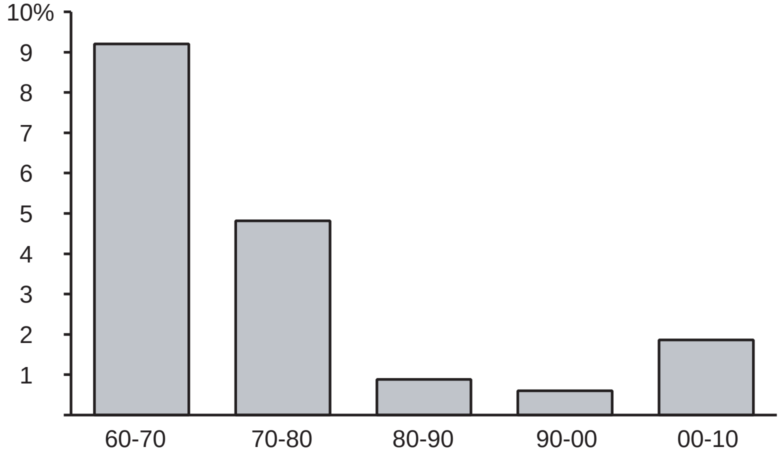
Budgeted Enrollment Growth Exceeds Demographic Projections

We recommend the Legislature reduce $61 million from the $230 million requested in the budget for enrollment growth in the California Community Colleges, California State University, and University of California, because budgeted growth rates significantly exceed growth-rate projections of the Department of Finance and California Postsecondary Education Commission.

The budget requests a total of $230 million from the General Fund for increased enrollments in CCC ($105.7 million, Proposition 98), CSU ($73.1 million), and UC ($51.2 million). The budget assumes that enrollments will increase by 29,721 FTE students at CCC, 12,577 FTE students at CSU, and 6,000 FTE students at UC in 2000-01.

Figure 4

Public Higher Education Enrollments Average Annual Growth Rates by Decade



As Figure 5 shows, budgeted enrollment-growth rates are significantly higher than growth rates projected by DOF and the California Postsecondary Education Commission (CPEC). The DOF and CPEC developed their projections using demographically based projections of growth in the number of high school graduates and in the adult population. In developing their "main" projections, both DOF and CPEC assumed that college-participation rates would significantly increase for high school graduates and for many adult age groups. For added perspective, they also estimated what enrollment growth would be if existing college-participation rates remained at current rates over time. Figure 5 shows these estimates as well.

The budget does not provide any evidence that growth in the number of high school graduates and adults will significantly exceed demographic projections. It also does not provide any evidence that college-participation rates will grow significantly more than DOF and CPEC assumed in their recent projections. Consequently, there is no basis for the amount of enrollment growth included in the budget. Figure 6 compares budgeted FTE with those supported by demographically based growth projections.

Figure 5

Budgeted Versus Projected Enrollment Growth Rates

1999-00 to 2000-01

	DOF[a]		CPEC[b]		
	Constant Participation	Increasing Participation	Constant Participation	Increasing Participation	Governor's Budget
CCC	1.9%	2.7%	1.9%	2.6%	3.0%
CSU	2.2	2.9	2.2	2.6	4.5
UC	2.0	2.7	1.2	2.4	3.65

a Department of Finance.
b California Postsecondary Education Commission.

Figure 6

Excess Funding for Higher Education Enrollment Growth Budget Versus Demographically Based Projections

(Dollars in Millions)

	Budget		Demographically Based Projection[a]		Amount Above Demographically Based Projection	
	FTE[b]	GF[c] Support	FTE	GF Support	FTE	GF Support
CCC	29,721	$105.7	26,000	$92.5	3,721	$13.2
CSU	12,577	73.1	7,300	42.4	5,277	30.7
UC	6,000	51.2	4,000	34.1	2,000	17.1
Totals	**48,298**	**$230.0**	**37,300**	**$169.0**	**10,998**	**$61.0**

a Based on DOF's main projections.
b Full-time-equivalent student.
c General Fund.

In sum, we recommend the Legislature provide funding for enrollment growth at rates projected by DOF, which are slightly higher than those of CPEC. Accordingly we recommend a total reduction of $61 million from CCC ($13.2 million), CSU ($30.7 million), and UC ($17.1 million). By budgeting for projected enrollment growth, the Legislature would free up the $61 million to meet its other budget priorities, including those in K-12 and higher education. We recommend below, for example, that the Legislature appropriate $24 million to reduce student fees at CSU and UC for students who enroll in summer courses.

Year-Round Instruction Critical to Serving Additional Students

We recommend the Legislature adopt budget bill language that provides full marginal-cost funding for all enrollment growth at the University of California (UC) and California State University (CSU), regardless of the season in which it occurs. We recommend that the Legislature appropriate a total of $24 million from the General Fund to CSU ($12 million) and UC ($12 million) to reduce student fees in summer to the same level as for fall, winter, and spring terms. We also recommend that the administration, California Community Colleges, CSU, and UC report during budget hearings on their plans for implementing year-round instruction on college campuses.

Without utilizing existing facilities more intensively, most community college, CSU, and UC campuses will reach their planned capacities within the next decade. In our report, *Year Round Operation in Higher Education* (February 1999), we recommended that the three segments move to year-round operation. By providing the same level of educational services in the summer as they now provide in the fall, winter, and spring, the state could serve substantially more students in existing instructional facilities and save several billions of dollars that would otherwise have to be spent on additional instruction-related buildings and additional campuses.

State Should Provide Marginal-Cost Funding for Enrollment Growth in Summer. To provide positive incentives for campuses to fully utilize facilities in summer, the state should commit to funding enrollment increases that occur in summer. Currently, the state provides funding for summer enrollments only for the community colleges and four of the 22 CSU campuses—Hayward, San Luis Obispo, Los Angeles, and Pomona. Summer classes held on the other 18 CSU campus and all UC campus must be fully supported from student fees and whatever funding campuses can redirect from within their budgets. This not only reduces the incentive for campuses to serve students in summer, it causes summer fees to *exceed* nonsummer fees and reduces student demand for summer classes. By providing at least the same amount of funding per student for increased enrollments in summer that it provides UC and CSU in fall, winter, and spring, the state would allow campuses to accommodate enrollment growth in available space in summer without incurring a financial penalty. Accordingly, we recommend that the Legislature adopt the following budget bill language in each segment's budget specifying that state funding for enrollment growth shall be available for all academic terms.

> Funds provided in this item for growth in the number of full-time-equivalent students is provided for such growth, regardless of the academic term in which the enrollment growth occurs.

Reducing Summer Fees Would Be Fair. By providing marginal-cost funding for enrollment growth in summer, campuses would be able to charge fees for additional summer enrollments that are the same as those they charge students in fall, winter, and spring. As a matter of fairness, campuses should also charge the same fee for *existing* summer enrollments. According to UC and CSU, reducing summer fees for existing enrollments would reduce revenue by approximately $12 million each. We, therefore, recommend an increase of $12 million in both the CSU and UC budgets to allow the reduction of summer fees for existing summer enrollments.

Segments Are Committed to Increasing Year-Round Instruction. The community colleges, CSU, and UC have indicated to the Legislature on several occasions that they intend to increase FTE enrollments during the summer. In its *Supplemental Report of the 1999-00 Budget Act*, the Legislature directed CSU and UC to evaluate the pros and cons of year-round instruction as one method of accommodating anticipated enrollment growth. The Legislature called upon the segments to report their findings by April 1, 2000. The Governor's summary document for the 2000-01 budget states, "The Administration intends to work with the systems during the spring to resolve the policy and funding issues associated with implementation of year-round operations." We recommend that the administration report during budget hearings on its plans for fostering year-round instruction on community college, CSU, and UC campuses. We further recommend that the segments report during budget hearings on steps they are taking to fully use existing instructional capacity.

OVERBUDGETING FOR MARGINAL COST OF NEW ENROLLMENTS

We recommend General Fund reductions of $2.8 million and $6.6 million in the General Fund requests for new enrollments at the California State University and University of California, respectively, because the requests incorrectly account for fee-related resources.

The Governor requests a total of $124.3 million from the General Fund to pay for the costs of FTE student enrollment increases at CSU and UC. This amount consists of $73.1 million for 12,577 additional FTE students at CSU and $51.2 million for 6,000 additional FTE students at UC. We recommend the Legislature reduce the requested increases because they are based on faulty calculations as detailed below.

Budget Based on "Marginal-Cost" Formula. The CSU and UC estimate that they will spend $6,861 and $10,267, respectively, for each additional FTE student they enroll in 2000-01. These amounts are estimates by CSU and UC of the marginal cost per student for additional faculty, teaching assistants, equipment, and various support services. The universities subtract from these amounts revenues that they anticipate from the additional students. The CSU subtracts $1,048 per FTE student and UC subtracts $1,713 per FTE student from the marginal cost estimate to determine how much General Fund support they will need for each additional FTE student. Based on these calculations, the budget requests General Fund support of $5,813 for CSU and $8,554 for UC for each additional FTE student in 2000-01. Figure 7 summarizes these calculations.

Figure 7

Budgeted Marginal Costs Per Full-Time-Equivalent (FTE) Student—CSU and UC

2000-01

Cost Component	CSU	UC
Faculty salaries and benefits	$2,860	$3,270
Teaching assistants	244	618
Instructional equipment	127	308
Instructional support	716	3,362
Academic support	1,113	818
Student services	818	917
Institutional support	983	974
Total Marginal Cost	$6,861	$10,267
Less fee revenue	-$1,048[a]	-$1,713[a]
Budgeted Marginal Cost (General Fund)	**$5,813**	**$8,554**

[a] Assumes one-third of fee revenue returned to students as financial aid.

The CSU and UC Underestimate Fee-Related Resources. The calculations shown in Figure 7 understate the amount of student fee revenue that the universities receive per student and do not take into account the General Fund support the universities receive to compensate for maintaining fees at 1999-00 levels.

Based on proposed fees, CSU will receive approximately $1,234 in fee revenue per additional student, net of financial aid provided from fees. In addition, the budget includes $34 per FTE student (also net of financial aid) in General Fund support for CSU in lieu of raising fees. The CSU, therefore, will receive $1,268 in fee-related support for each additional student, rather than the $1,048 per student it assumes. As a result, the General Fund request for marginal-cost funding for CSU is $2.8 million more than is necessary to meet the marginal cost of the additional students.

Based on proposed fees, UC will receive at least $2,732 in additional fee revenue, net of financial aid given back to students, for each additional student. The budget also provides $76 in General Fund support per student (also net of financial aid) in lieu of a fee increase. The university will, therefore, receive $2,808 in fee-related support for each additional student, rather than the $1,713 it assumes. As a result, the General Fund request for marginal cost funding for UC is $6.6 million more than is necessary to meet the marginal costs of the additional students.

Accordingly, we recommend that the General Fund request for CSU be reduced by $2.8 million and the General Fund request for UC be reduced by $6.6 million to account for the fee-related support that the universities will obtain above the amounts assumed in the marginal-cost funding calculations.

Kristin Smart Campus Safety Act of 1998

Chapter 284, Statutes of 1998 (SB 1729, M. Thompson), requires specified higher education campuses in California to enter into written agreements with local law enforcement agencies that: (1) designate which law enforcement agencies have operational responsibility for the investigation of specified violent crimes and (2) delineate the specific geographic boundaries of each agency's operational responsibilities. The written reports were required for all UC, CSU, CCC campuses, as well as Stanford University, the University of the Pacific, and the University of Southern California. The act requires that the campuses place the written agreements in public view by July 1, 1999. The act was named for Kristin Smart, a Cal Poly student who disappeared in May 1996.

The act required each campus to send a copy of their agreement to the Legislative Analyst's Office (LAO) by September 1, 1999 and requires the LAO to report to the Legislature, by either March 1, 2000 or as part of the *Analysis of the 2000-01 Budget Bill*, on the implementation of this act and make any pertinent recommendations for improving the process.

In October 1999 we began working with each system and with the Association of Independent California Colleges and Universities to ensure compliance with Chapter 284. As of January 31, 2000 we received reports from all UC, CSU, and private university campuses. However, only 40 of the 107 CCC campuses have provided responses. We are continuing our efforts to obtain reports from those who have not complied and will provide an update and other pertinent information on the implementation of Chapter 284 during budget hearings.

UNIVERSITY OF CALIFORNIA
(6440)

The University of California (UC) includes eight general campuses and one health science campus. The university is developing a tenth campus in Merced. The budget proposes General Fund spending of $3 billion. This is an increase of $328 million, or 12 percent, over the current year. The bulk of this increase consists of $157 million for a general 6 percent increase in the university's base budget, $51 million for increases in budgeted enrollments, $71 million to expand existing and create new professional development programs for teachers, and $25 million for equipment at UC's hospitals. Figure 1 summarizes the various changes in UC's budget.

Partnership With Higher Education. Of the requested 6 percent base increase, 5 percent ($131 million) is part of the Governor's "partnership" with UC and California State University (CSU). The partnership would provide UC and CSU with this 5 percent increase each year, plus funds for enrollment growth, capital needs, and high-priority initiatives. (Please see page E-137 of this analysis for a discussion of the Governor's proposed partnership with CSU and UC.)

Enrollment Growth of 3.6 Percent. The budget assumes that UC will serve 6,000, or 3.6 percent, more full-time equivalent (FTE) students in 2000-01 than was budgeted for 1999-00. The budget provides UC with $51 million to offset the "marginal cost" UC anticipates it will incur to serve the additional students.

No Increase in Resident Student Fees. The budget includes a total of $19.3 million in lieu of raising resident student fees by 4.5 percent. Fees for resident undergraduate, graduate, and professional school students would remain at current levels. The supplementary fee for nonresident students would increase by 4.5 percent from $9,804 to $10,244.

Figure 1

University of California General Fund Proposal

2000-01 (Dollars in Millions)

1999-00 Expenditures	**$2,718.0**
New Spending	
6 percent base increase	$156.7
Expand teacher professional development	71.3
Enrollment growth (3.75 percent)	51.2
Equipment for UC teaching hospitals	25.0
General Fund in lieu of fee increase	19.3
Online advanced placement courses	3.0
Annuitant health and dental benefit increases	1.8
Substance abuse research	1.0
Community college outreach	1.0
Summer school for K-12 math and science	1.0
Other adjustments	-3.5
2000-01 Proposed	**$3,045.7**
Change From 1999-00	
Amount[a]	$327.7
Percent	12.1%

[a] Total does not add due to rounding.

Governor's K-12 Initiatives in UC Budget. The Governor requests a total of $101 million in UC's budget for specified program initiatives designed to improve K-12 education. This is $75.3 million more than in the current year for these programs.

Crosscutting and Intersegmental Issues Involving UC

We address several issues relating to UC in other sections of the *Analysis*. In "Crosscutting Issues," we discuss the Governor's teacher professional development institutes and the proposed increase in UC's base budget. In "Intersegmental Issues," we discuss UC's budgeted enrollment growth and the marginal cost formula UC uses to determine the funding level for additional students. In these analyses, we recommend reductions in General Fund support for UC of $177.6 million. Figure 2 (see next page) summarizes our recommendations on these issues and provides the associated page references.

Figure 2

Summary of Crosscutting and Intersegmental Issues Involving UC

Issue	Recommendation	Page Number
Governor's K-12 initiatives	Shift $71.3 million in General Fund support requested for K-12 teacher professional development institutes to K-12 schools to give them greater flexibility in meeting their accountability standards.	E-37
Requested 6 percent increase in UC's base budget	Shift $82.6 million in General Fund support from UC to K-12 and community colleges to equalize base increases at 2.84 percent.	E-19
Proposed partnership	Do not endorse proposed annual automatic 5 percent increase in UC's base budget.	E-137
Enrollment growth-rate projection	Reduce General Fund support by $17.1 million to reflect demographically based enrollment growth of 2.9 percent rather than the 3.6 percent included in the budget.	E-140
Marginal-cost funding	Reduce General Fund support by $6.6 million because UC understates the amount of fee-related resources it will receive from additional students.	E-145

$25 Million for Teaching Hospitals Not Justified

We recommend that the Legislature deny the budget request for a one-time augmentation of $25 million to the University of California teaching hospitals for the purchase of medical equipment because our analysis of the hospitals' recent financial statements indicates that the hospitals are generating sufficient funds to purchase this equipment.

The budget proposes a one-time augmentation of $25 million for the UC teaching hospitals to purchase medical equipment to be used for teaching, patient care, and research purposes. The UC Regents did not request these funds in their budget proposal for 2000-01.

Background. The UC has five campuses with academic medical centers (teaching hospitals). Four campuses—Davis, Irvine, Los Angeles, and San Diego—have teaching hospitals owned and operated by UC. The fifth center operates under an affiliation agreement with UC San Francisco (UCSF) Stanford Health Care, a nonprofit organization created when the UCSF Medical Center merged with the Stanford University Health Services on November 1, 1997. Recently, UCSF and Stanford approved the dissolution of the merger, and as a result the UCSF Medical Center is expected to return to UC by March 1, 2000. Consequently, we have not included UCSF in this analysis.

The four hospitals realized $2 billion in revenue in 1998-99. The hospitals realize most of their revenue from third-party contracts (40 percent) and third-party payers such as Medicare (26 percent) and Medi-Cal (23 percent). For the current year, the state General Fund provides $39 million, or 2 percent, of the hospitals' operating revenue, in the form of clinical teaching support (CTS). These CTS funds help hospitals cover costs related to training of UC undergraduate and resident medical students. The university has long managed its capital and operating budgets for the hospitals independently of state control. They are, in most respects, business enterprises of UC.

Strong Bottom Line Since 1996-97. Figure 3 (see next page) shows that since 1996-97, the bottom-line for each UC-owned and operated medical center has been very strong. The average net gain over this period was $105 million, or 5.8 percent of total net revenues.

In light of their current profitable position, we do not see any need for additional state support for what is principally a UC enterprise. Accordingly, we recommend that the Legislature deny this augmentation request for $25 million and instead budget these funds for other higher-priority purposes.

Nonresident Fees Should Keep Pace With UC Costs

We recommend the Legislature direct the University of California (UC) to increase total fees paid by nonresident students by 4.5 percent. This would add $2 million to UC's fee revenue and result in a $2 million reduction in General Fund costs. We further recommend the Legislature require UC to report on its policies for fees and grant aid for nonresident students.

There are approximately 13,000 nonresident undergraduate (7,000) and graduate (6,000) students attending UC. Total fees in 1999-00 for UC are $14,077 for nonresident undergraduates and $14,572 for nonresident graduate students. Of each total, $9,804 represents the supplementary

Figure 3

University of California Teaching Hospital Net Gain

1996-97 Through 1998-99 (Dollars in Millions)

	Davis	Irvine	Los Angeles	San Diego	Totals
Net Gain					
1996-97	$35.5	$16.0	$36.4	$23.9	$111.8
1997-98	28.2	10.2	42.6	26.1	107.1
1998-99	22.0	14.4	28.1	31.4	95.9
Average	$28.5	$13.5	$35.7	$27.1	$104.9
Net Gain as a Percent of Net Revenue					
1996-97	6.6%	7.5%	5.8%	8.0%	6.7%
1997-98	4.7	4.7	6.1	8.6	5.9
1998-99	3.4	6.3	3.8	9.0	4.9
Average	4.8%	6.1%	5.2%	8.6%	5.8%

fee nonresident students pay on top of regular systemwide and campus-based fees paid by all students. The Governor proposes to increase the supplementary fee for nonresidents from $9,804 to $10,244, an increase of $440, or 4.5 percent. This has the effect of raising total fees for nonresident undergraduates to $14,517, an increase of 3.1 percent. It would raise total nonresident graduate fees to $15,012, a 3 percent increase.

Nonresident Fees Do Not Cover Average Cost of UC Education. The Master Plan for Higher Education calls for nonresident students to pay not less than the average cost of providing instruction and related services. Such a policy is justified, because nonresident students and their families have not paid the state taxes that help subsidize the education of UC students. Consequently, nonresident students should pay directly for the services they receive from the university.

The average General Fund cost per FTE student at UC is approximately $16,500 for 1999-00. For the current year, then, nonresident students pay between 85 percent (undergraduates) and 88 percent (graduates) of the average costs. The average cost per FTE student under the proposed budget would be $17,900. Even with the proposed increase in nonresident fees, nonresident students would cover less of the average costs in 2000-01 (81 percent for undergraduates and 84 percent for graduates) than they cover in the current year.

The UC Should Phase In Nonresident Fee Increases to Equal Average Cost. We recommend that the Legislature direct UC to raise nonresident student fees so that they are equal to the average cost of UC programs per student. This would require, however, that total nonresident undergraduate fees be raised by $3,800, or 27 percent, and nonresident graduate fees be raised by $3,300, or 23 percent. We, therefore, recommend UC develop a plan for phasing in such increases over several fiscal years. For 2000-01, we recommend that UC increase *total* fees paid by nonresident students by 4.5 percent. This would increase total fee revenue from nonresident students by approximately $8 million, or $2 million more than is included in UC's budget for the proposed 3 percent increase ($6 million). Accordingly, we recommend a General Fund reduction of $2 million from the UC budget, to reflect increased fee revenue from nonresident students. We further recommend the Legislature adopt supplemental report language directing UC to report by November 30, 2000 on its plans for increasing nonresident student fees to the average General Fund cost per FTE student.

The UC Provides Handsome Aid Packages to Nonresident Students. Not only do nonresident fees not cover the average cost of UC programs per student, UC provides nonresident students with substantial amounts of financial aid. According to UC, it provided $10.3 million in grant aid to nonresident undergraduates in 1998-99, which was 32 percent of the fee revenue it received from these students. Surprisingly, UC provided $47.4 million in grant aid to nonresident graduate students in 1998-99. This is 72 percent *more* than it collected in fees from nonresident graduate students that year. Combined, UC provides virtually the same amount of grant aid to nonresident undergraduate and graduate students that it receives from them in fee revenue.

Recommend UC Report on Financial Aid Policies for Nonresident Students. At a time when the Legislature is concerned with ensuring access to UC for all qualified California students, it is counterproductive that UC is providing virtually the same amount of grant aid to nonresident students that it receives from them in fees. We recommend that the Legislature also, in its supplemental report language, direct UC to report by November 30, 2000 on its financial aid policies for nonresident students.

More Thought Needed on UC Santa Cruz Regional Center

We recommend that the Legislature deny the request for $1.1 million from the General Fund for the University of California (UC) to hire staff to begin planning for a UC Santa Cruz off-campus center in Santa Clara because UC has neither shown a need for the center nor gone through the established process for new center proposals.

The budget proposes a General Fund augmentation of $1.1 million for development, including start-up costs—of a UC Santa Cruz (UCSC) off-campus center in the Santa Clara Valley. The university says that the center will (1) provide undergraduate and graduate education, including programs for working professionals; (2) provide academic outreach services; and (3) facilitate collaborative research efforts with industry. According to UC documents, the General Fund augmentation of $1.1 million "would be used to hire up to five dedicated, full-time staff that could include an academic provost, an academic planner, a strategic planner, clerical support, equipment and supplies, and related expenses and to house these individuals in an interim site in Santa Clara Valley."

According to UC's plans, the center would open an "academy" with a targeted enrollment of up to 2,000 students (FTE) by 2010-11. The academy "would provide curriculum tailored to meet the needs of UC-eligible students in the Santa Clara Valley." The plan states that UC is currently considering three sites for the location of the academy. The UC began its plans for this center in 1999 and reports that the campus has made significant progress in achieving its planning objectives in 1999-00.

We have two major concerns with this proposal. First, it offers no rationale for why this center is needed and, second, the system has preempted the legislatively established process for new center proposals.

With regard to need, there are a number of questions that are not addressed in the current UC documentation. Among these are:

- What is the need for additional opportunities for undergraduate and graduate education in the Bay Area?
- If there is a need for more undergraduate and graduate education opportunities in the Bay Area, which institution is best positioned to meet that need and where can these students be accommodated?
- What is the need for internships and research field placements in the Bay Area and, if there is a need for more placements, which institution is in the best position to meet that need?
- What are the needs of industry in the Bay Area and, if there is a gap in services, which institution is in the best position to meet that need?

None of these questions are addressed in UC's documents. The requested $1.1 million would provide funds sufficient for only the initial request for core support. The UC documents indicate that there will be additional requests for core support and capital resources in future budgets. Approving this first request without adequate justification would establish an ill-advised precedent for future requests.

In addition, UC has placed the "cart before the horse" with regard to the process for new centers. The system should first present its case for a new off-campus center to the California Postsecondary Education Commission. If the commission recommends approval, it would then be appropriate for UC to make a request to the Legislature.

Given these concerns, we recommend that the Legislature deny the request for $1.1 million at this time.

California State University
(6610)

The California State University (CSU) currently consists of 22 campuses. The CSU Channel Islands, located in Camarillo (Ventura County), is scheduled to open in 2002 as CSU's 23rd campus. The budget proposes General Fund spending of $2.4 billion, an increase of $191 million, or 8.7 percent, over the current year. Accounting for one-time adjustments in 1999-00 ($34.8 million), the proposed budget increases CSU's General Fund spending by $226 million, or 10.5 percent, over the current year. Figure 1 shows adjustments to the General Fund in the current-year budget and lists the major funding proposals for the 2000-01 budget.

Overview of the Proposal

The Governor characterizes his budget with CSU as a "partnership." This year's budget includes a General Fund base increase of 6 percent, funding for a 4.5 percent increase in enrollment, General Fund support in lieu of a 4.5 percent increase in student fees, and additional funding for two teacher recruitment initiatives. The partnership agreement is predicated on the understanding that CSU will achieve certain performance goals, such as increasing the number of community college transfers and improving its graduation rate. The budget, however, does not specify any financial repercussions if CSU fails to meet these goals.

General Fund Base Increase of 6 Percent. The budget provides $124.9 million to increase CSU's base budget by 6 percent. This amount includes $104.1 million, or a 5 percent base increase, that the Governor does not allocate for specific purposes. The total also includes $20.8 million, or a 1 percent base increase, that the Governor designates specifically for three long-term core needs: technology ($15 million), libraries ($3 million), and deferred maintenance ($2.8 million).

Enrollment Growth of 4.5 Percent. The budget proposes that CSU serve 4.5 percent, or 12,577, additional full-time-equivalent (FTE) students

Figure 1

Governor's General Fund Budget Proposal for California State University

2000-01
(Dollars in Millions)

1999-00 Budget (Revised)	**$2,194.1**
Baseline Funding Adjustments	
Carryover/reappropriations	-$28.3
One-time appropriations	-6.3
Other adjustments	-.3
1999-00 Adjusted for One-Time Spending	**$2,159.2**
Elements of the Partnership	
5 percent base increase	$104.1
1 percent base increase for "core" needs	20.8
4.5 percent enrollment growth (12,577 FTE)	73.1
General Fund in lieu of fee increase (4.5 percent)	15.0
Subtotal	$213.0
Other Budget Proposals	
CalTEACH media campaign for teacher recruitment	$9.0
Teaching fellowships	3.5
Off-campus center development at Coachella Valley	.4
Subtotal	$12.8
2000-01 Proposed Budget	**$2,385.1**
Change From Revised 1999-00 Budget	
Amount	$191.0
Percent	8.7%
After Adjusting for One-Time Expenditures in Current Year	
Amount	$225.9
Percent	10.5%

in 2000-01. At a marginal General Fund cost of $5,813 per additional student, the cost of serving these students is $73.1 million.

No Increase in Student Fees. The Governor proposes to maintain resident and nonresident fees at their current levels. The proposed fees—including both systemwide and average campus-based fees—are shown in Figure 2 (see next page).

Figure 2

Proposed Student Fees

2000-01

	Undergraduates	Graduates
Residents		
Systemwide fee	$1,428	$1,506
Average campus fee	402	402
Totals	**$1,830**	**$1,908**
Nonresidents		
Base fee	$1,830	$1,908
Nonresident tuition	7,380	7,380
Totals	**$9,210**	**$9,288**

The Governor's budget provides $15 million to compensate CSU for revenue it would otherwise obtain if it raised fees by 4.5 percent, which is based on a projection of the increase in the California per capita personal income in 2000-01.

Governor's Teaching Initiatives. The budget includes $12.5 million to fund two initiatives related to teacher recruitment. Of this amount, the budget designates $9 million for the California Center for Teaching Careers (CalTeach) to expand its teacher-recruitment media campaign. Of the $9 million, CalTeach is to use $7 million to run an in-state television advertising campaign and $2 million to run an out-of-state advertising campaign. The second initiative provides $3.5 million to establish the Governor's Teaching Fellowships. Of this amount, the Governor requests $2.5 million to provide 250 fellowships to students in teacher preparation programs. The Governor provides the remaining $1 million to CSU for administrative costs. Representatives from the University of California (UC), CSU, and the independent colleges and universities will form an administrative group housed within CSU that will distribute the fellowships.

Crosscutting and Intersegmental Issues Involving CSU

We address several issues relating to CSU in other sections of the *Analysis*. We discuss the proposed technology staff development at CSU in the K-12 section, and we discuss issues related to the proposed increase in CSU's base budget in "Crosscutting Issues." In "Intersegmental Issues," we examine CSU's budgeted enrollment growth and the marginal cost formula it uses to determine the appropriate funding level for additional students. In these analyses, we recommend reductions in General Fund support for CSU totaling $124.3 million. Figure 3 summarizes our recommendations on these issues and provides the associated page references.

Figure 3

Summary of Crosscutting and Intersegmental Issues Involving CSU

Issue	Recommendation	Page Number
K-12 technology staff development	Shift $25 million in General Fund support from CSU (which would receive grant funds from the Office of the Secretary for Education) to K-12 schools to give them greater flexibility in meeting local needs.	E-80
Requested 6 percent increase in base budget	Shift $65.8 million in General Fund support from CSU to K-12 and community colleges to equalize base increases at 2.84 percent.	E-19
Proposed partnership	Do not endorse proposed annual automatic 5 percent increase in CSU's base budget.	E-137
Enrollment growth-rate projection	Reduce General Fund support by $30.7 million to reflect demographically based enrollment growth of 2.9 percent rather than the 4.5 percent included in the budget.	E-140
Marginal-cost funding	Reduce General Fund support by $2.8 million because CSU understates the amount of fee-related resources it will receive from additional students.	E-145

If the Legislature makes all these reductions, we recommend it not further reduce CSU's budget by making specific budgetary cuts. If the Legislature, however, does not make all the recommended reductions, then we recommend it consider the four specific budgetary cuts that we discuss below.

CONVERT THE GOVERNOR'S TEACHING FELLOWSHIPS INTO AN APLE PLUS

We recommend the Legislature approve the requested level of funding for the Governor's Teaching Fellowships but redesign the program to make it more cost-effective. We recommend the Legislature convert the fellowships into an augmented Assumption Program of Loans for Education, transfer implementation of the program from the Chancellor's Office to the Student Aid Commission (SAC), thereby saving the $1 million the budget provides to the California State University, and shift $79,000 and one position from the Commission on Teacher Credentialing to the SAC to administer the program.

The budget includes $3.5 million to establish the Governor's Teaching Fellowships. Of this amount, the budget allocates $1 million to the Chancellor's Office of CSU for first-year administrative costs. The remaining $2.5 million would fund 250 merit-based fellowships. The fellowships would each be worth $20,000. The first 250 recipients would receive two separate $10,000 installments—one in 2000-01 as they begin their teacher preparation programs and one in 2001-02. These funds represent phase-in funds, with the ultimate intent to provide 1,000 fellowships by 2002-03. As Figure 4 shows, the phase-in would take three budget years, with the total cost of the fellowships reaching $17.5 million in the second budget year and $20 million in the third budget year. The administration proposes to introduce legislation in the budget trailer bill(s) to create the program.

Figure 4

Phase-In Funding for Governor's Teaching Fellowships

	Phase 1 2000-01	Phase 2 2001-02	Phase 3 2002-03
Date fellowships awarded	Jan. 2001	Sept. 2001	Sept. 2002
Number of fellowships			
New	250	750	1,000
Renewals	—	250	—
Cost per fellowship	$10,000[a]	$20,000	$20,000
Total cost of fellowships	$2.5 million	$17.5 million	$20.0 million
Administrative costs[b]	$1.0 million	—	—
Total cost of program	**$3.5 million**	**$17.5 million[c]**	**$20.0 million[c]**

a The 250 initial awards consist of two $10,000 installments in the 2000-01 budget and 2001-02 budget.
b Administrative costs in phases 2 and 3 are unknown at this time.
c Represents minimum projected cost.

The primary objective of the program is to entice highly qualified prospective teachers to teach in low-performing schools after obtaining their credentials. The Chancellor's Office would set the criteria for selecting the most qualified individuals for the fellowships. The criteria would include individuals' previous academic and employment records, faculty and employer evaluations, interviews, and letters of recommendation. Students receiving fellowships could attend any accredited traditional or alternative teacher preparation program—public or private. They could use the fellowships to cover both tuition and living expenses. The fellowship program would require recipients to teach in low-performing schools in California for four consecutive years. The Chancellor's Office would require recipients to repay $5,000 for each year (of the four consecutive years) that they do not teach in a low-performing school. For purposes of the program, a low-performing school would be one that ranked in the lowest half of the Academic Performance Index (API). The API, established pursuant to Education Code Section 52056(a), ranks schools based primarily on how their students perform on standardized tests.

The Governor's budget provides $1 million—almost 30 percent of the total amount allocated for the fellowship program—to the Chancellor's Office to develop an application process, market and distribute the fellowships, and design and implement a system to extract repayment from recipients who do not complete their teaching commitments. Legislation would permit the Chancellor's Office to develop any rules and regulations necessary to recover funds from recipients who do not fulfill their agreements. A 12-member intersegmental committee—appointed by the Governor to four-year terms—would be responsible for reviewing all applications and recommending fellowship candidates to the Chancellor's Office. The committee would be comprised of six members recommended by CSU, three by UC, and three by the Association of Independent California Colleges and Universities. The Commission on Teacher Credentialing (CTC) would track fellowship recipients to identify recipients who fail to teach four consecutive years in a low-performing school. One position is included in CTC's budget for this purpose.

Fellowship Program Has Technical Problems

Although fellowships that encourage qualified individuals to teach in low-performing schools have merit, the proposed fellowship program has three serious problems.

- ***Definition of Low-Performing Schools Too Broad.*** Recipients would be allowed to teach in any school ranking in the bottom half of the state on the API. Theoretically, all fellowship recipients could work in schools ranking within the 40 percent to 50 percent range, thereby leaving the lowest-performing schools entirely unaffected by the program.

- ***Future Enforcement Costs Could Be Exorbitant.*** The program would require recipients to repay their scholarships if they failed to honor their teaching commitments. The program would require the Chancellor's Office to notify such recipients of their repayment obligations, to offer recipients a hearing, and to file civil charges against recipients the office finds in violation of their fellowship agreements. Depending upon the outcome of this legal process, most or all of these activities could be at the state's expense. If a large number of recipients renege on their agreements, enforcement costs could be significant.
- ***Administrative Layers Are Unnecessary and Too Costly.*** The Chancellor's Office, a 12-member intersegmental review committee, and CTC—as well as independent referees and the county clerk offices in California—would all be involved in administering the 1,000 grants. This administrative apparatus is unjustifiably large and unnecessary. For the first year, the Governor's budget provides the Chancellor's office with 40 cents for every $1 that the program would provide directly to prospective teachers—a clear indication of the proposed program's administrative complexity.

Strengthening the Fellowship Proposal

The Legislature could improve upon the proposed fellowship program in several key ways. The changes described below would improve the proposed program by better targeting the lowest performing schools, reducing enforcement costs, and streamlining administrative operations.

Improving Aim at Low-Performing Schools. To better target low-performing schools, the program should require recipients to work in a smaller, more focused set of schools (such as the bottom quartile) rather than the bottom half of low-performing schools. The program might also consider alternative selection criteria. For example, the program could target highly talented individuals willing to teach in schools with more than 20 percent noncredentialed teachers. (For further discussion of programs designed to target low-performing schools, please see page E-24 of this *Analysis*.)

Reducing Enforcement Costs by Using an APLE-Like Loan. The costs of ensuring teachers actually teach the required four years could be lowered substantially by converting the fellowship program into an augmented APLE. The APLE is a loan forgiveness program administered by the SAC. Students in teacher-preparation programs who agree to teach four consecutive years in low-performing schools can receive APLE warrants for up to $11,000 in value. The APLE recipients can redeem their warrants to repay their student loans.

In lieu of giving fellowships to cover expenses during their teacher preparation program, the state could give participants augmented APLE warrants worth $20,000. The warrant would be similar to the proposed fellowship in that the student would receive $20,000 to cover tuition and living expenses. The warrant would be different from the scholarship only in that the participants would receive the $20,000 as a loan that the state would forgive in stages after they had fulfilled each year of their teaching commitment. Moreover, if participants did not fulfill their teaching commitment, they would be held immediately and personally responsible for payment of loan debt.

Transferring Administration to SAC Would Further Reduce Costs. The SAC currently administers both the Cal Grant T and APLE. Thus, its program staff are already experienced in designing the application, marketing, selection, and other administrative processes associated with operating successful financial aid programs. Because the fellowship program is merit-based, the SAC, in consultation with the administration and higher education segments, could develop appropriate selection criteria. The SAC already has the ability to select recipients for various award programs based on such criteria, making an additional review body unnecessary.

In sum, we recommend the Legislature approve the requested funding for the Government Teaching Fellowship program, but it implement the program by:

- Tightening the definition of low-performing schools.
- Offering augmented APLE warrants rather than fellowships.
- Reducing administrative costs by housing the program within the SAC.

Accordingly, we recommend eliminating the $1 million for the CSU Chancellor's Office and shifting the $79,000 and one position requested for the CTC to the SAC for administration of the program.

DELETE FUNDING FOR FIXED COSTS AT CSU MONTEREY BAY

We recommend the Legislature delete $2.3 million the Governor's budget provides to California State University (CSU) to cover fixed costs at its Monterey Bay campus because CSU cannot provide an expenditure plan.

The budget provides CSU with $2.3 million for fixed costs associated with its Monterey Bay campus. The CSU Monterey Bay—CSU's 21st campus—is located on Fort Ord, a renovated military base that the federal government closed in 1991 and transferred to CSU for the explicit purpose of developing a new campus.

Monterey Bay enrolled its first class in fall 1995. Figure 5 reviews the campus's total budget and General Fund support for the last five years. In 1999-00, CSU Monterey Bay's total budget was almost $40 million. This amount was $5.3 million, or 15 percent, more than in 1998-99. Of this amount, $34.6 million was General Fund revenue. Whereas General Fund revenue increased $5.6 million, or 19 percent, between 1998-99 and 1999-00, funding from other sources fell by approximately $310,000, or almost 6 percent. The CSU does not have a proposed 2000-01 budget for CSU Monterey Bay. It claims, however, that it needs an additional $2.3 million in General Fund support to cover fixed costs associated with the start-up of the campus.

Figure 5

Review of Recent Budgets at CSU Monterey Bay

(Dollars in Millions)

						Change From 1998-99	
	1995-96	1996-97	1997-98	1998-99	1999-00	Amount	Percent
General Fund	$12.9	$17.5	$23.0	$29.0	$34.6	$5.6	19.4%
Other funds	2.7	3.4	4.2	5.6	5.3	-0.3	-5.5
Totals	**$15.6**	**$20.9**	**$27.2**	**$34.6**	**$39.9**	**$5.3**	**15%**

Slow Growth Contributes to High-Fixed Costs at CSU Monterey Bay

The state provides supplemental funds to cover fixed costs (such as administrative overhead) at new campuses because they lack the economies of scales that established campuses enjoy. Because new campuses tend to be considerably smaller than established campuses, they experience higher fixed costs per student. These costs should begin to decline, however, as enrollment levels increase and campuses are able to distribute fixed costs across a larger number of students. For example, a campus might need one librarian for every 5,000 students, at a cost of $100,000 for each librarian it employs. If a new campus enrolls only 1,000 students, the cost per student of employing the librarian is $100. By comparison, if the campus enrolls 5,000 students, the cost per student of employing the librarian falls to only $20.

Precisely because of initially high fixed costs per student, supplemental report language in the *1994-95 Budget Act* stated, "It is the intent of the Legislature, in providing an augmentation for start-up costs ($9.3 million) at the Monterey Bay campus, that enrollment growth at this campus be faster than that [initially] projected." The language set a specific enrollment goal for the campus of 4,000 FTE students in 1999-00. Figure 6 traces both enrollment growth and changes in the General Fund cost per FTE at CSU Monterey Bay over the last three years. The CSU Monterey Bay has not met the Legislature's enrollment target, though its enrollment has kept pace with its own internally-generated projections. Despite this moderate enrollment growth, average General Fund costs have not declined. In 1997-98, the average General Fund cost at CSU Monterey Bay was $14,900 per FTE. In 1999-00, the average General Fund cost had increased to $16,133 per FTE, more than double the systemwide average ($8,010 per FTE).

Figure 6

**General Fund Cost Per FTE[a]
High and Increasing at CSU Monterey Bay**

				Change From 1998-99	
	1997-98	1998-99	1999-00	Amount	Percent
General Fund (GF)[b]	$23.0	$29.0	$34.6	$5.6	19.4%
FTE	1,544	1,830	2,145	315	17.2
Average GF Per FTE:					
CSU Monterey Bay	$14,900	$15,842	$16,133	$291	1.8
Systemwide	6,987	7,662	8,010	348	4.5

a Full-time equivalent.
b Dollars in millions.

These trends are disconcerting for two reasons.

- Low enrollment is typically related to high fixed costs per student, as demonstrated by CSU Monterey Bay.
- Escalating average General Fund costs per FTE—in the midst of increasing enrollment—suggests potentially inefficient operations.

No Budget Plan

Not only does CSU Monterey Bay have lower-than-expected enrollment and higher-than-expected fixed costs per student, it also has no plan for how it would expend the requested $2.3 million. Figure 7 traces the General Fund support provided for fixed costs at CSU Monterey Bay. The state has provided CSU with six years of start-up funding totaling $22.7 million. Without an itemized expenditure plan, the Governor's proposal to provide CSU with a seventh year of supplemental funding for fixed costs at the Monterey Bay campus is unjustified. The CSU states that it cannot provide an itemized budget plan because individual campuses determine how they will use funds only "after funding commitments have been identified for the fiscal year."

Figure 7

History of Supplemental Funding at CSU Monterey Bay

(In Millions)

Budget Year	Supplemental Funding	Total Funding for Fixed Costs
1994-95	$9.3	$9.3
1995-96	2.8	12.1
1996-97	2.2	14.3
1997-98	2.9	17.3
1998-99	2.6	19.9
1999-00	2.8	22.7

We recommend the Legislature delete the $2.3 million the Governor's budget designates for fixed costs at CSU Monterey Bay because CSU can neither establish how much its Monterey Bay campus actually needs to cover its fixed costs nor can it document how it will expend the proposed funds. In addition to lacking an expenditure plan, CSU has not met the 1999-00 enrollment target set by the Legislature even though systemwide enrollments have grown steadily. Furthermore, its average General Fund cost per FTE is relatively high.

OTHER ISSUES

Delete Funding for Prior-Year Compensation Agreements

We recommend the Legislature delete $10.4 million the California State University (CSU) proposes to use to fund compensation agreements it made in 1998-99 and 1999-00 because CSU should bear the costs of more costly compensation agreements than authorized in the budget act.

In 1999-00, the state provided CSU with funds to cover a general compensation increase of 3.8 percent for its represented employees. During collective bargaining sessions in 1999-00, however, CSU agreed to provide a 4 percent compensation increase at an additional cost of $3.6 million. Similarly, CSU's 1999-00 faculty agreement, which covered both the 1998-99 and 1999-00 fiscal years, cost $6.8 million more than the amount the *1999-00 Budget Act* provided to CSU for faculty salary increases. Together, the differences between the state's appropriation and CSU's internal agreements total $10.4 million.

The CSU Should Bear Excess Costs of Compensation Agreements. Rather than the General Fund, CSU should bear the costs when it strikes more costly compensation agreements than authorized in the budget act. If CSU chooses to make more costly internal agreements, it should cover the excess costs of these agreements by achieving savings elsewhere or by redirecting existing funds. The system could, for instance, use carryover funds to cover these costs. The system used carryover funds in the current year to cover the costs associated with its 1999-00 general salary increase agreement. The CSU has a history of carrying over a substantial amount of funds. In the 1999-00 budget, CSU carried over almost $25 million, and in the 2000-01 budget, CSU is carrying over more than $28 million.

Consequently, we recommend the Legislature delete $10.4 million to cover the excess costs of agreements CSU made with its employee bargaining units in prior years.

Delete Funding for a New Off-Campus Center in the Coachella Valley

We recommend that the Legislature delete $380,000 requested to shift operations at California State University's existing off-campus center in Palm Desert to a new permanent facility in the Coachella Valley because the shift is both premature and unjustifiably costly.

The Governor's budget requests $380,000 to support a new off-campus center in the Coachella Valley. The CSU plans to move San Bernardino's off-campus center—currently housed in facilities it shares with a community college located in Palm Desert—into permanent facilities located in the Coachella Valley. It plans to construct three buildings on the new site.

Figure 8 shows the projected support costs and sources of funding for the new off-campus center. The CSU expects support costs at the new facility to total $2.2 million, or $1.3 million (138 percent) more than current support costs. To cover the $2.2 million in support costs, CSU plans to use $380,000 in General Fund support specifically requested for development of the new center, redirect $1.2 million internally from its systemwide General Fund support, and collect $700,000 in student fees. The total proposed increase in General Fund support for its new off-campus center is $1.2 million, or 324 percent, more than General Fund support in the current year for its existing center. We have two significant concerns with the proposal.

Figure 8

Substantial Increase in Support Costs at CSU's Proposed Off-Campus Center

(Dollars in Thousands)

	Estimated 1999-00	Proposed 2000-01	Change From 1999-00	
	Existing Center	Proposed Center	Amount	Percent
General Fund Support	$363	$1,539	$1,176	324%
Budget request	(0)	(380)	(380)	100
Existing CSU funds	(363)	(1,159)	(796)	219
Fee Support	$576	$700	$124	22%
Total cost	**$939**	**$2,239**	**$1,300**	**138%**

Request Is Premature. The CSU San Bernardino's Capital Outlay Master Plan does not currently include plans for a new off-campus center in the Coachella Valley and the Legislature has not approved its development. In addition, CSU has neither demonstrated to the Legislature that it needs a new center in the Coachella Valley nor has it established that its current services would be sufficiently enhanced at the new center to warrant a substantial increase in state support. Furthermore, even if the Legislature had already approved the new center, CSU states that its first building will not be completed until fall 2001. Thus, it will not need any additional operating funds in the budget year. Despite these points, the 2000-01 budget proposal provides support funds to hire additional faculty, librarians, and other staff as well as purchase additional equipment and cover basic operating costs at the new facility. (Please see page G-82 of this *Analysis* for further discussion of capital outlay issues related to the construction of CSU's proposed off-campus center in the Coachella Valley.)

Proposed Move Is Not Cost-Effective. Figure 9 compares the estimated average General Fund cost per FTE student at the existing facility with the projected average cost per FTE at the new facility. The average General Fund cost to serve the 300 students at the existing site is $1,210 per FTE. The projected average General Fund cost to serve 405 students at the new facility is $3,800 per FTE. This is $2,590, or 214 percent, more than the average cost per FTE at the existing site.

Figure 9

Moving CSU's Off-Campus Center Is Not Cost-Effective

	Estimated 1999-00	Proposed 2000-01	Change From 1999-00	
	Existing Center	Proposed Center	Amount	Percent
Total General Fund support	$363,000	$1,539,000	$1,176,000	324%
Full-time equivalent (FTE) students	300	405	105	35
Average General Fund cost per FTE	$1,210	$3,800	$2,590	214%

In sum, we recommend that the Legislature not approve the $380,000 requested for CSU to move San Bernardino's existing off-campus center into a new facility in the Coachella Valley. The CSU does not have capital plans or funds for the new facility. In addition, its operating costs per student at the new facility would be significantly higher than current operating costs.

CALIFORNIA COMMUNITY COLLEGES (6870)

The budget includes a $269 million increase in California Community College Proposition 98 funding in the budget year. This is $149 per student, or 3.8 percent, more than the revised estimate of per-student expenditures in the current year.

The California Community Colleges (CCC) provide instruction to about 1.6 million adults at 107 colleges operated by 72 locally governed districts throughout the state. The system offers academic and occupational programs at the lower-division (freshman and sophomore) level. Based on agreements with local school districts, some college districts offer a variety of adult education programs including basic skills education, citizenship instruction, vocational, avocational, and recreational programs. Finally, pursuant to state law, many colleges have established programs intended to further regional economic development.

Figure 1 shows the budget from all significant sources for community college education for the budget year and the two previous years. As the figure shows, CCC spending from all sources is projected to increase by $348 million, or 6.5 percent, above the current-year level.

Governor's Budget Proposals

Proposition 98 funding constitutes about 72 percent of overall community college funding. For 2000-01, the budget proposes to increase community college Proposition 98 funding by $268.6 million. Figure 2 (see page 172) shows the changes proposed for community college Proposition 98 funds in the budget year. The major changes include:

- $105.7 million for enrollment growth, based on a projected increase of 3 percent in 2000-01.
- $103.1 million to provide a 2.84 percent cost-of-living adjustment (COLA).

Figure 1

Community College Budget Summary

1998-99 Through 2000-01
(Dollars in Millions)

	Actual 1998-99	Estimated 1999-00	Proposed 2000-01	Change From 1999-00 Amount	Percent
Community College Proposition 98					
Proposition 98 total	$3,628.2	$3,886.9	$4,138.1	$251.2	6.5%
Less projected savings	-10.8	-17.4	—	17.4	-100.0
Less local property tax	-1,484.4	-1,580.3	-1,694.4	-114.2	7.2
Subtotals, General Fund	($2,133.0)	($2,289.2)	($2,443.6)	($154.4)	6.7%
Other Funds					
General Fund					
Teachers' retirement	$47.8	$72.1	$77.5	$5.4	7.5%
Bond payments	67.8	78.8	80.4	1.7	2.1
State operations	10.6	11.2	11.8	0.5	4.8
Other	0.4	0.5	—	-0.5	-100.0
Other state funds	7.3	8.6	7.0	-1.6	-18.9
State lottery funds	117.8	121.0	121.0	—	—
Student fees	160.2	152.7	157.2	4.6	3.0
Federal funds	160.8	171.0	182.3	11.3	6.6
Local property taxes	1,484.4	1,580.3	1,694.4	114.2	7.2
Other local	834.9	887.9	946.3	58.4	6.6
Totals	**$5,025.0**	**$5,373.2**	**$5,721.5**	**$348.3**	**6.5%**
Students					
Enrollment	1,494,751	1,547,067	1,593,479	46,412	3.0%
Full-time equivalent (FTE)	957,201	990,703	1,020,424	29,721	3.0
Proposition 98					
Amount per FTE student	$3,779	$3,906	$4,055	$149	3.8%

- $25 million for the Partnership for Excellence program. According to the budget, this augmentation is contingent on the community colleges developing significantly more rigorous systemwide goals prior to the May Revision.
- $10 million for scheduled maintenance and special repairs, bringing funding for this purpose to $49 million.

Figure 2

Governor's Community College Budget Proposals Proposition 98

(In Millions)	
1999-00 (revised)	**$3,869.5**
Enrollment Growth	
Apportionments	$99.1
Selected categorical programs	6.6
Subtotal	($105.7)
Cost-of-Living Increases	
Apportionments	$96.6
Selected categorical programs	6.5
Subtotal	($103.1)
Program Expansion	
Partnership for Excellence	$25.0
Maintenance/repairs	10.0
Telecommunications and technology	6.3
Extended opportunity and services	6.0
Lease-purchase payments	6.0
Disabled students	5.1
Instructional equipment	5.0
Financial aid administration	1.2
Economic development	1.1
Puente project	1.0
Financial aid reimbursements	0.5
Subtotal	($67.1)
Adjustments	
Other	-$7.3
Subtotal	(-$7.3)
2000-01 (proposed)	**$4,138.1**
Change from 1999-00 (revised)	
Amount	$268.6
Percent	6.9%

Proposition 98 Spending by Major Program

Figure 3 shows Proposition 98 spending for community college programs. "Apportionment" funding (available for the districts to spend on general purposes) accounts for $3.3 billion in 2000-01, or about 81 percent of total Proposition 98 expenditures. The state General Fund supports about 49 percent of apportionment funding, and local property taxes provide the remaining 51 percent.

"Categorical" programs (expenditures earmarked for a specified purpose) are also shown in Figure 3. These programs support a wide range of activities from services for disabled students to maintenance/special repairs.

Figure 3

Major Community College Programs Funded by Proposition 98

1999-00 and 2000-01 (In Millions)

	Estimated 1999-00	Proposed 2000-01	Change From 1999-00
Apportionments			
State General Fund	$1,570.1	$1,647.6	$77.5
Local property tax revenue	1,580.3	1,694.4	114.2
Subtotals	($3,150.4)	($3,342.0)	($191.7)
Categorical Programs			
Partnership for Excellence	$145.0	$170.0	$25.0
Matriculation—credit/noncredit	67.1	71.1	4.0
Extended opportunity and services	59.7	69.3	9.5
Disabled students	60.1	68.8	8.7
Services for CalWORKs recipients	65.0	65.0	—
Lease-purchase payments	61.3	67.3	6.0
Maintenance/special repairs	39.0	49.0	10.0
Instructional equipment/library	44.0	49.0	5.0
Economic development program	34.1	35.2	1.1
Telecommunications and technology	28.0	34.3	6.3
Basic skills	23.3	24.7	1.4
CARE program	10.4	11.0	0.6
Financial aid administration	6.4	7.6	1.2
Puente program	0.9	1.9	1.0
Other programs	71.9	71.9	—
Other adjustments	2.8	—	-2.8
Subtotals	($719.1)	($796.0)	($76.9)
Totals	**$3,869.5**	**$4,138.1**	**$268.6**

Equalization Funding

We recommend a General Fund appropriation of $27.8 million to the California Community Colleges (CCC) to increase the equality of funding among districts. We further recommend adoption of legislation requiring the CCC to use a simpler and more effective method to allocate funding for cost-of-living adjustments among districts, based on the average level of funding per full-time-equivalent student in districts of similar size.

The *Supplemental Report of the 1999-00 Budget Act* directed the Legislative Analyst's Office (LAO) to study and report on the distribution of general purpose funding among CCC districts. The language required the LAO to evaluate the existing process of equalizing general purpose funding among districts and, if necessary, to recommend a more effective alternative.

Funding Levels Are Already Fairly Equal. The CCC provided us with district-by-district apportionment data for 1998-99, which was the most recent year for which they had such detailed data. Figure 4 shows these district funding levels. Although funding levels appear to vary greatly—from a low of $3,191 per full-time-equivalent (FTE) student in the Santa Monica district (with 18,000 students) to a high of $7,530 in the West Kern district (with 900 students)—overall they are fairly close for the majority of districts. The funding level of most districts is relatively close to the systemwide average of $3,462 per FTE student. For example, the lowest-funded districts that account for 50 percent of students receive 48 percent of total general purpose funds. Figure 5 (see page 176) shows how funding was allocated among districts. It shows the average funding level per FTE student by decile.

Current CCC Method of Allocating Funds. Each year, the budget provides community colleges with additional apportionment funding for enrollment growth and COLAs. For example, the budget for 2000-01 includes $99 million for enrollment growth and $97 million for COLAs of 2.84 percent.

The CCC allocates funds for *enrollment growth* on an equal per FTE student basis, after adjusting for the size of districts and whether they have one or more campuses. The CCC allocates funding for *COLAs* quite differently. It allocates COLA funding based on a rather complex system of scoring districts according to a "program-based funding" formula. The formula assigns points to districts in each of five categories—instruction, instructional services, student services, maintenance and operations, and institutional support—based on hypothetical standards of how districts should spend their funds. Thus, rather than compare districts *directly* based on funding levels per FTE student, the CCC compares them very *indirectly* based on these hypothetical scores.

Figure 4

Community College District Apportionment Funding Average Per Full-Time-Equivalent (FTE) Student

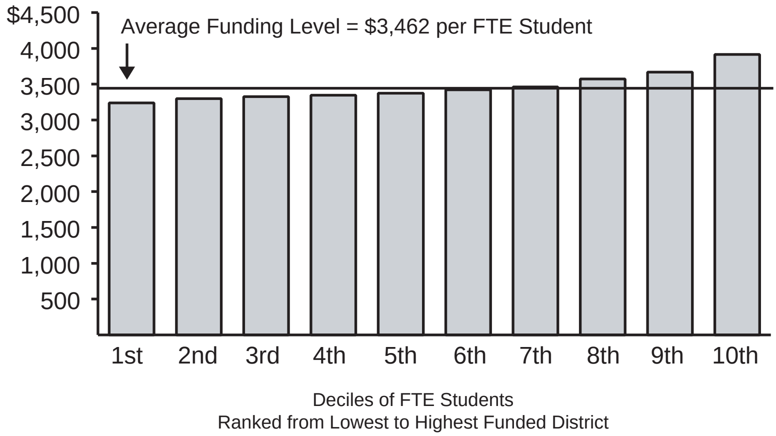
1998-99
(Actual Dollars)

District	Funding	District	Funding
Small Districts		**Medium Districts (continued)**	
Barstow	$ 4,523	Mt. San Antonio	$3,244
Compton	3,570	Mt. San Jacinto	3,549
Feather River	5,078	North Orange	3,308
Gavilan	3,690	Palomar	3,460
Imperial	3,404	Pasadena	3,265
Lake Tahoe	4,872	Peralta	3,658
Lassen	4,892	Rancho Santiago	3,438
Mendocino-Lake	4,286	Redwoods	3,596
Napa	3,685	Rio Hondo	3,498
Palo Verde	5,460	Riverside	3,272
Siskiyou	4,305	San Bernardino	3,406
West Hills	4,553	San Diego	3,324
West Kern	7,530	San Francisco	3,648
Average, Small Districts	**$4,061**	San Joaquin	3,605
Medium Districts		San Jose	3,614
Allan Hancock	$3,400	San Luis Obispo	3,392
Antelope Valley	3,356	San Mateo	3,475
Butte	3,440	Santa Barbara	3,359
Cabrillo	3,369	Santa Clarita	3,514
Cerritos	3,300	Santa Monica	3,191
Chabot-Las Positas	3,399	Sequoias	3,353
Chaffey	3,263	Shasta-Tehama-Trinity	3,506
Citrus	3,416	Sierra	3,329
Coast	3,706	Solano	3,437
Contra Costa	3,444	Sonoma	3,336
Desert	3,481	South Orange	3,409
El Camino	3,363	Southwestern	3,200
Foothill-De Anza	3,350	State Center	3,306
Fremont-Newark	3,417	Ventura	3,326
Glendale	3,301	Victor Valley	3,487
Grossmont-Cuyamaca	3,276	West Valley	3,359
Hartnell	3,594	Yosemite	3,483
Kern	3,654	Yuba	3,392
Long Beach	3,330	**Average, Medium Districts**	**$3,413**
Los Rios	3,339		
Marin	3,927	**Large District**	
Merced	3,427	Los Angeles	$3,682
Mira Costa	3,852	**Average, All Districts**	**$3,462**
Monterey Peninsula	3,553		

Figure 5

Average Funding Per Student Among Community College Districts

Average Apportionment Funding Per FTE by Decile of Students 1998-99



Our analysis indicates that the program-based funding method will not increase equality of funding among districts as effectively and as quickly as possible. This is because this method is only indirectly based on actual funding levels. In a simulation of funding allocation methods, we found that allocating additional funding based *directly* on actual funding levels increases funding equality faster than when allocating additional funding based *indirectly* on the CCC's scoring system. The direct method would also be much less complex and therefore much easier for the public to understand.

Accordingly, we recommend the Legislature enact legislation directing the CCC to allocate funding for COLAs based on the average funding level per FTE student of districts within district-size groupings. This would provide the same dollar amount per FTE student for COLA funding for each district within size groupings. Districts with above-average funding per FTE student would therefore receive a smaller percentage of their funding in COLAs than districts below the average funding level per FTE student. Consequently, funding differences among districts would decline on a percentage basis gradually over time.

If the Legislature wanted to increase equality even more quickly using annual COLAs, it could provide lower-funded districts with more

COLA funds per FTE student than higher funded districts. This would increase the rate at which funding per FTE student is equalized among districts within size groupings. This method is consistent with our recommendation for allocating COLA funds within the K-12 system. (Please see our discussion of discretionary funding in the K-12 education write up in this *Analysis*.)

Effect of Adding Funds Specifically for Equalization. In addition to increasing funding equality each year through enrollment growth and COLA funding, the Legislature can infuse the system with funds specifically for "equalization." The *1996-97 Budget Act* appropriated $14 million to the CCC to increase equality of funding among districts, and the *1997-98 Budget Act* appropriated $8.6 million for this purpose. The CCC allocated these equalization funds to districts that scored lowest in the CCC's program-based funding scoring system. This process increased funding equality less effectively than if the CCC had identified the lowest-funded districts directly. As Figure 6 shows, to bring 50 percent of districts to an equal funding level per FTE student within each district-size grouping would cost roughly $22 million. To bring 90 percent of systemwide enrollments up to the same level would cost roughly $200 million.

Figure 6

Effects of Various CCC Equalization Options

	Current Average	Percent of FTE[a] Equalized		
		50	70	90
Funding Averages Per FTE Student				
Small districts[b]	$4,061	$4,122	$4,549	$4,910
Medium districts	3,413	3,440	3,481	3,644
Large districts	3,682	3,682	3,682	3,682
General Fund cost of increases (millions)	—	$22	$71	$200

a Full-time equivalent.
b Funding average for small districts excludes West Kern.

We do not have any analytical basis for advising the Legislature on the appropriate level of equality. We recommend that the Legislature specify a practical longer-term equalization goal—that is, specify a point at which disparities in revenue limits can be reduced to acceptable levels. A practical equalization goal, for example, might involve equalizing general purpose funding for 90 percent of FTE students. As noted above, we have recommended General Fund reductions to the CCC budget totaling $38.2 million. In the following section, we recommend augmenting the CCC budget by $10.4 million to provide additional assistance to students for textbooks. Thus, a total of $27.8 million from our recommended cuts would be available for other legislative priorities. We recommend that the Legislature use these funds to increase equality of funding in the CCC. This would bring districts that account for over 50 percent of students up to an equal level. To the extent that the Legislature wishes to increase funding for the CCC above the Governor's budget, we recommend it consider directing these funds to further increasing funding equality among districts.

To the extent that the Legislature chooses to appropriate equalization funds, we recommend that the Legislature require the CCC to base allocation of such funds directly on levels of funding per FTE student (taking into account the district-size grouping of the districts), rather than by the current indirect scoring method it uses in its funding program.

$25 Million Augmentation for Partnership Is Premature

We recommend that the Legislature deny the $25 million augmentation request for the Partnership for Excellence Program until the California Community Colleges provides the Legislature with (1) meaningful goals, (2) plans to achieve the goals, and (3) indications that its performance is improving in the areas covered by the goals.

Chapter 330, Statutes of 1998 (SB 1564, Schiff), established the Partnership for Excellence Program. The act required the CCC to develop specific goals and outcome measures to improve student success and assess district performance. The act states that the CCC must establish goals for the following areas: (1) student transfers, (2) degrees and certificates, (3) successful course completion, (4) work force development, and (5) basic skills improvement. Chapter 330 expresses the state's intent to provide supplemental funding "to invest in program enhancements that will increase performance toward the community colleges' system outcome measures." The *1998-99 Budget Act* appropriated $100 million to the CCC for this purpose and the *1999-00 Budget Act* provided an augmentation of $45 million, which brings current-year funding to $145 million.

The budget proposes an augmentation of $25 million in the budget year for the Partnership for Excellence Program, which would increase overall funding to $170 million. The administration proposes to make this augmentation contingent on the CCC developing more rigorous and ambitious goals for the program.

Three-Agency Review Cites Deficiencies in Partnership Goals. The *1999-00 Budget Act* directed the CCC to report to the Department of Finance (DOF), the California Postsecondary Education Commission (CPEC), and the LAO by September 1, 1999 on the following with respect to the Partnership Program:

- Final goals and measures and the rationale for each, taking into consideration the three agencies' previous comments.
- Target levels of performance for each year of the program, given current funding levels.
- Baseline performance for each measure for three years prior to the initial program investment.
- A plan, developed with input from the three agencies, for annual systemwide and district-specific accountability reports to be published by April 15, 2000.

The CCC report was reviewed jointly by the three agencies. The agencies found the CCC's proposed goals inadequate. For example, they found that the CCC's proposals for increases in degrees and certificates and workforce development were not above increases that would reasonably be expected as a result of COLAs and "normal" enrollment growth. The three agencies found that the CCC's goals for 2005 for (1) transfer-prepared students, (2) successful course completions, and (3) basic-skills achievement were not cost-effective at the current $145 million funding level.

In a joint letter to the CCC dated December 21, 1999 (with copies provided to the Legislature), the three agencies described their findings. The agencies offered to share the details of their analysis with the CCC, to assist it in redefining more appropriate goals, and to help define mechanisms to advance performance-based-funding in the community colleges. The CCC has not formally responded to this letter. The Governor's budget does not reflect any subsequent changes to the Partnership for Excellence Program.

Based on the three-agency joint review, we recommend that the Legislature defer any augmentation for this program until the CCC provides the Legislature with (1) meaningful goals, (2) plans to achieve the goals, and (3) indications that its performance is improving in the areas covered by the goals. We therefore recommend that Item 6870-001-0001 be reduced by $25 million.

The administration also proposes related budget bill language which—in part—states that: ". . .no allocation of funds shall be made until the California Postsecondary Education Commission, the Legislative Analyst, and the Department of Finance have approved in writing the specific annual goals and measures relevant to the current level of funding for the Partnership."

This budget bill language relates to the entire program. We recommend striking this contingent language because it places the final review and decision-making with three agencies rather than with the Legislature, which is where this decision should be made.

In the event that the CCC is not able to respond adequately to the concerns expressed by the three agencies in time for appropriate legislative consideration in budget hearings, we recommend the administration pursue program enhancements through separate legislation. This would allow the Legislature the opportunity to fully review any proposal with advice from the three agencies.

Textbook Purchase Assistance for Financially Needy Students

We recommend that the Legislature provide $10.4 million to the California Community Colleges to augment its textbook assistance program because the program targets a critical resource to the most needy of students.

Low-income CCC students who are also "educationally disadvantaged" are eligible for special services through a program referred to as Extended Opportunity and Program Services (EOPS). Among the forms of assistance provided through EOPS are: counseling services, tutoring, basic skills instruction, peer counseling, and textbook purchase assistance. In the 1998-99 school year, 85,900 students were receiving some form of assistance through EOPS. The overall EOPS budget was $56.9 million in that year. Approximately $12.4 million, or nearly 22 percent, of the 1998-99 EOPS budget was allocated to help EOPS students purchase textbooks for classes. This amount allowed 55,250 EOPS students, or 64 percent of the total, to receive approximately $225 each in 1998-99 to purchase textbooks. Based on the annual *Student Expense and Resources Survey* (SEARS) conducted by the Student Aid Commission, the CCC estimates that its students spend an average of approximately $810 per year on textbooks and supplies.

Textbook Program to Reach Fewer Needy Students. Adjusting for enrollment growth and program expansion since 1998-99, we estimate that 101,600 students will be enrolled in EOPS in 2000-01. Without additional funding for the EOPS textbook assistance program, the program for 2000-01 will have to provide either the $225 grant to only 54 percent of the projected number of EOPS students, or lower the per student textbook allowance to reach more students.

Book Assistance Targets Important Resource to Most Needy Students. The Legislature has long viewed cost as a potential barrier for low-income educationally disadvantaged students who wish to attend a CCC. While the CCC waives its fees for 36 percent of students ($330 annually per eligible student), the annual cost of $810 for textbooks is about 2.5 times the average state fee. Purchasing textbooks for EOPS-eligible students is perhaps one of the most cost-effective financial aid programs, because it:

- Targets aid at the neediest of CCC students.
- Allows needy students to immediately obtain necessary course materials.
- Provides an enduring educational tool students can continue to use or pass on to other students.

In light of the targeted nature of textbook assistance, we therefore recommend that the Legislature augment the amount by $10.4 million, which would bring the total General Fund support for the EOPS textbook assistance program to $22.8 million. This augmentation would allow *all* EOPS-eligible students in 2000-01 to receive an average of $225 annually to purchase textbooks.

Withhold Recommendation Pending Review of Evaluation Report

We withhold recommendation on $35.2 million for Economic Development activities, pending receipt and review of the contracted evaluation of this program. This evaluation is due to the Legislature by March 1, 2000.

Chapter 805, Statutes of 1994 (AB 3512, Polanco), reauthorized an existing CCC program and changed its name to the Economic Development Program. The budget proposes $35.2 million from Proposition 98 funds for this program in 2000-01. This is an increase of $1.1 million, or 3.1 percent, over the current-year amount. The increase is proposed for 17 Mexican International Trade Centers established in the current-year in Chapter 959, Statutes of 1999 (SB 213, Polanco). Chapter 959 provided $1.1 million for these centers. Thus, total funding would increase to $2.2 million for the centers in 2000-01.

Chapter 299, Statutes of 1997 (AB 1578, Midgen), directed the Board of Governors to review the Economic Development Program by September 1, 1998 to determine whether the program should be extended beyond a sunset date of June 30, 1999. Chapter 299 further directed the Legislative Analyst, in conjunction with the Bureau of State Audits, to review the effectiveness of the program, with specific attention to the findings of the review by the CCC board.

In last year's *Analysis* we found that the evaluation completed under contract by the Board of Governors lacked even the most basic information on program outcomes and effectiveness. Furthermore, in collecting information for its report, the contractor used faulty survey methods. We recommended that the Legislature direct the CCC Chancellor's Office to end the contract and extend the program for one year until the CCC could complete a new evaluation.

The Legislature adopted that recommendation. Chapter 78, Statutes of 1999 (AB 1115, Strom-Martin) extends the sunset date for the program to January 1, 2001. The Chancellor's Office contracted for a new evaluation and requested that the contractor provide a preliminary report to the Legislature by March 1, 2000. The CCC says that the March report will provide sufficient information to determine the overall effectiveness of the program.

We will review this evaluation in the context of the state's other economic development efforts, especially those funded within the Trade and Commerce Agency, and with respect to the appropriateness and most effective use of Proposition 98 funds within the CCC. Pending receipt and review of this evaluation, we withhold recommendation on the $35.2 million budget request for the program.

STUDENT AID COMMISSION (7980)

The Student Aid Commission (SAC) provides financial aid to students through a variety of grant, loan, and work-study programs. The commission's proposed 2000-01 budget includes state and federal funds totaling $875 million. This is $71 million, or 8.9 percent, more than estimated expenditures in the current year.

The budget requests $460 million from the General Fund for the commission. This is $71 million, or 18 percent, more than estimated expenditures in the current year. Of the total General Fund amount, 98 percent is for direct student aid for higher education. The balance is for the cost of operating the commission and an outreach program for K-12 students.

Major General Fund Budget Changes

Figure 1 (see next page) shows the major changes proposed for the commission's budget in 2000-01. As the figure shows, the budget requests a General Fund increase of $71 million. The major factor driving this change is the out-year costs of $40 million associated with increases in the number and amount of Cal Grant A awards provided in the previous three years. The Governor's budget also includes a total of $30.5 million to increase Cal Grant aid. This consists of $28.3 million to provide 7,000 additional first-time Cal Grant A (3,500) and Cal Grant B (3,500) awards and $2.2 million to increase the maximum Cal Grant award by 3 percent from $9,420 to $9,701. The annual cost of these augmentations would increase to over $100 million by 2002-03 because each year the additional first-time awards will be given to new students while awards to prior recipients are renewed. The Governor's budget proposes to eliminate the $10 million currently provided for the Cal Grant T program.

Figure 1

Student Aid Commission Major General Fund Changes

(In Millions)

1999-00	**$388.5**
Costs of prior-year grant increases	$40.0
Add 3,500 new first-time Cal Grant A awards	15.3
Add 3,500 new first-time Cal Grant B awards	13.0
Eliminate Cal Grant T program	-10.0
Expand Cal-SOAP student-outreach program	5.0
Funding for redemption of APLE loan-forgiveness warrants	4.0
Increase maximum Cal Grant award from $9,420 to $9,703	2.2
Expand state work study program	2.6
Survey of student expenses and resources (one-time)	.3
Five new positions for various programs	.3
Technical and other adjustments	-1.3
Proposed 2000-01	**$459.9**
Increase[a]	$71.3
Percent increase	18%

[a] Total does not add due to rounding.

The Cal Grant Program

The Cal Grant program consists of four parts. Figure 2 summarizes the purpose; eligibility requirements; and awards for the Cal Grant A, Cal Grant B, and Cal Grant C programs. The Cal Grant T program, which provides grants to financially needy teacher-education students, uses the same eligibility criteria as the Cal Grant A program.

Figure 2

Description of Cal Grant Programs

2000-01

Cal Grant A	Cal Grant B	Cal Grant C
Based on financial need and academic performance.	Based primarily on financial need, preference for initial attendance at community college.	Vocational—based on financial need.
Eligibility		
Income ceiling: $68,700 for dependent student with five family members.	Income ceiling: $37,172 for dependent student with five or more family members.	Income ceiling: Same as Cal Grant A.
Asset ceiling: $45,400	Asset ceiling: $45,400	Asset ceiling: $45,400
GPA cut-off was 3.09 for all grade levels in 1999-00.	Applicants ranked based on family income, family size, GPA, family education background, and marital status of parents.	Applicants ranked based on work experience, educational performance, and recommendations
Plan to enroll at least two years at UC, CSU, or nonpublic institution.	Plan to enroll at least one year at a college.	Plan to enroll at least four months at community college, independent college, or vocational school.
Average Family Income of New Recipients (1999-00)		
$34,471	$14,998	$27,174
Maximum Award (1999-00)		
Tuition and fees: Nonpublic: $9,420 UC: $3,429 CSU: $1,428	Tuition and fees: No award in the first year, then same as Cal Grant A.	Tuition and fees: Nonpublic: $2,360 UC: $2,360
Other costs: none	Other costs: Up to $1,410	Other costs: Up to $530
Number of New Awards Annually (1999-00)		
25,640	25,640	3,774
Proposed Budget 2000-01 (In Millions)		
$283.5	$145.7	$6.0
Number of Current Recipients		
66,339	61,767	5,442

Figure 3 shows—for selected past years—how Cal Grant activities compared to the program's statutory goals. It indicates, for example, that the budget would support about 62,000 first-time Cal Grant awards in 2000-01 which would meet 80 percent of the statutory goal of providing Cal Grants to one-fourth of California high school graduates. (In most years, the statutory goal represents roughly one-half of graduates that go immediately to college.)

Figure 3

Cal Grants—Statutory Goals Compared to Actual Awards

Selected Years

	1980-81	1990-91	2000-01 Proposed
Goal: Awards for 25 Percent of High School Graduates			
25 percent of high school graduates	65,848	64,077	77,603
Actual number of new awards	23,232	31,220	62,054
Percent of goal	35.3%	48.7%	80.0%
Goal: Cover UC and CSU Fees for Financially Needy Students			
University of California			
Weighted average tuition and fees	$776	$1,820	$3,879
Maximum award	774	1,820	3,429
Percent of goal	99.7%	100.0%	88.4%
California State University			
Weighted average tuition and fees	$226	$920	$1,812
Maximum award	225	920	1,428
Percent of goal	99.6%	100.0%	78.8%

Changes Needed in Budgeting New Cal Grants

We recommend the Legislature adopt budget bill language directing the Student Aid Commission to allocate new Cal Grant awards in a manner that maintains General Fund costs for the additional awards at a constant level over time. Funding commitments made in this (or any) budget generally should not obligate future Legislatures to significant General Fund cost increases.

The budget requests a total of $28.3 million from the General Fund to provide 3,500 additional first-time Cal Grant A awards ($15.3 million) and 3,500 first-time Cal Grant B awards ($13 million).

Costs of Proposals Increase Significantly in Out-Years. Freshmen that receive Cal Grant awards continue to receive annual awards as they matriculate through four years of college (unless they drop out or otherwise become ineligible for the aid). In addition, increases in the number of first-time awards apply to every successive freshman class. Consequently, within four years, the annual cost of Cal Grant augmentations increases about 3.5 times. Thus, the $28.3 million the budget requests in 2000-01 for additional grants would cost the state over $100 million annually by 2004-05.

Costs of Cal Grant Augmentations Should Be Leveled Over Time. When the Governor and Legislature approve augmentations to the Cal Grant program in any year, they are, under current practice, effectively committing future Legislatures to increases that are approximately 3.5 times as high as the initial augmentation. The state could avoid this increase over time, however, if SAC implemented Cal Grant augmentations differently.

For example, the SAC could distribute additional awards among freshmen, sophomores, juniors, and seniors in the first year, taking into account the normal attrition rate, which is approximately 10 percent per year. For example, if the budget provides for 100 new awards and the attrition rate is 10 percent, the SAC could distribute 29 new awards to freshmen, 26 to sophomores, 24 to juniors, and 21 to seniors. Each year thereafter, the 29 awards could be given to freshmen, and the total of 100 awards would be sustained. As long as the SAC continued to allocate future increases in additional Cal Grant awards in this way, Legislatures would be better able to assess the fiscal implications of their actions and would not commit future Legislatures to budget increases over which they did not have direct control. Accordingly, we recommend that the Legislature adopt budget bill language directing the SAC to allocate additional Cal Grant awards among freshmen, sophomores, juniors, and seniors in the first year so as to level the costs of the increase over time.

Target APLE To Serve Schools With Greatest Need

We recommend the Legislature narrow the eligibility criteria of the Assumption Program of Loans for Education (APLE). Currently, APLE recipients can teach in more than 70 percent of all public elementary and secondary schools and still receive benefits for teaching in a "disadvantaged school." By offering APLE warrants only to individuals who agree to teach in the neediest schools, the Legislature could more effectively target the benefits of the program.

The budget proposes to expand the Assumption Program of Loans for Education (APLE) by issuing 1,000 additional warrants, thereby increasing the maximum number of warrants issued each year from 5,500 to 6,500. An APLE warrant is an agreement between a student and SAC stipulating that SAC will pay off a specified amount of a student's loan debt if the student complies with all APLE requirements. Because APLE warrants are redeemed only after a recipient has completed school and at least one year of teaching, the proposed budget does not include funds for the additional 1,000 warrants. Issuing 1,000 additional warrants in the budget year, however, will increase state costs in subsequent years.

In addition to the increase in APLE warrants requested in the budget, proposed trailer bill language would remove some of the administrative complexity of the program and further broaden the program's eligibility criteria.

Background. The legislative intent for APLE is contained in Education Code Sections 69612 through 69616. The primary purpose of APLE is to provide financial incentives to students to become credentialed teachers and to teach in subject shortage areas, schools serving low-income pupils, rural schools, and schools with a high percentage of teachers holding emergency permits. The state agrees to pay a maximum of $11,000 of APLE recipients' loan debt if they agree to teach in one of these areas for four consecutive years.

Currently, statute requires teacher preparation institutions to allocate a specific percentage of APLE warrants to participants who agree to teach in each of these areas. For example, statute requires institutions to distribute 60 percent of their allotted warrants to individuals who agree to teach in subject shortage areas and 40 percent to individuals who agree to teach in schools serving many students from low-income families. Because many teacher preparation institutions have had difficulty filling the precisely specified warrant allotments, trailer bill language proposes to allow institutions to offer warrants to individuals willing to teach in any of the designated areas. Trailer bill language would also expand the current eligibility categories by adding "low-performing schools" to the list of schools where APLE participants may teach.

Broad Eligibility Criteria Fail to Target Neediest Schools. Under both the current and the proposed eligibility requirements, APLE recipients can teach in almost any school in the state and still receive benefits. Under the current eligibility requirements, APLE recipients could receive benefits in 1999-00 if they taught in any of the following subject shortage areas: reading, life or physical science, math, bilingual education, or special education. They could also receive benefits if they taught in any of the 5,823 schools (approximately 70 percent of all public elementary and secondary schools) that statute defines as low-income. Beginning in 2000-01, APLE recipients will also be able to receive benefits if they work in rural schools or in schools with a high percentage of teachers holding emergency permits. The trailer bill language would also allow APLE recipients to receive benefits if they teach in any low-performing school, which under the administration's definition of "low performance" equals half the state's schools.

Narrowing Eligibility Criteria Can Focus Program's Benefits. The Legislature could more effectively target the benefits of APLE by narrowing its eligibility criteria. Because the program's eligibility criteria are so broad, the program is likely to have little noticeable effect on the schools that have the greatest need for qualified teachers. If the Legislature narrowed the pool of state-approved schools, it could magnify the program's impact on these schools.

While continuing to endorse the administrative simplicity that is embedded in the proposed trailer bill language, the Legislature might focus the program by agreeing to provide APLE benefits only to those individuals who agree to teach in schools with 20 percent or more noncredentialed teachers. A recent report by SRI International found that schools with 20 percent or more noncredentialed teachers confront significantly more challenges than other schools. Narrowing the percent of state-approved schools would allow the Legislature to ensure that APLE actually benefits these neediest of schools. (Please see page E-24 for a more detailed discussion of low-performing schools.)

In sum, we recommend the Legislature reduce the set of schools in which APLE recipients may teach to those with 20 percent or more noncredentialed teachers. Under both the current and proposed eligibility criteria, APLE recipients could work in almost any school in the state and still receive benefits. The Legislature could greatly target the benefits of the program by offering APLE benefits only to those individuals who agree to teach in the neediest schools.

RESTORE CAL GRANT T PROGRAM

We recommend the Legislature restore funding for the Cal Grant T program because it provides incentives for financially needy students to pursue teaching careers with little, if any, additional cost to the state. (Increase Item 7980-101-0001 by $10 million.)

The Governor's budget proposes eliminating the Cal Grant T program. In the 1998-99 and the 1999-00 budgets, the state appropriated $10 million to provide 3,000 new Cal Grant T awards. Figure 4 (see next page) provides basic information regarding Cal Grant T awards and recipients. In 1998-99, 2,044 students received Cal Grant T awards, at a total cost of $9.4 million. In 1999-00, 2,098 students received new awards and 521 students received renewals, at a total cost of $14 million.

Figure 4

Cal Grant T Awards

	Number of Recipients	Percent of All Recipients	Average Award	Total Award Amount (In Millions)
1998-99				
UC	227	11%	$3,609	$0.8
CSU	1,046	51	1,584	1.7
Independents	771	38	8,951	6.9
Totals	**2,044**	**100%**	**$4,588**	**$9.4**
1999-00				
UC	162	8%	$3,609	$0.5
CSU	955	46	1,506	1.4
Independents	981	47	9,456	9.3
Subtotals	(2,098)	(100%)	($5,386)	($11.3)
Renewals	521	—	$5,204	$2.7
Totals	**2,619**	**—**	**$5,350**	**$14.0**

Background

Chapter 336, Statutes of 1998 (SB 2064, O'Connell), created the Cal Grant T program, which is administered by SAC. The program provides a one-year grant to students who have already obtained a baccalaureate degree and are currently (or soon to be) enrolled in a state-approved teacher preparation program. The grant covers only educational fees. The eligibility requirements for Cal Grant T awards are the same as those for Cal Grant A awards. Both awards are based foremost on need. The SAC then ranks those who meet the need-based requirements according to their undergraduate grade point average (GPA).

Rationale for Eliminating the Cal Grant T Program. According to the Office of the Secretary for Education, the Governor proposes to eliminate the Cal Grant T program because he believes the APLE is more effective at recruiting and retaining teachers. The APLE was enacted almost 15 years ago and, like the Cal Grant T program, is administered by SAC. The APLE is designed to attract and retain teachers by paying off students' loans. The APLE recipients who teach four consecutive years in a low-income area or in a subject-shortage area can have a maximum of $11,000 of their loan debt forgiven. Unlike APLE recipients, Cal Grant T recipients neither have to make a commitment to teach in particular areas nor do they actually have to teach before receiving financial assistance.

Major Consequences of Eliminating the Cal Grant T Program

The Governor's proposal to eliminate the Cal Grant T program has two major adverse consequences.

Restricts Options of Financially Needy Students. Without being able to obtain a Cal Grant T award, financially disadvantaged students would have to rely exclusively on APLE since it would be the only remaining state financial aid program for prospective teachers. Eliminating the Cal Grant T program and relying exclusively on APLE, however, restricts the options of financially needy students in two significant ways.

- ***Narrows Range of Options Among Teacher Preparation Programs.*** Currently, almost half of all Cal Grant T recipients choose to attend private institutions. Many of these students also obtain APLE warrants to help them cover their living expenses. Without the possibility of obtaining a Cal Grant T award, these students would be much less likely to be able to afford the cost of private teacher preparation programs and much more likely to rely on the heavily state-subsidized programs at the University of California (UC) and the California State University (CSU). Denying these students Cal Grant T awards not only restricts their choice of a program best suited to their individual needs and interests, but it also might increase the total cost the state incurs to educate prospective teachers because the state does not incur capital costs for students attending private institutions.
- ***Narrows Range of Future Employment Opportunities.*** Under existing APLE regulations, a financially needy student must agree to work in specific areas sanctioned by the state. By eliminating the Cal Grant T program, the state denies aid to all financially needy students who do not want to teach in a subject-shortage or low-income area. The rationale for eliminating financial assistance to financially needy students who desire to teach biology or history (two nonshortage subjects) or who desire to teach in higher income areas remains unclear.

Threatens to Reduce Supply of Teachers in Midst of Growing Demand. Although programs should demonstrate their effectiveness before the Legislature endorses them, the Legislature needs to be wary of reducing the supply of teachers when the demand for them remains so great. Unfortunately, we do not know if either Cal Grant T or APLE is cost-effective. The SAC does not know if Cal Grant T recipients are more or less likely than APLE recipients to finish their teacher preparation program, to obtain a teaching credential, to enter the classroom, to remain teachers, or to be effective as teachers. In addition, while approximately half of Cal Grant T recipients also receive APLE warrants, the extent to which the programs serve distinct populations and purposes is unknown. Without these data, it is difficult for the Legislature to determine if Cal Grant T, APLE, or both programs should be eliminated or expanded.

The Cal Grant program has an established history as an effective program in offering assistance to financially needy students. More than 4,000 students have benefitted from the Cal Grant T program in the last two years. The Cal Grant T program might be equally or more cost-effective than APLE even if the retention rate among Cal Grant T recipients is lower than among APLE recipients. This is because Cal Grant T recipients receive, on average, less financial assistance. For example, if SAC distributed 1,000 APLE warrants and APLE recipients had a 75 percent retention rate, such that SAC forgave 750 loans at $11,000 per loan, the state would incur a total cost of $8.3 million. For the same cost, the SAC could distribute more than 1,500 Cal Grant T awards, at the average award amount ($5,386). Even if Cal Grant T recipients had only a 50 percent retention rate, the two programs would be equally cost-effective. Given these factors, coupled with all the remaining unknown factors, we recommend the Legislature exercise caution in eliminating programs that are likely to increase the supply of qualified teachers.

In sum, by eliminating the Cal Grant T program, the administration would restrict the choices of financially needy students, potentially increase the cost the state incurs to educate prospective teachers, and possibly diminish the future supply of qualified teachers. We, therefore, recommend the Legislature restore the $10 million General Fund support for the Cal Grant T program.

FINDINGS AND RECOMMENDATIONS

Education

Analysis Page

CROSSCUTTING ISSUES

Education Priorities

E-13 ■ **Education Priorities.** We take broad issue with the priorities and approach to higher education and K-12 education taken by the budget. The net effect of our various recommendations result in a Proposition 98 spending total for 2000-01 that is $172 million above the Governor's proposed level. Given the Legislature's interest in addressing K-14 needs, the Legislature may wish to allocate even more resources to Proposition 98 programs. In that event, we suggest areas where the Legislature could spend more money effectively.

Base Budget Adjustments

E-19 ■ **Equalize Base Increases. Recommend a reduction of $148.8 million in General Fund support for California State University (-$65.8 million), University of California (-$82.6 million), and Hastings College of the Law (-$0.4 million).** The proposed 6 percent increase in base funding far exceeds a reasonable cost-of-living adjustment. Recommend that the $148.8 million be shifted to K-12 schools ($134.3 million) and community colleges ($14.5 million) in the form of general purpose monies.

Analysis Page

Teacher Quality and Supply

E-22 ■ **Hard-To-staff Schools Block Grant. Replace Item 6110-229-0001; $122.3 million, Proposition 98.** Recommend Legislature redirect monies for four programs for low-performing school teacher recruitment—$122.3 million—into a block grant to school districts for teacher recruitment, retention and support targeted to schools where at least 20 percent of the teaching staff lack credentials. Further recommend that annual decreases in the percentage of teachers without credentials be a condition of ongoing receipt of the block grant.

E-30 ■ **National Board Certification. Reduce Item 6110-195-0001 by $15 million.** Recommend deleting $15 million provided for incentives to teachers earning National Board certification. Recommend instead providing these funds to school districts through block grants.

E-31 ■ **Lift State Teachers' Retirement (STRS) Earnings Cap.** Recommend enacting legislation to lift the statutory cap on earnings for STRS retirees returning to employment as public school teachers, teacher support providers, principals and vice-principals.

E-32 ■ **University of California (UC) Institutes for K-12 Professional Development. Reduce Item 6440-001-0001 by $71.3 million and Item 6110-135-0001 by $48 million.** Recommend Legislature redirect $119.3 million ($71.3 million from UC and $48 million of Proposition 98 funds) for UC-administered Professional Development Institutes to school district block grants for staff development priorities they identify.

E-37 ■ **Staff Development Block Grants.** Recommend Legislature provide $149.3 million from the General Fund (Proposition 98) in block grants to school districts for staff development training to address immediate teacher quality needs based on local circumstances and priorities.

Analysis Page

Governor's Scholar Program

E-39 ■ **Restructure Distribution of Scholarships.** Recommend providing scholarships to the top 10 percent of students at each high school in order to (1) provide incentives for a more diverse set of students across the state and (2) increase the program's college outreach effect.

E-42 ■ **Use Augmented Test for Scholarships.** Recommend using only the Standardized Testing and Reporting (STAR) program augmentation test scores to determine which students receive scholarships because (1) using the two tests causes unnecessary confusion, and (2) rewarding the standards-aligned STAR augmentation reinforces the central role the state's academic content standards must play in the state's accountability framework.

E-43 ■ **Defer Program Implementation One Year.** Recommend that the Legislature appropriate funds for the Merit Scholarship program for expenditure in the 2001-02 fiscal year instead of 2000-01 because the program needs to be in effect prior to students taking the test in order to affect their effort. Adoption of this recommendation would create $111 million of one-time non-Proposition 98 savings and $1 million in one-time Proposition 98 savings for other legislative priorities.

E-44 ■ **Distinguished Math and Science Scholars.** Recommend deleting $6 million provided for the Governor's Distinguished Math and Science Scholars Program because the funding would not create an additional incentive for California's highest achieving students.

Advanced Placement Courses

E-46 ■ **Advanced Placement (AP) Grant Program Premature. Reduce Item 6110-193-0001 by $8 Million.** Adopt budget bill language requiring the Office of the Secretary for Education to submit a report addressing the problem of access to AP courses, including a comprehensive solution. Recommend the Legislature delete $8 million for the AP grant program until such a plan is available.

Analysis Page

K-12 Education

Introduction

E-53 ■ **K-12 Budget Summary.** Budget includes increase in K-12 Proposition 98 funding of over $1.9 billion in the budget year. This is $268 per pupil, or 4.4 percent, more than revised current year estimate of per-pupil expenditures. Budget also proposes significant increases in spending related to K-12 that is "outside" Proposition 98.

California's Per Pupil Spending Relative to the Nation's

E-61 ■ **Per-Pupil Spending**. There has been growing legislative interest in California and national per-pupil spending. We discuss why measurements of per-pupil spending vary, estimate current per-pupil spending levels, and offer some considerations on the issue of spending to the national average.

Discretionary Funding

E-67 ■ **Local Discretion Over New Spending**. Provide $134.3 million from the General Fund (Proposition 98) in additional revenue limit funding to school districts and county offices of education. Of this amount, we recommend $65 million be provided for equalization and $69.3 million be provided for deficit reduction. Further recommend Legislature adopt legislation to implement a sliding-scale COLA for revenue limits beginning in 2001-02.

Education Technology

E-72 ■ **Technology Grants for On-Line Advanced Placement (AP) Courses.** Recommend Office of the Secretary for Education report to the fiscal subcommittees prior to budget hearings regarding technology cost of offering AP courses on-line. Further recommend Legislature *provisionally* allocated $10 million of one-time Proposition 98 funds for this purpose. Further recommend that State Department of Education administer program instead of Secretary for Education.

Analysis Page

E-75 ■ **One-Time Technology Grants.** Recommend Legislature redirect $165 million proposed for Education Technology Grant Program to (1) finance a Technology Revolving Loan Fund and (2) provide E-rate planning grants.

E-77 ■ **Technology Revolving Loan Fund.** Recommend creating the Education Technology Revolving Loan Fund to provide interest-free, subsidized loans to school districts to assist in implementing technology projects. Recommend Legislature provide $160 million in one-time Proposition 98 funds for this purpose.

E-78 ■ **Establish E-Rate Task Force.** Recommend Legislature establish an E-rate task force headed by Secretary for Education to improve California's participation rate in the federal program. Further recommend Legislature provide $5 million one-time Proposition 98 funds to school districts to assist them in developing planning documentation to receive federal E-rate subsidies.

E-80 ■ **Education Technology Staff Development. Reduce Item 0650-011-0001 by $25 million.** Recommend Legislature redirect $25 million (of one-time General Fund) proposed for a contract with California State University instead to local school districts as part of a larger staff development block grant.

High School Exit Exam

E-81 ■ **Administration of the Exit Exam.** Recommend the State Department of Education report at budget hearings on whether the High School Exit Exam will be administered in the budget year.

Supplemental Instruction

E-83 ■ **Consolidate Intensive Reading Program With Remedial and Core Summer School Programs.** Recommend the Legislature expand the Governor's consolidation proposal to include the Elementary School Intensive Reading Program, in order to

Analysis Page

provide even greater flexibility to local districts. Recommend increasing the combined enrollment cap for these programs to 24 percent of enrollment for all districts.

E-91 ■ **Transform Proposal for Intensive Algebra Academies.** Recommend the Legislature redirect the $18 million proposed for Intensive Algebra Academies to increase the funding base of the consolidated programs, because the need for improved algebra can be met better through locally determined supplemental instructional programs. Recommend redirection of the $3.2 million ($1.7 million from the University of California and $1.5 million of Proposition 98 funds) for teacher training institutes in pre-algebra and algebra to school districts as part of a larger staff development block grant.

E-92 ■ **Consider Adjusting Enrollment Cap Based on Measures of Disadvantage.** Recommend the Legislature consider upward adjustments to the enrollment caps for the consolidated programs, based on measures of socioeconomic disadvantage, in order to recognize extraordinary areas of need.

E-93 ■ **Lift Restrictions on When Districts Can Provide Instruction.** Recommend the Legislature enact legislation allowing school districts to provide supplemental instruction to students before school, in order to give them the flexibility to best use available resources.

E-93 ■ **Require SDE to Report on Elementary School Intensive Reading Program Evaluation.** Recommend the State Department of Education report to the Legislature prior to budget hearings on its time line for the evaluation of the Elementary School Intensive Reading Program for which the Legislature approved $500,000 in the *1999-00 Budget Act.*

Child Care

E-94 ■ **Child Care for CalWORKs Families and the Working Poor.** Recommend enactment of legislation to conduct a pilot test of the Wisconsin-style child care program in up to four counties in California.

Analysis Page

Special Education

E-104 ■ **Growth Rate Should Be Equal to General Education.** Recommend rate of growth for special education be equal to rate of change for general education for a General Fund savings of $1.5 million. Recommend further that savings be used to provide additional funding for equalization and the incidence multiplier.

E-104 ■ **Update on Compliance Issues.** Recommend the Legislature direct the State Department of Education to testify during budget hearings on progress toward (1) resolution with the U.S. Office of Education on California's compliance with federal laws for special education and (2) development of its Quality Assurance and Focused Monitoring Pilot Program.

Other Issues

E-111 ■ **California School Information System (CSIS).** Withhold recommendation on $10 million proposed for CSIS (Item 6110-101-0349), pending receipt and review of independent evaluator's first oversight report and CSIS's charter document.

E-111 ■ **Provide CSIS Funding Assurance.** Adopt budget bill language to assure CSIS a specific funding level in the budget year.

E-112 ■ **Plan Needed for Electronic Reporting.** Recommend State Department of Education (SDE) report prior to budget hearings on its plan to facilitate CSIS electronic reporting and related staffing and equipment needs.

E-113 ■ **Charter School Direct Funding Model.** Recommend SDE report to fiscal committees prior to budget hearings on charter school enrollment, and adjust the charter School Direct Funding Model appropriation (Item 6110-211-0001) accordingly.

E-116 ■ **Charter School Evaluation Funding.** Provide $333,000 in Goals 2000 funds for first-year funding for a multiyear

Analysis Page

evaluation of charter schools that was previously authorized by the Legislature.

E-118 ■ **Voluntary Desegregation Programs.** Withhold recommendation on $8 million (Item 6110-115-0001) proposed for new voluntary desegregation programs at Delano, Alameda, and Visalia Unified School Districts because these districts have not submitted plans or other supporting documents.

Department of Education—Support

E-120 ■ **Parental Involvement Evaluation.** Recommend the Legislature redirect $500,000 in federal Goals 2000 funds (Item 6110-001-890) from an evaluation of the newly created parental involvement programs to other evaluation needs.

E-120 ■ **Public Information Campaign for Accountability System. Reduce Item 6110-001-0001 by $1 Million.** Recommend the Legislature delete $1 million in one-time funds provided for an information campaign for the state's accountability program.

E-121 ■ **California School for the Deaf, Riverside.** Withhold recommendation on $1,920,000 of one-time General Fund (Item 6110-005-0001) for replacement of roofs and renovation of bathrooms at California School for the Deaf, Riverside, pending completion of review of State Special Schools needs requested in the *Supplemental Report of the 1999-00 Budget Act*.

California State Library

E-122 ■ **Budget Proposals Lacking Adequate Justification. Reduce Item 6120-011-0001 by $694,000.** Recommend Legislature deny several budget requests totaling $694,000 because the requests are not adequately justified and withhold recommendation on two requests totaling $2,030,000 pending receipt of additional information from the library.

Analysis Page

Commission on Teacher Credentialing

E-127 ■ **Wait for Management Study Findings.** Withhold recommendation on $756,000 and additional 12.5 positions, pending release of management study findings due March 1, 2000.

E-127 ■ **Delete Position and Funding for Governor's Teaching Fellowship Tracking. Reduce Item 6360-001-0001 by $79,000.** Recommend deleting $79,000 and one position because program would be better placed at Student Aid Commission.

E-128 ■ **Delete Funds and Positions for Credentialed Teacher Recruitment Program. Reduce Item 6360-001-0001 by $52 Million and Reduce Item 6360-101-0001 by $896,000.** Recommend deleting $52.9 million and ten positions for Commission on Teacher Credentialing and instead shift the funds to a Hard-to-Staff Schools block grant.

Higher Education

Intersegmental Issues

E-137 ■ **Proposed Partnership Ill-Advised.** Recommend Legislature not endorse an auto-pilot "partnership" with the California State University (CSU) and University of California (UC) because it would reduce legislative flexibility in balancing its budget priorities and it could reduce incentives for CSU and UC to increase productivity.

E-141 ■ **Enrollment Growth.** Recommend the Legislature reduce $61 million from the $230 million requested in the budget for enrollment growth in the community colleges, CSU, and UC, because budgeted growth rates significantly exceed growth-rate projections of the Department of Finance and California Postsecondary Education Commission.

E-144 ■ **Year-Round Instruction.** Recommend the Legislature adopt budget bill language that provides full marginal-cost funding for all enrollment growth at UC and CSU, regardless of the season in which it occurs. We recommend that the Legislature appropriate a total of $24 million from the General Fund to

Analysis Page

CSU ($12 million) and UC ($12 million) to reduce student fees on existing summer enrollments to the same level as for fall, winter, and spring terms. We also recommend that the administration, community colleges, CSU, and UC report during budget hearings on their plans for implementing year-round instruction on college campuses.

E-145 ■ **New Enrollments Overbudgeted.** Recommend reductions of $2.8 million and $6.6 million in the General Fund requests for new enrollments at CSU and UC, respectively, because the requests incorrectly account for fee-related resources.

University of California

E-150 ■ **Teaching Hospitals Not Justified.** Recommend the Legislature deny the budget request for a one-time augmentation of $25 million to the University of California (UC) teaching hospitals for the purchase of medical equipment because our analysis of the hospitals' recent financial statements indicates that the hospitals are generating sufficient funds to purchase this equipment.

E-151 ■ **Nonresident Fees Should Keep Pace With UC Costs.** We recommend the Legislature direct UC to increase total fees for nonresident students by 4.5 percent. This would add $2 million to UC's fee revenue, and result in a $2 million reduction in General Fund costs. We further recommend the Legislature require UC to report on its policies for fees and grant aid for nonresident students.

E-153 ■ **The UC Santa Cruz Regional Center.** We recommend that the Legislature deny the request for $1.1 million from the General Fund for UC to hire staff to begin planning for a UC Santa Cruz off-campus center in Santa Clara because UC has neither shown a need for the center nor has it gone through the established process for new center proposals.

Analysis Page

California State University

E-160 ■ **Convert the Governor's Teaching Fellowships Into An APLE Plus.** Recommend the Legislature convert the graduate teaching fellowships into an augmented Assumption Program of Loans for Education (APLE), transfer administration of the program from the Chancellor's Office to the Student Aid Commission (SAC), delete $1 million the budget provides to California State University (CSU) for administration, and shift $79,000 and one position from the Commission on Teacher Credentialing to the SAC.

E-164 ■ **Delete Funding for Fixed Costs at CSU Monterey Bay.** Recommend the Legislature delete $2.3 million requested to cover fixed costs at CSU's Monterey Bay campus. Not only does CSU Monterey Bay have extremely high average General Fund costs per student, but CSU has no plan for how it would expend the $2.3 million.

E-167 ■ **Delete Funding for Prior-Year Compensation Agreements.** Recommend the Legislature delete $10.4 million in General Fund support that CSU plans to use to fund compensation agreements it made in 1998-99 and 1999-00 because CSU should bear the costs of these agreements.

E-167 ■ **Delete Funding for New CSU Off-Campus Center in the Coachella Valley.** Recommend the Legislature delete $380,000 from the General Fund to move CSU San Bernardino's existing off-campus center to a new permanent facility because the move is both premature and unjustifiably costly.

California Community Colleges

E-174 ■ **California Community College Funding Equalization.** Recommend a General Fund appropriation of $27.8 million to increase equality of funding per full-time-equivalent (FTE) student among community college districts. Further recommend adoption of legislation requiring the California Community Colleges (CCC) to use a simpler and more effective method to equalize funding among districts, based

Analysis Page

on the average level of funding per FTE student in districts of similar size.

E-178 ■ **Partnership Program Augmentation Premature.** Recommend that the Legislature deny the $25 million augmentation request for the Partnership for Excellence Program until the CCC provides the Legislature with (1) meaningful goals, (2) plans to achieve the goals, and (3) indications that its performance is improving in the areas covered by the goals.

E-180 ■ **Textbook Purchase Assistance. Recommend $10.4 Million to Augment the Textbook Assistance Program.** Recommend that the Legislature provide $10.4 million to the California Community Colleges to augment its textbook assistance program because the program targets a critical resource to the most needy of students.

E-181 ■ **Economic Development Program.** Withhold recommendation pending receipt of review of the contracted evaluation of this program.

Student Aid Commission

E-186 ■ **Allocation of New Cal Grant Awards.** Recommend the Legislature adopt budget bill language directing the Student Aid Commission to allocate new Cal Grant awards in a manner that maintains General Fund costs for the additional awards at a constant level over time. Funding commitments made in this (or any) budget generally should not obligate future Legislatures to significant General Fund cost increases.

E-187 ■ **Target APLE to Serve Schools With Greatest Need.** Recommend the Legislature narrow the eligibility criteria of the Assumption Program of Loans for Education (APLE). Currently, APLE recipients can teach in more than 70 percent of all public elementary and secondary schools and still receive benefits for teaching in a "disadvantaged school." By offering APLE warrants only to individuals who agree to teach in the neediest schools, the Legislature could more effectively target the benefits of the program.

Analysis Page

E-189 ■ **Restore Cal Grant T Program.** Recommend the Legislature restore the $10 million General Fund support for the Cal Grant T program because eliminating it would restrict the choices of financially needy students, potentially increase the cost the state incurs to educate prospective teachers, and possibly diminish the future supply of qualified teachers.