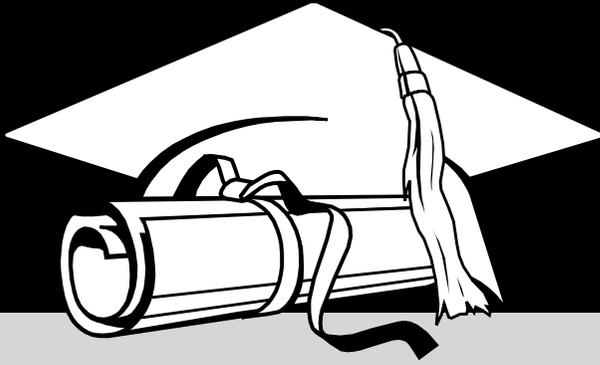


EDUCATION



2001-02 Analysis

MAJOR ISSUES

Education



Longer Middle School Year

- Research indicates that extending the school year has limited to no effect on student achievement. The Governor's proposal would commit the state to potential annual spending of \$1 billion or more for one strategy to improve student achievement—to the virtual exclusion of other strategies.
- Governor's proposal also fails to target "pockets" of educational failure, where student achievement problems are of most concern. We recommend redirecting the proposed \$100 million to a block grant for disadvantaged middle schools and high schools (see page E-71).



Disadvantaged Schools Block Grant

- We recommend that the Legislature establish a \$500 million block grant to improve student achievement at middle schools and high schools that are very low-performing and/or have high concentration of students in poverty (see page E-15).



K-14 Education Priorities

- To maximize the chances for improving educational results, the state must give local districts more flexibility to fit budgetary resources to local circumstances and needs. The approach we take to the state's K-14 education budget builds on this foundation.
- We recommend various redirections of Proposition 98 spending in 2001-02, involving almost \$800 million. These

recommended redirections include the \$500 million for a disadvantaged schools block grant (noted above), an additional \$175 million for K-12 revenue limits, and \$81 million for the Partnership for Excellence program in community colleges (see pages E-15, E-67, and E-212).



Make Better Use of Existing Teacher Training Resources

- The Governor proposes a greatly expanded effort over the next three years to train nearly all the state's teachers in providing instruction based on the state's academic content standards. The Governor proposes spending \$830 million over the three years, including a \$335 million augmentation for 2001-02.
- We recommend an approach that better accounts for existing programs and provides a more realistic implementation time frame. Our approach provides the same number of teacher training opportunities over the three years, at a General Fund savings of \$235 million in 2001-02 and \$500 million over the three years (see page E-21).



Provide Incentive for the California State University (CSU) and the University of California (UC) to Expand Summer Enrollments

- The budget requests a total of \$33.1 million to augment summer terms at the CSU (\$12.4 million) and the UC (\$20.7 million). We recommend the Legislature provide these funds contingent on the universities increasing enrollments in their summer terms (see page E-177).



Improve Academic Preparation for Higher Education

- Approximately one-third of freshmen arriving at UC and over two-thirds of freshmen arriving at CSU are unprepared for college-level studies. We recommend the Legislature adopt four specific strategies to improve students' academic preparation for higher education and increase the segments' accountability for serving unprepared students appropriately (see page E-38).

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OVERVIEW

Education

The Governor's budget includes a total of \$51.6 billion in operational funding from state, local, and federal sources for K-12 schools for 2001-02. This is an increase of \$2.9 billion, or 6 percent, over estimated expenditures in the current year. The budget includes a total of \$11.6 billion in state General Fund and local property tax support for higher education. This is an increase of \$920 million, or 8.6 percent, over estimated expenditures in the current year.

Figure 1 shows support for K-12 and higher education for three years. It shows that education will spend over \$63 billion in 2001-02 from all sources (not including capital-related spending).

Figure 1

K-12 and Higher Education Funding

1999-00 Through 2001-02
(Dollars in Millions)

	Actual 1999-00	Estimated 2000-01	Proposed 2001-02	Change From 2000-01	
				Amount	Percent
K-12^a	\$44,805	\$48,684	\$51,603	\$2,919	6.0%
Higher Education^b	\$9,353	\$10,665	\$11,585	\$920	8.6%

^a Includes state, local, and federal funds. Excludes Proposition 98 loan repayment under *CTA v. Gould* and debt service for general obligation bonds.

^b Includes state and local funds. Excludes direct capital outlay spending and debt service for general obligation bonds.

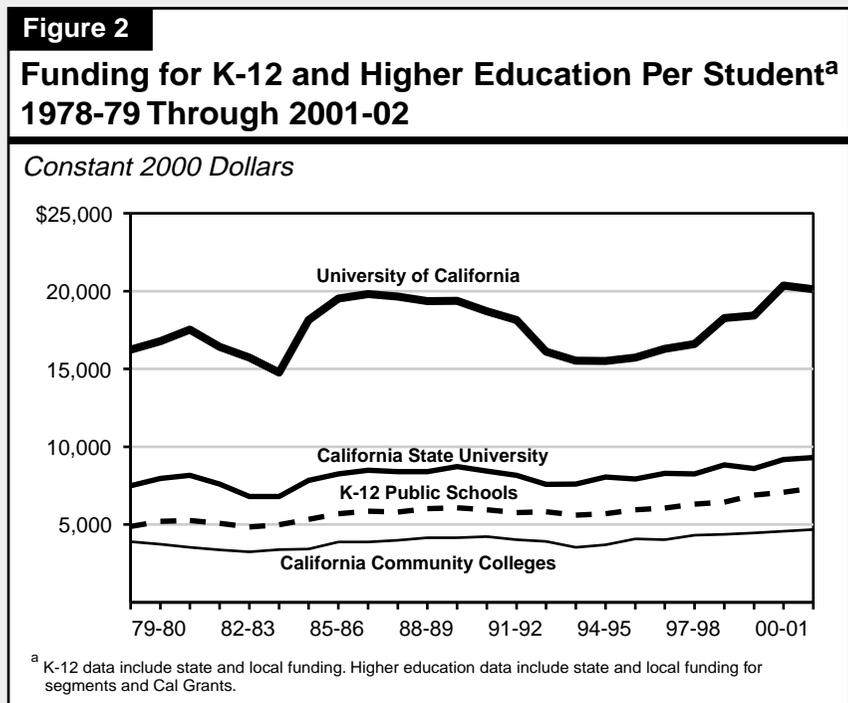
FUNDING PER STUDENT

The Proposition 98 request for K-12 in 2001-02 represents \$7,174 per student, as measured by average daily attendance (ADA). Proposed spending from all funding sources (excluding capital outlay and debt service) totals almost \$9,000 per ADA.

The Proposition 98 budget request for California Community Colleges (CCC) represents \$4,457 per full-time-equivalent (FTE) student. This compares to proposed General Fund spending for each California State University (CSU) FTE student of \$8,677 and \$18,643 for each University of California (UC) FTE student.

Historical Perspective of Funding Per Student

To place funding for K-12 and higher education into an historical perspective, we have compared state and local funding per FTE student in the four public segments from 1978-79 through 2001-02, adjusting for the effects of inflation over this 23-year period (see Figure 2). As the figure shows, per-student funding for each segment is at or near highs for this period.



Over the past 23 years, state and local funding per student for K-12, after adjusting for the effects of inflation, has increased by 47 percent. For higher education, the increases have been 19 percent for CCC, 24 percent for CSU, and 24 percent for UC.

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 CCC. 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 3 (see next page) 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 4 (see page 5) displays the budget's proposed allocations of Proposition 98 funding for K-12 schools and CCC. The budget proposes \$46.4 billion for Proposition 98 in 2001-02. This proposed appropriation total exceeds the administration's estimate of the constitutionally required minimum level by \$1.9 billion. The state has "overappropriated" the required minimum level in each of the last four fiscal years (1997-98 through 2000-01). With the proposed 2001-02 overappropriation, the budget would be \$5.2 billion higher than if none of these overappropriations had occurred.

The allocations in 2001-02 remain similar to the 2000-01 revised shares. Proposition 98 funding issues are discussed in more detail in the "K-12 Education Introduction" and "California Community Colleges" sections of the chapter.

ENROLLMENT GROWTH

Figure 5 (see page 5) displays budgeted enrollment growth for K-12 and higher education. The increase in K-12 enrollment—1.08 percent—is considerably lower than annual growth during the 1990s. The K-12 enrollment is expected to grow even more slowly in coming years, as the children of

Figure 3**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.

- **Test 3B Supplement.** Statute requires that, in Test 3 years, K-14 Proposition 98 funding per student grow at least as fast as per-capita General Fund spending on non-Proposition 98 programs. This can require that a supplemental amount be added to the minimum guarantee.

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.”

the baby boomers move out of their K-12 years. In contrast, enrollment growth numbers for higher education are more substantial and are projected to stay that way for several years.

Figure 4				
Proposed Proposition 98 Allocations^a				
<i>2000-01 and 2001-02 (In Millions)</i>				
	2000-01		2001-02 Proposed	Change From 2000-01 Revised
	Budget Act^b	Revised		
Allocations				
K-12	\$38,082	\$38,087	\$41,250	\$3,163
Community Colleges	4,363	4,363	4,724	360
Other agencies	96	96	91	-5
Loan repayment	350	350	350	—
Proposition 98 Totals^c	\$42,891	\$42,896	\$46,415	\$3,519

^a General Fund and local property tax revenue.
^b Includes 2000-01 Budget Act and legislation from the 1999-00 legislative session.
^c Totals may not add due to rounding.

Figure 5				
Budgeted Enrollment^a				
<i>2000-01 and 2001-02</i>				
	2000-01	Projected 2001-02	Change From 2000-01	
			Amount	Percent
K-12	5,688,675	5,750,105	61,430	1.08%
Community Colleges	1,029,928	1,059,899	30,871	3.0
University of California	177,108	182,808	5,700	3.2
California State University	300,212	308,972	8,760	2.9

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

SETTING EDUCATION PRIORITIES FOR 2001-02

In this chapter, we evaluate the proposed budgets for K-12 and higher education, including proposed funding for existing programs as well as new initiatives. We identify several funding proposals that, under close scrutiny, appear to be less meritorious than other possible uses to which the state could put such resources. By doing so, we are able to provide the Legislature with budgetary “room” to meet its education and other priorities.

Evaluating Education in a Broad Context. In establishing its education priorities, we recommend the Legislature evaluate budget options in a broad context, endeavoring to direct resources to programs that it believes offer the highest returns on its investments in education. The Legislature need not feel bound by how the Governor’s budget proposes to allocate resources within each segment of education or how it proposes to allocate resources among the segments. We suggest the Legislature consider budget options with the following thought in mind: How can the state best improve educational outcomes with the next dollar it spends?

Maintaining Budget Flexibility. The Governor’s proposed education budget represents but one basket of possibilities. Except for the Proposition 98 minimum funding guarantee for K-14 education, there are no other binding constraints on the size and contents of the Legislature’s mix of educational spending. (Even in the case of Proposition 98, the budget proposes spending far in excess of the minimum guarantee, so the Legislature effectively has much room in which to operate.)

The Governor, for example, has established a multiyear “partnership” with UC and CSU, in which he has pledged to the two universities specific budget increases in exchange for broadly defined performance improvements. The Legislature is not compelled to provide the same amount of funds to UC and CSU as the Governor proposes in his partnership. It is free to appropriate to the universities more or fewer funds for whatever the Legislature chooses, and can call upon the universities to demonstrate that they are achieving the results that the Legislature expects.

For over a decade, state law has specified that K-12 districts and CCC receive the same percentage of Proposition 98 funds that they received in 1989-90 (89.17 percent and 10.93 percent, respectively). In every budget act since adopting this provision, the Legislature has allocated funding differently than described in this statute. (Of Proposition 98 funds provided to K-12 schools and the CCC, the CCC share has ranged from 9.45 percent to 11.85 percent. The budget proposes a CCC share of 10.27 percent.) Rather than employ the auto-pilot budgeting suggested by current law, we recommend the Legislature continue to express its priorities in the budget in light of current circumstances.

By considering education in a broad context, and by maintaining the budgetary authority and flexibility provided it by the Constitution, the Legislature can focus education resources on programs it determines will most benefit California.

CROSSCUTTING ISSUES

Education

K-14 EDUCATION PRIORITIES PROPOSITION 98

In the analysis and recommendations in this chapter we take broad issue with the priorities and approach to K-12 education taken by the budget, and also raise specific issues with the proposed budget for community colleges. We recommend reductions to various K-14 budget proposals totaling almost \$800 million in Proposition 98 funds for 2001-02. We recommend that the Legislature redirect these savings to other K-14 programs that give more discretion at the local level and that we believe would result in more effective educational outcomes. The largest amount—\$500 million—is for a disadvantaged schools block grant focusing on middle schools and high schools that are very low performing and/or have high concentrations of students in poverty.

In the analysis and recommendations in this chapter, we take broad issue with the priorities and approach to K-12 education taken by the budget. One of the salient aspects of the 2001-02 Governor's Budget is the relative 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 constraints on local discretion. A notable exception is the Governor's proposal to ex-

pand standards-based training to K-12 teachers where a significant element of local discretion has been introduced.

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*. 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 K-12 education budget in the following pages builds on this foundation. We also make several recommendations for changes to the Governor's proposed budget for the California Community Colleges (CCC) which, like the K-12 education budget, largely involves Proposition 98 funds.

Proposition 98 Spending

With respect to total Proposition 98 appropriations for 2001-02, we regard the Governor's proposed appropriation level as the maximum level that would be prudent under the state's unsettled budgetary situation. The state could set K-14 education spending for 2001-02 at Proposition 98's "test 3" level—an amount that is about \$1.9 billion below the Governor's proposal—but doing so would cause the state to fall far short of the amount required to meet COLAs, enrollment growth and adjustments needed to annualize spending for new programs and program expansions authorized in the *2000-01 Budget Act*. By setting his appropriations total at Proposition 98's "test 2" amount—a combined total of \$46.4 billion from the General Fund and local property tax allocations to school and community college districts—the Governor's budget not only meets COLA, enrollment growth and annualization needs, but provides resources for further K-14 initiatives.

The budget's proposed spending total also is consistent with the minimum level of annual appropriations that will be required in future years for K-14 education under the terms of Proposition 98. (For all practical purposes the "test 2" calculation determines this long-run appropriations requirement.) Given these circumstances, and given the clear priority that the Legislature has assigned in the recent past to improving K-14 educa-

tion, our various recommendations in Proposition 98 involve significant redirection of monies between specific purposes (almost \$800 million), but essentially no net change to the total Proposition 98 spending level proposed by the Governor's budget.

If however, the Legislature decides that it cannot afford to fund all the way to the test 2 level, it can use whatever portion of our recommended reductions it chooses as savings to the General Fund. Eventually, Proposition 98's provisions would require that the state's annual General Fund spending on K-14 education return to the test 2 level. The state, though, would realize annual savings for several years until that level was reached.

Disadvantaged Schools Block Grant

Figure 1 (see next page) summarizes the various changes we recommend in this chapter in Proposition 98 appropriations for the budget year. The largest of these changes is a recommendation to establish a \$500 million disadvantaged schools block grant focused on middle schools and high schools that are very low-performing and/or have high concentrations of students in poverty.

We believe targeting resources in this manner makes sense. As shown in Figure 2 (see page 19), there are significant differences in academic performance between economically and noneconomically disadvantaged students in grades 7th, 8th, 9th, and 11th, as measured by percent of students scoring above the national average on the Stanford-9 test. The gap ranges from a low of 23 points in 11th grade math (54 percent versus 31 percent) to a high of 37 points in 7th grade reading (63 percent versus 26 percent).

Alternative to Middle School Proposal. We make our block grant recommendation, in part, as an alternative to the Governor's proposal to extend the length of the school year for middle school grades. Although this proposal by the Governor requires \$100 million in 2001-02, it could require annual spending of \$1 billion or more by the 2003-04 fiscal year. As we discuss in detail later in the chapter, the Governor's proposal attempts to address weaknesses in student achievement, as measured by standardized test scores, that manifest around grade nine. As we also discuss, however, this proposal's approach is flawed in many respects, including:

- Lack of research strongly supporting the strategy of increasing school year length.
- Lack of flexibility granted to local school districts to use resources for other interventions that could be more effective.

Figure 1**LAO Recommended Changes in Proposition 98 Spending**2001-02
(In Millions)

Program	Reductions	Augmentations
K-12		
Disadvantaged schools block grant	—	\$500.0
Intensive professional development	\$235.0	—
Governor's performance awards	219.0	—
K-12 revenue limits	—	175.0
Longer school year—middle school grades	100.0	—
After school programs	35.0	—
High school exit exam (HSEE)	35.0	—
STAR ^a and HSEE workbooks	22.5 ^b	—
STAR data analysis	20.0	—
High-tech high schools	20.0	—
Information technology professional development	—	18.5 ^c
Algebra incentives	17.0	—
Teaching as a Priority	—	17.0
Other K-12	1.7	0.8
California Community Colleges (CCC)		
CCC Partnership for Excellence	—	\$81.2
CCC part-time faculty initiatives	\$70.2	—
CCC Cal-Grant outreach	11.0	—
Other CCC	11.0	5.0
Totals	\$797.4	\$797.5

^a Standardized Testing and Reporting.^b Recommend substitution of \$22.5 million of one-time funds for same amount of ongoing funds proposed by Governor.^c Related recommendation is to reduce California State University budget resulting in \$18.5 million savings to General Fund (non-Proposition 98).

- Absence of means to target “pockets” of educational failure—those schools where low academic performance and performance “drop off” effects are most severe.
- High opportunity cost of committing large amounts of money to (1) a single unproven strategy and (2) schools where academic achievement is not a major problem.
- Failure to fully address the fact that the achievement problems persist through high school.

Figure 2				
Percent of California Students Above National Average—Stanford-9 Test				
<i>Spring 2000</i>				
Subject	Grade Level			
	7th	8th	9th	11th
Noneconomically Disadvantaged				
Mathematics	63%	62%	61%	54%
Reading	63	64	46	44
Language arts	70	65	62	56
Economically Disadvantaged^a				
Mathematics	30%	29%	33%	31%
Reading	26	28	16	17
Language arts	36	32	33	29
^a All students participating in federal free and reduced-price lunch program presumed to be economically disadvantaged.				

Focus of Proposed Block Grant. We believe our recommended disadvantaged schools block grant better addresses the above problems. The essence of our block grant is two-fold (1) targeting resources to schools and students most in need of additional state help, and (2) local discretion to draw from a broad “menu” of specific educational interventions. These interventions could include lengthening the school year at disadvantaged schools—if school officials determine this best meets local needs—but also could include a “mix” of such measures as selective reductions of class size, focused tutoring, improved after school programs, improved quality of curriculum, enriched (or restored) music and arts education, and more and better counseling. There is no one answer to reaching young people who are struggling in school because the reasons for poor performance vary from individual to individual and from school to school. Our approach is based on that understanding.

There also is no one answer to how to structure a disadvantaged schools block grant. Our recommended grant is based on some judgments regarding available resources and the choice of indicators of need. We chose two indicators of need, *either* of which would qualify a school for a share of block grant funding: (1) a rank in the lowest two deciles of the academic performance index (API) and (2) having at least a threshold percentage of the student body in the free or reduced-price federal lunch program. For middle school grades we suggest a threshold of 70 percent

of students being in the federal lunch program and for high school grades we suggest 50 percent. (To “capture” a similar demographic group in grades 9 through 12 requires setting a lower threshold because many high school students, notwithstanding their relative poverty, avoid participation in the federal lunch program—often out of concerns of how they appear in the eyes of their classmates.)

How Would the Proposed Block Grant Work? There is considerable overlap between the group of schools that would qualify for our block grant under the federal lunch program criteria and those that would qualify under the API criteria, but the overlap is not complete. Having two possible routes to qualify compensates somewhat for imperfections that are inherent in any measures of performance and poverty. It recognizes that schools with lesser concentrations of students in poverty still can experience serious performance problems. It also recognizes that schools with high concentrations of students in poverty that are somewhat above the two lowest API deciles still face challenges that could endanger future performance.

Approximately one fourth of California’s public school students in middle school and high school grades attend schools meeting our suggested criteria. Our recommended block grant would provide qualifying schools an amount per enrolled pupil of about \$610, which is somewhat less than the Governor proposes for his longer school year program (\$770). These factors combine for a total block grant amount of roughly \$500 million. We believe the Legislature can afford to allocate this amount, particularly if it adopts the largest of our recommended reductions to specific budget proposals (please see Figure 1). Of course, the Legislature can set a different total, a different per-pupil amount, or different qualifying criteria, based on its judgment of K-14 priorities and other policy decisions. The block grant approach lends itself to these types of refinements. For example, if the Legislature is interested in reaching a larger number of schools or grade levels with this block grant, it could gradually expand the block grant over the next several years.

Other Recommendations

As Figure 1 indicates, we make various other recommendations for increased spending, including allocating more funds for K-12 revenue limits and redirecting proposed categorical funds to the CCC’s Partnership for Excellence. We discuss these recommendations in detail in appropriate parts of this chapter.

PROFESSIONAL DEVELOPMENT FOR K-12 TEACHERS

The Governor's budget proposes two new programs and expands two existing programs in a significant effort to provide more professional development opportunities for teachers and administrators. In total, the budget provides \$378.5 million in new General Fund spending for these four initiatives. Of this amount, the budget provides:

- \$335 million (Proposition 98) for professional development in standards-based instruction of reading and mathematics.
- \$18.5 million (non-Proposition 98) to expand the Education Technology Professional Development Program (ETPDP).
- \$15 million (Proposition 98) to provide professional development for 5,000 principals and vice principals.
- \$10 million (non-Proposition 98) to pay the stipends for 10,000 additional teachers to participate in the California Professional Development Institutes (CPDIs).

STANDARDS-BASED READING AND MATHEMATICS INSTRUCTION

The Governor's budget proposes a three-year \$830 million initiative to train more than 250,000 K-12 teachers and 22,000 aides in mathematics and reading instruction based on the state's recently adopted academic content standards. Over the three-year period, the Governor proposes to train every K-6 teacher (140,000), special education teacher (28,000), single-subject English teacher (26,000), mathematics teacher (21,000), social science teacher (22,000), and science teacher (15,000). In year one of the initiative (2001-02), the Governor proposes \$335 million to train all multiple-subject K-6 teachers (one-half in reading and one-half in mathematics), one-half of all single-subject mathematics and English teachers, and ap-

proximately 7,000 instructional aides. This funding level is based on the assumption that the University of California's (UC) CPDI program—the standards-based professional development program that serves as the model for the administration's initiative—will train some of these teachers with existing resources. The administration expects to spend \$335 million in year two and \$160 million in year three. The program would terminate at the end of 2003-04.

Intensive Training in Academic Content Standards. The primary purpose of this initiative is to provide every core-subject public K-12 teacher with an intensive professional development experience. This training would consist of at least 40 hours of initial training and 80 hours of follow-up training and in-school support—all of which would be focused on how to teach reading and mathematics based on the state's academic content standards. (The State Board of Education [SBE] adopted academic content standards in reading/language arts and mathematics for K-12 in 1997.)

Participating Districts Must Buy Content-Aligned Instructional Materials. School districts participating in the proposed program would be required to have content-aligned instructional materials in all classrooms within seven months of the SBE's approval of those materials. In January 2001, SBE approved a list of content-aligned K-8 instructional materials in mathematics. The SBE plans to adopt a list of content-aligned K-8 instructional materials in reading/language arts in January 2002. Participating districts, therefore, would have until August 2001 to purchase aligned materials in mathematics and until August 2002 to purchase aligned materials in reading/language.

Funds Go to School Districts. Compared to the administration's recent university-centered approach to K-12 professional development, the budget-year proposal offers districts greater flexibility in choosing professional development providers. Under the 2001-02 proposal, districts could either develop their own professional development program, rely on a private provider or a local consortia of providers, or send their teachers to a CPDI or a California Subject Matter Project (CSMP). The budget-year approach, therefore, allows districts to respond more directly to their local needs and to choose providers that best meet those needs.

Administrative Process Still Being Developed. At the time of this analysis, the administration had not provided detailed information regarding implementation of the program. The following issues remain unclear.

- Which agency(s) would develop the regulations stipulating the essential elements each district plan must include.
- When the regulations would be established.

- Which agency(s) would review districts' plans to determine if they adhered to the regulations.
- The deadline for districts submitting their plans.
- The deadline for approving districts' plans.
- The administrative cost associated with these activities.

Cost Overestimated

We are concerned with three aspects of the administration's proposal: the proposed cost per teacher, the scale of the program in year one, and the estimated total cost of the program. By keeping the per-teacher cost reasonable, phasing in the program on a more realistic timetable, and more reliably calculating the number of teachers receiving instruction through existing programs, the Legislature could save \$235 million in year one and more than \$500 million over the course of the three-year program—yet still provide the same number of teachers with high-quality professional development over the three-year time frame. We discuss each of these factors below.

Proposal Costs \$2,500 Per Teacher. Under the Governor's proposal, the State Department of Education (SDE) would reimburse districts \$2,500 for each teacher who participated in an approved reading, language arts, or mathematics professional development program. The \$2,500 per-teacher proposal is based on the following three factors:

- **\$1,000 Institute Cost.** This is the estimated total cost per teacher associated with the existing CPDIs. Of this cost, UC designates \$700 for instructional costs (including both faculty and materials). The UC designates the remainder for program development, administration, and evaluation.
- **\$1,000 Teacher Stipend.** This is the amount the state currently provides to each teacher participating in a CPDI.
- **\$500 Incentive Funding.** The Governor's budget provides an additional \$500 per participant to districts to encourage them to enroll their teachers in this program.

The state currently spends \$2,000 per teacher participating in a CPDI. The \$2,000 covers the entire cost associated with program development, instruction, administration, and evaluation as well as a \$1,000 stipend meant to cover a teacher's costs and serve as an incentive to participate. The administration has not justified spending \$500 more per teacher than under existing intensive professional development programs such as the CPDIs. Indeed, the funding discrepancy generates undue administrative complexity because SDE would have to determine which CPDI participants

are funded through existing channels (at the \$2,000 rate) and which are funded through the new district reimbursement process (at the \$2,500 rate).

Scale of Program in Year One Unrealistic. By summer 2001, the administration expects:

- The UC and/or SBE to devise regulations.
- All participating districts to develop a professional development training plan and submit this plan for state review.
- The state to review all districts' training plans.
- All participating districts to begin intensive 40-hour training sessions in July or August for more than 100,000 teachers statewide (except for year-round schools, which could implement this first session during a fall intersession).

Districts are extremely unlikely to be able to complete this process and serve so many teachers in so little time. Indeed, in the current year, CPDIs served only about 34,500, or 60 percent, of the 59,000 teachers they were expected to serve, and the CPDIs required neither state regulations nor a review of district plans.

Calculation of Cost Flawed. To derive its estimate of the budget-year cost of the initiative, the administration multiplied the total number of teachers to be served (163,500) by \$2,500 (the proposed expenditure per teacher) and the total number of instructional aides to be served (6,950) by \$1,000. This total cost is \$415.7 million. From this total, the administration then subtracted \$80.7 million—attempting to account for those teachers (59,000) the state proposes to serve with budgeted CPDI resources—to arrive at a total estimated cost of \$335 million. This estimate, however, does not reflect the total amount the state currently provides for the CPDI program (which is \$110.9 million) nor accounts for funding the state currently provides for other comparable standards-based professional development programs. The administration, therefore, overestimates the amount of additional funds needed.

Program Goal Can Be Achieved at Far Less Cost

For the first year, we recommend the Legislature refine the scope of the Governor's proposal by providing \$100 million for standards-based professional development for the approximately 50,000 teachers that currently teach in year-round schools. For each of the next two years, we recommend the Legislature provide \$115 million to train 52,000 teachers and 11,000 aides, thereby serving the same total number of individuals as the Governor proposes. This would save \$235 million in the budget year and \$500 million in total General Fund expenditures during the three-year period. (Reduce Item 6110-137-001 by \$235 million.)

A more appropriate method for calculating the cost of the Governor’s proposal is to determine first the number of teachers that could be served in the upcoming academic year by *existing* programs. Figure 1 shows how many teachers the state funds through existing intensive standards-based reading, writing, and mathematics professional development programs—including the CPDIs and other programs of similar design and substance. Of the 163,500 teachers the Governor proposes to serve in year one, we estimate that 98,700 teachers could be served by existing programs at budgeted funding levels. The Governor’s proposal, therefore, means an expansion of effort of almost 65,000 additional teachers, a 66 percent expansion.

Figure 1	
Standards-Based Professional Development Programs Already Serve Many K-12 Teachers	
Existing Professional Development Programs	Number of Teachers Funded in 2001-02
California Professional Development Institutes (CPDI)	
Reading	20,000
English Language	10,000
High School English	12,000
Elementary Mathematics	5,000
Pre-Algebra/Algebra Institute	2,500
Algebra Academies	1,500
High School Mathematics	8,000
Subtotal	(59,000)
California Subject Matter Projects (CSMP)	
Reading and Literature	3,400
Writing	3,400
Mathematics	3,400
Subtotal	(10,200)
Federally Funded Programs^a	
Reading Excellence Act	4,500
Eisenhower Professional Development Program ^b	25,000
Subtotal	(29,500)
Total	98,700

^a The listed programs either require or strongly encourage participating teachers to attend a CPDI or a CSMP. The federal funds cover the cost of attending the institute.

^b In 2001-02, California will receive \$53.6 million in federal funds for the Eisenhower program. This equates to spending \$2,000 each for roughly 25,000 teachers to receive standards-based professional development.

Provide Funding First for Teachers in Year-Round Schools. Given the regulatory and review process, accommodating 65,000 additional teachers in an intensive 120-hour standards-based professional development program by summer 2001 is probably unrealistic. Teachers in year-round schools, however, might be able to participate in such a program in the budget year because they would have more time than other schools to develop a professional development plan, obtain state approval for their plan, and receive the initial 40 hours of intensive training. This is because they could provide the initial 40 hours of training for all their teachers during a 60-day to 120-day period (depending on the number of tracks and length of sessions) beginning in late summer and extending throughout the fall. In 1999-00, approximately 50,000 teachers worked in year-round schools (including both single-track and multitrack schools) and taught English, math, or multiple-subjects (K-6 teachers). For \$100 million, the Legislature could provide these year-round teachers with intensive, standards-aligned professional development in reading and mathematics in 2001-02. (Our estimate of the number of year-round teachers requiring standards-based professional development is generous because some of these teachers have either recently completed a state-accredited teacher preparation program or have recently participated in the CPDI program or CSMP program.)

Many of Neediest Schools Would Receive Training in Year One. If the Legislature provided funding for teachers in year-round schools in the first year of the initiative, it would be helping many of the schools most in need of academic improvement. The state's 965 multitrack year-round schools with Academic Performance Index (API) scores have scores averaging 3.5. (Scores range from 1 to 10, with 10 being best.) More than half of the students in multitrack year-round schools attend schools with API scores of 1 or 2.

Out-Year Effects—Same Number of Professional Development Opportunities. For the three years of the initiative, Figure 2 compares the number of teacher training opportunities provided in the Governor's proposal with the number provided in our recommendation. (The figure shows the number of training sessions rather than the number of teachers because K-6 teachers and special education teachers would receive training in both reading and mathematics. Thus, the number of training sessions is greater than the number of teachers.) In the budget year, the Governor proposes to serve 163,500 teachers (including the 59,000 teachers being served by the CPDIs). By comparison, we recommend serving 138,700 teachers. This includes the 50,000 year-round teachers as well as the 88,700 teachers the state currently funds through existing UC-administered and federally funded programs. (This number is 10,000 less than the total shown in Figure 1, as we have adjusted the total based on fund-

ing available to SDE for stipend payments. This issue is discussed further below.) In years two and three, we recommend providing 52,000 new training opportunities. Over the three years, the Legislature would provide just as many training opportunities in total under our recommendation as under the Governor’s proposal.

Figure 2

Same Total Number of Training Opportunities^a Provided in Governor’s and LAO’s Proposals

2001-02 Through 2003-04

	Year 1	Year 2	Year 3	Total
Governor’s Proposal				
New teacher training opportunities	104,500	104,500	34,000	243,000
Existing teacher training opportunities	59,000	59,000	59,000	177,000
Totals	163,500	163,500	93,000	420,000
LAO Recommendation				
New teacher training opportunities	50,000	52,000	52,000	154,000
Existing teacher training opportunities ^c	88,700	88,700	88,700	266,100
Totals	138,700	140,700	140,700	420,100

^a The figure shows the number of training opportunities rather than the number of teachers because K-6 teachers and special education teachers would receive training in both reading and mathematics. Thus, the number of training opportunities is greater than the number of teachers.

^b The Governor’s proposal only counts annual training opportunities in the CPDI program at the level for which UC is currently funded (59,000).

^c Our recommendation counts all teacher training opportunities provided by the CPDI, CSMP, REA, and Eisenhower programs. For the CPDI program, it includes only 49,000 teachers—the level for which SDE is currently funded—rather than 59,000 teachers—the level for which UC is currently funded.

Three-Year Period Effects—Approximately Half the Cost. For the three years of the initiative, Figure 3 (see next page) compares the cost of the Governor’s proposal (above base-spending levels) with our recommendation. In year one, the Governor’s proposal requires \$335 million in new General Fund monies whereas our recommendation requires \$100 million. Across the three fiscal years our proposal requires less than the Governor’s proposal requires in year one alone, yet still serves the same number of teachers.

Figure 3

Considerable Savings Under LAO Proposal

General Fund Cost^a
(In Millions)

	Year 1	Year 2	Year 3	Total
Governor’s Proposal	\$335	\$335	\$160	\$830
LAO’s Recommendation	\$100	\$115	\$115	\$330
Savings	\$235	\$220	\$45	\$500

^a Above current funding levels.

Fund Aides in Years Two and Three. Our recommendation includes the cost of training 11,000 aides in year two and an additional 11,000 aides in year three—just as many aides as the administration proposes to serve. We recommend the Legislature not provide funding for aides until years two and three—after districts have had the time to develop their teacher training programs. Many districts, as well as the state agency that must review districts’ plans, are likely to be overwhelmed by developing teacher training and instructional aide training programs simultaneously. In our view, the teacher programs should take priority.

In sum, we recommend the Legislature appropriate \$100 million to provide intensive professional development in reading and mathematics for the approximately 50,000 teachers currently teaching in year-round schools. Because these schools have a fall intersession, they would have more time than other schools to develop and implement professional development programs. Among these schools are also many of the state’s lowest performing—schools the Legislature might want to fund first for education policy reasons. Over the next three years, under our recommendation, the Legislature could still serve as many teachers as the Governor proposes, but it could do so for about 60 percent less than the proposed General Fund cost. (Reduce Item 6110-137-001 by \$235 million.)

EXPANSION OF CALIFORNIA PROFESSIONAL DEVELOPMENT INSTITUTES

The Governor’s budget requests \$10 million from the General Fund (non-Proposition 98) to provide \$1,000 stipends for 10,000 additional teachers to participate in the CPDI program (Item 6110-136-0001). The

CPDIs are professional development institutes designed to help teachers throughout the state become more familiar with the state's newly adopted academic content standards. The UC administers the CPDI program.

In this analysis, we:

- Provide background information on the CPDI program.
- Provide a progress report on UC's recent efforts to expand the CPDI program.
- Recommend the Legislature reduce UC's budget by \$10 million, thereby realigning it with SDE's current funding level for the CPDI program.

Background

Figure 4 (see next page) shows the funding the state has provided to the CPDI program since 1998-99. In that year, the state provided \$500,000 to establish the first CPDI—the California Reading Professional Development Institute (PDI). The Reading PDI provided K-3 teachers with an intensive professional development experience consisting of a 40-hour intensive summer seminar and 80 hours of continued training and support throughout the school year. All subsequently established CPDIs have been based on this model. In 1999-00, the state provided \$5.5 million to expand the Reading PDI and an additional \$5 million to establish an English Language Development (ELD) PDI, providing training for teachers who instruct a large proportion of English language learners but do not hold a cross-cultural or bilingual cross-cultural teaching certificate.

The UC's Role in K-12 Professional Development Greatly Expanded. In the current year, the state provided a \$50.9 million augmentation to expand the CPDI program. Of this amount, the state provided \$14 million to expand the Reading PDI, \$5.2 million to expand the English Language Development PDI, and \$31.7 million to establish five new types of institutes—High School English, Elementary Mathematics, High School Mathematics, Algebra, and Algebra Academies (which couple professional development for pre-algebra and algebra teachers with summer school opportunities for middle school students).

The SDE's and UC's Funding Currently Misaligned. The 2000-01 Budget Act provided UC with a total of \$61.9 million for the CPDI program, which was to provide professional development for 59,000 teachers. Although the budget act provided UC with funds to serve 59,000 teachers, it provided SDE with stipend funds to serve only 49,000 of these teachers. (The SDE received \$49 million to provide \$1,000 stipends for 49,000 teachers attending CPDIs.) Below, we recommend the Legislature realign

the two budgets by reducing UC's funding (rather than increasing SDE's funding as proposed by the Governor's budget).

Figure 4

UC Involvement in K-12 Professional Development Significantly Expanded Over Last Three Years

(In Millions)

	1998-99	1999-00	2000-01
California Professional Development Institutes			
Reading	\$0.5	\$6.0	\$20.0
English Language	—	5.0	10.2
High School English	—	—	12.0
Elementary Mathematics	—	—	7.5
Algebra Institutes	—	—	2.5
Algebra Academies	—	—	1.7
High School Mathematics	—	—	8.0
Totals	\$0.5	\$11.0	\$61.9

A CPDI Progress Report

Legislature Required Supplemental Report on CPDI Program. Given the rapid expansion of the CPDI program proposed by the Governor in 2000-01, the Legislature adopted supplemental report language directing UC to provide basic information on the program's implementation by December 1, 2000. Specifically, the Legislature requested UC to provide information on the number of teachers participating in the program, a list of institute sites, expenditure detail, and the geographic profile of the teachers served. (The Legislature expressed its intent that the program serve teachers throughout the entire state rather than only teachers residing near a university.) By the end of January, UC had provided much of the required information but had not yet provided information on the geographic profile of the teachers benefitting from the program.

The UC Funded for Many More Teachers Than It Has Served. Figure 5 compares the number of teachers for which UC was funded with the number of teachers it is committed to serve in the current year. In the Reading PDI, UC expects to serve (based on institute agreements) more

teachers than budgeted. (To cover the additional expense, UC redirected \$4 million from the underutilized High School English PDI to the “over-subscribed” Reading PDI.) In all the other institutes, UC expects to serve considerably fewer teachers than budgeted. It currently serves only 60 percent of ELD teachers, 29 percent of high school English teachers, and 19 percent of the mathematics teachers for which it was funded. (The UC staff state that they cannot separate the data on the number of participants attending each of the four different types of mathematics institutes.) In total, UC is serving fewer than 60 percent of the teachers for which it was funded in 2000-01.

Figure 5

CPDIs Currently Serve Fewer Than 35,000 Teachers

2000-01

	Number Funded to Serve	Number Contracted to Serve	Percent Served
California Professional Development Institutes			
Reading	20,000	21,890	109%
English Language Development	10,000	6,011	60
High School English	12,000	3,489	29
Mathematics ^a	17,000	3,170	19
Totals	59,000	34,560	59%

^a The UC provided data on the total number of teachers served in the four distinct mathematics institutes, but could not disaggregate the data by institute.

Unclear What UC Will Do With Unexpended Funds. At the time of the analysis, UC had committed \$45.7 million of the total \$61.9 million appropriated for the CPDI program in the current year. Of the \$45.7 million, Figure 6 (see next page) shows the amount UC has committed to spend on instruction, support, and program management. The university has committed \$25.6 million, or 56 percent, for instruction-related purposes and \$20.1 million, or 44 percent, for administrative support and program management. Whether UC can commit the remaining unexpended funds (\$16.2 million) in the current year is unclear.

Figure 6**Instruction-Related Costs Comprise Less Than 60 Percent of Current Expenditures***(Dollars in Millions)*

	Instruction	Support ^a	Program Management ^b	Total Budget
Reading				
Amount	\$15.3	\$3.0	\$1.5	\$19.8
Percent	78%	15%	7%	100%
English Language Development				
Amount	\$4.3	\$2.0	\$0.7	\$6.9
Percent	62%	28%	10%	100%
High School English				
Amount	\$2.5	\$2.7	\$0.5	\$5.7
Percent	44%	48%	8%	100%
Mathematics				
Amount	\$3.4	\$8.4	\$1.3	\$13.2
Percent	26%	64%	10%	100%
Totals				
Amount	\$25.6	\$16.2	\$3.9	\$45.7
Percent	56%	35%	9%	100%
^a Includes external evaluations, publications, research, development activities, and major meetings.				
^b Includes salaries and benefits for program coordination at the Office of the President, travel, program development, technology and data collection, equipment, and supplies.				

Reduce UC's Budget—Allow Districts to Choose Professional Development Providers

We recommend the Legislature reduce the University of California's (UC) budget by \$10 million (Item 6440-001-0001) and not approve the \$10 million augmentation requested for the State Department of Education (SDE) (Item 6110-136-0001), thereby realigning UC's funding for the California Professional Development Institutes with the funding the state currently provides SDE for stipends. (Reduce Items 6110-136-0001 and 6440-001-0001 by \$10 million each.)

As mentioned above, the 2000-01 Budget Act provided UC with funds to serve more teachers than SDE can provide stipends. The 2001-02 Governor's Budget proposes to correct this "misalignment" by increasing SDE's funding level. We believe reducing UC's funding level is a better

way of aligning the two agency budgets and increasing the effectiveness of professional development programs for the following reasons:

- ***The CPDI Program Underutilized in Current Year.*** Although the state provided UC with sufficient funding to serve 59,000 teachers in the current year, UC is currently serving fewer than 35,000. Thus, the university faces a significant challenge to serve the number of teachers outlined in the budget plan—an increase of 70 percent.
- ***The UC Overfunded in Current Year.*** The UC could end the current year with as much as \$16 million, or 26 percent, of its current-year appropriation unspent. These unexpended funds would not revert to the General Fund at the end of the fiscal year—as is the case with other state agencies—but would be retained by UC for redirection as it decides.
- ***High Administrative Costs.*** The UC has spent 44 percent of its CPDI funding on support costs and program management. These costs are unusually high and occurred despite the Legislature’s explicit direction given in the *Supplemental Report of the 2000-01 Budget Act* for UC “to use funds for the institutes for direct services to the maximum extent possible, holding administrative costs and institutional overhead to a minimum.”
- ***Program Unlikely to Serve All Teachers Equally.*** Given UC still has not responded to the Legislature’s request for data on the geographic profile of the teachers it is serving, the Legislature cannot determine if teachers throughout the state are benefitting equally from the program. Indeed, many teachers who do not reside within a convenient distance of a university campus are unlikely to benefit from the program.

Administration’s Modified Approach Toward K-12 Professional Development Offers Districts More Choices, Fewer Restrictions. As discussed earlier, the administration’s latest proposal for standards-based K-12 professional development is more decentralized and less university centered. Under the administration’s new approach, districts have the option of choosing UC as a professional development provider, but they also have the option of selecting other providers. Augmenting the university-based CPDIs would run counter to this more flexible, needs-based approach to K-12 professional development.

In conclusion, we recommend the Legislature reduce UC’s budget by \$10 million and not approve the Governor’s request for an additional \$10 million for SDE. We compensate for this reduction in our earlier recommendation on the Governor’s standards-based professional development initiative (see Figure 2). Specifically, for years two and three of that

program, our previous recommendation would provide additional funding to serve these 10,000 teachers through district-funded programs (which might rely on CPDIs) rather than through UC-funded programs. We recommend the Legislature provide districts with as many options as possible in choosing high-quality professional development providers. Once the state establishes criteria characterizing high-quality professional development, districts then could choose to send their teachers to a CPDI, but they would also have the option of relying on other approved providers. We recommend the Legislature adopt this approach—emphasizing school-centered rather than university-centered K-12 professional development programs. (Reduce Items 6110-137-0001 and 6440-001-0001 by \$10 million each.)

EXPANSION OF EDUCATION TECHNOLOGY PROFESSIONAL DEVELOPMENT PROGRAM

The Governor's budget requests an \$18.5 million augmentation from the General Fund for the California State University (CSU) to expand the ETPDP bringing the total ETPDP budget to \$25 million. This is an almost threefold increase over funding in the current year (\$6.5 million).

Established in 2000. Chapter 78, Statutes of 2000 (AB 2882, Reyes), established the ETPDP program to provide teachers with training on how to use technology more effectively within their classrooms. In the current year, CSU has spent \$8.5 million for the ETPDP program. Of this amount, the 2000-01 Budget Act appropriated \$6.5 million for the program and CSU redirected \$2 million from within its budget. Of the \$8.5 million, CSU designated \$5 million to pay \$1,000 stipends for each of the 5,000 teachers participating in the program. It provided \$3.5 million in grants to 28 consortia (consisting of an Institution of Higher Education [IHE], at least one K-12 school district or county office of education, and the California Technology Assistance Project [CTAP]) to cover a \$700 per teacher training cost for all 5,000 participants.

Shift Funding From CSU to SDE—Allow Districts to Choose Providers

We recommend the Legislature approve the requested funding for professional development in education technology but shift the funding from the California State University to the State Department of Education and allow districts to choose the professional development provider that best meets their needs. (Reduce Item 6610-001-0001 by \$18.5 million [non-Proposition 98] and augment Item 6110-181-0001 by \$18.5 million [Proposition 98].)

Consistent with the Governor's budget-year approach to standards-based reading and mathematics professional development, we recommend the Legislature provide the additional funding for standards-based education technology professional development but provide it directly to districts so they can select providers that best meet their training needs. We recommend the Legislature adopt this district-centered approach because the current CSU-centered approach:

- ***Restricts District Choice.*** For districts to receive ETPDP funding, they currently must partner with at least one public or private four-year IHE. Moreover, the IHE must serve as the fiscal agent of the partnership. The current approach, therefore, restricts the professional development opportunities of many districts. Under a district-centered approach, many districts might continue to use IHE providers, but others might find partnering with an IHE less convenient or more costly than other providers. Some of these districts might choose, for example, to form a consortium with neighboring schools, a county office of education, and/or CTAP.
- ***Lacks Competition.*** Currently, CSU determines which IHEs and partnerships should receive funds, yet it is also considered a primary provider. It, therefore, faces a conflict of interest. Although CSU is unlikely to use its authority unfairly, having districts choose providers would allow for greater competition, which in turn would generate incentives for providers to be more directly accountable for providing teachers with high-quality professional development.

In sum, we recommend the Legislature shift the \$18.5 million the budget requests to expand the ETPDP program from CSU to SDE (which results in a need to accommodate \$18.5 million within the state's Proposition 98 total). This recommendation is consistent with the district-centered approach the administration has adopted in its new initiative on standards-based professional development in reading and mathematics.

LEVERAGING EXISTING PROFESSIONAL DEVELOPMENT RESOURCES MAXIMIZES DISTRICTS' OPPORTUNITIES

Earlier in this section, we discuss the Governor's new standards-based professional development initiative and the major university-administered professional development programs. In addition to these programs, the state already funds several locally and regionally administered staff development programs in reading, mathematics, and technology for K-12 teachers. Figure 7 (see next page) lists many of these programs. Even without counting the Governor's \$378.5 million in new professional de-

velopment proposals, the 2001-02 budget still includes more than \$450 million for locally and regionally administered K-12 professional development programs. (Figure 7 does not include state funding for the major support programs for new and noncredentialed teachers—such as the Beginning Teacher Support and Assessment program, the District Internship program, the Pre-Internship program, and CalState TEACH—which totals approximately \$150 million.)

Figure 7

Funding for Locally and Regionally Administered K-12 Professional Development Programs

2001-02 Proposed Appropriations
(In Millions)

Professional Development Program	Funding
Instructional Time and Staff Development Reform	\$259.3
Peer Assistance and Review Program for Teachers	143.7
School Development Plans and Resource Consortia	21.6
Incentives for Achieving National Board Certification	15.0
Education Technology Staff Development, Grades 4-8	9.3
Intersegmental Staff Development	2.0
Bilingual Teacher Training Program	1.7
California Mathematics Initiative	1.6
Geography/Science Staff Development	1.6
Total	\$455.8

Pooling Existing Resources Could Enhance Program Quality

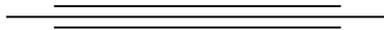
We recommend the Legislature enact legislation and add a control section to the budget bill to allow districts to redirect resources from outdated, nonstandards-aligned, and lower-priority professional development programs to professional development programs that are both aligned to the state's new academic content standards and of adequate training length to be effective.

Although the state currently spends a considerable amount on K-12 professional development, many of the funds are linked to categorical programs or programs that are not aligned to state content standards. Some of the funding also supports training activities of short duration—such as one-day workshops—that are likely to be ineffective.

Flexible Professional Development Block Grant. The Legislature could achieve better results with existing resources if it combined the funds associated with these older, nonstandards-aligned programs into a more flexible professional development block grant. One major statewide program the Legislature might include in such a block grant is the Instructional Time and Staff Development Reform program, which provides a total of \$259 million to districts for a variety of short-term professional development activities. The Legislature might also include in the block grant funds from older programs—such as the Miller-Unruh Basic Reading Program (\$28.4 million)—whose purposes should be realigned with teachers' current training needs.

Encourage Districts to Combine State and Federal Funds. The Legislature also could encourage districts to combine state funds with federal funds. Indeed, many federal programs—such as the Elementary and Secondary Education Act Title I, Part A and the Class-Size Reduction program—either require or strongly encourage local education agencies to pool local, state, and federal resources and use a proportion for standards-aligned professional development.

In sum, we recommend the Legislature allow districts to pool some existing professional development resources and use them for new professional development programs that focus on the state's academic content standards and are of sufficient training length to be effective. By providing districts with a flexible professional development block grant, the Legislature not only would help districts streamline existing staff development programs, it also would encourage districts to realign older professional development programs with the state's academic content standards. Through this streamlining and realigning process, the Legislature could maximize the number of high-quality professional development opportunities available to teachers throughout the state.



IMPROVING ACADEMIC PREPARATION FOR HIGHER EDUCATION

Over the last several years, the Legislature has expressed considerable interest in improving high school students' academic preparation for higher education. Part of its interest stems from the persistently high proportion of college freshmen that arrive unprepared for college-level course work. In our recent report on precollegiate education in California (dated February 8, 2001), we identify options for enhancing students' academic preparation. In this section, we summarize our major findings and recommendations from that report. Specifically, we track over the last decade the proportion of students arriving at college unprepared. We then recommend options for both improving students' preparation and increasing universities' accountability for providing appropriate assistance to students who continue to arrive unprepared. In the next crosscutting issue, we discuss three budget proposals that significantly expand programs designed to improve students' academic preparation for higher education.

ASSESSING ACADEMIC PREPARATION FOR HIGHER EDUCATION

Although community college students do not have to demonstrate they are prepared for college-level work, both the California State University (CSU) and the University of California (UC) require students to demonstrate "college preparedness." Figure 1 shows the three ways students can demonstrate they are prepared for college-level work. First, if students score above a minimum level on the SAT, American College Testing Assessment (ACT), or Advanced Placement (AP) exams, then CSU and UC automatically consider them prepared for college-level work. Second, CSU and UC consider students prepared if they perform satisfactorily on entry-level college placement tests (which are developed by the universities). The UC administers the Universitywide Subject A Examination (to assess preparedness for college-level writing) whereas the

CSU administers the English Placement Test (EPT) and the Entry-Level Mathematics (ELM) test. (Because mathematics is not required for UC’s baccalaureate degree, it does not require students to demonstrate readiness for college-level mathematics.) If students do not score sufficiently high on either college admission or placement exams, they must enroll in and pass a precollegiate course.

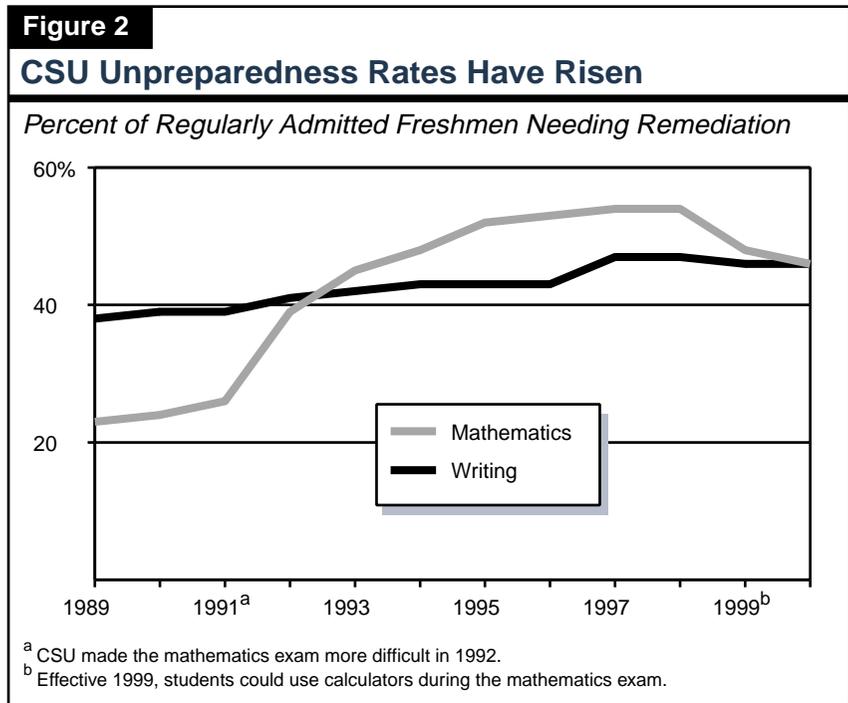
Figure 1	
Standards for Demonstrating College Preparedness	
Reading and Writing	Math
CCC	
None	None
CSU	
<ul style="list-style-type: none"> • Score 550 on SAT I verbal test; 680 on SAT II writing test; 25 on ACT verbal test; or 3 on AP writing test; or • Pass CSU’s English Placement Test (EPT); or • Pass precollegiate course(s). 	<ul style="list-style-type: none"> • Score 560 on SAT math test; 560 on SAT II math test; 24 on ACT math test; or 3 on AP math test; or • Pass CSU’s Entry-Level Mathematics Test (ELM); or • Pass precollegiate course(s).
UC	
<ul style="list-style-type: none"> • Score 680 on SAT II writing test, or score 3 on AP English test; or • Pass UC’s “Subject A” writing examination; or • Complete prescribed “Subject A” writing class. 	None

Unpreparedness Is Persistent and Pervasive

Although the community colleges do not compile systemwide data on the level of proficiency of students entering their colleges, both CSU and UC report on the proportion of freshmen that arrive unprepared for college-level work. We tracked these “unpreparedness rates” over the last decade.

Almost Half of Regularly Admitted CSU Students Arrive Unprepared in Writing and Mathematics. Figure 2 (see next page) shows the CSU systemwide unpreparedness rate in writing and mathematics for regularly admitted freshmen over the last decade. In fall 1989, 38 percent of regularly

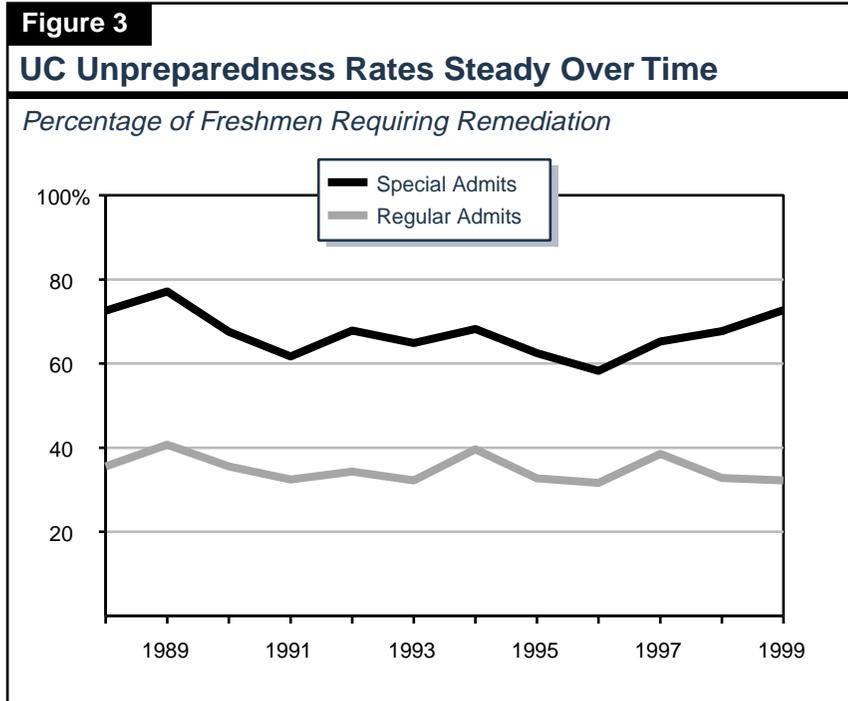
admitted freshmen were unprepared for college-level writing and 23 percent were unprepared for college-level mathematics. By fall 2000, the unpreparedness rate in writing had increased by more than one-fifth—to 46 percent. The unpreparedness rate in mathematics also increased sharply between 1989 and 1998—when 54 percent of regularly admitted freshmen arrived unprepared. For the last two years, however, the unpreparedness rate in mathematics has fallen—dropping to 45 percent in fall 2000.



Almost All Specially Admitted CSU Students Arrive Unprepared. In 1999-00, almost 10 percent of CSU freshmen were specially admitted, meaning they either had not yet completed the 15 required college preparatory courses or they had failed to obtain a sufficiently high grade point average or SAT score. Although CSU does not report the proportion of specially admitted students that is unprepared for college-level writing and mathematics, it states that almost all these students are likely to be unprepared. Data provided by CSU Sacramento support this assertion. In fall 1998, 17 percent of freshmen were specially admitted. Of these students, 91 percent were unprepared for college-level writing.

Unpreparedness Has Remained Relatively Constant at UC. Figure 3 shows the UC systemwide unpreparedness rate in writing for regularly

and specially admitted freshmen over the last decade. In fall 1988, 35 percent of regular admits and 74 percent of special admits were unprepared for college-level writing. By fall 1999, these percentages had changed only slightly—to 32 percent and 73 percent, respectively. (During these years, approximately 5 percent of all freshmen were specially admitted.)



Assess Preparation for College-Level Studies Earlier

We recommend the community colleges, the California State University, and the University of California work with high schools to develop methods to diagnose readiness for college-level work while students are still in high school.

The college faculty we interviewed emphasized the importance of assessing all prospective students and assessing them as early as possible. Unfortunately, all CSU and UC students who do not score sufficiently high on college entrance exams must wait until they have been admitted to a campus before they can take placement tests to determine if they can enroll directly in college-level writing and mathematics courses. Similar to these aspiring university students, community college students often do not know they are unprepared unless they take a community

college placement exam or until they actually enroll in a college-level course and discover they are unable to meet its demands.

Current Process Poorly Serves Students. The current assessment process—which informs many students of their skill deficiencies only *after* they have been admitted to college—often results in students paying higher college costs and taking longer to graduate. Freshmen who are deemed unprepared must enroll in at least one (and often two or three) precollegiate courses—which typically do not apply toward one’s baccalaureate degree. Students attending CSU and UC pay the same fee for precollegiate courses as for all other college-level courses. They do so even though they could have taken each precollegiate course at a community college for approximately \$30 or during high school at no charge. Moreover, having to take these additional courses in college can prolong a student’s time to degree. In short, the current system costs students both time and money.

Two Options for Assessing Earlier. The segments have two basic options for assessing students earlier. They can either use high school assessment tests to determine college readiness or they can offer their own assessment tests to high school students. Under the first option, the segments would use one or more existing high school assessments (such as the augmented Standardized Testing and Reporting exam, Golden State exams, Advanced Placement exams, SAT I and SAT II, or the new high school exit exam) to determine students’ readiness for college-level work. Under the second option, the segments would allow aspiring college students to take the Subject A, EPT, ELM, and other community college placement tests while they are still in high school. Either option would help students identify their level of college readiness earlier, thereby providing them more options in seeking additional academic assistance—options that might save them time and money. (In the next section of the *Analysis*, we discuss a new program—the Diagnostic Writing Service—which allows high school students to take CSU’s and UC’s placement exams online.)

INCREASING ACCOUNTABILITY IN PRECOLLEGIATE EDUCATION

Once students have been assessed and deemed unprepared, the higher education segments employ a variety of strategies to help them overcome their skill deficiencies. The community colleges offer both noncredit precollegiate courses—that primarily serve students who have not yet graduated from high school or who have special educational needs—and credit precollegiate courses—that primarily serve students who desire to

transition into transferable college courses. The CSU offers several nondegree-applicable precollegiate courses. Most of these courses are traditional, term-length classes taught by CSU instructors. Several CSU campuses, however, now also offer short workshops and computer-mediated courses for students whose skill deficiencies are less severe. Like CSU, UC offers primarily term-length, nondegree-applicable precollegiate courses. Several campuses, however, offer intensive six-unit degree-credit courses that incorporate precollegiate and college-level material. Additionally, both CSU and UC use community college faculty to teach some of their precollegiate courses. (These courses are held on the CSU or UC campus.)

Although all higher education segments offer precollegiate services, the state has yet to hold them accountable for providing high quality, cost-effective services. Currently, because of the lack of rigorous post-assessment procedures and the inadequacy of reporting requirements, neither the Legislature nor the public can easily or meaningfully evaluate if the segments help unprepared students obtain the skills they need to succeed academically during the remainder of their college experiences. Furthermore, because of the inconsistency of the state's precollegiate funding policies, the Legislature cannot hold the segments accountable for providing cost-effective precollegiate services.

All Public Segments Should Assess and Report on the Preparedness of All Entering Students

We recommend the Legislature require the community colleges, the California State University, and the University of California to assess and annually report on the reading, writing, and mathematics proficiency of all entering students—including transfer students.

If the Legislature and the public are to hold the three segments accountable for providing high-quality precollegiate services, they must first obtain basic information regarding the nature and magnitude of entering students' unpreparedness. Although this information is crucial to the Legislature's ability to ensure accountability, UC is the only higher education segment that has historically assessed and reported on the preparedness of all entering students. To improve the availability and quality of information on unpreparedness, we recommend:

- ***Community Colleges Assess and Annually Report on the Proficiency of All Entering Students.*** Currently, the community colleges do not uniformly assess students for proficiency in basic reading, writing, and mathematics. They therefore report no information on entering students' level of academic preparation for higher educa-

tion. This means the Legislature cannot hold high schools accountable for adequately preparing students for higher education.

- ***The CSU Assess and Annually Report on the Proficiency of All Students—Including Specially Admitted Students.*** Unlike UC, which has reported Subject A pass rates for both regularly and specially admitted students since 1978, CSU did not provide the Legislature with any systemwide information on its unprepared students until fall 1999. Currently, CSU reports on the EPT and ELM pass rates of regularly admitted students. The CSU reports no comparable information for specially admitted students even though these students are likely to be those who need the greatest amount of additional academic assistance and support.
- ***The CSU and UC Assess and Annually Report on the Proficiency of All Transfer Students.*** Currently, CSU and UC assess incoming freshmen but not incoming transfer students. The CSU and UC therefore provide the Legislature with no systemwide information on transfer students' academic preparation for upper division college work. The only exception is CSU San Diego, which requires transfer students to take upper division placement exams in writing and mathematics. It says it administers these exams because it previously had difficulty appropriately placing transfer students; transfer students often struggled due to misplacement; and faculty often had difficulty maintaining the rigor of upper division courses.

If the community colleges, CSU, and UC routinely provided this assessment information to the Legislature, it would be much better informed as to the quality of services students are receiving across the K-16 educational spectrum. It would then be better equipped to determine the most appropriate way to hold public schools and universities accountable for improving student achievement.

Segments Should Assess and Report on the Effectiveness of Their Precollegiate Services

We recommend the Legislature require the community colleges, the California State University, and the University of California to assess and routinely report on the effectiveness of their precollegiate services.

None of the three segments currently requires students to pass a standardized proficiency exam upon completion of a precollegiate course. Furthermore, none tracks the future academic success of initially unprepared students. This means the segments cannot evaluate the merits of

any of the various precollegiate services they provide. We therefore recommend that the segments:

- ***Assess Proficiency Both Before and After Precollegiate Courses.*** If the standardized tests the segments rely on to measure a student's preparedness for college-level studies are valid, then they should also be valid indicators of whether a student has become adequately prepared after taking one of their precollegiate courses. Such post-course assessments would allow students and faculty to know whether students were indeed prepared for college-level work after completing a CCC, CSU, or UC precollegiate course. Post-course assessments would also allow college administrators to measure the relative effectiveness of different instructional strategies.
- ***Track Future Academic Success in College.*** Currently, the segments collect very little information on the future academic performance of initially unprepared students. Periodically assessing the progress of a subset of students—including both those who are initially prepared and unprepared—would provide greater assurances that the segments are meeting students' academic needs. It would also help the Legislature evaluate institutional performance and identify the types of programs that best serve students.

The CSU's New Disenrollment Policy

In fall 1998, the Chancellor's Office issued Executive Order 665, which requires campuses to disenroll students who do not complete precollegiate courses within a specified amount of time. (The new policy therefore holds students accountable for their performance, but it does not directly address the issue of institutional accountability.)

Specific campus policies vary, but most campuses now require students to complete their precollegiate coursework in 12 months to 15 months after initially enrolling on campus. Of the regularly admitted students who entered in fall 1998 needing additional precollegiate coursework, approximately 20 percent had not completed it by fall 1999.

Although campuses are to disenroll these students based on the new policy, actual campus practices vary greatly. Whereas the Maritime Academy disenrolled all students not completing their precollegiate coursework within the allotted time, CSU Stanislaus allowed 60 percent of these students to remain on campus.

State Should Offer Only One Precollegiate Funding Rate

We recommend the state fund the California State University's and the University of California's precollegiate writing and mathematics courses at the same rate it funds credit courses at the community colleges.

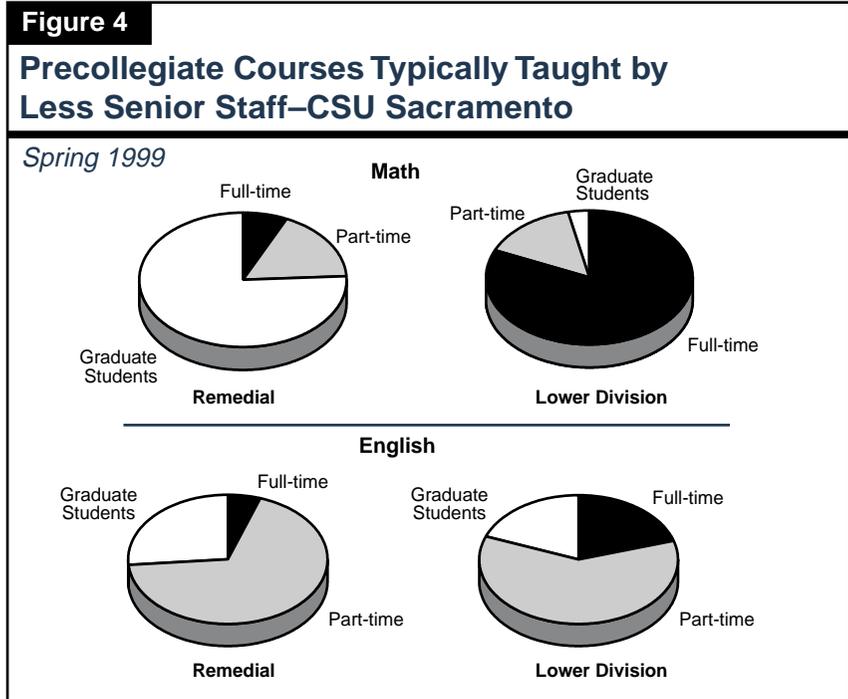
The state currently funds precollegiate services at the three segments in widely disparate ways. At the community colleges, the state provides \$3,492 (1999-00 rate) per full-time equivalent (FTE) student for all credit courses regardless of whether they are precollegiate or college-level courses. Similarly, the state provides CSU with \$6,360 (2001-02 rate) per FTE student for all credit courses regardless of whether they are precollegiate or college-level courses. In contrast, the state does not fund precollegiate courses at UC (unless a campus offers the course for degree-credit). The state therefore provides UC with \$9,158 (2001-02 rate) per FTE student for its college-level courses but zero dollars for its precollegiate courses.

Disparate Rates Generate Wrong Incentives. By providing CSU with the same level of funding for unprepared and prepared students, state policy encourages CSU to admit students regardless of their level of academic preparation. If the state funded CSU precollegiate courses at the community college rate, it would reduce this incentive (though it would not disallow CSU from accepting and enrolling all students it believed could succeed). In contrast, by not providing UC with any funding for its precollegiate courses, state policy encourages UC to reserve "precollegiate" courses for only the most challenged students. For example, UC Riverside allows only nonnative English speakers to enroll in specialized precollegiate writing courses. All other students who have not yet passed the Subject A exam must enroll directly in regular lower division courses. Because UC does not characterize these courses as precollegiate, it receives full funding for these courses, and the courses are not specialized to help unprepared students overcome their skill deficiencies.

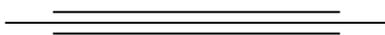
Precollegiate Courses Likely Cost Less Than College-Level Courses. Evidence suggests that precollegiate courses are likely to cost less than college-level courses. Figure 4 shows, for example, that CSU Sacramento uses disproportionately more graduate students and part-time instructors for precollegiate courses than for regular lower division courses. These courses therefore are likely to be comparable in cost (or might even be less costly) than community college courses.

Offer One Precollegiate Rate. Funding all precollegiate courses at the rate the state currently funds community colleges would have three significant benefits. It would provide financial incentives for CSU to reconsider the most efficient and effective way to deliver precollegiate services. It would encourage UC to tailor precollegiate services to the spe-

cial needs of unprepared students. It would also motivate CSU and UC to expand their collaborations with community colleges for delivery of precollegiate services. Several CSU campuses and two UC campuses currently contract with community college faculty to teach precollegiate courses on the university campuses. Both CSU and UC have indicated that these collaborations are successful.



In conclusion, many students are currently arriving at community colleges, CSU, and UC lacking the academic preparation necessary to engage successfully in college-level courses. To improve students' academic preparation for college and increase the segments' accountability for appropriately serving unprepared students, we recommend the segments assess students' college readiness earlier, report on the preparedness of all entering students, and study the effectiveness of their precollegiate services. Furthermore, we recommend the Legislature fund precollegiate courses across the three segments in a more equitable manner.



COLLABORATIVE ACADEMIC PREPARATION PROGRAMS

In recent years, the state has established several new programs and expanded others to encourage the California State University (CSU) and the University of California (UC) to work more intensively with high schools and community colleges. The primary purpose of these programs is to help prepare students for university-level work. The *2001-02 Governor's Budget* proposes a total of \$20.4 million for three of these existing programs, an augmentation of \$10.1 million. Of the \$10.1 million, the budget proposes \$8 million for the CSU/K-12 Collaborative Academic Preparation Initiative (CAPI), \$1 million for the Diagnostic Writing Service (DWS), and \$1.1 million for the Articulation System Stimulating Inter-Institutional Student Transfer (ASSIST) program. (The budget also includes \$8 million for the Student Academic Partnership program, which we discuss in our section on K-12 after school programs).

These types of programs address some of the concerns we raised in our recent report on precollegiate education in California, which we summarized in the preceding crosscutting issue. In this report, we recommend CSU and UC make more concerted efforts to work with high schools to better communicate their entry-level expectations and to allow students to obtain sooner information on their preparedness for college-level studies. We also note that the universities are currently not held accountable for providing high-quality academic assistance to high school students and their teachers as well as first-time freshmen who are not yet prepared for college-level work. We therefore recommend the Legislature require the universities to track and report on the effectiveness of these programs so it can determine if future appropriations are warranted.

Track Promising Collaborative Academic Preparation Initiative

We recommend the Legislature approve the \$8 million the Governor's budget requests to expand the Collaborative Academic Preparation Initiative program but adopt supplemental report language requiring California State University to report annually on the program's effectiveness.

The 1999-00 Budget Act provided CSU with \$9 million to establish the CAPI program. Of this amount, the act designated \$5 million for the Faculty-to-Faculty Alliance program and \$4 million for the Learning Assistance program. In the Alliance program, CSU English and mathematics faculty form partnerships with high school English and mathematics teachers. The CSU faculty provide high school teachers with various types of training, ranging from one-day Saturday workshops to week-long summer conferences. In the Assistance program, CSU students provide tutoring services in writing and mathematics to high school students (most of whom are juniors). In both of these programs, the CSU partners with those high schools that send large proportions of students to CSU campuses needing remediation in English and mathematics.

Collaborative Program Might Improve Academic Preparation for Higher Education. The Governor's budget requests \$8 million to expand the CAPI program from the existing 134 high school partnerships (formed with 19 of CSU's 22 campuses) to 223 high school partnerships. (This represents 25 percent of all high schools.) Among current partnerships, a total of 413 CSU students are tutoring high school students, and a total of 231 CSU faculty members are working with 1,128 high school teachers.

The CSU Should Evaluate Academic Outcomes. Given the program is relatively new and the participation rate is high, we recommend the Legislature approve the augmentation but adopt supplemental report language relating to the program's effectiveness. Specifically, the Legislature should require CSU to track:

- ***Impact on Student Achievement.*** For the targeted high schools, CSU should report: the Standardized Testing and Report (STAR) results in English and mathematics for sophomores (prior to their involvement in the CAPI program) and juniors (after their involvement); the college participation rate of high school graduates; the percent of high school graduates that CSU specially admits; and the percent of high school graduates entering CSU and needing remediation in English and mathematics.
- ***Quality of Service Provided to Teachers.*** The CSU should also develop and administer pre- and post-program assessments for participating teachers. The CSU already uses this approach to evaluate the effectiveness of the Education Technology Institutes it administers on behalf of K-12 teachers. In this program, CSU uses a pre- and post-assessment of teachers' technological capabilities to ensure its institutes are helping teachers integrate technology more effectively within their classrooms. By developing a similar assessment tool focusing on teachers' knowledge of CSU entry-level expectations and high school academic content stan-

dards, CSU could demonstrate directly the effectiveness of the CAPI program.

In sum, we recommend the Legislature approve the \$8 million the Governor's budget requests to expand the CAPI program because the program is currently attracting high participation from CSU and high school faculty. We further recommend the Legislature adopt supplemental report language requiring CSU to develop a program assessment tool and to report annually, beginning December 1, 2002, on student achievement and teacher improvement in the targeted high schools.

Approve Expansion of DWS

We recommend the Legislature approve the \$1 million the Governor's budget requests to expand the Diagnostic Writing Service because it has the potential to improve students' academic preparation for higher education.

The Governor's budget requests \$1 million for CSU to expand the DWS. In 1999-00 and 2000-01, CSU provided approximately \$200,000 annually from both discretionary and CAPI program funds to maintain the DWS. The DWS allows high school students to practice the essay portion of CSU's English Placement Test (EPT) and UC's Subject A exam. The primary purpose of the program is to allow students to assess their readiness for college-level writing while still in high school and to communicate more clearly to high school faculty the entry-level writing expectations of university faculty.

The CSU began the DWS as a pilot program in fall 1998—allowing juniors in six high schools to respond to selected essay questions previously asked on the EPT and Subject A exam. In fall 1999, CSU released the program on the Internet. During 1999-00, more than 8,500 high school students submitted essays (either electronically or in paper form) in response to one of three EPT essay questions. More than 5,600 high school students submitted essays in response to one of five Subject A essay questions. Faculty from CSU and UC (and some high schools and community colleges) grade the essays. (They are paid using state funds appropriated for the CAPI program.) The faculty then provide diagnostic statements identifying strengths and weaknesses to participating students and their teachers. Based upon these statements, students can identify whether they are prepared for college-level coursework and teachers can adapt their instructional plans to better meet students' needs.

We recommend the Legislature approve the \$1 million the Governor's budget provides to expand the DWS because it allows high school students to identify earlier whether they are prepared for college-level writ-

ing and high school faculty to better understand universities' entry-level writing expectations. Although we recommend approving the augmentation, we further recommend the Legislature encourage CSU and UC to work with high schools to streamline the existing assessment process. For example, rather than administering segment-specific placement exams—such as the EPT and the Subject A exam—CSU and UC might use students' scores on existing high school assessment exams—such as the Golden State Exams or the 11th grade Standards-Aligned STAR exam to determine if students are adequately prepared for college-level coursework.

The ASSIST Program Should Be Enhanced

We recommend the Legislature approve the \$1.1 million the Governor's budget requests for the Articulation System Stimulating Inter-Institutional Student Transfer program but adopt budget bill language to ensure the system is as effective as possible.

The ASSIST program, established in 1985 at UC Irvine, initially provided community college counselors and students with access to articulation agreements via computer. In 1996, ASSIST provided its information on the Internet at no charge. The ASSIST goal is to allow students who access the Web site to identify all community college courses that satisfy CSU's and UC's general education requirements as well as specific requirements relating to certain majors (such as engineering) and specialized programs (such as nursing).

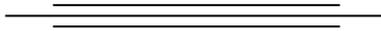
The current-year budget includes a total of \$1.3 million for the California Community Colleges (CCC) (\$589,000), CSU (\$360,000), and UC (\$360,000) to update and maintain the ASSIST database. (In addition to this amount, UC provides approximately \$180,000 from university funds to maintain current operations.) The 2001-02 Governor's Budget requests an augmentation of \$1.1 million to improve the technical infrastructure of ASSIST's online services and provide additional staff to update course articulation data more frequently. Because ASSIST is the only viable statewide database that provides transfer information to community college students, we recommend the Legislature approve the augmentation.

We further recommend that the Legislature require the CSU and UC to honor articulation agreements ASSIST posts online. Occasionally, the ASSIST Web site displays some articulation agreements that are outdated. This can frustrate students who rely on the information to determine the community college courses they need to complete for CSU and UC credits. If the segments had to honor all agreements ASSIST displays online, CSU and UC would have a stronger incentive to provide ASSIST with timely, accurate, and comprehensive information on articulation agree-

ments. They would also have an incentive to ensure ASSIST appropriately updates its Web site.

Consequently, we recommend the Legislature adopt the following budget bill language in Item 6440-001-0001:

The Articulation System Stimulating Inter-Institutional Student Transfer (ASSIST) program is to provide free access on the Internet to all current articulation agreements between the community colleges, CSU, and UC. It is the intent of the Legislature that CSU and UC honor all articulation agreements posted by ASSIST on its Web site.



INTRODUCTION

K-12 Education

The budget includes an increase in K-12 Proposition 98 funding of almost \$3.2 billion in the budget year. This is \$479 per pupil, or 7.1 percent, more than the revised estimate of per-pupil expenditures in the current year.

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, Proposition 98 funding constitutes over three-fourths of overall K-12 funding. For 2001-02, the budget proposes to increase K-12 Proposition 98 funding by almost \$3.2 billion above revised current-year estimated expenditures. This represents an increase of \$479 per pupil, or 7.1 percent, on an average daily attendance (ADA) basis, bringing Proposition 98 per-pupil spending to \$7,174.

Spending for K-12 education from all sources is projected to increase by nearly \$3 billion, or 6 percent, above the current-year level. This reflects the budget's estimate that several non-Proposition 98 funding sources either will not grow or will decline. This estimate, however, probably understates the resources that will be available. For example, as we discuss elsewhere in this chapter, the state will be receiving a considerable amount of federal funds in the budget year that are not included in the budget.

Governor's Budget Proposals

The budget proposes a *General Fund* K-12 Proposition 98 funding increase of approximately \$2.3 billion. The budget estimates an increase in local property taxes allocated to school districts and county offices of education of \$884 million, which brings the total Proposition 98 increase for K-12 education to more than \$3.2 billion. The administration, however, miscalculated its estimate of property tax revenues to be allocated to school districts during the current and budget years. This miscalculation results in an overstatement of property tax revenues to the schools of \$74 million in 2000-01 and \$108 million in 2001-02. This overstatement does not affect the total amounts of Proposition 98 funds available to schools in either fiscal year, but does affect the budget's estimate of the portion that

must be contributed from the state General Fund. Thus, this error causes the budget to overstate the General Fund reserve by a total of \$182 million.

Figure 1**K-12 Education Budget Summary**

1999-00 Through 2001-02
(Dollars in Millions)

	Actual 1999-00	Estimated 2000-01	Proposed 2001-02	Change From 2000-01	
				Amount	Percent
K-12 Proposition 98					
State (General Fund)	\$25,269.7	\$27,192.2	\$29,471.0	\$2,278.7	8.4%
Local property tax revenue ^a	10,100.4	10,894.9	11,779.1	884.2	8.1
Subtotals, Proposition 98	(\$35,370.1)	(\$38,087.1)	(\$41,250.1)	(\$3,163.0)	(8.3%)
Other Funds					
General Fund					
Teachers' retirement	\$864.4	\$833.8	\$807.2	-\$26.6	-3.2%
Bond payments	877.9	1,075.7	1,141.6	65.9	6.1
Other programs	165.0	745.8	661.1	-84.6	-11.3
State lottery funds	769.4	826.4	826.4	—	—
Other state funds	50.6	54.4	61.0	6.6	12.1
Federal funds	4,131.7	4,681.8	4,542.9	-138.9	-3.0
Other local funds	3,454.2	3,454.2	3,454.2	—	—
Subtotals, Other Funds	(\$10,313.3)	(\$11,672.2)	(\$11,494.5)	(-\$177.7)	(-1.5%)
Totals	\$45,683.3	\$49,759.3	\$52,744.6	\$2,985.2	6.0%
K-12 Proposition 98					
Average Daily					
Attendance (ADA)	5,606,894	5,688,675	5,750,105	61,430	1.1%
Amount per ADA					
(excluding loan)	\$6,308	\$6,695	\$7,174	\$479	7.1%
^a Department of Finance estimate. The Legislative Analyst's Office estimates that the amount is \$74 million less in 2000-01 and \$108 million less in 2001-02, requiring General Fund backfills of equal amounts.					

Figure 2 highlights the significant changes proposed for K-12 Proposition 98 funds in the budget year. Major changes include:

- \$1.4 billion for a 3.91 percent cost-of-living-adjustment (COLA).

Figure 2**Governor's K-12 Budget Proposals
2001-02 Proposition 98***(In Millions)***2000-01 (revised) \$38,087.1****Enrollment Growth**

Revenue Limits	\$323.2
Categoricals	139.3
Subtotal	(\$462.5)

Cost-of-Living Increases

Revenue Limits	\$1,036.6
Categoricals	380.5
Subtotal	(\$1,417.1)

Funding Adjustments

Child care and preschool annualizations	\$108.5
Governor's Performance Awards base	96.2
II/USP ^a	88.2
Mandates—ongoing funding	68.0
Other	27.4
Subtotal	(\$388.3)

Program Expansions

Special Education settlement	\$125.0
Governor's Performance Awards	123.0
High School Exit Exam, 10th graders	45.0
Other	31.2
Subtotal	(\$324.2)

New Programs

Teacher training	\$335.0
Longer year for middle school grades	100.0
Algebra incentives	30.0
Testing workbooks	27.5
High-tech high schools	20.0
STAR data analysis	20.0
Principal training	15.0
Kindergarten Readiness Pilot (AB 25)	13.4
Student tracking	5.0
Math and Science Challenge Grants	5.0
Subtotal	(\$570.9)

2001-02 (proposed) \$41,250.1^a Immediate Intervention/Underperforming schools Program.

- \$463 million for enrollment growth, based on a projected ADA increase of 1.08 percent in 2001-02.
- \$335 million to train teachers in instruction of mathematics and English based on the state's new academic content standards.
- \$125 million for settlement of a long-standing special education mandate claim. The settlement also proposes a one-time payment of \$270 million, attributed to 1999-00 for Proposition 98 purposes.
- \$123 million to increase awards to schools under the Governor's Performance Awards program to the statutory maximum of \$150 per ADA.
- \$100 million for initial implementation of an incentive program to extend the school year from 180 days to 210 days in "middle school grades" (grades 6 through 9, depending on school configuration). The annual cost of this program could approach or exceed \$1 billion by 2003-04.

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 \$27.2 billion in 2001-02, or nearly two-thirds of Proposition 98 expenditures. The state General Fund supports about 58 percent of revenue limit funding, and local property taxes provide the remaining 42 percent.

The largest "categorical" program (an expenditure earmarked for a specified purpose) is special education. The budget proposes to increase special education funding by \$285 million, or 12 percent, to a total of \$2.7 billion from Proposition 98 sources. Class size reduction in K-3 and 9th grade is the second largest categorical spending program in 2001-02 at almost \$1.8 billion. A modest increase of \$19 million (1.1 percent) is due to the COLA, offset slightly by a downward revision in estimated K-3 enrollment.

One-Time Spending

The budget proposes over \$700 million of one-time spending on Proposition 98 programs. These spending proposals are funded largely by unspent balances from prior appropriations, but also in part from the state's General Fund reserve. Figures 4 (see page 60), 5 (see page 61), and 6 (see page 62) detail the sources and uses of one-time funds according to the fiscal year that the budget attributes appropriations for Proposition 98 purposes.

Figure 3**Major K-12 Education Programs
Funded by Proposition 98***(Dollars in Millions)*

	Estimated 2000-01	Proposed 2001-02	Change	
			Amount	Percent
Revenue Limits				
General Fund	\$15,140.3	\$15,693.8	\$553.5	3.7%
Local revenue ^a	10,621.0	11,483.2	862.2	8.1
Subtotals	(\$25,761.3)	(\$27,177.0)	(\$1,415.7)	(5.5%)
Existing Programs				
Special education	\$2,442.6	\$2,727.3	\$284.6	11.7%
Class size reduction	1,733.1	1,751.9	18.8	1.1
Child development	1,140.2	1,310.3	170.1	14.9
Adult education	573.6	610.9	37.3	6.5
Desegregation	677.3	711.2	33.9	5.0
Instructional materials	573.4	581.4	8.1	1.4
Home to school transportation	481.3	505.5	24.1	5.0
Economic impact aid	426.9	465.8	38.9	9.1
Public School Accountability Act	156.7	464.0	307.4	196.1
Summer school/after school	418.7	435.1	16.4	3.9
School improvement	400.7	418.6	17.9	4.5
ROC/Ps ^b	337.4	360.2	22.8	6.8
Staff development day buy-out	246.8	259.3	12.4	5.0
Supplemental grants	222.0	233.1	11.1	5.0
Assessments	112.4	221.3	108.9	96.9
Other	2,382.6	2,493.7	111.1	4.7
Subtotals	(\$12,325.8)	(\$13,549.7)	(\$1,223.8)	(9.9%)
New Programs				
Teacher training	—	\$335.0	\$335.0	—
Longer year for middle school	—	100.0	100.0	—
Algebra incentives	—	30.0	30.0	—
High-tech high schools	—	20.0	20.0	—
Principal training	—	15.0	15.0	—
Kindergarten Readiness Pilot	—	13.0	13.0	—
Math and Science Challenge Grants	—	5.0	5.0	—
Student tracking	—	5.0	5.0	—
Subtotals	—	(\$523.4)	(\$523.4)	—
Totals	\$38,087.1	\$41,250.1	\$3,163.0	8.3%

^a Department of Finance estimate. Legislative Analyst's Office estimates that the amount is \$74 million less in 2000-01 and \$108 million less in 2001-02, requiring General Fund backfills of equal amounts.

^b Regional occupational centers/programs.

Prior Year. Figure 4 shows proposed sources and uses of funds for one-time purposes that the budget attributes to the 1999-00 fiscal year. The major spending items are (1) a one-time \$270 million payment that is part of the proposed settlement of the special education mandate claims and (2) a \$72 million adjustment for revenue limit payments based on final attendance data. As the figure shows, the \$347 million total of proposed expenditures exceeds available resources from prior-year Proposition 98 savings, thus, requiring \$189 million from the General Fund.

Figure 4	
K-12 Education Governor's Budget Proposals for Prior-Year Revenue	
<i>1999-00 (In Millions)</i>	
Sources	
Proposition 98 savings	
Increased property tax allocations to schools	\$95.5
School district PERS ^a adjustment	22.0
County Office of Education lower ADA ^b	24.7
Beginning teacher salary savings	15.0
County Office of Education adjustments	0.8
Subtotal	(\$158.0)
Transfer from General Fund	\$188.9
Total	\$346.9
Proposed Augmentations	
Special Education settlement (prior years)	\$270.0
School district higher ADA	71.9
County Office of Education property tax backfill	5.0
Total	\$346.9
^a	Public Employees' Retirement System.
^b	Average daily attendance.

Current Year. As Figure 5 indicates, the budget estimates that \$226 million of savings from previous Proposition 98 appropriations is available for reallocation in the current year. The budget proposes one-time reallocations totaling \$86 million, leaving \$140 million uncommitted. As mentioned above, however, the administration miscalculated its estimate of General Fund sav-

ings resulting from property tax allocations to school districts. As a result, savings to the General Fund would be about \$66 million.

Figure 5	
K-12 Education Governor's Budget Proposals for Current-Year Revenue	
<i>2000-01 (In Millions)</i>	
Sources	
Proposition 98 savings	
Increased property tax allocation to schools	\$154.8 ^a
County Office of Education lower ADA ^b	33.7
School district PERS ^c adjustment	22.0
Beginning teacher salary savings	15.0
Technical adjustments	0.8
Total	\$226.4
Proposed Augmentations	
School district apportionment adjustments	\$79.9
County Office of Education property tax backfill	4.5
Deferred maintenance	1.0
State employee compensation adjustment	0.6
Subtotal	(\$86.0)
General Fund savings	\$140.4 ^a
Total	\$226.4
^a	Department of Finance estimate. Legislative Analyst's Office estimates that the amount is \$74 million less.
^b	Average daily attendance.
^c	Public Employees' Retirement System.

Budget Year. Figure 6 (see next page) shows estimated Proposition 98 savings of \$273 million available for one-time reallocation in 2001-02. These one-time savings include \$130 million arising from implementation delays on recently authorized summer school programs, and \$40 million arising from implementation delays on current-year expansion of child care services. The budget proposes spending all but \$939,000 of these estimated savings. The largest single expenditure is \$224 million in Item 6110-485 to reimburse estimated prior-year and current-year costs of a

mandate for school bus safety improvements required by a series of legislation between 1994 and 1997. The budget also includes \$67 million from the General Fund (Proposition 98) for the budget-year costs of this mandate. The Commission on State Mandates estimates that the state will be responsible for similar annual costs in the future. The \$67 million will be included in the annual mandates claims bill.

Figure 6	
Proposition 98 Reversion Account Budget-Year, One-Time Expenditures	
2001-02 (In Millions)	
Sources	
Summer school savings	\$130.0
Reversion balance	60.0
Child care expansion savings	40.0
CCC ^a property tax savings (2000-01)	26.4
CCC property tax savings (1999-00)	16.2
Total	\$272.6
Proposed Augmentations	
School Bus Safety II mandate	\$223.7
Special education ADA ^b growth (current year)	13.6
CSIS ^c	12.0
ROC/Ps ^d equipment	10.0
Parental notification mandate	4.2
CCC part-time office hours	3.2
Child nutrition deficiency	2.1
FCMAT ^e	1.2
Alvord Primary Education Center	1.0
Student Friendly Services	0.5
Curriculum frameworks	0.1
Unspent residual	0.9
Total	\$272.6
^a	California Community Colleges.
^b	Average daily attendance.
^c	California School Information Services.
^d	Regional occupational centers/programs.
^e	Fiscal Crisis Management and Assistance Team.

K-12 EDUCATION REFORMS

Figure 7 (see next page) lists some of the major K-12 school reforms enacted by the Legislature or by the voters in the last decade. The list is meant to be illustrative rather than exhaustive. Particularly in the last several years, numerous significant reforms have taken place in K-12 education. Indeed, one of the challenges facing local school districts has been to coordinate the implementation of interrelated, and sometimes conflicting, reforms—often over very short time frames.

ENROLLMENT TRENDS

Enrollment growth significantly shapes the Legislature's annual K-12 budget and policy decisions. When enrollment grows slowly, for example, fewer resources are needed to meet statutory funding obligations for revenue limits and K-12 education categorical programs. This leaves more General Fund resources available for other budget priorities both within K-12 education and, potentially, outside it. Conversely, when enrollment grows rapidly (as it did in the 1980s), schools face greater challenges in supplying enough teachers to meet demand. In light of the important implications of enrollment growth, we describe below two major trends in the K-12 student population.

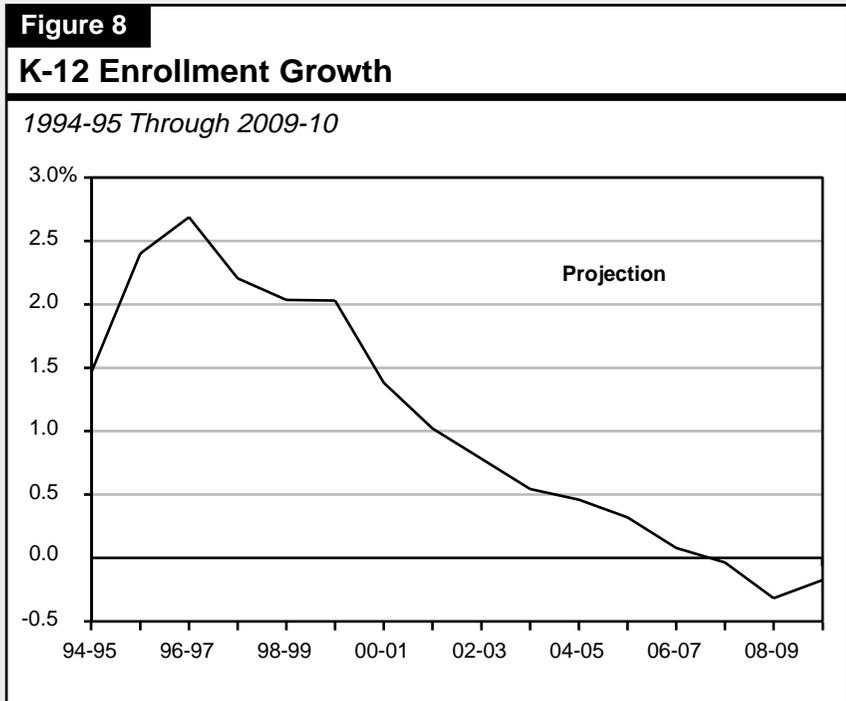
The enrollment numbers used in this section are from the Department of Finance's Demographic Research Unit, and reflect aggregate, state-wide enrollment. While the enrollment trends described here will likely differ from those in any one particular school district, they reflect the overall patterns the state is likely to see in the near future.

K-12 Enrollment Growth to Slow Significantly

K-12 enrollment is projected to increase by 1 percent in 2001-02, bringing total enrollment to just over 6 million students. Figure 8 (see page 63) shows how enrollment growth has slowed since 1996-97 and is projected to continue slowing through 2008-09. This slowing trend is expected to result in an actual decrease in the number of pupils enrolled beginning in 2007-08. This contrasts with growth averaging 2.3 percent annually during the 1990s.

Figure 7**Major K-12 School Reforms in Last Decade**

Timeline	Action
1992	Chapter 781 (SB 1448, Hart) authorizes up to 100 charter schools.
1995	Chapter 975 (AB 265, Alpert) authorizes development of state academic content standards.
1996	Chapter 163 (SB 1777, O'Connell) creates K-3 class-size reduction program.
1997	Chapter 828 (SB 376, Alpert) authorizes Standardized Testing and Reporting (STAR) and use of "off-the-shelf" test (Stanford-9).
1998	<p>Proposition 227 sharply limits bilingual programs; requires rapid transition of English language learners to English fluency.</p> <p>Chapter 313 (SB 1193, Peace) lengthens minimum school year from 172 to 180 days.</p> <p>Chapter 742 (AB 1626, Wayne) restricts "social promotion."</p> <p>Chapter 34 (AB 544, Lempert) allows significant growth of charter schools.</p> <p>Chapter 548 (SB 2042, Alpert) expands Beginning Teacher Support and Assessment; makes changes to higher education training of teachers.</p> <p>Chapter 312 (AB 2041, Bustamante) provides \$1 billion over a four-year period for standards-aligned instructional materials.</p>
1999	<p>Chapter 1x (SB 2x, O'Connell) creates High School Exit Exam.</p> <p>Chapter 3x (SB 1x, Alpert) creates Public Schools Accountability Act and Academic Performance Index.</p> <p>Chapter 4x (AB 1x, Villaraigosa) creates Teacher Peer Assistance and Review program.</p>
2000	<p>Chapter 70 (SB 1666, Alarcon) provides teacher recruitment/retention incentives for low-performing schools.</p> <p>Proposition 39 lowers vote requirement for K-14 facility bonds financed by local property taxes.</p>



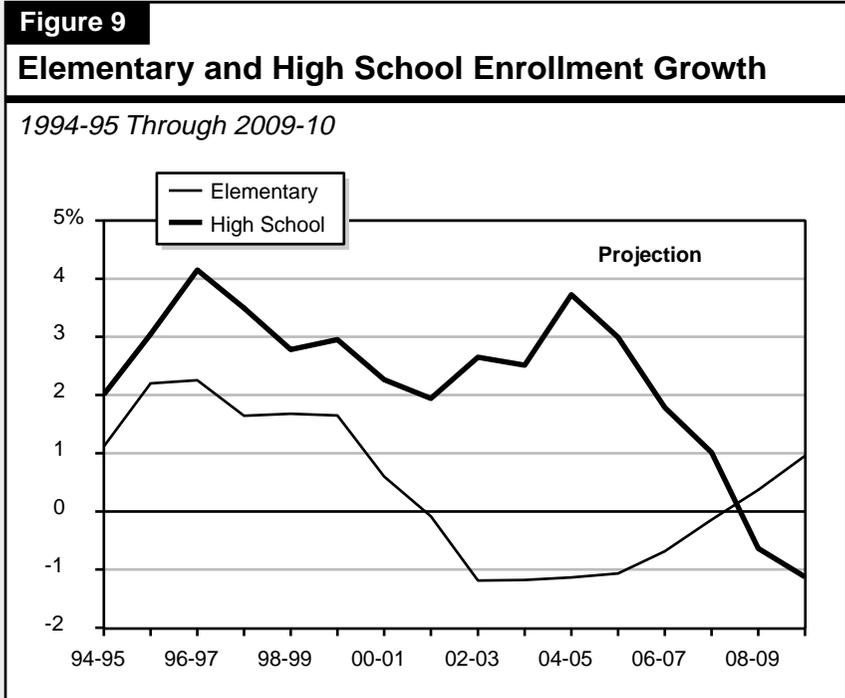
Divergent Trends in Elementary and High School Enrollment

Figure 9 (see next page) shows that the steady decline in K-12 enrollment growth masks two distinct trends in elementary (grades K-6) and high school (grades 9-12) enrollment. Elementary school enrollment growth has gradually slowed since 1996-97. Growth rates are expected to become negative in 2001-02 and remain negative through 2007-08. Over this period, elementary school enrollment is expected to decline by 180,000 pupils (5 percent).

In contrast, high school enrollment growth is expected to accelerate in the short term, reaching a 3.7 percent growth rate in 2004-05. Then, growth is expected to slow sharply, becoming negative in 2008-09. Expected growth over the next seven years is slightly over 300,000 pupils (18 percent).

Budget and Policy Implications

These trends have significant budgetary and policy implications for issues such as class size reduction, teacher demand, and facilities investment. A few of the major implications include:



- Each 1 percent increase in K-12 enrollment requires an increase of approximately \$400 million (General Fund) to maintain annual K-12 expenditures per pupil.
- As enrollment growth slows, a smaller share of the state's new revenues will be consumed by costs associated with funding additional pupils. The Legislature will then have the option of devoting these revenues to increasing per-pupil spending or to other budget priorities.
- In the near term, programs aimed at elementary grades will face reduced cost pressures related to enrollment. Programs aimed at high school grades will face increased cost pressures. This could present cost challenges for many unified school districts because per-pupil costs of educating high school students tend to be higher than for elementary school students, and unified district revenue limits are not adjusted for changing proportions of these students.
- Pressures created by K-3 class size reduction on supply of both credentialed teachers and classroom space should ease somewhat.

SPECIAL EDUCATION SETTLEMENT AGREEMENT

Background. In November 2000, the administration reached a settlement agreement with school districts and county offices of education (referred to as local educational agencies [LEAs]) that had filed claims for the cost of certain special education programs. The agreement ends a 20-year-old lawsuit in which LEAs alleged that the state mandated eight special education activities in excess of federal requirements without providing additional funds. This agreement also includes settlement of a separate mandate claim by Long Beach Unified School District regarding provision of services for students, ages 3 to 5 and 18 to 21.

Major Provisions of the Proposed Settlement Agreement. The major provisions of the agreement include:

- A \$270 million one-time payment, virtually all of which goes to LEAs for general educational purposes to cover prior-year costs. This amount is attributed to the 1999-00 fiscal year for Proposition 98 purposes.
- A series of one-time payments to LEAs of \$25 million per year in ten installments starting in 2001-02 for general educational purposes.
- \$100 million of ongoing annual payments to Special Education Local Plan Areas beginning in 2001-02 to increase basic funding for special education.
- The LEAs waive their right to contest the settlement and to file any further special education claims unless special education law changes to create further mandates.

Conditions for the Agreement to Take Effect. In order for the agreement to take effect, the following events must occur:

- By January 31, 2001, at least 85 percent of the LEAs, representing at least 92 percent of the statewide K-12 attendance, must sign off on the settlement. At the time this was written, it appeared that this threshold would be met. Indeed, it appears that all, or nearly all, LEAs will approve the agreement.
- The parties seek a superior court ruling that the settlement is final and binding.
- The Legislature enacts legislation to approve and fund the agreement.

Other Considerations. These payments would not directly affect the state's long-term minimum funding requirement under Proposition 98. The budget eliminates any effect on the base from the \$270 million pay-

ment for retrospective costs by attributing the payment to the 1999-00 fiscal year. The combined \$125 million payable in 2001-02 has no direct effect because the total of Proposition 98 appropriations proposed by the budget for 2001-02 does not exceed the long-run commitment set by "test 2" of Proposition 98 (an estimated \$46.4 billion of General Fund and local property tax revenue).

Under this agreement, the mandate claim is resolved only if the Legislature approves the terms of the settlement without substantive change. In other words, the agreement presented to the Legislature is a "take it or leave it" proposition. Adoption of the settlement would "close the books" on this issue.



BUDGET ISSUES

K-12 Education

DISCRETIONARY FUNDING

We recommend that, to the extent possible, the Legislature increase revenue limit funding for school districts and county offices of education because additional general purpose funds enhance the ability of schools to improve student outcomes in ways that suit varying local circumstances and needs. Based on resources available from various spending reductions that we recommend in this Analysis, we recommend that the Legislature appropriate \$75 million for equalization and \$100 million to begin a phase-out of the so-called Public Employees' Retirement System reduction of revenue limits.

Relatively Little Local Discretion Over New Spending

A significant feature of the proposed budget is the relative absence of new ongoing general purpose funds for local school districts and county offices of education above increases required by law. These statutorily required adjustments in fully discretionary funds are (1) cost-of-living adjustments (COLAs) and enrollment growth adjustments to revenue limit funding (less than \$1.4 billion), and (2) changes in the charter school block grant amount (\$6 million). The budget does include a *one-time* general purpose amount of \$270 million as part of a proposed settlement of the special education mandate case. That proposed settlement also requires ten annual payments of \$25 million available for general purposes, beginning in 2001-02. (See the "K-12 Introduction" section of this chapter for a detailed description of the settlement agreement.) The new ongoing funds for general purposes, totaling \$1.4 billion, represent substantially

less than half of the \$3.2 billion in new ongoing Proposition 98 funding for K-12 education proposed in the Governor's budget.

This budget would resume a long-term trend in reduced local discretion over K-12 education spending that was briefly interrupted by the infusion of \$1.84 billion in the 2000-01 *Budget Act* to eliminate a statutory "deficit" in revenue limits. Figure 1 depicts this trend by showing 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 our report entitled, *A K-12 Master Plan*, May 1999).

Figure 1**K-12 Proposition 98 Discretionary Spending Share**

1988-89 Through 2001-02
(Dollars in Billions)

Year	K-12 Proposition 98	General Purpose ^a	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	31.6	21.8	69.0
1999-00	35.4	23.5	66.4
2000-01	38.1	26.1	68.4
2001-02	41.3	27.5	66.7

^a Includes revenue limit funding, charter school block grant, school-site block grant (one-time 1999-00), and special education settlement (one-time 1999-00 and 2001-02).

Background on Revenue Limits

Revenue limits provide general purpose support for school districts and county offices of education. When instituted in 1972, 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 the 1972-73 fiscal year. Due to this origin, revenue limits vary across districts reflecting historical funding disparities. 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 limits. Each year, as required by statute, revenue limit funding is adjusted for changes in average daily attendance (ADA) and COLA.

Revenue Limit Equalization

The Legislature has periodically enacted legislation to reduce disparities in revenue limits among the state's school districts. One approach to equalization has been to provide a larger COLA to low-revenue-limit school districts to gradually reduce funding disparities. Examples of this include Chapter 894, Statutes of 1977 (AB 65, L. Greene) and the current COLA model established by Chapter 498, Statutes of 1983 (SB 813, Hart).

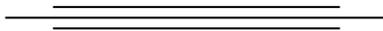
Another approach to equalization has been providing periodic "leveling-up" funds for districts with low revenue limits. Under this approach, a large infusion of funding is provided to significantly increase the revenue limits of low revenue limit districts. The amount of equalization aid for which a district qualifies depends on the amount necessary to bring its revenue limit up to a specified funding target (commonly, the average revenue limit for districts of the same size and type).

Equalization Recommendation. If the Legislature chooses to provide funding to further equalize school district revenue limits, we recommend that it specify a practical equalization goal. For example, the Legislature might specify a goal of equalizing revenue limits for 90 percent of the state's ADA. We estimate that achieving this equalization target would cost approximately \$400 million annually. Based on resources available from various spending reductions that we recommend in this *Analysis*, we recommend that the Legislature appropriate \$75 million towards such an equalization target in 2001-02. This level of augmented funding, if followed by similar augmentations in the subsequent four to 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).

The PERS Reduction

The Public Employees' Retirement System (PERS) reduction is an Education Code provision that reduces each school district's revenue limit payments by the amount attributed as "savings" related to district contributions to PERS. Through a complex series of calculations, this provision reduces each school district's revenue limit payments on the basis that school district costs for contributions to PERS are less today than they were in the 1982-83 fiscal year. In effect, current law "captures" for the state all savings that otherwise would accrue to school districts from reduced employer contribution rates for PERS. It was solely for the purpose of strengthening the state's budget condition that this provision was adopted in 1981. The state does not adjust revenue limit payments for changes in the cost of other specific education inputs (such as maintenance, utilities, or payroll).

Recommend Phase-Out of PERS Reduction. Eliminating or reducing the PERS reduction would be accomplished by eliminating or modifying the Education Code provision that requires the adjustment. We estimate that a complete buyback of the PERS reduction would cost approximately \$550 million annually. As with equalization, elimination of the PERS reduction provision could be staged over several years. Providing funds in this manner would give additional general purpose revenues to school districts and send an important "signal" to school districts that they need to be responsible for future changes in PERS employer rates. Based on resources available from various spending reductions that we recommend in this analysis, we recommend that the Legislature allocate \$100 million to begin a phase-out of the PERS reduction. This level of augmented funding, followed by similar augmentations in each of the four to five subsequent fiscal years, would fully eliminate the PERS reduction.



LONGER MIDDLE SCHOOL YEAR

The Governor's budget proposes \$100 million from the General Fund (Proposition 98) to phase in a new incentive program to lengthen the school year for middle schools by 30 days. (Most middle schools operate on 180-day calendars.) The administration estimates funding for the second year (2002-03) would increase to \$450 million. In the third year, the proposal calls for enough funding for all middle schools to participate, at a potential annual cost of \$1 billion or more. At the time of this analysis, however, the administration was revising program details. The administration intends to seek legislation to enact its longer middle school year incentive program. At the time this analysis was prepared, no bill had been introduced and no draft bill language had been provided for legislative review.

The Secretary for Education has stated that the program would be available to all middle schools serving students in grades 7 and 8, and that school districts could choose to include either 6th grade or 9th grade in the program depending on school configurations. The proposal would provide \$770 per student, intended to offset the costs of increasing the school year by 30 days. Participating districts also must agree to have instructional materials aligned to the state academic standards.

The Secretary also stated the administration's intent to devise special rules for multitrack year-round schools, where it would be difficult (or impossible) to extend the school year to 210 days. These rules probably would include allowing multitrack schools to lengthen the school day by an equivalent number of hours (slightly less than one hour per day based upon our calculations). Even so, multitrack schools may have difficulty implementing an extended school day, or would do so at the expense of supplemental instructional programs.

District participation in the longer middle school year program would be voluntary, but only in the most limited sense. The proposed \$770 per-pupil payments for extending the school year represents a very large amount to school districts—over one-sixth of average revenue limit funding. Districts would have the option of foregoing these amounts but this would be a difficult decision from a practical standpoint.

The Role of Time in Education—Research Findings

The Governor's proposal provides the Legislature with the opportunity to consider the role of time in education, and to ask some basic questions about how well schools use the time they have. A recent study by West-Ed, the western regional laboratory for the U.S. Department of Education, identifies three different measures of time in education that differ qualitatively and in terms of policy implications.

- **Instructional Time.** The number of hours a student is in class—"seat time."
- **Engaged Time.** "Time-on-task" in which a student participates in a learning activity.
- **Academic Learning Time.** The precise time when an instructional activity is aligned with a student's readiness and when learning occurs.

The West-Ed study found, based on a review of the academic literature, that:

- There is little to no relationship between instructional time and student achievement.
- There is some relationship between engaged time and achievement.
- There is a larger relationship between academic learning time and achievement.

The West-Ed study summarized the role of time in education as follows:

The research literature suggests that, while time is certainly a critical factor, by itself it has little direct impact on student performance. Simply adding time to the school year or day would not likely produce large scale gains in student achievement.

Rather, what research studies repeatedly find is that in education, quality is the key to making time matter. Of particular importance is providing curriculum and instruction geared to the needs and abilities of students, engaging them so they will return day after day, continuing to build on what they have learned. In other words, educators must—to the greatest extent possible—make every hour count. What matters most are those catalytic moments when students are absorbed in instructional activities that are adequately chal-

lenging, yet allow them to experience success . . . Only when time is used more effectively will adding more of it begin to result in improved learning outcomes for all students.

Instructional Time Alone Not the Answer

Instructional Time in Different Countries. The Governor's budget summary cites as one rationale for extending the school year the hope of replicating the academic success that other countries with longer school years have experienced. The budget summary specifically cites Japan, Korea, and Taiwan as countries providing 20 to 40 more school days and demonstrating high student achievement. The fact that these countries have nominally longer school calendars, however, does not necessarily explain the high achievement relative to California or the United States, since many important aspects of these educational systems and national cultures also differ strikingly. In fact, a closer inspection of how time is used in different countries is revealing.

Perhaps surprisingly, the instructional time that students in the United States receive is greater than other developed countries. Figure 1 (see next page) shows that middle school students in the United States receive 980 hours of instruction annually, which exceeds the average for countries in the Organisation for Economic Cooperation and Development. Since instructional time for California middle schools falls within the approximate range of other American states, California middle school students annually receive *more* hours of instruction than students in either Japan or Korea. This is because Japanese and Korean students spend more of their day on *noninstructional* activity—such as at-school study periods—than California students. Moreover, Japanese and Korean teachers spend less time instructing pupils because they spend more of their day than their California counterparts in activities such as class preparation, grading papers, and staff development.

Another important distinction in how time is used in different countries involves the proportion of instructional time devoted to core academic subjects, which is much higher in Japan and many other countries than in California. Figure 2 (see next page) shows the number of hours a high school student spends annually on core academic subjects (such as math and language arts). The figure indicates, for instance, that American students spend significantly less than *half* the time on core subjects as in Japan, France, and Germany. California time requirements for instruction in the core academic subjects may be slightly higher than the national average, but are still significantly below the requirement in Japan, France, and Germany. While the data available from the international studies shown

in Figures 1 and 2 are for different grade levels, the data generally suggest that students in the United States spend as much or more time in classes, but receive significantly less instruction in the core academic subjects.

Figure 1	
Instructional Time for 14-Year-Old Students	
<i>1998 (Hours per Year)</i>	
Country	Hours of Instruction
Netherlands	1,067
United States	980
France	975
International Average ^a	944
Denmark	930
Germany	921
Czech Republic	869
Japan	875
Korea	867
Norway	855
England	720

^a International average includes 16 additional Organisation for Economic Cooperation and Development (OECD) countries that submitted data.
Source: OECD Education Database.

Figure 2	
Required Instructional Time in Core Academic Subjects	
<i>(High Schools)</i>	
Country	Average Hours Annually
United States	365
Japan	793
France	820
Germany	882

International Math and Science Study Suggests Instructional Quality May Be Lower in U.S. As part of the Third International Mathematics and Science Study, mathematics experts reviewed video tapes of classes from a representative sample of mathematics instruction and ranked the quality of instruction high, medium, or low. They found that 89 percent of the U.S. classroom instruction reviewed was of low quality. By comparison, 34 percent of the reviewed instruction was graded as low quality for German classrooms, and 11 percent for Japanese classrooms. The study also found that new teachers in the U.S received less on-the-job training, less mentoring, and less preparation time than teachers in Germany or Japan.

Using Existing Time Better

The West-Ed report suggests that better time management and increasing the portion of the academic day dedicated to core academic subjects are ways to maximize student time dedicated to academic learning *without* requiring significant additional expenditures, as discussed below.

- ***Better Time Management.*** The report suggests administrators can manage time better by eliminating disruptions to class time by reducing the use of announcements, simplifying roll taking, and reducing discipline problems. In addition, studies show that teachers need to improve their classroom management skills to make the most of the available time.
- ***Focusing on the Academic Core.*** Current law sets high school graduation requirements of three courses in English, two courses in math, two courses in science, three courses in social science, one course in art or foreign language, and two courses in physical education. In total, students have 13 required courses of the 24 courses they generally will take in high school. As mentioned above, students in other countries are required to take significantly more hours of instruction in these core academic subjects. The Legislature could increase the portion of the day dedicated to the core academic subject areas by increasing these graduation requirements.

Another approach to improving the use of existing time is the adoption of alternative academic calendars, as discussed further below.

Alternative Academic Calendars

Background. According to researchers, the traditional nine-month school calendar evolved long ago as a compromise between agrarian and urban regions and has no real tie to how students learn or to the needs of modern family lifestyles. Research suggests that altering the academic cal-

endar may improve student performance over time by eliminating the long summer break when students often forget much of what they have learned.

Summer Fall-Off Effect Varies By Subject Area and Socioeconomic Status. Researchers have documented the learning “fall-off effect” or the “summer of forgetting” that occurs between the last day of one school year and the first day of the next. A recent academic article reviewed 39 studies tracking student achievement over the summer months. The findings of that review suggest that the impact of summer vacations on learning differs by subject area and across socioeconomic groups:

- Computational math scores tend to fall for students of all groups over the summer.
- Reading scores tend to decrease for students of low socioeconomic status and students whose home language was not English.
- Reading scores tend to *increase* over the summer for more affluent students.

Researchers have not been able to determine if the summer fall-off effect has lasting impacts or whether students recover over the course of the next school year. That the impacts of summer vacation differ among socioeconomic groups implies that options to address these effects should be flexible. Researchers have proposed three basic ways to address the summer fall-off effect—year-round scheduling, targeted or remedial summer school, and longer school year. The cost implications of these three alternatives for California differ greatly, ranging from almost no extra cost to potentially billions of dollars annually.

Can a Year-Round Calendar Improve Achievement? A year-round schedule involves distributing the same number of school days as in the traditional calendar (180) but structuring the “breaks” at more intervals that are shorter than the traditional summer break. The most common year-round schedule has a recurring pattern of 60 days of school followed by 20 days off. In California over 1.3 million students (22 percent of students) attend schools on a year-round calendar. This calendar could have several potential benefits:

- ***Reduced Summer Fall-Off Effect.*** Researchers often discuss the possibility that students forget less when given shorter breaks than the traditional three-month summer break. While there is an intuitive logic to the argument, we have not found empirical evidence to verify or disprove this hypothesis.
- ***Improved Remediation Opportunities.*** A year-round schedule offers students more frequent opportunities for remediation. Under the traditional school calendar, students often have to wait the entire school year to be provided the extra time they need to

catch up in summer school. Offering more frequent intersession remediation may be more beneficial for struggling students.

- **Reduced Teacher Burnout.** Researchers suggest providing more frequent, shorter breaks to teachers may help keep them more engaged over time.

Summer School Provides Opportunity to Catch Up. A second alternative to addressing the summer fall-off effect is to provide summer school to all students at a school, or targeted sets of students. Unlike lengthening the school year, summer school generally concentrates on students in most need, and often focuses exclusively on core academic subjects.

What Are the Problems the Administration Is Trying to Solve?

The administration has identified several problems that it is trying to solve with this program.

Student Achievement Declines in Middle School. The Governor’s proposal attempts to address (1) a decline in reading test scores occurring in 9th grade, and (2) the relatively weak improvement in student test scores in middle schools over the last couple of years. The data, however, suggest a more complicated set of student achievement problems that are evident to some degree in many middle schools, but are more clearly evident in many high schools. Achievement data from the National Assessment of Education Progress, Stanford-9, and international comparisons suggest that academic achievement in middle schools is relatively similar to that in elementary schools. Figure 3 shows that Stanford-9 test scores for students in 4th grade and 8th grade are similar. However, starting in 9th grade and continuing through 11th grade (the last year the Stanford-9 is administered), reading test scores decline.

Figure 3				
Percent of California Public School Students Above National Average^a				
	4th Grade	8th Grade	9th Grade	11th Grade
Math	51%	48%	51%	47%
Reading	45	49	35	36
Language arts	51	51	52	48

^a Based on Stanford-9 test data.

Over the most recent two-year period for which data are available, student achievement as measured by the Stanford-9 improved in all grades, but relatively more in the elementary schools than in middle schools and high schools. Figure 4 shows recent improvements in the percentage of students scoring above the national average on the Stanford-9. We have concerns about the exact meaning of these achievement gains, given that the Stanford-9 has numerous problems (which we discuss in the “Accountability” section of this chapter). However, the recent results suggest that middle schools may be appropriate grade levels to target additional resources to ensure that all students enter high school prepared. But the data suggest that additional resources also may be needed in high schools, where achievement problems seem more prominent.

Figure 4			
Gains in California Student Achievement			
<i>(Change in Percent of Students Above National Average) 1998 Through 2000</i>			
	Reading	Language	Mathematics
Elementary (Grades 2 - 6)	5%	7%	12%
Middle School (Grades 7 - 8)	3	4	6
High School (Grades 9-11)	1	3	5

Preparing Students for HSEE. To support its longer middle school year initiative the Governor’s budget summary states: “It is critically important that students—particularly those who enter the middle grades without having mastery of basic skills—achieve grade-level competency in reading and mathematics before they enter high school.” A related budget document cites the need for middle school students, “. . . to achieve reading and math competency especially as it relates to the High School Exit Exam.” However, the students the administration refers to—those who are below grade-level competency and, therefore, are in danger of not passing the High School Exit Exam (HSEE)—are not evenly distributed throughout the state’s schools.

Students Experience a “Summer Fall-Off.” As we discussed above, the summer fall-off effect is real, and supported by the data.

Inadequate Support Time for Teachers. International comparisons suggest that teachers in the United States provide the highest number of hours of instruction. As a result, teachers in the United States have significantly less time to prepare, collaborate, be mentored, and receive staff development than teachers in other countries.

The problems the Governor has identified are serious issues that warrant discussion. Some of the problems are faced by all schools in the state, but most are faced by a subset of schools. Many of these same schools face other problems that have not been singled out by the administration as part of its longer year initiative, such as the lack of fully qualified teachers, inadequate classroom space, and inadequate remedial instruction.

Longer School Year Proposal Not Best Solution

In our view, the administration has not made the case that (1) the problems facing middle schools are so widespread as to justify a universal solution, or (2) that the longer school year is the best solution to middle school problems. We have identified the following key drawbacks to the Governor's proposal:

- ***Research Does Not Support Longer School Year.*** As discussed above, research findings indicate that extending the school year has limited or no effect on student achievement. If an educational program uses existing time ineffectively, or is seriously deficient in quality, simply adding days can be futile. The administration cites a recent pilot project, Oxnard Union High School District, to support its proposal. The pilot project, however, provided inconclusive results, which we discuss in the nearby shaded box.
- ***High-Opportunity Costs.*** The proposal would commit the state to spending as much as \$1 billion (or more) annually for one improvement strategy in up to four grades. Under the administration's proposed approach, this very large share of new Proposition 98 funds would not be available for any other strategies for improvement, including additional teacher preparation time, selective class size reduction, expanded requirements in core academic subjects, distance learning, or more and better counseling.
- ***Optional Participation Only in Most Limited Sense.*** School district participation is optional, but only in the most limited sense. The amount of funding provided in the incentive is too high as a practical matter for districts to easily pass up. Districts are not given the option to access funds for any other possible strategies to improve achievement of middle school students.

- **Proposal Misses Pockets of Failure.** The proposal does not target “pockets” of educational failure. The proposal assumes nearly universal participation by eligible schools, regardless of the fact that many schools and students are doing a relatively good job, while other schools and students face severe challenges. Moreover, many of the lowest-performing schools in the state operate on a multitrack year-round schedule because of lack of facilities. Multitrack year-round schools would not be able to implement the extended year proposal, and may have difficulty extending the school day as well.

Results From Oxnard Longer School Year Pilot Inconclusive

In the 1996-97 *Budget Act*, the Legislature initiated an extended school year pilot project in Oxnard Union High School District, and provided \$1.75 million to extend the school year to 187 days. In fiscal years 1997-98 through 1999-00, the Legislature provided funding to increase the school year to 195 days. The implementing legislation for the project required an independent evaluation be completed and delivered to the Legislative Analyst’s Office (LAO) in fall 2000. The independent evaluator did issue an interim report in 1999, and the school district has informed us that the findings in the final report are similar to the interim report. However, at the time of this analysis, the final report had not been provided to our office.

The evaluation addresses five areas and the *preliminary* findings include:

- **Teacher Perceptions.** Some teachers reported that the extra time allowed them to cover topics in more depth, and others were able to cover more topics.
- **Student Perceptions.** Students perceived a greater amount of work being assigned, and that teachers explained topics in greater depth.
- **Student and Teacher Absences.** The implementation of the 15-day extended year led to an increase in the number of days absent for both students and teachers. Students were absent an additional three days on average, or one-fifth of the school year extension.
- **Dropout Rates.** Dropout rates decreased from 2.9 percent annually to 1.6 percent. While the change in the dropout rate is

- **Misses High Schools.** The proposal fails to address the fact that achievement problems persist through high school.
- **Conflicts With Remedial Summer School.** Remedial summer school is an opportunity for students who struggled to understand concepts during the regular school year to review those concepts in greater depth, in a more focused environment. A school’s participation in the extended school year could impinge on available time for necessary summer school remediation.

(continued)

significant, dropout statistics should be interpreted with caution because of problems with dropout data.

- **Student Achievement.** Unfortunately for the purposes of the evaluation, the school district switched tests between the base year and the year of the evaluation. When a school district switches assessments, it is difficult to make comparisons across the testing years since one test may be easier/harder than the other one in a specific subject area or one test may be better aligned to what the students are actually learning. One more note of caution is that the evaluation provides the amount of change in average student test scores that occurs, but does not address whether any of the changes are statistically valid changes. Given these important caveats, the findings of the preliminary evaluation—shown below—should be interpreted with significant caution. They indicate that the impact of the extended school year on student achievement is mixed, with generally negative effects on reading but generally positive effects on math.

	Reading	Math
District	Negative	Positive
Subpopulations:		
Title I	Positive	Positive
Non-Title I	Negative	Negative
LEP	Negative	No Change
Non-LEP	Negative	Positive
GATE	No Change	Positive

In addition, the Governor's proposal lacks detail on numerous technical issues:

- ***Which Schools Will Be Allowed to Apply?*** Based upon the Governor's proposal to target three of the grades between 6th and 9th grade, approximately 69 percent of schools might be eligible to participate in this program, as shown in Figure 5. Is it the administration's intent that all of the schools in Figure 5 could apply for incentive funding? Extending the school year for only one or two grades in a school could be technically difficult. For example, some school districts operate K-6 elementary schools and some operate K-8 elementary schools. Would a K-6 or a K-8 school want to extend the school year for some students and not others?
- ***What Selection Criteria Will Be Used?*** The first year of the three-year proposal provides enough funding for only about 10 percent of the middle schools. The administration has not provided information on how schools would be selected initially.
- ***How Much Will it Cost School Districts to Implement?*** The cost estimate underlying the proposed incentive funding of \$770 per pupil is based upon statewide average revenue limit (general purpose funds). Revenue limit funding represents approximately two-thirds of K-12 Proposition 98 funding. Thus, the payment may not be enough to cover certain costs that are not typically funded through revenue limits—such as transportation, special education, and 9th grade class size reduction costs. On the other hand, the funding rate provided is greater than the funding of the Oxnard Union High School District pilot project.

Provide Struggling Schools With Expanded List of School Reform Options

We recommend the Legislature redirect the \$100 million proposed for longer middle school year to a block grant targeted at middle schools and high schools with high numbers of students in need. (Delete Item 6110-192-0001—\$100 million.)

The one-size-fits-all approach of the longer middle school year proposal fails to recognize the complexity and diversity of problems that middle schools face. It also fails to address the fact that student achievement problems persist through high school. In our earlier discussion of "K-14 Education Priorities," in this chapter, we propose a \$500 million block grant that lets school districts flexibly address the needs of those middle schools and high schools facing the most difficult problems. Our recommended approach has three main components:

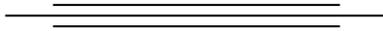
Figure 5	
Number of Schools With Grades 6-9 Enrollment	
Elementary Schools	
Grades K-6	1,966
Grades K-8	580
Other elementary combinations	99
Subtotal, Elementary	(2,645)
Middle Schools /Junior High Schools	
Grades 6-8	706
Grades 7-8	341
Other middle schools	101
Subtotal, Middle Schools	(1,148)
High Schools	
Grades 9-12	826
Other high schools	42
Subtotal, High Schools	(868)
Other	
Grades K-12	13
Continuation high schools	517
Alternative schools	231
Special education schools	116
Community day schools	98
All other schools	93
Subtotal, Other	(1,068)
Total	5,729
Total schools in state	8,331
Percent of schools with grades 6-9 students	69%

- **Target Middle and High Schools.** We recommend the Legislature target high schools as well as middle schools because assessment results suggest that high school students struggle even more than students in lower grades. Also, many high schools probably need additional resources to help assure that all their students are provided with an opportunity to pass the HSEE.
- **Target Resources to Schools in Need.** We recommend targeting additional resources at schools with the highest percentage of

low-income students and/or the lowest Academic Performance Index scores.

- ***Allow Local Flexibility.*** We recommend providing school districts with a menu of options to improve student achievement. Not all schools are the same, nor do they face the same problems. Recognizing the diversity of problems suggests allowing school districts to use a diverse set of tools to address those problems.

Based on the problems we identify with the longer middle school year proposal and the advantages of a targeted, flexible block grant approach, we recommend the Legislature redirect the \$100 million for a longer middle school year to a block grant for middle schools and high schools with concentrations of students in need. (We discuss our recommended disadvantaged schools block grant in more detail in the “K-14 Education Priorities” section of this chapter.)



ALGEBRA INCENTIVE PROGRAM

The 2001-02 *Governor's Budget* includes \$30 million from the General Fund (Proposition 98) for incentive payments to school districts to increase the number of students enrolled in algebra classes. School districts would be permitted to use these payments to attract and retain qualified algebra teachers—including the use of salary differentials, training, and reduction of class “loads” for these teachers. The funds also could be used to improve pre-algebra skills of students falling behind in mathematics. The administration intends to seek legislation to establish this program of algebra-related incentives but had not provided the Legislature with draft bill language at the time of this *Analysis*.

Shortage of Math Teachers

Student proficiency in algebra has played a central role in the state's recent education reform efforts. For instance, the State Board of Education approved a proposal to include the state's algebra content standards in the upcoming High School Exit Exam (HSEE) that students must pass in order to graduate from high school, beginning with the graduating class of 2004. In part due to this upcoming high-stakes requirement, the Legislature has taken steps to ensure students receive instruction in algebra. For example, Chapter 1024, Statutes of 2000 (SB 1354, Poochigian), requires students in grades 7 through 12 to complete an algebra course as a condition of receiving a high school diploma, commencing with the 2003-04 school year. This requirement gives students a reasonable opportunity to learn this subject before they will be tested on the HSEE. Given the requirement placed on schools to offer algebra courses, Chapter 1024 creates a potentially reimbursable mandate for schools to claim some additional costs associated with providing algebra instruction.

The budget proposal seeks to address a problem that districts face in helping students meet the new algebra requirement—a shortage of qualified math teachers in the state to teach algebra. Many schools are experiencing difficulty in recruiting and retaining math teachers for various reasons, including the availability of more lucrative job opportunities else-

where. Based on current enrollments in algebra, the Office of the Secretary for Education estimates that over the next three years, schools will need to add about 1,300 algebra teachers to instruct about 160,000 students who would not have otherwise taken algebra.

Governor's Budget Proposal

The budget provides \$30 million in Item 6110-121-0001 to establish the Algebra Incentive Program to assist school districts in attracting and retaining math teachers for algebra. Of this total, \$17 million would provide districts with \$50 for each student in grades 7 through 12 enrolled in algebra *and* who takes the standards-based algebra test. (For the budget year, the test-taking requirement would apply to the test administered in spring 2000. The standards-based algebra test is included in the content standards-aligned portion of the state's Standardized Testing and Reporting—STAR—exam.) The remaining \$13 million would pay districts \$100 for each additional student, beyond the current-year level, in grades 7 through 12 taking algebra and the standards-based algebra test in subsequent years.

Districts would be permitted to use their algebra-incentive funds for locally determined initiatives to attract and retain algebra teachers—including salary differentials, training, smaller class sizes, or other forms of reducing teaching “loads.” Districts also could use funds for pre-algebra training for students having difficulty learning math. As of this writing, the administration has provided little detail on exactly how funds would be distributed to schools for increasing algebra enrollments.

Concerns With Governor's Proposal

The Governor has identified an important problem facing many public schools. However, we see two problems with his proposed solution, as discussed below.

Misguided Targeting. About \$17 million of the \$30 million proposed for the algebra incentive program would be awarded at a rate of \$50 per student for students *already* taking algebra. Thus, these are “windfall” payments that will not induce any behavioral changes. In addition, schools facing little challenge in getting students enrolled in algebra would receive a disproportionate share of the estimated \$17 million. Instead, we believe that this funding should be targeted to schools with the highest levels of algebra “under-enrollment” and the most severe shortages of qualified math teachers.

Problem Narrowly Defined. We agree that many school districts face challenges in attracting and retaining math teachers for algebra. The administration's approach, however, focuses on the algebra problem to

the exclusion of addressing other important shortage areas. For example, a study by SRI International found that serious shortages exist for fully qualified teachers for special education, science, and services for English language learners in many public schools across the state.

- ***Special Education.*** During the 1998-99 fiscal year, the Commission on Teacher Credentialing (CTC) issued about 6,000 emergency permits for individuals hired to be education specialists and resource specialists in special education. (Emergency permits authorize individuals who lack a teaching credential to provide classroom instruction. Permits are issued to individuals on an annual basis for a maximum of five years.)
- ***Science.*** Science has long been a subject area lacking sufficient numbers of qualified teachers. The SRI study pointed out that this subject area accounts for the largest number of single-subject emergency permit holders. For example, the CTC issued about 2,400 emergency permits in science in 1998-99. According to the State Department of Education, school districts expect to hire over 16,000 new teachers for 15 different subject areas in 2000-01. About 12 percent of these teachers will fill new or vacant positions in science.
- ***English Language Learner (ELL) Pupils.*** In 1999-00, about 30 percent of the 124,000 teachers in California public schools providing: (1) primary language assistance, (2) English language development (ELD), or (3) specifically designed academic instruction in English to ELL pupils did not have a CTC certificate to provide such instruction. (This total does not include teachers who instruct ELL pupils in mainstream classroom settings.)

Given the serious shortages of fully qualified teachers in subject areas other than algebra, we believe that the Governor's initiative is too narrowly drawn.

Legislative Analyst's Recommendation

We recommend that the Legislature redirect \$17 million of the \$30 million for the Algebra Incentive Program to augment the existing Teaching as a Priority (TAP) block grant because (1) the proposed allocation of the \$17 million would largely benefit schools lacking teacher recruitment/retention problems and (2) other schools need resources to recruit and retain teachers not only in algebra but in other key areas of shortage. We further recommend that the Legislature broaden the permissible uses of the TAP block grant to include teacher salary differentials for subject areas with critical shortages of teachers. (Reduce Item 6110-121-0001 by \$17 million and augment Item 6110-134-0001 by same amount.)

We believe the Governor's proposed algebra incentives program has important elements that can help address the teacher shortages in this one subject area. For example, the proposal gives considerable flexibility, including authority for salary differentials. We believe the proposal would be improved, however, by extending this type of flexibility to help districts attract/retain teachers in all subject areas with critical needs, not just algebra. Below, we present an alternative approach that allows the Legislature to retain the best elements of the budget proposal, yet also address the supply of teachers for other hard-to-staff subjects.

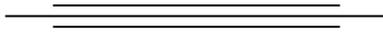
Approve \$13 Million for Algebra Incentive Program. We believe that the Governor's proposal to provide \$100 for each additional student enrolling in math would help address teacher shortages in algebra in the schools most in need. Given the challenges facing districts in helping students meet the state's new algebra requirement, we recommend that the Legislature approve \$13 million for the Algebra Incentive Program. In adopting legislation to establish this program, we also recommend that the Legislature approve language specifying that funds provided to districts under the Algebra Incentive Program should be deemed to offset any possible state-mandated costs related to the state's algebra course requirement.

Redirect \$17 Million to Teaching as a Priority. In addition to funds for the Algebra Incentive Program, the Governor's budget also includes \$118.7 million in Proposition 98 funds under Item 6110-134-0001 for the TAP block grant. This block grant program, established by Chapter 70, Statutes of 2000 (SB 1666, Alarcon), awards funds to school districts for the purpose of attracting and retaining credentialed teachers in low-performing schools. Funding is allocated to school districts based on the number of pupils enrolled in schools ranked in the bottom half of the Academic Performance Index. Schools ranked in the bottom 30 percent receive one and one-half times the per-pupil funding of schools ranked between the 40th and 50th percentiles. Schools have flexibility to use the funds for different recruitment and retention incentives in order to reduce the number of teachers on emergency permits. Such incentives can include signing bonuses, improved work conditions, teacher compensation, and housing subsidies.

In view of our concerns that the Governor's initiative is too narrowly focused and that about \$17 million of the proposed funds would be allocated to schools with the least need of recruiting and retaining fully qualified math teachers, we recommend that the Legislature redirect the \$17 million to the TAP block grant. The block grant not only targets funding to low-performing schools, but it also gives school districts broad discretion to recruit and retain teachers in any subject area. Under our approach, school districts could use the funds to recruit and retain alge-

bra teachers, but they also would be given the flexibility to address shortages in other subject areas, based on local needs.

The Governor's proposal specifies that school districts would be able to use algebra incentive payments for salary differentials. We believe that such an approach for attracting and retaining teachers should be clarified as one of the permissible uses of TAP funds as well. Therefore, we further recommend the enactment of legislation to (1) clarify that TAP funds can be used for salary differentials for subject areas with critical teacher shortages and (2) specify that funding provided to districts under the TAP program be deemed available to offset any possible state-mandated costs related to the state's algebra course requirement.



SCHOOL ACCOUNTABILITY

The Public Schools Accountability Act (PSAA) (Chapter 3x, Statutes of 1999, [SB 1x, Alpert]) created a statewide school-level accountability system which (1) rewards schools for academic improvement, (2) provides external assistance for lower-performing schools, and (3) potentially sanctions schools which continue to fail after receiving external assistance. The Academic Performance Index (API) is the cornerstone of the PSAA. Its purpose is to measure a school's academic performance and the growth in performance over time.

Recently, the second annual set of API scores was released, allowing the first API growth scores to be calculated. Based on the API growth data, the State Department of Education (SDE) will be distributing \$677 million in rewards to schools, teachers, and other school personnel in the current year. Figure 1 shows the various rewards programs tied to API results.

Figure 1

Rewards Programs Based On API^a

1999-00 Through 2001-02
(Proposition 98 Appropriations, In Millions)

Program	1999-00	2000-01	2001-02 Proposed
Governor's Performance Awards	\$96 ^b	\$131 ^b	\$350
Teacher Performance Awards	—	350	—
Certificated Staff Performance Incentives	50	100	100
Totals	\$146	\$581	\$450

^a Academic Performance Index.

^b The Public Schools Accountability Act appropriated \$96 million in the 1999-00 fiscal year. Those funds were carried over and are being used for rewards in 2000-01.

As shown in Figure 2, the budget also proposes significant resources for various programs targeted at low-performing schools, based upon the API. As Figures 1 and 2 illustrate, the state is allocating a significant amount of money—almost \$1.7 billion in 1999-00 through 2001-02—for programs using this index. The box on pages 94 and 95 provides some background information on how the API is calculated and how the measure is used.

Figure 2

Programs Targeted at Low-Performing Schools, Based on the API^a

2000-01 and 2001-02
(In Millions)

Program	2000-01	2001-02
Immediate Intervention/Underperforming Schools Program	\$52.1 ^b	\$139.1 ^b
Teaching as a Priority	118.7	118.7
Governor's Teaching Fellows	3.5	17.5
National Board Certification	10.0	10.0
Cal Grant T	10.0	10.0
Assumption Program of Loans for Education (APLE)	5.6 ^c	14.6 ^c
Totals	\$199.9	\$309.9

^a Academic Performance Index.

^b Includes both General Fund and federal funds.

^c The APLE provided 6,500 warrants in 2000-01 with the same number proposed for 2001-02. There is no immediate cost to issuing a warrant, but the state will incur out-year costs of up to \$19,000 each. In the proposed budget, the state would commit to out-year costs of up to \$123.5 million for 6,500 warrants.

The API Is a Work in Progress

The state's accountability system is still a work in progress. The API is currently based on only one measure, namely the Stanford-9 test results. The Stanford-9 is an "off the shelf" student assessment produced by Harcourt Brace and administered to California students in grades 2 through 11. The PSAA requires that the API include at least five additional measures: graduation rates, student attendance rate, teacher attendance rate, Standards-Aligned Standardized Testing and Recording (STAR), and the High School Exit Exam (HSEE). The Legislature included this broad set of outcome measures to ensure that increases in the API were based upon real gains in achievement and not temporary fluctuations in a single measure.

The SDE has not included graduation rates, student attendance nor teacher attendance in the API because it is currently not able to collect accurate school-level data on these outcome measures. The SDE has not included Standards-Aligned STAR and HSEE results because the assessments are not yet fully operational. While California's current system is a long way from the full implementation, many efforts are under way to improve the quality of the information used in calculating a school's API (see shaded box on page 96 on Improving the API).

Problems With the Stanford-9

The Stanford-9 provides California schools with a score reflecting how students in California perform relative to a national norm created from the results of administering the same test to a nationally "representative" group of students. We see three major problems with the Stanford-9:

- The Stanford-9 is not aligned to California's academic content standards.
- Experts question whether Stanford-9 test scores for many of the state's English Language Learners (ELLs) are meaningful.
- The test questions do not change from one year to the next.

We discuss each of these problems in more detail below.

Stanford-9 Not Aligned to Standards. The current version of the API is solely dependent on the Stanford-9, an assessment tool that is not aligned to the state's academic content standards. The California Academic Content Standards adopted by the State Board of Education (SBE) define what the state wants students to learn in each grade and subject (see shaded box page 98 for actions related to the academic content standards). Since the Stanford-9 tests a different set of information than the content standards, the state is sending conflicting messages about what schools should be teaching. Should teachers and administrators focus instruction on areas covered by the Stanford-9? The state is offering bonuses that can exceed \$25,000 per individual for success measured by that test. Or should they teach what is expected under the academic content standards for which the state has invested \$1 billion for new textbooks, the Governor is proposing \$335 million for staff development, and upon which the HSEE is based?

How Meaningful Are Stanford-9 Scores for ELLs? The second problem with the Stanford-9 is the validity of Stanford-9 scores for many ELL students. The advisory committee of experts appointed by the SBE for development of the API advised the board to exclude Stanford-9 test scores for ELL students from the API calculation. Their recommendation was based upon analysis of Stanford-9 test results for ELL students. A school

may be doing an excellent job of helping a student transition to English fluency, but that student's Stanford-9 score may not reflect the improvements the student has made. The SBE did not follow the recommendation. Although not implemented by the SBE, the advisory committee's recommendation puts into question the comparability of API scores between schools with many ELL students and schools with few or no ELL students.

Test Questions Don't Change From Year to Year. The final problem with the Stanford-9 is that the set of actual questions on the test does not change from year to year. Particularly with a high stakes test, it is important to vary test questions from year to year in order to minimize possibilities for literal "teaching to the test" and outright cheating. The SDE did not stipulate the rotation of questions from year to year in its contract with the publisher of the Stanford-9. So for the five-year duration of the contract—which expires after the administration of the spring 2002 test—the test given in each grade is exactly the same in each of its administrations. Teachers know the exact questions that their students will be asked and upon which their school will be evaluated. Providing \$677 million in rewards based solely upon this test creates incentives for schools to misuse their knowledge of Stanford-9 test questions.

Reduce Funding for Governor's Performance Awards

We recommend the Legislature reduce the funding proposed for the Governor's Performance Awards by \$219 million until the Academic Performance Index is based upon a broader set of reliable performance indicators. (Reduce Item 6110-123-0001 by \$219 million.)

Funding Too High for Untested Measure. As discussed above, the API is a work in progress and will take several years to develop fully. The administration is making progress on increasing the number of outcome measures used to calculate the API, and is planning to switch to a value-added approach, which will improve the use of the existing achievement measure. Until then, however, there are numerous problems with the Stanford-9 being used as the sole measure for the API as discussed above.

Consequently, we believe it is not only premature to attach such high stakes (and such large funding amounts) to the API but it may be counterproductive to improving learning outcomes for California's public school students by redirecting the focus of teaching from the state's broad content standards to the set of material tested on the Stanford-9. Once the Governor and SDE have been able to develop the data collection systems and assessment tools needed to support a quality accountability system, the Legislature then should determine the appropriate level of funding needed for school incentives. Accordingly, we recommend reducing funding for the Governor's Performance Awards to \$131 million, the same

level appropriated in the 2000-01 Budget Act. This recommendation would create an ongoing \$219 million of Proposition 98 savings which the Legislature could direct more effectively to other K-12 education needs. (Reduce Item 6110-123-0001 by \$219 million.)

How Does the Academic Performance Index Work?

An API Score

The State Department of Education (SDE) calculates a score ranging from 200 to 1,000 for each school based on its students' standardized test scores (Stanford-9). The calculation is relatively complex and involves combining student scores across the different subject areas. The SDE ranks the schools and provides a decile ranking (one to ten), which is generally used for its ease of understanding. A decile ranking of ten is best.

Subgroup Population API Score

The SDE performs a similar calculation for each "numerically significant" subgroup of students. These subgroups include: African American, American Indian, Asian, Filipino, Pacific Islander, white not Hispanic, Hispanic, and socioeconomic disadvantaged. Numerically significant means either (1) at least 30 pupils and at least 15 percent of a school's enrollment or (2) at least 100 students in a school.

Growth Target

Annually, a school receives a growth target for the next school year along with its API score. The State Board of Education set an interim statewide performance target of 800 points. Schools with API scores below 800 must close the gap between their current score and the state performance target by at least 5 percent to meet their growth target. For example, if a school's 1999 API score was 500, the school's growth target would be $(800 - 500) * 5 \text{ percent} = 15 \text{ points}$. Schools with API scores at the 800 point level or above must increase their scores by 1 point to meet their growth target.

Subgroup Growth Targets

Each numerically significant subgroup at a school has a growth target of 80 percent of the schoolwide growth target. In the example used above, the schoolwide growth target was 15 points. Under that example, each numerically significant subgroup at the school must improve by at least 80 percent of 15 points—thus, by at least 12 points to meet the target.

Inadequate Funding to Evaluate PSAA

We recommend the Legislature (1) increase funding to the State Department of Education (SDE) to contract for an evaluation of the Public Schools Accountability Act from \$250,000 to \$500,000, and (2) reappropriate \$250,000 included in Item 6110-001-0001 of the 2000-01 Budget Act for the

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Reward Programs

Schools are eligible for rewards based on meeting their assigned annual growth targets for their API scores and subgroup API scores. The reward programs are described below.

Governor's Performance Awards	School Site Employee Performance Bonus (One-Time)	Certificated Staff Performance Incentives
<p>Eligibility Requirements?</p> <ul style="list-style-type: none"> • Meet school API growth target. • Meet subgroup targets. • Have 95 percent Stanford-9 participation in grades K-8 or 90 percent participation for grades 9-11. 		
<p>Who Receives the Funding?</p> <ul style="list-style-type: none"> • School site councils decide uses. 		
<ul style="list-style-type: none"> • Same as Governor's Performance Awards • Low-performing schools (below 50th percentile on API); ranked by highest API growth rates. • Same subgroup and participation rate requirements as Governor's Performance Awards. 		
<ul style="list-style-type: none"> • Half decided by school site councils, other half distributed among all school site staff. • Certificated staff only. • 1,000 across state receive \$25,000 each. • 3,750 receive \$10,000 each. • 7,500 receive \$5,000 each. 		

same purpose. We further recommend SDE report at budget hearings on the possibility of using federal funds for this evaluation.

The PSAA requires SDE to contract for an external evaluation of the PSAA—including the Governor’s Performance Awards program, Immediate Intervention/Underperforming Schools Program (II/USP), and the impact of these programs on student achievement. The *2000-01 Budget Act* provided SDE with \$250,000 for the evaluation. In the summer of 2000, the SDE released a Request for Proposal for the evaluation but did not receive a single qualified bid. As a result, the state has not begun to evaluate this major program. The Governor proposes an additional \$250,000 from the General Fund (non-Proposition 98) for the PSAA evaluation this year.

Improving the API

Since the state rewards schools for their *growth* in academic performance index (API) scores, the State Department of Education (SDE) must be able to collect data on performance measures for two years before it can be included in the API measure. The timetable for possibly including additional measures in the API is as follows:

Measure to Include in API	Potential Availability
Standards-Aligned STAR	2002
High School Exit Exam	2003
Graduation rate	Unknown
Student attendance rate	Unknown
Teacher attendance rate	Unknown

Standards-Aligned Standardized Testing and Recording (STAR). As part of the spring 2001 STAR test, the SDE will administer four subject tests (math, language arts, science, and social science) aligned with California’s content standards. Additionally, SDE will provide performance standards for the first time in spring 2001. A performance standard translates the results of a student’s test into a scale ranging from mastery of the subject area to below basic. Assuming there are no problems with the validity of the assessments or performance standards, results from the Standards-Aligned STAR could be included in the API as early as 2002.

We believe that the \$500,000 that would be appropriated between the two budgets is still inadequate given the complexity of issues that the evaluation must address. For example, under this evaluation, the SDE is required to contract for a comprehensive evaluation of the implementation, impact, costs, and benefits of II/USP and Governor's Performance Awards program. A preliminary report is due March 31, 2002. The state may distribute as much as \$1.7 billion related to these programs in 1999-00 through 2001-02. Potentially more important, as early as fall 2002, schools and employees of schools participating in the II/USP could face sanctions from the state under the terms of the PSAA. Sanctions could include the Superintendent of Public Instruction reassigning principals, reorganizing schools, reassigning certificated staff, contracting out the man-

(continued)

High School Exit Exam (HSEE). Based upon the current State Board of Education plan, all 10th grade students will take the HSEE in spring 2002. Potentially, SDE could include the results from the spring 2002 and spring 2003 administrations in the 2003 API.

Graduation Rate, Student and Teacher Attendance Rate. The Public Schools Accountability Act required the Superintendent of Public Instruction (SPI) to report by September 1999 on the accuracy of the measures to be included in the API, and to recommend necessary actions to implement an accurate reporting system for these measures. The SPI's report recommended use of the California School Information Services to collect data on graduation rates and student and teacher attendance rates. The administration rejected the SPI proposal, and \$500,000 was included in the *2000-01 Budget Act* for the Office of the Secretary for Education (OSE) to conduct a study of data collection alternatives for expanding the number of measures in the API. According to OSE, it will release a Request for Proposal some time this spring for this study. The findings of the study will determine the timetable for including these measures in the API.

In addition to the measures described above, the Governor's budget provides \$5 million to create a longitudinal student assessment database. The main policy goal of this proposal is to enable the state to begin to construct "value-added" measures of student performance, the advantages of which we discuss at length in the "K-12 Databases" section of this chapter.

agement of schools or even closing schools. The state needs to make sure that the measure upon which such high-stakes decisions are made truly tracks changes in student achievement. Given the importance of this program and the extensive list of legislative requirements for the evaluation, we recommend that the Legislature (1) increase the appropriation for the evaluation from \$250,000 to \$500,000 in the budget year, and (2) reappropriate \$250,000 included in the *2000-01 Budget Act* for this purpose. (This would make \$750,000 available to the study.)

As discussed below, the II/USP is partially funded with federal funds. The federal grant which provides funding for II/USP allows the state to use up to 5 percent of the grant amount to pay the costs of administering

State Academic Content Standards

The California Assessment of 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 five core curriculum areas—math, English-language arts, science, social science, and English language development. The standards provide a framework for what a student should learn in five 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.

- **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.
- **The Standardized Testing and Recording (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, the board will develop student performance standards around the STAR augmentation to determine which students have met basic, proficient, and advanced levels of performance.
- **High School Exit Exam (HSEE).** Chapter 1x, Statutes of 1999 (SB 2x, O'Connell), authorized the HSEE. This legislation requires the test to be aligned to the state academic standards.
- **Teacher Staff Development.** The Governor's budget proposes \$490 million—including a \$335 million expansion—for teacher staff development that trains teachers in using state standards.
- **Other Actions to Emphasize Standards.** The state also has aligned the Golden State Exams, and developed sample curriculum for each subject based on the standards.

the program. We believe that evaluation of the program is an essential part of the program's administration. To the extent feasible, we believe it is preferable to use federal funds instead of the General Fund to pay for at least part of the PSAA evaluation. Federal funds could not be used for all of the evaluation costs because the PSAA evaluation must evaluate programs beyond II/USP. We recommend SDE report at budget hearings on the feasibility of using federal funds to pay for at least part of the PSAA evaluation.

Certificated Staff Performance Incentives Overfunded

We recommend that the Legislature reduce funding for the Certificated Staff Performance Incentive Awards by \$50 million on a one-time basis to take advantage of carryover funding available for this program. (Reduce Item 6110-133-0001 by \$50 million.)

Chapter 52, Statutes of 1999 (AB 1114, Steinberg), created the Certificated Staff Performance Incentive Act to provide \$5,000 to \$25,000 rewards to certificated staff at schools meeting two criteria:

- The school is in the bottom half of the API.
- The school "significantly" exceeds its annual API growth target.

Figure 3 (see next page) shows the appropriations and expenditures that have been made or are proposed for this program. The 1999-00 Budget Act provided \$50 million for the program. No funds were distributed in 1999-00, however, because only one year of API scores was available prior to summer 2000, therefore making it impossible to determine API growth targets. The 2000-01 Budget Act and the 2001-02 Governor's Budget each include \$100 million for this program. The administration's spending plan for 2000-01 is to use the \$50 million from the 1999-00 Budget Act and \$50 million from the 2000-01 Budget Act. As a result, \$50 million from the 2000-01 Budget Act will still be available for rewards in the budget year. We recommend the Legislature use this \$50 million in carryover funds for the certificated staff incentives and reduce Item 6110-133-0001 by \$50 million. This action would provide the total of \$100 million for budget-year expenditures proposed for this program, yet also free up \$50 million in Proposition 98 funds for other K-14 education priorities of a one-time nature.

Immediate Intervention/Underperforming Schools Program

We recommend the Legislature enact legislation to broaden the eligibility criteria for the Immediate Intervention/Underperforming School Program to include all schools in the lowest two deciles of the Academic Performance Index.

Figure 3		
Certificated Staff Incentive Program Funding		
<i>1999-00 Through 2001-02 (In Millions)</i>		
	Appropriation in Budget Act	Proposed Expenditure Level
1999-00	\$50	—
2000-01	100	\$100
2001-02 ^a	100	100
Totals	\$250	\$200

^a Amount proposed in Governor's budget.

The II/USP provides state and federal support for school-wide reform efforts at low-performing schools. The 2001-02 Governor's Budget proposes \$113.8 million from the General Fund (Proposition 98) for the program. The budget would provide planning grants for a third cohort of 430 schools, and implementation grants for the first and second cohorts (782 schools in total). Figure 4 show the schools and number of students in each cohort for 2001-02. The Governor's budget continues to fund 78 schools with federal funds, which we discuss below.

In their first year in the program, participating schools are provided \$50,000 planning grants to develop a comprehensive school reform plan. As part of the planning phase, the schools must hire qualified external evaluators to assist in developing the reform plans. Once a school's plan is approved by the SBE, the school receives annual implementation grants of up to \$200 per enrolled student. Schools will receive the implementation grants for two years, and may be granted a third year of funding by the SBE if they continue to struggle to meet their API growth targets. The SBE can decide to impose sanctions after either the second or third year of funding for schools that continue to struggle. The first cohort will reach the end of their two-year implementation grant in July 2002 and potentially could face sanctions as early as fall of 2002.

Program Eligibility Has Changed. Any school whose average student score was below the 50th percentile on the Stanford-9 was eligible to participate in the first II/USP cohort in 1999-00. Under the original criteria, over half of the schools in the state were eligible to apply for the program, and 1,419 schools applied for the 430 slots available. Chapter 695, Statutes of 2000 (SB 1552, Alpert), amended the PSAA to change the eligi-

bility criteria to be based upon the API. As revised by Chapter 695, schools in the lower half of the API which did not meet their API growth targets were eligible. Based upon 1999-00 API scores, 938 schools were eligible in 2000. Of the 938 schools, 532 applied for the 430 slots available.

Figure 4	
Participation in II/USP^a in 2001-02	
Cohort 1 (participation started 1999-00)	
<ul style="list-style-type: none"> • Grant: Implementation. • Number of Schools: 352^b • Number of Students: 285,000^c 	
Cohort 2 (participation started 2000-01)	
<ul style="list-style-type: none"> • Grant: Implementation • Number of Schools: 430^d • Number of Students: 430,500 	
Cohort 3 (participation starts 2001-02)	
<ul style="list-style-type: none"> • Grant: Planning • Number of Schools: 430 • Number of Students: Unknown 	
a	Immediate Intervention/Underperforming Schools Program.
b	An additional 78 schools are funded with federal funds.
c	An additional 89,000 students are funded with federal funds.
d	Some schools in Cohort 2 may apply to be funded with federal funds.

Legislature Should Broaden II/USP Eligibility to Include Lowest-Achieving Schools. The policy change of Chapter 695 to focus on schools not making their growth targets makes sense to ensure that schools that are struggling to improve receive additional resources. However, only focusing on schools not achieving their growth targets may be too narrow. For example, under the eligibility criteria in Chapter 695, the school with the lowest API score in the entire state is not eligible for this immediate assistance program since it reached its annual growth target. Even though such a low-performing school is showing signs of improvement, we believe that its improvement could potentially be expedited by participation in this program. Such a low-performing school is likely to be in greater need of external assistance than a school in the fifth decile (close to the state average) which did not meet its annual API growth target. Accordingly, we recommend the Legislature expand the eligibility for the II/USP program to all schools in the lowest two deciles of API ranking.

Extra Federal Funds Available for II/USP

We recommend the State Department of Education report at budget hearings on the extent that General Fund costs for the Immediate Intervention/Underperforming Schools Program can be reduced by the use of federal funds.

California has received \$92 million in federal funding since 1998-99 which can only be used for II/USP implementation grants (see Figure 5). As mentioned above, 78 schools have received federal funds for II/USP. To date, SDE has provided \$32 million in federal funds to those schools. An additional \$16.3 million is proposed for those schools in the budget year. After funding these 78 schools, SDE will have an additional \$44 million remaining to provide implementation grants to new schools.

Figure 5		
Federal Funding for II/USP^a		
<i>(In Millions)</i>		
	Federal Appropriation	Spending
1998-99	\$16.2	—
1999-00	16.1	\$15.2
2000-01	26.5	16.3
2001-02	32.9	16.3
Totals	\$91.9	\$47.9

^a Immediate Intervention/Underperforming Schools Program.

The 430 schools in the second cohort will have the option of participating in II/USP using either General Fund monies or the available federal funding. Schools in the second cohort have until May 15, 2001 to apply for federal funds for their II/USP implementation grants. Federal funding has the following trade-offs:

- **Guaranteed Funding Level.** Federally funded schools receive a guaranteed \$200 per student for three years, while state-funded schools have no per student guarantee and only two guaranteed years of funding.
- **More Rigorous Requirements.** Federally funded schools apply on a competitive basis, and must complete a more rigorous planning, reporting, and evaluation process.

The SDE has provided a rough estimate of the number of schools that it expects to receive federal funds. We estimate that \$10 million in federal

funds will be used to fund schools selected by SDE to receive federal funds, leaving approximately \$34 million in federal funds available for future II/USP schools. Such low usage of federal funds for II/USP would result in greater demand for state funds for II/USP, which we discuss below. We recommend the SDE report at budget hearings on steps the Legislature can take to increase the usage of available federal funds to pay the costs of II/USP.

General Fund Appropriation for II/USP May Be Low

The amount provided in the Governor’s budget for the Immediate Intervention/Underperforming Schools Program is inadequate to maintain the current-year per-pupil grant level.

In 2000-01, schools in the first cohort received \$168 per-pupil implementation grants. The Department of Finance informs us that the Governor did not have a target per-pupil implementation grant for II/USP in developing the 2001-02 budget. The budget provides \$92 million for implementation grants. Based upon our estimate of federal fund usage for II/USP, we estimate that the per-pupil funding level provided in the Governor’s budget would result in implementation grants of \$146 per pupil.

Figure 6 shows the options that the Legislature has (based upon our cost estimates) if it wants to (1) maintain the Governor’s proposed level, (2) maintain last year’s per-pupil grant amount of \$168 per pupil, or (3) provide schools the maximum statutory grant amount of \$200 per pupil. If the Legislature wants to either maintain the current-year’s per-pupil funding level or increase the per-pupil funding level to the maximum, it would require additional General Fund support of \$15 million or \$36 million, respectively.

Figure 6		
Legislative Options for II/USP^a General Fund		
Implementation Grant Funding Per Student	Budget Year Costs^b (In Millions)	Additional Costs (In Millions)
\$146	\$114	—
168	129	\$15
200	150	36

^a Immediate Intervention/Underperforming Schools Program.
^b Cost estimates assume that 50 schools qualify for federal funding. If fewer qualify, General Fund costs would increase.

ASSESSMENTS

The Governor's budget proposes \$221 million to develop, administer, and analyze state assessments, an increase of \$97 million over estimated current-year expenditures and more than three times the spending level for this purpose in 1999-00. Figure 1 shows the increase in funding of state assessments over the last two years. Figure 2 (see page 106-107) provides background on the major state assessments.

Figure 1

Funding for State Assessments General Fund (Proposition 98)

1999-00 Through 2001-02
(In Millions)

Program/Expansion	1999-00	2000-01	2001-02
STAR ^a Program	\$42.1	\$62.3	\$64.8
Golden State Exam	14.2	14.2	14.7
English Language Development	1.0	16.1	16.7
High School Exit Exam (HSEE)	2.0	15.4	61.0
Career Technical Assessment	0.8	0.8	0.8
Review and Reporting	3.6	3.6	3.8
STAR and HSEE Workbooks	—	—	27.5
STAR data analysis	—	—	20.0
Test Development	—	12.0 ^b	12.0
Other	1.0	—	—
Totals	\$64.7	\$124.4	\$221.3

^a Standardized Testing and Reporting.

^b Test development was funded with \$12 million from the Proposition 98 Reversion Account.

The Governor's budget includes five major assessment expansions as shown in Figure 1 and described below.

- **High School Exit Exam (HSEE).** The largest expansion—\$45.6 million—is for the administration of the HSEE even though that exam will not be phased in fully for several years. Ninth graders will take the test for the first time in spring 2001. These same students will be required to pass the exam as a condition of graduation in June 2004. The budget also funds three additional administrations for 10th grade students in 2001-02.
- **English Language Development Test (ELD).** The ELD test was field-tested in fall 2000 and will be administered for the first time to the state's 1.5 million English language learner (ELL) pupils in spring 2001. The ELD test assesses how well ELL pupils are learning skills to transition to fluency in English. Over time, the results of this test will allow the state to determine how well schools are doing in achieving this goal.
- **Standards-Aligned Standardized Testing and Reporting (STAR).** The State Board of Education (SBE) selected an "off-the-shelf" test—the Stanford, ninth edition, form-T (Stanford-9) to be administered by schools to all students in grades 2 through 11 annually. The State Department of Education (SDE) developed the Standards-Aligned STAR to augment the Stanford-9 with questions aligned to the California Academic Content Standards. The spring 2001 administration of the Standards-Aligned STAR will include math, English/language arts, science, social science, and a writing "prompt" (essay test) for grades 4 and 7. In addition, SDE has developed performance standards for each of the standards-aligned tests which will be used to provide student-level results this spring.
- **The STAR and HSEE Workbooks.** The budget provides \$27.5 million to develop, publish, and distribute workbooks to assist students in preparing for the Standards-Aligned STAR and the HSEE.
- **The STAR Data Analysis.** The budget provides a total of \$20 million for incentive funding to districts to purchase or develop software to analyze STAR test data.

Assessment Reauthorization

The Leroy Greene California Assessment of Academic Achievement Act (Chapter 975, Statutes of 1995 [AB 265, Alpert]), reenacted the Golden State Exam (GSE), and created the STAR program, which has been evolving ever since. Figure 2 shows the three components of the STAR program that are currently operating. STAR expansions include:

Figure 2**Major State Assessments****Standardized Testing and Reporting (STAR)****Stanford-9**

- **Purpose.** Individual pupil measure of achievement used to compare pupils across all schools. Monitor student achievement in California against a national norm. Currently only measure used for state's accountability system.
- **Subjects.** Reading, math, language, and spelling (grades 2-8). Reading, math, language, science, and social science (grades 9-11).
- **Requirement and Grade Level.** Required, grades 2-11.
- **Positives.** Allows schools and students to be easily compared. Tells students their achievement relative to others in the nation.
- **Negatives.** Not aligned to academic content standards, same questions used each year, not good at differentiating among highest-achieving pupils.

Standards-Aligned STAR

- **Purpose.** Determine each student's proficiency at learning subject matter covered by state's academic content standards. Provides measure of student writing ability.
- **Subjects.** Writing (4th and 7th grades only), English/language arts, math, science, and social science.
- **Requirement and Grade Level.** Required, grades 2-11.
- **Positives.** Eventually provide information for accountability system. Assesses writing, not just multiple choice questions. Aligned to standards.
- **Negatives.** State adopted tough standards that might make tests very hard for many students. Writing assessments expensive to grade.

Spanish Assessment of Basic Education (SABE 2)

- **Purpose.** Pupil-level basic skills test in Spanish for English language learners whose primary language is Spanish.
- **Subjects.** Reading, language, math, and spelling.
- **Requirement and Grade Level.** Required for pupils enrolled 12 months or less, optional for other students grades 2-11.
- **Positives.** Achievement information in core subjects for pupils not fluent enough to be tested in English. Indicates whether pupils are acquiring skills beyond language acquisition.
- **Negatives.** Not consistent with policy goals of Proposition 227. Usually administered once per student, rarely used to assess growth. Administered to fewer than 8 percent of the state's English language learners. (See discussion below). Only in Spanish, not other languages.

Continued

Golden State Exam (GSE)

- **Purpose.** Quality end-of-course exams to compare pupil achievement in specific classes to statewide standards.
- **Subjects.** 13 specific course tests: 3 math tests, 2 English/language arts, 3 social science, 4 science, and Spanish.
- **Requirement and Grade Level.** Optional grades 9-12.
- **Positives.** Feedback to students and teachers on how well students learn material compared to state standards.
- **Negatives.** Results not available in timely way. Not all pupils take exams, so cannot use results to compare schools.

English Language Development (ELD)

- **Purpose.** Diagnostic assessment to help schools place English language learners (ELLs) in appropriate learning settings. Measures acquisition of language skills over time, and assists schools in deciding which pupils to redesignate to fluent in English.
- **Subjects.** English acquisition.
- **Requirement and Grade Level.** Required for ELL students, all grades.
- **Positives.** Comparable statewide measure of how well pupils are acquiring English. Aligned to English language development standards.
- **Negatives.** Burden placed on schools to administer the oral component annually. Results take six to eight weeks to be returned to schools, negating benefits of this diagnostic tool for placement decisions.

High School Exit Exam (HSEE)

- **Purpose.** Improve high school achievement and ensure high school graduates reach grade-level competency in reading, writing, and math.
- **Subjects.** Math, English/language arts, and writing.
- **Requirement and Grade Level.** Required for 10th graders (See HSEE discussion below). Can be taken in grades 9-12.
- **Positives.** Ensures a minimum level of academic achievement for all graduates. May improve performance at lower-performing schools.
- **Negatives.** May increase student drop-out rates. May unfairly judge students who were not given adequate opportunity to learn.

Other Assessments Administered to K-12 Students

- Various district assessments, Physical Education, Assessment of Career Education, High School Proficiency Exam, General Education Development, Scholastic Aptitude Test I and II, Pre-SAT, Advance Placement Exams, International Baccalaureate Exams, ACT, CSU entry level exams in mathematics and English, and UC Subject A Exam.

- **Spring 1998.** The Stanford-9 was administered for the first time.
- **Spring 1999.** Standards-Aligned STAR tests in English Language Arts and Math, and the Spanish Assessment of Basic Skills (SABE 2) were added to the Stanford-9.
- **Spring 2001.** Standards-Aligned STAR tests in science and social science for high school grades, and writing prompts in grades 4 and 7.

The provisions of Chapter 975 will sunset in January 2002. As part of any reauthorization, the Legislature will have the opportunity to reexamine the testing system that has evolved. There are five major assessments authorized by Chapter 975. The Legislature will need to determine the role each assessment will play in the future state assessment system, as discussed below.

Standards-Aligned STAR. In the future, we believe this assessment should be the backbone of the state's assessment system. The state has made a significant investment in the development of academic content standards, alignment of textbooks to those standards, and retraining of teachers around the standards. The full implementation of this test, and its inclusion in the Academic Performance Index (API) is an essential step to ensuring that students are learning what the state has determined is needed.

National Norm-Referenced Test (Currently the Stanford-9). Chapter 828, Statutes of 1997 (SB 376, Alpert), required the SBE to purchase an "off-the-shelf" test in order to start administering a statewide assessment of students, even though the academic content standards still were under development. Now that test, the Stanford-9, has become the only measure used for individual and school comparisons, and the only outcome measure used to calculate the API. (See "Accountability" section for discussion of the role of the Stanford-9 in the API). As the Standards-Aligned STAR is integrated into the API, the Legislature will have the option to reconsider the value of the Stanford-9. The Legislature will need answers to three questions about the nationally norm-referenced test:

- Will California public schools need to administer both the Standards-Aligned STAR and a nationally norm-referenced test?
- If the Legislature chooses to continue a nationally norm-referenced test, will it be necessary to administer the test for each grade 2 through 11?
- Is the Stanford-9 the best nationally norm-referenced test, or should the state review other alternatives?

Spanish Assessment of Basic Education, Second Edition (SABE 2). The SABE 2 is a basic skills test of math, language arts, reading and spelling that is administered in Spanish to ELL students in their first year in a

school district. The Legislature will want to reconsider the value of this primary language test, and whether its administration is consistent with the intent of Proposition 227 (see discussion of SABE 2 below).

Golden State Exams. The GSE are 13 end-of-course exams for college-track students to determine their achievement level compared to state academic content standards. There may continue to be a role for the GSE to provide end-of-course exams for California's higher-achieving students. This is because the tests (1) provide students with information on how their achievement compares to what the state requires that they should learn in a specific subject, and (2) provides feedback to teachers on how well their students are learning the standards for that course.

Assessment of Applied Academic Skills or "Matrix Test." The matrix test, as required by Chapter 975, was originally planned to be the foundation of the state's assessment system. The test was to be administered in grades 4, 5, 8, and 10, and provide an in-depth school level assessment of how well students had learned each of the subject matter areas covered by the content standards. Although this test has never been developed, it also has never been eliminated from the Education Code. With the Standards-Aligned STAR almost fully implemented, and the HSEE being administered soon, there may no longer be a need for the matrix test.

Eliminate Primary Language Test Requirement

We recommend that legislation be enacted to eliminate the requirement that districts test limited-English-proficient pupils in their primary language because Proposition 227 generally requires schools to transition children to English fluency rapidly. We further recommend redirection of the \$1.7 million for the Spanish Assessment of Basic Education Exam—the only one of these primary language exams in use—to other education priorities. (Reduce Item 6110-113-0001 by \$1.7 million.)

Under the STAR program, school districts are required to test limited-English-proficient pupils in grades 2 through 11 in their primary language if such a test is available and the pupils have been enrolled in a California public school for less than 12 months. In addition, districts *may* administer a primary language test to pupils with limited English proficiency who have been enrolled for longer than 12 months. Existing law requires the SBE to designate the single primary language test in each language for which such a test is available for pupils in grades 2 through 11. Currently, the SBE has only designated one such test—the SABE 2, to test Spanish-speaking pupils in reading, language, mathematics, and spelling. The test currently is administered to about 8 percent of the state's 1.5 million ELL pupils because most schools do not administer the test to pupils beyond the required first year. The Governor's budget

includes \$1.7 million in Proposition 98 funds under Item 6110-113-0001 for the SABE 2, in order to (1) pay the test publisher for materials and exam scoring and (2) reimburse school districts, county offices of education, and charter schools for administering the exam.

Proposition 227, passed by the voters in June 1998, in essence requires that children in California's public schools learn English by being taught in all subjects predominantly in English. Generally, Proposition 227 requires schools to place ELL pupils in special "sheltered English immersion" classes taught predominantly in English, and to limit bilingual education classes to specified exceptional circumstances. The proposition states that (1) ELL pupils should move from special classes to regular classes when they have acquired a good working knowledge of English and (2) normally these classes should not last longer than one year.

Given the changes made by the proposition and its objective to help ELL pupils learn English as quickly as possible, we believe there is no longer a reason for the state to require certain ELLs to be tested in Spanish. For instance, the results from the SABE 2 are not included in the state's current accountability system and are not used to make comparisons of achievement across schools. Moreover, the SABE 2 is rarely of use for assessing a pupil's academic growth, because existing law requires districts to administer the primary language test only once to any individual ELL pupil.

In view of the above, we recommend that legislation be enacted to eliminate the requirement that districts test limited-English-proficient pupils in their primary language if the pupils have been enrolled in a California public school for less than 12 months. We further recommend redirection of the \$1.7 million for the SABE 2 to other education priorities. (Reduce Item 6110-113-0001 by \$1.7 million.) Under our proposal, districts, county offices of education, and charter schools still would have the option of allocating a portion of their general purpose funds to test ELL pupils in their primary language if local school officials deemed such a test to be useful for local purposes. In addition, the ELD test would still be assessed annually in each grade, providing a comprehensive assessment over time of an ELL's English proficiency based on state standards.

The HSEE Changes Would Create Savings

We recommend that the Legislature (1) reduce funding for administration of the High School Exit Exam (HSEE) by \$35 million and (2) require the State Department of Education to report on the costs of developing and administering the HSEE. (Reduce Item 6110-113-0001 by \$35 million.)

The Governor's budget provides \$61 million to administer the HSEE three times during the 2001-02 school year. Since developing the Governor's budget, the administration has been advised by testing and legal experts to change the way in which the state administers the HSEE. Senate Bill 84 (O'Connell) includes these recommended changes to HSEE administration.

Under current law:

- Ninth graders could voluntarily take HSEE in spring 2001.
- In 2001-02 SDE will offer the HSEE three times to 10th graders, and 10th graders would be required to take it at least once.
- In 2001-02, 9th graders would be able to take the spring 2002 administration of the HSEE.

Senate Bill 84 would change HSEE to:

- Make the spring 2001 test a "practice" for 9th graders.
- Eliminate administration of the test thereafter to 9th graders.
- Administer one "census" test each spring to all 10th graders beginning in 2001-02.

Senate Bill 84 would not change the schedule for 11th and 12th graders. Beginning in 2002-03, students in 11th grade would have three changes to take the test. Beginning in 2003-04, students in each of these grades would have three chances to take the test.

Assessment experts have advised SDE and SBE that it is important to offer a "census" administration of the test to allow test experts to determine the appropriate "cut score" for passing/not passing the HSEE. In a census administration, all students in a specific grade are required to take the test at the same time. The Governor now proposes that the first census administration for 10th grade students occur in the spring of 2002. Legal experts have advised the SDE not to offer the census administration to 9th grade students. Since the test covers material that in some cases meets 10th grade academic content standards, 9th graders would not necessarily have had adequate opportunity to learn the material.

Changed Policy Creates Opportunity for Budget Savings. The proposed changes discussed above in the test administration would, if implemented, reduce costs of HSEE administration in 2001-02. Instead of the \$61 million proposed in the budget, the state could provide the single administration of the HSEE in 2001-02 for considerably less. We estimate these savings would be at least \$35 million. Actual savings would depend on other factors—such as the costs of test item development and funding school district administration of the HSEE. Accordingly, we recommend the Legislature reduce funding for the HSEE by \$35 million,

and require the SDE to report at budget hearings on the costs of developing and administering the HSEE. Based upon the SDE cost estimates, the Legislature may be able to reduce the HSEE funding level even further.

Should the State Release the Questions on the HSEE?

We recommend that the State Department of Education report on the costs of publically releasing High School Exit Exam (HSEE) test questions, and that the Legislature codify a policy about releasing HSEE test questions.

Currently, the SDE plans to publically release questions on the HSEE to be administered in spring 2001 after the test is given. The Education Code is silent on whether the SDE legally can release the test. The SDE argues that releasing the test questions will help the public see the level of material that is on the test, and may help 10th grade students prepare for the spring 2002 test. This approach may have merit but releasing the test would increase the cost of administration because test questions would have to be changed each time. We believe the Legislature should determine if the benefits are worth the cost. We recommend that the SDE report prior to budget hearings on the cost impact of releasing test questions. We further recommend that the Legislature codify if and how test questions can be released to the public. Three potential options are: (1) release all questions from all administrations, (2) only release questions from the main (spring) administration, (3) allow the SDE to selectively release test questions.

On-Line Assessments

We recommend the Legislature appropriate \$250,000 from the General Fund (non-Proposition 98) to the State Department of Education to contract for a study of the feasibility of administering state assessments on-line because of potential long-run benefits and cost savings. (Augment Item 6110-001-0001 by \$250,000.)

Recently, major testing companies have begun offering assessments on-line. There are several advantages to offering tests on-line:

- **Instant Results.** Since a computer grades the test at the same time that a student takes it, the results can be provided immediately.
- **Reduced Grading and Administration Costs.** On-line tests eliminate the need for hard copies of the test, which would dramatically reduce costs of printing, shipping, distributing materials, overseeing the collection of materials, and grading the tests. Assuming that the school has a computer lab, the cost to the school

district to administer the test also would be less due to fewer logistical requirements.

- **Potentially More Accurate.** Offering tests on the computer has the potential of increasing the accuracy of reported results if dynamic testing methods are used. A dynamic test offers a different set of questions to a student depending on the student's ability and thus, allows the possibility of "homing in" on a precise assessment of ability. For example, if a student were taking a math test on-line, the testing program could ask ten general math questions at the start of the test. If a student got most of the questions correct, then the testing program would ask the student more difficult questions. If the student missed most of these questions, then the test would ask easier questions. In the same number of questions, the computerized test is able to more accurately determine each student's real skill level.

Based upon the advantages of on-line testing, we believe that it is worthwhile for California to study the feasibility of administering tests on-line. Of course not all tests can administered on-line. For example, offering the STAR test on-line would not be feasible because over four million students need to take the STAR test during a relatively small testing "window." We believe, however, that the following three California tests potentially could be offered on-line.

- English Language Development Test.
- Golden State Exam.
- High School Exit Exam, summer and fall administrations.

These three assessments could be offered on-line because they are offered to small subsets of a school's enrollment at one time. The ELD test has an additional advantage of helping the school make a placement decision in a more timely fashion. The ELD test is administered to ELL pupils when they first move into a school district. Under the current SDE plan, the test takes between six to eight weeks to grade. This forces schools to place the students without the benefit of the ELD test results. Administering the test on-line would eliminate this problem and allow the ELD results to assist schools in placing ELL pupils in the best learning environments.

Based on the significant potential for educational benefits and monetary savings, we recommend the Legislature appropriate \$250,000 non-Proposition 98 funds to the SDE to contract for a study of the feasibility of administering California assessments on-line.

The STAR and HSEE Workbooks

We recommend the Legislature approve \$27.5 million requested for the initial distribution of assessment workbooks, but do so as a one-time appropriation and provide \$5 million annually in future years for annual workbook replacement costs. (Redesignate \$22.5 million in Item 6110-113-0001 as one-time spending.)

The Governor's budget proposes \$27.5 million for the development and distribution of student study workbooks for the HSEE and STAR. We agree with the need for such workbooks. Providing students with an HSEE workbook will help give them the adequate opportunity to learn the material that is essential for the test to be fair and legally defensible. For the STAR test, workbooks would ensure a level playing field for test preparation. With the most recent administration of the STAR test, the SBE had to review several incidents of possibly illegal test preparations. There seems to be a lot of gray area in what is appropriate test preparation and what is not. The workbooks would ensure equal access to test preparation materials and help reduce this ambiguity.

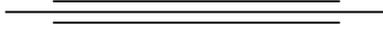
The Governor's budget funds this program with an ongoing appropriation, and plans to provide new workbooks to each student each year. However, we believe that once distributed to schools, most student workbooks could be reused from year to year. We suggest adopting a five-year replacement schedule, and provide funding to replace 20 percent of the workbooks each year. Therefore, we recommend the Legislature provide \$5 million in ongoing funding for the replacement costs of workbooks, and use \$22.5 million in one-time Proposition 98 funding for the remaining first-year cost of development and the initial distribution of the workbooks.

Consultant to Align State Tests to Academic Content Standards

We recommend the Legislature move \$3 million of one-time non-Proposition 98 funds requested for the State Board of Education's support budget to the State Department of Education's (SDE) support budget for the purpose of hiring consultants to assist in aligning state tests with academic content standards. (Redesignate \$3 million appropriation to SDE.)

The Governor's budget proposes \$3 million from the General Fund (non-Proposition 98) on a one-time basis to the SBE to hire a consultant to (1) ensure that the STAR and HSEE are aligned to the academic content standards and (2) develop performance measures for the two tests. The funding for this proposal would be provided in an as yet unidentified bill. Although the SBE has oversight authority for the state testing system, the SDE is charged by the Legislature with developing and administering both

tests. In addition, the Legislature has authorized SDE to administer all contracting requirements related to the state testing system. Accordingly, we recommend the Legislature redirect \$3 million in non-Proposition 98 funding from the SBE's support budget to the SDE's support budget.



K-12 DATABASES

The Governor's budget proposes funding for three projects to collect and analyze student-level data. The budget provides \$16.5 million to continue a multiyear project to develop an integrated student level record system at each district in the state, and \$25 million for two new student-data proposals. The new proposals are:

- \$20 million for Academic Performance Index (API) data analysis.
- \$5 million for the API Student Tracking System.

The policy goals of the two Governor's initiative are (1) to improve the use of student achievement data in state and local decision making, and (2) to support improvements to the API. To date little information has been provided by the administration on either of these proposals.

California School Information Services

We recommend the Legislature augment the Fiscal Crisis Management Assistance Team (FCMAT) item (6110-107-0001) by \$800,000 (Proposition 98 General Fund) to continue implementation the California School Information Services (CSIS) project. We further recommend augmenting the FCMAT budget (Item 6110-101-0349) by up to \$11.5 million (Proposition 98 General Fund) to provide additional CSIS local implementation grants to school districts.

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 State Department of Education (SDE) administers local assistance grants to FCMAT and is integrally involved in advising on the student-level database.

The SDE also has a direct role in CSIS implementation by supporting the transition of state data reporting to electronic submission.

The CSIS has three main program goals:

- Build local capacity to maintain and use student information systems to inform educational decision making.
- 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 would provide the state with several benefits, as summarized in Figure 1 (see next page).

The Proposed Budget for CSIS

The Governor's budget proposes \$12 million from one-time, prior-year Proposition 98 monies for CSIS implementation grants to school districts, and \$4.5 million for support of the FCMAT operation costs. Figure 2 (see page 119) provides a budget summary for CSIS. Based upon concerns about inadequate state oversight of CSIS and potential risks inherent in large database projects, the Legislature provided funding to SDE for ongoing independent project oversight in the current year. Funding for the independent evaluator is continued in the Governor's budget.

Current Status of CSIS Implementation

Currently CSIS is in the second year of a multiyear implementation plan. Over the last year, FCMAT has (1) developed a long-term implementation and budget plan for CSIS, (2) continued to establish the infrastructure of CSIS to administer the transfer of data among school districts and to the state, and (3) increased the number of local education agencies (LEAs)—school districts and county offices of education—participating in CSIS from 70 LEAs to 161 LEAs. Instead of mandating participation in CSIS, FCMAT is attempting to entice school districts to participate with the benefits of a student-level database (outlined above), and implementation incentive grants.

As of 2000-01, FCMAT has provided incentive grants (or is in final negotiations) to nine consortia of districts representing over 1.5 million students. The nine consortia are listed in Figure 3 (see page 120). Each consortium is overseen by either a school district or a county office of education, and is working with a specific software vendor to develop its

local system to be able to transfer student records to CSIS. The CSIS will not maintain or store the student records for districts, but will facilitate either the movement of records from school district to school district, or the aggregation of school district data required for state reporting.

Figure 1

California School Information Services (CSIS) Potential 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 and teacher attendance rates.

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.

Standardizing Records Transfer

- Requiring a standardized set of information be collected, maintained, and transferred when a student moves from one school district to another would improve the ability of school districts to educate transfer students.

Figure 2**CSIS Budget Summary****2000-01 Budget Act****Funding for FCMAT^a**

- \$8.6 million audit recovery funds provided for implementation grants to Local Education Agencies. To the extent that audit recovery funding does not materialize, the \$8.6 million is backfilled with Proposition 98 reversion funds.
- \$4.2 million one-time Proposition 98 reversion funds to FCMAT to support California School Information Service (CSIS) operation costs.
- \$250,000 Proposition 98 for project management services.

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

- \$1.2 million to address workload in supporting CSIS. Department of Finance (DOF) and Department of Information Technology (DOIT) must approve feasibility study report prior to the release of funding.
- \$150,000 to continue to contract for independent project oversight, with quarterly reports to Legislature and administration. Requires DOF and DOIT to approve scope of work.

2001-02 Budget Proposal**Funding for FCMAT**

- \$12 million audit recovery funds provided for implementation grants to LEAs. To the extent that audit recovery funding does not materialize, the \$12 million is backfilled with Proposition 98 Reversion Funds.
- \$4.5 million Proposition 98 to FCMAT to support CSIS operation costs and project management services.

**Funding for SDE**

- \$500,000 provided for SDE workload in support of CSIS.
- \$150,000 to continue to contract for independent project oversight, with quarterly reports to Legislature and administration.

^a Fiscal Crisis and Management Assistance Team.

Figure 3**CSIS Participation**

2000-01
(Consortia and Enrollment)

Consortia (Lead Agency)	Vendor	Local Education Agencies	Enrollment
Alameda County Office of Education	NCS/SASIXp	76	842,000
Simi Valley Unified School District	DMG Maximus	16	168,000
Novato Unified School District	QSS	14	159,000
San Diego County Office of Education	Custom	24	98,000
Capistrano Unified School District	Eagle	3	74,000
Los Angeles County Office of Education	Chancery	12	62,000
Riverside County Office of Education	C Innovations	9	56,000
San Bernardino City Unified School District	Custom	1	56,000
Konocti Unified School District	SchoolWise	6	9,000
Total Participation		161	1,525,000
Percent of State		16%	26%

Each consortium plans to expand to other school districts using their specific software. For example, NCS Pearson, the vendor for the largest consortium, owns a software product called Schools Administrative Student Information Software (SASI). The SASI software is used in over 280 school districts in California containing approximately 2.7 million students. Each year the consortium overseen by the Alameda County Office of Education, plans to increase the number of SASI users participating in CSIS.

The CSIS Long-Run Budget Requirements

The FCMAT has provided a detailed estimate of the costs of fully implementing CSIS statewide. Based upon the funding needs for school districts in the first two phases of the CSIS implementation, FCMAT has developed a funding formula to fund the remainder of the state's school districts. School districts would receive implementation funding of \$8.51 per student plus \$2,500 per school site. The FCMAT has also developed a

small school district formula. Based on these various formulas, FCMAT has developed the expenditure plan shown in Figure 4. Over the eight years of the project, CSIS would have total costs of approximately \$120 million, including \$11 million for contingencies (such as potential enrollment increases, charter schools, and other uncertainties).

Figure 4			
CSIS Spending Plan^a			
<i>(In Millions)</i>			
	CSIS Operations	Local Grants	Total Costs
1997-98 - 1999-00	\$2.4	\$9.6	\$12.0
2000-01	6.1	13.6	19.6
2001-02	5.3	23.5	28.8
2002-03	5.1	12.8	18.0
2003-04	4.9	10.3	15.2
2004-05	5.3	9.6	14.8
Contingencies	—	11.0	11.0
Total	\$29.1	\$90.4	\$119.5

^a Based on proposed expenditures as developed by FCMAT, not on funding actually provided or proposed in the budget. Costs estimate does not include State Department of Education costs.

Governor's Funding Level Will Slow Implementation. The Governor's proposed funding level for local implementation grants is approximately one-half of the funding request made by FCMAT. The Governor's budget provides \$1.1 million less for CSIS operation costs. Based upon the budget level, the CSIS project completion date will likely need to be delayed at least one fiscal year. The CSIS implementation plan is in part based upon the expansion plans provided by the nine consortia. In 2001-02, the CSIS proposed plan would add 258 LEAs to the project with combined enrollment of 1.85 million students, which would double the size of the program. With a reduced appropriation, the number of districts in the CSIS expansion plan will be revised downward.

Los Angeles Unified School District (LAUSD) Seeks New Student Information System. Currently, LAUSD is reviewing proposals to develop a state-of-the-art integrated student information system. The LAUSD will be selecting the vendor to design and implement its new system in the spring of 2001. The participation of LAUSD in CSIS is essential to the successful completion of the CSIS mission of implementing a statewide

student-level data system. Also, LAUSD participation would significantly enhance the short-term benefits of records transfer among school districts in southern California.

According to staff at LAUSD, one of their design goals is to become a CSIS participant at the same time that they develop this new database system. Based upon the CSIS funding formula, the costs of the local implementation grant for LAUSD could be around \$7.5 million. The LAUSD is seeking proposals to implement the new data system over the next three years. It is uncertain whether FCMAT would provide the entire CSIS funding in one year or spread the funding over several years for LAUSD or other large districts. In any case, if LAUSD receives an implementation grant in the budget year, there will be little funding left for other school districts.

We believe that FCMAT is prepared to expand the number of districts that are participating in CSIS in line with its spending plan. As shown in Figure 1, CSIS benefits the state by supporting the API and evaluation, and school districts by improving student tracking, providing more accurate and timely student records transfer, and tracking student drop-outs. The CSIS implementation plan provides adequate detail on how the project would be implemented and the related long-term costs. Accordingly, we recommend augmenting the FCMAT support item by \$800,000 and the local implementation grant funding by up to \$11.5 million (both Proposition 98 funds). This funding level is consistent with the CSIS spending plan for 2001-02.

Potential CSIS Funding Expansion

We recommend that the Fiscal Crisis Management Assistance Team report at budget hearings on the potential values and costs of offering certain school districts a California School Information Services readiness assessment.

Many school districts are not prepared to participate in CSIS. Applying for a CSIS implementation grant requires a significant amount of preparation by the district, and many districts do not have the time or the resources to study what needs to be accomplished to prepare for CSIS. The approach used to incorporate a school district into the system is to adapt the student information system that a school district already has. The worse the state of the current student information system, the more the school district will have to do prior to participation in CSIS. Some school districts have a long way to go to be ready for such participation. In addition, many have no local capacity to assess what changes need to be made prior to applying for participation in CSIS. Helping these less prepared school districts assess their data information needs and develop a multiyear plan to become CSIS ready would help ensure the CSIS sys-

tem is delivered on time. School districts could benefit from external assistance in becoming CSIS ready.

The FCMAT has developed professional standards to assess and develop recovery plans for struggling districts throughout the state. We believe that FCMAT has the capacity to develop a set of professional standards for assessing the readiness of school districts to adequately maintain and use student data, and eventually participate in CSIS. One way this could be accomplished is by providing funding to FCMAT to offer CSIS readiness assessments for school districts and develop multiyear implementation plans for those districts. We recommend that FCMAT report at budget hearings on the potential values and costs of offering school districts a CSIS readiness assessment.

Will Apportionment Rewrite Be Compatible With CSIS Design?

We recommend the State Department of Education report at budget hearings on efforts it is taking to ensure the compatibility of the Principal Apportionments System Rewrite to receive California School Information Services data.

The Governor's budget provides SDE with \$1.7 million to continue the Principal Apportionments System Rewrite (PASR). The PASR is the state's distribution process through which SDE allocates \$7 billion in major categorical funding to school districts based upon student enrollment, student average daily attendance (ADA), and other factors. The method used to distribute categorical funds historically was through a set of independent data processes (including outdated programs maintained at the Teale Data Center), and 27 newer categorical programs developed on stand-alone personal computers. The PASR is an ongoing project to integrate these programs into one central process. Two of the major inputs into the apportionment system are enrollment and ADA.

In the future, CSIS will be the main provider of data on enrollment and ADA to the SDE. Based on our review it is uncertain if the rewrite will be able to accept data from CSIS. Since both projects represent major technology investments by the state, the Legislature will want to ensure that the systems will be compatible in the future. We recommend the SDE report at budget hearings on efforts they are taking to ensure the compatibility of PASR to receive CSIS data.

Department of Finance and Department of Information Technology Delay External Reports

We recommend the Legislature increase non-Proposition 98 General Fund from \$150,000 up to \$400,000 for the State Department of Education to contract for external oversight of the California School Information Services (CSIS) project (Item 6110-001-0001). We recommend the Department of Information Technology and the Department of Finance report at budget hearings on their delay in approving the scope of work for external oversight of CSIS.

The Governor's budget proposes \$150,000 in funding to SDE to contract with an independent project consultant to oversee the FCMAT implementation of CSIS. Generally, state departments are subject to Department of Information Technology (DOIT) and Department of Finance Technology and Investment Review Unit (DOF-TIRU) oversight in efforts to develop large data systems. The DOIT and DOF-TIRU have no oversight role in CSIS because CSIS is administered by FCMAT, housed at a county office of education.

To address this apparent lack of oversight, the Legislature appropriated funding in the *1999-00 Budget Act* to SDE to contract for quarterly reporting from an independent project oversight consultant. In the *2000-01 Budget Act*, the administration proposed—and the Legislature adopted—budget bill language to continue the quarterly reporting and to require SDE to have the scope of work of the external oversight contractor approved by DOIT and DOF-TIRU. The SDE delivered the scope of work on August 1, 2000 to DOIT and DOF-TIRU for review. The DOF-TIRU approved the scope of work in December 2000, and DOIT approved it in February 2001. The first two quarterly reports required by the *2000-01 Budget Act* were not submitted, and given the time requirements of contracting, it is unlikely that the third quarterly report will be delivered by the March 1, 2001 deadline. Hopefully, at least one report can be delivered in the fiscal year.

We recommend that DOIT and DOF report at budget hearings on why they have delayed approval of the scope of work for the external oversight contract.

As the program grows, so will the amount of oversight that an external consultant will have to review. The Governor's budget provides a modest increase in funding for CSIS, but provides no expansion of the funding for oversight. As the CSIS program grows, the size and number of projects the oversight consultant must oversee grows as well. We recommend increasing funding for the external oversight to provide more complete information to the Legislature upon which it can ensure that the project will be successful. The increase is especially needed if the Legislature adopts our earlier recommendation to increase the CSIS funding

level above the Governor's amount. If the Governor's funding level of \$16.5 million is maintained, we recommend increasing the funding level provided to SDE to contract for oversight from \$150,000 to \$250,000 to keep the amount of oversight in line with the size of the project and to ensure that the Legislature has high quality information upon which to measure the progress of the project. If the Legislature adopts our prior recommendation to increase CSIS funding up to \$29 million, we recommend the Legislature provide \$400,000 for external oversight.

Increase Funding for the SDE to Adequately Support the CSIS Program

We recommend that the Legislature provide \$1 million to the State Department of Education (SDE) for staff and services that will allow the SDE to complete tasks that are necessary for it to support the California School Information Services (CSIS) program. These tasks would allow local education agencies to transmit data to the SDE through the CSIS program, thereby reducing school districts' state data reporting workload. (Increase Item 6110-001-0001 by \$500,000.)

As discussed above, CSIS has three program goals (1) build school district's data capacity, (2) support student records transfer, and (3) facilitate state and federal reporting. Meeting the last of these stated goals requires the CSIS program to work with the SDE to design a process whereby data collected from LEAs by the CSIS program is transmitted to the SDE in lieu of the SDE's regular reporting requirements.

Background. The SDE brings expertise and knowledge about the data that LEAs must report. The department completes the following tasks to support the CSIS program for each set of data collected by the system:

- **Transition Data Collections.** This requires the SDE to specify how data should be organized from CSIS so that it can be merged with and replace traditional SDE data collections.
- **Validation Rules.** The SDE must develop criteria for evaluating the quality of data that is transmitted from CSIS.
- **Test Data Comparability.** Once data is submitted to SDE from CSIS, SDE must have a process in place to check that the data meets specific quality standards.
- **Certification of Data.** If the data meets or exceeds quality standards, then SDE must certify that CSIS submission is a suitable replacement for traditional data collection methods. Once an LEA is certified to submit data to SDE through CSIS, the LEA no longer needs to submit data through the traditional process.

Working with the CSIS Advisory Group, LEAs, and other stakeholders, SDE selected 40 data collections that it considered suitable for reporting by the CSIS program. The *2000-01 Budget Act* provided the SDE with \$1.2 million, conditional on the approval of a feasibility study report (FSR) by the DOIT and DOF-TIRU, to support tasks to begin planning and implementing a process to accept data from CSIS during the current year for five of the 40 identified data collections.

As discussed earlier, SDE submitted an FSR to DOIT and DOF-TIRU for review in August 2000. The SDE has revised the FSR to address concerns expressed by DOIT and DOF-TIRU, and anticipates that around \$500,000 of the \$1.2 million will be released to support work to transition the collection of data from traditional data collection methods to CSIS data. This lower level of funding will support SDE's efforts to prepare five data collections for CSIS data submission in the current year, but will delay planning efforts for additional data collections.

The SDE Needs Additional Resources to Facilitate State Reporting. Increasing the number of SDE data collections that can accept data from CSIS participating LEAs is critical to the long-term success of CSIS. Many of the current LEAs participating in the CSIS program have joined the program anticipating a reduction in their SDE reporting workload. In addition, prospective CSIS participating districts may elect to forego participation in the system if SDE is unprepared to accept data from the CSIS program.

The Governor's budget proposes \$500,000 for SDE to support the CSIS program. If the SDE is to expand the number of state data collections transmitted by CSIS, additional funding is required. We recommend that the Legislature increase the amount of funding provided to SDE to \$1 million, an augmentation of \$500,000. This funding would allow SDE to expand its data transition and collection preparation work from five data collections to up to 20 additional data collections. During budget hearings, SDE should provide a proposal for how these funds could be allocated. In addition, SDE should also provide information about how such funding could affect its ability to support the CSIS program.

The API Student-Level Database May Have Great Potential

We withhold recommendation on the \$5 million Academic Performance Index (API) database proposal because of the significant number of unanswered questions about how the API database will operate. To the extent that the Legislature appropriates funds for this project, we recommend the funding be provided to the State Department of Education (SDE) and not the Office of the Secretary for Education because SDE is the administrative agency in charge of student assessments and accountability. (Withhold recommendation on Item 0650-115-0001.)

The Governor's budget provides \$5 million from the General Fund (Proposition 98) to the Office of the Secretary for Education (OSE) to create the API database. The API database would be a student-level database consisting of data provided by the state's major assessments—starting with the data from the Standardized Testing and Reporting (STAR) program. The API database would not be necessary if the CSIS database were fully operational for all school districts in the state. However, until CSIS is fully operational, the API database would provide some of the benefits that CSIS would provide, but on an accelerated time schedule. The API database would be created to eventually be folded into CSIS, and would use unique CSIS student identifiers to track students over time.

There are four potential benefits of this proposed API database:

- ***Allow for Calculation of Value-Added Measures of Student Achievement.*** A value-added measure of achievement determines the improvement that each individual student makes from one year to the next. Education experts suggest using a value-added measure of achievement for accountability purposes is preferable to using schoolwide averages. California's current API is calculated using an averaging approach.
- ***Provide Schools Valuable Longitudinal Information.*** Many school districts are not able to track student achievement from one year to the next. In the fall, a teacher often has no student assessment information from prior years. Even in school districts with well integrated information systems, the district may receive no assessment information for students coming from another district. The API database could potentially provide such assessment information.
- ***Allow for Higher-Quality Evaluation of State and Local Programs.*** Having a longitudinal database would help researchers evaluate the impact on student achievement of various state and local programs.
- ***Help School Districts Transition to CSIS.*** Providing school districts with accurate information on students could show school districts the value of a quality student information system. If the proposal provides school districts with a subset of the CSIS data elements, the burden of CSIS start-up could be reduced.

What Is Known About the Proposal. At the time this analysis was prepared, the following information was available about the proposal:

- ***Information in the "STAR Header."*** The data set that would be collected for each student would contain the information collected from data provided on the top of the STAR answer keys commonly referred to as the STAR header. The information includes mainly demographic information—including race/ethnicity, gen-

der, language status, length of time in school district, economic disadvantaged status, and special education status. In addition, the school would be required to include a unique CSIS identifier in the STAR header. This data would be linked with the test results to provide the data for the database.

- ***The CSIS Identifier Would Link Records Over Time.*** The CSIS identifier is a number assigned by CSIS to each individual student in the state. Once the CSIS identifier was provided on the student's STAR header, CSIS would be able to track a student's results based upon the unique identifier. Each year, the same CSIS identifier would be used for each individual student, and would link the information from one year to the next.
- ***Nonpersonally Identifiable Data Would Be Provided to the SDE.*** Similar to the current program, the SDE would receive records of student performance on state assessments in a nonpersonally identifiable format.

Unanswered Questions. Beyond the basic framework of what student information would be collected and how it would be linked over time, there are numerous unanswered questions.

- Where would the data be stored and maintained—the test publisher, CSIS, SDE, another entity?
- Who would have access to the data—SDE, home school district, researchers, policymakers?
- How would security of individual student information be guaranteed?
- How would schools or CSIS track the unique CSIS identifiers from year to year for students that move from one school district to another?
- Given that CSIS would eventually provide all the functionality of the API database, are the benefits of having this longitudinal tracking data available a few years earlier worth the costs?
- What would the role of the test publisher be, and how would those duties transition if the publisher changes when STAR is reauthorized (see discussion of STAR reauthorization in “Assessments” section of this chapter)?

As discussed earlier, the API database has a lot of potential benefits. However, given the number of unanswered questions, we withhold recommendation, pending receipt and review of a more detailed implementation plan.

The SDE Is the Appropriate Agency to Oversee Project. The SDE will have to be fundamentally involved in this proposal to create an API database because it:

- Administers the STAR test that will provide the data for this database.
- Administers the contracts with the test publisher that will need to be amended to have the publisher provide information to a database.
- Is the end user of the database in the calculation of the API.
- Will likely be involved in correcting data irregularities.

In contrast, OSE's main state role is as a policy advisor to the Governor on education issues. Given the need to have SDE intimately involved with this proposal, we recommend that any funding that the Legislature provides for the API database be provided to SDE, not OSE.

The STAR Data Analysis

We recommend redirecting \$20 million Proposition 98 funds provided for the Standardized Testing and Reporting data analysis incentive grants to other legislative priorities. (Reduce Item 6110-113-0001 by \$20 million.)

The Governor's budget provides \$20 million to school districts to purchase or develop software to aid in analyzing STAR test data. According to the Governor's budget, such software would help schools determine how students are performing academically, thereby allowing schools to most effectively allocate resources to assist students in mastering the academic content standards. The administration has not been able to provide additional back-up on the proposal.

The lack of information raises several questions about how the funding will be used:

- What information would these software packages supply that is not already available to schools?
- How would the funding be distributed and would it cover the costs of software programs currently available?
- Do these software packages require that the district have a functional student information system?
- Would these programs concentrate on the Stanford-9 or the Standards-Aligned STAR, or both? What about other assessments?

- Since the Standards-Aligned STAR is so new, are there software products available to analyze that portion of the test?
- Would this funding be one-time or ongoing? Do these programs have ongoing licencing costs?

Proposal Is Poorly Timed. Even if the administration is able to answer these questions, there would still be reasons to delay the implementation of this proposal.

- ***The API Database Should Come First.*** As discussed above, the Governor has proposed the creation of an API database to collect longitudinal student assessment data. According to the OSE, the earliest that the API database would be functional would be summer 2002. Presumably, whatever software a school district would purchase or develop would benefit from that database being operational. The school districts would want to ensure that any software product they purchased or developed could take advantage of this new data system.
- ***The STAR Reauthorization Could Affect Use of Software.*** As discussed in the “Assessments” section of this chapter, the Legislature will be considering the future of the state’s assessment system this year since the current system will sunset January 1, 2002. Now that Standards-Aligned STAR is operational, the Legislature may want to rethink the use of the nationally norm referenced part of the STAR program. Until the Legislature makes a decision about reauthorization, providing incentives for school districts to purchase or develop software to analyze Stanford-9 test data may be an ineffective use of funding.
- ***Dependence Upon a Functioning Student Information System.*** Many school districts do not have student information systems. Additionally, many of the school districts that do have systems continue to struggle to maintain those systems. To the extent that data analysis software is dependent upon having a functional student information system, this proposal may benefit from more school districts having first implemented CSIS.

Because of all of the unanswered questions about this proposal, and the potential timing conflicts with the creation of the API database and the reauthorization of STAR, we recommend the Legislature redirect funding provided for the STAR data analysis to other legislative priorities.

EDUCATION TECHNOLOGY

The Governor's budget provides a total of \$207 million in state and federal funds to continue ongoing education technology programs for K-12 education as displayed in Figure 1 (see next page). In addition, the Governor's budget provides \$20 million for ten new "high-tech highs" across California. We comment on this proposal below.

Proposed \$20 Million for High-Tech Highs

The budget provides a one-time appropriation of \$20 million in Proposition 98 funds as "seed" money to foster ten new high-tech high schools. Although characterized as a one-time expenditure, the proposed appropriation effectively would commit the state to an ongoing expenditure of the \$20 million for a K-14 education purpose beginning in 2002-03 due to the requirements of Proposition 98. Under the proposal, the Office of the Secretary for Education (OSE) would award \$2 million grants on a competitive basis to ten schools. According to OSE, this proposal would help address the shortage of people with engineering and technology skills and develop "best practices" models for infusing technology into education. The administration intends to propose legislation to enact this program, but had not provided draft bill language to the Legislature at the time this analysis was written.

Grant recipients could use the state funds for various purposes related to starting a high-tech high such as planning, facilities, equipment, salaries, and leveraging other funds. The budget proposal assumes these schools would obtain significant additional funds from other sources to implement the high-tech high model. As we explain further below, high-tech highs incur added operating costs ranging from \$1,500 to \$3,000 annually per average daily attendance (ADA).

What Is a High-Tech High? A high-tech high is a high school that (1) integrates technology intensively throughout the curriculum; and (2) emphasizes math, science, and engineering. Typical attributes of high-tech highs are summarized in Figure 2 (see page 133).

Figure 1**Ongoing K-12 Education Technology Funding**

2001-02

Digital High School (DHS)—\$76 Million

- Provides integrated access to technology at every high school.
- Provided \$300 per-pupil installation grants to all high schools over four-year period. Last of four cohorts funded 2000-01. Provides \$45 per-pupil ongoing for staff training and technical support.

Federal Literacy Challenge Grants—\$49.1 Million

- Competitive grants to districts (1) with high concentrations 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.

Internet2—\$32 Million

- Funds University of California (UC) to connect and serve all county offices of education on the Internet2 network. Does not include funds for wiring schools or districts. (See detailed discussion of this program in our analysis of UC budget.)

Professional Development Program—\$25 Million

- Provides grants to consortia of higher education and K-12 entities that apply for funds for teacher training in the use of technology in K-12 classrooms. Administered by California State University. (See detailed discussion of this program in the Education Crosscutting Issues section.)

California Technology Assistance Project (CTAP)—\$13 Million

- The CTAP, through 11 regional offices, provides technical assistance to schools and districts to implement technology.

Education Technology Staff Development, Grades 4-8—\$9.3 Million

- Provides grants (\$20 per student) to schools for teacher technology training in the classroom.

Statewide Education Technology Services—\$2.2 Million

- Supports four statewide technology efforts in areas of professional development, learning resources, and coordinating discounts.

Total—\$206.6 Million

Figure 2**Attributes of High-Tech Highs**

- ✓ Technology is integrated intensively into the curriculum.
- ✓ Schools have fewer students than average high school (about 200 students).
- ✓ "Magnet" schools to which students apply for admission and need to meet certain specified criteria.
- ✓ Low student-to-computer and student-to-teacher ratios.
- ✓ Emphasis on math, science, and preparation for careers in technology.
- ✓ Focus on project-oriented learning. Students pursue assignments as they would at a job. They research topics, meet with people, analyze issues, and write and present findings.
- ✓ Strong connection to business community.
- ✓ Additional graduation requirements such as internship and community college classes.

Current High-Tech Highs. Two high-tech highs opened in California within the last five years—a high school in Napa (1996) and a charter high school in San Diego (2000). Each is a small public high school of about 200 students emphasizing technology, project-oriented learning, collaboration, and creating business partnerships to facilitate career-building experiences. These schools receive the normal complement of funding for a high school through their districts, but raise additional funds from the federal government and the private sector to cover the added costs associated with running a high-tech high. These added costs arise from lower student-to-computer and student-to-teacher ratios, frequent technology upgrades, specialized software programs, enhanced network capacity, and full-time technology staff. According to officials at the two schools, such costs amount to between \$1,500 to \$3,000 per ADA annually. This represents up to one-third of their total funding per ADA.

High-Tech High Results Unclear. No formal studies have been conducted to investigate how student achievement has been affected by establishment of the existing high-tech highs in California. What data are available from these schools show higher test scores for their students compared to other high school students in the district, state, and nation. These data, however, do not indicate whether there is any connection between the test scores and the high-tech high approach. Indeed, the high

test scores could simply reflect who is admitted to the schools. At the time this analysis was written, the administration had not provided any studies showing the effectiveness of this approach at these or other schools.

Concerns With the Budget Proposal

We recommend that the Legislature redirect \$20 million from the high-tech highs proposal to other legislative priorities because (1) schools can use existing education technology funds to create high-tech highs, (2) the budget proposal would serve relatively few students at a high cost, and (3) a case for state involvement has not been made. (Delete Item 0650-116-0001.)

We have several concerns with this proposal which we outline below.

Lacks Critical Detail. The administration has provided little information to the Legislature about this proposal. At the time of this analysis, OSE had not provided bill language or specific information on such basic matters as:

- Program goals.
- Proposal scope and cost.
- Criteria for selecting grant recipients.
- How program effectiveness would be evaluated.
- How potential future costs would be met.

Duplicates Existing Funding. The proposed \$20 million for high-tech highs is duplicative of some of the existing education technology programs shown in Figure 1. In particular, the federal Literacy Challenge Grants program provides California schools with \$49 million annually that could be accessed for high-tech high purposes. Moreover, this program includes a strikingly similar—though smaller scale—educational approach called Environmental and Spatial Technology (EAST) grants that will be implemented at ten sites across California in the fall of 2001 (see gray box for details).

In addition, districts and schools could use their share of the \$600 million in one-time block grants and education technology grants from the *2000-01 Budget Act* (available in 2001) to implement the high-tech high model if they so choose.

No Need for State Involvement. As mentioned above, the existing high-tech highs receive sizable support from the private sector and the federal government, making additional state funding unnecessary. The two schools have strong partnerships with the business community. They receive equipment, services, and funding from private sources that sup-

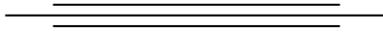
port up to 50 percent of their operating expenses. Both schools access several federal grants as well. In addition, a private foundation recently donated \$11.3 million to these schools to foster 20 new high-tech highs throughout the nation—most of which will be in California according to school officials. Given the presence of all these sources, there appears to be no pressing need for additional state involvement or funds.

Questionable Cost-Effectiveness and Priority. As mentioned above, high-tech highs by their nature incur extraordinary start-up and annual operating costs. Moreover, the characteristic attributes and operating costs of high-tech highs force them to be relatively small. Assuming that the ten schools to be established under the budget proposal would be of similar size to the existing high-tech highs—about 200 students each—the budget proposal would serve about 2,000 students at a start-up cost to the state of approximately \$10,000 per student. Through the Digital High School Program, the state already has made virtually all high schools in California “digital”—at an ongoing cost of \$76 million per year. The high-tech high proposal provides an enhanced level of technology for a tiny fraction of the state’s high school students, without any demonstration of enhanced educational outcomes, and at a high per-pupil cost. (As noted above, the budget proposal does not satisfactorily address how the high ongoing operating costs of the ten schools would be met.)

What Are the Federal EAST Grants?

- The Environmental and Spatial Technology (EAST) Grants Program is a national educational initiative that uses technology as a tool to promote innovative project-oriented learning, critical thinking skills, and academic excellence for grades 9 through 12. Each grant serves about 20 students to 50 students.
- The program requires teacher training in technology, multimedia computers, Internet connection in every classroom, and the integration of effective software and online learning resources.
- Schools form partnerships with higher education institutions and businesses to prepare students for life after high school.
- Funding is through a competitive matching grant process in which schools receive up to \$125,000 per year for two years and must provide matching funds of \$25,000 per year of the grant program.
- The State Department of Education has selected ten high schools spread throughout the state to be EAST demonstration sites. Implementation will begin in the fall 2001.

Given all the above, we believe the administration has not justified this proposal as being a high-priority state investment. Consequently, we recommend that the Legislature redirect \$20 million from the high-tech highs proposal to other legislative priorities because (1) schools can use existing education technology funds to create high-tech highs, (2) the budget proposal would serve relatively few students at a high cost, and (3) a case for state involvement has not been made.



AFTER SCHOOL PROGRAMS

The 2001-02 Governor's Budget includes \$43 million in new General Fund resources for initiatives aimed at improving the academic skills of students through activities offered after "regular" school hours. Specifically, the budget provides:

- \$20 million (Proposition 98) for half-year expansion of the After School Learning and Safe Neighborhoods Partnerships Program, in order to provide homework assistance to an additional 34,000 students, with priority to those attending middle schools.
- \$2 million (one-time funds available from prior-year Proposition 98 savings) for existing regional resource centers under the After School Learning and Safe Neighborhoods Partnerships Program to increase technical assistance and training to middle schools.
- \$10 million for college students to tutor K-12 students under the Student Academic Partnership Program, which was previously funded with federal Goals 2000 funds.
- \$8 million (General Fund, non-Proposition 98) for the California State University to recruit college students to tutor high school students in English and math under the Learning Assistance Program, which was also previously funded with federal Goals 2000 funds. (We discuss this augmentation in further detail under the crosscutting issue, "Collaborative Academic Preparation Programs," earlier in this chapter.
- \$5 million (Proposition 98) for the Office of the Secretary for Education (OSE) to expand the Academic Volunteer and Mentor Service Program to provide a mentor to an additional 10,000 pupils.

OVERVIEW OF PROGRAMS AVAILABLE TO K-12 STUDENTS AFTER SCHOOL

The state and federal government fund a variety of activities that are offered after regular school hours. These programs provide students with (1) academic assistance and enrichment, (2) positive role models, (3) activities designed to prevent juvenile crime, (4) after school child care, and (5) college preparation. Figure 1 summarizes the different programs that are available to pupils in kindergarten and grades 1 through 12 after school. Most of the programs can also be offered before school, Saturdays, during intersession, or during the summer.

As indicated in the figure, the Governor's budget includes funding of almost \$1 billion for over 20 different after school programs. These are specific categorical programs that target students in particular grade levels. Some of the programs overlap in terms of their objectives and target populations.

Figure 1 does not include two other potential sources of funds for after school programs. First, the state and federal governments annually provide schools with almost \$1.5 billion in "compensatory" funds—based on measures of socioeconomic disadvantage—for various purposes, including after school programs for pupils in kindergarten and grades 1 through 12. One such compensatory education program is the Economic Impact Aid program.

Second, the federal 21st Century Learning Centers provide academic enrichment and recreational activities to students at many sites in California. This program, however, is managed directly by the federal government without state involvement. In federal fiscal year (FFY) 2000 (October 1999 to September 2000), the federal government awarded about \$50 million for 130 grants to California school districts and county offices of education. The federal budget for FFY 2001 includes a doubling in funding that districts and county offices of education in California can compete for with those in other states.

In addition, after school programs are also offered to students in local communities through Young Mens Christian Association sites, Boys & Girls Clubs, churches, and local parks and recreation centers. We also note that many students participate in extracurricular activities, including school sports, after regular school hours.

Figure 1**Programs Available to K-12 Students After School**

2001-02 (Dollars in Millions)

	Agency ^a	Grades	Governor's Budget
Academic Assistance			
Remedial Supplemental Instruction	SDE	7-12	\$231.0
Core Academic Summer School	SDE	K-12	204.1
Elementary School Intensive Reading Program	SDE	K-4	89.5
Intensive Algebra Academies	SDE	7-8	22.3
After School Learning and Safe Neighborhoods	SDE	K-9	107.8
English Language Acquisition Program	SDE	4-8	70.0
Student Academic Partnerships	SDE	K-12	10.0
Learning Assistance Program	CSU	9-12	8.0
Subtotal			(\$742.7)
Mentor Programs			
California Mentor Initiative	DADP	K-12	\$1.1
California Mentor Program	DCSD	K-12	1.0
Academic Volunteer and Mentor Service Program	OSE	K-12	15.0
Subtotal			(\$17.1)
Crime Prevention			
Safe and Drug Free Schools and Communities	SDE	K-12	\$47.9
High-Risk Youth Program	SDE	K-9	18.0
Gang Risk Intervention Program	SDE	K-12	3.0
Juvenile Crime Enforcement Challenge Grant	BOC	6-12	38.4
Subtotal			(\$107.3)
Extended Day Care	SDE	K-9	\$28.2
Healthy Start	SDE	K-12	\$39.0
Higher Education Outreach Programs			
Early Academic Outreach Program	UC	7-12	\$16.0
Math, Engineering, Science Achievement	UC	1-12	9.4
GEAR UP	UC	7-9	5.0
Other Outreach Programs	UC	K-12	3.9
Subtotal			(\$34.3)
Total			\$968.6

^a State Department of Education (SDE); California State University (CSU); Department of Alcohol and Drug Programs (DADP); Department of Community Services and Development (DCSD); Board of Corrections (BOC); University of California (UC).

GOVERNOR'S BUDGET PROPOSALS FOR AFTER SCHOOL PROGRAMS

The 2001-02 Governor's Budget proposes spending \$43 million in new General Fund resources for programs targeted at improving the academic success of students. In this section, we make recommendations regarding these proposals.

After School Learning and Safe Neighborhoods Partnerships Program

We recommend that the Legislature redirect (1) the \$20 million proposed for expansion of the After School Learning and Safe Neighborhoods Partnerships Program and (2) the \$2 million in one-time funds for after school regional resource centers to a block grant for disadvantaged schools, because the budget already provides sufficient funding to schools for these after school programs. We further recommend redirection of a related \$240,000 augmentation in the state operations budget to support a departmental evaluation of the After School Learning and Safe Neighborhoods Partnerships Program, in order to determine the effectiveness of the program for future policy and budgetary decisions.

The budget provides \$20 million under Item 6110-196-0001 for half-year costs of expanding the After School Learning and Safe Neighborhoods Partnerships Program to provide homework assistance and recreational activities to an additional 44,000 pupils in kindergarten and grades 1 through 9. This would increase the total funding available for grants under this program to about \$108 million in the budget year, and would increase the number of students served to 142,000. This program gives priority to serving students from schools with at least 50 percent of pupils on free or reduced-price meals.

The introduced budget bill includes language authorizing the State Department of Education (SDE) to distribute the new grants through a competitive evaluation process based on the following priorities (1) new middle schools with at least 50 percent of pupils who qualify for free or reduced-price meals, (2) higher grant caps for participating middle schools with pupils on waiting lists to participate, (3) new elementary schools with at least 50 percent of pupils who qualify for free or reduced-price meals, and (4) higher grant caps for participating elementary schools with pupils on waiting lists to participate. Pursuant to current statute, these competitive grants would (1) be capped at \$150,000 for elementary schools and \$200,000 for middle and junior high schools and (2) require a dollar-for-dollar local match. Participating schools would be required to serve

pupils after school on each regular school day for at least three hours and until at least 6 P.M.

The Governor's budget also includes \$2 million in one-time funds under Item 6110-494 for after school regional resource centers to increase technical assistance and training to middle schools receiving funding under the After School Learning and Safe Neighborhoods Partnerships Program. In addition, the budget provides a \$240,000 increase in state operations to support the proposed program expansion.

Multiple After School Programs With Similar Services. The overall purpose of the After School Learning and Safe Neighborhoods Partnerships Program, as authorized by Chapter 320, Statutes of 1998 (SB 1756, Lockyer), is to establish "after school enrichment programs that partner schools and communities to provide academic and literacy support and safe, constructive alternatives for youth." However, as highlighted in Figure 1, there are numerous programs available to California pupils after school. Many of these programs offer services that are very similar to those provided through the After School Learning and Safe Neighborhoods Partnerships Program, including homework assistance, academic tutoring, and various crime prevention activities. Currently, the state lacks informative data on the number of low-income or at-risk pupils that do not participate in *any* after school program.

Lack of Information on Program Effectiveness. We believe that the After School Learning and Safe Neighborhoods Partnerships Program has merit, though no quantitative data on its outcomes are currently available. Under current statute, participating schools are required to submit to SDE annual outcome reports that include data on academic performance, attendance, and behavioral changes. The 1999-00 Budget Act provided SDE with \$100,000 to implement an evaluation model for the program. The preliminary evaluation report produced by the department provides no conclusive evidence regarding the program's effectiveness. This is because SDE's preliminary results are based on limited data with no controlled comparison to pupils who did not participate in the program.

In view of the above, we believe it is premature to fund such a significant expansion of this program. The department has not made a case as to the unmet need or the program's effectiveness. Consequently, we recommend that the Legislature redirect the \$20 million for the expansion of the After School Learning and Safe Neighborhoods Partnerships Program to a block grant for disadvantaged schools. (We discuss our recommended Disadvantaged Schools Block Grant in detail earlier in this chapter.) Under our approach, districts would have the flexibility to use the funds in a manner that best meets their local needs, including after school pro-

grams. Given our recommendation to reject the Governor's proposal to expand the program, we also recommend redirection of the \$2 million in one-time funds proposed for after school regional resource centers to the block grant. (Reduce Item 6110-494 by \$2 million.) We further recommend that the Legislature redirect the \$240,000 increase in state operations to support the department's ongoing evaluation of the After School Learning and Safe Neighborhoods Partnerships Program. The Legislature needs good information on the effectiveness of the program for future policy and budgetary decisions.

Student Academic Partnership Program

We recommend that the Legislature redirect the \$10 million for the Student Academic Partnership Program to a block grant for disadvantaged schools, due to the lack of quantitative data on the program's effectiveness and the availability of other tutoring programs that serve the same purpose. (Reduce Item 6110-143-0001 by \$10 million.)

The Governor's budget includes \$10 million in new funds for the Student Academic Partnership Program, which was previously funded with federal Goals 2000 funds. The program provides competitive grants to school districts and county offices of education for college students to tutor pupils in kindergarten and grades 1 through 12 in reading, writing, and math. Under current law, tutoring services may be provided before, during, or after school. At the time of this analysis, SDE could not report on the number of K-12 pupils receiving tutoring services through this program. However, the department stated about 13,000 pupils in kindergarten and grades 1 through 6 were tutored in 1999-00. (The program was expanded in the current year to serve students in grades 7 through 12.)

Other Tutoring Resources. Although the intended purpose of the Student Academic Partnership Program has merit, this type of program already exists in many areas—either on a paid or unpaid basis. According to the California Commission on Improving Life Through Service, the federal AmeriCorps program provides approximately \$40 million to the state in FFY 2001 for a variety of community service projects, including tutoring school-age children. We also point out that many of the state's higher education institutions offer programs for college students to tutor K-12 pupils. This is partly because the U.S. Department of Education encourages college students in the federal Work-Study Program to serve as reading and math tutors by waiving the requirement that employers pay part of their wages. (The federal Work-Study Program provides undergraduate and graduate students with part-time employment to help meet their financial needs and give them work experience, while helping the campus or surrounding community.) In addition, some students receive

college credit for tutoring. Thus, there are currently a wide range of programs and funding available. It is unclear as to what unmet need is being specifically addressed by the proposed augmentation.

Program's Evaluation Not Informative. Pursuant to Chapter 811, Statutes of 1997 (SB 316, Hayden), SDE created an evaluation design for the Student Academic Partnership Program. Participating school districts used the evaluation design to assess the effectiveness of their programs and submitted their assessment data to SDE. Chapter 811 required SDE to submit a statewide evaluation report to the Legislature on or before March 1, 1999. The Legislature received such a report in March 1999, as well as a follow-up report in March 2000.

Our review of the evaluation indicates that there is little evidence to conclude that the program improves the academic performance of K-6 pupils. This is because the program's evaluation was based on very limited data—only 6 of the 22 participating districts and county offices of education submitted the requested data to SDE. The report concluded that the average reading and math percentile scores from the Stanford Achievement Test version-9 (SAT-9) for participating students increased from May 1998 to May 1999. However, these findings drew no comparisons to pupils not participating in the program (either from the same schools or from other schools in the state).

Given the availability of other resources to provide tutoring services to K-12 pupils and the lack of quantitative data on the program's effectiveness, we recommend that the Legislature redirect the \$10 million for the Student Academic Partnership Program to our proposed Disadvantaged Schools Block Grant.

Academic Volunteer and Mentor Service Program

We recommend that the Legislature redirect the \$5 million proposed for the expansion of the Academic Volunteer and Mentor Service Program to a block grant for disadvantaged schools, due to the (1) additional funds that will become available from expiring grants, (2) existence of other state and federal mentor programs, and (3) lack of conclusive evidence regarding the program's effectiveness. (Reduce Item 0650-111-0001 by \$5 million.)

The budget provides a total of \$15 million (Proposition 98, under Item 0650-111-0001) to OSE for the Academic Volunteer and Mentor Service Program, which funds local projects to recruit, screen, train, and place volunteers who want to act as mentors to children. This total includes a proposed augmentation of \$5 million for OSE to expand the program to an additional 10,000 students (an estimated increase from 20,000 in cur-

rent year to 30,000 students in budget year). The program, established by Chapter 901, Statutes of 1992 (SB 1114, Leonard), provides competitive grants up to \$100,000 each year to over 145 local mentor programs operated by school districts and county offices of education.

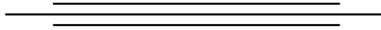
Funding Available From Current Grants. According to OSE staff, there is a high demand on the part of districts and county offices of education to participate in the program. (This is based on the fact that only one-third of the total applications submitted in 1999-00 were awarded funding.) The OSE states that the proposed \$5 million augmentation would “more fully meet the demand for program implementation throughout the state.” However, the program—through its base funding—is already capable of supporting new applicants. This is because grants are awarded to districts and county offices each year for three years. As grants expire after the third year, funding from these grants becomes available to support new program sites. As a result, the grants funded by the \$5 million augmentation provided in 1998-99 will terminate at the end of the current year. This will “free up” \$5 million that could be used to support districts and county offices of education that did not receive a program grant in the past.

Various State and Federal Mentor Programs. Our review indicates the existence of various mentor programs that serve California’s youth. As we presented earlier in Figure 1 of this section, the budget includes funding for other existing mentor programs—the California Mentor Initiative and the California Mentor Program—through the Department of Alcohol and Drug Programs and the Department of Community Services and Development. Like the Academic Volunteer and Mentor Service Program, these two programs are designed to assist at-risk youth in becoming productive members of society. We also pointed out earlier that for FFY 2001 the federal AmeriCorps program provides about \$40 million to California for community service projects, some of which provide mentoring services targeted to at-risk youth. Finally, many of the University of California’s student-outreach programs also offer mentor programs to middle and high school students who are (1) from low-income families, (2) from groups historically underrepresented in colleges, or (3) will be the first in their families to attend college. Given the duplication of services provided through the above programs, we think it is unnecessary to expand the Academic Volunteer and Mentor Service Program at this time.

Evaluation Results Not Conclusive. In April 1999, the California Research Bureau (CRB) evaluated the effectiveness of the Academic Volunteer and Mentor Service Program in improving student achievement, attendance, and behavior. The evaluation report published by CRB highlighted several problems with the data that participating school districts and county offices of education provided for the evaluation. The poor quality of the data limited CRB’s ability to conduct a quantitative analy-

sis of the program. As a result, the CRB concluded that the evaluation results did not provide either general or specific indications that the program is successful. While the report did state that the results from a few school sites offer some support to the idea that academic mentoring may provide benefits for some children, CRB was quick to point out that such a weak endorsement should be viewed with caution. Similarly, we believe that the Legislature should be cautious about expanding the Academic Volunteer and Mentor Service Program at this time.

In view of our above concerns, we recommend that the Legislature reject the Governor's proposal to expand the Academic Volunteer and Mentor Service Program. We recommend redirection of the proposed \$5 million augmentation to our proposed block grant for disadvantaged schools. (Reduce Item 0650-111-0001 by \$5 million.)



CHILD CARE AND DEVELOPMENT

The 2001-02 Governor's Budget proposes \$2.1 billion from the General Fund and federal funds for child care and child development programs—\$1.4 billion General Fund and \$756 million federal funds—in the State Department of Education (SDE). This is an increase of \$96 million from the current-year level of funding for the programs. This increase results from:

- \$97.8 million *decrease* in California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 2 child care, due to a decline in the estimated number of families whose work status has “stabilized.”
- \$41.7 million for the CalWORKs Stage 3 “set-aside,” in order to annualize costs for those families exceeding their two years of Stage 2 child care in the current year (\$31.7 million) and to fund those families making this transition in the first month of the budget year (\$10 million).
- \$66.8 million to annualize expansion of child care and state preschool programs begun in the current year.
- \$46 million for a cost-of-living adjustment for child care and development programs.
- \$20 million in half-year funding to expand the After School Learning and Safe Neighborhoods Partnerships Program. (We discuss this augmentation in further detail in the After School Programs section of this chapter.)
- \$13.9 million for first-year implementation of the Kindergarten Readiness Pilot Program established by Chapter 1022, Statutes of 2000, (AB 25, Mazzoni).
- \$5.4 million to help compensate child care and development contractors for increased costs associated with state minimum wage increases.

In addition, \$58.3 million in unspent child care funds (General Fund) from 1999-00 are proposed for one-time expenditure in the budget year.

THE SUBSIDIZED CHILD CARE SYSTEM

The SDE administers a variety of subsidized child care programs that serve low-income families at little or no cost. Figure 1 (see next page) summarizes these programs. As the figure indicates, certain alternative payment (AP) programs are reserved for current and former recipients of CalWORKs. All other programs, however, are also open to families when they leave CalWORKs-funded child care, based on space availability and income eligibility.

Figure 1 (see next page) shows that SDE provides child care slots (on an average monthly basis) for roughly 500,000 children. Families receive child care subsidized by SDE in one of two ways, either by (1) receiving vouchers from the AP program providers that offer an array of child care arrangements for parents or by (2) being assigned space in public or private child care centers or “family child care homes” that contract with SDE to provide child care. (Family child care homes provide care in the home of the provider.) As indicated in Figure 1, the \$2.1 billion total for SDE child development programs in the budget year includes:

- \$977 million for centers or family homes contracting with SDE (commonly referred to as “center-based” programs).
- \$906 million for AP programs.
- \$122 million for other programs.

The remaining \$127 million is for various activities and funding adjustments that support these programs.

The 2001-02 *Governor’s Budget* provides another \$681 million for CalWORKs child care in other departmental budgets, including \$666 million in the Department of Social Services (DSS) budget. This brings the state’s total child care and development expenditures from state and federal funds to over \$2.7 billion in the budget year. This total does not include another important piece of California’s subsidized child care system—the federal Head Start program, which provides preschool services at many sites in California but is managed directly by the federal government without state involvement. In federal fiscal year (FFY) 2000, the federal government spent nearly \$643 million on Head Start programs in California, serving 92,000 children. The federal budget for FFY 2001 includes an increase of \$93 million for California Head Start programs. This will serve roughly an additional 5,000 children.

Figure 1**Department of Education Child Care and Development Programs^a—Local Assistance**2001-02
(Dollars in Millions)

	Estimated Enrollment	Governor's Budget		
		General Fund	Federal Funds	Total
Center-Based Programs				
State preschool	100,500	\$294.9	—	\$294.9
General child care	79,500	490.3	\$88.4	578.7
Migrant day care	9,000	25.4	5.1	30.5
CalSAFE child care ^b	4,500	39.8	—	39.8
Other center-based programs	6,000	32.7	—	32.7
Subtotals	(199,500)	(\$883.1)	(\$93.5)	(\$976.6)
Alternative Payment (AP) Programs				
CalWORKs Stage 2	87,500	\$135.2	\$356.2	\$491.4 ^c
CalWORKs Stage 3 "set-aside"	27,500	94.0	63.4	157.4 ^d
Stage 3 for working poor	10,000	—	56.9	56.9
Other AP programs	35,000	63.3	137.1	200.4
Subtotals	(160,000)	(\$292.5)	(\$613.6)	(\$906.1)
Other Programs				
After School Learning and Safe Neighborhoods	142,000	\$107.8	—	\$107.8
Kindergarten Readiness Pilot ^e	4,600	13.9	—	13.9
Subtotals	(146,600)	(\$121.7)	—	(\$121.7)
Support Activities				
Resource and referral	—	\$15.5	—	\$15.5
Local planning councils	—	0.0	\$5.3	5.3
Quality improvement	—	15.6	34.5	50.1
Cost-of-living adjustment	—	36.3	9.2	45.5
Minimum wage impact	—	5.4	—	5.4
Other activities	—	5.5	—	5.5
Subtotals	—	(\$78.3)	(\$49.0)	(\$127.3)
Totals	506,100	\$1,375.6	\$756.1	\$2,131.7

^a Excludes CalWORKs child care funds in Department of Social Services and community colleges.^b Under Item 6110-198-0001.^c Includes \$90.8 million under Item 6110-494 in CalWORKs carryover funds (\$11.5 million in General Fund and \$79.4 million in federal funds).^d Budget is short of CalWORKs Stage 3 set-aside need by about \$61 million.^e Under Item 6110-189-0001.

Administration's Review of Child Care Policies and Resources

We recommend that the administration report to the Legislature prior to budget hearings on the progress of its review of child care policies and resources. This report should include (1) detailed information on the child care reform options being modeled and analyzed, (2) preliminary findings, and (3) the administration's plan for completing a final report in a timely manner.

In January of last year, the administration—with the State and Consumer Services Agency (SCSA) designated as the lead agency—launched a review of child care policies and resources, including ways of funding child care demand within available resources for (1) families transitioning off CalWORKs and (2) working poor families. The administration stated that the review would examine current eligibility standards, family fees, federal and state subsidy levels, and how existing resources may be more efficiently focused to serve more equitably the state's neediest families. The *Supplemental Report of the 2000-01 Budget Act* directed the administration to report to the State Board of Education, SDE, budget committees of the Legislature, and the Legislative Analyst's Office (LAO) by January 10, 2001, on the progress of its child care review. The language required that the report include detailed information on the child care reform options being modeled and analyzed by the administration. The supplemental report also directed the administration to submit a final report by March 1, 2001, on the findings and recommendations of its child care review.

The SCSA provided the Legislature the preliminary report on January 19, 2001. According to the report, the administration's child care review was delayed because SDE was late in providing much of the needed data on families receiving subsidized child care. (The *2000-01 Budget Act* required SDE to provide various child care data reports to the Department of Finance (DOF), SCSA, and the LAO by September 1, 2000 for purpose of the review effort. The SDE did not provide this data until late December.) The SCSA is now using the data to test various economic models on how existing resources could more equitably serve low-income families. The administration intends to complete its child care review and provide a final report to the Legislature sometime in the spring.

In spite of any data collection delays, we believe the administration should be able provide the Legislature information about the types of child care models under consideration. We note in our discussion on CalWORKs child care that the *2001-02 Governor's Budget* underfunds the estimated child care needs of former CalWORKs recipients. The administration's plan to address the needs of these families awaits completion of its child care review. Given the important budgetary and policy implications of the administration's child care review, the Legislature

needs time to carefully review the administration's findings and recommendations as envisioned in the due dates established in last year's supplemental report.

In view of the above, we recommend that the administration report to the Legislature prior to budget hearings on the progress of its child care review, including (1) detailed information on the child care reform options being modeled and analyzed, (2) preliminary findings, and (3) its plan for completing a final report in timely manner.

THE CALWORKS CHILD CARE PROGRAM

The CalWORKs child care program is delivered in three stages. Stage 1 is administered by county welfare departments (CWDs) and begins when a participant enters the CalWORKs program. In Stage 1, CWDs refer families to resource and referral agencies that help the families find child care providers. The CWDs then pay providers directly for the child care services.

Families transfer to Stage 2 when the county determines that the families' situations have become "stable"—that is, families develop a welfare-to-work plan and find a child care arrangement that allows them to fulfill the obligations of that plan. Stage 2 is administered by SDE through its voucher-based AP programs. Participants can stay in Stage 2 while on CalWORKs and for up to two years after the family stops receiving a CalWORKs grant. Because it is up to the CWD to determine when a recipient is stable, the time at which families transfer from Stage 1 to Stage 2 varies significantly among counties. Some counties authorize the transfer to Stage 2 as soon as possible, while others wait until the family has left CalWORKs. The variance in county practice contributes to the state's uncertainty in budgeting child care funds for each stage.

Although Stages 1 and 2 are administered by different agencies, families do not need to switch child care providers upon moving to Stage 2. The real difference in the stages is in who pays the providers. In Stage 2, AP programs, operating under contracts with SDE, do this instead of CWDs.

Stage 3 refers to the broader subsidized child care system administered by SDE that is open to both former CalWORKs families and working poor families who never have been on CalWORKs. Once CalWORKs recipients leave aid, they have two years of further eligibility in Stage 2. During this time, they are expected to apply for "regular" Stage 3 child care (in contrast to the Stage 3 "set-aside" child care discussed below). We note, however, that typically there are long waiting lists for Stage 3 child care since demand from eligible families substantially exceeds avail-

able child care “slots.” Families with incomes up to 75 percent of the state median are eligible for SDE’s other subsidized child care programs, but priority is given to families with the lowest income. Most available slots therefore go to families with incomes below 50 percent of the state median. (In our *Analysis of the 2000-01 Budget Bill*, we recommended enactment of legislation to conduct a pilot test of a Wisconsin-style child care program in up to four counties in California, directed at addressing unmet needs of working poor families.)

The Legislature created the Stage 3 set-aside in 1997 in order to provide continuing child care for former CalWORKs recipients who reach the end of their two-year Stage 2 time limit. Recipients timing out of Stage 2 are potentially eligible for the Stage 3 set-aside if they have been unable to find regular Stage 3 child care. Provided funding is available—and legislative and administrative practice to date has been to fully fund 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 age 13 or below.

CalWORKs Child Care Budget

Current Year. As indicated in Figure 2 (see next page), the *2000-01 Budget Act* provided \$1.3 billion for CalWORKs child care. This total originally included a reserve of \$127.9 million to be allocated to Stage 1 or Stage 2 depending on a subsequent determination of actual need. However, \$100.3 million of this amount has since been allocated to meet the needs of Stage 1, leaving the reserve of \$27.6 million shown in Figure 2. Spending for the Stage 3 set-aside is approximately \$16 million greater than estimated at the time the budget act was enacted. The administration has proposed to fund this anticipated \$16 million shortfall with savings from non-CalWORKs child care in the current year.

Budget Year. For 2001-02, the Governor’s budget proposes \$1.3 billion for CalWORKs child care. Of this total, \$649 million is included in SDE’s child care budget as shown in Figure 1. As indicated in Figure 2 (see next page), the proposed \$1.3 billion total represents an increase of only \$13.8 million over current-year spending. The major budget changes for the CalWORKs child care budget include a \$41.7 million increase for the Stage 3 set-aside and a \$97.8 million decrease in Stage 2 child care based on estimated caseload decline. (Below, we discuss the Governor’s proposed funding for the Stage 3 set-aside.) The budget includes a reserve of \$100 million. Of this total, \$88.5 million is “held back” from the estimated need for Stage 1 and Stage 2. The remaining \$11.5 million is above the estimated need and represents a “true” reserve for Stage 1 and Stage 2.

Figure 2**Governor's Proposal for CalWORKs^a Child Care**

2000-01 and 2001-02
(Dollars in Millions)

	State Control ^b	Revised 2000-01	Proposed 2001-02
Stage 1	DSS	\$568.4	\$565.9
Stage 2	SDE	589.2 ^c	491.4 ^d
Community colleges (Stage 2)	CCC	15.0	15.0
Reserve for Stage 1 and Stage 2	DSS	27.6	100.0
Stage 3 "set-aside"	SDE	115.7	157.4
Totals		\$1,315.9	\$1,329.7

^a California Work Opportunity and Responsibility to Kids.
^b Department of Social Services (DSS); State Department of Education (SDE); California Community Colleges (CCC).
^c Includes \$41.2 million in 1998-99 CalWORKs savings.
^d Includes \$90.8 million in 1998-99 and 1999-00 CalWORKs carryover funds.

Governor's Budget Does Not Fully Fund Stage 3 Set-Aside

We recommend that the Legislature appropriate \$61 million in new federal funds for child care to fully fund the estimated need for the Stage 3 set-aside, in order to (1) meet the Legislature's intent to provide ongoing child care to former California Work Opportunity and Responsibility to Kids (CalWORKs) families who exceed their two-year time limit in Stage 2, and (2) avoid the potential costs of families returning to the welfare system. We further recommend appropriation of an additional \$35 million in new federal funds to provide more child care slots for non-CalWORKs working poor families.

As Figure 2 shows, the Governor's budget provides \$157.4 million for the CalWORKs Stage 3 set-aside. This represents an increase of \$41.7 million above the current-year estimate of \$115.7 million. The state's practice so far has been to fully fund the set-aside on a year-by-year basis. Of the increased funds, \$31.7 million would cover annualization costs for families who "timed out" of Stage 2 child care part way through the current year. For families timing out during the budget year, this leaves \$10 million—or only enough to fund the estimated number of families who will time out during the single month of July 2001. This represents a shortfall of about \$61 million for the child care needs of families expected to time out during the other 11 months of 2001-02. As mentioned above, the administration plans to address Stage 3 funding needs after its review of child care policies and resources. According to DOF staff, the

proposed budget does not fully fund the child care needs of families who are expected to time out in the budget year due to possible budgetary and policy changes regarding the state's subsidized child care system. However, the DOF has been unable to provide an analytic rationale for funding only one month into the budget year.

As stated above, the Legislature's practice so far has been to fully fund the Stage 3 set-aside. We believe that the administration's decision to provide new funding only for the child care needs of former CalWORKs recipients exceeding their Stage 2 time limit during the first month of the budget year runs counter to the Legislature's prior decisions regarding the Stage 3 set-aside. Moreover, if former CalWORKs recipients are unable to find care for their children in the general subsidized child care system and consequently "fall back" on CalWORKs aid, state and local welfare costs could increase substantially.

The recently passed federal budget includes an increase of about \$96 million in child care funds for California that is not included in the Governor's proposed budget. These funds can be used to support children of all ages in the state's child care programs for low-income families. In order to (1) meet the Legislature's intent to provide ongoing child care to former CalWORKs families who time out of Stage 2 and (2) avoid families returning to the welfare system, we recommend that the Legislature appropriate \$61 million from these new federal funds to fully fund the estimated need for the Stage 3 set-aside. We further recommend that the Legislature appropriate the remaining \$35 million in new federal funds to provide additional child care slots for non-CalWORKs working poor families, in order to meet unfilled child care needs of these families. (Increase Item 6110-196-0890 by a combined \$96 million.)

GENERAL FUND CARRYOVER

We recommend that the Legislature eliminate the statutory authority permitting the State Department of Education to carry over unspent General Fund child care funds, in order to restore the Legislature's authority and flexibility to use the funds for any Proposition 98 priority.

In addition to the new state and federal funding that is proposed to support child care and development programs in 2001-02, the budget also proposes to spend \$58.3 million in state child care funds that have been carried over from 1999-00. The budget specifically provides:

- \$44.6 million for the Child Care Facilities Revolving Fund.
- \$6.7 million for instructional materials and for facilities renovation.
- \$4 million for training, development, and dissemination of classroom curriculum linked to Pre-Kindergarten Guidelines.

- \$2 million for accounts payable.
- \$1 million for the Home Instruction Program for Preschool Youngsters.

The budget bill contains language under Item 6110-196-0001, Provision 2, that permits SDE to allocate up to \$6 million above the estimated \$58.3 million in carryover funds for instructional materials and equipment and for facilities renovation and repair as necessary. The proposed language also states that additional carryover funds in excess of this \$6 million shall not be expended prior to approval of a plan by the DOF.

Education Code Section 8278 permits SDE to carry over General Fund appropriations for child care and development activities for two years. Funds not spent in one year may be carried over and spent on one-time child development activities described in statute. In general, carryover funds proposed for reallocation in the budget for a given year are generated from the child development appropriation from two years earlier. Thus, most of the carryover in the 2001-02 budget was generated in 1999-00.

Under existing law, the SDE has established criteria and procedures for the reallocation of funds not spent in child care contracts, in accordance with the following priorities: (1) paying outstanding balances on current accounts, (2) reimbursing AP programs for the provision of additional services not originally reimbursed, and (3) one-time child care expenditures, including instructional materials approved by SDE, maintenance of existing facilities, and the implementation of “capacity building” activities to increase the quantity of child care services. One type of capacity building activity often funded with carryover funds is the Child Care Facilities Revolving Fund, which assists child care providers with the purchase and relocation of child care facilities.

Increasing General Fund Carryover

At the time the Legislature originally authorized SDE to carry over unspent child care funds, the amount of General Fund carryover was relatively low. However, as indicated in Figure 3, the level of carryover has grown substantially in recent years (from \$11.6 million in 1996-97 to an estimated \$58.3 million in 1999-00). Moreover, the percentage of the carryover amount compared to the original appropriation for a given fiscal year also has increased. According to SDE, one of the reasons for carryover is the inability of child care providers to expand the number of available child care slots in a short period of time. As a result, we believe that the Legislature should take such constraints into account when considering large-scale expansion of child care programs and “ramp up” funding for these expansions on a deliberate basis.

Figure 3**General Fund Carryover for Child Development**

1996-97 Through 1999-00
(Dollars in Millions)

	Carryover Amount	Percent of Total Appropriation
1996-97	\$11.6	2.2%
1997-98	32.5	5.2
1998-99	33.8	4.3
1999-00 (estimate)	58.3	7.1

Carryover Language Weakens Legislative Control

Given the increasing trend in the level of General Fund carryover from child care appropriations, we believe that the Legislature should reexamine SDE's authority to spend carryover funds on one-time child care expenditures, for two reasons. First, existing statute restricts the use of unspent funds to specific child development activities. We think the Legislature should have greater authority and flexibility on how to spend carryover funds. For example, under current law, General Fund carryover funds cannot be spent on one-time child care deficiencies, such as the estimated shortfalls in the current year for the child care needs of former CalWORKs recipients. Second, carryover funds can be used *only* for child development activities, which means these monies are unavailable for consideration in other education areas, even though these other areas may be of higher priority in any given fiscal year.

We believe that the Legislature should have the flexibility to use child care carryover funds for purposes aligned to its full range of education priorities. If carryover funds were treated like all other K-12 Proposition 98 expenditures, unspent child development allocations would be available for the Legislature to direct to any of its K-14 education priorities. The funds then would have to be appropriated in the budget or in another bill, thereby giving the Legislature an opportunity to determine the best use of the monies. Depending on the Legislature's assessment of education needs in any given year this might include child development or it might not.

In order to restore to itself full budgeting flexibility, we recommend that the Legislature eliminate the statutory authority permitting SDE to carry over unspent General Fund child care funds.

OTHER ISSUES

Child Care Data Collection

We recommend that the State Department of Education (SDE) report to the Legislature prior to budget hearings on its progress in developing a child care data collection and analysis system, including a time line for completing the feasibility study report authorized by the Legislature in the 1997-98 Budget Act. We further recommend that SDE explain why the state is not in compliance with federal reporting requirements and what steps the department is taking to come into compliance.

The state currently has little systematic data on key aspects of the state-subsidized child care system, including data on the extent of unmet need for child care by eligible low-income families. The Legislature, recognizing its need for better data on which to base policy and budgeting decisions, provided \$22 million in one-time federal funds in the 1997-98 Budget Act for SDE to develop a child care data collection and analysis system. Of this amount, \$2 million was for a feasibility study report for this system. The remaining \$20 million was for other costs of implementing the system, and for interim data collection and reporting while the data collection and analysis system was being developed.

The department has made very little progress on the development of this system. Most of the funds provided for data collection in the 1997-98 Budget Act have been carried over in successive budgets. At the time of this analysis, SDE had encumbered only \$2.1 million of the original \$22 million appropriation. The department has used the \$2.1 million to meet new federal data reporting requirements, begin the development of an interim data collection system, and collect data for the administration's child care review. As of this writing, SDE had yet to contract for the feasibility study, even though it is an essential first step in developing a state-wide comprehensive child care data collection system.

We understand that SDE has been focusing on meeting federal data reporting requirements, which are part of the overall data system. The department also has had difficulty retaining and recruiting staff with the expertise to develop the system because of the demand in the job market for such expertise. (The Legislature authorized six positions in the 2000-01 Budget Act to perform child care data collection and analysis. As of this writing, two of the six new positions were still unfilled.) Despite SDE's efforts to collect data for the federal government, the state has failed to provide reports required for the past two years. This could jeopardize up to \$12 million in federal funds for child care in California because the federal Department of Health and Human Services can withhold 4 percent of California's federal Child Care and Development Fund monies if

all reporting requirements are not met. According to SDE, the federal government has waived this withholding of state funds for the time being, but it is unclear how long that waiver may last.

Given the importance of acquiring adequate data upon which to base policy and budgeting decisions for the \$2.1 billion annual child care program, and the years that have passed since the Legislature first appropriated funds for the data system, we recommend that the department report prior to budget hearings on its progress in developing the system. This report should include the department's time line for completing the feasibility study report. We further recommend that the department explain why the state is not in compliance with federal reporting requirements and what steps the department is taking to come into compliance soon.

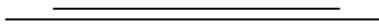
Kindergarten Readiness Pilot Program

We recommend that the Legislature modify budget bill language relating to the evaluation of the Kindergarten Readiness Program, in order to conform to current law requiring the State Superintendent of Public Instruction to contract for the evaluation.

The 2001-02 Governor's Budget includes \$13.4 million under Item 6110-189-0001 for the first-year implementation of the Kindergarten Readiness Pilot Program established by Chapter 1022, Statutes of 2000 (AB 25, Mazzoni). The program is a voluntary project intended to test the effectiveness of raising the kindergarten admission age and expanding resources for kindergarten readiness programs.

Chapter 1022 specifies that the State Superintendent of Public Instruction (SPI) shall, by June 1, 2002, contract for an independent longitudinal evaluation regarding the effects of the change in the entry age for kindergarten. In the process of the evaluation, the SPI is required to consult with a state advisory group comprised of representatives from the administration and the Legislature, including the LAO. However, the Governor's budget proposes \$500,000 for the LAO, not the SPI, to contract for the evaluation. Since the legislation clearly directs the SPI to contract for the evaluation, we recommend that the Legislature modify the first sentence of Provision 24 of Item 6110-001-0001, to read:

Of the funds appropriated in this item, \$500,000 shall be available for the State Superintendent of Public Instruction to contract for an independent evaluation of the Kindergarten Readiness Pilot Program pursuant to Education Code Section 48005.45.



SPECIAL EDUCATION

The Governor's budget includes \$2.7 billion in General Fund support (Proposition 98) for special education in 2001-02. This is an increase of \$260 million, or almost 11 percent. In addition, there are \$652 million of federal special education funds—an increase of \$130 million, or 25 percent. The budget reflects the following changes:

- \$126.5 million for a 3.91 percent cost-of-living adjustment (COLA), the same percentage increase proposed for K-12 revenue limits and other categorical programs.
- \$100 million to Special Education Local Plan Areas (SELPA) as part of the proposed settlement agreement for the special education mandate claim. (See the narrative following the K-12 Education Introduction section of this chapter for a description of the agreement.)
- \$98 million to increase funding per average daily attendance (ADA) equally for all SELPA.
- \$41.5 million to pay for enrollment growth. This is an increase of 1.1 percent.
- \$6.9 million to complete funding equalization for SELPA. Chapter 854, Statutes of 1997 (AB 602, Davis and Poochigian), specified a methodology to bring all SELPA 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. The budget estimates that this \$6.9 million augmentation will provide the remaining funds needed to reach that objective.
- \$5.8 million for the "incidence multiplier." This incidence multiplier provides additional funding to SELPA having higher incidences of children whose service costs are significantly above average. The budget estimates that this \$5.8 million augmentation will provide the remaining funds needed to reach that objective.
- \$14 million increase to expand the workability program from the current service level of 75,000 students to 121,000 students. Cur-

rent-year funding totals \$22.9 million (\$7.4 million from the General Fund and \$15.5 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 \$12.7 million offset the General Fund amounts needed for equalization and the incidence multiplier, while local property tax increases of \$22 million also partially offset needed General Fund amounts.

Background and Enrollment

In 1999-00 approximately 646,000 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 1999-00 there were 116 SELPAs. Of these, 3 were multicounty, 33 were countywide, 48 were multidistrict, and 32 were single-district SELPAs.

Continued Compliance Reporting is Warranted

We recommend that the Legislature extend the special education reporting requirements from the Supplemental Report of the 2000-01 Budget Act for an additional year so that the Legislature can obtain information it needs to fulfill its oversight responsibilities regarding compliance with federal special education requirements.

Background. The Legislature adopted special education reporting requirements in the *Supplemental Report of the 2000-01 Budget Act* in order to (1) to monitor the State Department of Education's (SDE) progress on resolving compliance issues raised by the U.S. Department of Education's Office of Special Education Programs (OSEP), and (2) exercise legislative oversight by holding SDE accountable for their use of funds and staff in achieving statutory objectives and goals. In the supplemental report, the Legislature directed SDE to increase the number of verification reviews of local education agencies and to provide staffing and compliance monitoring reports.

Additionally, in the *2000-01 Budget Act*, the Legislature approved 54 positions to enhance SDE's monitoring capabilities. The Governor, however, vetoed 22 of these positions.

Report Shows Progress, But Oversight Still Warranted. The SDE submitted the first reports in December 2000 and January 2001. The reports indicate that SDE has conducted 10 of the 55 verification reviews it plans to complete by June 2001. The reports also show that SDE has 30 vacant positions out of 143 positions in the Special Education Division. We are concerned this vacancy level will impair SDE's ability not only to conduct quality verification reviews, but also to resolve ongoing compliance issues.

Given the Legislature's role overseeing special education policy and the federal special education funds at stake, we recommend that the Legislature extend the special education supplemental report requirements for an additional year to monitor SDE's progress in addressing special education compliance issues.

Further Equalize Special Education Funding Levels

We recommend that the Legislature further equalize special education funding levels—using \$98 million of General Fund monies “freed up” by new federal funds—to bring approximately 75 percent of the state's average daily attendance to the same special education funding level because (1) a large funding variation remains, and (2) special education equalization should move toward the equalization level of general education revenue limits.

The budget includes \$98 million of additional funds for special education to increase funding per ADA equally for all SELPAs (Item 6110-161-0001, Provision 15). The administration intends to propose trailer legislation for this purpose.

Background. In 2000-01, the state is expected to meet part of the special education equalization goals adopted in Chapter 854, Statutes of 1997 (AB 602, Davis and Poochigian). That is, all low-funded SELPAs will receive at least the statewide target funding level of \$474 per ADA. Current

law specifies that any increase in federal special education funds results in an offsetting reduction in state General Fund contributions for equalization. By raising all low-funded SELPAs to the target in the current year, the state will have \$98 million of General Fund monies in the budget year that are, in effect, “released” from this equalization requirement. Consequently, the funds will be available for other special education purposes or for other general state purposes.

The \$98 million of General Fund monies made available by the infusion of that amount of new federal funds affords the Legislature an unusual budgeting opportunity. Below, we discuss an alternative use for the \$98 million. Rather than provide funding to *all* SELPAs as proposed by the administration, we believe that the Legislature should further equalize special education funding levels.

Not Much Gain from Equal Distribution. The primary benefit of distributing funds equally per ADA is that all SELPAs would receive funding. We estimate SELPAs would receive approximately \$17 per ADA under the Governor’s proposal. One justification for this approach is that high-funded SELPAs deserve a portion of these funds since they have been left out of previous equalization money.

In our view, this justification is not persuasive. Although high-funded SELPAs have not received equalization funds, they still receive funding for COLAs, ADA growth and, in some cases, the special disabilities adjustment—an adjustment providing additional funding to SELPAs with a disproportionately large number of very high-cost special education students. Furthermore, high-funded SELPAs would receive an increase of about \$17 per ADA per year under the budget’s proposed special education settlement agreement. (This agreement is discussed in detail earlier in this chapter.) For these reasons, we do not view the budget proposal as compelling.

Further Equalization Promotes Legislative Goals. Alternatively, the Legislature could use the General Fund monies freed up by the additional federal funds to further equalize per-ADA allocations to SELPAs. With the available \$98 million the Legislature could bring approximately 75 percent of the state’s ADA to the same special education funding level (about \$500). As of 1999-00, about 70 percent of the state’s ADA was within 5 percent of the lowest special education funding level. The other 30 percent of ADA was above that level.

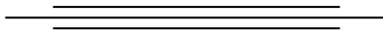
We consider this alternative preferable to the budget proposal for three reasons.

- ***Equalization Goals Are Ongoing.*** The equalization funding in AB 602 is one component of a three-pronged strategy to reduce

funding variation by (1) raising the low-funded SELPAs to the target level, (2) applying a uniform COLA amount that prevents further funding variations, and (3) providing funding for new students at the statewide target. The latter two components indicate that the Legislature did not intend to “close the books” on equalization, but signaled a continued commitment to reducing funding variation.

- **Large Funding Variation Remains.** Although the state will achieve part of the equalization target of AB 602, a relatively large variation in funding levels remains. The range of funding levels between the highest- and lowest-funded SELPA is approximately \$600 per ADA.
- **Trails Revenue Limit Equalization.** Special education funding is not as far along in the equalization process as general education revenue limits. For example, about 90 percent of the ADA for large unified districts—which accounts for over two-thirds of the statewide ADA—is within 5 percent of the lowest revenue limit per ADA. The Legislature has demonstrated its desire to coordinate special education and revenue limit funding by directing that both receive the same COLA percentage. Under this option, the Legislature has the opportunity to make rapid progress in having special education equalization “catch up” with revenue limits equalization.

Analyst’s Recommendation. For all the above reasons, we recommend that the Legislature use the \$98 million of released funds to continue equalization of special education funding levels. Specifically, we recommend the enactment of trailer legislation bringing approximately 75 percent of the state’s ADA to the same special education funding level.



OTHER ISSUES

SCHOOL BUS SAFETY MANDATE

We withhold recommendation on \$290 million proposed to reimburse costs of a mandate for school bus safety improvements pending further review of cost claims. We suggest that the Legislature refer the matter to the Joint Legislative Audit Committee (JLAC) for review and recommendation on possible revisions to the mandate's parameters and guidelines. We further recommend that the Legislature use information gained from the JLAC review to consider whether the mandate should be modified or continued. (Withhold recommendation on \$223.7 million in Item 6110-485 and \$66.7 million in pending legislation.)

The Governor's budget sets aside a total of \$290 million to pay costs of a mandate for school bus safety improvements. Of this amount, \$223.7 million is proposed as a one-time allocation from the Proposition 98 reversion account (Item 6110-485) to reimburse prior-year and current-year costs. Another \$66.7 million is proposed from the General Fund (Proposition 98) for the budget-year costs of this mandate. The \$66.7 million would be included in the annual "claims bill." The Commission on State Mandates (COSM) estimates that the state will be responsible for similar annual costs in the future.

Background on the School Bus Safety Mandate

Chapter 624, Statutes of 1992 (AB 3144, Horcher), imposed several requirements on school districts related to school bus safety. Funding for this mandate of about \$900,000 annually is contained in the State Department of Education's (SDE) mandate item (Item 6110-295-0001). This mandate is now referred to as School Bus Safety I.

In a series of legislation enacted between 1994 and 1997, the Legislature imposed several additional requirements intended to increase the safety of students being transported in school buses. These provisions require schools to: provide expanded instruction to pupils in school bus

safety; prepare, follow, and revise transportation plans; provide written information on school bus safety to parents; and employ flashing signal lights under a broader set of circumstances.

In December 1997, Clovis Unified School District filed a test claim concerning these added provisions with COSM that came to be called School Bus Safety II. In July 1999, COSM found that these new requirements constitute a reimbursable state mandate.

In November 1999, COSM issued “parameters and guidelines” (P&Gs) describing the specific costs that would be reimbursed and the documentation required. Based on cost claims received so far, COSM estimates prior-year and current-year costs of \$223.7 million (fiscal years 1996-97 through 2000-01) and budget-year costs of \$66.7 million. The COSM estimates ongoing costs of about the budget-year level.

Preliminary Review of Cost Claims Shows Irregularities

Based on a preliminary review of approximately 50 cost claims provided to us by COSM, we found several irregularities that, in our view, indicate a need for further scrutiny. The major issues include:

Considerable Variation Across Districts. Cost claims filed by districts of similar size and transportation use varied remarkably in amounts and cited expenditure items. Based on this observation, we question whether the P&Gs need to be redrafted to provide greater specificity.

Claims for Displaced Staff Time. Many of the cost claims seek reimbursement for staff compensation for time spent on mandated activities such as instructing pupils in school bus safety. However, it is disputable whether such claims are valid unless schools actually incurred added costs (such as overtime costs) as a result of the new requirements.

Claims for “Fundamental” Activities. It appears that districts may have claimed costs for activities so basic that they may not qualify for reimbursement. For instance, several claims include significant costs for bus driver compensation for an activity described as “monitoring pupils boarding and exiting a bus.” Such an activity may be so fundamental to the job of school bus driver as to be outside the scope of the new requirements. In our view, there is a need to investigate such claims and determine whether the activity is truly claimable.

Legislative Options

Given the substantial costs claimed for this mandate, we recommend that the Legislature further investigate the details of the cost claims. Referring the matter to the Joint Legislative Audit Committee (JLAC), or a similar

review body, would ensure that appropriate resources would be directed to the investigation. Based on the findings of such a review, the Legislature should entertain the following options.

Consider Modifying P&Gs. The Legislature has the authority to amend P&Gs through legislation. If the review process reveals that districts are filing cost claims for inappropriate costs, the Legislature could modify P&Gs to better define reimbursable activities and reduce appropriations accordingly.

Consider Modifying or Eliminating Mandate. It is clear that the Legislature enacted the school bus safety legislation involved in this mandate to protect children. From our review of the legislative history, however, it appears that the Legislature had no reason to believe that the costs of these new requirements would reach such high levels. The highest cost estimate contained in bill analyses of the adopted provisions was \$600,000 for “initial costs.” Given COSM’s estimate of \$66.7 million in annual costs, we recommend that the Legislature now weigh the cost-effectiveness of these provisions. It may be possible, using information gained from the JLAC review, to modify the requirements to maintain the most effective requirements while eliminating those that are unnecessary or not cost-effective. Another option would be to make the provisions voluntary.

In our view, the high overall costs and irregularities in cost claims for the school bus safety mandate warrant further review. For this reason, we withhold recommendation on \$290 million proposed by the Governor’s budget for this purpose. To assure that appropriate resources are given to such a review, we suggest that the Legislature refer the matter to JLAC for review and recommendation on possible revisions to the mandate’s P&Gs. Furthermore, we recommend that the Legislature use information gained from the JLAC review to consider whether the mandate itself should be modified or continued.

CHARTER SCHOOL DIRECT FUNDING MODEL

We withhold recommendation on \$28.4 million requested for the charter school block grant pending review of proposed trailer bill changes that the administration had not defined fully at the time of this analysis. (Withhold recommendation on Item 6110-211-0001.)

The budget provides \$28.4 million from the General Fund (Proposition 98) for the charter school categorical block grant, an increase of \$5.7 million, or 25 percent, from the current year. The Department of Finance (DOF) proposed the 25 percent increase as a “placeholder” for growth and cost-of-living adjustments (COLAs) until the May Revision

due to uncertainties in projecting charter school enrollment growth. 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 adoption of the direct funding model, 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 schools a per-pupil amount equivalent to what school districts receive for the average student through 34 specified categorical programs.
- **Direct Application Programs.** Charter schools must apply directly for many programs, and must adhere to all laws governing those programs to be eligible for funding. These programs include K-3 class size reduction, staff development buyout, after school and summer school programs, home-to-school transportation, and many other programs. This list of programs has been growing each year.

Annually each of these three funding streams will increase in reaction to other budget actions. The charter school categorical block grant COLA reflects COLAs provided not only to the original 34 programs specified in Chapter 78, but also any new programs for which direct charter schools are not required to apply separately.

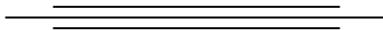
Proposed Categoricals May Affect Charter School Block Grant. The Governor’s budget proposes various new programs, such as longer school year for middle school grades, an intensive professional development program, algebra incentive initiative, and Standardized Testing and Reporting data analysis. Each of the new programs requires enabling legislation, but at the time of this analysis the administration had not provided the Legislature with any draft language. The Legislature will need to determine which of these new programs it wants charter schools to apply for separately and which to include in the charter school block grant. Until such determinations are made, we are unable to advise the Legislature on the adequacy of the proposed funding level of the charter school block grant. Accordingly, we withhold recommendation pending review of the bills needed to create the Governor’s new programs. Since the intent of the block grant is to provide charter schools flexibility in how they use their educational resources, we would suggest to the Legislature as a

guiding principle to fold as many programs as possible into the charter school block grant.

Funding Requirements Will Increase Significantly in 2002-03 Budget. Chapter 78 provided a “grandfather” clause that gave existing charter schools the option of not participating in the categorical block grant during the grant’s first three years of existence. Many charter schools took advantage of the option to continue their current funding relationship with their sponsoring districts. Beginning in the 2002-03 fiscal year, these charter schools will have to participate in the direct funding model. We estimate that about half of charter school enrollment currently is outside the model. When these schools are required to participate in the direct funding model, the cost of the categorical block grant will increase proportionately. We estimate that the additional cost to the state for the block grant will be around \$30 million. The additional cost could be roughly offset by potential reductions in the costs of the categorical programs on which the categorical block grant is modeled. However, when the Legislature first created the block grant, it chose not to reduce the appropriations for the original 34 programs, and instead used new General Fund monies to fund the categorical block grant. The Legislature has three basic options to address the expiration of the grandfather clause.

- Plan for an additional cost of approximately \$30 million for the categorical block grant in the 2002-03 budget.
- Extend grandfather clause.
- Plan reductions of approximately \$30 million in the 34 original categorical programs and newly created categorical programs that are the basis for the categorical block grant for the 2002-03 budget.

The Legislature may want to decide which of these three options they would prefer to implement during this year’s budget process in order to allow school districts, charter schools, and the DOF adequate planning time. If the Legislature decides that the first option is preferable, no action is necessary. The Legislature would have to make legislative changes to implement the second or third option.



INTRODUCTION

Higher Education

The Governor's budget proposes a \$783 million increase in General Fund expenditures for higher education in 2001-02. This is an increase of 8.7 percent above estimated expenditures in the current year. This funds 5 percent base increases for the University of California (UC) and the California State University (CSU) and a 3.9 percent inflation adjustment for the California Community Colleges (CCC). It also funds enrollment growth of 3.3 percent for UC and 3 percent for CSU and CCC. Additionally, the budget provides General Fund support to hold resident student fees constant, and it funds several Governor's initiatives, including increasing state support for summer terms at UC and CSU and increasing part-time faculty salaries at CCC.

Total Higher Education Budget Proposal. As Figure 1 (see next page) shows, the 2001-02 budget proposal provides a total of \$28.1 billion from all sources for higher education. This amount is \$1.4 billion, or 5.4 percent, more than estimated expenditures in the current year. The total consists of funding for all activities of the University of California (UC)—including activities that are only marginally related to instruction, such as providing medical care at its hospitals (\$2.6 billion) and managing three major U.S. Department of Energy laboratories (\$3.2 billion)—as well as all activities of the California State University (CSU), the California Community Colleges (CCC), Hastings College of the Law, the California Student Aid Commission, and the California Postsecondary Education Commission.

Major Funding Sources. The 2001-02 budget proposes General Fund expenditures of \$9.7 billion for higher education. This amount is \$783 million, or 8.7 percent, more than estimated expenditures in the current year. The budget also projects that local property taxes will contribute \$1.8 billion for CCC in 2001-02, an increase of \$137 million, or 8 percent, over the current year. In addition, student fee and tuition revenue at all the higher education segments account for \$1.7 billion of proposed expenditures. This amount is \$67 million, or 4 percent, greater than student fee revenue in the current year. (This increase results primarily from proposed enrollment growth rather than higher fees.) Lastly, the budget in-

Figure 1**Higher Education Budget Summary^a***(Dollars in Millions)*

	Estimated 2000-01	Proposed 2001-02	Change	
			Amount	Percent
University of California				
General Fund	\$3,205.5	\$3,408.0	\$202.5	6.3%
Student fee revenue	879.2	916.7	37.4	4.3
Federal and other funds	10,914.1	11,302.3	388.2	3.6
Totals	\$14,998.9	\$15,626.9	\$628.1	4.2%
California State University				
General Fund	\$2,464.8	\$2,680.8	\$215.9	8.8%
Student fee revenue	614.0	637.6	23.5	3.8
Federal and other funds	1,788.9	1,768.0	(20.9)	-1.2
Totals	\$4,867.8	\$5,086.3	\$218.6	4.5%
California Community Colleges				
General Fund	\$2,734.9	\$2,960.1	\$225.2	8.2%
Local property tax revenue	1,709.4	1,846.6	137.2	8.0
Student fee revenue	162.1	167.8	5.7	3.5
Federal and other funds	1,110.7	1,186.4	75.7	6.8
Totals	\$5,717.1	\$6,160.8	\$443.8	7.8%
Student Aid Commission				
General Fund	\$531.7	\$669.5	\$137.8	25.9%
Federal and other funds	519.3	519.3	0.0	0.0
Totals	\$1,051.0	\$1,188.9	\$137.8	13.1%
Other^b				
General Fund	\$18.3	\$19.6	\$1.3	7.0%
Student fee revenue	13.1	13.3	0.2	1.4
Federal and other funds	15.4	13.6	-1.8	-11.9
Totals	\$46.8	\$46.4	-\$0.4	-0.8%
Grand totals	\$26,681.6	\$28,109.4	\$1,427.9	5.4%
General Fund	\$8,955.3	\$9,737.9	\$782.7	8.7%
Property tax revenue	1,709.4	1,846.6	137.2	8.0
Student fee revenue	1,668.4	1,735.4	66.9	4.0
Federal and other funds	14,348.5	14,789.5	4,441.1	3.1

^a General Fund amounts exclude capital outlay and payments on general obligation bonds—both of which we discuss later in the Capital Outlay Section.

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

cludes \$15 billion in other funds—including federal funds, restricted funds, and funds from private sources. The numbers in Figure 1 do not include capital outlay expenditures or the General Fund costs associated with paying off general obligation bonds. These costs are discussed in the Capital Outlay section.

General Fund and Proposition 98 Proposals by Segment. The budget proposes General Fund expenditures for UC of \$3.4 billion, which is \$202 million, or 6.3 percent, more than estimated General Fund expenditures in the current year. For CSU, the budget proposes General Fund expenditures of \$2.7 billion, an increase of \$216 million, or 8.8 percent, over the current year. For CCC, the budget proposes General Fund expenditures of \$3 billion, which is \$225 million, or 8.2 percent, more than the current year. Incorporating local property tax revenue, the budget provides CCC with \$4.7 billion in Proposition 98 funding, an increase of \$360 million, or 8.3 percent, over the current year.

Major Budget Changes

The Governor's budget proposal provides all three segments of higher education with funding for base budget increases, enrollment growth, and various new and expanded programs.

Compensation, Core Needs, and Cost-of-living Increases. Figure 2 (see next page) describes the major General Fund budget changes proposed by the Governor for UC, CSU, and CCC. The largest changes in UC's and CSU's budgets are 5 percent increases in their General Fund bases—4 percent of which is designated for compensation and other cost increases and 1 percent which is designated for "core" needs such as deferred maintenance, instructional equipment, and library materials. The budget provides \$150 million to UC and \$117 million to CSU for these base increases. For CCC, the budget contains \$154 million for a 3.9 percent adjustment for inflation.

Enrollment Growth. As Figure 3 (see page 173) shows, the budget proposes total higher education full-time equivalent (FTE) student enrollments of 1.5 million, or 3 percent, over the budgeted enrollments for the current year. The budget provides funding for 5,700 additional FTE enrollments, at UC and 8,760 additional FTE enrollments at CSU. The Governor proposes \$9,158 and \$6,360, respectively, in General Fund support for each additional FTE student at UC and CSU. Thus, the total cost of accommodating proposed enrollment growth at UC is \$52.2 million and the total cost at CSU is \$55.7 million. The budget includes \$106.8 million for CCC to accommodate a 3 percent, or 30,871 FTE, increase in enrollment. This is equivalent to \$3,461 in Proposition 98 support for every additional CCC FTE student.

Figure 2

Higher Education Proposed Major General Fund Changes

University of California	Requested: \$3.4 billion
	Increase: \$202 million (+6.3%)

Base Budget Increase: \$119.7 million (4 percent) for salary and other cost increases, and \$29.9 million (1 percent) for deferred maintenance, library acquisitions, and technology.

Enrollment Growth: \$52.2 million (3.3 percent: 5,700 full-time-equivalent (FTE) students).

Fee Increase Buyout: \$21.5 million (in lieu of 4.9 percent increase).

Enhanced Summer Instruction: \$20.7 million for Berkeley, Los Angeles, and Santa Barbara campuses.

California State University	Requested: \$2.7 billion
	Increase: \$216 million (+8.8%)

Base Budget Increase: \$93.5 million (4 percent) for salary and other cost increases, and \$23.4 million (1 percent) for deferred maintenance, library acquisitions, and technology.

Enrollment Growth: \$55.7 million (3 percent: 8,760 FTE students).

Fee Increase Buyout: \$16.6 million (in lieu of 4.9 percent increase).

Enhanced Summer Instruction: \$12.4 million for Fullerton, Long Beach, San Diego, and San Francisco campuses.

California Community Colleges	Requested: \$3 billion
	Increase: \$225 million (+8.2%)

Base Budget Increase: \$153.8 million (3.9 percent).

Enrollment Growth: \$106.8 million (3 percent: 30,871 FTE students).

Increase Part-Time Faculty Salaries: \$62 million.

Financial Aid Outreach: \$11.4 million.

Governor's Initiatives. The budget includes funds for various new and expanded programs. Most notably, the Governor's budget provides \$128 million for 57,000, or 37 percent, more Cal Grant awards. This significant increase is a result of prior-year expansions and new legislation making the Cal Grant program an entitlement for qualified students. For

UC, the budget extends several one-time appropriations—including \$18 million for expansion of Internet 2 and \$20 million to reduce further its maintenance backlog and to purchase instructional equipment and library materials. The budget provides CSU with \$20 million in one-time funds for similar purposes. It also provides CSU with \$18.5 million to expand the Educational Technology Institutes and \$17.5 million to expand the Governor’s Teaching Fellowship program—both of which were established in the current year. The budget provides both UC and CSU funding to enhance the quality of their summer terms (\$20.7 million and \$12.4 million, respectively). Lastly, for CCC, the Governor’s budget proposes \$62 million to improve part-time faculty salaries.

Figure 3**Higher Education Enrollment**

1999-00 Through 2001-02
Full-Time Equivalent (FTE) Students

	Actual 1999-00	Budgeted 2000-01	Proposed 2001-02	Change From 2000-01	
				Amount	Percent
University of California^a					
Undergraduate	132,127	135,760	140,930	5,170	3.8%
Postbaccalaureate	653	775	900	125	16.1
Graduate	27,084	28,307	28,712	405	1.4
Health Sciences	12,578	12,266	12,266	—	—
UC totals	172,442	177,108	182,808	5,700	3.2%
California State University^a					
Undergraduate	245,714	254,354	261,777	7,423	2.9%
Postbaccalaureate	20,947	21,683	22,315	632	2.9
Graduate	23,172	23,987	24,687	700	2.9
Calstate Teach	182	189	194	5	2.6
CSU totals	290,014	300,212	308,972	8,760	2.9%
California Community Colleges	994,230	1,029,028	1,059,899	30,871	3.0%
Hastings College of the Law	1,116	1,185	1,200	15	1.3%
Grand totals	1,457,802	1,507,533	1,552,879	45,346	3.0%

^a These numbers include all self-support FTE students enrolled in summer 1999 (rather than including only the summer enrollment that the 2001-02 Governor’s Budget proposes “buying out”). In summer 1999, 6,542 FTE students and 8,232 FTE students, respectively, enrolled in UC’s and CSU’s self-supported summer session.

Student Fees

Resident Student Fees Held Constant. Figure 4 shows student fee levels at California's public colleges and universities. Last year was the sixth consecutive year the state either reduced fees or held them constant. In the budget year, the Governor proposes once again to hold resident student fees constant at all the segments. For 2001-02, undergraduate systemwide and campus-based fees would remain \$3,964 at UC, \$1,834 at CSU, and \$330 at CCC. The budget includes \$22 million to compensate UC and \$17 million to compensate CSU for additional revenue they would otherwise collect if they raised fees by 4.9 percent, which the budget assumes would reflect the increase in California per-capita personal income.

Figure 4

Higher Education 2001-02 Proposed Annual Student Fees

	Residents		Nonresidents	
	Educational Fee	Total Fee ^a	Tuition	Total Fee ^a
University of California				
Undergraduates	\$2,716	\$3,964	\$10,704	\$15,038
Graduates	2,896	4,747	10,704	15,641
Professionals ^b				
Lowest fee	4,696	6,547	15,400	17,441
Highest fee	9,272	11,123	19,976	22,017
California State University				
Undergraduates	\$1,428	\$1,834	\$7,380	\$9,214
Graduates	1,506	1,912	7,380	9,292
California Community Colleges				
	\$330	\$330 ^c	\$3,900 ^d	\$3,900 ^c
Hastings College of the Law				
	\$10,175	\$11,232	\$9,486	\$20,718

^a Total fee includes educational fees, registration fees, and campus-based fees (weighted average for UC and unweighted average for CSU).

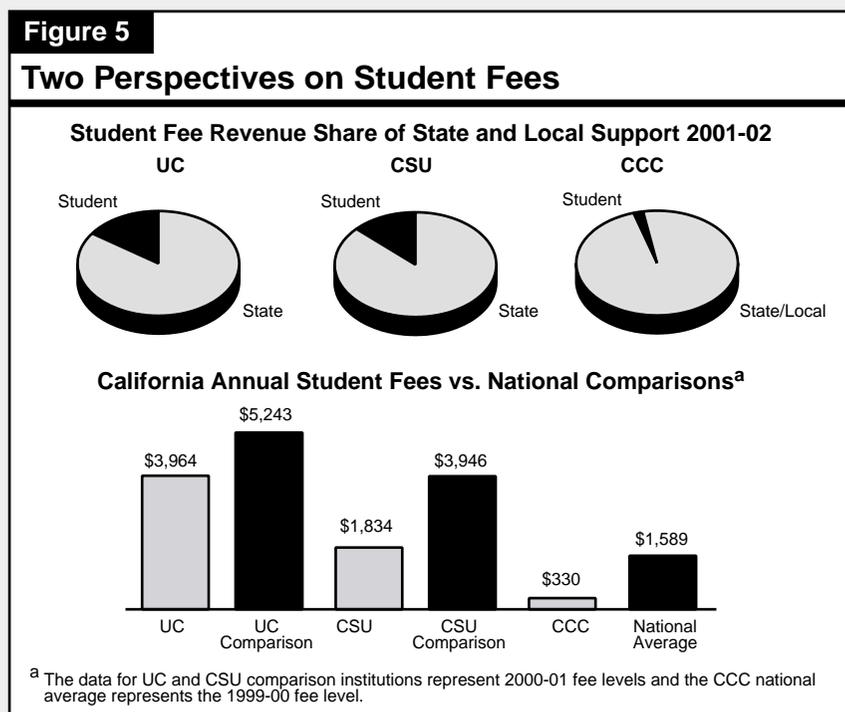
^b Represents range of total fees charged to professional-school students.

^c Some community colleges charge additional fees (for purposes such as instructional supplies, health care, and parking). The amount of these fees varies considerably across campuses.

^d The amount per unit for nonresident fees at CCC ranges from \$114 to \$155. The statewide average is \$134 per semester unit.

At UC, the Governor's budget proposes to increase fees charged to non-resident students by \$460, or approximately 3 percent. The budget does not increase nonresident student fees at CSU.

Two Perspectives on Student Fees. The top portion of Figure 5 shows that student fee revenue comprises only a small portion of all state and local support provided to the three segments. For example, at the community colleges, total student fee revenue comprises less than 5 percent of all state and local support, and almost 40 percent of students do not pay any fees. The bottom portion of Figure 5 compares student fees at the three segments with their comparison institutions. Total student fees at



all three segments are substantially lower than fee levels at their comparison institutions. The average current resident student fee at UC's four public comparison institutions is \$5,243, which is almost one-third greater than the total proposed resident student fee at UC. At CSU's 15 public comparison institutions, the average student fee is more than double CSU's proposed 2001-02 fee level. Finally, the CCC does not have a special comparison group, but its proposed fee level is the nation's lowest. Students attending CCC in 2001-02 would pay only one-fifth of the 1999-00 national average for public two-year institutions.

BUDGET ISSUES

Higher Education

INTERSEGMENTAL

UPDATE ON YEAR-ROUND INSTRUCTION AT UC AND CSU

Since 1998-99, the Legislature has strongly encouraged the University of California (UC) and the California State University (CSU) to serve more students during the summer by implementing year-round operation. Although there are an array of options which can be used to serve more students—including enhancing distance learning technology and promoting intersegmental programs—expanding the summer term is one of the most cost-effective ways of significantly increasing enrollment and significantly reducing the costs associated with constructing new classrooms and campuses. Despite these advantages, no UC campus and only five CSU campuses—Hayward, Humboldt, Los Angeles, Pomona, and San Luis Obispo—currently offer a relatively extensive summer term. The number of student course hours these five campuses provided in summer 2000 was equivalent to serving approximately 5,600 matriculated full-time equivalent (FTE) students over an entire year.

In the following analysis, we discuss the specific actions the Legislature has recently taken to encourage UC and CSU to expand their summer terms. We then discuss the *2001-02 Governor's Budget* proposal to provide \$33.1 million for UC and CSU to expand their summer terms. Lastly, we identify options the Legislature has for increasing the incentive UC and CSU have to expand summer enrollments as quickly as possible.

Key State Actions Promoting Summer Expansion

In the last three years, the Legislature and the Governor have undertaken two major efforts in an attempt to encourage UC and CSU to expand their summer term as quickly as possible.

Same Fee Rate for All Academic Terms. Chapter 383, Statutes of 2000 (AB 2409, Migden), prohibited UC and CSU from charging students more in summer than in fall, winter, and spring. (The legislation also allowed UC and CSU to offer summer “discounts.” See shaded box entitled *Experimenting with Summer Fee Policies.*) The *2000-01 Budget Act* appropriated a total of \$33.7 million from the General Fund to UC (\$13.8 million) and CSU (\$19.9 million) to compensate the universities for revenue they would lose by reducing summer fees. Beginning in summer 2001, student fees at every UC and CSU campus will therefore be at least as low as fees for fall, winter, and spring. (Prior to summer 2001, summer fees were approximately 15 percent higher than the regular fee level at UC and between 120 percent and 160 percent higher than the regular fee level at CSU. During this time, UC and CSU labeled their summer term as “self-supported” because student fee revenue alone supposedly covered all instruction-related costs.)

Marginal-Cost Funding for All Enrollment Growth. In 1998-99, the Legislature and the Governor agreed to provide “marginal-cost funding” for all students enrolled in summer teacher preparation programs. (The state funds enrollment growth at UC and CSU based upon a “marginal-cost formula,” which estimates the cost of educating one additional FTE student.) Then, in 1999-00, the Legislature and administration agreed to provide marginal-cost funding for *all* additional FTE students enrolled in *all* programs at UC and CSU regardless of whether they enrolled in fall, winter, spring, or summer. (Prior to 1998-99, the state provided marginal-cost funding only for FTE students enrolled in fall, winter, and spring.)

Additional Funding for Existing Summer Enrollment Unresolved. The state has not yet determined whether UC and CSU should receive additional funding to compensate them for students they were already serving in summer, prior to the state’s decision to provide marginal-cost funding for all enrollment growth. In 1999—immediately preceding the decision to fund summer enrollment growth—UC and CSU were serving 6,381 and 8,232 annualized FTE students in the summer, respectively. As discussed earlier, the *2000-01 Budget Act* compensated UC and CSU for fee revenue it lost by reducing summer fees. This will give UC the equivalent of \$2,163 per student for 6,381 FTE enrollments in summer 2001, and CSU \$2,417 per student for 8,232 FTE enrollments in summer 2001. The UC and CSU maintain that the state should provide more funding for these preexisting summer enrollments in recognition that they have not

previously received “full” marginal cost funding for them. Specifically, UC and CSU seek the difference between the full marginal-cost funding—which in 2001-02 is \$9,158 and \$6,360 per FTE student at UC and CSU, respectively—and the funding they receive for reducing summer fees.

Budget Requests Additional “Summer” Funding

The 2001-02 budget requests \$33.1 million for precisely this purpose. Of this amount, the budget requests \$20.7 million for UC to support 3,422 FTE enrollments associated with its Berkeley, Los Angeles, and Santa Barbara campuses. It requests \$12.4 million for CSU to support 3,138 FTE enrollments associated with its Fullerton, Long Beach, San Diego, and San Francisco campuses. According to the universities, they will request additional funding next year based on the balance of summer enrollments on their other campuses.

Experimenting With Summer Fee Policies

Chapter 383, Statutes of 2000 (AB 2409, Migden), permits the universities to craft flexible summer policies to meet local conditions, including the option of discounting summer fees so they are *lower* than fall, winter, and spring levels. (Such a pricing policy is similar to the corporate practice of using lower “off-peak” prices to encourage customers—such as telephone users—to use off-peak periods. This strategy reduces a company’s capital costs.) Several campuses have already begun experimenting with new summer fee policies.

- ***The Per-Unit Fee Option.*** In summer 2000, four CSU campuses allowed students to pay on a per-unit basis. (During the other academic terms, students must pay the entire part-time or the entire full-time fee). Paying on a per-unit basis saves some students money and offers them greater flexibility in determining their course load. UC plans to adopt a similar fee strategy in summer 2001.
- ***Free Summer Quarter (FSQ+).*** In summer 1999, CSU Los Angeles piloted the FSQ+ program. This program waives students’ summer fees if they take at least 12 units during the summer and 24 units during the remainder of the college year. The CSU reports that summer enrollment increased at the Los Angeles campus in both 1999 and 2000.
- ***Fee Rebate.*** In 2000, UC Berkeley offered up to a \$500 fee rebate to seniors who completed their undergraduate requirements during the summer (and therefore graduated prior to the fall term).

No Detail on Quality Enhancements. The UC and CSU state they need this additional funding if they are to enhance the quality of their summer terms. Neither UC nor CSU, however, can provide detail on how they would expend these additional funds or how they would improve summer offerings. Moreover, by providing marginal-cost funding for all enrollment growth, the Legislature will provide resources for UC and CSU to enhance the quality of their summer terms over time. Indeed, as summer enrollments (or annual enrollments) increase, campuses can hire additional faculty and provide ancillary services and financial aid just as they do during the other terms.

Additional Funding Could Be Incentive to Expand More Quickly. Although the state has already agreed to fund UC and CSU for all summer enrollment growth and UC and CSU are unlikely to need additional funding to cover their instructional costs in the summer, the Legislature might provide additional funding to encourage UC and CSU to expand summer enrollments more quickly than they otherwise could. For example, UC and CSU might use additional funding to offer students further fee discounts, to expand their course offerings more quickly, or to increase their summer support services more substantially.

Governor's Proposal Provides No Guarantee Funds Will Enhance Quality or Increase Enrollment. Unfortunately, the Governor's proposal provides no guarantee that UC and CSU will use additional funds in these ways. Indeed, under the Governor's proposal, UC and CSU receive additional funds regardless of whether they provide summer enhancements or increase summer enrollments. Technically, under the proposal, summer enrollments at the seven targeted campuses could remain the same, or even decline, despite the universities receiving additional funds.

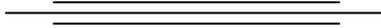
Additional Summer-Related Augmentations Should Be Based on Summer Enrollment Growth

We recommend the Legislature provide the additional funding needed to obtain "full" marginal-cost funding for existing summer enrollments, but adopt budget bill language that conditions the additional funding on summer enrollment growth.

To ensure the additional General Fund support requested by UC and CSU increases summer enrollments, we recommend the Legislature provide the funding contingent on such increases occurring. In the budget year, we recommend the Legislature provide a "bonus" of \$6,036 for each additional, annualized FTE student that UC enrolls in summer, up to the \$20.7 million the budget requests for UC. Similarly, we recommend the Legislature provide a bonus of \$3,943 for each additional, annualized

summer FTE student CSU enrolls in summer, up to the \$12.4 million the budget requests for CSU. This funding would be a bonus because the state is already providing UC and CSU with full marginal-cost funding for these students (based on its 1999-00 decision to fund all enrollment growth at the full marginal cost). Under our recommendation, UC and CSU would receive the requested funds only if they make meaningful progress in increasing summer enrollments.

In sum, rather than providing additional funding to UC and CSU without making them accountable for results, we recommend the Legislature tie additional funding to summer enrollment growth.



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 \$3.4 billion. This is an increase of \$202.5 million, or 6.3 percent, over the current year. Major increases include \$149.6 million for a general 5 percent increase in the university's base budget, \$52.2 million for increases in budgeted enrollments, \$20.7 million for increased state support for summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses, and \$19 million for various research programs. Figure 1 (see next page) summarizes the various changes in UC's budget.

Partnership With Higher Education. The Governor characterizes his budget with UC and California State University (CSU) as a "partnership." In this partnership, the Governor agrees to provide UC and CSU with annual 5 percent base increases, plus funds for enrollment growth, capital needs, and high-priority initiatives. The proposed 2001-02 budget is the second year of a four-year partnership agreement initiated in 2000-01. Of the requested 5 percent base increase, 4 percent (\$119.7 million) is not designated for specific purposes. The UC indicates that most of these funds will be applied toward various salary increases. The remaining 1 percent (\$29.9 million) is designated specifically for four long-term core needs—building maintenance (\$11 million), instructional technology (\$12 million), instructional equipment (\$2 million), and library materials (\$5 million).

Enrollment Growth of 3.3 Percent. The budget assumes that UC will serve 5,700, or 3.3 percent, more full-time equivalent (FTE) students in 2001-02. The budget provides UC with \$52.2 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 \$21.5 million in lieu of raising resident student fees by 4.9 percent. Fees for resident undergraduate, graduate, and professional school students would remain at current levels. The proposed fee for a full-time *resident*

undergraduate is \$3,964 and the proposed fee for a *resident graduate* is \$4,747. The supplementary fee for nonresident students would increase by 4.5 percent from \$10,244 to \$10,704. (When the supplementary fee for nonresident students is combined with educational and other fees, the increase in the *total nonresident undergraduate* charge is 3.2 percent.)

Figure 1

**University of California
General Fund Proposal**

2001-02
(In Millions)

2000-01 Revised Budget \$3,205.5

Reduction of one-time expenditures in 2000-01 -108.0

New Spending

4 percent base increase^a \$119.7

1 percent base increase for "core" needs^a 29.9

Enrollment growth (3.3 percent) 52.2

Support in lieu of fee increase 21.5

Enhance summer courses 20.7

Expansion of student retention services 3.0

Permanent funding for the MIND^b Institute 2.0

Expansion of graduate and professional outreach programs 1.5

Expansion of ASSIST^c 1.1

One-time funds for various UC and Governor's initiatives^d 57.3

Other adjustments 1.5

2001-02 Proposed Budget \$3,408.0^e

Change From 2000-01

Amount \$202.5

Percent 6.3%

^a The 4 percent and 1 percent augmentations were on an adjusted 2000-01 base of \$2,993 million that accounts for one-time expenditures and other adjustments.

^b Medical Investigation of Neurodevelopmental Disorders.

^c Articulation System Stimulating Inter-Institutional Student Transfer.

^d See Figure 2.

^e Total may not add due to rounding.

One-Time Appropriations. In the budget year, the Governor provides \$57.3 million in one-time funds for various initiatives (see Figure 2 next page). He includes \$20 million in one-time funds for deferred maintenance, instructional equipment, and library materials. This one-time funding supplements the ongoing 1 percent base increase for the same

“core” purposes. The bulk of the remainder of one-time funds is for various research initiatives. The 2000-01 budget included \$108 million in one-time funds. Thus, the net change in one-time appropriations, in the budget year, is a reduction of \$50.7 million.

Figure 2	
One-Time Funds for Various UC and Governor’s Initiatives	
2001-02 (In Millions)	
Continuation of One-Time Funds Provided in the Current Year	
Deferred maintenance, instructional equipment, and library materials	\$20.0
Expansion of Internet2	18.0
Research Initiatives	
Research assistantships in engineering and computer science	\$5.0
Environmental science ^a	5.0
MIND ^b Institute	4.0
Pierce’s disease ^a	3.0
Other	
Start-up costs for recruiting faculty at UC Merced	2.0
Miscellaneous	0.3
Total	\$57.3
^a One-half of the funds will be used to support graduate student researchers.	
^b Medical Investigation of Neurodevelopmental Disorders.	

Crosscutting and Intersegmental Issues Involving UC

Figure 3 summarizes several issues relating to UC that we address in other sections of the *Analysis*. In “Education Crosscutting Issues,” we discuss the recent expansion of the UC-administered California Professional Development Institutes. We also provide a synopsis of our recent report entitled “Improving Academic Preparation for Higher Education” and then discuss a budget request of \$1.1 million to improve the Articulation System Stimulating Inter-Institutional Student Transfer. In “Intersegmen-

tal Issues” within the Higher Education section, we recommend linking the \$20.7 million the budget provides for year-round instruction at three UC campuses to summer enrollment growth.

Figure 3

Summary of Crosscutting and Intersegmental Issues Involving UC

Issue	Recommendation	Page Number
California Professional Development Institutes (CPDI)	Delete \$10 million from UC's budget and not approve the \$10 million augmentation to SDE's budget, thereby aligning UC's funding for the CPDI program with the funding the state currently provides SDE for stipends.	E-28
Improving academic preparation for higher education	Encourage UC, CSU, and CCC to assess students' college readiness earlier, report on the preparedness of all entering students, and study the effectiveness of their precollegiate services. Fund precollegiate courses across the segments in a more accurate, equitable manner.	E-38
Articulation System Stimulating Inter-Institutional Student Transfer (ASSIST)	Approve \$1.1 million but adopt budget bill language requiring UC and CSU to honor online articulation agreements.	E-51
Summer expansion	Link \$20.7 million to summer enrollment growth at three targeted campuses.	E-177

The UC Should Increase Fees Charged Nonresident Students

We recommend the Legislature ask the University of California (UC) to increase total fees paid by nonresident students to at least the average charged nonresidents at comparable public universities. This would increase UC's fee revenue by \$6 million, thereby reducing the need for \$6 million in General Fund support for 2001-02. (Reduce Item 6440-001-0001 by \$15.3 million.)

There are approximately 14,000 nonresident undergraduate (7,500) and graduate (6,500) students attending UC. Total fees in 2000-01 for UC are \$14,578 for nonresident undergraduates and \$15,181 for nonresident graduate students. Of each total, \$10,244 represents the supplementary 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 \$10,244 to \$10,704, an increase of \$460, or 4.5 percent. This has the effect of raising total fees for nonresident undergraduates to \$15,038, an increase of 3.2 percent. It would raise total nonresident graduate fees to \$15,641, a 3 percent increase.

State Policy on Nonresident Fees. Chapter 792, Statutes of 1990 (SB 2116, Morgan), enumerates the state's policy on the adjustment of nonresident tuition. Chapter 792 requires UC and California State University (CSU) to take into consideration:

- The total nonresident charges imposed by each of their public comparison institutions as identified by the California Postsecondary Education Commission.
- The full average cost of instruction of their segment.

Chapter 792 also states that, "under no circumstances shall an institution's level of nonresident tuition plus required student fees fall below the marginal cost of instruction for that segment" and that increases in the level of nonresident tuition should be gradual, moderate, and predictable.

Nonresident students should not pay less than the average cost of providing instruction and related services because these students and their families generally 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 because if they do not, then the state is effectively subsidizing the education of nonresident students at the expense of California residents.

The UC Charges Nonresidents Less Than Comparable Universities Charge. Total fees for nonresident tuition are below the average fees charged nonresidents at comparable universities. For the four public institutions which UC uses for salary comparisons, the 2001-02 estimated average fee for nonresident students is \$15,625 (undergraduates) and \$15,884 (graduates). The proposed fees for UC's nonresidents undergraduates would be \$587 (or 3.8 percent) below those at the comparison universities. The proposed fees for UC's nonresident graduate students would be \$243, or 1.5 percent, below fees at the comparison universities.

The UC's Nonresident Fees Do Not Cover Average Costs. The 2001-02 budget proposal includes average General Fund costs at UC of \$18,966 per FTE student. Based on the proposed budget, then, nonresidents would pay between 79 percent (undergraduates) and 82 percent (graduates) of the average costs.

The UC Should Raise Fees for Nonresidents. In view of the Legislature's intent expressed in Chapter 792, we recommend that UC raise total fees it charges nonresident students to at least the level UC

expects comparable universities to charge nonresident students in 2001-02. This would require that UC raise current (2000-01) nonresident fees by 7.2 percent (undergraduates) and 4.6 percent (graduates) for 2001-02. This would increase UC fee revenue in 2001-02 by approximately \$6 million. The additional fee revenue would reduce General Fund support needed by UC by \$6 million. Accordingly, we recommend the Legislature ask UC to raise nonresident fees to match fees at comparable universities and reduce the proposed General Fund budget for 2001-02 by \$6 million.

The UC Delinquent in Reporting Financial Aid Policies for Nonresidents. The university gives substantial amounts of *grant* aid to nonresident students. In 1998-99, for example, UC gave \$61.2 million in grant aid to nonresident undergraduates (\$10.3 million) and nonresident graduate students (\$50.9 million). This is equivalent to \$1,546 for each nonresident undergraduate student and \$8,354 for each nonresident graduate student.

The large amount of grant aid UC provides nonresident students does not necessarily mean that nonresident students are economically disadvantaged. The median family income of UC undergraduates from other states, for example, was about \$90,000 per year in 1999. The median family income of undergraduates from California was about \$60,000.

Grant aid to nonresident students has the effect of reducing the “net” fees nonresidents pay. After taking grant aid into account, nonresident undergraduates in 1998-99 paid average net fees of \$11,897, or 76 percent of UC’s average General Fund cost in that year. Nonresident graduate students paid average net fees of \$5,452, or 35 percent of the average General Fund cost per UC student.

During hearings on the 2000-01 budget, the subcommittees expressed concerns about the university’s fee and grant policies for nonresident students. In the *Supplemental Report of the 2000-01 Budget Act*, the Legislature directed UC to report by November 2000 on its policies and practices for providing financial aid to nonresident undergraduate, graduate, and professional students. The UC did not meet this deadline and had not submitted its report at the time of this *Analysis*. The university should comply with the Legislature’s directive.

The University Should Resume Raising Professional-School Fees

We recommend the University of California (UC) increase professional-school fees by 10 percent for 2001-02, because its fees are far below those at comparable universities thereby increasing revenue in 2001-02 by \$3.5 million. We recommend deletion of the \$1.5 million the budget requests from the General Fund under its assumption that UC would not raise professional-school fees.

The budget requests \$1.5 million from the General Fund in lieu of raising student fees in the university's various professional schools. This marks the fourth year in a row that UC has not raised professional fees.

The UC Planned to Raise Professional-School Fees to Levels at Comparable Universities. Prior to 1990, UC charged students in professional schools the same fees that they charged other graduate students. In response to the Legislature's request in the *1990-91 Budget Act*, the Regents of the University of California raised total annual fees for graduate law and medical students to \$2,000, an increase of \$376, or 23 percent, above total fees for these professional programs in 1989-90.

In January 1994, the Regents approved a policy to gradually raise student fees for selected professional schools over time. The Regents' plan called for professional fees to approximate fees charged by professional schools at universities most comparable to UC. The planned fee increases reflected UC's higher costs for professional education, high demand for admissions to professional schools, and the personal benefits that professional-school graduates receive during their subsequent careers. From 1994-95 through 1997-98, UC raised total fees charged professional students by an average of about 11 percent per year.

Chapter 853, Statutes of 1997 (AB 1318, Ducheny), among its provisions, stated legislative intent that UC freeze student fees for professional schools at 1997-98 levels for 1998-99 and 1999-00. The act appropriated funds to UC sufficient to offset revenues it lost as a result of this freeze. The university froze fees at the 1997-98 levels, and has not raised them since.

Professional Fees Lag Behind Comparable Universities. Figure 4 shows that total fees UC charges students in professional schools are currently well below the total fees charged in comparable universities around the country. (These are universities with which UC compares itself when seeking state funding for faculty salaries.) Professional-school fees at the *public* comparison universities are, depending on discipline, from 10 percent (nursing) to 47 percent (medicine) above UC professional-school fees. Annual professional-school fees at *private* comparison universities are over \$18,000, or over two and one-half times, higher than the fees at UC.

Raising Professional Fees Could Increase Student Access. During our site visits it was pointed out that with additional fee support UC could improve professional school programs, admit more students, and provide additional assistance to financially needy students. Student demand for UC professional schools far exceeds available space. The university indicates that previous fee hikes in the 1990s did little to dampen the high demand.

Professional-School Degrees Offer Graduates Large Economic Returns. As an investment, UC professional schools offer students hand-

some returns. According to the Anderson School (of business) at UCLA, for example, graduates in the year 2000 obtained jobs that offered an average starting base salary of \$80,000 per year, with average signing bonuses of \$25,000 and average guaranteed bonuses of \$30,000. Currently, however, professional-school students, on average, pay less than one-third of the cost of the educations that they receive.

Figure 4

UC Professional-School Fees Well Below Comparison Universities

2000-01
(Total Fees)

	UC Professional Schools		Annual Fees at Comparison Universities	
	FTE ^a Enrollment	Annual Fees	Public	Private
Law	2,313	\$11,427	\$14,304	\$27,637
Business	1,704	10,894	15,344	28,920
Medicine	2,528	10,672	15,652	29,417
Dentistry	683	9,795	13,524	—
Veterinary Medicine	438	8,762	11,855	—
Pharmacy	460	7,773	10,721	—
Nursing	564	6,529	7,153	—
Theater, Film, TV	252	6,694	7,508	—

^a Full-time equivalent.

The UC Should Phase In Fee Increases, Beginning With a 10 Percent Increase. Given that (1) UC professional-school fees are well below those at comparable universities, (2) additional fee support could increase student access and education quality, and (3) students receive very high economic returns on the fees they pay, we recommend the Legislature ask UC to increase professional-school fees toward those charged by comparable universities. Rather than raise them all at once, however, we recommend that UC raise them gradually.

Given that professional-school fees at comparable public universities in 2000-01 are 36 percent higher than UC fees, we think that raising UC professional-school fees by 10 percent in 2001-02 would provide a reasonable step toward comparability. This would increase annual UC revenues by approximately \$3.5 million in 2001-02, and by approximately \$10 million by the end of three years. (This assumes that existing stu-

dents would still pay the fees they paid upon entering their professional-school programs. Fee increases would follow each successive class of *first-year* students through their professional-school careers.) We recommend, therefore, that the Legislature ask UC to raise total fees charged professional-school students in 2001-02 by 10 percent for entering first-year students.

Requested \$1.5 Million General Fund Augmentation Not Needed. By raising professional-school fees, UC would not need the \$1.5 million requested to offset revenues that it would have received if it had raised fees in line with overall program costs. Accordingly, we recommend that the Legislature delete this request.

Options for Additional UC Fee Revenue. Of the \$3.5 million UC would obtain in 2001-02 from a 10 percent fee increase for professional-school students, it would use \$1.5 million in lieu of the General Fund augmentation. With the balance of additional fee revenue—\$2 million—the Legislature could either (1) allow UC to keep the funds and use them for their own priorities (such as, increased enrollments, financial aid, or student outreach), or (2) reduce General Fund support by the same amount.

Proposal to Reduce Student/Faculty Ratio Not Justified

We recommend deletion of \$8 million requested from the General Fund for “strengthening the quality of undergraduate education” because the proposal is vague and the university can already reduce the student/faculty ratio by having existing faculty teach more undergraduate classes. (Reduce Item 6440-001-0001 by \$8 million.)

The budget requests \$8 million from the General Fund for a UC proposal to “strengthen the quality of undergraduate education.” The 2000-01 budget included \$6 million and UC plans to request an additional \$36 million (for a total of \$50 million) over the next eight years for this purpose.

Reducing Student/Faculty Ratio (SFR) Accounts for Most of Requested Funds. Beyond broadly describing its proposal, UC has not been able to provide details on how it is spending the \$6 million in the current year or how it will spend the requested \$8 million for 2001-02. The only detail that UC has provided is that it intends to spend most of the requested funds to hire more faculty. The UC estimates that the requested 2001-02 funding would allow UC to hire about 60 FTE faculty, reducing its SFR from 18.7:1 to 18.4:1. The university plans to hire a total of 500 faculty over the next eight years to reduce further the SFR to 17.6:1, at an annual cost of \$50 million when fully complete. This is in addition to new faculty funded each year in the budget to serve additional enrollments.

The University Has Not Made a Case for a Lower SFR. In 1990-91, the budgeted SFR was 17.6:1. The SFR increased to as much as 18.7:1

through 1993-94. In 1994, the university and the Legislature agreed to a funding ratio of 18.7:1. In doing so, the Legislature agreed to fund new enrollments at the “marginal cost of instruction.” The Legislature believed that an 18.7 to 1 ratio would constrain costs without negatively affecting the quality of education at UC. The Legislature asked UC to report to it by December 1996 on how the 18.7:1 ratio affected the quality of education. The UC did not complete the report and has not provided any evidence that the quality of undergraduate education eroded after the ratio increased to the agreed upon level or that lowering the SFR is a cost-effective way of improving the quality of education. Because more faculty would permanently be added to UC’s base budget, lowering the SFR has significant operating- and capital-cost implications for the state.

Funds Not Needed to Improve Graduation Rates. The UC contends that lowering the SFR will improve graduation rates (the time from the date of first enrollment to the date of graduation). By UC’s own admission, however, graduation rates have steadily improved. Of all regularly admitted freshmen in 1994, 36 percent graduated in four years compared to 31 percent in 1984. The percentage of freshmen students that “persist” to their second year has increased over time as well, from 88 percent in 1984 to 93 percent in 1998. The improvement in both rates occurred even though the SFR increased from 17.6:1 (1990-91) to 18.7:1 (1991-92) and has fluctuated around 18.7:1 ever since.

The UC’s SFR Is in the Middle Range of Its Public Comparison Institutions. In the Regent’s budget, UC states that its SFR compares unfavorably to the private and public institutions to which UC is compared when evaluating faculty salaries. However, graduate students tend to make up a much larger percentage of total enrollment at private universities than at public ones. Because graduate class sizes are typically smaller, the overall SFR at a private university tends to be lower. For this reason, it is somewhat misleading to compare the SFR of a public university to a private one. The SFRs for the four public universities UC compares itself to range from 16.6 to 19.8. Thus, UC’s SFR compares favorably with comparable public universities.

The UC Can Already Reduce Student/Faculty Ratio. The UC can reduce class sizes for undergraduates without the requested funds by increasing the amount of faculty time spent teaching undergraduates. For example, from 1993-94 through 1998-99, the average undergraduate teaching load for regular-rank FTE faculty was 2.60 classes per year—or less than one course per quarter. If UC increased the average undergraduate course load of its 8,532 faculty from 2.60 to 2.62 per year, it would have the same affect on class size as hiring 60 new FTE faculty. Viewed another way, if only 156 of the 8,532 university’s FTE faculty each taught one more class, it would be like adding 60 new faculty to undergraduate

classes. Not only would this save the proposed \$8 million, it would ensure that UC directed resources to undergraduate education. By doing this, the Legislature would be shifting a small percentage of existing faculty time from research and other activities to teaching.

Given that (1) UC has not provided details on how it intends to spend the requested \$8 million, (2) there is no evidence that lowering the SFR would lead to improved undergraduate education, and (3) UC can reduce undergraduate class sizes by slightly increasing existing teaching loads, we recommend that the Legislature not approve UC's request for \$8 million.

Graduate and Professional School Outreach Request Is Premature

We withhold recommendation on \$1.5 million in ongoing General Fund support requested for graduate and professional school outreach, pending the release of a comprehensive report in March 2001 by the University of California on their outreach efforts.

The Governor's budget requests \$1.5 million in permanent funds to expand graduate and professional outreach programs intended to identify potential candidates and help them prepare for and apply to graduate and professional programs. This is in addition to the \$5.5 million in General Fund support currently in UC's base budget for graduate and professional school outreach programs.

The budget proposes that UC use the requested funds to:

- Augment the university's existing Summer Research Internship Program.
- Provide outreach funding to the UC's professional schools (including Dentistry, Optometry, Pharmacy, Public Health, Veterinary Medicine, Management, and Public Policy and International Affairs).
- Link the California Pre-Doctoral Program at California State University directly to UC's doctoral programs.
- Offer an extra session of the California Forum for Diversity in Graduate Education each year (forum would be available twice rather than once a year).

The UC to Issue Preliminary Evaluation of Outreach. In the *Supplemental Report of the 1997-98 Budget Act*, the Legislature directed UC to submit a proposal and implementation plan by March 1998 for evaluating the costs and short-term and long-term effects on participants of student outreach programs. The *1998-99 Budget Act* appropriated \$1.2 million in ongoing funds to UC to evaluate the relative cost-effectiveness of outreach programs administered by higher education institutions. In 1998,

UC outlined its methodology and promised to report annually on its research on outreach programs. The UC expects the first comprehensive evaluation of UC's outreach program to be available this spring.

The stated goals of UC's outreach efforts are to contribute to academic enrichment by increasing diversity and to improve opportunities for California's educationally disadvantaged students to more fully participate in higher education. To ensure that these important goals are met, it is vital that the Legislature know which programs are most successful in increasing access to and successful participation in undergraduate and graduate education. The UC should be prepared at the time of hearings to advise the legislature on its analysis of outreach programs. Accordingly, we withhold recommendation on the \$1.5 million requested for graduate and professional school outreach, pending receipt of UC's outreach report.

INTERNET2 AND THE DIGITAL CALIFORNIA PROJECT

We withhold recommendation on \$32 million from the General Fund proposed for the Digital California Project (Item 6440-001-0001), pending receipt and review of an updated implementation plan due in mid-February 2001, that details actual expenditures, justifies future expenditure needs, and explains future program and technical needs of the project. We further recommend that the University of California report on how schools will connect to Internet2 access points.

The budget provides \$50 million from the General Fund to UC for Internet2 connectivity and network infrastructure for K-12 schools and UC campuses (Item 6440-001-0001, Provision 24). The budget characterizes \$18 million of this amount as available on a one-time basis for UC campuses and \$32 million as ongoing funding of the Digital California Project (DCP). The 2000-01 Budget Act also provided \$18 million of one-time funds for UC campuses and \$32 million for the DCP.

Although we do not raise any issues with respect to the \$18 million requested by UC for UC campuses, we do have several concerns with respect to the \$32 million DCP component, which we discuss below.

Background

What Is Internet2? Internet2 is a high-speed national network developed by a working group of 34 universities. It provides faster, more reliable Internet service and can transmit up to 45,000 times more information than the existing Internet technology. Figure 5 (see next page) summarizes key features of Internet2. Currently, 171 universities across the nation are connected to Internet2.

Figure 5**Features of Internet2**

- ✓ Significantly larger band width than the standard Internet.
- ✓ Information can be transferred 45,000 times faster than with standard Internet technology.
- ✓ Ability to transmit video, complex images, and large amounts of data.
- ✓ Fewer people on the network, which relieves congestion.
- ✓ Private network, which reduces privacy concerns and eliminates advertising.

What Is the DCP? The DCP is a multiyear project to develop, implement, and manage a statewide education network for K-12 schools. The UC has oversight responsibility for DCP, but has contracted with the Corporation for Education Network Initiatives in California (CENIC), a nonprofit corporation of California higher education Internet users, to develop and implement K-12 access points for Internet2.

The DCP's purpose is to extend Internet2 to all 58 county offices of education (COEs). The DCP would create two types of access points to Internet2—hubs and nodes—at COEs and certain other locations intended for eventual access by K-12 schools. The goals of DCP, as stated in the DCP plan, are shown in Figure 6. Meeting these goals would provide K-12 schools with such benefits as access to enhanced computer applications (such as interactive video and multimedia learning experiences) as well as access to higher education resources (such as online staff development programs and digital libraries).

For schools to realize these benefits, however, they must be able to connect to the Internet2 access points at the COEs. This is often called the "last mile" connection. The DCP is missing this critical piece since it does not include funding to connect Internet2 to districts, schools, or the classroom. Thus, in order to benefit from the proposed state expenditures for DCP, nearly all districts and schools would have to purchase computers, local area networks, and/or telecommunications services for the "last mile." According to information provided by Department of Finance staff, this could cost billions of dollars statewide.

Figure 6**Goals of the Digital California Project (DCP)***(As specified in the DCP plan.)*

- ✓ Provide a common communications infrastructure foundation for K-12 and higher education in California.
- ✓ Facilitate access to content resources for teaching and learning in grades K-12.
- ✓ Enable the state and educators to effectively address some of the challenges of learning in grades K-12 in the 21st century.
- ✓ Develop an ongoing mechanism that will enable California education to sustain a cohesive K-12 and higher education statewide infrastructure.

Current Status of DCP Implementation

Under its original plan of August 2000, CENIC divided DCP into four phases to be completed over the course of two fiscal years, as shown in Figure 7 (see next page). Phases I and II span the current year (2000-01) while Phases III and IV pertain to the budget year (2001-02). Already, the plan has experienced several revisions. Most notably, the project calls for fewer hubs and nodes, but more expensive circuitry. Also, CENIC issued the Request for Proposal (RFP) for a network architecture plan late—in Phase II rather than Phase I.

At the time this analysis was written, CENIC had completed DCP's Phase I. Specifically, CENIC has created a governance structure and a steering committee, hired staff and consultants, and issued the RFP for a network architecture plan. In completing these objectives, CENIC spent about \$975,000 of their \$32 million budget.

The RFP identifies 11 hubs and between 70 to 80 nodes to be installed by July 2001. This represents a scaled-down implementation level compared to 25 hubs and 100 to 140 nodes called for in the original plan developed last year.

Concerns With the Budget Proposal

We have several major concerns with the budget proposal which we discuss below.

Questionable Timelines for Spending Funds. We question whether DCP will continue to meet their implementation timeline given the slip-

page that already has occurred. To the extent that DCP runs behind schedule, CENIC would need to modify their implementation goals in Phases III and IV. If work on DCP spills over into future years, the amount needed for appropriation in 2001-02 likely would decrease.

Figure 7

Phases of the Digital California Project As Originally Planned

2000-01 and 2001-02

Current Year (\$32 Million)



Phase I: Planning (July 2000 Through December 2000)

- Develop plans for communications, network, implementation, and applications coordination.
- Issue Request for Proposal for implementation of network architecture plan.



Phase II: Implementation Round 1 (January 2001 Through June 2001)

- Implement first wave of network plan installing 25 access hubs and at least 100 access nodes.
- Purchase equipment, prepare connecting sites, and install and lease circuits.

Budget Year (\$32 Million)



Phase III: Implementation Round 2 (July 2001 Through December 2001)

- Initiate network services.
- Complete implementation of remaining nodes (number undetermined).



Phase IV: Operational Network (January 2002 Through June 2002)

- Continue ongoing network and support services.
- Implement full range of applications.

Project Scope Apparently Reduced. The RFP reflects a scaled-down implementation compared to that proposed in the original plan. Specifically, the RFP calls for 11 hubs, not the original 25 hubs, and between 70 to 80 nodes, rather than the original 100 to 140 nodes. Although CENIC explains that increased circuit costs will absorb any left-over funds, it is difficult to assess this claim without a revised cost estimate. In our view, based on the fewer hubs and nodes, it is possible that current-year money could be available to reduce the funding requirement for Phases III and IV in 2001-02.

Updated Expenditure Plan Needed. To date, UC has not submitted to the Legislature updated budgetary information for the current year nor has UC provided the Legislature with information supporting its budget-year request. The CENIC has hired a contractor to prepare an implementation plan with an updated timeline and budget for Phases III and IV (fiscal year 2001-02). This report, however, will not be available until February 19, 2001. The revised timeline and budget is crucial for the Legislature to have when determining the appropriate budget for DCP.

Analyst's Recommendation. The Legislature needs clarification on several key implementation and budget issues in order to assess the DCP budget proposal. In particular, the Legislature needs updated implementation plans, expenditure reports, and budget justifications for the current year, budget year, and future years. Without this information, the Legislature is not able to make an informed decision about DCP's budget, including whether another \$32 million is needed for DCP in the budget year. Thus, we withhold recommendation on \$32 million for DCP, pending receipt and review of an updated implementation plan due in mid-February 2001.

We further recommend that UC report on how the "last mile" issue is going to be addressed. The Legislature needs information regarding what UC and the administration plan to do to resolve this critical component. Without the last mile connection, the state cannot realize the benefits of the program.

RESEARCH RELATED ISSUES

Funds Already Available for Graduate Research Assistant Positions

We recommend the Legislature delete \$7.5 million requested for additional graduate research assistants (RAs), because funding for the positions is available from a variety of other sources. (Reduce Item 6440-001-0001 by \$7.5 million.)

The budget requests a one-time appropriation of \$7.5 million to create approximately 250 new graduate student research-assistant (RA) positions in engineering and computer science (\$5 million) and environmental science (\$2.5 million). (The budget also requests \$1.5 million for 50 RAs to study Pierce's Disease, which we analyze in the next issue).

The UC Has Not Justified Need for Extra RAs. The university has not provided any evidence that it does not have enough RAs, nor that existing mechanisms for funding them are broken.

Funding Not Needed for Additional RAs. The university spends \$141 million to support RAs, of which \$120.2 million (85 percent) comes from federal grants and other nonstate sources. The university indicates that \$20.8 million, or 15 percent, of RA support comes from UC and state General Fund resources. (The university is not able to identify the portion that comes directly from the state General Fund.)

Much of the research performed by RAs is funded through research grants and contracts. To the extent that UC needs more RAs for such projects, it should include their associated costs in such contracts.

The university can also use funds requested in the budget to employ additional RAs.

- ***\$52.3 million requested for the "marginal cost" of adding 5,700 FTE students.*** The marginal cost formula includes \$9,158 in General Fund support for each additional FTE student. Of this amount, \$4,036 is for the direct costs of hiring new faculty and teaching assistants. The balance of the funding (\$5,122) is to support administrative and overhead costs associated with new enrollments. The university can support additional RAs from these funds.
- ***\$119.7 million requested to increase UC's base General Fund budget for unrestricted purposes.*** The university can use these unrestricted funds to increase its General Fund support for additional RAs.

In sum, UC can include the costs of additional RAs in its grant and contract agreements. It can also support additional RAs from enrollment-growth and base General Fund increases. We therefore recommend the Legislature delete the \$7.5 million requested for additional RAs.

Direct Pierce's Disease Research Through Competitive Process

We recommend deletion of \$3 million from the General Fund proposed for University of California research on Pierce's Disease because the Legislature created the Pierce's Disease Advisory Task Force in the Department of Food and Agriculture to direct such research.

The Governor requests \$3 million in one-time funds to support research into long-term solutions to Pierce's Disease (PD), an insect-transmitted bacterium that threatens California's wine-, table-, and raisin-grape industries. The proposal calls for UC to use one-half of the funds to support graduate-student researchers. It does not specify how UC is to use the remaining \$1.5 million in PD research funds.

Our analysis indicates that this proposal is unjustified because:

- The Legislature created the PD Advisory Task Force in the California Department of Food and Agriculture (CDFA) to award PD research grants, and UC can continue to compete for PD research funds through the existing task force.
- The UC can also redirect its existing research funds if it believes this research is a high priority.

Legislature Created PD Research Process. Chapter 627, Statutes of 1999 (AB 1232, Committee on Agriculture), created the Pierce's Disease Advisory Task Force in the CDFA to advise the Secretary on projects "to be conducted in a competitive grant program for Pierce's Disease research."

The act specified that membership on the task force include scientific experts, university researchers, agricultural representatives, and others. Because the task force represents a variety of stakeholders it is well positioned to look at the problem of PD from a statewide perspective and to ensure:

- The most meritorious proposals are funded.
- There is no duplication of services/research.
- Resources are used effectively.

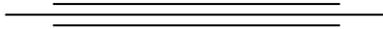
The act appropriated \$750,000 each year for three years to the Secretary of CDFA to fund on a competitive basis research relating to the control and management of PD. The act made each \$750,000 appropriation contingent on matching \$250,000 in private contributions from the California viticulture and enology industry. (The industry provided the funds.) In addition to the total of \$3 million in state and industry funds, the CDFA obtained \$4.2 million in federal funds for this purpose. Thus, the CDFA received a total of \$7.2 million for PD research grants.

To date, CDFA has directed a total of almost \$6.6 million to PD research projects, \$6.1 million of which have been to UC. According to CDFA, approximately \$600,000 remains in the Pierce's Disease Management Account. The CDFA has not requested more funding for additional research projects. To the extent the Legislature seeks to fund additional PD research, we recommend it augment this account, and continue to use the PD Advisory Task Force process for evaluating competitive research

proposals. To the extent the Legislature provides CDFA with additional funds, UC could submit additional research proposals to the task force for its consideration. By requiring UC's research to compete with other possible research proposals, the state can better ensure that research funds serve state research interests.

The UC Can Also Fund PD Research by Reallocating Funds Within Its Existing Budget. The budget proposes spending approximately \$362 million from the General Fund for research at UC. When federal funds, university funds, and extramural funds are included, total UC proposed research expenditures are \$2.5 billion (excluding federal funds for energy labs). If UC fails to obtain funding for its proposed PD research from the PD Advisory Task Force process, and it believes such research is a high priority, it can fund such research by reallocating funds within its substantial research budget.

In sum, the Legislature created a process in the CDFA to award PD research grants on a competitive basis, with advice from an advisory task force representing diverse state interests. We recommend the state continue to use this competitive process to award PD research grants. The UC can also fund PD research, if it believes it to be a high enough priority, from within its substantial research budget. Therefore, we recommend deletion of the \$3 million requested to fund UC directly for PD research.



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 fall 2002 as CSU's 23rd campus. The Governor's budget proposes General Fund spending of \$2.7 billion. This is an increase of \$216 million, or 8.8 percent, over the current year. The increase includes funding for compensation increases, other cost increases, core needs such as deferred maintenance, and various Governor's initiatives. Figure 1 (see next page) lists the Governor's General Fund budget proposals.

Base Budget Increases. The Governor's budget provides CSU with a 5 percent base increase totaling \$117 million. Of this base increase, the Governor's budget designates 4 percent for compensation increases (\$82 million) and other cost increases (\$12 million). It designates the remaining 1 percent, or \$23 million, for a variety of core needs—including technology equipment (\$10 million), network capacity (\$5 million), library acquisitions (\$4 million), and deferred maintenance projects (\$4 million).

Enrollment Growth of 3 Percent. In addition to a 5 percent base increase, the Governor's budget provides CSU with \$56 million for enrollment growth. The budget assumes that CSU will serve 8,760 additional full-time-equivalent (FTE) students, or 3 percent more FTE students than budgeted in the current year.

Student Fees Maintained at Current Levels. The Governor proposes to maintain both resident and nonresident fees at CSU at their current levels. The budget provides \$17 million to compensate CSU for revenue it would have obtained had it raised fees by 4.91 percent (which reflects a projected increase in per-capita personal income in California). The proposed fee for a full-time *resident undergraduate* is \$1,834, which is \$19 less than the fee in 1993-94. The proposed fee for a full-time *resident graduate* is \$1,912, and the proposed fee for *nonresidents* is \$9,214.

After adjusting for the effects of inflation, student fees at CSU have fallen significantly since 1993-94. Expressed in 2001 dollars, proposed

resident undergraduate fees are \$350 less than in 1993-94. The state has not raised resident graduate or nonresident fees since 1994-95. After adjusting for the effects of inflation, total fees for nonresidents have fallen by \$1,800 since 1994-95.

Figure 1	
California State University General Fund Budget Proposals	
<i>(In Millions)</i>	
2000-01 Revised Budget	\$2,464.8
General Increases	
4 percent base increase	\$93.5
3 percent enrollment growth (8,760 FTE)	55.7
Support in-lieu of 4.91 percent fee increase	16.6
Support for summer term	12.4
Budget-year adjustments	-18.1
Reductions for one-time appropriations in current year	-31.7
Subtotal	(\$128.4)
Long-Term Core Needs	
Technology equipment	\$10.0
Network capacity	5.0
Libraries	4.2
Deferred maintenance	4.2
Subtotal	(\$23.4)
Governor's Initiatives	
K-12 technology training	\$18.5
Governor's Teaching Fellowships (second year phase in)	17.5
CSU Channel Islands	3.0
Research initiatives	3.7
Diagnostic writing service expansion	1.0
One-time appropriation for core needs	20.0
Other	0.5
Subtotal	(\$64.2)
2001-02 Proposed Budget	\$2,680.8
Change from 2000-01 Revised Budget	
Amount	\$215.9
Percent	8.8%

One-Time Appropriations. In the budget year, the Governor provides \$20 million in one-time funds for deferred maintenance, instructional equipment, and library materials. This one-time funding supplements the ongoing \$23 million the Governor provides for the same “core” purposes. The 2000-01 budget includes \$32 million in one-time funds for a variety of purposes (including \$10 million for high-cost equipment purchases, \$1 million for the CalTeach documentary project, and \$21 million for campus-specific projects).

Expansion of Current-Year Initiatives. The budget also augments three recently established initiatives.

- **Education Technology Professional Development Program (ETPDP).** The budget provides an \$18.5 million augmentation for the ETPDP program—bringing total funding to \$25 million. This is almost a threefold increase over current-year funding. The ETPDP offers technology training for K-12 teachers. The CSU would serve 12,500 teachers in the budget year, compared to 5,000 teachers in the current year.
- **Governor’s Teaching Fellowships.** The budget provides an additional \$17.5 million for the Governor’s Teaching Fellowship program—bringing total funding for the program to \$21 million. This is a fivefold increase over current-year funding. The program offers \$20,000 scholarships to students in teacher preparation programs. It currently provides 250 fellowships. The 2001-02 appropriation would fund 1,000 fellowships.
- **Channel Island Campus.** The budget provides \$3 million for start-up costs at CSU Channel Islands. Over the last two years, the state has provided CSU with \$7.2 million in support funds and \$11.3 million in capital funds to establish the Channel Islands campus.

General Fund Support Per Student. Figure 2 (see next page) shows the average and marginal General Fund support per FTE student at CSU from 1999-00 through 2001-02. The budget proposes average General Fund support of \$8,822 per FTE student. This is 4.5 percent more than the average General Fund support provided in the current year, and 14 percent more than in 1999-00. For each additional FTE student budgeted in 2001-02, the Governor provides \$6,360. This is 9.4 percent more than the marginal General Fund support provided in the current year, and 15 percent more than in 1999-00.

Figure 2**California State University
General Fund Support Per FTE^a Student**

	Actual 1999-00	Estimated 2000-01	Proposed 2001-02	Change From 2000-01	
				Amount	Percent
Average support per FTE student	\$7,720	\$8,442	\$8,822	\$380	4.5%
Marginal support per FTE student	5,539	5,813	6,360	547	9.4

^a Full-time-equivalent.

Crosscutting and Intersegmental Issues Involving CSU

We address several issues relating to CSU in other sections of this chapter (see Figure 3). In “Crosscutting Issues,” we discuss the Governor’s proposal to expand significantly the CSU-administered ETPDP program. We recommend the Legislature approve the augmentation but shift the funding from CSU to the State Department of Education. Also in the “Crosscutting Issues” section, we provide a synopsis of our recent report entitled “Improving Academic Preparation for Higher Education,” and recommend approving two budget proposals relating to students’ academic preparation for higher education—the \$8 million augmentation for the Collaborative Academic Partnership Program and the \$1 million to expand the Diagnostic Writing Service. Lastly, in “Intersegmental Issues” within our Higher Education section, we recommend linking the \$12.4 million the budget provides for year-round instruction at four CSU campuses to summer enrollment growth.

Delete \$10 Million for “Strategic” Academic Programs

We recommend the Legislature delete the \$10 million in ongoing funding the budget requests for “strategic” academic programs at the California State University (CSU) because CSU cannot provide adequate justification that it needs additional funding for these programs. (Reduce Item 6610-001-0001 by \$10 million.)

The budget requests \$10 million in ongoing funding to enhance the quality of CSU’s agriculture, computer science, engineering, nursing, biochemistry and biotechnology programs (both undergraduate and graduate). This funding would supplement the \$10 million in one-time funding the 2000-01 Budget Act appropriated for these programs.

Figure 3**Summary of Crosscutting and Intersegmental Issues Involving CSU**

Issue	Recommendation	Page Number
K-12 technology staff development	Shift \$18.5 million from CSU to SDE to expand Education Technology Professional Development Program and allow districts to choose professional development provider.	E-34
Improving academic preparation for higher education	Encourage UC, CSU, and CCC to assess students' college readiness earlier, report on the preparedness of all entering students, and study the effectiveness of their precollegiate services. Fund precollegiate courses across the segments in a more accurate, equitable manner.	E-38
Collaborative Academic Partnership Program	Approve \$8 million to reach 223 high schools that send a large proportion of students to CSU unprepared for college-level coursework. Adopt supplemental report language requiring CSU to report on program's effectiveness.	E-48
Diagnostic writing service	Approve \$1 million to expand access to online assessment service.	E-50
Summer expansion	Link \$12.4 million to summer enrollment growth.	E-177

We recommend the Legislature delete the budget-year request for an additional \$10 million in ongoing funds for the following five reasons.

- Already Receive Enrollment Growth Funding.** The 2001-02 budget provides CSU with \$55.7 million to serve an additional 8,760 FTE students. This funding is based on the marginal-cost formula, which accounts for all instructional-related costs (including both faculty and equipment costs). The budget therefore already provides CSU with sufficient funding to increase enrollment in these five targeted areas and to purchase additional equipment.
- Violates Principles of Marginal-Cost Funding.** The marginal-cost formula attempts to simplify the budgetary process by providing funding based on the estimated average cost of educating one additional FTE student. Of course, CSU incurs higher costs to educate some students (for example, those training to be a nurse

or biochemist) than others (for example, those training to be a historian or writer). This does not mean that CSU needs additional resources to cover the costs associated with more expensive programs, any more than its budget should be reduced for growth in the number of students in low-cost programs.

- ***Faculty Recruitment No More Difficult in These Programs.*** The CSU claims that it has a difficult time recruiting faculty for these programs because the labor market is so competitive. Of all faculty searches in fall 1998 and 1999, the success CSU had in making faculty appointments was not considerably different for strategic programs than for other programs. In fact, several of the strategic programs had a higher-than-average success rate in recruiting faculty.
- ***Instructional Equipment Generously Funded.*** The 2000-01 Budget Act provided CSU with \$10 million in one-time funds to purchase high-cost instructional equipment. The 2001-02 budget requests an additional \$20 million in one-time funds that CSU states it would designate entirely for instructional equipment. These one-time appropriations are a more appropriate strategy for covering one-time needs associated with high-cost purchases.
- ***Unclear If/Why These Programs Are Strategic.*** It is unclear why these particular programs are of greater interest to the state than other programs. For example, teacher training, health sciences, mathematics, and economics—all seem to be of interest to the state. It is unclear why the state would provide additional resources for a small, select, and variable set of programs each year.

In sum, we recommend the Legislature delete the \$10 million in ongoing funding for these specific programs because CSU has not provided adequate justification that it needs additional funding.

CALIFORNIA COMMUNITY COLLEGES (6870)

The budget includes a \$360 million increase (8.3 percent) in California Community College (CCC) Proposition 98 funding in the budget year. This is \$216 per student, or 5.1 percent, more than the revised estimate of per-student expenditures in the current year.

The CCCs provide instruction to about 1.6 million adults at 108 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 (see next page) 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 \$447 million, or 7.7 percent, above the current-year level.

The CCC's Share of Proposition 98. The Governor's budget includes a total of \$4.7 billion in Proposition 98 funding for the community colleges for 2001-02. This is about 76 percent of overall community college funding. K-12 education and several other state agencies, such as the Departments of Mental Health and Developmental Services, also receive funding from Proposition 98. Historically, the share or split of Proposition 98 funding is based solely on the total amount allocated to K-12 education and the community colleges. Based on this split, the community college share in the budget year is 10.27 percent, with the remainder allocated to K-12 education (89.73 percent). The community college share in the budget year is the same as its share in the current year.

Figure 1**Community College Budget Summary**

1999-00 Through 2001-02
(Dollars in Millions)

	Actual 1999-00	Estimated 2000-01	Proposed 2001-02	Change From 2000-01	
				Amount	Percent
Community College Proposition 98					
General Fund	\$2,390.1	\$2,653.9	\$2,877.1	\$223.2	8.4%
Local property tax	1,584.4	1,709.4	1,846.6	137.2	8.0
Subtotals, Proposition 98	(\$3,974.4)	(\$4,363.3)	(\$4,723.7)	(\$360.4)	8.3%
Other Funds					
General Fund					
State operations	\$11.2	\$12.4	\$13.4	\$1.1	8.5%
Teachers' retirement	72.1	68.6	66.4	-2.2	-3.2
Bond payments	78.6	84.1	87.7	3.6	4.3
Other	0.5	—	3.2	3.2	100.0
Other state funds	10.0	11.4	10.9	-0.5	-4.3
State lottery funds	126.2	137.2	137.2	—	—
Student fees	155.2	162.1	167.8	5.7	3.5
Federal funds	185.0	201.9	217.9	16.0	7.9
Other local	712.9	760.3	820.5	60.2	7.9
Subtotals, Other funds	(\$1,351.7)	(\$1,437.8)	(\$1,524.9)	(\$87.0)	6.1%
Grand Totals	\$5,326.1	\$5,801.2	\$6,248.5	\$447.4	7.7%
Students					
Enrollment	1,549,921	1,598,929	1,646,897	47,968	3.0%
Full-time equivalent (FTE)	994,230	1,029,028	1,059,899	30,871	3.0
Amount Per FTE Student					
Proposition 98	\$3,997	\$4,240	\$4,457	\$216	5.1%
All funds	5,357	5,638	5,895	257	4.6

Major Budget Changes

Figure 2 shows the changes proposed for community college Proposition 98 funds in the budget year. Of the \$360 million increase in funds, three-fourths is proposed to cover growth in the number of students and inflation:

- \$114.5 for enrollment growth, based on a projected increase of 3 percent in 2001-02.

Figure 2

Governor's Community College Budget Proposals Proposition 98

(In Millions)

2000-01 (revised)	\$4,363.3
Enrollment Growth—3 Percent	
Apportionments	\$106.8
Selected categorical programs	7.7
Subtotal	(\$114.5)
Cost-of-Living—3.91 Percent	
Apportionments	\$143.5
Selected categorical programs	10.3
Subtotal	(\$153.8)
Program Expansions	
Scheduled maintenance and special repairs	\$10.0
Instructional equipment/library materials	10.0
Teacher and reading development	5.0
Economic development	5.0
Part-time office hours	4.7
Apprenticeship training	0.8
Disabled students live captioning	0.8
Financial aid administration	0.4
Subtotal	(\$36.7)
New Programs	
Part-time faculty compensation	\$62.0
Financial aid outreach	11.0
Joint baccalaureate (Cañada/SF State)	1.0
Subtotal	(\$74.0)
Adjustments	
Lease-payment revenue bonds	-\$4.1
Other	-14.6
Subtotal	(-\$18.6)
2001-02 (proposed)	\$4,723.7
Change from 2000-01 (revised)	
Amount	\$360.4
Percent	8.3%

- \$153.8 million to provide a 3.91 percent cost-of-living adjustment.

The budget includes funding for two new major proposals:

- \$62 million to assist districts in making part-time faculty salaries more comparable to full-time faculty salaries for similar work.
- \$11 million for outreach activities to ensure that all eligible students apply for Cal Grants. Of this amount, approximately \$2.7 million would be distributed equally (\$25,000) to all 108 colleges, and \$8.3 million would be allocated proportionally to colleges based upon their number of Pell Grant recipients.

As Figure 2 shows, the budget also provides \$36.7 million for expansions to existing programs (including \$20 million for maintenance, instructional equipment, and library materials) and a savings of \$18.6 million from base adjustments.

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 \$3.6 billion in 2001-02, or about 77 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.

PART-TIME FACULTY ISSUES: CHANGING THE FOCUS TO EDUCATION OUTPUTS

In this section, we evaluate three budget requests totaling \$70.2 million to increase resources for part-time faculty and one long-standing state policy intended to limit the use of part-time faculty on CCC campuses. In doing so, we recommend that the Legislature, consistent with principles it set forth in the Partnership for Excellence, allow districts flexibility in using faculty and other resources to meet goals for improving student outcomes.

Figure 3**Major Community College Programs
Funded By Proposition 98**2000-01 and 2001-02
(In Millions)

	Estimated 2000-01	Proposed 2001-02	Change
Apportionments			
State General Fund	\$1,688.4	\$1,795.8	\$107.4
Local property tax revenue	1,709.4	1,846.6	137.2
Subtotals	(\$3,397.8)	(\$3,642.4)	(\$244.6)
Categorical Programs			
Partnership for Excellence	\$300.0	\$300.0	—
Extended opportunity and services	74.5	79.7	\$5.2
Disabled students	75.4	79.6	4.2
Matriculation—credit/noncredit	71.3	76.3	5.0
Lease-payment bonds	66.6	62.5	-4.1
Services for CalWORKs recipients	65.0	65.0	—
Part-time faculty compensation	—	62.0	62.0
Part-time faculty office hours	2.5	7.2	4.7
Part-time faculty health insurance	1.0	1.0	—
Maintenance/special repairs	49.0	59.0	10.0
Instructional equipment/library	49.0	59.0	10.0
Economic development program	45.2	50.2	5.0
Telecommunications and technology	44.3	44.3	—
Basic skills	24.8	26.5	1.7
Apprenticeships	11.9	12.7	0.8
CARE program	11.0	11.8	0.8
Financial aid administration/outreach	7.3	18.6	11.4
Teacher and reading development	10.0	15.0	5.0
Other programs	51.8	49.9	-1.9
Cañada College/San Francisco State	—	1.0	1.0
Other adjustments	5.2	—	-5.2
Subtotals	(\$965.5)	(\$1,081.3)	(\$115.7)
Totals	\$4,363.3	\$4,723.7	\$360.4

Proposed Funding for Part-Time Faculty Restricts District Flexibility in Meeting Local Needs

We recommend the Legislature provide local community college districts with the authority to allocate faculty resources to meet local campus needs, while it continues to hold districts accountable for improving student outcomes. Specifically, we recommend the Legislature redirect the \$70.2 million requested for part-time faculty salaries (\$62 million), part-time faculty office hours (\$7.2 million), and part-time faculty health insurance benefits (\$1 million) to the Partnership for Excellence. This would give districts greater flexibility to improve education services to students.

The budget requests \$70.2 million that districts could use only to increase part-time faculty salaries (\$62 million), office hours (\$7.2 million), and health benefits (\$1 million).

Increasing Part-Time Faculty Salaries Might Not Improve Student Outcomes

The budget requests \$62 million to assist districts in making part-time salaries more comparable to full-time faculty salaries for similar work. In its November 2000 budget proposal, the CCC Board of Governors requested \$75 million for 2001-02 for this purpose. The board also proposed increasing this funding by \$75 million in each of the next two years, for a total of \$225 million in funds specifically for increasing part-time faculty salaries.

The Legislature asked both the State Auditor and the California Postsecondary Education Commission (CPEC) for additional information on part-time faculty salaries and compensation. The Auditor issued a report in June 2000 and CPEC issued a preliminary report in January 2001. Both reports conclude that, overall, part-time faculty earn lower wages and benefits for teaching activities than full-time faculty with comparable experience and backgrounds.

Reducing Salary Difference Not Necessarily Linked to Better Education Services. Neither the Auditor nor CPEC report evaluates how local practices for hiring and compensating part-time faculty affect education outcomes. Similarly, the CCC board has not provided any evidence that services to students suffer because of current salary structures. More importantly, the board's proposal has not provided any evidence that local processes for establishing faculty salaries—including collective bargaining—constrain the ability of local districts to hire the faculty they need to provide high quality services to students. In fact, the State Auditor's June 2000 report to the Legislature on part-time faculty salaries observed:

The condition of unequal pay for part-time faculty prevails because districts have been able to attract significant numbers of part-time faculty who are willing to work for less than full-time faculty.

In addition, local districts have the ability, through collective bargaining, to determine the best use of faculty based on local needs and conditions. The CCC Chancellor acknowledged this in a written response to the Auditor's June 2000 report:

Collective bargaining is a well-established function of the local districts, and it has been successful in resolving concerns about salaries and working conditions in context of local needs and resources.

Partnership for Excellence Gives Districts Flexibility to Meet Accountability Measures. While paying part-time faculty more would increase their salaries vis-à-vis full-time faculty, it would not necessarily provide districts with the best opportunity to improve their education services. Some districts might want additional funds to increase part-time faculty salaries—and indeed this might be the best use to which they could put funds—while others might want to use funding for other priorities that offer greater education returns. We recommend that the state allow districts the flexibility to negotiate salaries for both part-time and full-time faculty in the context of local labor markets and staffing needs.

One way to provide that flexibility would be to redirect the \$62 million proposed for part-time faculty salaries to the Partnership for Excellence. This would give districts the flexibility to use resources to maximum educational benefit. The Partnership for Excellence framework allows the state to evaluate how districts use funds and whether the districts produce positive results. Unlike the budget proposal to target funds for a specific *input* factor—part-time faculty salaries—the Partnership for Excellence focuses on program *outcomes* while allowing districts to choose the best use of the resources.

The Partnership program was established by Chapter 330, Statutes of 1998 (SB 154, Schiff). The program currently receives \$300 million per year. The budget does not provide additional funding for the partnership in 2001-02. The act states that the CCC must establish goals in five broad areas. The CCC, with review and input from the Legislature, completed the establishment of these goals in September 2000. Chapter 330 directs the CCC to allocate partnership funds to districts as general-purpose revenue, thereby allowing them maximum flexibility to use the funds to best meet the performance goals the CCC submitted to the Legislature. Chapter 330 also directs the CCC to submit an annual report on the program by April 15 each year. In the reports, the CCC must describe the relation-

ship between how colleges invest funds and what education outcomes resulted. Thus, the partnership program provides districts with budgetary and programmatic flexibility while it allows the Legislature to hold them accountable for improving education outcomes. Accordingly, we recommend that the Legislature shift the requested \$62 million to the Partnership for Excellence.

Office Hours Also Should Be a Matter for Local Negotiations

Chapter 933, Statutes of 1997 (AB 301, Cunneen), created the California Community Colleges Part-Time Faculty Office Hours Program to compensate part-time faculty who hold office hours related to their teaching load. The Governor's budget requests \$7.2 million on an ongoing basis for the part-time faculty office hour program, an increase of \$4.7 million over estimated current-year expenditures. (The budget also requests an additional \$3.2 million for the program on a one-time basis.) The requested appropriation is contingent on legislation passing that would reestablish the one-to-one local matching requirement formerly in law. (Last year, Chapter 71, Statutes of 2000 [SB 1667, Alpert], reduced the local share from the one-to-one match to a one-to-two match.)

Districts Can Already Require Part-Time Faculty to Hold Office Hours. Districts are free to negotiate working conditions with part-time faculty or their labor representatives, including the amount of office hours they expect both part-time and full-time faculty to provide students. We have not seen any evidence that districts do not have adequate authority or funds to negotiate office-hour expectations in labor agreements with part-time faculty. While some districts might use additional funding to increase compensation of part-time faculty in exchange for more out-of-class services, other districts might choose to use additional funds to meet other higher priorities.

As with our recommendation on the budget proposal for part-time salary funds, we recommend that the Legislature—in keeping with its intentions in creating the Partnership for Excellence—not target funds for specific input purposes but rather allow local districts to decide how best to allocate resources to meet performance goals. We therefore recommend redirecting the \$7.2 million proposal for part-time faculty office hours salaries to the Partnership for Excellence.

Districts Can Also Negotiate Benefits With Part-Time Faculty

The budget requests \$1 million from the General Fund for districts to provide additional health insurance benefits to part-time faculty and their families. Chapter 943, Statutes of 1996 (AB 3099, Campbell), established the Part-Time Faculty Health Insurance program with the intent of pro-

viding part-time faculty and eligible dependents with access to health insurance. The act appropriated \$500,000 from the General Fund and required districts to match these and any future state appropriations for this purpose with local funds on a dollar-for-dollar basis.

As noted above, districts are able to negotiate with faculty (either individually or through union representation) terms of employment, including salaries, working conditions, and provision of health insurance benefits. We do not find any basis for restricting districts in the use of state funds for this specific purpose.

Consistent with our recommendations above, we recommend redirecting the \$1 million proposed for part-time faculty benefits to the Partnership for Excellence.

Revisiting the 25 Percent “Cap” on Part-Time Faculty Staffing

We recommend that districts be allowed to employ part-time and full-time faculty in whatever ratio maximizes education outcomes.

We examined above three budget proposals related to part-time faculty and recommended that the Legislature redirect funds for these purposes to the Partnership for Excellence. The Legislature, in creating this program, expressed its intent to give districts budgetary and programmatic flexibility to meet local needs and to hold districts accountable for improving measurable education outcomes. In light of this recent policy of focusing on outcomes rather than prescribing inputs, we felt it appropriate to examine a long-held notion that all districts should employ full-time and part-time faculty in no less than a 75 to 25 ratio.

Chapter 973, Statutes of 1988 (AB 1725, Vasconcellos), among other things, expressed legislative intent to “recognize and make efforts to address long-standing policy of the Board of Governors that at least 75 percent of the hours of credit instruction in the CCC, as a system, should be taught by full-time instructors.” As Figure 4 shows, full-time CCC faculty currently provide 63.2 percent of credit hour instruction statewide. It also shows the ten districts with the highest ratios and the ten districts with the lowest ratios.

No Analytic Basis for One Full-Time/Part-Time Faculty Ratio. Full-time faculty provide cohesion for academic departments. They provide direction and leadership for program planning, context, and content. However, it is widely acknowledged that part-time faculty can provide many benefits. For example, they can bring special and practical exper-

tise to the classroom. They can also allow colleges to respond quickly to changing student demands and labor market needs.

As Figure 4 shows, ratios of full-time to part-time faculty vary significantly among districts. Whether a district hires part-time or full-time instructors for particular courses depends, for example, on various factors, such as local labor markets and shifting demands among students for various courses and types of instruction. While it is in the state's interest to ensure that districts employ faculty to maximize education outcomes, we have not seen any evidence that prescribing a specific ratio for full-time and part-time faculty will do this. We have not seen any evidence, for example, that districts in Figure 4 with high ratios provide better education services than those with low ratios.

In its 1998 policy paper titled *Enhancing Faculty Productivity: A State Perspective*, the Education Commission of the States (ECS) said the following about California's goal of obtaining a 75/25 split between full-time and part-time faculty:

State policies sometimes impose specific ratios of full-time to part-time faculty, making the implicit assumption that the employment of part-timers is, at some point, detrimental to the student's learning experience. Yet, research to date offers little evidence either way about the comparative teaching effectiveness of full-time and part-time faculty members.

Allow Local Flexibility While Maintaining Accountability. We agree with the ECS findings. Rather than focusing on whether districts hire part-time and full-time faculty in some specified ratio, the state should be more concerned about whether districts are providing the best possible services to students with available resources. Accordingly, we recommend that districts be allowed to employ part-time and full-time faculty in whatever ratio maximizes education outcomes within available resources.

OTHER ISSUES

Give Districts Flexibility With Proposed Financial Aid Administration Funds

We recommend that the Legislature shift \$11 million requested from the General Fund for community colleges to help students apply for Cal Grants to the Partnership for Excellence. The Partnership for Excellence gives districts the ability to provide the requested assistance or other services that meet students' needs.

Figure 4**California Community Colleges
Percent Full-Time Faculty**1999-00
(Selected Districts)

	Percent Full-Time Faculty	FTE ^a Students
10 Districts With Highest Percent of Full-Time Faculty		
Los Angeles	78.7%	78,771
North Orange County	72.4	25,533
San Francisco	71.7	23,328
Yosemite	76.0	13,829
Rio Hondo	73.6	10,739
Sequoia	72.1	7,898
Compton	76.9	5,455
West Hills	75.3	3,145
Siskiyou	83.1	2,317
Lassen	75.8	1,913

Statewide Average 63.2**10 Districts With the Lowest Percent of Full-Time Faculty**

Palomar	52.0%	15,122
Chabot-Las Positas	52.8	14,554
Sierra Joint	46.4	11,457
Chaffey	52.6	11,239
Santa Clarita	45.5	7,508
Yuba	39.5	7,190
Mt. San Jacinto	50.8	6,379
Mendocino-Lake	46.8	2,485
Lake Tahoe	43.7	1,411
Copper Mountain	44.7	1,264

^a Full-time equivalent.

The budget requests \$11 million for districts to help eligible students apply for Cal Grants. According to the CCC, it would distribute approximately \$2.7 million equally (\$25,000 each) to all 108 colleges, and apportion \$8.3 million to colleges based on the number of federal Pell Grant recipients they serve.

Campuses Already Provide Financial Aid Counseling. Community college campuses provide financial aid counseling services to many of

their students. For example, the CCC campuses already process federal, state, and campus aid totaling over \$500 million each year.

Chapter 403, Statutes of 2000 (SB 1644, Ortiz), expanded the Cal Grant program significantly, beginning in the 2001-02 budget year. As a result, many more community college students will be eligible to receive Cal Grant awards. The California Student Aid Commission projects that the number of new Cal Grant B awards (for which many CCC students are eligible) will roughly double in 2001-02.

The CCC is requesting the \$11 million to expand financial aid services on campuses to ensure that students avail themselves of the additional Cal Grant awards. They have not provided any evidence, however, that campuses cannot provide this assistance through existing financial aid services.

Partnership for Excellence Would Give Campus Flexibility to Meet Greatest Needs. As mentioned earlier in this item, Chapter 330, Statutes of 1998 (SB 1564, Schiff), established the Partnership for Excellence. The act requires CCC to develop specific and measurable goals to improve student success, including rates of transfer, degrees and certificates completed, successful course completion, work force development, and basic skills improvement. The act expresses the state's intent to provide supplemental funding to invest in program enhancements that will increase performance toward the community colleges' outcome measures. Thus, the focus of this program is to allow local districts to decide how funds should be allocated to reach specific goals. The Partnership for Excellence currently receives \$300 million per year. The budget does not provide any additional funds for the program in 2001-02.

Ensuring that all eligible students are aware of and apply for Cal Grants is directly in line with several goals of the Partnership for Excellence, including student transfer. Most, if not all, districts will see the link between Cal Grant availability and the partnership goals. However, not all districts will need to increase financial aid administration to increase student access to and success in college. The partnership program allows districts to assess local needs and respond to those needs based on local conditions. In keeping with our earlier recommendations to give CCC flexibility to meet its accountability goals, we recommend that the Legislature shift the requested \$11 million to the Partnership for Excellence.

Request to Expand Teacher and Reading Development Partnership Is Premature

We recommend that the Legislature (1) revert \$10 million in current-year General Fund support for the Teacher and Reading Development Partnership program because the program is overfunded in the current

year due to a one-year delay in issuing program grants, and (2) deny the \$5 million augmentation request because the California Community Colleges has not established that it could use the funds effectively. We further recommend that the Legislature approve the budget request for \$200,000 from the General Fund to collect baseline data on the program. (Reduce Item 6870-101-0001 by \$15 million.)

The 1999-00 *Budget Act* included \$10 million from the General Fund requested by the Governor to start a Teacher and Reading Development Partnership (TRDP) program in the CCC. The 1999-00 budget proposal stated that the purpose of this new program is to:

- Encourage promising community college students to pursue a career in teaching through development of an articulated internship program with local school districts and California State University institutions.
- Assist elementary students in improving reading skills.

During that budget process, the CCC was not able to provide details on the program. The 1999-00 *Budget Act* required the Community College Chancellor—in consultation with specified agencies and groups—to develop a plan and criteria for awarding funds to individual community colleges through a competitive process. The act required the Community College Board of Governors to submit the plan to the Office of the Secretary of Education for approval, and required the Chancellor to implement the program upon approval of the Secretary. The administration stated that while the program might not be feasible in all areas of the state, the \$10 million provided sufficient funding to structure beneficial programs so that the most needy communities could obtain more teachers.

Program Off to Slow Start. The program has been slow to get off the ground. The CCC spent all of the 1999-00 fiscal year planning, obtaining the Secretary of Education’s approval, developing and mailing applications to the colleges, and evaluating the colleges’ proposals. Local districts submitted a total of 58 applications on behalf of 88 campuses. (Some campuses submitted joint proposals.) The Chancellor gave a passing score to 37 of the applications and allocated the \$10 million to 33 of the 37 applications on June 26, 2000. (The Chancellor decided not to fund the remaining four applications.) Because of this timing, the initial \$10 million provided in the 1999-00 *Budget Act* is only now being used in the 2000-01 budget year for the first year of operation.

Program Is Overfunded by \$10 Million in Current Year. The 2000-01 *Budget Act* appropriated an additional \$10 million from the General Fund for the program in the current year. As noted above, however, the \$10 million provided in the 1999-00 *Budget Act* is being used for the 2000-01 bud-

get year. Thus, the program is, in effect, funded twice in the current year. We recommend, therefore, that the Legislature revert the current-year amount and use the \$10 million for some other one-time purpose.

Information Needed Before Proposed Expansion. The budget requests \$5 million from the General Fund to expand the program in 2001-02 from the current 33 programs to approximately 50 programs. We asked the CCC for basic data on how campuses are using the \$10 million in the current year. The CCC was able to say how it allocated the \$10 million among the 33 award holders, but could not say how the campuses were using the funds. Thus, the Legislature does not have any information with which to assess whether or how the programs should be expanded. We recommend, therefore, that the Legislature deny the request of \$5 million to expand the TRDP program at this time.

Request for \$200,000 for Baseline Data Justified. The budget also requests \$200,000 from the General Fund to collect baseline data on the TRDP program. Our analysis indicates that baseline data would be useful to the Legislature in evaluating the program and recommend that the Legislature approve this request.

Use \$5 Million to Increase Access to “Impacted” Programs

We recommend that rather than provide \$5 million for employee training in various businesses, the Legislature instead shift the requested funds, on a competitive basis, to community college campuses so that they can expand “impacted” programs in the health care field. The community colleges are not meeting demand for these courses and are allocating scarce program space by lottery.

The budget requests \$21.5 million for the CCC’s Industry Driven Regional Collaboratives (IRDCs). This is \$5 million, or 30 percent, more than provided for these programs in the current year. The budget states that the IRDCs would use the additional \$5 million for “specifically addressing high demand for information technology, nursing, and biotechnology workforce development services.”

Background. The IRDC program is the largest of five components in the CCC’s Economic Development Program (EDP). Chapter 805, Statutes of 1994 (AB 3512, Polanco), reauthorized an existing CCC program and changed its name to the EDP. The purpose of the EDP is to advance the state’s economic growth by providing job-related education and services to businesses and organizations. The IRDCs provide grants to community colleges to help train employees of local businesses. The IRDCs have provided 66 grants in the current year to campuses, which are training employees of firms in the manufacturing, information technology, multi-

media, health, and other industries. The IRDCs received \$16.5 million in General Fund support in 2000-01.

The CCC Should Focus Resources on Impacted Programs. The proposal says that the CCC, through the IRDC program, will address high demand for training in the information technology, nursing, and biotechnology fields. According to the CCC, however, its campuses are currently meeting student demand for classes that provide requisite training for information technology and biotechnology professions.

The CCC reports, however, that in certain health-related fields—nursing and dental hygiene among others—demand by qualified students is so high that admission to these programs on most campuses is by lottery. The CCC has been using lotteries for nursing programs since 1995. In the lotteries, the campuses randomly select from among qualified students who have applied for admission to the nursing or health-related programs. Students not admitted may enter a later lottery or may choose another program. There is a high labor-market demand for graduates of these health care programs, especially nursing.

The CCC says that no campus has resorted to lottery admissions for classes in information technology, biotechnology, or any other class outside health care programs. Rather than direct \$5 million to expand the IRDCs in fields for which CCC campuses offer classes to all interested and qualified students, we recommend the Legislature focus such funds where students need them most. Accordingly, we recommend that the Legislature provide the \$5 million instead to the CCC for allocation to campuses, on a competitive basis, for the purpose of expanding programs—such as nursing—that currently offer admission to students by lottery.

Cañada College/San Francisco State Proposal Costs Are Absorbable

We recommend that the Legislature approve the proposal by Cañada College and San Francisco State University (SFSU) to allow SFSU to offer upper division courses on the Cañada Community College campus. However, we recommend that the Legislature deny the requests for (1) \$375,000 in support funds because currently available funds can be used to establish this program and (2) \$625,000 in capital outlay funds because the Legislature has no information on the scope, cost, and relative priority of the project in relation to other community college capital outlay requests. (Reduce Item 6870-101-0001 by \$1 million.)

The budget requests \$1 million to help Cañada Community College and SFSU develop a proposal for SFSU to offer upper division courses on the Cañada Community College campus. The Legislature approved this

proposal last year in AB 2007 (Runner), but the Governor vetoed AB 2007 based on an unrelated provision.

The SFSU and Cañada College in Redwood City together want to offer students a four-year articulated course of study in specific program areas at Cañada College. Approximately six to eight SFSU degree programs would be offered on the Cañada campus with Cañada College offering the first two years of the program and SFSU offering upper division instruction and granting the baccalaureate degree. The plan calls for baccalaureate offerings in high transfer and employment areas, including electrical engineering, teacher education, computer information science, biotech, and health sciences. The first two baccalaureate programs, which Cañada and SFSU believe they could start in fall 2001, are electrical engineering and teacher credentialing. They forecast first-year enrollment between 75 and 100 students, with enrollments increasing to 500 students within three years.

The request for \$1 million is for planning and design (\$375,000) and renovation and upgrading of labs and equipment at the Cañada College campus (\$675,000). The colleges say that they would use the capital funds for building modifications and equipment to accommodate the offering of upper division courses in electrical engineering.

Planning and Design Funds Absorbable. Our review of Cañada College's July 2000 budget proposal for the \$375,000 for planning and design indicates that these costs are absorbable within the current budget. For example, the budget proposal for use of the funds includes the following:

- \$75,000 for faculty release time at both institutions.
- \$75,000 for a labor market forecasting review by the SFSU's Urban Institute.
- \$50,000 for first-year marketing costs.
- \$30,000 for faculty travel to other states to visit similar programs.

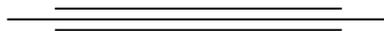
These tasks are part of the normal operation of the institutions (academic planning and/or institutional research) and therefore should be absorbable within current budgets. Cañada College reports that it has already committed up to \$100,000 from its Partnership for Excellence funds for implementing and administering the program. Continued use of these funds is appropriate. The SFSU should also be willing to invest academic planning and institutional research funds to get this program started. Accordingly, we recommend that the Legislature deny the request for \$375,000 for planning and design because our analysis indicates that currently available funds can be used to establish this program.

Capital Outlay Request. The budget requests \$625,000 for renovation and upgrading of labs and equipment at the Cañada College campus to accommodate the offering of upper division courses in electrical engineering. While equipment upgrades to offer upper division courses may be needed, the CCC has not provided any information on the scope, cost estimates, equipment needs, or relative priority of this project among other community college capital outlay requests for 2001-02. Without this basic information, the Legislature is not in a position to evaluate the project request. We recommend that the Chancellor's office review the request in the context of other statewide community college capital outlay needs. If this is a statewide priority, the Chancellor's office should submit the project to the Legislature through the normal capital outlay process. Given the lack of project information and the unknown relative priority of this project on a statewide basis, we recommend that the Legislature deny the request for \$625,000. Cañada College and SFSU can continue to move forward with the noncapital related portion of the project pending submission and review by the Legislature of any forthcoming capital outlay request.

Chancellor's Office Seeks Funds Again for Existing Positions

We withhold recommendation on the request for \$349,000 from the General Fund to fill four vacant positions because the Legislature should be given more specific information on where the Community College Chancellor's office spent the Legislature's prior appropriations for these positions.

The budget proposes non-Proposition 98 General Fund increases of \$1.1 million for increases in administration within the Chancellor's Office, including \$349,000 to fill four vacant positions (one in legal affairs and three in student services). The request for funds to fill four vacant positions is unusual. At the time these positions were approved by the Legislature, funds were available to fill the positions. When we asked why it does not have funds for these positions today, the Chancellor's office said that it used the funds to cover other salary and operating expense increases for which they did not receive funding. In order for the Legislature to determine the appropriateness of providing funds a second time, more specific detail on where the CCC spent the prior appropriations is needed. Pending receipt of this specific detail, we withhold recommendation on the request for \$349,000.



STUDENT AID COMMISSION (7980)

The Student Aid Commission provides financial aid to students through a variety of grant, loan, and work-study programs. The commission's proposed 2001-02 budget includes state and federal funds totaling \$1.2 billion. This is \$138 million, or 13 percent, more than estimated expenditures in the current year.

The budget requests \$670 million from the General Fund for the commission. This is \$138 million, or 26 percent, more than estimated expenditures in the current year. Of the General Fund total, 97 percent is for direct student aid for higher education. The balance is for the cost of operating the commission (2.2 percent) and an outreach program for K-12 students (1.2 percent).

Major General Fund Budget Changes

Figure 1 (see next page) shows the major changes proposed for the commission's budget in 2001-02. As the figure shows, the budget requests a General Fund increase of \$138 million. The major factor driving this change is growth in the number and amount of Cal Grant awards. The commission projects that the number of Cal Grant recipients will increase from 152,201 in the current year to 209,180 in 2001-02, an increase of 37 percent. This increase is a result of expansion of the Cal Grant program authorized by Chapter 403, Statutes of 2000 (SB 1644, Ortiz). The budget also requests a total of \$6.4 million on an ongoing basis for costs associated with administering the expanded grant program. The commission estimates that it incurred costs of \$5.7 million in the current year for this purpose.

The budget includes \$14.6 million to pay holders of Assumption Program of Loans for Education (APLE) warrants. This is \$9.1 million, or 163 percent, more than estimated expenditures for the program in 2000-01. This results from an increase in the number of warrants that have be-

come redeemable for college-loan repayments. Under the APLE program, the state issues warrants to prospective K-12 teacher-training students. For a student that receives an APLE warrant, the commission will pay off up to \$19,000 of the student’s college loan debt, provided the student obtains a teaching credential and teaches in certain subject areas or in disadvantaged schools for a specified number of years (four years to obtain maximum value of a warrant).

Figure 1	
Student Aid Commission Major General Fund Changes	
<i>(Dollars in Millions)</i>	
2000-01	\$531.7
Increase in Cal Grant awards	\$127.9
Increase in APLE ^a awards	9.1
Cal Grant administration	6.4
Various workload adjustments	0.5
Reduction of one-time funds and other adjustments	(6.1)
Proposed 2001-02	\$669.5
Increase	\$137.8
Percent	26%
^a Assumption Program of Loans for Education.	

THE CAL GRANT PROGRAM

The Cal Grant Program, which is administered by the commission, is providing grant aid to over 152,000 college and vocational education students in 2000-01. There are four types of awards:

- **Cal Grant A.** These awards cover systemwide fees at the California State University (CSU) and the University of California (UC), or up to \$9,708 of tuition at private colleges and universities. In 2000-01, 72,462 college students are receiving Cal Grant A awards, worth over \$306 million.
- **Cal Grant B.** These awards cover the same fees as Cal Grant A excluding fees for the freshman year of college. The award also provides recipients with a \$1,551 stipend toward other expenses

for all four years of college. In 2000-01, 67,977 college students are receiving Cal Grant B awards, worth almost \$173 million.

- **Cal Grant C.** These awards cover up to \$2,592 in fees at vocational schools and up to \$576 for books and supplies. In 2000-01, 9,286 students are receiving Cal Grant C awards, worth \$14.8 million.
- **Cal Grant T.** These awards cover tuition in post-baccalaureate programs leading students to an initial teaching credential. In 2000-01, 2,476 teacher-training students are receiving Cal Grant T awards, worth \$10 million.

Chapter 403 made several significant changes to the Cal Grant A and Cal Grant B programs. As a result, many more Californians will receive grant aid in the coming years. The commission projects that, because of these changes, the state will award 29,704, or 17 percent, more Cal Grants in 2001-02 (209,180 versus 179,476) than it would have issued in 2001-02 under prior law. The commission projects that Chapter 403 will almost double the number of Cal Grants in 2006-07 (402,590 versus 217,539) compared to prior law. It projects that General Fund expenditures in that year will be \$586 million, or 82 percent, more than they would have been under prior law (\$1.3 billion versus \$716 million).

Below, we summarize how the new law changes the Cal Grant rules, and evaluate the commission's projections for Cal Grant recipients and expenditures.

The New Cal Grant Program

The new Cal Grant program differs from the prior program in several important ways.

Entitlement for Cal Grant A and Cal Grant B Awards. Under prior law, the commission established most of the eligibility criteria for Cal Grants administratively. Because funding of Cal Grants often was insufficient to provide Cal Grants to all eligible students, however, the commission rationed awards by ranking eligible students based on their academic records and other factors, subject to a law specifying that it must provide the same number of new Cal Grant A and new Cal Grant B awards. The new program specifies that all high school graduates (that is, entering freshmen) and community college transfer students meeting the criteria for Cal Grant A and B awards shall receive an "entitlement" award. The new law provides for a continuous appropriation of whatever funds are needed to provide grants to these eligible students. The new law also specifies that the commission shall allocate 22,500 "competitive" Cal Grant A and Cal Grant B awards to students not otherwise eligible for entitlement awards (for example, students who did not apply as freshmen). Cal Grant C

(vocational studies) and Cal Grant T (teacher training) awards remain competitive and limited by appropriated funds.

Eligibility Criteria in Statute. Under prior law, the commission established most of the criteria for Cal Grant eligibility administratively. The new law specifies minimum grade-point averages (GPAs) that students must have achieved prior to applying. (High school graduates need GPAs of at least 3.0 for Cal Grant A awards and 2.0 for Cal Grant B awards. Transfer students need a college GPA of at least 2.4 for both awards.) The new law also places income and asset ceilings in statute and requires that the commission adjust them annually for inflation. (The limits for 2001-02 are comparable to those administratively established for 2000-01, adjusted for inflation.)

Additional Application Deadline for Competitive Awards. Under prior law, high school seniors and prospective transfer students had to apply for Cal Grant A and Cal Grant B awards by March for the following fall college semester. The new law provides that one-half of the 22,500 competitive Cal Grant awards be issued to students applying in March, and the other half to community college students who apply in September of the same year.

Figure 2 (see next page) 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.

Update Needed on Cal Grant Cost Projections

We recommend the commission give budget sumcommittees a detailed written update of its Cal Grant projections at the time of the administration's May Revision request.

Prior to the new law, the annual budget act authorized both the total amount of funding and total new awards for the Cal Grant program for the year. In the past, the commission has generally been able to project out-year costs of the program accurately. With the significant program changes made by Chapter 403—including provisions for Cal Grant entitlements and two application deadlines—there is considerable uncertainty about the number of participants and the General Fund cost for 2001-02. The uncertainty is even greater for the out-years. This is because the new law probably will induce behavioral changes among students potentially eligible for the Cal Grants. Indeed, one goal of the Legislature in modifying the program was to encourage more eligible students to apply for awards.

Commission Projections Appear Reasonable. Figure 3 (see page 229) shows the commission's projections for Cal Grant participation and cost

for the budget year through 2006-07, when the effects of the new law likely will be fully realized.

Figure 2**Description of Cal Grant Programs**

2001-02

	Cal Grant A	Cal Grant B	Cal Grant C	Cal Grant T
Family-Income Ceiling (based on family size)^a				
Six +	\$78,842	\$43,305	\$78,842	\$78,842
Five	73,097	40,113	73,097	73,097
Four	68,202	35,857	68,202	68,202
Three	62,776	32,239	62,776	62,776
Two	61,286	28,622	61,286	61,286
Family-Asset Ceiling (excluding principal residence)				
	\$52,774	\$52,774	\$52,774	\$52,774
Minimum Grade-Point Average (GPA)				
Freshmen	3.00	2.00	Ranked by work and academic performance	Ranked by academic performance
Transfers	2.40	2.40		
Maximum Award^b				
Nonpublic	\$9,708	\$9,708	\$2,592	\$9,708
Additional Annual Grant for Living Expenses in 2001-02				
	None	Up to \$1,551	Up to \$576	None
Maximum Number of New Entitlement Awards				
	No limit	No limit	No entitlements for C and T	
Maximum Number of New Competitive Awards				
	22,500 total for A and B awards		11,894 ^c	3,000 ^c
Proposed Budget 2001-02				
	\$437 million	\$166 million	\$19 million	\$10 million
Projected Total Recipients for 2001-02				
	71,922	120,913	11,894	3,000
Average Family Income of New Dependent Recipients in 2000-01				
	\$36,256	\$15,460	\$28,241	\$33,280

^a The commission must also determine that applicants have "financial need" based on a federal needs assessment methodology. Most students under income and asset ceilings demonstrate financial need.

^b For students in private colleges. Grants cover systemwide CSU and UC fees.

^c Projections based on funding for Cal Grant C (\$19 million) and Cal Grant T (\$10 million) awards.

Figure 3**New Cal Grant Law Will Increase Recipients and General Fund Cost***(Dollars in Millions)*

	Prior Law ^a		New Law ^b		Increase	
	Recipients	Cost	Recipients	Cost	Recipients	Cost
2000-01	152,201	\$504	152,201	\$504	—	—
2001-02	179,476	591	209,180	632	29,704	\$41
2002-03	199,662	657	266,226	815	66,564	157
2003-04	213,458	702	323,632	1,022	110,174	320
2004-05	216,854	713	366,874	1,178	150,020	465
2005-06	217,539	716	384,796	1,241	167,257	525
2006-07	217,539	716	402,590	1,302	185,051	586

^a Projections if prior law and number of new awards authorized in 2000-01 Budget Act had continued.

^b Chapter 403, Statutes of 2000 (SB 1644, Ortiz), changes Cal Grant rules beginning in 2001-02.

The commission simulated the award process under the new program using the financial and academic profiles of students who applied in the most recent awards cycle. The commission adjusted these projections to reflect possible increases in applications due to the new laws. The commission's cost projections assume, for example, that application rates among eligible students will increase steadily each year until they are 24 percent above current rates. These assumptions are not based on a statistical model of student behavior, but rather the commission's "best guess" as to how people will respond to the new law. While the estimates appear reasonable, future Cal Grant costs may vary significantly.

Include Updated Projections in May Revision. Because of the unavoidable uncertainty in the projections, we recommend that the commission advise the Legislature at the time of the May Revision of any new information about program participation or cost. The commission will have more information upon which to make its projections because the first round of applications under the new law are due in March.

Report Overdue on Teacher Preparation Financial Support

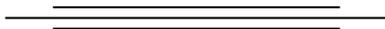
We recommend the California State University, University of California, Association of Independent California Colleges and Universities, and California Student Aid Commission report during budget hearings on their study of financial aid programs for students in teacher preparation programs.

During deliberations on the 2000-01 budget, the Legislature sought information on the relative effectiveness of programs designed to increase the number of students training for and entering the teaching profession. Specifically, the Legislature asked the CSU, the UC, the Association of Independent California Colleges and Universities, and the commission for information on the relative cost-effectiveness of funding:

- **State Teacher-Preparation Programs.** The state provides CSU with \$6,360 per year and UC with \$9,158 per year for each additional teacher-training enrollment.
- **New Cal Grant T Awards.** The commission awards grants to students to cover tuition in teacher-preparation programs at public and private colleges and universities. Currently, the commission is authorized to award a maximum of 3,000 grants each year, at an annual General Fund cost of \$10 million.
- **New APLE Warrants.** The APLE authorizes the commission to issue warrants to prospective teacher-training students. The commission is funded to assume up to \$19,000 in student-loan debt for each APLE warrant recipient that obtains a credential and teaches in specified disadvantaged schools or in specified subject areas (such as math and science). The commission is authorized to issue 6,500 warrants to prospective teachers each year. The budget requests over \$14 million in 2001-02 to assume student-loan debt for recipients now eligible to redeem warrants.

Unfortunately, little is known about the relative effectiveness of these three approaches in increasing the number of teachers in K-12 classrooms. In its *Supplemental Report of the 2000-01 Budget Act*, the Legislature asked the commission to lead public and independent higher education institutions in a study of the three approaches. The Legislature directed the commission and institutions to report their findings by October 30, 2000. The Legislature had not received the report at the time this analysis was prepared.

The Legislature needs this report to evaluate options for increasing the number of teachers. We recommend, therefore, that the commission and universities comply with the Legislature's directive. They should be prepared to comment on their research during budget hearings.



FINDINGS AND RECOMMENDATIONS

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CROSSCUTTING ISSUES

K-14 Education Priorities

- E-15 ■ **Summary of Proposition 98 Changes. Add New Item for \$500 Million Disadvantaged Schools Block Grant.** Recommend reductions to various K-14 budget proposals totaling almost \$800 million in Proposition 98 funds for 2001-02. Recommend the Legislature redirect these savings to other K-14 programs that give more discretion at the local level and that we believe would result in more effective educational outcomes. The largest of these recommended appropriations—\$500 million—is for a disadvantaged schools block grant focusing on middle schools and high schools that are very low performing and /or have high concentrations of students in poverty.

Professional Development for K-12 Teachers

- E-21 ■ **Give Priority to Teachers in Year-Round Schools—Phase In Professional Development Program More Realistically. Reduce Item 6110-137-0001 by \$235 Million.** Recommend Legislature provide \$100 million for standards-based professional development for the approximately 50,000 teachers currently teaching in year-round schools (at a \$2,000 per-teacher rate) and scale up the program over the proposed three-year period, thereby serving the same total number of teachers.
- E-32 ■ **Reduce Funding for University of California’s Professional Development Institutes. Reduce Item 6440-001-0001 by \$10 Million and Reduce Item 6110-136-0001 by \$10 Million.** Recommend Legislature reduce University of California’s (UC) budget by \$10 million and not approve the \$10 million augmentation requested for State Department of Education (SDE), thereby realigning UC’s funding for the California Professional Development Institutes with the funding the state currently provides SDE for stipends.
- E-34 ■ **Shift Funding From California State University (CSU) to SDE—Allow Districts to Choose Providers. Reduce Item 6610-001-0001 by**

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\$18.5 Million and Shift \$18.5 Million to SDE Budget. Recommend Legislature shift the \$18.5 million the budget requests to expand the Education Technology Professional Development Program from CSU to SDE and allow districts to choose the professional development providers that best meet their needs.

- E-36 ■ **Pooling Existing Resources Could Enhance Quality of K-12 Professional Development.** Recommend Legislature enact legislation and add budget bill control section to allow school districts to redirect resources from outdated, nonstandards-aligned, and lower-priority professional development programs to professional development programs that are both aligned to the state's new academic content standards and of sufficient training length to be effective.

Improving Academic Preparation for Higher Education

- E-38 ■ **Better Preparing Students for College.** Recommend Legislature adopt a multifaceted strategy to improve students' academic preparation for higher education and increase the segments' accountability for appropriately serving unprepared students. Specifically, we recommend the segments assess students' college readiness earlier, report on the preparedness of all entering students, and study the effectiveness of their precollegiate services. We further recommend the Legislature fund precollegiate courses across the three segments in a more equitable manner.

Collaborative Academic Preparation Programs

- E-48 ■ **Link Funding For CAPI Program To Performance.** Recommend Legislature approve the \$8 million the Governor's budget requests to expand the Collaborative Academic Preparation Initiative (CAPI) but adopt supplemental report language requiring California State University to develop a program assessment tool and report annually, beginning December 1, 2002, on student achievement and teacher improvement in the targeted high schools.

- E-50 ■ **Approve Augmentation for Diagnostic Writing Service (DWS).** Recommend Legislature approve the \$1 million the Governor's budget provides to expand the DWS but consider streamlining the current assessment process, perhaps by using existing high school assessments—such as the Golden State Exams—to determine college readiness.

- E-51 ■ **Use ASSIST Augmentation To Enhance Project's Usefulness.** Recommend Legislature approve the \$1.1 million the Governor's budget requests for the Articulation System Stimulating Inter-Institutional Student Transfer (ASSIST) program but adopt budget bill language requiring the California State University and the University of California to honor all online articulation agreements.

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K-12 EDUCATION

Introduction

- E-53 ■ **K-12 Budget Summary.** Budget includes increase in K-12 Proposition 98 funding of almost \$3.2 billion in 2001-02. This is \$479 per pupil, or 7.1 percent, more than revised estimate of per-pupil expenditures in current year.

Discretionary Funding

- E-67 ■ **Local Discretion Over New Spending. Enact Legislation to Increase Revenue Limits by \$175 Million.** Recommend that, to the extent possible, the Legislature increase revenue limit funding for school districts and county offices of education because additional general purpose funds enhance the ability of schools to improve student outcomes in ways that suit varying local circumstances and needs. Based on resources available from various spending reductions that we recommend in this analysis, we recommend that the Legislature appropriate \$75 million for equalization and \$100 million to begin a phase-out of the so-called Public Employees' Retirement System reduction of revenue limits.

Longer Middle School Year

- E-71 ■ **Middle School Longer Year Incentive. Reduce Item 6110-192-0001 by \$100 Million and Redirect Funds to New Block Grant Item.** Recommend Legislature redirect \$100 million (Proposition 98) to block grant targeted at middle schools and high schools with concentrations of students in need.

Algebra Incentive Program

- E-85 ■ **Algebra Incentive Program. Reduce Item 6110-121-0001 by \$17 Million and Augment Item 6110-134-0001 by Same Amount.** Recommend Legislature redirect \$17 million of the proposed \$30 million for the Algebra Incentive Program to increase the funding base of the Teaching as a Priority (TAP) block grant, in order to give districts the flexibility to address teacher shortages in other critical subject areas. Recommend legislation to clarify that TAP funds can be used for salary differentials for subject areas of critical teacher shortages.

School Accountability

- E-90 ■ **Reduce Funding for Governor's Performance Awards. Reduce Item 6110-123-0001 by \$219 Million.** Recommend Legislature reduce the funding used to provide the Governor's Performance Awards by \$219 million until the Academic Performance Index (API) is based upon a broader set of reliable performance indicators.

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- E-95 ■ **Evaluation of Public Schools Accountability Act (PSAA) Underfunded. Increase Item 6110-001-0001 by \$250,000 and Reappropriate \$250,000 From Item 6110-001-0001 of 2000-01 Budget Act.** Recommend Legislature increase funding to the State Department of Education (SDE) to contract for an evaluation of PSAA. Further recommend SDE report at budget hearings on the possibility of using federal funds for this evaluation.
- E-99 ■ **Certificated Staff Performance Incentives. Reduce Item 6110-133-0001 by \$50 Million.** Recommend Legislature reduce funding for the Certificated Staff Performance Incentive Awards by \$50 million on a one-time basis to take advantage of carryover funding available for this program.
- E-99 ■ **Immediate Intervention/Underperforming Schools Program (II/USP).** Recommend Legislature enact legislation to broaden the eligibility criteria for II/USP to include all schools in the lowest two deciles of API.
- E-102 ■ **Extra Federal Funds Available for II/USP.** Recommend SDE report at budget hearings on the extent that General Fund cost for II/USP can be reduced by the use of federal funds.
- E-103 ■ **General Fund Appropriation for II/USP May Be Low.** The amount provided in the Governor's budget for II/USP is inadequate to maintain the current-year per-pupil grant level.

Assessments

- E-104 ■ **Eliminate Primary Language Test Requirement. Reduce Item 6110-113-0001 by \$1.7 Million.** Recommend Legislature enact legislation to eliminate the requirement that districts test limited-English-proficient pupils in their primary language, because Proposition 227 generally requires that children be in classes taught predominantly in English. Recommend redirection of the \$1.7 million for the Spanish Assessment of Basic Education Exam to other education priorities.
- E-110 ■ **High School Exit Exam (HSEE) Changes Would Create Savings. Reduce Item 6110-113-0001 by \$35 Million.** Recommend that the Legislature (1) reduce funding for administration of the HSEE by \$35 million and (2) require the State Department of Education (SDE) to report on the funding needed to pay district apportionments for the HSEE.
- E-112 ■ **Should State Release HSEE Question?** Recommend that SDE report on the costs of publicly releasing HSEE test questions, and that the Legislature codify a policy about releasing HSEE test questions.
- E-112 ■ **On-Line Assessments. Increase Item 6110-001-0001 by \$250,000.** Recommend Legislature add \$250,000 from the General Fund (non-Proposition 98) to SDE to contract for a study of the feasibility of

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administering state assessments on-line because of potential long-run benefits and cost savings.

- E-114 ■ **The Standardized Testing and Reporting and HSEE Workbooks. Redesignate \$22.5 Million in Item 6110-113-0001 as One-Time Spending.** Recommend Legislature approve \$27.5 million requested for the initial distribution of assessment workbooks, but do so as a one-time appropriation and provide \$5 million annually in future years for annual workbook replacement costs.
- E-114 ■ **Consultant to Align State Tests to Academic Content Standards. Redesignate \$3 Million Appropriation From SBE to SDE.** Recommend Legislature move \$3 million of one-time non-Proposition 98 funds requested for the State Board of Education's (SBE) support budget to SDE's support budget for the purpose of hiring consultants to assist in aligning state tests with academic content standards.

K-12 Databases

- E-116 ■ **California School Information Services (CSIS). Increase Item 6110-107-0001 by \$800,000 and Increase Item 6110-101-0349 by up to \$11.5 Million.** Recommend Legislature augment the Fiscal Crisis Management Assistance Team (FCMAT) by \$800,000 Proposition 98 General Fund to continue implementation of the CSIS project. Recommend augmenting the FCMAT by up to \$11.5 million Proposition 98 General Fund to provide additional CSIS local implementation grants to school districts.
- E-122 ■ **Potential CSIS Funding Expansion.** Recommend FCMAT report at budget hearings on the potential values and costs of offering school districts a CSIS readiness assessment.
- E-123 ■ **Apportionment Rewrite Compatibility With CSIS Design.** Recommend the State Department of Education (SDE) report at budget hearings on efforts they are taking to ensure the compatibility of the Principal Apportionments System Rewrite to receive CSIS data.
- E-124 ■ **The CSIS External Oversight Delayed. Increase Item 6110-001-0001 by up to \$250,000.** Recommend Legislature increase non-Proposition 98 General Fund from \$150,000 up to \$400,000 for SDE to contract for external oversight of the CSIS project. Recommend the Department of Information Technology and the Department of Finance report at budget hearings on their delay in approving the scope of work for external oversight of CSIS.
- E-125 ■ **Increase Funding for the SDE to Adequately Support the CSIS Program. Increase Item 6110-001-0001 by \$500,000.** Recommend Legislature provide \$1 million to SDE for staff and services that will allow the SDE to complete tasks that are necessary for it to support CSIS program. These tasks would allow local education agencies to transmit

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data to the SDE through CSIS program, thereby reducing school districts' state data reporting workload.

- E-126 ■ **The Academic Performance Index (API) Student-Level Database Has Potential. Withhold Recommendation on \$5 Million—Item 0650-115-0001.** Withhold recommendation on the \$5 million API database proposal based upon the significant number of unanswered questions about how the API database will operate. To the extent that the Legislature appropriates funds for this project, we recommend the funding be provided to the SDE and not the Office of the Secretary for Education because SDE is the administrative agency in charge of student assessments and accountability.
- E-129 ■ **The Standardized Testing and Reporting (STAR) Data Analysis. Reduce Item 6110-113-0001 by \$20 Million.** Recommend redirecting \$20 million Proposition 98 funds provided for STAR data analysis incentive grants to other legislative priorities.

Education Technology

- E-131 ■ **High-Tech Highs. Delete Item 0650-116-0001.** Recommend Legislature redirect \$20 million from the high-tech highs proposal to other legislative priorities because (1) schools can use existing education technology funds to create high-tech highs, (2) the budget proposal would serve relatively few students at a high cost, and (3) a case for state involvement has not been made.

After School Programs

- E-140 ■ **After School Learning and Safe Neighborhoods Partnership Program. Reduce Item 6110-196-0001 by \$20 Million and Item 6110-494 by \$2 Million.** Recommend redirection of \$20 million for the expansion of the After School Learning and Safe Neighborhoods Partnerships Program and \$2 million (one-time Proposition 98 funds) for after school regional resource centers to a block grant for disadvantaged schools, because the budget already provides sufficient funding for after school programs. Recommend redirection of a related \$240,000 augmentation in state operations to support an evaluation of the After School Learning and Safe Neighborhoods Partnerships Program.
- E-142 ■ **Student Academic Partnership Program. Reduce Item 6110-143-0001 by \$10 Million.** Recommend Legislature redirect the \$10 million proposed for the Student Academic Partnership Program to a block grant for disadvantaged schools due to the lack of quantitative data on the program's effectiveness and the availability of other tutoring programs that serve the same purpose.
- E-143 ■ **Academic Volunteer and Mentor Service Program. Reduce Item 0650-111-0001 by \$5 Million.** Recommend Legislature redirect the \$5 million

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for the expansion of the Academic Volunteer and Mentor Service Program to a block grant for disadvantaged schools due to the (1) additional funds that will become available from expiring grants, (2) existence of other state and federal mentor programs, and (3) lack of conclusive evidence regarding the program's effectiveness.

Child Care and Development

- E-149 ■ **Administration's Review of Child Care Policies and Resources.** Recommend administration report prior to budget hearings on the progress of its review of child care policies and resources.
- E-152 ■ **Fully Fund Estimated Need for Stage 3 Set-Aside. Increase Item 6110-196-0890 by \$96 Million.** Recommend appropriation of \$61 million in new federal funds for child care to fully fund the estimated need for the Stage 3 set-aside as previously intended by the Legislature. Recommend appropriation of \$35 million in new federal funds to meet the unfilled child care needs of the working poor.
- E-153 ■ **Eliminate Statutory Authority Over Unspent Child Care Funds.** Recommend Legislature rescind statutory authority for State Department of Education (SDE) to carry over unspent General Fund child care funds, in order to restore to itself the full budgeting flexibility to use the funds for any Proposition 98 activity.
- E-156 ■ **Child Care Data Collection.** Recommend SDE report prior to budget hearings on its progress in developing a child care data collection and analysis system. Recommend SDE report why the state is not in compliance with federal data reporting requirements.
- E-157 ■ **Kindergarten Readiness Pilot Program. Amend Item 6110-001-0001, Provision 24.** Recommend Legislature amend budget bill language to conform to current law's requirement for Superintendent of Public Instruction to contract for an evaluation of the pilot program.

Special Education

- E-159 ■ **Extend Special Education Reporting Requirements.** Recommend that the Legislature extend the special education reporting requirements from the *Supplemental Report of the 2000-01 Budget Act* for an additional year so the Legislature can obtain information it needs to fulfill its oversight responsibility regarding compliance with federal special education requirements.
- E-160 ■ **Continue Special Education Equalization.** Recommend that the Legislature use the \$98 million freed up by new federal dollars to bring approximately 75 percent of average daily attendance to the same special education funding level, through enactment of trailer legislation.

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Other Issues

- E-163 ■ **School Bus Safety Mandate. Withhold Recommendation on \$223.7 Million in Item 6110-485 and \$66.7 Million in Pending Legislation.** Withhold recommendation on \$290 million for school bus safety mandate claims pending further review of cost claims. Recommend Legislature refer matter to the Joint Legislative Audit Committee (JLAC) for review and recommendation on possible revisions to the mandate's parameters and guidelines. Further recommend that Legislature utilize information gained from the JLAC review to consider modifying or eliminating the mandate.
- E-165 ■ **Charter School Direct Funding Model. Withhold on Item 6110-211-0001.** Withhold recommendation on \$28.4 million requested on the charter school block grant pending review of proposed trailer bill changes that the administration had not defined fully at the time of this analysis.

HIGHER EDUCATION

Intersegmental

- E-177 ■ **Adopt Budget Bill Language Regarding University of California and California State University Summer Enrollments. Related to Items 6440-001-0001 and 6610-001-0001.** Recommend Legislature approve the Governor's proposed \$33.1 million summer-related augmentation for the University of California and the California State University summer terms, but adopt budget bill language linking the funding directly to increases in summer enrollments.

University of California (UC)

- E-185 ■ **The UC Should Increase Fees Charged Nonresident Students. Reduce Item 6440-001-0001 by \$6 Million.** Recommend Legislature ask UC to increase total fees paid by nonresident students to at least the average charged nonresidents at comparable universities. This would increase UC's fee revenue by \$6 million, thereby reducing the need for \$6 million in General Fund support for 2001-02.
- E-187 ■ **The UC Should Resume Raising Professional-School Fees. Reduce Item 6440-001-0001 by \$1.5 Million.** Recommend UC increase professional-school fees by 10 percent for 2001-02, because its fees are far below those at comparable universities, thereby increasing fee revenue by \$3.5 million. We recommend deletion of the \$1.5 million the budget requests from the General Fund under its assumption that UC would not raise professional-school fees.
- E-190 ■ **Reduce Student/Faculty Ratio. Reduce Item 6440-001-0001 by \$8 Million.** Recommend deletion of \$8 million requested from the

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General Fund for “strengthening the quality of undergraduate education” because the proposal is vague and the university can already reduce the student/faculty ratio by having existing faculty teach more undergraduate classes.

- E-192 ■ **Graduate and Professional School Outreach Request Is Premature.** We withhold recommendation on \$1.5 million in ongoing General Fund support requested for the expansion of graduate and professional school outreach, pending receipt of UC’s outreach report.
- E-193 ■ **The Digital California Project. Withhold Recommendation on \$32 Million, Item 6440-001-0001.** Withhold recommendation on \$32 million General Fund proposed for the Digital California Project, pending receipt and review of a progress report (due in mid-February 2001). We further recommend that UC report on how schools will connect to Internet2 access points.
- E-197 ■ **Funds Already Available for Graduate Research Assistant Positions. Reduce Item 6440-001-0001 by \$7.5 Million.** Recommend Legislature delete \$7.5 million requested for additional graduate research assistants , because funding for the positions is available from a variety of other sources.
- E-198 ■ **Direct Pierce’s Disease Research Through Competitive Process. Reduce Item 6440-001-0001 by \$3 Million.** Recommend deletion of \$3 million from the General Fund proposed for UC research on Pierce’s Disease because the Legislature created the Pierce’s Disease Advisory Task Force in the California Department of Food and Agriculture to manage a competitive research grant process.

California State University

- E-204 ■ **Delete \$10 Million for “Strategic” Academic Programs. Reduce Item 6610-001-0001 by \$10 Million.** Recommend Legislature delete the \$10 million in ongoing funding for strategic programs because the CSU has not provided adequate justification that it needs additional funding for these programs.

California Community Colleges

- E-212 ■ **Proposed Funding for Part-Time Faculty Restricts District Flexibility in Meeting Local Needs.** Recommend Legislature redirect the \$70.2 million requested for part-time faculty salaries (\$62 million), part-time faculty office hours (\$7.2 million), and part-time faculty health insurance benefits (\$1 million) to the Partnership for Excellence. This would give districts greater flexibility to improve education services to students.
- E-215 ■ **Revisiting the 25 Percent “Cap” on Part-Time Faculty Staffing.** Recommend Legislature allow districts to employ part-time and full-time faculty in whatever ratio that maximizes education outcomes.

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- E-216 ■ **Give Districts Flexibility With Proposed Financial Aid Administration Funds.** Recommend Legislature shift \$11 million requested for community colleges to help students apply for Cal Grants to the Partnership for Excellence, which gives districts the ability to provide the requested assistance or other services that best meet students' needs.

- E-218 ■ **Teacher and Reading Development Partnership is Overfunded in Current-Year; Expansion Premature. Reduce Item 6870-101-0001 by \$15 Million.** Recommend Legislature (1) revert \$10 million in current-year General Fund support for the Teacher and Reading Development Partnership program because the program is overfunded in the current-year due to a one-year delay in issuing program grants, and (2) deny the \$5 million augmentation request because the CCC has not established that it could use the funds effectively. Recommend Legislature approve the budget request for \$200,000 from the General Fund to collect baseline data on the program.

- E-220 ■ **Use \$5 Million to Increase Access to Health Care Programs.** Recommend Legislature shift \$5 million, on a competitive basis, to community college campuses to expand "impacted" programs in the health care field in place of proposal to use funds for employee training.

- E-221 ■ **Cañada College/San Francisco State Proposal.** Recommend Legislature approve proposal but deny request for \$1 million because (1) currently available funds can be used to establish program and (2) the Legislature has no information on the costs, scope, equipment needs, and relative priority of the capital outlay request in relation to other California Community College capital outlay requests.

- E-223 ■ **Second Request for Funds for Same Positions.** Withhold recommendation on the request for \$349,000 from the General Fund to fill four vacant positions because the Legislature should be given more specific information on where the Community College Chancellor's office spent the Legislature's prior appropriations for these positions.

Student Aid Commission

- E-227 ■ **Include Updated Projections in May Revision.** Recommend the commission give budget subcommittees a detailed written update of its Cal Grant projections as part of the administration's May Revision request.

- E-229 ■ **Report Overdue on Teacher Preparation Financial Support.** Recommend the California State University, the University of California, the Association of Independent California Colleges and Universities, and the California Student Aid Commission report during budget hearings on their study of financial aid programs for students in teacher-preparation programs.