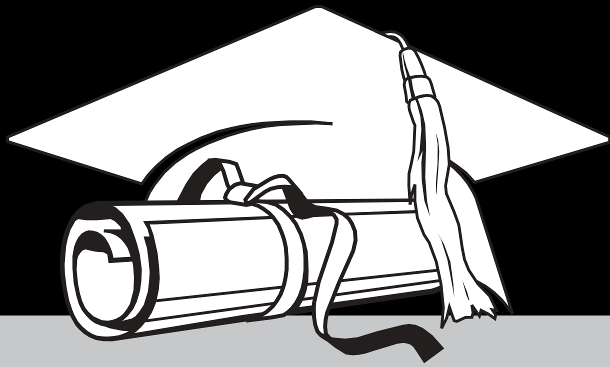
EDUCATION



LAO

60 YEARS OF SERVICE

2002-03 Analysis

Major Issues

Education

Proposition 98 Creates General Fund Challenge

- A crucial issue is posed for the Legislature by a potential General Fund increase needed for Proposition 98 of about $825 million. We discuss ways for the Legislature to act strategically in response to this challenge, in order to minimize impacts on non-Proposition 98 programs yet still meet important K-14 education priorities (see page E-13).

- These ways include exercising still-viable options to save current-year Proposition 98 monies (an estimated $161 million), substituting monies available from the Proposition 98 Reversion Account for other current-year Proposition 98 funding (saving $535 million), and “moving” certain education expenditures budgeted from non-Proposition 98 sources to Proposition 98 (potentially hundreds of millions of dollars).

Reforming Categorical Program Funding

- We recommend that the Legislature consolidate 51 K-12 programs into five categorical block grants—Academic Improvement, Compensatory Education, Alternative Education, School Safety, and Teacher Support and Development—because greater local flexibility would lead to increased efficiency and effectiveness in meeting specified educational needs. We also recommend that the Legislature consolidate 12 community college programs into two block grants for the same reason (see pages E-40, E-77, and E-250).

- We further recommend that the Legislature include funding for related mandates in the K-12 block grants in order to provide school districts with increased funding flexibility and incentives to minimize mandate costs (see page E-23).

☑ Challenge Collective Bargaining Mandate

- Given California Supreme Court rulings, school district obligations to bargain with employees over wages and working conditions do not appear to be a constitutionally required "state-reimbursable mandate." Moreover, funding school district collective bargaining activities through the mandate process promotes neither equity across districts nor efficiency. We recommend that the Legislature challenge this budgeting practice and shift the $41.5 million allocated for this purpose to other K-14 education priorities (see page E-31).

☑ Higher Education Student Fee Policy Needed

- For the eighth straight year, the Governor's budget for higher education proposes no increase in student fees, and the share of educational costs covered by fees continues to decline. However, in a departure from recent practice, the budget does not include an increase in General Fund support to compensate for a lack of a fee increase.

- We recommend that the Legislature enact in statute a consistent fee policy which provides for an appropriate sharing of educational costs between students and the state and which preserves student access to higher education (see page E-179).

☑ Competitive Cal Grant Programs Should be Expanded

- We recommend expansion of the competitive Cal Grant programs by redirecting state funds from certain financial aid programs at UC and CSU. This would help create a statewide financial aid system that is more efficient and objective (see page E-202).

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OVERVIEW

Education

The Governor's budget includes a total of $52.1 billion in operational funding from state, local, and federal sources for K-12 schools for 2002-03. This is an increase of $988 million, or 2 percent, over estimated expenditures in the current year. The budget also includes a total of $11.6 billion in state General Fund and local property tax support for higher education. This is an increase of $297 million, or 2.6 percent, over estimated expenditures in the current year.

Figure 1 shows support for K-12 and higher education for three years. It shows that spending on education will reach almost $64 billion in 2002-03 from all sources (not including capital-related spending).

Figure 1

K-12 and Higher Education Funding

2000-01 Through 2002-03
(Dollars in Millions)

	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Change From 2001-02	
				Amount	Percent
K-12[a]	$47,847	$51,137	$52,125	$988	2.0%
Higher Education[b]	$10,491	$11,299	$11,596	$297	2.6%

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 2002-03 represents $7,058 per student, as measured by average daily attendance (ADA). Proposed spending from all funding sources (excluding capital outlay and debt service) totals about $9,000 per ADA.

The Proposition 98 budget request for California Community Colleges (CCC) represents $4,389 per full-time-equivalent (FTE) student. This compares to proposed General Fund spending for each California State University FTE student of $8,746 and $18,223 for each University of California FTE student.

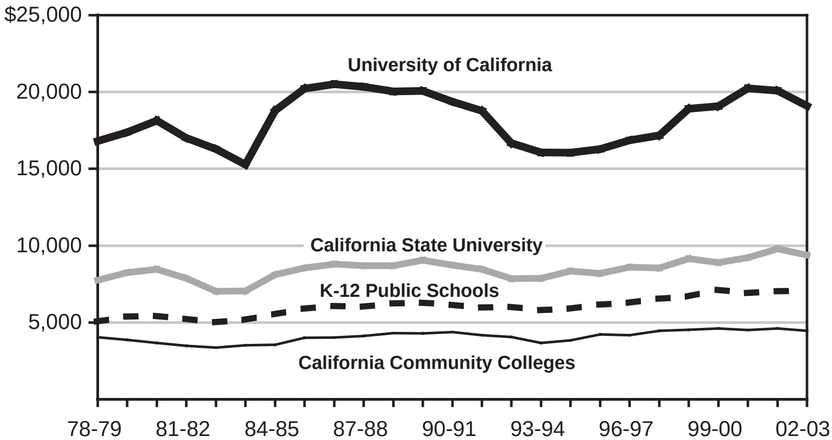
Historical Perspective of Funding Per Student

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 2002-03, adjusting for the effects of inflation over this 24-year period (see Figure 2). As the figure shows, per-student funding for each segment is at or near highs for this period.

Figure 3

Funding for K-12 and Higher Education Per Student[a] 1978-79 Through 2002-03

Constant 2002 Dollars



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

PROPOSITION 98

California 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 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 E-11) displays the budget's proposed allocations of Proposition 98 funding for K-12 schools and CCC. The budget proposes $46 billion for Proposition 98 in 2002-03. This proposed appropriation is equal to the constitutionally required minimum level. This proposal is a departure from the last five fiscal years (1997-98 through 2001-02), in which the state "overappropriated" the required minimum level. Proposition 98 funding issues are discussed in more detail in the "K-14 Education Priorities—Proposition 98" and "California Community Colleges" sections of this chapter.

ENROLLMENT GROWTH

Figure 5 (see page E-11) displays budgeted enrollment growth for K-12 and higher education. The increase in K-12 enrollment—1.07 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 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 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 tax revenues 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 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.

Figure 4

Proposed Proposition 98 Allocations[a]

2001-02 and 2002-03
(In Millions)

	2001-02	2002-03 Proposed	Change from 2001-02	
			Amount	Percent
Allocations				
K-12	$39,986	$41,209	$1,223	3.0%
Community Colleges	4,548	4,684	136	3.0
Other agencies	93	91	-2	-2.2
Loan repayment[b]	350	—	-350	-100.0
Proposition 98 Totals[c]	**$44,977**	**$45,983**	**$1,006**	**2.2%**

[a] General Fund and local property tax revenue.

[b] In 2002-03, $350 million that had been allocated to a loan payment relating to the CTA v. Gould lawsuit will be available for reallocation to other K-14 education purposes.

[c] Totals may not add due to rounding.

Figure 5

Budgeted Enrollment[a]

2001-02 and 2002-03

	2001-02	Projected 2002-03	Change From 2001-02	
			Amount	Percent
K-12	5,776,829	5,838,438	61,609	1.07%
Community Colleges	1,062,142	1,094,006	31,864	3.0
University of California	177,666	184,766	7,100	4.0
California State University	300,739	312,769	12,030	4.0

[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 2002-03

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 programs 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. Aside from the primary constraint of Proposition 98, there is flexibility for the Legislature to adjust funding for K-14 education. (Please see the discussion of K-14 education priorities in the "Crosscutting Issues" part of this chapter for a detailed discussion of the current Proposition 98 situation and the strategic dilemma it poses for the Legislature.)

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 CCC and K-12 schools, CCC's share has ranged from 9.45 percent to 11.85 percent. The Governor's budget proposes a CCC share of 10.21 percent.) Rather than rely on a fixed percentage, we recommend the Legislature annually adjust the funding share to express its budget priorities 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

A crucial issue for the Legislature in crafting budgets not only for K-12 education and the community colleges, but for virtually all other state programs, is posed by a potential General Fund increase needed for Proposition 98 of about $825 million. Below we discuss ways for the Legislature to act strategically in response to this challenge, in order to minimize impacts on non-Proposition 98 programs yet still meet important K-14 education priorities.

The overriding issue for the Legislature in crafting budgets for K-12 education and the community colleges (both funded largely through Proposition 98 funds) for the 2002-03 fiscal year is the minimum funding requirement set by Proposition 98. Indeed, the amount of General Fund money that will be needed to meet this constitutionally required minimum poses a major challenge for meeting the rest of the state's budgetary needs, as discussed in detail below.

In recent fiscal years, the amount of the minimum funding requirement has not been a crucial issue because General Fund revenues were relatively high. Each year from 1997-98 through 2001-02 the Legislature "overappropriated" the minimum requirement. These decisions reflected both the relative abundance of state revenues and the high priority accorded K-14 education funding by the Governor and the Legislature. Given the difficult fiscal situation the state now faces, the Proposition 98 minimum guarantee takes on new significance.

The Governor's budget estimates that the minimum guarantee for 2002-03 will be $46 billion, with an estimated $14.6 billion provided by local property tax revenues and the remaining $31.4 billion provided by the General Fund. The budget proposes K-14 education spending on Proposition 98 programs exactly equal to the estimated guarantee. The administration's estimate of the General Fund amount needed to meet the guarantee is driven by three key factors: its estimate of property tax revenues ($14.6 billion), its estimate of K-12 average daily attendance (ADA) growth (1.07 percent), and its estimate of growth in California per capita personal income (negative 3 percent). Our estimates depart from the administration's estimates on two factors—property tax revenues and per capita personal income—as discussed below.

Property Tax Revenues. Our estimate of the property tax revenues that will be allocated to school districts, county offices of education, and community college districts is $110 million less than the administration's estimate. This difference does not affect the overall amount guaranteed for K-14 education programs, but would affect the amount of General Fund money needed to supplement property tax revenues in order to meet a given guarantee level. Thus, our estimate implies that the Legislature will need to "find" $110 million from the General Fund to make up for a shortfall in property tax revenues.

Per Capita Personal Income. This factor affects the overall guarantee level (which is a combination of property tax revenues and General Fund revenues). Existing law specifies the use of an index of California personal income published annually by the federal government for this Proposition 98 factor. (The index will estimate the change in personal income between the fourth calendar quarter of 2000 and the fourth calendar quarter of 2001.) The index will be published in April or May and will effectively determine the Proposition 98 guarantee for 2002-03. The budget assumes that the federal index will reflect a 3 percent decline in California per capita personal income. Our best estimate is that the decline will be 1.5 percent. If our estimate is correct, the guarantee will be $715 million higher than the budgeted amount, with the entire amount due from the General Fund. Thus, combined with our property tax revenue estimate discussed above, we think the budget could understate General Fund needs for meeting the Proposition 98 guarantee by a total of $825 million.

THINKING AND ACTING STRATEGICALLY ABOUT PROPOSITION 98

Achieving Additional Current-Year Savings

We believe the Legislature should not only begin now to think strategically about the challenges posed by an increased General Fund demand from Proposition 98, but also should act while there is still time on options for securing one-time General Fund savings from current-year Proposition 98 appropriations. These options exist because—even with the current-year reductions made in the third extraordinary session—the current-year appropriation level for Proposition 98 programs remains well above the minimum funding requirement for 2001-02. Moreover, as we explain further below, these options can be exercised with minimal impacts on educational services to California's public school and community college students.

In our December report, *Addressing the State's Fiscal Problem*, we identified numerous options for current-year Proposition 98 reductions. The Legislature adopted many of those options in the third extraordinary session, but several remain viable for purposes of additional General Fund savings, as listed in Figure 1, for a potential savings of $161 million. The Legislature must act quickly to achieve these available savings. First, it must act before appropriations become encumbered. Second, the Legislature must enact urgency legislation that is signed by the Governor by June 30, 2002. After that date the existing level of appropriations would "lock in" for Proposition 98 guarantee purposes and no longer would be subject to reduction.

Figure 1

Viable LAO Options for Current-Year General Fund Savings (Proposition 98)

2001-02
(In Millions)

Program	Amount
Governor's performance awards	$144.3
Support for secondary schools reading	8.0
Charter school facility grants	5.0
Reading Award Program	4.0
Total	**$161.3**

The Legislature also can secure additional one-time savings for the General Fund by substituting Proposition 98 Reversion Account funds for General Fund monies currently appropriated for certain programs, in the process keeping those programs funded at their current levels. Unspent balances from prior Proposition 98 appropriations flow into the reversion account each year as an inevitable consequence of implementation delays in new programs or overestimates in program caseloads. Under the terms of Proposition 98, these balances must eventually be reappropriated from the account and spent on K-14 education programs. The budget estimates that the reversion account currently has $535 million of resources available for expenditure and proposes spending that entire amount in 2002-03, as shown in Figure 2.

Figure 2

Proposition 98 Reversion Account Governor's Proposed Expenditures

2002-03
(In Millions)

Textbooks	$200.0
Library materials	100.0
Math/Reading Professional Development	87.1
Science lab materials/equipment	75.0
CCC[a] scheduled maintenance	22.9
CCC equipment	22.9
California School Information Services	15.5
Principal training	7.5
High Tech High Schools	4.0
Total[b]	**$534.9**

a California Community Colleges.
b Total does not add due to rounding.

Our review of these spending proposals indicates that, although most of the proposals have merit, the Legislature could defer approval of all the reversion account proposals and instead use the money as substitute funding *in the current year* for an equal amount of programs funded by 2001-02 Proposition 98 appropriations. (This would not have any effects on current-year Proposition 98 programs. This would involve only a "swap" in the way a few programs are funded.) This strategy would create an additional $535 million of one-time General Fund savings in the current year.

By late April/early May the Legislature will have certain knowledge as to how much more General Fund support must be provided for the 2002-03 guarantee. To the extent the Legislature taps these reversion funds for current-year savings, it could use at least some of the growth in the guarantee to restore the most meritorious of the Governor's reversion account proposals. To carry out this strategy, the Legislature must enact urgency legislation before the end of June, for the same reasons discussed above regarding current-year Proposition 98 reductions.

Budget-Year Savings Options

The Legislature can help mitigate the pressures placed on the rest of the state budget by an increased guarantee by "moving" certain expenditures for educational purposes into the guarantee. For example, as we discuss in detail under the "Teacher Support and Development" section later in this chapter, funds budgeted for teacher professional development institutes in the University of California (UC) could instead be allocated to school districts. The districts, in turn, could choose to contract with UC for services or use other teacher training providers. This redirection makes sense on policy grounds, but also would convert non-Proposition 98 funds into Proposition 98 funds and help meet the requirements of an increased guarantee at no additional General Fund cost. Similar options exist with child care programs. We discuss these options in more detail in our companion document, *Options for Addressing the State's Fiscal Problem*.

Meeting Additional K-14 Spending Needs

A significant increase in the 2002-03 guarantee would make it easier for the Legislature to address at least some K-14 spending priorities that are not funded in the Governor's budget. For example, the Legislature could more easily restore funding for two legislative priorities that increase general purpose funding for school districts: (1) revenue limit equalization and (2) reducing the "Public Employees' Retirement System offset" to revenue limits. We detail these latter possibilities elsewhere in this chapter under a discussion of discretionary funds.

Another development that may make it easier for the Legislature to address competing program needs involves K-14 statutory cost-of-living adjustment (COLA). Based on data available after the release of the Governor's budget, we estimate that the COLA could be about 1.8 percent rather than the budgeted 2.15 percent. (A final estimate will be available in the spring based on the release of a federal price index.) If the final estimate were 1.8 percent, for example, budgeted funds for COLA purposes could be reduced by about $135 million for K-12 and about $15 million for community colleges. This would make available $150 million for other K-14 priorities.

Public Employees' Retirement System Deferral

The Legislature's action regarding the budget's proposal to defer employer contributions to the Public Employees' Retirement System (PERS) has important implications for the Legislature's efforts to craft a K-14 education budget.

As part of the administration's proposal to address the state's budget problem, the budget proposes to defer employer contributions to the Public Employees' Retirement System (PERS). In the "Crosscutting" section of the "General Government" chapter of this *Analysis*, we recommend that the Legislature reject the proposed deferral. In this part of the *Analysis*, we describe how rejection of the Governor's PERS proposal would affect the Legislature's efforts in crafting its K-14 education budget.

Background

The Governor's budget proposes to defer employer contributions to PERS. This deferral includes contributions under the "school employer" rate and therefore affects nearly all school districts, county offices of education, and community college districts. These agencies contribute to PERS at the school employer rate on behalf of their PERS-covered employees (generally, noncertificated and/or noninstructional staff). Due to relatively good actuarial performance of this PERS account, the school employer rate has been zero percent of covered payroll since 1997-98. (Some school employers, such as the Los Angeles Unified School District, have separate contracted rates with PERS that are not affected by the proposed deferral.)

The PERS deferral would, among other things, postpone an anticipated increase in the school employer rate. Without the deferral, PERS estimates that the rate would increase to 1.72 percent in 2002-03. However, deferral of the school employer rate increase would not create direct savings for school districts or county offices because current state law offsets revenue limit payments based on changes in school employer contributions. We describe this revenue limit offset in detail below.

How the PERS Offset to Revenue Limits Works

The PERS offset is an Education Code provision that affects almost all K-12 agencies by changing revenue limit payments on the basis of changes in PERS contributions. Through a complex series of calculations, this provision reduces each district's (or county office's) revenue limit payments to the extent that PERS contribution rates are less today than they were in the 1982-83 fiscal year. (Community college districts do not have a similar offset in their apportionments.) In effect, current law "passes through" to the state all savings or costs that otherwise would accrue to K-12 agencies from annual changes in the school employer rate. Savings create "room" within the Proposition 98 guarantee for the state to spend money on other K-14 education programs, particularly categorical programs. Costs from a rising contribution rate, on the other hand, create a need to reduce funding for categorical programs if the Legislature is trying to stay within a given guarantee level.

What if the PERS Deferral Is Not Enacted?

For several reasons we discuss in this *Analysis*, we think enacting the PERS deferral would not be in the state's financial interest. Rejection of the Governor's proposal to defer PERS expenditures, however, does have important implications for the Legislature's efforts to craft a budget for K-14 education programs.

In the absence of the PERS deferral, we estimate K-12 employers and community college districts would have to pay $113 million and $12 million, respectively, to PERS in 2002-03. Figure 1 shows how the increase in K-12 PERS contributions would create a corresponding increase in General Fund payments for K-12 revenue limit apportionments due to the PERS offset. This increase in revenue limits has several implications, depending on the level of the Proposition 98 guarantee for 2002-03 and the level at which the Legislature chooses to appropriate funds for Proposition 98, as discussed below.

If the 2002-03 Proposition 98 Appropriation Level Stays at Budget's Estimate. Assuming rejection of the budget's PERS deferral, under the PERS offset law K-12 agencies would (1) pay $113 million to PERS and (2) receive $113 million more in revenue limit apportionments. If we further assume the 2002-03 Proposition 98 guarantee stays at the level estimated in January's budget proposal and that the Legislature appropriates funds at this level, K-12 agencies would experience no additional cost. (Community college districts, however, would have an additional estimated cost of $12 million that would not be passed through to the state.) As a consequence of the increase in K-12 revenue limit funding, the Legislature would need to reduce funding for other Proposition 98 programs proposed in the budget by $113 million in order to avoid "over-appropriating" the guarantee. Figure 2 illustrates this effect.

Figure 1

General Fund Payments For K-12 Revenue Limits

2002-03
(In Millions)

	Governor's Budget[a]	Without PERS Deferral	Change
Initial apportionment	$16,428	$16,428	—
Less PERS offset	-682	-569	$113
General Fund	$15,746	$15,859	$113

[a] Governor's budget assumes the PERS deferral is enacted.

Figure 2

Potential PERS Effects on General Fund Proposition 98

2002-03
(In Millions)

	Governor's Budget[a]	Without PERS Deferral	Change
Proposition 98 guarantee[b]	$31,354	$31,354	—
Less K-12 Revenue Limits	-15,746	-15,859	-$113
All other Proposition 98 programs	$15,608	$15,495	-$113

[a] Governor's budget assumes the PERS deferral is enacted.

[b] Governor's budget estimate, General Fund.

If the 2002-03 Proposition 98 Guarantee Increases in Spring. The situation is quite different if the 2002-03 Proposition 98 guarantee increases in the spring. (Please see the K-14 Education Priorities section of this chapter for a discussion of Proposition 98 guarantee issues.) In this case, depending on how much the Proposition 98 guarantee increases and on whether the Legislature appropriates funding at this higher level, the Legislature could provide $113 million more in revenue limit funding without having to make a corresponding reduction to other Proposition 98 programs proposed in the budget. The Legislature also could choose to allocate more funds to community colleges in recognition of their increased PERS cost.

Summary. To summarize, rejection of the PERS deferral, which we recommend in this *Analysis*, presents the Legislature with two scenarios for crafting a K-14 education budget. First, if the Proposition 98 guarantee remains at the budgeted level, the Legislature effectively must reduce Proposition 98 categorical programs by about $113 million. Second, if the guarantee increases substantially in the spring, the Legislature would be less constrained and would not have to reduce categorical programs.

PROPOSITION 98 MANDATES

The *2002-03 Governor's Budget* proposes to delay reimbursement of the $66.7 million budget-year appropriation for the School Bus Safety II mandate and suspend six other education mandates ($23 million) as shown in Figure 1 (see next page). This proposal "frees up" $89.7 million of Proposition 98 funds for other K-14 spending proposed by the budget for 2002-03. (In the 2001-02 Third Extraordinary Session, the Legislature also took action to defer the current-year School Bus Safety II mandate appropriation.) Deferral of a mandate payment—as proposed for the School Bus Safety II mandate—does not free local agencies from the need to comply with the mandate's requirements. Suspension of a mandate—as proposed for the other six mandates mentioned above—would make the requirements permissive. The administration proposes to give effect to these suspensions through budget trailer bill language. Finally, the Governor's budget does not include funding for potential new 2002-03 mandates or outstanding mandate deficiencies.

We view these proposals as reasonable given the state's fiscal circumstances. We also think the Legislature can create further savings and improve efficiency in the area of education mandates without compromising education programs, as discussed below.

Background

In 1979, voters approved Proposition 4 (the Gann Limit) which, among other things, placed Article XIIIB, Section 6, into the California Constitution. This section states that when the state requires any local government entity to carry out a new program or higher level of service, the state shall provide funds to reimburse local governments for their costs.

The Commission on State Mandates (CSM) is responsible for determining whether a statute creates a state-reimbursable mandate. If the commission so determines, it develops an estimate of the statewide cost of the mandate. Usually, after CSM adopts a "statewide cost estimate," the administration proposes funds in the May Revision to reimburse local governments and the Legislature appropriates funds in a claims bill to pay for the newly approved mandates. Subsequent funding of mandate reimbursements occurs in annual budget acts. There are 45 mandates for which school districts, county offices of education, and community college districts currently receive reimbursements.

Figure 1

Governor's Proposal to Defer/Suspend Mandates

2002-03
(In Millions)

Mandate	Requirements	Amount
School Bus Safety II	Certain school bus safety measures such as implementing a transportation safety plan.	$66.7
School District of Choice Transfer and Appeals	Notify parents of attendance options.	10.2
Habitual Truants	Hold at least one conference with pupil's parents and classify pupil as a habitual truant after four truancies in the same year.	5.4
Open Meetings Act	Post agendas describing items of business and specifying board meeting time and location.	3.4
Discipline Rules	Develop and adopt rules for pupil discipline every four years and distribute these rules to pupils and parents.	1.7
Absentee Ballots	Districts must provide ballots to registered voters upon request.	1.3
Pupil Suspensions	Staff who refer students for suspension must participate in conferences and report the cause to the district board. Pupils found to have weapons must be suspended immediately.	1.0
Total		**$89.7**

Governor's Budget

The *2002-03 Budget Bill* provides $153.3 million of Proposition 98 funding for education mandates under Item 6110-295-0001. There are several categories of mandate liabilities, however, the state will eventually have to pay that are not reflected in the budget proposal. Figure 2 summarizes the following current and potential future mandate liabilities the state could face:

- ***Deferrals.*** The budget does not reflect the cost of current-year and budget-year deferral of School Bus Safety II mandate costs.
- ***Mandate Deficiencies.*** The Governor's budget also does not provide full funding for Proposition 98 mandate deficiencies. These deficiencies arise because the administration routinely underbudgets the cost of mandates. For example, CSM estimated a current-year deficiency of $193.8 million for Proposition 98 mandates, for which the *2001-02 Budget Act* provided $62.5 million (Item 6110-485, Subdivision 15). Thus, the state faces a current-year Proposition 98 mandate deficiency of at least $131.3 million. In addition, the state will face potential 2002-03 mandate deficiencies, which we estimate could be in the range of $100 million. These accumulating deficiencies, in part, reflect the rapid growth of these mandate obligations.
- ***Newly Identified Mandates.*** Finally, the budget does not include funds for newly identified mandates even though it has been the policy to include a set-aside for this purpose in the budget. According to CSM, there are three new Proposition 98 mandates for 2002-03 that cost a total of $54.1 million—about $7 million of which is the annual ongoing cost and about $47 million due to prior-year and current-year costs.

Figure 2

Potential Mandate Liabilities

2002-03
(In Millions)

Mandate Funding Area	Amount
Deferrals of School Bus Safety II Mandate	$133.4
Deferral of 2001-02 mandate deficiency	131.3
Potential 2002-03 mandate deficiency[a]	100.0
New 2002-03 mandates	54.1
Total	**$418.8**

[a] Based on annual amount of mandate deficiency over the last several years.

We view the proposal for education mandates as reasonable under the state's fiscal circumstances, given that this approach helps minimize impacts on current education services. However, the state will be required to pay unfunded liabilities (with interest charges at the Pooled Money

Investment Account rate—currently about 3 percent) at some point in the future. If the Proposition 98 guarantee increases substantially in the spring, we think the Legislature should consider funding at least some portion of these liabilities.

MANDATES AND CATEGORICAL REFORM

We recommend, to the extent the Legislature chooses to enact our proposed block grants, that the Legislature redirect funding for related mandates to the grants. This would provide districts with increased funding flexibility and incentives to minimize mandate costs.

Although the mandate requirements of the California Constitution provide an important "check" on the ability of the state to impose new programs on local governments, the administrative process for claiming reimbursements has many shortcomings from the state's perspective:

- ***No Incentive to Minimize Costs.*** Since local education agencies (LEAs) receive full reimbursement from the state for costs of implementing mandate requirements, they have little incentive to manage costs and implement requirements efficiently.
- ***Administrative Burden.*** From both the state's and the locals' perspective, the mandate reimbursement process is time-consuming and costly. Claiming instructions and reimbursement forms are lengthy and intricate, generating much paperwork.
- ***Potential Disconnect With Policy Intent.*** Many mandates have been in place for years with little, if any, review of whether the mandate requirements still correspond to the Legislature's policy intent.

Benefits of Including Proposition 98 Mandates In Categorical Reform

To address the shortcomings mentioned above, we recommend that the Legislature redirect related mandate funding to our proposed categorical block grants. There are several advantages to such an approach. First, since school districts would be allowed to redirect their savings from mandate implementation to other education purposes permitted by the block grant, they would have an incentive to meet the requirements of the mandates in a cost-effective manner. This means that more funds could be devoted to real services to pupils rather than administrative costs. Second, our recommended approach eliminates existing incentives to maximize claims, a process that contributes to the large amounts of deficiency requests shown in Figure 2. Third, school districts' administrative costs would decrease because there would no longer be a need for the labor-intensive reimbursement process. Finally, districts would have an incentive to share information regarding which mandates appear, from their perspective, to no longer be cost-effective. This information would help the Legislature to periodically reassess the need for certain education mandates.

Mandates to Include in Categorical Block Grants

Elsewhere in this chapter of the *Analysis* we discuss reforming categorical program funding and recommend the following five categorical block grants:

- ***Academic Improvement Block Grant.*** Contains funding currently proposed through five ongoing and three one-time programs for a range of school improvement needs.
- ***Compensatory Education Block Grant.*** Combines eight programs for pupils who need additional services to be successful in schools into one block grant.
- ***Alternative Education Block Grant.*** Consolidates eight programs currently supporting low-performing students who are at risk of dropping out or entering the juvenile justice system.
- ***School Safety Block Grant.*** Consolidates three programs intended to ensure a safe, orderly, and crime-free school campus.
- ***Teacher Support and Development Block Grant.*** Consolidates 18 teacher preparation, induction, and professional development programs.

Based on our preliminary mandate review, we propose that the Legislature include in our recommended block grants the budgeted amounts of funding for 31 Proposition 98 mandates. The first "call" on these block grant funds would be to cover the costs associated with meeting the requirements of the specified mandates.

We think most of these mandates fit into either the Academic Improvement or the School Safety Block Grants. Figure 3 (see next page) shows the mandates and the amounts we recommend including in the Academic Improvement Block Grant. We selected these mandates because, to some degree, they all support the academic environment and enrich opportunities for students and schools. Figure 4 (see page 29) shows the mandates we recommend including in the School Safety Block Grant.

One complication regarding this aspect of our proposal is that Proposition 98 mandates include claims from school districts, county offices of

Figure 3

Mandates in LAO Academic Improvement Block Grant

2002-03
(In Millions)

Mandate	Requirements	Amount
Graduation Requirements	Provide an extra science course for high school graduation.	$13.5
Notices of Truancy	Notify parents of truancy and obligation to compel pupil attendance.	7.8
Intradistrict Attendance	Implement open enrollment policies for district residents.	5.1
Annual Parent Notification	Notify parents of issues such as student discipline rules and parent rights.	3.5
Immunization Records	Maintain immunization records and report the immunization status of new entrants.	3.4
Pupil Health Screenings	Verify and report that all pupils have obtained a health screening or signed a waiver within 90 days of enrollment in first grade.	3.1
AIDS Prevention	Provide AIDS prevention instruction to all pupils in grades 7 through 12.	3.0
Scoliosis Screening	Examine all 7th grade girls and 8th grade boys for scoliosis.	2.2
School Accountability Report Cards	Develop and issue school accountability report cards.	2.1
Interdistrict Attendance	Consider pupil childcare needs, ensure childcare transfers are not denied for arbitrary reasons.	1.7
Removal of Chemicals	Comply with guidelines for removal and disposal of all science chemicals.	1.3
Annual Parent Notification—Staff Development	Notify parents/guardians of pupil-free staff development days.	1.3
Physical Performance Test	Test and report results of physical performance in grades 5, 7, and 9.	1.1
Interdistrict Attendance: Parent's Employment	Allows pupils to establish district residency based on parents' employment within district.	1.1
Charter Schools	Allows individuals to petition local school district boards to establish charter schools.	0.6
Caregiver Affidavits	Enroll a pupil if the pupil lives with a caregiving adult living in the district.	0.4
Pupil Health Exclusions	Comply with guidelines for exclusion of pupils for vicious habits and infectious disease.	0.4
Investment Reports	Prepare an annual statement of investment policy and a quarterly investment report.	0.2
Pupil Residency Verification and Appeals	Districts near international borders must make effort to determine pupil residency.	0.2
Total		**$52.0**

Figure 4

Mandates in LAO School Safety Block Grant

2002-03
(In Millions)

Mandate	Requirements	Amount
Emergency Procedures	Establish earthquake emergency procedures. Also requires the use of schools during public emergencies.	$14.6
School Crimes Reporting II	More specificity in school crimes reporting.	7.5
Criminal Background Checks	Obtain criminal background checks on every applicant before hiring and prohibit employment of people convicted of a felony.	5.2
Notification to Teachers of Pupil Expulsion	Report to teachers the names of students who have attempted or caused injury to another person. Also, districts must maintain and distribute a list of pupils engaged in certain activities.	2.9
Pupil Expulsions From School	Expel students for certain offenses and hold hearings for pupils expelled from another district who want to attend new district.	2.5
Pupil Classroom Suspension (counseling)	A school counselor or psychologist must attend the post-classroom suspension conference between the parent and teacher whenever possible.	1.8
School Crimes Reporting	Collect and report data on crimes committed within their jurisdiction.	1.6
Law Enforcement Agency	Notify law enforcement of pupils' actions with controlled substances and firearms in school.	1.5
Pupil Suspensions: Parent Classroom Visits	Adopt policies authorizing teachers to require parents of a suspended pupil to attend the child's class.	1.0
School Bus Safety I	Provide and document safety instruction to pupils riding the bus.	1.0
Juvenile Court Records	Distribute written notices from juvenile courts about pupils convicted of certain crimes or charged with misdemeanor.	0.3
Total		**$39.9**

education (COEs), and community college districts. However, our proposed Academic Improvement Block Grant only includes school districts. To address this issue, we suggest redirecting 95 percent of the funding for each mandate assigned to this block grant, leaving 5 percent in Item 6110-295-0001 for COEs and community college districts. Based on data we had at the time this was written, we estimate that COEs represent a relatively small portion of the cost associated with education mandates and community college districts are affected by only a few of these mandates. If necessary, we will adjust our estimate of COE and community college mandate budgetary needs as we receive more data.

There is only one mandate, the expulsion transcripts mandate, we propose to include in the Alternative Education Block Grant. The Governor's budget provides $29,000 for 2002-03 for this mandate which, among other things, prohibits school districts from charging parents who have limited income for the cost of appealing a local board's decision to expel a pupil. We do not propose that any mandate funding be redirected to the Teacher Support and Development and the Compensatory Education Block Grants because we do not think any mandates fit into these areas. In the unlikely event that a school district's mandate cost is greater than the funding it receives through a proposed block grant, the school district would be eligible for state reimbursement of the unfunded portion of the cost of meeting the mandate requirements.

OTHER MANDATE ISSUES

Below, we raise four other mandate issues.

Test Claims and Reimbursement Claims Mandate

We recommend that, to the extent the Legislature enacts our proposed block grants, it also reduce the appropriation for the Test Claims and Reimbursement Claims mandate by $6 million because school districts no longer would incur administrative costs related to the reimbursement process for the mandates included in our proposed block grants. (Reduce Item 6110-295-0001, Subdivision 10, by $6 million.)

Chapter 486, Statutes of 1975 (AB 1375, Knox), created a reimbursable mandate for the administrative costs associated with (1) filing an initial test claim and (2) the process and procedures set forth by the state to obtain reimbursement for state-mandated programs. Claimants are eligible for reimbursement for costs such as preparing and presenting test claims as well as salaries and benefits related to the reimbursement process. The Governor's budget provides $12.1 million for the Proposition 98 part of this mandate for 2002-03.

If the Legislature enacts our recommended block grants, we further recommend that the Legislature reduce the appropriation for this mandate because school districts would not incur administrative costs related to the reimbursement process for mandate funding redirected to the block grants. We estimate that the Legislature could save about $6 million due to decreased administrative costs for districts. These Proposition 98 funds could then be used for other K-14 education priorities. We would note that our proposal leaves funding for new test claims in the base for future years.

Collective Bargaining Mandates

The Governor's budget requests $41.5 million from the General Fund (Proposition 98) to reimburse K-14 districts for collective bargaining costs in 2002-03. Below, we examine this request in light of California Supreme Court rulings and mandate cost data provided by the State Controller's Office.

Background

Upon passage of the National Labor Relations Act of 1935, most private sector, nonagricultural employees had the right to bargain collectively over working conditions and the scope of employment. California's public sector employees and agricultural workers gained comparable rights through a series of state and federal laws enacted in the 1960s and 1970s. In general, the term "collective bargaining" refers to negotiations between an employer and employees to determine the conditions of employment (such as wages, hours, promotions, and benefits), as well as procedures for handling disputes between management and labor. Frequently, employees are represented at the bargaining table by a union or other labor organization. Collective bargaining laws vary in terms of the procedures specified to resolve negotiation impasses, such as arbitration, mediation, and fact-finding.

As Figure 5 (see next page) shows, California's K-14 employees gained the right to bargain collectively by passage of Chapter 961, Statutes of 1975 (SB 160, Rodda), the "Rodda Act." In 1978, the Board of Control (predecessor agency to Commission on State Mandates) found that Chapter 961 imposed a state-reimbursable mandate on K-14 districts. Typical of board actions during this early era of mandate determinations, the board did not adopt a written explanation of its decision. In adopting the reimbursement methodology for the mandate (the mandate's "parameters and guidelines"), however, the board summarized its analysis. Specifically, the board stated that Chapter 961 included provisions requiring districts to meet and negotiate, and therefore created "a collective bargaining atmosphere for public school employees." Since this time, the Governor has included funds in the annual budget bill to reimbursement K-14 districts for costs incurred in the collective bargaining process.

Figure 5

Major Collective Bargaining Legislation

Private Sector Employees

- **1935—National Labor Relations Act.** Established the right of most nonsupervisory private sector workers to organize and bargain collectively. Exempted governmental, agricultural, and certain airline and railroad employees.

Agricultural Workers

- **1975—California Agricultural Labor Relations Act.** Extended collective bargaining rights to agricultural workers in California. Chapter 1xxx, Statutes of 1975 (SB 1xxx, Dunlap).

Federal Employees

- **1978—Civil Service Reform Act.** Overhauled and codified collective bargaining rights previously granted under executive orders signed by Presidents Kennedy and Nixon.

State and Local Public Employees

- **1961—George Brown Act.** Required employers to "meet and confer" with employee representatives. School employees covered under act until passage of the Winton Act in 1965. Chapter 1964, Statutes of 1961.
- **1968 - Meyers-Milias-Brown Act.** Legalized collective bargaining for public local sector workers (except public education). Chapter 1390, Statutes of 1968 (SB 1228, Meyers).
- **1977—State Employer Employee Relations Act or the "Ralph C. Dills Act."** Established a collective bargaining procedure for most state employees, excluding higher education employees. Chapter 1159, Statutes of 1977 (SB 839, Dills).

Education Employees

- **1965—Winton Act.** Required K-14 districts and teachers to "meet and confer" on subjects of mutual interest. No requirement to bargain over terms of employment. Chapter 2041, Statutes of 1965 (AB 1474, Winton)
- **1975—Educational Employee Relations Act or the "Rodda Act."** Legalized collective bargaining for K-14 employees. Measure replaced the "Winton Act." Chapter 961, Statutes of 1975 (SB 160, Rodda).
- **1978—Higher Educational Employee Relations Act or "HEERA."** Extended collective bargaining rights to the employees of the University of California, the California State University, and the Hastings Colleges of the Law. Chapter 744, Statutes of 1978 (AB 1091, Berman).

Court Clarifies Term "Reimbursable Mandate"

While the state's obligation to reimburse local agencies for costs associated with a mandated "new program or higher level of service" has been part of California's state-local fiscal relationship for 30 years, the state's understanding of this fiscal obligation has evolved over time. In 1978, when the Board of Control considered whether Chapter 961 created a mandate, the reimbursement requirement was a *statutory* provision, waived frequently in the enactment of new legislation. California voters had not yet approved Proposition 4, placing the mandate provisions into the California Constitution. Accordingly, the Board of Control had scant legal precedent to guide its decision-making.

Beginning in the late 1980s, however, California appellate courts issued a series of opinions addressing the definition of a state-reimbursable mandate. The courts found that a "mandate" is created when the state requires local governments to provide a new or upgraded program to the public, or imposes a unique requirement on local governments that does not apply generally to residents and entities in the state.

In two landmark cases, summarized in Figure 6, the California Supreme Court ruled that state laws that extended worker compensation

Figure 6

Major California Supreme Court Mandate Rulings

County of Los Angeles v. State of California (1987)
"(T)he state need not provide subvention for the costs incurred by local agencies in providing to their employees the same increase in workers' compensation benefits that employees of private individuals or organizations receive. Workers' compensation is not a program administered by local agencies to provide service to the public . . . Therefore, although the state requires that employers provide workers' compensation for nonexempt categories of employees, increases in the cost of providing this employee benefit are not subject to reimbursement as state-mandated programs or higher levels of service within the meaning of section 6."
City of Sacramento v. State of California (1990)
"By requiring local governments to provide unemployment compensation protection to their own employees, the state has not compelled provision of new or increased 'service to the public' at the local level. Nor has it imposed a state policy 'unique[ly]' on local governments. Most private employers in the state already were required to provide unemployment protection to their employees. Extension of this requirement to local governments, together with the state government and nonprofit corporations, merely makes the local agencies 'indistinguishable in this respect from private employers.'"

and unemployment insurance protections to local employees did not constitute reimbursable mandates. Specifically, the court found that local government employer obligations were comparable to other employers, and were not attributable to providing a new program to the public. Together, these cases form the basis of what is commonly referred to as the "law of general applicability." That is, if a statute imposes similar obligations on the private and public sector, the public sector's costs to comply with the requirement do not constitute a state-reimbursable mandate.

Taking a Second Look at the Collective Bargaining "Mandate"

The Board of Control's approach to analyzing Chapter 961 was not consistent with the approach later outlined by the California Supreme Court. Instead of comparing Chapter 961's requirements with requirements for *other employers*, the board compared Chapter 961's requirements with local employment obligations in effect *before enactment of the collective bargaining measure*. After the California Supreme Court rulings, the state did not act to reconsider this (or any other) early mandate decision. This failure to reconsider mandates reflects, in part, a lack of attention extended to mandates—especially ones that "count" towards the Proposition 98 guarantee. The failure also reflects a weak link in the mandate determination process. Specifically, while the Commission on State Mandates has responsibility for rendering quasi-judicial initial determinations of state mandate obligations, the commission lacks legal authority to reconsider the merits of a decision once 30 days have passed.

Would Chapter 961 Meet the Modern Definition of a Mandate? While a full review of California's K-14 collective bargaining law is beyond the scope of this analysis, our review indicates that the general intent of the Legislature in passing Chapter 961 was to extend to K-14 employees the same collective bargaining rights widely available to other employees. Chapter 961 includes, however, some procedures pertaining to negotiation impasses, unfair labor practices, and public disclosure of collective bargaining proposals that may be considered to be *in excess* of the duties of other employers. These provisions might legitimately be considered mandates. To estimate the magnitude of costs imposed by these additional provisions, we reviewed a sample of collective bargaining mandate claims submitted to the Controller's Office. We found that the vast majority of K-14 district costs were for negotiating and administering the collective bargaining contract—responsibilities of any employer. The dispute resolution, unfair labor practice, and public disclosure requirements represent a small fraction of claimed costs, less than 10 percent.

Additional Policy and Budget Concerns

In preparation of this analysis, we reviewed five years of K-14 district mandate reimbursement claims. Our review raised several policy and budget concerns.

- ***Uneven Funding Distribution.*** Whenever a program is funded through the mandate process, rather than a statutory formula, the distribution of resources varies remarkably by district. The variation, however, seems to reflect local record keeping and claim filing practices more than policy objectives, need, or legislative intent. Figure 7 lists the K-12 districts that received the most money for collective bargaining during the five years between 1995-96 and 1999-00. Our review indicates that district collective bargaining reimbursements varied more than 20 fold when measured in terms of average annual reimbursement per student. As an example, claims submitted over the five years by districts with very similar size enrollments—Sacramento City, San Bernardino City, Garden Grove, and San Juan Districts—varied by a factor of almost 15.
- ***Efficiency Not Rewarded.*** Because the state reimburses district collective bargaining costs, districts face little incentive to undertake collective bargaining efforts efficiently.

Figure 7

K-12 Districts Claiming Greatest Collective Bargaining Costs

1995-96 Through 1999-00

School District	ADA[a]	Annual Cost	Cost Per Pupil
Los Angeles Unified	669,514	$2,543,248	$3.80
Oakland City Unified	51,330	1,085,552	21.15
Sacramento City Unified	49,972	811,615	16.24
Compton Unified	29,285	369,265	12.61
San Diego City Unified	132,990	325,548	2.45
San Juan Unified	46,430	307,789	6.63
Atascadero Unified	5,659	280,300	49.53
San Francisco Unified	57,557	277,247	4.82
Campbell Union Elementary	7,441	274,099	36.83
Alum Rock Union	15,191	222,167	14.62

[a] Average daily attendance.

- ***Budget Deficiency Likely.*** The Governor's budget routinely proposes insufficient amounts for education mandates, a practice that results in large deficiencies every spring. Based on mandate cost information from the State Controller's Office, we found that state costs for this mandate between 1995-96 and 1999-00 averaged $11.9 million *more* than was included in the respective Governor's budgets. After accounting for inflation and other factors, we estimate that K-14 mandate claims under this mandate will be about $54 million in 2002-03, or about $12.5 million more than is requested in the budget.

LAO Recommendation: Initiate Mandate Challenge

We recommend the Legislature initiate a reconsideration of this mandate by redirecting funds from the mandate appropriation to other legislative priorities and including language specifying that Chapter 961 no longer meets the criteria of a state-reimbursable mandate. (Reduce Item 6110-295-0001 by $41.5 million.)

Ideally, in cases like this, an administrative process would be in place to reexamine a mandate in light of modern legal rulings. While the Legislature may wish to create an administrative process, such an endeavor would take time and resources and may be of limited applicability. In the absence of an administrative reconsideration process, the authority to review mandates rests with the courts.

Given the shortcomings in the Board of Control's mandate determination and the policy and budget concerns discussed above, we recommend the Legislature initiate a process to cause a reconsideration of this mandate. Specifically, we recommend the Legislature eliminate funding for this program and include budget bill language with the schedule of mandate appropriations stating that Chapter 961 does not constitute a mandate consistent with the California Supreme Court rulings in the cases of *County of Los Angeles v. State of California* and *City of Sacramento v. State of California*. It is important to note that such an action would not affect any of the terms of Chapter 961. K-14 collective bargaining law would continue without modification. Districts, however, would need to pay the cost of collective bargaining from other resources.

Should a K-14 district wish to challenge this decision, it could file an action in court to compel the state to provide funding for this mandate pursuant to Government Code Section 17561. The court, in turn, would examine whether Chapter 961 poses a state-reimbursable mandate.

Budget Issues. We recommend the Legislature shift the $41.5 million provided for this mandate to other high priority education programs. In evaluating alternative uses of these funds, we recommend that the Legislature be cognizant of K-14 districts' continued need for funds to support their collective bargaining efforts. For example, the Legislature could (as we recommend elsewhere in this chapter) increase general purpose funding, which would grant maximum flexibility to local educational agencies to direct resources to collective bargaining or other district needs. Finally, should a court find that any portion of Chapter 961 constitutes a mandate, the state may be liable for the costs of these claims in the budget year, possibly including interest at the Pooled Money Investment Account Rate (about 3 percent). These mandate reimbursement costs, if any, could be funded with resources available under the Proposition 98 reversion account.

School Testing—Physical Fitness Mandate

We recommend that the Legislature delete funding proposed for the School Testing—Physical Fitness mandate because school districts and county offices of education (COEs) no longer are required to meet the provisions of this mandate. In addition, according to the State Controller's Office, school districts and COEs have not submitted any claims for reimbursement for this mandate since 1996. (Delete $696,000 in Item 6110-295-0001, Subdivision 39.)

The Governor's budget includes $696,000 from the General Fund (Proposition 98) for the School Testing—Physical Fitness mandate for 2002-03. This mandate had required school districts and COEs to conduct physical fitness tests. Chapter 760, Statutes of 1991 (SB 662, Hart), repealed the requirements of this mandate as of January 1, 1995. According to the State Controller's Office, it has not received any reimbursement claims for the School Testing—Physical Fitness mandate since 1996. Nevertheless, the budget has provided funding for this mandate since 1997-98 and provides $696,000 for 2002-03.

Chapter 975, Statutes of 1995 (AB 265, Alpert), reinstated different physical fitness testing for grades 5, 7, and 9 beginning in January 1996. These requirements led to the creation of a different mandate—the Physical Performance Tests mandate—that has a separate appropriation of $1.2 million in the budget bill (Item 6110-295-0001, Subdivision 24).

In view of the above, we recommend that the Legislature delete $696,000 of funding for the expired mandate. This action would free up $696,000 of budget-year Proposition 98 funds for other education priorities.

American Government Course Documents

We recommend that the Legislature enact legislation to make compliance with the requirements of the American Government Course Documents mandate voluntary because the state has since adopted content standards for History/Social Science that include the same requirements. Under the state's new assessment and accountability system, schools already are responsible for meeting these more recent requirements. (Delete $207,000 in Item 6110-295-001, Subdivision 40.)

The Governor's budget includes $207,000 for the American Government Course Documents mandate. Although the cost of this mandate is relatively small at present, the number of claims has increased significantly since 1996-97. Therefore, the cost of this mandate most likely will grow in the future. Chapter 778, Statutes of 1996 (AB 3086, Olberg), imposed several requirements on school districts related to American Government courses. Specifically, Chapter 778 requires that as part of the American Government and Civics courses necessary for high school graduation, school districts teach, and students read, the Federalist Papers, the Emancipation Proclamation, the Gettysburg Address, George Washington's Farewell Address, the Declaration of Independence, and the Bill of Rights.

State Content Standards Have Same Requirements. Chapter 975, Statutes of 1995 (AB 265, Alpert), created, among other things, the Commission for the Establishment of Academic Content Standards to develop academically rigorous content standards in core curriculum areas. Chapter 975 required the State Board of Education to adopt standards based on the commission's recommendation. In October 1998, SBE adopted the *History/Social Science Content Standards for California Public Schools.*

All of the requirements of the American Government Course Documents mandate are also part of the History/Social Science standards. For example, the standards specify that eighth grade students ". . . discuss Abraham Lincoln's presidency and his significant writings and speeches and their relationship to the Declaration of Independence, such as. . . Gettysburg Address. . . Emancipation Proclamation. . . " Eighth-graders also must read Washington's Farewell Address. The standards specify that 11th grade students understand ". . . the debates on the drafting and ratification of the Constitution, and the addition of the Bill of Rights."

These standards serve as the basis for statewide assessment in history and social science. With the implementation of the statewide accountability system, schools already are responsible for providing curriculum aligned to these content standards. Thus, we recommend that the Legislature enact legislation to make compliance with the requirements of the

American Government Course Documents mandate voluntary. This action would free up $207,000 of Proposition 98 funds for other education priorities and likely would save larger amounts in subsequent fiscal years.

TEACHER SUPPORT AND DEVELOPMENT

The Governor's budget includes $743 million for 22 teacher preparation, induction, and professional development programs. Of this amount, $514 million is Proposition 98 General Fund and $87.1 million is reappropriated from the Proposition 98 Reversion Account. The remaining $142 million is non-Proposition 98 General Fund. Of the 22 programs, the Department of Education (SDE) administers 12 programs, the Commission on Teacher Credentialing (CTC) administers 4 programs, the University of California (UC) administers 4 programs, and the California State University (CSU) administers 2 programs. Figure 1 shows the amount each of these agencies received for these programs in the *2001-02 Budget Act* and the 2001-02 budget as revised by the Legislature in the Third Extraordinary Session. It also shows the amount included in the Governor's budget proposal.

The Governor's budget proposes the following funding adjustments to teacher preparation, induction, and professional development programs.

- ***Continues Current-Year Reductions.*** It continues $88 million in current-year reductions for five programs, though it provides a total of $6.4 million to fund growth and a cost-of-living adjustment (COLA) to the reduced base budget of two of these programs.
- ***Proposes Additional Budget-Year Reductions.*** It proposes $21.3 million in additional budget-year reductions to five other programs.
- ***Eliminates Three Programs.*** It eliminates the School Development Plans, Resource Consortia, and the Demonstration Programs in Intensive Instruction, for a total savings of $27.7 million.
- ***Augments Funding for Two Programs.*** It provides a total of $110 million for the Mathematics and Reading Professional Development program, which is $78.3 million more than provided in the current year, as revised by the Legislature in the Third Ex-

traordinary Session. It also augments the Advanced Placement Challenge Grant program by $4 million.

- ***Funds Growth and COLA.*** It provides $6.3 million to fund growth and COLA for five other professional development programs.

Figure 1

Teacher Support and Development Programs General Fund Budget Summary

(In Millions)

	2001-02		2002-03
	Budget Act	Revised Budget	Proposed Budget
Proposition 98			
Department of Education	$536.2	$456.2	$468.1
Commission on Teacher Credentialing	56.7	56.7	45.9
Subtotals	$592.9	$512.9	$513.9
Proposition 98 Reversion Account			
Department of Education	$80.0	$31.7	$87.1
Non-Proposition 98			
Department of Education	$55.6	$49.6	$49.6
University of California	93.5	87.5	83.5
California State University	14.5	14.5	8.3
Subtotals	$163.7	$151.7	$141.5
Totals	**$836.6**	**$696.3**	**$742.5**

In this write-up, we first identify the programmatic impact associated with each of the Governor's major budget proposals. We then recommend a programmatic alternative based upon the same total amount of funding included in the Governor's budget. This alternative consolidates 25 teacher support and development programs into two new block grants—a formula-based block grant and a competitively based block grant. The consolidation would seek to (1) streamline programs with similar purposes; (2) simplify the relatively complex administrative process districts must currently maneuver to obtain teacher support and staff development monies; (3) offer districts more flexibility in developing and coordinating their teacher preparation, induction, and ongoing professional development programs; and, (4) gain funding efficiencies by leveraging existing resources more effectively. The consolidation would be linked to a set of teacher support and professional development standards and hold districts accountable through a revised program-review process.

CONTINUING CURRENT-YEAR REDUCTIONS

The Governor's budget proposes to continue current-year reductions for five programs. Figure 2 lists these programs and their funding levels. In this section, we discuss the likely programmatic impact of each of these reductions. In the final section of this write-up, we recommend these programs be included in a new formula-based block grant.

Figure 2

Continuing Current-Year Reductions

(In Millions)

	2001-02		2002-03
	Budget Act	Revised Budget	Budget Proposal
Peer Assistance and Review	$134.2	$84.2	$86.9
California Professional Development Institutes	110.9	98.9	98.9
Beginning Teacher Support and Assessment	104.6	84.6	88.3
National Board for Professional Teaching Standards Certification Incentive Program	15.0	10.0	10.0
High School Coaching Education and Training Program	1.0	—	—
Totals	**$365.7**	**$277.7**	**$284.1**

Peer Assistance and Review

The 2001-02 revised budget includes a $50 million reduction for the Peer Assistance and Review (PAR) program. This is a 37 percent reduction from the *2001-02 Budget Act* appropriation. The Governor's budget proposes to continue this reduction though it provides a $2.7 million augmentation to fund growth and COLA. The PAR program is a professional development program for veteran teachers who are identified as struggling or who want individualized mentoring. The administration states two reasons for continuing the reduction: (1) it believes participation is lower than expected (though neither it nor SDE can provide participant counts to confirm the underutilization), and (2) it thinks the mentor-teacher funding rate is too high. (The PAR program is funded on a mentor-teacher basis, with districts receiving 1 mentor-teacher position for every 20 certificated teachers.)

Lowers Mentor-Teacher Funding Rate. As a result of these funding adjustments, the mentor-teacher funding rate would drop from $8,710 (the 2000-01 rate) to $4,496 in the budget year for districts that certified their PAR programs by July 2000. It would drop from $6,851 to $3,427 for districts that certified their PAR programs by July 2001.

Half of PAR Monies to Be Set Aside for Other Teacher-Training Programs. The administration's education trailer bill proposal creates a reserve pool of funding that districts could apply for annually if they meet two conditions: (1) they certified each year (by March 1) that they had collectively bargained the provisions of the PAR program, and (2) they used at least 50 percent of their PAR monies for programs supporting new teachers. Education Code Section 44506 currently allows districts to use PAR monies for other teacher-training programs, but it does not require them to spend a minimum amount on these other programs. The proposed change would therefore restrict districts' flexibility to shift funding among teacher-related programs.

Beginning Teacher Support and Assessment

The 2001-02 revised budget includes a $20 million reduction for the Beginning Teacher Support and Assessment (BTSA) program. This is a 19 percent reduction from the *2001-02 Budget Act* appropriation. The Governor's budget proposes to continue this reduction though it provides $3.6 million for growth and COLA on the reduced base. The BTSA program is an induction program for first-year and second-year teachers. It is funded on a per-teacher rate. The proposed rate is $3,448 per beginning teacher, which is $73 higher than the current-year rate. The administration states that the continuation of the current-year reduction reflects a revised estimate of participation in 2002-03.

Participation Remains Uncertain. The budget proposal provides sufficient funding to support approximately 24,600 beginning teachers. Approximately 29,500 beginning teachers would be *eligible* to participate in the program. Currently, the program is voluntary and not all eligible teachers have elected to participate in the program during the last several years. In 2002-03, CTC expects, however, to make the completion of an induction program a new requirement for obtaining a professional clear credential (pursuant to Chapter 548, Statutes of 1998 [SB 2042, Alpert]). If CTC makes this change, more teachers are likely to use the BTSA program to satisfy the new requirement. If all eligible teachers were to participate and the proposed per-teacher funding rate of $3,448 were maintained for all teachers, BTSA would require approximately $16.8 million more than the proposed appropriation. (The budget proposal includes a flexibility provision [Control Section 12.60] that would allow SDE to shift funding among 13 voluntary participation programs if some of these programs experienced unexpected levels of participation.)

National Board for Professional Teaching Standards Certification Incentive Program

The 2001-02 revised budget includes a $5 million reduction for the National Board for Professional Teaching Standards Certification Incentive program—lowering the total appropriation from $15 million to $10 million. The Governor's budget proposes to continue this reduction. The National Board program consists of three components: (1) $1,000 fee subsidies for new teachers entering the national certification program, (2) $10,000 awards for each teacher who completes the national certification program; and (3) supplemental $20,000 awards for each teacher who completes the program *and* teaches in a low-performing school for four years ($5,000 is distributed at the completion of each of the four years).

Funding Insufficient to Award All Eligible Teachers. The SDE states that the national certification program requires a total of $15 million in the budget year (which is $5 million more than included in the Governor's budget) if it is to honor its commitment and provide awards to all recently certified teachers as well as offer fee assistance to all new teachers entering the national certification program. Even if the program stopped offering fee assistance to teachers entering the national certification program, if would still require approximately $12 million to provide awards to all eligible teachers. (This program is also included in the funding-flexibility provision.)

California Professional Development Institutes

The 2001-02 revised budget includes a $12 million reduction for the California Professional Development Institutes (PDIs), which are administered by the University of California (UC). This reduction is split evenly between UC's training budget and SDE's stipend budget. Continuing this reduction, the proposed 2002-03 appropriation for the PDI program is $98.9 million. The PDI program provides a minimum of 120 hours of subject-based and standards-based professional development to beginning and veteran teachers.

PDI Program Could Serve More Teachers. Even with the proposed funding reduction, the PDI program would probably serve additional teachers in the budget year because it has not met its participant targets in prior years. In 2000-01, the PDI program was funded to serve approximately 49,000 teachers. It actually served approximately 44,000 teachers. For 2001-02 and 2002-03, UC is funded to serve approximately 48,000 teachers. As of December 1, 2001, UC had signed formal agreements, however, to train slightly less than 30,000. Given participation will probably increase in the budget year, the Governor's proposal is likely to include an appropriate level of funding for the PDI program.

ADDITIONAL BUDGET-YEAR REDUCTIONS

The Governor's budget proposes additional reductions to five other teacher preparation and professional development programs. Figure 3 lists these five programs and their funding levels. In this section, we identify the likely programmatic impact of these reductions. As with the programs discussed above, we recommend these programs be included in a new formula-based block grant.

Figure 3

Additional Budget-Year Reductions

(Dollars in Millions)

	2001-02 Budget	2002-03 Proposed Budget	Change from 2001-02 Amount	Change from 2001-02 Percent
Internship and Pre-Internship Teaching Program	$43.6	$37.4	-$6.2	-14%
California Subject Matter Projects	35.3	31.3	-4.0	-11
Education Technology Professional Development Program	12.5	6.0	-6.5	-52
Paraprofessional Teacher Training Program	11.5	7.5	-4.0	-35
California Mathematics Initiative For Teaching	1.6	1.0	-0.6	-37
Totals	**$104.5**	**$83.2**	**-$21.3**	**-20%**

California Subject Matter Projects

The Governor's budget proposes a $4 million reduction to the California Subject Matter Projects (SMP)—lowering the current-year appropriation of $35.3 million to $31.3 million. The SMP program, which is administered by UC, is a longstanding subject-based and standards-based professional development program that focuses on developing teacher-leaders. These teachers are expected to serve in key leadership capacities at their local school sites.

Fewer Teachers Would Be Served. Unlike the PDI program, UC has already committed all of its current-year funding for the SMP program. In 2001-02, the SMP program is serving approximately 16,700 participants, at an average per-teacher funding rate of $2,100. This rate includes both training costs and funding for stipends, which range from $500 to $1,500. As a result of the proposed reduction, UC estimates it would serve approximately 1,800 fewer teachers.

Education Technology Professional Development Program

The Governor's budget proposes to reduce funding for the Education Technology Professional Development program by $6.5 million, a reduction of more than 50 percent. This program, structured similarly to the PDI program, provides 120 hours of professional development in education technology for both beginning and veteran teachers. The CSU spends approximately $1,900 per teacher. This rate includes a $1,000 stipend.

Fewer Teachers Would Be Served. As of December 31, 2001, CSU had already committed all of its current-year funds. It expects to train slightly more than 6,600 teachers. The proposed reduction would result in CSU being able to serve approximately 3,600 fewer teachers in 2002-03. According to CSU, it has had a waiting list for the last two years comprised of teachers who would like to participate in the program when slots are available.

Internship and Pre-Internship Teaching Programs

The Governor's budget proposes a $6.2 million reduction to the Internship program—lowering the current-year appropriation of $31.8 million to $25.6 million. The Internship program provides training and on-site support for new teachers who have already demonstrated subject matter competency but have not yet obtained their preliminary clear credential. A related program, the Pre-Internship program, provides subject-matter test preparation as well as training in classroom management and basic pedagogy for new teachers who have not yet demonstrated subject matter competency. Both interns and pre-interns would otherwise be teaching on emergency permits if they were not participating in one of these specially designed training programs. The CTC administers both programs.

Participating Teachers, Spending Would Decline Significantly for Pre-Internship Program. Education Code Section 44386 gives CTC the authority to shift funds appropriated for the Internship program to the Pre-Internship program, which it has done for the last several years. For the two programs, Figure 4 shows the *2001-02 Budget Act* appropriation, CTC's 2001-02 expenditure estimates, and the Governor's proposed 2002-03 funding level. Given the proposed reduction, CTC is unlikely to continue shifting funds from the Internship to the Pre-Internship program. As a result, spending for the Pre-Internship program would decline by approximately 43 percent. The CTC states that it would no longer shift funds because it would want to guarantee program slots for all current pre-interns who would be advancing into Internship programs.

In 2001-02, CTC is serving a total of 18,100 interns and pre-interns. As a result of the proposed reduction, it would serve approximately 2,400 fewer interns and pre-interns in 2002-03. Although this is a notable reduction, the two programs are serving almost 250 percent more teachers in 2001-02 than they served in 1998-99.

Figure 4

Internship and Pre-Internship Teaching Programs

(Dollars in Millions)

	2001-02		2002-03 Proposed	Change from Estimated 2001-02	
	Budgeted	Estimate[a]		Amount	Percent
Internship Program	$31.8	$23.0	$25.6	$2.6	11%
Pre-Internship Program	11.8	20.6	11.8	-8.8	-43
Totals	**$43.6**	**$43.6**	**$37.4**	**-$6.2**	**-14%**

[a] In 2001-02, CTC estimates that it will spend about $3.7 million on regional technical assistance for both programs. The 2001-02 Estimate evenly divides this cost between the two programs.

Paraprofessional Teacher Training Program

The Governor's budget proposes a $4 million, or 35 percent, reduction to the Paraprofessional Teacher Training program—lowering the current-year appropriation of $11.5 million to $7.5 million. The Paraprofessional program provides academic scholarships to teachers' aides and assistants for the purpose of completing college coursework and obtaining teaching credentials. As a result of the proposed reduction, CTC states that it would continue funding the approximately 2,400 paraprofessionals who are currently participating in the program, but it would be unable to fund any new program participants. In 2001-02, the program is serving more than four times as many teachers as it served in 1999-00.

ELIMINATES THREE PROFESSIONAL DEVELOPMENT PROGRAMS

The Governor's budget proposes to eliminate three existing professional development programs—the School Development Plans, Resource Consortia (Regional Professional Development Consortia), and the Demonstration Programs in Intensive Instruction. This section briefly describes these programs. Although the Governor proposes to eliminate these programs, we think that a formula-based block grant could fulfill the primary objectives of the School Development Plans and Resource Consortia. Furthermore, we think a competitively based block grant could fulfill the primary objectives of the Demonstration Programs in Intensive Instruction.

Staff Development Plans and Regional Professional Development Consortia

Chapter 1362, Statutes of 1988 (SB 1882, Morgan), initiated comprehensive reform of existing professional development programs. Part of its reform effort was to create the School Development Plans and the Resource Consortia. Both programs primarily target high schools.

School Development Plans. School development plans are comprehensive, school-site, professional development plans that are designed to be linked to overall school improvement objectives. The professional development activities embedded in these plans are intended to improve teachers' subject matter knowledge and help teachers develop curricula and select high-quality instructional materials. Initially, districts must submit their school-site plans to SDE for review and approval. They then must certify annually that they are continuing to implement their plans. The *2001-02 Budget Act* included $17.3 million for schools to maintain these plans. This funding provided approximately $13.30 per average daily attendance (ADA) in grades 9-12.

Regional Professional Development Consortia. The regional professional development consortia typically consist of two educators who work with districts to increase awareness of the state's professional development policies. The consortia also: (1) offer professional development activities, (2) coordinate activities with local SMPs, and (3) disseminate information on best practices and model professional development programs. The *2001-02 Budget Act* provided $4.3 million to support 11 consortia dispersed throughout the state.

Demonstration Programs In Intensive Instruction

The Legislature created the Demonstration Programs in Intensive Instruction in 1969 for the purpose of developing model programs in reading and mathematics instruction. The original program was amended in 1992 to add other subject areas, including foreign language, history, and science. The ultimate objective of the model programs is to assist struggling middle grade students.

Program Has Sunset. The program sunset in 1995, but the state has chosen to fund it every year since 1995. The *2001-02 Budget Act* included $6.1 million for the program, providing grants to 126 middle schools. Most award amounts were $30,000 or $50,000 per school. If local programs appear to be working, SDE renews the grants for a total of four years. In 2001-02, SDE issued first-year awards to 49 schools ($2.4 million), second-year awards to 23 schools ($1.1 million), third-year awards to 47 schools ($1.5 million), and fourth-year awards to 8 schools ($1.1 million). The Governor proposes eliminating the program because of the current fiscal situation.

Augments Second-Year Funding for New Professional Development Program

As a result of legislative action taken in the Third Extraordinary Session, the current-year budget provides $31.7 million for the first year of the Governor's Mathematics and Reading Professional Development (MRPD) program. The Governor's budget includes $110 million to fund the second year of the program. Of this amount, $22.9 million is Proposition 98 General Fund and $87.1 million is reappropriated from the Proposition 98 Reversion Account. In 2003-04, the administration plans to provide a total of $128 million for the third year of the program. We recommend this program also be included in a formula-based block grant.

Mathematics and Reading Professional Development Program

Chapter 737, Statutes of 2001 (AB 466, Strom-Martin), established the MRPD program. According to the administration's revised plan, the program would provide standards-based professional development to more than 170,000 teachers and 22,000 instructional aides over a five-year period (2001-02 through 2005-06). Each teacher receives a total of 120 hours of training, including 40 hours of initial intensive training and 80 hours of follow-up instruction, coaching, and school-site assistance.

Approximately 33,000 Teachers to Receive MRPD Training. In 2002-03, the Governor proposes to fund MRPD training for 32,800 teachers (at a per-teacher rate of $2,500) and 6,500 instructional aides (at a per-aide rate of $1,000). Additionally, the Governor proposes to provide supplemental incentive funding for 43,000 teachers (at a per-teacher rate of $500) who have already attended or currently are attending a PDI.

Update on Implementation of MRPD Program

Some preliminary MRPD activities already have been completed, but much remains to be done before teachers can receive state-approved training.

Initial Implementation Will Not be Completed for Several Months. Currently, the State Board of Education (SBE) is working under contact with the Sacramento County Office of Education to develop the state criteria that training providers will need to satisfy to be approved as MRPD providers. The SBE expects to approve the finalized set of criteria in early February, and board staff think that some providers might be approved as early as March or April. The board will continue to review providers' proposals (as they are submitted) throughout the coming year. The SBE expects that existing PDI providers would be pre-approved (bypassing the formal review process), but private companies, districts, county offices, and universities could also apply to become MRPD providers.

The SDE is currently developing regulations for the new program for SBE's consideration. The SBE adopted emergency regulations in January, but final regulations will probably not be completed for several months. The SDE expects to have a request for applications prepared by the middle of February. Districts' applications probably would need to be submitted to SDE by the middle of March to be part of the initial funding allocation. The SDE expects to allocate funding, distribute grant awards, and encumber funding in April or May.

Training Could Begin Late Spring. Given all these activities have yet to be completed, official MRPD training will probably not begin until late spring. The administration believes, however, that some districts have already begun conducting MRPD training—thinking they eventually will be approved as MRPD providers. Given the timing concerns mentioned above, it is uncertain how much MRPD training would actually occur in the current year.

Current-Year MRPD Funds May Not Train Many New Teachers. If few teachers receive state-approved MRPD training in the current year, the bulk of current-year funding would provide *past* PDI participants with $500 bonuses. If that were to occur, the funding would not be going to train new teachers but instead would go for bonus payments to teachers who have already been trained. This is an additional anomaly of the current system that results from having two almost identical programs administered by two different agencies and funded at two different rates.

CURRENT SYSTEM RIDDLED WITH PROBLEMS

The Governor's budget proposals have the effect of highlighting some of the major problems with the current array of teacher preparation, induction, and professional development programs.

Too Many Programs. One problem is the sheer number of programs. As discussed above, the Governor's budget makes funding adjustments to almost a dozen different teacher preparation, induction, and professional development programs (in addition to the seven augmentations for growth and COLA and the five reductions included in the revised 2001-02 budget). Of these programs, the vast majority were created within the last five years and few are designed to complement one another.

Similar Purposes, Duplicative Services. Additionally, these programs have the same purpose—to provide teachers with support and opportunities for ongoing professional development. Certainly the details of the training vary—some focus on mathematics whereas others focus on reading or education technology; some target beginning teachers, teachers without full credentials, misassigned teachers, or veteran teachers; some provide intensive subject-matter training whereas others offer frequent classroom-based mentoring. Despite these variations, all are designed to help teachers improve their skills and raise student achievement. The programs therefore offer relatively duplicative services and often compete with one another for teachers' participation.

Administrative Quagmire at Local Level. Although most of these programs have a similar purpose, school districts need to apply for each one separately. Hypothetically, a school district might apply to CTC to administer a Pre-Internship and Internship program, collaborate with certain UC personnel to enroll some teachers in the PDI program, collaborate with other UC personnel to enroll other teachers in the SMP program, coordinate with CSU to enroll some teachers in the Education Technology program, apply to SBE to become a state-approved provider to operate its own professional development program for other teachers, submit an annual BTSA improvement plan to its BTSA Cluster Consultant, submit a payment-request form and end-of-the-year verification form to SDE to participate in the Instructional Time and Staff Development Reform (ITSDR) program, and collectively bargain the provisions of its PAR program.

The school district that engaged in the above activities would be participating in less than half of all available preparation, induction, and professional development programs (though it would be participating in the largest-scale programs). Having to navigate this process to offer teachers support and ongoing professional development is likely to be time-consuming, complicated, and frustrating.

Administrative Quagmire at State Level. The ability of state-level administrators and policymakers to monitor and evaluate all these programs is equally difficult. For example, UC now has to track the number of PDI participants it serves with PDI dollars versus MRPD dollars. The state then provides a $500 bonus for PDI participants funded with PDI dollars so it can equalize the funding rate provided under the MRPD ($2,500) and PDI ($2,000) programs. Additionally, the state needs to track: (1) the amount of ITSDR monies used to provide onsite support under the MRPD program, (2) the amount of funding shifted from the Internship to the Pre-Internship program, and (3) under the proposed language changes, the amount of PAR monies spent on nonPAR activities. All this is necessary just to track funding streams. Assessing the actual quality of these programs is even more difficult.

Federal Funds Not Used to Support Key State Programs. Despite the significant investment the federal government makes in teacher preparation, induction, and professional development, few state programs explicitly attempt to couple state and federal funds. For example, although federal Eisenhower monies could be used to provide SMP, PDI, or MRPD training, the state provides few incentives for districts to use federal funds to support, expand, or enhance these programs.

Current System Incoherent. Fourteen years ago, when enacting Chapter 1362, the Legislature found:

> The current array of staff development activities and incentives has grown by accretion, without a clear vision, remains largely unevaluated, and is unlikely to yield substantial improvement.

Since the Legislature made this statement, the state has created 18 new teacher support and development programs.

The recently released *Report of the Professional Development Task Force (2001)*, commissioned by the Superintendent of Public Instruction, reiterated similar concerns to the ones discussed above, including fragmentation, multiple funding streams, and the failure of one-size-fits-all approaches. The recently released SRI International report, *The Status of the Teaching Profession 2001*, also described the system as uncoordinated and ineffective (based upon teachers' assessments). Similarly, an EdSource report, *Strengthening Teacher Quality in California* (1999), highlighted the difficulty school districts have in leveraging professional development funds to support local reform efforts.

LAO ALTERNATIVE APPROACH TO TEACHER SUPPORT AND DEVELOPMENT

Create New Formula-Based Teacher Support and Development Block Grant

We recommend the Legislature consolidate 18 existing programs and create a new formula-based block grant to increase local flexibility and effectiveness is supporting teacher development. The block grant would provide a total of $722 million of Proposition 98 funds that school districts could use for teacher support and professional development activities.

We think the issues identified above could be addressed by creating a new formula-based teacher support and development block grant. The block grant we recommend would provide a total of $722 million of Proposition 98 monies and consolidate 18 existing programs. Figure 5 (see next page) lists these programs. The consolidation would entail shifting $139 million of expenditures that are budgeted as non-Proposition 98 General Fund monies to within the Proposition 98 minimum guarantee. (If the minimum Proposition 98 guarantee were to increase this spring—and it could increase by more than $800 million—this redirection could accommodate a portion of this increase as well as save $139 million in non-Proposition 98 General Fund monies.) In the budget year, the block grant would also use $87.1 million from the Proposition 98 Reversion Account.

Several Benefits to Consolidation. The consolidation would (1) streamline programs with similar purposes; (2) simplify the relatively complex administrative process districts must currently maneuver to obtain teacher support and staff development monies; (3) offer districts more flexibility in developing and coordinating their teacher preparation, induction, and ongoing professional development programs; and (4) gain funding efficiencies by levering existing resources more effectively.

Linked to Teacher Support and Development Standards. To provide some overall direction and guidance, we recommend linking the block grant to standards for teacher support and professional development. Several groups have recently worked on establishing these standards.

Figure 5

LAO Formula-Based Teacher Support and Development Block Grant[a]

(In Millions)

Budget Item	Program	Proposed Appropriation
Proposition 98		
6110-112-0001	Instructional Time and Staff Development Reform Program	$230.0
6110-137-0001	Mathematics and Reading Professional Development Program	22.9
6110-181-0001	Education Technology Staff Development Grades 4 through 8	9.7
6110-191-0001	Beginning Teacher Support and Assessment	88.3
6110-193-0001	Peer Assistance and Review	86.9
6110-193-0001	Bilingual Teacher Training Program	1.8
6110-195-0001	National Board for Professional Teaching Standards Certification Incentive Program[b]	10.0
6110-485-001	Mathematics and Reading Professional Development Program	87.1
Eliminated	School Development Plans and Resource Consortia	—
Eliminated	High School Coaching Education and Training	—
6360-101-0001	Alternative Certification Program	25.6
6360-101-0001	Pre-Internship Teaching Program	11.8
6360-101-0001	Paraprofessional Teacher Training Program	7.5
6360-101-0001	California Mathematics Initiative for Teaching	1.0
Subtotal		$582.5
Non-Proposition 98		
6110-136-0001	California Professional Development Institutes	$48.0
6440-001-0001	California Professional Development Institutes	50.9
6440-001-0001	California Subject Matter Projects	31.3
6440-001-0001	Pre-Intern Teacher Academies	0.8
6610-001-0001	Education Technology Professional Development Program	6.0
6610-001-0001	CalState TEACH	2.3
Subtotal		$139.3
Total		$721.8

a Block grant would consolidate the listed programs, funding sources, and amounts as proposed by the Governor into a single allocation of $722 million from Proposition 98.

b Funding from program would need to be gradually shifted into the block grant as outstanding statewide obligations were paid.

In the prior legislative session, the state enacted Chapter 884, Statutes of 2001 (AB 341, Strom-Martin), which provided SDE with $140,000 to contract for the development of professional development standards. Additionally, the Regional Professional Development Consortia published *Designs for Learning*, which identifies 10 elements of high-quality professional development. The National Staff Development Council has also recently revised its 12 standards for professional development.

In general, research advocates that teacher support and development be: (1) based on a coherent, long-term planning process that involves teachers and administrators; (2) include a school-site professional development plan that is connected to overall school improvement objectives and evaluated based upon gains in student achievement; and (3) allow for integrated, ongoing collaboration among teachers.

Allocated on Per-Teacher Formula. Under our proposed block grant, SDE would distribute the $722 million to local educational agencies based on per-teacher funding rates that vary according to teachers' levels of preparation and experience. Figure 6 (see next page) shows the per-teacher funding rates included in the Governor's budget and our proposed alternative funding rates, which in most cases are significantly higher. For example, the funding rate per fully credentialed beginning teacher would increase from $3,448 to $5,500—a 60 percent increase. In addition, our proposal provides funds adequate to serve *all* teachers and paraprofessionals.

Rates Vary According to Training Costs. Although the funding rates could be altered in many ways, the rates we suggest vary according to the likely costs incurred in providing specific forms of training and support. For example, the New Teacher Center states that it costs between $5,000 and $6,000 to provide intensive mentoring services to beginning teachers. In contrast, the costs associated with content-specific training for veteran teachers are lower, as evidenced by data on the PDI and Education Technology programs. These programs provide between $1,800 and $2,000 per teacher, typically including $700 for training costs, $1,000 for a teacher stipend, and between $100 and $300 for administration and evaluation. The funding rate we propose for veteran teachers—$2,000—is consistent with these amounts.

Proposed Rates Benefit Low-Performing Schools, Provide Incentives to Hire Qualified Teachers. The proposed funding rates offer some benefits particularly for low-performing schools. For example, under the current system, school districts receive no funding to train and support teachers with emergency permits. By comparison, under the proposed block grant, they would receive $2,000 per emergency-permit holder. These schools would also receive higher funding rates for teachers with pre-intern and intern certificates. The proposed funding rates could, however, also provide incentives for districts to hire fully credentialed teachers. This is because the proposed funding rates for beginning teachers increase with their level of preparation.

Figure 6

LAO's Formula-Based Block Grant Funding Rates and Teachers Served

(2002-03)

Credential Type	Budget's Funding Rate	LAO Block Grant Funding Rate	LAO Block Grant Persons[a]	LAO Block Grant Total Cost (In Millions)
Emergency permit	—	$2,000	34,800	$69.6
Pre-Intern certificate	$2,000	2,500	5,300	13.3
Internship credential/certificate	2,500	4,000	6,400	25.6
First-Year and second-year teachers with full credential	3,448	5,500	24,000	132.0
Other full credential	2,500	2,000[b]	227,000	454.0
Other waiver		750[c]	3,300	2.5
Subtotals	—	—	300,800	—
Paraprofessionals	1,000	1,000[d]	25,000	$25.0
Totals	**—**	**—**	**325,800**	**$722.0**

a Estimate for 2002-03 based on 2000-01 California Basic Educational Data System (CBEDS) data, weighted by time worked, and adjusted for growth in 2001-02 and 2002-03.

b Although this funding rate is lower, *all* teachers with a full credential would be funded. In essence, it would fund almost seven days (rather than three days) of Instructional Time and Staff Development.

c This funding rate would be sufficient to cover some training for noncore subject teachers. For example, the average reimbursement for training high school coaches is $155.

d Although this is the same rate as provided through the MRPD program, funding would be provided annually to train all 25,000 paraprofessionals. By comparison, the Governor proposes to provide one-time training to 6,500 paraprofessionals in 2002-03.

Block Grant Serves More Teachers and Aides. In addition to higher per-teacher funding rates, our recommended block grant would serve more teachers and instructional aides. As noted earlier, *all* teachers and full-time paraprofessionals could be funded under our proposal. By comparison, the Governor's budget funds: (1) no teachers on emergency permits or waivers, (2) only one-fourth of paraprofessionals, and (3) roughly half of veteran teachers (and only on a short-term basis).

Block Grant Offers Flexibility, Takes Advantage of Existing Infrastructure. Our recommended block grant would fund participating districts on per-teacher rates, but it would not require specific amounts of funding to be expended on specific teachers. Districts would have considerable flexibility in structuring comprehensive teacher support and development programs, but they could rely entirely on existing programs and providers. For example, districts could continue to operate their local BTSA programs and work with their regional BTSA consultant. Similarly, districts could continue using UC, CSU, county offices, and other groups that currently provide them professional development services. They would simply receive funding directly and contract with their preferred providers—as they do with many other types of services.

Leverages Federal Funds. In 2002-03, California will receive $333 million in federal Title II monies. The federal government recently collapsed the Eisenhower and Class Size Reduction programs and significantly augmented total Title II funding. Title II funds are for teacher recruitment, training, and retention activities. (These monies are allocated based upon population and poverty measures, with low-income schools receiving more funds.) In addition, local education agencies must use between 5 percent and 10 percent of their federal Title I monies on professional development. The new federal legislation encourages agencies to combine local, state, and federal monies. Our block grant approach would make it easier for districts to leverage federal resources and use them to supplement the per-teacher state funding rates—potentially raising these per-teacher rates by several hundred dollars.

Accountability Based on API Scores, New Teacher Records. In general, under our proposed block grant, districts would be held accountable based upon their improvement in student achievement. The Legislature could consider, however, a few additional accountability mechanisms. For example, UC has designed an Internet-based system that allows teachers to record their education and credential information, school-site information, and professional development activities. The system currently allows teachers to report all UC-administered activities, and UC administrators have access to remove teachers who do not complete activities. With little extra cost, UC states it could revise the system to include professional activities sponsored by numerous groups. In essence, teachers could keep their own electronic records of professional development activity. They could then forward these records to their district office or CTC during their review or credential-renewal process. (To renew their credential, teachers currently check a box noting they have completed 150 hours of professional development.)

This system would have the added value of generating a database that could be used to study the relationship between specific professional development activities and student achievement—with the potential that state policy makers could obtain better information on the effectiveness of various program options.

Create Competitively Based Teacher Support and Development Block Grant

We recommend the Legislature consolidate six existing programs and create a new competitively based teacher support and development block grant. The block grant would provide a total of $20 million General Fund (Proposition 98) that educational agencies could use to test pilot programs and conduct research on teacher training and professional development.

In addition to a formula-based block grant, we recommend that the Legislature create a competitively based teacher support and development block grant. This would consolidate six existing programs, listed in Figure 7. The block grant would provide a total of $20 million General Fund (Proposition 98) that would be distributed by SDE on a competitive basis to an educational agency or group of agencies. The size of the grant award could vary depending upon the proposed project, but total funding would be sufficient to provide 250 grants averaging $80,000 per grant.

Encourage Collaboration, Assist Low-Performing Schools. Grant proposals could be submitted by any combination of educational agencies—including school sites, district or county offices, colleges or universities, and research or nonprofit agencies. Priority could be given to agencies that aim to improve student achievement in low-performing schools.

Develop Model Programs, Disseminate Best Practices. The objective of this smaller-sized block grant is to encourage ongoing innovation and experimentation in teacher training, induction, and professional development. Recipients would be required to conduct research on the effectiveness of their interventions and broadly disseminate their findings.

Advanced Placement Teacher Training

We recommend the Legislature shift $8.3 million in overbudgeted funds for the Advanced Placement Challenge Grant program to our proposed competitively based teacher support and development block grant.

The Advanced Placement Challenge Grant program provides nonrenewable four-year grants to high schools, with first priority for funding given to schools that offer three or fewer Advanced Placement (AP) courses. The SDE states that a majority of the funding is used for staff development, such as sending teachers to College Board AP workshops, UC workshops, or other summer AP training institutes. The annual grant amounts decrease each year of the four-year period ($30,000 in year one, $22,500 in year two, $15,000 in year three, and $7,500 in year four). The SDE is to distribute these grants on a competitive basis to no more than 550 public high schools. The *2000-01 Budget Act* appropriated $16.5 million for the program, and SDE distributed first-year grants to 550 high schools.

Figure 7

LAO Competitively Based Teacher Support and Development Block Grant[a]

(In Millions)

Budget Item	Program	Proposed Appropriation
Proposition 98		
6110-193-0001	Advanced Placement Challenge Grants[b]	$16.5
6110-197-0001	Comprehensive Teacher Education Institutes	1.0
6110-197-0001	College Readiness Program	1.0
Eliminated	Demonstration Programs in Intensive Instruction	—
Subtotal		$18.5
Non-Proposition 98		
6110-194-0001	Exploratorium	$1.5
6110-194-0001	Geography Education Alliances	0.1
Subtotal		$1.6
Total		**$20.1**

a Block grant would consolidate the listed programs, funding sources, and amounts as proposed by the Governor into a single allocation of $20 million from Proposition 98.

b Funding from program would need to be gradually shifted into the block grant as outstanding statewide obligations were paid.

Governor Proposes Reducing Second-Year Appropriation But Not Third-Year Appropriation. For 2001-02, SDE renewed these original grant awards but did not issue any additional awards. The *2001-02 Budget Act* appropriated $16.5 million, however, for the program—$4 million more than was necessary to fund 550 second-year grant awards. The 2001-02 revised budget recaptured the $4 million in savings. The Governor's budget proposal, however, appropriates $16.5 million for the program—approximately $8.3 million more than necessary to fund 550 third-year grant awards.

Most Schools With Three or Fewer AP Courses Already Receive Awards. In August 2001, the Office of the Secretary for Education released a report on the availability of rigorous courses in California's public high schools. The study defined "rigorous courses" as AP courses, International Baccalaureate courses, and UC-approved Honors courses. The study reported that 56 high schools had three or fewer rigorous courses in 2000-01. Of these 56 high schools, SDE states that 48 are receiving AP Challenge Grant funding. Of the eight high schools not receiving AP funding, seven are very small schools (for whom offering additional courses is more difficult) and one is a specialized academy. The AP Challenge Grant program is therefore already serving almost all of the schools it is designed to serve, making additional grant awards unnecessary. Thus, we recommend that the Legislature shift $8.3 million in overbudgeted AP funds (Proposition 98) to our proposed competitively based block grant (Proposition 98) that would seek to benefit similar schools through research and innovation.

Another Reading Professional Development Program

We recommend the Legislature eliminate the Support for Secondary Schools Reading program, thereby saving $8 million Proposition 98. The Legislature should eliminate the program because it is (1) duplicative of other programs and (2) not authorized as a state program.

The Support for Secondary Schools Reading (SSSR) program distributes grants on a competitive basis to county offices of education or consortia of county offices. The county offices are to use the grant monies to provide professional development opportunities to secondary school teachers who instruct students who are reading below grade level.

Duplicative of Existing State Programs. The state has three other programs that provide professional development in high school reading. The recently established Mathematics and Reading Professional Development program will provide standards-based professional development in reading for every English and social science public high school teacher in the state over the next four years. The state also recently established the High School English Institutes and the English Language Learner Institutes—both of which provide standards-based professional development opportunities for secondary school teachers. Also, the UC-administered Reading and Literature Project provides standards-based professional development to K-12 teachers, reserving 75 percent of its program slots to teachers serving in low-performing schools.

Federal Program Has Not Been Authorized. The Legislature has not authorized the SSSR program as a state program. It was originally a federal program funded with federal Goals 2000 monies. The *2001-02 Budget Act* included $8 million Proposition 98 to compensate for the expiring Goals 2000 monies.

Because the SSSR program was never authorized as a state program and is duplicative of existing state programs, we recommend the Legislature eliminate it, thereby saving $8 million Proposition 98.

Governor's Distinguished Math and Science Scholars Program

We recommend that the Legislature eliminate the Governor's Distinguished Math and Science Scholars Program because the program does not create additional incentive for California's highest achieving students. We further recommend that the Legislature delete $14 million provided for the program from the General Fund (Reduce Item 0954-101-0001 by $14 million).

Chapter 404, Statutes of 2000 (SB 1688, Polanco), established the Governor's Distinguished Mathematics and Science Scholars Program to provide $2,500 scholarships to approximately 2,400 students achieving high scores on advance placement (AP) tests in calculus, biology, chemistry, or physics. Specifically, a student must (1) score a 5 on the "calculus AB" test or a 4 or 5 on the "calculus BC" test, and (2) score a 5 on either the biology, chemistry or physics test in order to be eligible for the scholarship. Chapter 734, Statutes of 2001 (AB 804, Committee on Education), expanded eligibility for the program to students (1) who took AP tests prior to January 1, 2000 and otherwise met test score criteria, and (2) achieving at equivalent levels on an International Baccalaureate test. The Department of Finance estimates that this expansion in eligibility will increase the cost of the program by $8 million in 2002-03. To meet this cost increase, the *2002-03 Budget Bill* appropriates $14 million from the General Fund (non-Proposition 98) to the Scholarshare Investment Board, $8 million more than in the *2001-02 Budget Act*.

The stated intent of the program is to encourage high school students to pursue rigorous course work leading to careers in scientific fields. We question whether this program has much of an effect in this regard, since the likeliest scholarship recipients already are highly motivated. Generally, students who receive high scores on both an AP calculus test and an AP science test receive credit for the college-equivalent classes. The college credits can accelerate a college student's graduation date, which can result in significant savings to the student in the cost of higher education. In addition, colleges generally consider student performance in AP courses and on their AP exams when making admission decisions. Thus, high school students already have strong incentives to take AP courses and to excel on AP tests.

These scholarship recipients represent approximately the top seven-tenths of 1 percent of the state's high school students. These students generally receive other scholarships from public and private sources based upon their achievement. The $2,500 scholarships under this program—targeted to students who already are bound to the best universities and in line for other scholarships—are a low pay-off investment of General Fund monies. In view of the above, we recommend that the Legislature enact legislation to eliminate the Distinguished Math and Science Scholars program and use the $14 million for other legislative priorities.

INTRODUCTION

K-12 Education

The budget includes an increase in K-12 Proposition 98 funding of $1.2 billion in the budget year. This is $136 per pupil, or 2 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 2002-03, the budget proposes to increase K-12 Proposition 98 funding by $1.2 billion above revised current-year expenditures (based on the Governor's November Revision). This represents an increase of $136 per pupil, or 2 percent, on an average daily attendance (ADA) basis, bringing Proposition 98 per-pupil spending to $7,058.

Spending for K-12 education from all sources is projected to increase by $1.1 billion, or 2.2 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, the state will be receiving about $600 million of federal funds for K-12 education in the budget year that is not included in the budget.

Governor's Budget Proposals

The budget proposes a *General Fund* K-12 Proposition 98 increase of approximately $312 million. The budget estimates an increase in local property taxes allocated to school districts and county offices of education of $911 million, which brings the total Proposition 98 increase for K-12 education to more than $1.2 billion.

Figure 2 (see page E-67) highlights the significant changes proposed for K-12 Proposition 98 funds in the budget year. Major changes include:

- $843 million for a 2.15 percent cost-of-living-adjustment (COLA).
- $438 million for enrollment growth, based on a projected ADA increase of 1.07 percent in 2002-03.

Figure 1

K-12 Education Budget Summary

2000-01 Through 2002-03
(Dollars in Millions)

	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Change From 2001-02	
				Amount	Percent
K-12 Proposition 98					
State (General Fund)	$27,228.9	$28,269.7	$28,581.5	$311.9	1.1%
Local property tax revenue	10,797.1	11,716.5	12,627.3	910.7	7.8
Subtotals, Proposition 98[a]	($38,026.0)	($39,986.2)	($41,208.8)	($1,222.6)	(3.1%)
Other Funds					
General Fund					
Teachers' retirement	$833.8	$716.6	$481.5	-$235.1	-32.8%
Bond payments	1,058.5	1,136.8	1,279.8	143.0	12.6
Other programs	170.8	822.0	888.2	66.2	8.1
State lottery funds	827.0	813.0	813.0	—	—
Other state funds	58.9	63.8	62.9	-0.9	-1.4
Federal funds	4,476.1	5,280.6	5,215.4	-65.2	-1.2
Other local funds	3,455.0	3,455.0	3,455.0	—	—
Subtotals, Other Funds[a]	($10,880.1)	($12,287.8)	($12,195.8)	(-$92.1)	(-0.7%)
Totals[a]	**$48,906.1**	**$52,274.0**	**$53,404.5**	**$1,130.4**	**2.2%**
K-12 Proposition 98					
Average Daily Attendance (ADA)	5,691,527	5,776,829	5,838,438	61,609	1.1%
Amount per ADA (excluding loan)	$6,681	$6,922	$7,058	$136	2.0%

[a] Totals may not add due to rounding.

- $235 million for expansion of child care and after school programs.
- $197 million for the High Priority Schools Grant Program to improve academic achievement at the state's lowest performing schools, reflecting a delay of implementation of the program approved in the current year.

Figure 2

Governor's K-12 Budget Proposals 2002-03 Proposition 98

(In Millions)

2001-02 (November Revision)	**$39,986.2**
Enrollment Growth	
Revenue Limits	$300.1
Categoricals	137.6
Subtotal	($437.7)
Cost-of-Living Increases	
Revenue Limits	$599.1
Categoricals	244.2
Subtotal	($843.3)
Other Changes	
Instructional materials block grant	$250.0
High priority schools grant	197.0
Child care backfill of stages 1 and 2	152.0
Child care stage 3	32.5
Before/after school programs	29.7
Public Schools Accountability Act	29.6
Deferred maintenance	26.6
Math/Reading Professional Development	22.9
Teaching as a Priority Block Grant	20.0
School safety	10.0
Volunteer Mentor Program	10.0
School/development resource consortia	-21.6
CalWORKs[a] adult education	-36.0
Independent study	-43.0
Special education federal funds	-112.3
Schiff-Bustamante instructional materials	-250.0
Eliminate instructional/library materials programs	-356.3
Other	-19.7
Subtotal	(-$58.4)
2002-03 (proposed)	**$41,208.8**
Change From 2001-02	
Amount	$1,222.6
Percent	3.1%

[a] California Work Opportunity and Responsibility to Kids.

- Elimination of four instructional materials and library materials programs (saving $356.3 million) and sunset of the Schiff-

Bustamante instructional materials program (saving $250 million). The budget proposes $250 million to replace these programs with an instructional/library materials block grant, and also supplements these purposes with $300 million of one-time funds from the Proposition 98 Reversion Account (not reflected in Figure 2).

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 $28 billion in 2002-03, or over two-thirds of Proposition 98 expenditures. The General Fund supports about 56 percent of revenue limit funding, and local property taxes provide the remaining 44 percent.

The largest "categorical" program (expenditures earmarked for a specified purpose) is special education. The budget proposes $2.7 billion from Proposition 98 sources for special education. Class size reduction in K-3 and 9th grades is the second largest categorical spending area in 2002-03 at almost $1.8 billion. An increase of $51 million (3 percent) is due to COLA and growth in the K-3 program.

One-Time Spending

The budget proposes $535 million of one-time spending from the Proposition 98 Reversion Account. Spending from this account is funded entirely by unspent balances from prior-year and current-year appropriations.

Figure 4 (see page E-70) shows estimated savings of $535 million available for one-time reallocation in 2002-03. The list of savings includes several reductions or deletions of current-year appropriations proposed by the Governor's November Revision that were changed by legislative action in the third extraordinary session. Specifically, the Legislature:

- Reversed the proposed deletion of $40 million for revenue limit equalization.
- Restored funding for the K-12 per-pupil block grant ($67.8 million) and the "Public Employees' Retirement System offset" ($35 million)—using General Fund monies rather than reversion account funds.
- Partially restored a $250 million General Fund reduction for one-time school energy purposes by appropriating $75 million from the reversion account.

Figure 3

Major K-12 Education Programs Funded by Proposition 98

(Dollars in Millions)

	November Revision 2001-02	Proposed 2002-03	Change Amount	Change Percent
Revenue Limits				
General Fund	$15,776.2	$15,746.1	-$30.1	-0.2%
Local revenue	11,414.3	12,302.4	888.1	7.8
Subtotals[d]	($27,190.5)	($28,048.5)	($858.0)	(3.2%)
Categorical Programs				
Special education	$2,732.7	$2,714.9	-$17.8	-0.7%
Class size reduction	1,741.5	1,793.0	51.4	3.0
Child development	1,279.5	1,514.5	235.0	18.4
Targeted instructional grant[a]	713.4	736.5	23.1	3.2
Adult education	600.7	593.0	-7.7	-1.3
Public Schools Accountability Act	318.0	544.6	226.6	71.3
Home to school transportation	507.0	523.4	16.4	3.2
Economic impact aid	465.6	499.4	33.8	7.3
Summer school/after school	434.9	449.1	14.2	3.3
School improvement	418.5	429.8	11.4	2.7
ROC/Ps[b]	360.0	375.7	15.6	4.3
Instructional/library materials[c]	606.3	250.0	-356.3	-58.8
Supplemental grants	233.8	241.4	7.6	3.2
Staff development day buy-out	224.2	230.0	5.8	2.6
Deferred maintenance	176.2	205.4	29.2	16.6
Mandates	164.3	153.3	-11.0	-6.7
Assessments	126.5	137.6	11.1	8.8
Other	1,692.6	1,768.7	76.1	4.5
Subtotals[d]	($12,795.7)	($13,160.3)	($364.6)	(2.8%)
Totals[d]	**$39,986.2**	**$41,208.8**	**$1,222.6**	**3.1%**

a Chapter 891, Statutes of 2001 (SB 735, Senate Committee on Budget and Fiscal Review), combines court-ordered desegregation and voluntary desegregation programs into a targeted instructional improvement grant.

b Regional occupational centers/programs.

c Governor's budget replaces four existing programs with a block grant. The 2001-02 amount also includes the last year of funding ($250 million) for the Schiff-Bustamante program. The 2002-03 amount does not include $300 million of one-time funds from another source.

d Totals may not add due to rounding.

Figure 4

Proposition 98 Reversion Account Governor's Proposals

2002-03
(In Millions)

Savings	
Initial reversion balance	$166.3
K-12 per-pupil block grant	67.8
9th grade class size reduction savings (1999-00)	60.0
CCFRF[a] reversion	42.0
Revenue limit equalization	40.0
PERS[b] offset	35.0
CCC[c] property tax savings (2001-02)	24.8
CalSAFE savings	18.9
Teaching as a Priority block grant	17.8
Child care savings (2001-02)	17.0
CCC property tax savings (2000-01)	17.0
Beginning teacher salary (2001-02)	12.0
Teacher reading partnerships	5.0
Advanced Placement Challenge Grants	4.0
High-Tech High Schools	4.0
California School Information Services	2.6
CCC oil and mineral revenue	0.6
Total[d]	**$534.9**
Expenditures	
Textbook Block Grant	$200.0
Library Block Grant	100.0
Math and Reading Professional Development	87.1
Science Lab Materials and Equipment	75.0
CCC scheduled maintenance	22.9
CCC equipment	22.9
California School Information Services	15.5
Principal Training	7.5
High-Tech High Schools	4.0
Total[d]	**$534.9**

a Child care facilities revolving fund.
b Public Employees' Retirement System.
c California Community Colleges.
d Totals may not add due to rounding.

The Legislature "paid" for these changes with the following two reductions to current-year reversion account appropriations:

- Deferral of $66.7 million for the School Bus Safety II mandate, pending review of the mandate cost by the State Auditor and the Legislature.
- A $48.3 million reduction to the math and reading professional development program, based on implementation delays.

The net effect of the Legislature's changes leaves the same balance in the reversion account available for expenditure on K-14 programs in the budget year as proposed by the Governor—$535 million. The budget proposes spending all of these estimated savings. The largest expenditures are $200 million and $100 million, respectively, for the Governor's proposed textbook block grant and library materials block grant.

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 outside it. Conversely, when enrollment grows rapidly (as it did in the 1990s), the state must dedicate a larger share of the budget to education. 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, statewide enrollment. While the enrollment trends described here will likely differ from those in any given school district, they reflect the overall patterns the state is likely to see in the near future.

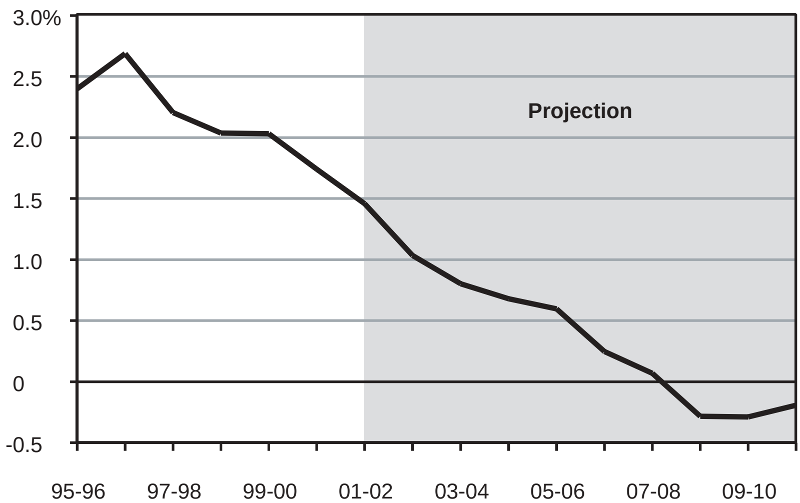
K-12 Enrollment Growth to Slow Significantly

K-12 enrollment is projected to increase by about 1 percent in 2002-03, bringing total enrollment to about 6.2 million students. Figure 5 shows how enrollment growth has slowed since 1996-97 and is projected to continue slowing through 2007-08. This trend is expected to result in an actual decrease in the number of pupils enrolled beginning in 2008-09. This contrasts with growth averaging 2.2 percent annually during the 1990s.

Figure 5

K-12 Enrollment Growth

1995-96 Through 2010-11



Divergent Trends in Elementary and High School Enrollment

Figure 6 shows that the steady decline in K-12 enrollment growth masks two distinct trends in elementary (grades K to 6) and high school (grades 9 to 12) enrollment. Elementary school enrollment growth has gradually slowed since 1996-97. Growth rates are expected to become negative in 2002-03 and remain negative through 2008-09. From the current year through 2008-09, elementary school enrollment is expected to decline by 148,000 pupils (4.4 percent).

In contrast, high school enrollment growth is expected to accelerate in the short term, reaching a 4 percent growth rate in 2004-05. Then, growth is expected to slow sharply, becoming negative in 2009-10. Expected growth over the next seven years is slightly over 290,000 pupils (17 percent).

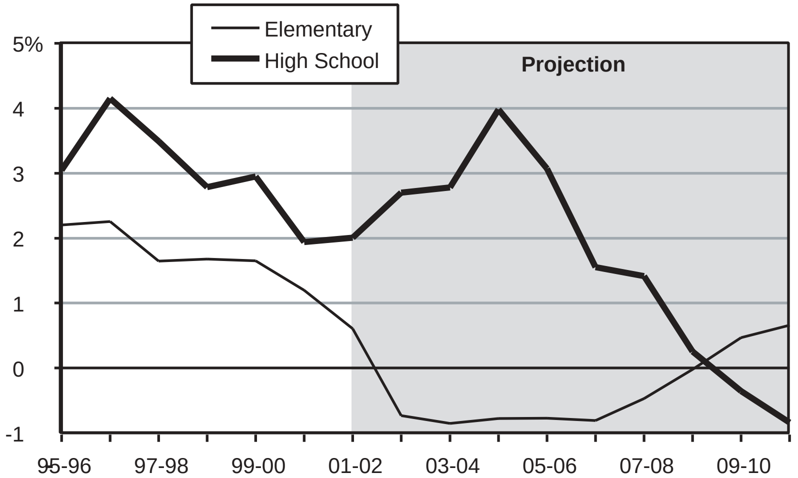
Budget and Policy Implications

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:

Figure 6

Elementary and High School Enrollment Growth

1995-96 Through 2010-11



- 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.

BUDGET ISSUES

K-12 Education

DISCRETIONARY FUNDS

We recommend that, to the extent funds are available, the Legislature provide budget-year funding to continue revenue limit equalization ($42 million) and a reduced Public Employees' Retirement System (PERS) offset to revenue limits ($36 million) because these programs (1) provide general purpose funds to local education agencies (LEAs) and (2) meet important legislative priorities. (Add new Item 6110-223-0001 of $78 million.)

The Governor's November Revision included proposals to eliminate three current-year appropriations that provided either fully or partially discretionary funds to LEAs. These were the K-12 per-pupil block grant ($68 million), revenue limit equalization ($40 million), and a reduced PERS offset to revenue limits ($35 million). The Governor's budget proposes to repeat these cuts in the budget year as well. The Legislature acted in the 2001-02 Third Extraordinary Session to maintain the current-year funding for these three programs, but left "open" the question of funding the programs in the budget year. We have particular concerns with the absence of funding in the 2002-03 budget for equalization and a reduced PERS offset, given the general purpose nature of the funding provided by these two items and the clear legislative priority assigned to them.

Figure 1 (see next page) shows general purpose funding as a percent of total K-12 Proposition 98 funding. It shows that over the last 15 years the proportion of discretionary funds has declined. Especially, given the fiscal situation districts face, we think that the Legislature should provide districts with more general purpose funding than proposed in the budget. Moreover, greater local discretion over spending is essential in the context of the state's new accountability framework. The accountability framework constructed by the Governor and the Legislature puts into place a means for assessing desired educational outcomes and creating 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.

Figure 1

General Purpose Funds as a Share of K-12 Proposition 98

1988-89 Through 2002-03 (Dollars in Billions)

Year	K-12 Proposition 98	General Purpose[a]	Percent
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	38.0	26.0	68.4
2001-02 November Revision	40.0	27.6	68.9[b]
2002-03 Budget	41.2	28.4	69.0

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, 2001-02, and 2002-03).

b With the Legislature's action to maintain current-year funding for equalization ($40 million) and the PERS offset ($35 million), general purpose funds for 2001-02 equal 69.1 percent of K-12 Proposition 98.

Accordingly, we recommend that, to the extent funds are available, the Legislature provide budget-year funding to continue revenue limit equalization and the PERS offset. The amounts required, given the statutory cost-of-living adjustment and enrollment growth, are $42 million for equalization and $36 million for the PERS offset.

REFORMING CATEGORICAL PROGRAM FUNDING

INTRODUCTION

In order to increase local flexibility and efficiency in the implementation of the state's categorical programs, we recommend that the Legislature (1) consolidate many of these programs into five categorical block grants and (2) create additional block grant features for small school districts and state mandates.

Categorical education programs are programs funded to address specified needs. Just as new categorical programs should meet a rigorous test for approval, existing programs should be reviewed periodically to ensure the need for state intervention still exists and that the programs are designed to allow school districts to make the most effective use of the funds as possible. Increased accountability underscores the relevance of categorical program reform. In this section, we review the system of K-12 categorical programs and suggest reforms to make these programs more flexible for districts and increase local accountability for results.

The Current Categorical Program Structure

The *2001-02 Budget Act* allocated approximately 31 percent of K-12 Proposition 98 funds, or about $12 billion, for over 70 categorical programs. (The remaining 69 percent of funding is available for local education agencies to spend for general educational purposes. Most of this funding is provided in the form of "revenue limits" apportionments.) Programs range from the very large ($2.7 billion in special education funding during 2001-02) to the small ($250,000 for civic education). The main rationale for categorical programs is to address program areas where local school boards may have incentives to under-invest. An example is special education, where high per-pupil costs could lead districts to provide less service than needed. Some categorical programs lack a compelling rationale, however, and simply reflect the preferences of the state as to how monies should be spent.

Most categorical programs are funded entirely by state General Fund monies appropriated in the annual budget act. Some programs, such as the Miller-Unruh Reading Program, require school districts to use revenue limits or other local funds to match state funding. Some programs, including special education and child nutrition, are partially federally funded. For most programs, funding is provided in a budget act item, usually in the State Department of Education (SDE) portion of the budget. A number of programs are reimbursed as state-mandated programs.

As we have discussed in previous publications, including *A Special Session Guide to K-12 Reform* (January 1999) and *A K-12 Master Plan: Starting the Process* (May 1999), the existing system of categorical programs causes many problems for the state and local school districts. Figure 1 summarizes these problems.

Figure 1

Problems With California's System Of Categorical Education Programs

- ✓ ***No Conclusive Evidence on the Success of Categorical Programs.*** Most programs are never evaluated. Evaluations that have been conducted have offered largely inconclusive evidence of programs' success or failure.
- ✓ ***State Rules Restrict Needed Local Flexibility.*** Complex and detailed program requirements in some programs reduce the flexibility needed by schools to maximize the impact of funds on improving student achievement.
- ✓ ***A Fragmentation of Local Programs.*** Without a local strategy for integrating categorical programs with the basic educational program, process requirements of the categorical programs shape local responses rather than the needs of students.
- ✓ ***Funding Formulas Create Negative Incentives.*** Some categorical programs create financial incentives that encourage schools to act in ways that are not in the best interests of students.
- ✓ ***Blurred Accountability for Meeting Student Needs.*** Creating separate programs for specific student needs creates confusion about who is responsible for improving student achievement.

Recent Efforts to Increase Flexibility

The Legislature has incorporated principles of local flexibility in several funding and program decisions in recent years. For example:

- The Legislature established the Teaching as a Priority block grant in Chapter 70, Statutes of 2000 (SB 1666, Alarcon), to provide flexible ways for school districts to recruit and retain credentialed teachers to low-performing schools.
- In the *2000-01 Budget Act*, the Legislature consolidated court-ordered desegregation and voluntary desegregation programs into a more flexible Targeted Instructional Improvement Grant (Chapter 891, Statutes of 2001 [SB 735, Committee on Budget and Fiscal Review]).
- Starting with the 1999-00 fiscal year, the Legislature has included Control Section 12.40 in the annual budget act. The control section permits school districts to redirect funds among specified categorical programs, provided that (1) the amount "moved out" of any of these programs not exceed 20 percent of the amount allocated to the district for the program, and (2) the amount "moved in" to any program not exceed 25 percent of the amount allocated for that program.

These and other examples show that the Legislature has been trying in recent years to structure categorical programs in ways that align with the varying needs and circumstances of local districts. We think these efforts should be taken further, as we discuss in detail below.

Consolidating and Simplifying Categorical Programs

Reforming categorical programs by consolidating them into block grants with a single program structure and funding stream would provide many benefits to school districts. Figure 2 (see next page) briefly describes some major benefits. In short, consolidating categorical programs maximizes local control for districts in order to best meet their particular needs and, if structured well, shifts the focus from process to educational results.

To increase local flexibility, eliminate negative incentives, and provide a more cohesive system for categorical programs, we recommend that the Legislature consolidate 51 programs into five categorical block grants. In addition, we propose more flexibility for small schools and modify the SDE's role to increase accountability. Part of our recommended approach involves using block grant funds to meet certain mandate reimbursement needs. For a detailed discussion of the benefits of this change, please see our discussion of Proposition 98 mandates in the

Figure 2

The Benefits of Categorical Reform

- ✓ ***Increased Local Control.*** Increasing local flexibility over funding allocations and program details allows school districts to use funds in ways that meet students' needs more efficiently and effectively. It recognizes that these needs vary greatly from place to place, and that the education professionals closest to the schools are in the best position to make detailed program decisions.
- ✓ ***Economizing Effect.*** By allowing savings to be redirected to high-priority needs, block grants create incentives for school districts to make available funds go as far as possible to meet the state-required needs of students and the categorical objectives of the state.
- ✓ ***Clearer Program Directives.*** Consolidating programs that address similar purposes simplifies the funding system and provides flexibility to use the program model that best suits local needs. A single set of goals and objectives put forth by a single agency helps schools focus on policy and practice rather than funding formulas.
- ✓ ***Clearer Lines of Accountability.*** A single point of responsibility clarifies the confusion created from having so many programs working in isolation to meet their narrow objectives. Consolidation of categorical programs with similar goals allows school districts to take a broader problem-solving approach to improve overall student achievement.

"Crosscutting Issues" part of this chapter. Figure 3 briefly describes these block grants, which are discussed in more detail below.

We believe our block grants are structured in a way that strikes a balance between the benefits of increased local flexibility and the state's continuing interest in assuring that specific areas of educational need are met. Moreover, we would note that our recommendations leave a number of major categorical areas as is, such as special education, K-3 class size reduction, and child nutrition programs.

ACADEMIC IMPROVEMENT BLOCK GRANT

We recommend that the Legislature create an Academic Improvement Block Grant by consolidating eight categorical programs focused on general academic improvement for all pupils, in order to increase local flexibility and effectiveness in serving pupils.

Figure 3

LAO Recommended K-12 Categorical Block Grants

- ✓ ***Academic Improvement Block Grant ($1.5 Billion).*** This block grant would consolidate funding for eight programs. Funding would be provided to school districts to meet a range of school improvement needs focused on student academic achievement.
- ✓ ***Compensatory Education Block Grant ($1.6 Billion).*** Eight programs for pupils who need additional services to be successful in school would be consolidated in this block grant. Included in the block grant is funding currently provided through the Economic Impact Aid program and remedial supplemental instruction programs.
- ✓ ***Alternative Education Block Grant ($267 Million).*** Eight programs currently supporting alternative education settings for students who are at risk of dropping out or entering the juvenile justice system would be consolidated in this block grant.
- ✓ ***School Safety Block Grant ($140 Million).*** This block grant would consolidate three categorical programs and several state-mandated programs intended to ensure safe and orderly school campuses.
- ✓ ***Teacher Support and Development Block Grant ($722 Million).*** This formula-based block grant would consolidate 18 teacher preparation, induction, and staff development programs.

The *2002-03 Governor's Budget* proposes a total of $1.1 billion from the General Fund (Proposition 98) and $375 million in prior-year Proposition 98 monies for eight categorical programs and numerous state-mandated programs generally focused on improving the academic achievement of *all* students. These programs include the Governor's proposed instructional materials funding package, which would consolidate five existing programs into an Instructional Materials Block Grant, and would create three new one-time programs—a textbook grant, a school/classroom library grant, and a science lab equipment grant.

We support the concept behind the Governor's proposed instructional materials/library materials consolidation. However, we believe the Legislature should provide greater flexibility by grouping the Instructional Materials Block Grant with additional related programs. We also have concerns about the Governor's one-time materials proposals because they suffer from the same overly restrictive approach that the Governor is trying to eliminate in the ongoing materials programs. (See the "Instructional Materials" section of this chapter for more detail on this issue.)

Figure 4 lists the programs that we recommend including in the Academic Improvement Block Grant and the funding levels proposed in the Governor's budget for those programs in 2002-03.

Figure 4

Programs in LAO Academic Improvement Block Grant

2002-03 (In Millions)

Program	2002-03 Governor's Budget
Ongoing Programs	
School Improvement Programs	$429.8
Core Supplemental Instruction	210.6
9th Grade Class Size Reduction	135.2
Digital High School	61.0
Instructional Materials Block Grant	250.0
Mandates in school choice, health, and graduation requirements	52.0
Subtotal	$1,138.6
One-Time Programs	
Instructional Materials Funds	$200.0[a]
School Library Funds	100.0[a]
Science Lab Materials	75.0[a]
Subtotal	$375.0[a]
Total	**$1,513.6**

[a] Funded from the Proposition 98 Reversion Account on a one-time basis.

All of the programs listed in Figure 4 have the same general goal of providing materials or services to improve the academic achievement of all students. Specifically, the programs currently allow school districts to provide a mixture of services (reduced class size, supplemental instruction, parental involvement/education, computer technical support), and materials purchases (instructional materials, library books, computer software and hardware, and environmental enhancement). Figure 5 (see next page) describes each of the ongoing programs. However, with the exception of the School Improvement Program, each of the programs targets one purpose, and requires schools to provide services in specific ways or purchase specific materials.

School Improvement Program (SIP). The SIP requires school districts to establish school site councils at each school comprised of the principal and selected teachers, parents, members of the community, and students. Each council must develop (and periodically review) a plan focused on meeting the educational needs of all pupils. The school improvement plans have many requirements, and school site councils may use SIP funding in the following ways:

- Programs focused on curricula and instructional strategies.
- Libraries.
- Education technology.
- Supplemental services to educationally disadvantaged students.
- Staff development for teachers, paraprofessionals, and volunteers.
- Improving the school and classroom environment.
- Parental involvement and education.
- Evaluation of students' health needs.
- Student counseling.
- Other objectives.

There is a significant overlap between the potential uses of SIP funding, and the other programs proposed for this block grant. We propose building upon SIP, and creating a flexible block grant that will allow school districts to better serve all their students.

Problems With Existing System

School districts' priorities and needs often do not match the state's funding distribution or specific program requirements. Below, we provide three examples of how current categorical programs focused on academic improvement may not work for all school districts.

State Funding Allocation Ignores Variation in Local Needs. For example, a school district may have an excellent technology program because in addition to Digital High School funding, the school district was

Figure 5

Description of Academic Improvement Programs

School Improvement Program

School Site Councils develop and monitor School Improvement Plans. The funding is used to improve instruction, services, school environment, and organization at school sites.

Core Supplemental Instruction

Schools provide summer school, intersession, Saturday, or before or after school programs to students in core curriculum subjects.

9th Grade Class Size Reduction

Provides incentive funding to reduce class sizes in up to two of the following core academic subjects—English, mathematics, science, and social science.

Digital High School

All high schools have received $200 per-pupil implementation grants to purchase computers, and wire schools. In 2002-03, high schools would receive up to $45 per pupil for computer replacement, technical support, and staff training.

Instructional Materials Block Grant

First school districts must use these funds to purchase standards-aligned instructional materials in core curriculum areas. If funds are still available, school districts may use their excess funds to purchase other instructional and library materials.

Textbook Block Grant

Provides school districts with funding for instructional materials if they certify that by fall 2002 all pupils will be provided with a standards-aligned reading/language arts textbook.

School/Classroom Library Grant

Provides per-pupil funding to school districts for the purchase of school and classroom library resources including books, periodicals, and multimedia materials.

Science Lab Equipment

Provides school districts with funding to purchase lab equipment and materials to provide standards-based science instruction in grades 7 through 12.

able to pass a local school facility bond to wire their buildings and receive a federal Technology Literacy Grant to train their teachers to integrate technology into the classroom. That same school district, however, may have outdated instructional materials. Under the current state programs, the school district must continue to invest a large amount of funds annually in its technology program because Digital High School funds may only be used for technology-related expenses. In this example, students would benefit more if the school district were able to use those Digital High School funds to purchase new instructional materials.

Participation in Ninth Grade Class Size Reduction (CSR) Often Difficult. The ninth grade CSR program provides a good example of a program that works well for some school districts but not for others. The program offers school districts a $177 per-pupil incentive to provide instruction in up to two courses in ninth grade English, mathematics, science, or social science in a class with a 20 to 1 student/teacher ratio. Some school districts fully participate in the program, and would like to expand their CSR program. At the same time, some school districts do not participate at all. The Governor's November Revision proposed a reduction in the current-year appropriation for ninth grade CSR because participation continues to be below expectations. Some of the reasons school districts do not fully participate include:

- School districts do not have adequate facilities to accommodate smaller class sizes.
- School districts cannot find enough qualified teachers to teach the additional courses, especially in mathematics and science.
- Cost may exceed the per-pupil incentive rate, and school districts do not have enough discretionary funds to cover remaining costs.

These barriers may result in perverse program outcomes that the Legislature had not intended. For instance, the ninth grade CSR program often provides funding to school districts with no shortage of quality facilities or highly qualified teachers, but may provide no funding to school districts with underqualified staff and facility shortages. School districts fully implementing ninth grade CSR have significantly lower percentages of students eligible for free or reduced-price school lunches than districts that have not fully participated in the program. By providing the ninth grade CSR funding in a flexible block grant, all school districts would be able to equally take advantage of these funds.

Core Supplemental Instruction Funding Mechanism Restrictive. The Governor's budget proposes funding core supplemental instruction at $3.45 per pupil per hour. The Education Code caps the number of hours that school districts can claim for reimbursement at 7 percent of a district's pupils times 120 hours. The current funding rate is adequate to cover the costs of one teacher teaching 20 to 30 students. Unfortunately, students participating in supplemental instruction may be there because they are not succeeding in the traditional learning environment of one teacher for 20 to 30 students. The current hourly funding mechanism does not provide school districts enough flexibility to offer anything substantially different. For example, students might be more successful if districts could offer fewer supplemental instructional hours, but could work in small groups of three to five students, and could support that instruction with computer-aided exercises. Current categorical programs do not allow school districts to offer such alternative educational approaches to learning. Our recommended Academic Improvement Block Grant would permit such approaches.

Create an Academic Improvement Block Grant

In view of the above, we recommend that the Legislature combine the eight existing programs (and numerous mandates) listed in Figure 4 into a $1.5 billion Academic Improvement Block Grant. Under this approach, school districts would have broad latitude in determining the use of funds, thereby permitting districts to use the service delivery model that best meets the instructional needs of their students.

Funding would be distributed on a per-average daily attendance (ADA) basis—equating to almost $260 per pupil. Many of the programs proposed to be included in this block grant focus on specific grade levels. However, our recommended approach provides approximately the same amount of funding per pupil across grades as the current and newly proposed programs, in aggregate, provide. In addition, there would be only minor changes in the funding distribution across school districts, and these differences are caused generally by differences in program participation. Schools could use this funding to support any program or material/equipment purchase that was focused on improving academic achievement, including, but not limited to, instructional and library materials, computer equipment and technical support, class size reduction, parental involvement, and supplemental instruction.

Require Instructional Materials Be Aligned to State Content Standards. Since the state has invested heavily in developing academic content standards, it is important that students have the benefit of textbooks reflecting them. Accordingly, we recommend that the Legislature make the funding provided in this block grant contingent upon a school district ensuring that all students have textbooks aligned with content standards within 21 months of the State Board of Education adopting textbooks in a specific content area. This feature would ensure that the state's interest in having standards-aligned textbooks in all classrooms is addressed, but on a more realistic schedule than the nine-month restriction imposed as part of the Governor's instructional materials initiative.

Clarify Continuing Role for School Site Councils. We believe that school site councils can play a key role by involving parents, teachers, students, and members of the community in the education process. In some school districts, school site councils may play a vital role in determining funding decisions, and setting district priorities, while in other districts, requiring school site council approval may be just another bureaucratic hurdle. Recognizing this variance as well as the positive potential, we recommend that the Legislature require as a condition of receiving a grant that school district governing boards adopt a policy defining the role of the school site council in setting the priorities for the use of funds provided by the Academic Improvement Block Grant.

COMPENSATORY EDUCATION BLOCK GRANT

We recommend that the Legislature create a Compensatory Education Block Grant by consolidating eight existing categorical programs for pupils who need additional services to be successful in school, in order to increase local flexibility and effectiveness in serving these pupils.

The *2002-03 Governor's Budget* proposes a total of $1.6 billion from the General Fund (Proposition 98) for eight existing categorical programs for students who need additional services to be successful in school. Such students include low-performing students, English language learner (ELL) pupils, and economically disadvantaged students. Figure 6 summarizes the different programs targeted at these pupils.

Figure 6

Programs in LAO Compensatory Education Block Grant

2002-03
(In Millions)

Program	Governor's Budget
Targeted Instructional Improvement Grant	$736.5
Economic Impact Aid	499.4
Remedial Supplemental Instruction	238.4
English Language Acquisition	53.2
Healthy Start	—[a]
Elementary School Intensive Reading	30.5
Miller-Unruh Reading	29.0
Intensive Algebra Academies	12.7
Total	**$1,599.7**

[a] The *2002-03 Governor's Budget* proposes to eliminate funding for the Healthy Start program, for a savings of $39 million.

As indicated in the figure, the largest of these eight "compensatory education" programs is the Targeted Instructional Improvement Grant (TIIG) program ($736.5 million). Chapter 891, Statutes of 2001 (SB 735, Committee on Budget and Fiscal Review), established this program to provide grants to school districts to (1) fund the costs of any court-ordered desegregation program that has a court order currently in force and (2) improve instruction for the lowest-achieving students. The *2001-02 Budget Act* combined amounts that previously had been budgeted for court-ordered desegregation and voluntary desegregation programs in order to fund the TIIG. The Economic Impact Aid program is the second largest state program for compensatory activities at $499.4 million. This program provides formula grants to districts with high concentrations of children who are poor or have limited English proficiency. As the figure shows, the budget eliminates funding for the existing Healthy Start program. According to staff at the Department of Finance, the proposed budget does not fund this program due to other competing education priorities. Funding would have provided Healthy Start grants to a new cohort of schools.

All of the programs listed in Figure 6 share the same general goal—improving the achievement of pupils with particular instructional needs. However, the existing system of programs creates several problems, including (1) overlapping program missions, (2) lack of outcome measures that indicate student progress, and (3) state funding/programmatic rules that emphasize process at the expense of education results. For instance, the need for specific compensatory activities, whether it be English tutoring or remedial summer school instruction in math, varies widely among districts. However, the rigid funding structure of the different programs does not give districts needed flexibility to direct resources to local needs.

The Legislature's action last year to consolidate voluntary and court-ordered desegregation funds into the TIIG program was a step in the right direction in providing local flexibility. However, we believe that the Legislature should go further with this approach, and combine other existing compensatory education programs into a block grant that would provide extra help to pupils with particular instructional needs. The consolidation of these programs into a block grant would give districts greater flexibility to use the money as part of an overall strategy to improve the educational outcomes of disadvantaged students. Such flexibility would allow districts to use the funds more efficiently to meet student needs and to better coordinate state programs with the federal Title 1 program. Accordingly, we recommend that the Legislature combine funding for the eight existing programs listed in Figure 6 into a Compensatory Education Block Grant totaling $1.6 billion.

As stated above, the Governor's budget proposes to eliminate Healthy Start funding for new cohorts of schools. This program, established by Chapter 759, Statutes of 1991 (SB 620, Presley), provides three-year competitive grants to schools with large percentages of low-income and ELL pupils for health and other support services. Under our recommendation for program consolidation, districts would have the flexibility to offer these particular services to new cohorts of schools based on their local needs and priorities.

How the Compensatory Education Block Grant Would Work

Under our recommendation, overall funding for the Compensatory Education Block Grant would equal the combined amounts proposed by the budget for the eight programs. Initially, individual districts would receive per-pupil funding based on their current allocations for the existing programs, divided by their number of ELL and economically disadvantaged pupils. Future cost-of-living adjustments (COLAs) would be allocated on a sliding scale in order to equalize per-pupil funding levels among districts over time. Districts receiving a grant would first fund the costs of any court-ordered desegregation program, if such an order is in force. In addition, funds provided to districts under this block grant would be designated as available to offset any possible future mandated costs related to the state's requirement to provide remedial instruction to (1) pupils in grades 7 through 12 at risk of not passing the high school exit exam and (2) pupils retained or recommended for retention in grades 2 through 9. (Please see our discussion of Proposition 98 mandates in the "Crosscutting Issues" part of this chapter for more detail on the benefits of accommodating mandate costs in our proposed block grants.)

ALTERNATIVE EDUCATION BLOCK GRANT

We recommend that the Legislature create an Alternative Education Block Grant by consolidating eight existing programs for disruptive and other at-risk students, in order to increase local flexibility and effectiveness in serving these pupils.

The *2002-03 Governor's Budget* includes $267 million from the General Fund (Proposition 98) for eight programs that serve as alternatives to regular district-run schools. Figure 7 (see next page) summarizes these programs. These alternative education programs differ from the programs recommended for the Compensatory Education Block Grant in that they target pupils for whom additional risk factors—such as a history of poor attendance or behavioral problems—indicate a need for an alternative educational setting.

Figure 7

Programs in LAO Alternative Education Block Grant

2002-03
(In Millions)

Program	Description	Governor's Budget
County Community Schools	Alternative schools operated by county offices of education for students who are expelled, on probation, homeless, or referred for other reasons by school districts.	$118.0[a]
Community Day Schools	Alternative schools operated by districts or county offices of education for pupils who (1) would benefit from an alternative educational setting and (2) were expelled from school or were referred by the county probation department.	42.3
Continuation High Schools	District-operated alternative high schools for students 16 through 18 years of age who (1) have not graduated from high school, (2) are not exempt from compulsory school attendance, and (3) are deemed at risk for not completing school.	33.6[b]
Partnership Academies	Academic and occupational training for students at risk of dropping out of high school. Often set up as "schools within schools."	23.0
Dropout Prevention	Alternative programs for students who (1) have dropped out or been expelled or (2) are at risk of dropping out or being expelled.	21.9
High-Risk Youth Education and Public Safety	Alternative programs operated by school districts or county offices of education for pupils who have entered, or are at risk of entering, the juvenile justice system.	18.0
Opportunity Classes and Programs	Alternative programs or classes for students who are not benefiting from a district's regular educational program because of truancy or discipline problems.	9.6[c]
High-Risk Youth	Early intervention program operated by the Los Angeles Unified School District for at-risk students in grades 6 through 8.	0.6
Total		**$267.0**

[a] Continuous appropriation from county office of education apportionments.
[b] Includes a continuous appropriation of $32.9 million.
[c] Includes $7 million from county office of education apportionments.

Problems With Existing Alternative Education Programs

As Figure 7 shows, the different alternative education programs overlap in terms of their content and target populations. For example, four of the seven programs target students who are at risk of either not completing or dropping out of school. The existence of multiple programs creates a number of significant problems for schools. First, most of the programs mandate a specific model of service delivery, which restricts the ability of schools to provide services in a way that best meets student needs. Schools end up designing programs based more on program rules than on specific student needs and a clear, strategic plan to effectively meet the needs. This is because program rules, designed to ensure that services reach eligible students, cause local schools to focus on making sure program funds are spent in accordance with state rules, not on student outcomes.

Second, school districts have no direct control over the County Community Schools program. This separation creates a barrier to the kind of coordination that is needed to ensure that a student (1) continues to attend school and (2) has an appropriate educational program. Due to this situation, districts treat services provided to students through the county program as "free goods." This creates a financial incentive for districts to use the county programs rather than create district programs that may better meet student needs.

Accountability. We note that increased flexibility and increased accountability go hand in hand. The state is currently in the process of developing a separate accountability system for alternative schools. As the state develops this alternative accountability system, there will be even less need for the state to concern itself with process and more need to focus on outcomes. Indeed, existing program and funding restrictions on alternative education programs, unless fundamentally changed, will make it difficult for districts and schools to deliver the educational results for which the new accountability measures will hold them accountable.

Create an Alternative Education Block Grant

In view of the above, we recommend that the Legislature combine the eight programs for disruptive and other at-risk students listed in Figure 7 into an Alternative Education Block Grant totaling $267 million. Under this approach, school districts would have broad latitude over the use of funds, thereby permitting districts to use the service delivery model that best meets the needs of high-risk students. For example, a block grant would give districts the authority to experiment with different ways to prevent dropouts, including targeting high-risk students in early grade levels. (Some educators believe that pupils at risk of dropping out can be identified and helped in middle or junior high school years or even during elementary school.)

The funding distribution of our recommended Alternative Education Block Grant would have the following four features:

- ***At-Risk Students.*** Students eligible for services under the block grant would include expelled and probation-referred students and students at risk of dropping out of school or entering the juvenile justice system.
- ***Hold Districts Harmless.*** District allocations would start at existing levels (aggregated for the eight current programs).
- ***Per-Pupil Amounts Adjust Over Time.*** Initial per-pupil amounts would result from current dollar allocations divided by current numbers of expelled and probation-referred students, with this latter number capped as a percentage of total district ADA. (This is similar to the current community day school funding formula and we think serves as a workable proxy for the overall group of pupils to be served by the block grant.) Future COLA amounts would be allocated on a sliding scale in order to equalize per-pupil funding levels among districts over time.
- ***Program Details.*** Funds could only be spent on programs that require students to attend school for at least five hours a day, including vocational instruction. Funds currently going to county offices of education for community and opportunity programs would be transferred to school districts over a three-year period. This would not preclude county offices from operating such programs under contract with a school district.

SCHOOL SAFETY BLOCK GRANT

We recommend that the Legislature create a School Safety Block Grant of approximately $140 million by consolidating three categorical programs and ten state-mandated programs directed at ensuring safe and orderly campus environments, in order to increase local flexibility and effectiveness.

The *2002-03 Governor's Budget* proposes a total of $139.6 million in Proposition 98 funding for three existing categorical programs and ten existing state-mandated local programs that address school safety.

The categorical programs fund school districts and county offices of education (COEs) for a variety of services and programs intended to ensure the safety of the general campus population. The state-mandated programs reimburse school districts for the cost of meeting certain state mandates, including such activities as implementing school suspension and expulsion policies and procedures, providing for emergency procedures, and reporting crimes/incidents at schools. Figure 8 summarizes the current programs that address school safety and that we recommend be incorporated into a flexible block grant of about $140 million.

Figure 8

Programs in LAO School Safety Block Grant

2002-03
(In Millions)

Programs	Governor's Budget
Categorical Programs	
School Safety and Violence Prevention Grants	$82.1
School Law Enforcement Partnership	14.6
Gang Risk Intervention Program	3.0
State-Mandated Programs	
Emergency procedures	$14.6
School crimes reporting II	7.5
Criminal background checks	5.2
Notification to teachers of pupil expulsion	2.9
Pupil expulsions from school	2.5
Pupil classroom suspension (counseling)	1.8
School crimes reporting I	1.6
Law enforcement agency	1.5
Pupil suspensions: parent classroom	1.0
School bus safety I	1.0
Juvenile court records	0.3
Total	**$139.6**

Current School Safety Program

The School Safety and Violence Prevention Program is an entitlement program for school districts and COEs that have grade 8 through 12 students. Funds may be used for most purposes that improve safety—such as hiring personnel, counselors, social workers, nurses, partnerships with law enforcement, training, and on-campus safety devices.

The School/Law Enforcement Partnership consists of the following four grant programs: (1) Safety Plans for New Schools program, (2) Safe School Plan Implementation Grant program, (3) Conflict Resolution and Youth Mediation Grants program, and (4) School Community Policing Partnership Grants program. Grants are awarded via a competitive process—except for the Safety Plans for New Schools Program, which goes out on a formula basis.

The Gang Risk Intervention Program (GRIP) provides awards to COEs on a competitive basis as well. The GRIP awardees implement programs at various school sites to offer activities that include counseling, sports, cultural activities, and job training. Between the three programs in the School/Law Enforcement Partnership and the GRIP, approximately $17.6 million is awarded annually to school districts and COEs on a competitive basis.

Why a School Safety Block Grant?

As stated in the introductory discussion of the benefits of categorical program reform, consolidating categorical programs maximizes local control for districts in order to best meet their particular needs and, if structured well, shifts the focus from process to educational results. The largest existing school safety program—the School Safety and Violence Prevention Grants program—places relatively few restrictions on how funds can be spent, recognizing that needs vary from place to place and solutions vary from place to place. We believe the Legislature should go further with this approach and combine the three categorical programs and the state-mandated programs listed in Figure 8 into an even larger block grant that would give school districts more flexibility to meet school safety and pupil discipline needs.

How the School Safety Block Grant Would Work. The School Safety Block Grant would be equal to the aggregate amount proposed in the budget for the existing programs. School districts and county offices of education would receive a per-pupil amount weighted towards grades 8 through 12 to achieve a distribution similar to the current programs.

From the block grant, school districts would first fund costs for complying with the specified state mandates. The block grant amount received by every district should be adequate for this purpose. An incentive for districts to meet mandated requirements more efficiently is created because any savings realized may be redirected to fund any purpose that meets the safety needs of the district. School districts could use funds for a variety of purposes, including hiring personnel, counselors, providing training, and purchasing safety devices.

Teacher Support and Development Block Grant

In the "Crosscutting Issues" section of this chapter, we recommend the Legislature create a new teacher support and development block grant. This block grant would consolidate 18 existing teacher preparation, induction, and professional development programs and $722 million in funds. Block grant funding would be based on a formula, with differential per-teacher funding rates that varied according to teachers' levels of preparation and experience. The consolidation would seek to (1) streamline programs with similar (if not identical) purposes; (2) simplify the relatively complex administrative process districts must currently maneuver to obtain teacher support and staff development monies; (3) offer districts more flexibility in developing and coordinating their teacher preparation, induction, and ongoing professional development programs; and (4) gain funding efficiencies by leveraging existing resources more effectively. The consolidation would be based upon a set of teacher support and professional development standards and would hold districts accountable through a revised program-review process.

Block Grant Features for Small School Districts

Small school districts face unique challenges in providing education services. Consequently, we recommend that the Legislature adopt budget bill language allowing these districts to move funds among block grants. We further recommend that the Legislature incorporate this language into statute so that districts may adequately plan for future fiscal years.

Background

In California, there are about 450 school districts—close to half of all districts statewide—with ADA of 1,500 or less. These small districts represent about 200,000 ADA, or close to 4 percent of the statewide total. We consider 1,500 ADA as a reasonable measure of a small district because districts with ADA greater than 1,500 usually have more district staff and have greater internal capacity to apply for various grants. In addition, this measure corresponds to the Education Code definition of small unified school districts for purposes of revenue limit payments.

Small school districts face unique obstacles that hinder their ability to provide certain education services. Figure 9 summarizes some of these difficulties. For example, small districts often qualify for formula-based categorical funding allocations that are not large enough to be used effectively. In the case of funding allocated on a competitive basis, small districts often lack the administrative staff to successfully apply for grants.

Figure 9

Difficulties Small School Districts Face

- ✓ ***Higher Fixed Costs.*** Due to negative economies of scale, small districts tend to have a higher portion of their budgets tied up by fixed costs, over which they have little control.
- ✓ ***Costly Administrative Burden.*** Administrative responsibilities and paperwork are harder for small districts to absorb. For example, many small districts have only one individual serving as both superintendent and school principal.
- ✓ ***Often Lack "Critical Mass" of Funding.*** Since districts receive most categorical funding based on ADA[a], small districts often receive allocations that are too small to be used effectively for their intended purpose. For example, one district we contacted received only $8,000 to run a Gifted and Talented Education program for 43 students for the school year.
- ✓ ***More Sensitive to Declining ADA.*** Districts receive funding per ADA on an average-cost basis, rather than a marginal-cost basis. Since small districts tend to face higher per-pupil fixed costs, they are less able to adjust costs and absorb revenue declines. Almost 40 percent of all districts in the state experienced declining ADA in 2000-01. Close to two-thirds of these districts have 1,500 ADA or less.
- ✓ ***Lack Resources to Compete.*** Small school districts often lack the resources and staff needed to compete for competitively awarded categorical grants. Thus, these districts often cannot participate in these programs.
- ✓ ***Difficult to Implement Certain Reforms.*** Many smaller districts have had difficulty implementing certain education reforms such as the K-3 Class Size Reduction program due to small, highly variable, numbers of pupils in each grade level.

[a] Average daily attendance.

Benefits of Additional Flexibility

Even with the flexibility provided in our proposed block grants, there are certain cases in which additional flexibility is warranted. For example, additional flexibility to move funds *among* our proposed block grants would help small districts address the needs of their students by allowing districts to determine how best to use this funding. This flexibility would:

- Enable small districts to prioritize programs to fit local needs.
- Reduce overhead costs and administrative burden.
- Enable small districts to implement reforms more effectively.

Recent Federal Program Provides Flexible Example

The federal Rural Education Achievement Program (REAP) was enacted as an amendment to Title X of the Elementary and Secondary Education Act for fiscal year 2001. The REAP permits smaller, rural local education agencies (LEAs) to use funds available through several federal formula grant programs for activities related to one or more of the specified programs. According to SDE, about 300 LEAs are eligible to participate in REAP and about 160 already have applied and are participating in this new program. This indicates that many smaller districts show interest in additional funding flexibility.

Recommendation

To address the difficulties that small school districts face, we recommend that the Legislature provide districts that have 1,500 or fewer ADA additional funding flexibility. Specifically, we recommend that the Legislature adopt budget bill language allowing these districts to freely transfer funds among block grants. However, we also recommend that the Legislature limit the percentage of funds a district may move out of the Compensatory Education Block Grant to a specified percentage (for example, 50 percent). This one exception would help ensure that the Legislature's priorities with respect to serving low-performing students remains intact. We further recommend that the Legislature incorporate the budget bill language into statute so that districts may adequately plan for future fiscal years.

A Revised Role for SDE Under Categorical Reform

We recommend that the Legislature redefine the mission of the State Department of Education to focus on assisting schools and school districts by: (1) improving the accountability system, (2) providing technical assistance and program oversight, and (3) improving research and evaluation.

If the Legislature chooses to adopt the simplified categorical program structure recommended in this chapter, it will want appropriate accountability and oversight mechanisms in place to ensure that state funds are being used effectively. We believe that with a simplified categorical structure, the Legislature should also reform the role of SDE to improve the quality of state oversight. Because categorical reform would give districts more flexibility in using funds, SDE would have fewer program requirements to monitor under our recommended model. This would reduce SDE's paperwork and administrative burden, freeing up resources for oversight activities that focus more on educational results.

In redefining the mission of SDE, we recommend that SDE assist schools and school districts in three main ways:

- ***Improve Accountability.*** Continue to develop the Academic Performance Index (API) and other educational outcome measures.
- ***Provide Technical Assistance and Program Oversight.*** Reform the oversight and compliance process. The SDE should invest in technical assistance to help schools improve academic achievement instead of spending time and resources administering narrowly defined categorical programs. The SDE should direct its assistance to school districts with the highest needs.
- ***Improve Research and Evaluation.*** Create an ongoing research and evaluation program to provide education models and best practices that will help school districts improve outcomes.

Below, we provide details on how the role of SDE could change in accountability, program oversight, and evaluation as part of reforming categorical program funding. Some of the recommendations below would result in potential workload increases, but the cost of the new workload would be more than offset by administrative savings possible from categorical reform.

Accountability

The Public Schools Accountability Act (PSAA)—Chapter 3x , Statutes of 1999, (SB 1x, Alpert)—created a statewide school-level accountability system that (1) rewards schools for academic improvement, (2) provides external assistance for lower-performing schools, and (3) potentially sanctions schools that continue to fail after receiving external assistance. The API is the cornerstone of the PSAA. Its purpose is to measure a school's academic performance and the changes in performance over time. (See discussion of the PSAA in the "Accountability and Low Performing Schools" section of this chapter.)

Generally most of the components of the accountability system are in place or under development to provide the Legislature with adequate outcome measures for holding school districts accountable for the funding provided in the five block grants that we have recommended in this chapter. Below, we discuss some of the measures that could be used for each block grant.

- ***Academic Improvement Block Grant.*** Since this block grant focuses on improving academic achievement of all students, the API and assessments used to determine the API are appropriate outcome measures.
- ***Compensatory Education Block Grant.*** In addition to the API, the department should focus on API subgroup scores (including socioeconomic status and scores for racial/ethnic groups). In addition, SDE should measure progress of student performance on the English Language Development test.
- ***Alternative Education Block Grant.*** As required by the PSAA, the Superintendent of Public Instruction developed an Alternative Schools Accountability Model (ASAM) for schools under the jurisdiction of county offices of education, community day schools, and alternative schools (including continuation high schools and independent study schools). The ASAM requires alternative education schools to establish baseline performance indicators in 2001-02, and to measure progress against that baseline starting in 2002-03. We recommend continuing this process for schools that receive funding from the Alternative Education Block Grant.
- ***School Safety Block Grant.*** The SDE should assess how well schools and school districts accomplish the goals established in a school's safety plan as part of the reformed compliance review process described in detail below.
- ***Teacher Support and Development Block Grant.*** Ultimately, the API is the appropriate accountability measure for professional development. In addition, SDE should focus on teacher preparation and performance-based measures that are available from the

accountability requirements of the new federal Improving Teacher Quality program.

Technical Assistance and Program Oversight

There are several types of LEA reviews conducted by various organizations. For example, SDE conducts Coordinated Compliance Reviews (CCRs), the State Controller's Office conducts fiscal audits, and until recently, districts have been required to conduct program quality reviews. These reviews vary in their usefulness. To maximize the value of the CCR process, we think that SDE should modify most existing CCRs to emphasize outcomes and performance.

What Is the CCR Process? The purpose of the CCR process is to: (1) ensure compliance with state and federal requirements, (2) reduce the number of compliance monitoring visits SDE makes to LEAs, and (3) provide technical assistance to prevent and resolve noncompliance. Federal and state law, as well as certain lawsuits, govern the content of the review. Currently, this is a fairly mechanical review process—similar to an audit rather than a program evaluation.

The CCR process includes a review of nearly all of the federal and state categorical programs. Once every four years, SDE conducts a CCR in each district. Before SDE performs this review, the district must conduct a self-review, which then informs the department's CCR. After a CCR, SDE provides each district with findings as to how it is in or out of compliance.

Recent Legislation. The Legislature has made efforts to reform SDE's CCR process. Chapter 724, Statutes of 2001 (SB 374, O'Connell), contains several provisions that streamline how LEAs plan and apply for categorical programs and that emphasize state standards and accountability. Based on our discussions with SDE, we understand that the major short-run effect of Chapter 724 on the CCR process will be that SDE uses API scores and other test results to select districts for review. However, SDE has not yet moved to include outcome measures as part of the program review itself. We regard SDE's delay in implementing such changes as a significant missed opportunity. The CCR process should be revised to better serve both state and local needs.

Recommendation. In view of the above, we recommend that the Legislature enact legislation to modify the CCR process to emphasize outcomes and performance as part of categorical reform. Specifically, we recommend the following changes to the CCR process:

- ***Assess Program Quality.*** The SDE should review relevant outcome measures for the categorical programs included in the CCR process when possible. Above, we have identified specific outcome measures for each block grant. This modification would better align CCRs with recent education reforms and provide useful information regarding program quality.

- ***Create "Best Practices" Guidelines.*** The SDE should develop and disseminate best practices for each program to enable LEAs to improve program quality. For example, SDE could share successful strategies for how to provide supplemental instruction.
- ***Modify Rating Mechanism.*** The SDE should move from its rating system that classifies districts as either noncompliant or compliant to a system that uses a measurement scale. This type of score would establish a baseline of information by which an LEA's future performance would be measured.
- ***Strengthen Technical Assistance.*** From discussions with SDE, we learned that often the amount of technical assistance LEAs receive depends on the amount of time SDE has available during that review. We think technical assistance is a key component of the CCR process that should be strengthened.

Building upon the Legislature's recent reform efforts, these modifications would better align the CCR process with categorical reform and other education reforms. In addition, it would provide LEAs and the state with valuable information regarding program quality.

Create Ongoing Research and Evaluation Program

A key function of SDE should be to conduct research, evaluate programs, and disseminate findings to help school districts improve their education programs. Currently, the state requires and funds education evaluations on an ad-hoc basis either through the annual budget process or through specific bills. Evaluation reports have rarely matched the expectations placed on them, however, because of limitations on data sources, funding levels, and study periods.

As the Legislature begins to rethink the role of SDE, we recommend that the Legislature establish an ongoing research and evaluation program in SDE. This type of program would ensure that (1) the highest priority programs are evaluated, (2) the evaluations are adequately funded, (3) the evaluations are of the highest quality available for the level of funding committed, and (4) dissemination of best practices to districts takes place.

INSTRUCTIONAL, LIBRARY, AND SCIENCE MATERIALS

We recommend that the Legislature (1) redirect $625 million requested for the "Instructional Materials Realignment Initiative" instead to our recommended Academic Improvement Block Grant and (2) deny requested advance appropriations totaling $1.95 billion for fiscal years 2003-04 through 2006-07, in order to preserve the Legislature's fiscal flexibility in the future.

The *2002-03 Governor's Budget* requests $625 million for the Instructional Materials Realignment Initiative. The proposal eliminates funding ($356 million, current year) for four existing categorical programs—K-8 Instructional Materials, grades 9-12 Instructional Materials, K-4 Classroom Library Materials, and K-12 School Library Materials—and consolidates their purposes into a $250 million instructional/library materials block grant. As a transitional element, the proposal supplements the block grant with three one-time programs totaling $375 million—a textbook grant ($200 million), a library materials grant ($100 million), and a science laboratory equipment/materials grant ($75 million). The budget funds these one-time grants from the Proposition 98 Reversion Account, which is a depository for unspent balances from previous Proposition 98 appropriations. The new $250 million block grant would be funded with a direct Proposition 98 appropriation, counting towards the 2002-03 minimum funding guarantee.

Current- and Budget-Year Funding

Figure 1 compares current-year state funding for instructional/library materials with the budget proposal. An important change between the current and budget years shown by Figure 1 involves the Schiff-Bustamante Standards-Based Instructional Materials Program, established by Chapter 312, Statutes of 1998 (AB 2841, Bustamante). The current year represents the last of four annual $250 million appropriations for the program that were included in Chapter 312. The Legislature established the program as a limited-duration supplement to help school districts purchase new textbooks aligned with recently adopted state academic content standards in the core curriculum areas of language arts, mathematics, history/social science, and science. Under the terms of Chapter 312, the Schiff-Bustamante program sunsets on June 30, 2002. The Governor's proposal implicitly assumes that some continuing state assistance is required for purchasing new standards-aligned materials, and for that reason requires that school districts first certify that they have provided standards-aligned materials to all pupils before they may spend any of the proposed block grant funds for other instructional/library materials purposes.

Figure 1 also shows estimated amounts available from lottery funds earmarked by Proposition 20 for instructional materials purchases. Not displayed in the figure, yet still an important element in available funding, are various local funding sources used each year by school districts for instructional and library materials. Based on prior-year State Controller reports, we estimate that school districts annually spend over $700 million from local funding sources.

Figure 1

Instructional, Library, and Science Materials State Funding

2001-02 and 2002-03
(In Millions)

	2001-02	2002-03
Schiff-Bustamante Standards-Based Instructional Materials Program	$250.0	—
K-12 School Library Materials	158.5	—
K-8 Instructional Materials	137.0	—
9-12 Instructional Materials	35.8	—
K-4 Classroom Library Materials	25.0	—
K-12 Instructional Materials Block Grant	—	$250.0
One-time grants:		
Textbooks	—	200.0
Library materials	—	100.0
Science laboratory equipment/materials	—	75.0
Lottery funds for instructional materials—Proposition 20	69.4	73.0
Totals	**$675.7**	**$698.0**

Advance Appropriations for 2003-04 Through 2006-07. The Governor's initiative includes the introduction of legislation (1) detailing terms of the proposed grants and (2) appropriating Proposition 98 funds—totaling $1.95 billion—in advance for the instructional/library materials block grant for four fiscal years following the budget year. Figure 2 shows that these appropriations increase from $350 million in 2003-04 to $600 million in 2006-07. At the time of this *Analysis*, no bill had been introduced, nor had the administration provided the Legislature with draft language.

Figure 2

Governor's Instructional Materials Block Grant[a]
General Fund Proposition 98

2002-03 Through 2006-07
(In Millions)

2002-03	2003-04	2004-05	2005-06	2006-07
$250	$350	$450	$550	$600

a Governor's budget proposes to appropriate funding for all years in 2002-03.

Analyst's Recommendations

We think the administration's concept of consolidating the four existing instructional and library materials programs into a single block grant is a good one. In one major respect, however, the Governor's initiative is internally inconsistent. On the one hand, it includes a $250 million block grant intended to increase school district flexibility. On the other hand, it divides $375 million of one-time monies into three narrowly specified allocations—textbooks, library materials, and science laboratory equipment/materials. We believe that school districts would be better able to effectively and efficiently meet instructional, library and science materials needs—that inevitably vary from place to place—by having even greater flexibility than that proposed by the Governor's initiative. This greater flexibility is possible in a larger block grant that also encompasses a broader set of purposes. Accordingly, we recommend that the Legislature redirect the $625 million of the initiative to a larger Academic Improvement Block Grant—totaling $1.5 billion—that we discuss in detail in a section of this chapter about "Reforming Categorical Program Funding." Under our recommended approach, school districts (as a condition of participation in the Academic Improvement Block Grant) would need to assure that all pupils have textbooks aligned with content standards within 21 months of the State Board of Education's adoption of textbooks for specific content areas. This feature would ensure that the state's interest in having standards-aligned textbooks in all classrooms is addressed, but on a more realistic schedule than the nine-month restriction imposed as part of the Governor's initiative.

As mentioned above, the Governor's initiative also calls for advance appropriations—totaling $1.95 billion—for four fiscal years beyond the budget year. It is not clear what advantage these advance appropriations would confer on either the state or school districts. The administration states that its intent in proposing the advance appropriations is to more closely align the allocation of state funding with the planned state textbook adoption cycle. There are too many "moving parts" in this cycle, however, to reliably predict necessary state levels of funding up to four years in advance. Moreover, advance appropriations of this magnitude prematurely make Proposition 98 allocation decisions that are better left to the Legislature to decide in the annual budget process, based on annual reassessments of overall K-14 education needs. In order to preserve its fiscal flexibility, and assure that annual spending decisions are made on the basis of timely information and assessments of priorities, we recommend that the Legislature deny the administration's request for advance appropriations.

ASSESSMENTS

Federal Assessment Funds for STAR

We recommend that the Legislature (1) use $2.1 million of federal assessment funds to pay for growth and cost-of-living adjustments for the Standardized Testing and Reporting (STAR) program and (2) save a corresponding amount of General Fund monies for other education priorities. (Add new Item 6110-113-0890 for $2.1 million and reduce Item 6110-113-0001 by $2.1 million.)

Congress' recent reauthorization of the Elementary and Secondary Education Act (ESEA) provides California with $28.9 million for developing and administering state standards-aligned assessments in language arts and mathematics in grades 3 through 8. California is one of nine states whose current assessment system appears to meet the new federal testing requirements.

The *2001-02 Budget Act* provided $65.6 million General Fund (Proposition 98) for the STAR program. The Governor's budget proposes to increase funding for the STAR program by $2.1 million (also General Fund) for cost-of-living adjustment (COLA) and growth, bringing total STAR funding to $67.8 million. Federal supplanting restrictions limit the extent to which the state can use the new federal funding to offset existing General Fund spending for STAR. However, these federal funds can be used to cover proposed STAR growth and COLA. Accordingly, we recommend the Legislature (1) use $2.1 million of federal assessment funds to pay for growth and COLA for the STAR program and (2) save a corresponding amount of General Fund monies for other education priorities.

Seek Federal Waiver to Use Assessment Funding for Title I Needs

We recommend that the Legislature direct the State Department of Education to seek a federal waiver to reallocate $26.5 million of federal funds provided for grade 3 through 8 assessments to instead support federally required assistance and intervention in Title I schools (programs for disadvantaged pupils).

As mentioned above, because of federal supplanting restrictions, California effectively can use only $2.1 million of the new federal assessment funds to offset STAR program costs. This leaves $26.8 million for other grade 3 through 8 language arts and mathematics assessment costs. One of the new features of the ESEA reauthorization is flexibility to move funds among federal programs, intended to encourage states to move funds into Title I programs for disadvantaged pupils. Unfortunately, the federal assessment funding does not fall under these new flexibility provisions.

In the "Accountability and Low Performing Schools" section of this chapter, we discuss in detail the need for additional resources for assistance and interventions. Because California's assessment system satisfies the federal assessment requirements and our low-performing schools need additional assistance and intervention beyond what is funded in the *2002-03 Governor's Budget*, we recommend the Legislature direct the State Department of Education (SDE) to seek a federal waiver to use $26.5 million in federal assessment funding for federally required assistance and intervention in Title I schools. We believe such a waiver would be in harmony with Congressional intent to create flexibility and focus on low-performing schools. Seeking a waiver to use $26.5 million these Title I schools would still leave $300,000 in available federal assessment funds, which we address in the next issue.

State Department of Education Assessment Workload

We recommend that the Legislature provide $300,000 of federal assessment funds and three positions to the State Department of Education for increased workload in administering the Standardized Testing and Reporting assessment program. (Augment Item 6110-001-0890 by $300,000.)

In a recent budget change proposal, SDE requested additional staff to meet the workload needs of the state assessment system. The budget, however, did not include funds for this request. The STAR program consists of three tests administered in multiple subjects—Stanford-9 (nationally norm referenced test), the California Standards Tests, and the Spanish Assessment of Basic Education. The department's assessment-related workload has increased in recent years for various reasons:

- ***STAR Has Grown.*** In 1998, the STAR program consisted of 42 grade-specific, subject-specific, tests. Currently, the program consists of 100 tests. Most of the expansion is due to the addition of the California Standards Tests.
- ***Linking STAR to the Golden State Exams.*** Chapter 722, Statutes of 2001 (SB 233, Alpert), requires SDE to link Golden State Examinations with the California Standards Tests in subject areas where both tests are offered.

- ***Governor's Merit Scholarships.*** Through the Scholarshare program administered by the State Treasurer, the state provides students in grades 9 through 11 with $1,000 merit scholarships based on their Stanford-9 test scores. The SDE must support the Scholarshare program, determining which students are eligible and resolving eligibility issues. The SDE received no additional positions to support Scholarshare when the merit scholarship program was created.

Since SDE is required to conduct this additional workload, and SDE has not received any additional staff to conduct the work, we recommend the Legislature add $300,000 in federal assessment funds and three personnel-years to SDE to better support the STAR program.

Use Federal Funds for English Language Development Test

We recommend that the Legislature (1) use $2.1 million of federal funds from the English Acquisition, Language Enhancement, and Academic Achievement Act to pay for additional district apportionments for the English Language Development Test; and (2) save a corresponding amount of General Fund monies for other education priorities. (Add new Item 6110-113-0890 for $2.1 million and reduce Item 6110-113-0001 by $2.1 million.)

Congress' recent reauthorization of the ESEA consolidated 13 bilingual and immigrant education programs into a state formula program. Under the formula program, California will receive $115.3 million in 2002-03. One of the accountability requirements of the new federal law is that states track the academic progress of their English Language Learners (ELL). The English Languauge Development Test (ELD) test allows California to track the progress of ELL pupils over time to monitor their transition to English fluency.

The *2001-02 Budget Act* provided $14.5 million in ongoing General Fund (Proposition 98) support and $500,000 in one-time Proposition 98 Reversion Account funds to administer the ELD test. The Governor's budget proposes to increase funding for the ELD by $2.1 million to pay for additional district apportionments, bringing total ELD funding to $17 million. Federal supplanting restrictions limit the extent to which a state can use the new federal funding to offset General Fund spending for ELD. However, these federal funds can be used to cover the additional costs of district apportionments. Accordingly, we recommend the Legislature (1) use $2.1 million of federal funds to pay for the additional costs of district apportionments for the ELD test and (2) save a corresponding amount of General Fund monies for other education priorities.

ACCOUNTABILITY AND LOW-PERFORMING SCHOOLS

In this section we discuss the state's school accountability system. Although the system involves all schools throughout the state, this discussion places emphasis on aspects of the system concerned with improving performance at so-called "low-performing" schools, as well as challenges posed for the state's accountability efforts by recent changes in federal Elementary and Secondary Education Act (ESEA) reauthorization.

PUBLIC SCHOOLS ACCOUNTABILITY ACT AND RELATED PROGRAMS

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 intervention for lower-performing schools, and (3) potentially sanctions schools which continue to fail after receiving external assistance. Figure 1 (see next page) shows the major features of the PSAA.

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. The API is still a work in progress and is likely to change annually for the next several years. Starting with the 2002 API, the State Department of Education (SDE) will include the English-language arts California Standards Test in the API for the first time. Soon other California Standards Tests in mathematics, science, and social science will be added to the API.

Some programs—such as the Governor's Performance Awards—were created as part of the PSAA. Other programs we discuss below—such as the Certificated Staff Performance Awards—while not formally part of the PSAA, are part of the state's overall accountability efforts and are linked to the PSAA by using the API as a determining measure.

Figure 1

Major Features of the Public Schools Accountability Act

✓ **Academic Performance Index (API)**

- Ranks schools in deciles 1 through 10 based on results from student assessments.

✓ **Governor's Performance Awards**

- Provides rewards to schools that improve their API scores annually.

✓ **Intervention Programs**

- Immediate Intervention for Underperforming Schools Program (II/USP).
- High Priority Grant Program for Low-Performing Schools (HP).

✓ **Sanctions**

- Sanctions schools in the II/USP or HP program that do not make their API growth targets.
- Sanctions range from an intervention team being sent to the school to closing the school down.

API Reward Programs

The SDE provides rewards to schools and teachers based on a school's ability to annually improve its API score. Under the Governor's Performance Awards, schools that make their schoolwide and "significant subgroup" API growth targets receive awards on a per-pupil basis. The Governor's budget provides $157 million for the Governor's Performance Awards—the same amount appropriated in the *2001-02 Budget Act*. (In the Third Extraordinary Session, the Legislature reduced the current-year amount of funding to $144.3 million.)

The second reward program, the Certificated Staff Performance Awards, provides awards of $5,000, $10,000, or $25,000 to certificated staff at low performing schools which increased API scores the most over a one-year period. In 2000-01, teachers and principals at 304 schools received awards. The Governor's November Revision proposed to reduce funding for the Certificated Staff Performance Awards program from $100 million to $50 million, keeping the size of the rewards the same but reducing the number of staff receiving awards by one-half. In the Third Extraordinary Session, the Legislature deleted all current-year funding for the Certificated Staff Performance Awards. The Governor's budget proposes $50 million for the program for 2002-03. (Below, we discuss whether the Legislature should consider eliminating the Certificated Staff Performance Awards for the budget year.)

Programs Based on the API and Targeted to Low Performing Schools

As shown in Figure 2, the Governor's budget proposes $641 million for programs targeted at assisting low-performing schools (as identified by their low API scores). Generally, the goals of these programs are either to (1) intervene in low-performing schools to initiate a schoolwide reform effort or (2) improve the quality or supply of teachers at lower performing schools. (Later, we discuss the low-performing school intervention programs in detail, and propose changes the Legislature could make to develop a comprehensive system to address school intervention and sanctions for low-performing schools.)

Figure 2

Programs For Low-Performing Schools

(In Millions)

Program	2001-02	2002-03
High Priority Schools Grant Program	$38.0[a]	$197.0
Immediate Intervention/Underperforming Schools	169.0[b]	190.6
Teaching as a Priority	—	118.7
Comprehensive School Reform Demonstration	32.9[c]	40.1[c]
California Subject Matter Projects	35.3[d]	31.3[d]
Assumption of Loans for Education	11.7	22.3
Governor's Teaching Fellows	21.0	21.0
National Board Certification	10.0	10.0
Cal Grant T	10.0	10.0
Totals	**$327.9**	**$641.0**

a $20 million of this amount would be expended in 2002-03.

b $8 million of this amount would be expended in the 2002-03.

c Federal funds.

d The Subject Matter Projects require 75 percent of slots go to teachers in the bottom four deciles of schools.

Eliminate the Certificated Staff Performance Award Program

We recommend that the Legislature eliminate the Certificated Staff Performance Award Program because the program may reward short-term fluctuations in test scores, and it does not provide additional services to students. (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 annual rewards of $5,000 to $25,000 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.

The Governor's budget provides $50 million for the program for 2002-03. In the November Revision, the Governor proposed reducing the current-year appropriation for this program from $100 million to $50 million by cutting the number of rewards in half. In the Third Extraordinary Session, the Legislature suspended this program on a one-time basis, eliminating program funding for 2001-02.

Background

In summer 2001, certificated staff at schools that had the highest percentage growth in their 2000 API received awards ranging from $5,000 to $25,000 per person. Since the monetary value of rewards is so high, it is even more important for awards to be distributed to schools based on "real" academic improvement rather than short-term fluctuations in test scores. We have several concerns with this program.

Questionable Ongoing Impact. We tracked the year 2000 Certificated Staff Performance Award schools to assess their results in 2001. Figure 3 summarizes the performance of award schools compared to all other schools in the state. It shows that 43 percent of Certificated Staff Performance Award schools met their API growth targets in 2001, and, one-third of the schools had declining API scores. In comparison, 58 percent of non-Certificated Staff Performance Award schools made their API growth targets, and one-quarter of schools had declining API scores. The data reveal that Certificated Staff Performance Award schools performed worse in 2001 than schools not in the program. In 2001, the data suggest that many of the school staff receiving Certificated Staff Performance Awards did so based on short-term fluctuations in their school's test scores, rather than substantial academic improvement.

Figure 3

How Certificated Staff Performance Awards Schools Compare One Year Later

2001 Academic Performance Index (API)

	Percent of Schools Making API Growth Targets	Percent of Schools with Declining API	Average API Growth
Certificated Staff Award Schools	43%	33%	13.9
Non-Certificated Staff Award Schools	58%	25%	17.1

Minimal Incentive. The incentive effect of the Certificated Staff Performance Awards may be minimal because the probability of receiving an award is so small. Teachers may view receiving a Certificated Staff Performance Award like winning the lottery, and not as a reward for their hard work because there is so little direct connection between the reward and their actions.

Inadequate Discretion. The Certificated Staff Performance Awards can only be used for teacher bonuses, and cannot be used at the school site for other improvements in educational services. In contrast, the Governor's Performance Awards (GPA) provides funding to more schools, and schools can focus the funds on a variety of improvements in educational services to students. Schools know the exact level of achievement gain necessary to receive an award. The local school-site council can then direct the funds to uses that will continue to improve the quality of education at the school site.

We recommend eliminating the Certificated Staff Performance Award program, and saving $50 million for other education purposes because:

- The Certificated Staff Performance Awards may go to schools based on short-term fluctuations in test scores and not long-term academic growth.
- The small number of awards is not likely to create a strong incentive for teachers and principals.
- There is little discretion over the use of the rewards, and the funds cannot be spent on additional educational services to students.

Accordingly, we recommend reducing Item 6110-133-0001 by $50 million.

ALIGNING STATE AND FEDERAL ACCOUNTABILITY SYSTEMS

In addition to the accountability requirements of state law, SDE is required by federal law to administer a federal accountability system for schools receiving federal Title I funds. The major differences between the PSAA and reauthorized federal Title I accountability include:

- ***Measuring Academic Improvement.*** The PSAA focuses on improving the average performance of all *schools*, while Title I accountability focuses on improving the performance of all *students* at recipient schools.
- ***Low Performing School Intervention.*** The state programs are voluntary and provide supplemental funding, while Title I interventions are required of any school receiving Title I dollars.

Below, we discuss challenges for the state posed by recent federal changes and ways the state can harmonize its accountability system with the new requirements.

New Federal Title I Accountability Requirements

Recently, the federal government reauthorized the ESEA. For 2002-03, the federal government provides California with $1.78 billion of Title I program funds that focus on improving the quality of education for socioeconomically disadvantaged students. This represents an increase of $411 million (30 percent) from 2001-02. (The Governor's budget does not reflect the higher funding level provided by reauthorization, and only assumes a $60 million increase for Title I.)

The reauthorization makes major changes to the federal government's Title I school accountability system. The SDE is required to develop a statewide Title I plan in which it addresses how California will implement the major provisions of the reauthorized Title I. We encourage the Legislature to play an active role in making policy decisions that will be required in writing the state plan. Below are some of the major accountability provisions, and how they affect California:

- ***Require State Academic Content Standards.*** Reauthorization requires each state to adopt academic content standards in language arts, mathematics, and science (starting in 2005-06). California has already developed and implemented rigorous academic content standards and, thus, meets the requirement. The Fordham Foundation recently conducted an analysis of the quality of all 50 states' academic content standards, and determined that

California's standards in language arts, mathematics, science and history were the best in the United States.

- ***Require Assessment of All Students in Grades 3 Through 8.*** Reauthorization requires each state to develop an assessment based on the state academic content standards in language arts and mathematics in grades 3 through 8. California meets this requirement by administering the California Standards Tests.
- ***Define Student Proficiency Based on the Standards-Aligned Assessment.*** One of the most important decisions the state will face in developing its Title I plan is the determination of "proficiency" for Title I purposes. The State Board of Education (SBE) recently established achievement levels on the language arts assessment, but is still developing achievement levels for the mathematics assessment. Figure 4 shows the achievement levels for 4th and 8th grade students in language arts. (We note that the achievement level "proficient" in Figure 4 will not necessarily equate with the state's determination of proficiency for Title I purposes.) The figure shows that around one-third of all students currently perform "below basic" or "far below basic." For economically disadvantaged students, around one-half of students are below or far below basic. Part of the reason that so few students are scoring well is that our state standards are among the most rigorous in the United States. However, California students on average continue to achieve below students in most other states on the National Assessment of Education Progress, a national exam that compares student achievement across states and over time.

Figure 4

Student Achievement on California Standards Test—Language Arts

	Grade 4		Grade 8	
Level	All Students	Economically Disadvantaged	All Students	Economically Disadvantaged
Advanced	11%	3%	9%	2%
Proficient	22	13	23	12
Basic	33	35	35	35
Below Basic	21	30	19	28
Far Below Basic	13	20	14	23

- ***Require All Students to Be Proficient in Language Arts and Mathematics Within 12 Years.*** The reauthorization requires states to improve the academic achievement of all students to a state-defined proficiency level incrementally over the next 12 years. Given that California has around one-third of students performing at the below basic and far below basic level, the state must improve the quality of education to meet the required higher standards.
- ***Require Schools to Make "Adequate Yearly Progress."*** Reauthorized Title I requires that a state have a single accountability system that fulfills the federal requirement that all students achieve at a proficient level over 12 years. In the Title I state plan, California must define "adequate yearly progress" (AYP), a measure of school improvement from year-to-year, to ensure that schools will reach the required proficiency level at the end of 12 years. For the last three years, SDE has defined AYP as achieving the API growth target annually. As California redefines the AYP to conform to federal law, California also will have to redefine how the API is calculated.
- ***Mandate Interventions and Sanctions for Schools Not Making AYP.*** If a school does not make its AYP for two consecutive years, the school is deemed a "School Improvement" school, and must begin an intervention/sanction process. Interventions and sanctions become more severe for each year that a school does not make its required AYP. We discuss the timeline of federally required interventions and sanctions in detail below.

One Set of Accountability Standards Instead of Two

We recommend that the Legislature amend the Public Schools Accountability Act to align to the federal Title I accountability systems by (1) defining a minimum "proficiency" level for all students for Title I purposes, and (2) adjusting the Academic Performance Index calculation to measure the growth in the number of students meeting the Title I proficiency level. The benefits of this approach is that schools are held to one set of accountability standards instead of two.

The ESEA reauthorization requires states to have one accountability system meeting both federal and state requirements. We believe that there is value in having only one measure of academic progress that determines whether schools need external assistance or receive performance awards. Having two competing systems could send mixed messages if a school receives rewards or sanctions under one program, but different signals under the other. In addition, we believe that the federal government has established a comprehensive approach to monitoring, intervening, and potentially sanctioning low-performing schools. We recommend the Legislature amend the PSAA to correspond more closely to the federal Title I accountability system, as discussed below.

Defining Proficient for Federal Law and Its Impact on the PSAA. As mentioned above, one of the main differences between Title I accountability requirements and the states is how academic improvement is measured. Federal law requires states to improve the achievement of all students to a state-defined proficiency level over a 12-year period. A key difficulty in aligning the state and federal systems will be in redefining the API to measure the progress of students' achievement toward meeting the proficiency target. The Legislature and SDE should carefully consider this matter, as the definition of "proficient" implicitly defines the adequate yearly progress that schools must make to avoid interventions and sanctions. If the state is overly aggressive, and sets the Title I proficiency level too high, most schools will not make their AYP, and the state will eventually have to intervene in many schools, at considerable costs. If the proficiency level is set too low, schools won't be motivated to improve.

We suggest that the state define proficient for Title I purposes differently than the SBE has defined proficient when establishing cut scores for the California Standards Test. Figure 4 shows that only one-third of students currently meet the state's definition of proficient or above. In some of California's lower performing schools, only 5 percent to 10 percent of students currently perform at a proficient level. These lower performing schools would have to achieve unprecedented growth to move all students to a SBE-defined proficiency level over a 12-year period. Since federal law requires states to implement a single state accountability system that meets the Title I accountability requirements, we believe the Legislature will have to amend the PSAA to conform to federal law. Accordingly, we suggest that the SDE and the Legislature carefully consider how they define proficient for Title I purposes. Specifically, we recommend the Legislature amend the PSAA to (1) define a "proficient" level for Title I accountability purposes, and (2) adjust the API calculation to measure the growth in the number of students meeting the "proficiency" target.

Need to Track High School Graduation Rates. In addition to standards-aligned assessments in language arts and mathematics, federal Title I accountability requires states to track high school graduation rates. Currently, SDE is unable to accurately collect reliable graduation-rate data because SDE is unable to track individual students. The *2000-01 Budget Act* provided $500,000 to the Office of the Secretary for Education (OSE) to contract for a study to determine how the state should collect data on (1) graduation rates, (2) student and teacher attendance rates, and (3) other potential academic indicators to support the API. The OSE plans to release this report soon. We discuss school and student-data issues in more detail in the California School Information Services section of this chapter.

Low-Performing School Interventions and Sanctions

In accountability systems, interventions are the first steps taken after a school has shown a lack of progress in meeting its goals. In this section we discuss the state and federal intervention programs. We identify some of the differences among the programs, and propose aligning the planning requirements for the four existing intervention programs to reduce the burden on schools of developing multiple action plans.

Schools participating in the intervention programs must begin to improve the academic performance of their students or face more severe interventions and sanctions. The first set of schools participating in these programs will potentially face state or federal sanctions in the fall of 2002. We identify funding sources to finance the costs of the more severe interventions and sanctions. We then provide an estimate of the number of schools that may have to face the more severe interventions and sanctions. Finally, we discuss the infrastructure that the state must develop to prepare to sanction low performing schools that continue to fail to improve.

Background

The SDE administers four low performing school intervention programs—the state High Priority Grant Program (HP) for Low-Performing Schools, the state Immediate Intervention for Underperforming Schools (II/USP), the federal Comprehensive School Reform Demonstration (CSRD) program, and the federal Title I accountability—School Improvement program. Figure 5 summarizes these programs and shows their similarities and differences.

Aligning Existing Intervention Programs

We recommend the Legislature align the planning requirements for the existing intervention programs to focus the attention of schools and school districts on core components of the action plans. We further recommend the Legislature amend statute to allow federal plans to meet the planning requirements of state programs.

Figure 5 shows the different planning requirements for the state and federal intervention programs. There are similarities among the four sets of planning requirements, but there are also many differences. It is possible that a school could participate in all four programs, and be required to develop four different school plans. Because the intent of the programs is similar, we recommend that the Legislature streamline the planning process, by allowing a school to submit only one plan regardless of the program in which the school is involved.

Figure 5

Low-Performing School Intervention Programs

	High Priority Grant Program	Immediate Intervention for Underperforming Schools (II/USP)	Comprehensive School Reform Demonstration	Title I Accountability-School Improvement
Number of Schools	Approximately 580	1,164	126	1,281
Entrance Criteria	Voluntary, API decile 1 to 5, funding for about 580 API decile 1 schools.	Voluntary, API decile 1 to 5, did not make API growth target one year.	Competitive Grant, Title I school, SDE creates priorities.	School receiving Title I funds, did not make API growth target two consecutive years.
Funding	$50,000 planning grant, $400 per student implementation grant.	$50,000 planning grant; $400 per student implementation grant.	$200 per student implementation grant, can receive II/USP planning grant.	Must focus existing Title I funding on intervention.
Action Plan	All II/USP requirements plus four additional requirements. Provide annual data on progress.	22 specific requirements.	Nine specific components. Must use research-based model. Must also complete II/USP plan.	Research-based, corrective action plan. District must provide technical assistance.
External Intervention	School district or external.	School district or external.	External.	School district.
Sanction Timeline	Three years implementation, SBE review.	Two years implementation, if "significant growth"—additional year of funding.	Three years.	See Figure 6.
Types of Sanctions	SPI can assign intervention team, or SPI can assume legal rights and duties of school.	Same as High Priority Grant Program.	Same as High Priority Grant Program.	See Figure 6.

Since the Legislature cannot change the requirements of the federal CSRD or School Improvement programs, we recommend the Legislature allow a CSRD application or a School Improvement corrective action plan to meet the planning requirements of II/USP or HP. In addition, we recommend that the Legislature consolidate the planning requirements of the two state programs, and focus on the most important reform requirements. We recommend the Legislature streamline the intervention planning process by (1) allowing federal plans to meet the requirements of state plans, and (2) consolidating the planning requirements for the state interventions.

Funding Available for Additional Intervention and Sanctions

The Legislature may have up to $55.6 million of federal Title I, Part A funding for School Improvement purposes, including school intervention and sanction activities, if a state waiver request is successful.

New accountability provisions of Title I, Part A require that states reserve 2 percent of Part A allocations for School Improvement purposes in 2002-03. As mentioned above, the Governor's budget does not reflect the $411 million increase in Title I funding for 2002-03. California must use $29.1 million of this unbudgeted amount for School Improvement purposes to meet the 2 percent requirement in the budget year. We believe that the additional costs of supporting interventions and sanctions may exceed $29.1 million, and we have identified additional federal resources that could be redirected for this purpose (see below).

Other Potential Funding Depends on Federal Waiver. We recommend in the "Assessments" section of this chapter that the Legislature direct SDE to seek a waiver from the federal Department of Education (DOE) to redirect $26.5 million of funds provided for federal assessment requirements instead to Title I School Improvement efforts. If DOE approves the waiver, the Legislature would have $55.6 million in federal funds available for School Improvement efforts. Below, we provide recommendations on how the Legislature should utilize the additional funding to assist schools that will be subject to sanctions in 2002-03.

Schools at Risk of Sanctions under Federal Title I

We recommend the Legislature enact legislation to include School Improvement schools subject to federal sanctions in the sanctioning process under state law, in order to align the state and federal accountability systems.

As noted earlier, Title I schools that do not make AYP (currently defined as making API growth targets) for two consecutive years are deemed "School Improvement" schools under federal law. Figure 6 shows the intervention and sanction timeline for a school assigned School Improvement status. As part of Title I reauthorization, Congress made numerous changes to this process including:

- Expanding school choice provisions for School Improvement.

Figure 6

Intervention Timeline for Federal Title I Accountability

Failed to make Annual Yearly Progress (AYP)
For two consecutive years.

- Develop two-year improvement plan.
- Use 10 percent of Title I funds for professional development focused on school improvement.
- Provide students with option to transfer to any other school in the school district (if space is available) and pay the transportation costs.

Failed to make AYP for three consecutive years.

- Students permitted to use Title I funds to obtain tutoring/after school program from SDE approved public or private provider.

Corrective Action—failed to make AYP for four consecutive years.

- School district must take one of the following actions—replace responsible staff, implement new curriculum, significantly decrease management authority at school level, appoint external expert to advise school, extend school day or school year, or restructure the internal organizational structure of the school.

Sanctions failed to make AYP for five consecutive years.

- Immediately prepare a plan, and do one of the following options within one year:
  - Reopen school as charter school.
  - Replace most of the school staff.
  - Hire private management company to operate school.
  - Turn the operation over to SDE.
  - Other major restructuring.

- Requiring schools to use Title I funding for public or private tutoring.
- Providing more serious sanctions for schools that continue to fail.

Although the reauthorization restructures the intervention process, the clock does not start over for schools that were identified for School Improvement in the past. Figure 7 (see next page) summarizes the number of California schools in School Improvement, and the year in which they started the program. Schools that make their AYP for two out of three years exit the School Improvement program. Currently, 1,281 California schools are still in the program at one of the stages identified in Figure 6. Many of these School Improvement schools will have to use their Title I funds to provide greater school choice and offer tutoring/

Figure 7

California Schools in Federal School Improvement Program

Current Status of Cohorts

Implementation Year	Entered School Improvement	Exited School Improvement	Remaining In School Improvement
1997-98	782	299	483
1998-99	516	181	335
1999-00	212	—	212
2000-01	251	—	251
Totals	**1,761**	**480**	**1,281**

after school vouchers in 2002-03. Some of the schools will face school district corrective actions. In addition, SDE has identified that as many as 18 schools could face Title I sanctions in fall 2002. The number of schools facing Title I sanctions is likely to grow in subsequent years.

Under federal law, SDE is required to determine from a menu of options how School Improvement schools are sanctioned. The sanctions process established in PSAA would meet the federal sanction requirements. In order to avoid having two separate sanctioning processes, we recommend that the Legislature adopt legislation to apply the PSAA sanctioning process to School Improvement schools that are subject to sanctions under federal law.

SBE Definition Will Determine the Number of Schools Facing State Sanctions

The II/USP provides participating schools with $50,000 planning grants followed by $200 per-pupil implementation grants for two years. The first cohort of II/USP schools will complete their implementation grants in fall 2002. After the two implementation years, II/USP schools face one of three potential actions depending on the schools academic achievement:

- ***Meet API Growth Targets and Exit II/USP.*** If an II/USP school makes its API growth targets for two consecutive years, the school receives a Governor's Performance Award, and exits the program. In the Third Extraordinary Session, the Legislature provided $8 million in one-time prior-year Proposition 98 funds to allow II/USP schools to receive a third year of implementation grant funding if (1) they made their API growth targets for two consecutive years and (2) are in API decile 1.

- ***Make "Significant Growth" and Receive a Third Year of II/USP Implementation Funding.*** The II/USP schools that did not make their API growth targets in both years, but made "significant growth" as defined by the SBE, would receive a third-year II/USP implementation grant.
- ***Fail to Make "Significant Growth" and Face State Sanctions.*** The II/USP schools that do not make "significant growth" face one of two sanctions: (1) school districts must contract with a "school assistance and intervention team" to directly assist the school or (2) the State Superintendent shall assume all legal rights, duties and powers of the school district governing board with respect to that school.

At the February 2002 meeting, SBE defined "significant growth" as making positive growth in one of the two implementation years. Figure 8 shows the achievement of II/USP schools during their planning grant year, and first implementation grant year (1999-00 and 2000-01). In fall 2002, SDE will use similar data from the first and second implementation years to determine which schools make significant growth (2000-01 and 2001-02). The figure shows that:

- 30 percent of II/USP cohort I schools made API growth targets for both years.
- 42 percent of the schools had positive growth in 2000-01, and therefore made "significant growth" as defined by SBE.
- 28 percent of schools had declining API scores for 2000-01, and are at risk of state sanctions if their API score declines in 2001-02.

The Governor's budget assumes that 80 percent of II/USP cohort I schools will continue to receive a third-year implementation grant. If the data in Figure 8 (see next page) are representative of how cohort I will do in 2000-01 and 2001-02, about two-thirds of schools (rather than 80 percent) would make significant growth and receive a third year of funding. Based on the available data, we estimate that II/USP is overbudgeted by $6 million. Below we recommend using the excess $6 million for costs of the sanctioning process.

Figure 8

Performance of Cohort 1 II/USP Schools on the API

1999-00 and 2000-01

	Number of Schools	Percent of Schools
Made API growth targets (two years)	127	30%
Positive API growth 2000-01	180	42
Declining API 2000-01	113	26
No data 2000-01	2	—
Declining API (two years)	8	2
Totals	**430**	**100%**

Create School Assistance and Intervention Teams

We recommend the Legislature use excess Immediate Intervention for Underperforming Schools Program funds and Title I School Improvement funds to assist school districts in paying for "school assistance and intervention teams."

Chapter 749, Statutes of 2001 (AB 961, Steinberg) amended the PSAA to provide the Superintendent of Public Instruction (SPI) with an additional option for II/USP schools that are subject to sanctions. Under the amended law, the SPI may require a school district with an II/USP school that is subject to state sanctions to contract with a "school assistance and intervention team" to provide intensive support and expertise to implement school reform.

Create Regional School Assistance and Intervention Teams. Requiring school districts to contract with school assistance and intervention teams presumes that assistance and intervention teams exist. While some of the external evaluators currently assisting II/USP schools may be qualified to participate on these teams, we have concerns about the ability of SDE to have the teams operational by fall 2002. The SDE should begin work immediately with SBE to establish criteria for selecting educational experts to participate in assistance and intervention teams.

Of the $29.1 million the state must spend on School Improvement efforts, the state can use 5 percent or $1.5 million for state operations purposes. We recommend that the Legislature use some portion of the School Improvement state operations funds to establish and train school assistance and intervention teams.

Once those teams are established and trained, there would be costs to schools to pay for these services. Our analysis indicates that potential funding may be available from the II/USP. As discussed above, we estimate that funding for II/USP cohort I is overbudgeted by at least $6 million, but may be higher if more schools face state sanctions. Since the state will face costs to sanction schools, we recommend that the Legislature adopt budget bill language authorizing SDE use any excess II/USP funds to (1) assist school districts in paying for school assistance and intervention teams, and (2) assist school districts in paying for costs of other state sanctions. Most of the II/USP schools subject to sanctions are likely to also be School Improvement schools. To the extent that II/USP funds are insufficient to meet these purposes, we recommend the Legislature use funding that we have identified for School Improvement to assist school districts in paying the costs of the school assistance and intervention teams.

Clarifying PSAA and Federal Sanction Process

We recommend the Legislature clarify in statute how school finance, facility funding and other issues should operate before the Superintendent of Public Instruction takes over some low performing schools in fall 2002.

For any II/USP school that (1) fails to make significant growth, and (2) is not required to contract for school assistance and intervention teams, state law directs the SPI to assume all legal rights, duties, and powers of the school district governing board with respect to that school. The SPI must reassign the principal (subject to review), and take one of the following actions:

- Revise attendance options.
- Allow parents to apply to create a charter school at the existing site.
- Assign the management of the school to a college, university, county office of education, or other "appropriate" educational institution.
- Reassign other certificated employees.
- Renegotiate a new collective bargaining agreement at the expiration of the existing agreement.
- Reorganize the school.
- Close the school.

These sanction options venture into uncharted territory for SDE and the state. While SDE has begun some planning activities to prepare for the sanction process, there are some ambiguities in statute that we recommend the Legislature clarify through urgency legislation prior to the SPI assuming legal rights and duties for schools. Specifically, we recommend the Legislature address the following issues before the SPI takes over schools:

- ***District Versus School Finance.*** While the state sanctioning process requires the SPI to assume legal rights and duties for sanctioned schools, the PSAA does not specify how a school district's revenue would be affected when the SPI takes over a school. Presumably, when a school is sanctioned, the SPI would use some portion of the school district's revenue to operate the sanctioned school. However, given the complexities of the state's education finance system, it would not be obvious how much of a school district's revenues the SPI could use for the sanctioned school. Some clarification of the SPI's authority on such questions would be desirable.
- ***Facility Costs and Issues.*** When the SPI takes over a school, does the SPI also assume full responsibility for the condition of facilities? How would major facility needs be addressed?
- ***Legal Liabilities.*** What legal liabilities does the SPI assume from school districts once a school has been taken over?
- ***Exit Criteria.*** The statute does not establish a mechanism for the rights and duties to be transferred back to a local governing board. The Legislature may want to establish criteria for the school to return to local control.

Other issues the Legislature may want to clarify include:

- ***Timing of SPI Takeover.*** The statute requires the SPI to take over the school as soon as the school fails to make its growth target. Such a rapid transition may not be beneficial for students attending the school, and the Legislature may want to provide the SPI with planning time prior to taking the school over.
- ***Principal Review Process.*** The statute references a review process for principals to determine whether the principal should be reassigned. The Legislature may want to clarify how the review process would work, and what rights a principal has in that review.

OTHER ISSUES

Excess Comprehensive School Reform Demonstration Funds

We recommend that the Legislature adopt legislation to (1) allow State Board of Education-approved Comprehensive School Reform Demonstration (CSRD) applications to meet the requirements of Immediate Intervention for Underperforming Schools (II/USP) action

plans, and (2) create a priority in the II/USP application process for schools that commit to apply for CSRD.

In the *2001-02 Analysis* (see page E-102), our office raised the issue that federal CSRD funds were accumulating, and that the state needed to develop a plan to expend these funds in a timely fashion. The CSRD program provides competitive grants to low performing schools to initiate structural reforms, including improved resource allocation, instruction and curriculum, classroom management, and professional development. The CSRD program requires schools to contract with an "external evaluator" to assist in reforming the school. An external evaluator is an education expert who meets a specific set of criteria established by the SBE.

Since no policy changes were made during the 2001 legislative session to ensure that federal funds were used in a timely fashion, the state had to return approximately $2.5 million to the federal government in fall 2001. Figure 9 summarizes the excess CSRD funding currently available, and when the federal expenditures would expire. We estimate that California could lose up to an additional $22 million in CSRD funding in fall 2002.

Figure 9

Available CSRD Funds and Federal Expenditure Timelines

(In Millions)

Date of Federal Appropriation	Deadline for Grant to School District	Deadline to Expend Funds	Federal Appropriation	Funds Committed to Existing Cohort	Funds Available for New Cohort
October 2000	October 2002	October 2003	$32.9	$10.6	$22.3
October 2001	October 2003	October 2004	40.1	10.6	29.5

Recently, the Legislature and SDE have taken actions to help ensure that no additional CSRD funding is reverted. Specifically:

- ***The SDE Expands CSRD Eligibility.*** Until recently, SDE policy only allowed schools participating in II/USP to apply for CSRD. In the fall of each year, SDE would (1) identify 430 schools for II/USP, (2) provide them each with $50,000 planning grants, and (3) allow them to develop either II/USP action plans or both an II/USP action plan and a CSRD application. In reaction to the accumulating CSRD funds, the SDE recently decided to expand eligibility for CSRD beyond II/USP schools. The SDE expanded eligibility for CSRD for spring 2002 to all Title I schools, and will prioritize schools in II/USP, HP, and Title I Program Improvement in the CSRD application process. The deadline for submitting a CSRD application is May 15, 2002.

- ***Legislature Provides Planning Grants for HP.*** In the Third Extraordinary Session, the Legislature provided $18 million for 2001-02 planning grants for schools participating in the HP grant program. The Legislature adopted budget bill language that prioritized eligibility for HP planning grant funds for schools that would commit to applying for CSRD funding in May 2002.

The recent actions taken by SDE and the Legislature may help ensure that the $22 million of federal funds at risk for 2002-03 are used effectively. However, we suggest that the Legislature closely track this issue to ensure that federal funds are not lost.

Other Actions to Ensure Full Use of Future CSRD Funds

Simplify CSRD Application Process. The Legislature could reduce the burden of the CSRD application process. Currently, CSRD applicants must meet the nine CSRD requirements, and complete a 22-requirement II/USP action plan. Since the general goals of the 22 requirements in the II/USP action plan are similar in nature to the nine requirements of the CSRD application, we recommend the Legislature enact legislation to allow an SBE-approved CSRD application to substitute for the requirements of the II/USP action plan. One missing component of the CSRD application is alignment to state academic content standards. We recommend the Legislature explicitly require that the CSRD application ensure that all components of their application are aligned to state academic content standards. We believe that by reducing the extra burden of the CSRD application process, the Legislature can encourage more schools to apply for CSRD.

Create Priority in II/USP Application Process for Schools That Commit to Apply for CSRD Funding. A long-term solution to ensure all CSRD funds are used and that General Fund savings are generated would be for the Legislature to give priority in selecting the fourth II/USP cohort to schools that commit to apply for CSRD. This strategy would help ensure (1) that CSRD funds are used in a timely fashion, and (2) that the state could either save General Fund support (Proposition 98) for other education purposes or increase the total number of schools in II/USP. Accordingly, we recommend the Legislature adopt legislation to give priority to schools that commit to apply for CSRD when selecting the future II/USP cohorts.

Inadequate Funding to Evaluate PSAA

We recommend that the Legislature (1) provide $500,000 from federal Comprehensive School Reform Demonstration funds to the State Department of Education to continue the contract for an evaluation of the Public Schools Accountability Act, and (2) adopt legislation to amend the statutory deadline for submitting the evaluation until June 30, 2003.

The PSAA requires SDE to contract for an external evaluation of PSAA—including the GPA program, II/USP, and the impact of these programs on student achievement. The *2001-02 Budget Act* provided SDE with $500,000 to start to evaluate California's accountability system. The SDE has contracted with American Institute of Research (AIR) to conduct the multiyear evaluation.

We believe that the $500,000 is inadequate given the complexity of issues that the evaluation must address. When SDE requested proposals for the PSAA evaluation, it requested a multiyear evaluation costing up to $500,000 a year for two years. Not funding the second year of the evaluation would significantly reduce the value of the study.

Given the importance of the PSAA to the state's education system, and the extensive list of legislative requirements for the evaluation, we recommend that the Legislature appropriate $500,000 of federal CSRD funds to expand the PSAA evaluation to evaluate CSRD in greater depth. As discussed above, the state has an excess amount of CSRD funds, and has had difficulty spending those funds. The federal CSRD grant allows the state to use up to 5 percent of the grant amount to pay the costs of administering the program—including evaluation activities. Federal law requires the state to evaluate CSRD as part of administering the program. The AIR scope of work focuses mainly on II/USP and CSRD, and the effectiveness of these intervention strategy. Since the AIR study is evaluating CSRD, and since the federal funds are available for this purpose, we recommend that the Legislature provide $500,000 of CSRD funds to continue the PSAA evaluation.

Extend the Statutory Deadline for the Evaluation. The statute requires a preliminary report to be submitted in March 2002, a final report by June 2002, and biennial evaluations beginning in 2003. The SDE was not able to start the evaluation on time because of funding constraints. Since the evaluation just started, AIR will not be able to submit a meaningful evaluation by June 2002. We recommend the Legislature amend statute to extend by one year the statutory deadline for the evaluation such that preliminary findings are due March 31, 2003, and the final report is due June 30, 2003.

California School Information Services

The California School Information Services (CSIS) is a multiyear project to develop, implement, and manage a statewide K-12 student-level database and information-transfer network. The Fiscal Crisis and Management Assistance Team (FCMAT), a part of the Kern County Office of Education, administers the program. 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, as established in Chapter 78, Statutes of 1999 (AB 1115, Strom-Martin):

- Build local capacity to maintain and use student information systems to inform educational decision making.
- Enable school districts and school sites to electronically transfer: (1) student records (such as transcripts, test scores, and health records) to any other district or school in the state, and (2) student transcripts to institutions of higher education.
- Assist local education agencies (LEAs) to transmit state and federal reports electronically thereby reducing the reporting burden on LEAs staff.

The Proposed Budget for CSIS

The Governor's budget proposes $11 million from one-time, prior-year Proposition 98 monies for CSIS implementation grants to school districts, and $4.5 million from one-time, prior-year Proposition 98 monies for support of the FCMAT operation costs. Figure 1 provides a budget summary for CSIS. Based on concerns about inadequate state oversight of CSIS and potential risks inherent in large database projects, the Legislature provided $150,000 to SDE for ongoing independent project oversight in the current year. The Governor's budget continues funding in 2002-03 for the independent evaluator.

Figure 1

Summary of Governor's Proposed CSIS[a] Budget

2001-02 Proposed Reversion

✓ **Funding for FCMAT[b]**

- Proposes to revert $2.558 million of the $11.6 million provided in the *2001-02 Budget Act* for implementation grants to local education agencies (LEAs).

2002-03 Budget Proposal

✓ **Funding for FCMAT**

- $11 million audit recovery funds provided for implementation grants to LEAs. To the extent that audit recovery funding does not materialize, the $11 million is backfilled with Proposition 98 reversion funds.
- $4.5 million Proposition 98 reversion funds to FCMAT to support CSIS operation costs.
- $250,000 Proposition 98 for project management services.

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

- $650,000 provided for SDE workload in support of CSIS.
- $175,000 for SDE contingent on findings of Department of Finance data management study.
- $150,000 to continue to contract for independent project oversight, with quarterly reports to Legislature and administration.

a California School Information Services.

b Fiscal Crisis and Management Assistance Team.

Below we (1) provide an update of CSIS implementation, (2) discuss the benefits of aligning the annual funding level for CSIS with a completion date, (3) provide an option for FCMAT to conduct CSIS readiness assessments for school districts, and (4) suggest how the CSIS mission could be clarified.

Current Status of CSIS Implementation

Currently, CSIS is in the third year of a multiyear implementation plan. Figure 2 shows CSIS participation by LEAs—school districts and county offices of education. As of January 2002, 12 consortia consisting of 219 LEAs were participating in CSIS. These LEAs represent over 2.2 million students (37 percent of state enrollment). Instead of mandating participation in CSIS, FCMAT is attempting to entice school districts to participate with the benefits of a student-level database, and implementation incentive grants covering approximately 50 percent of the cost of implementation. The CSIS will not maintain or store the student records for districts, but will facilitate the movement of records from school district to school district, and the aggregation of school district data required for state reporting.

Figure 2

Number and Enrollment of LEAs[a] Participating in CSIS

	1999-00	2000-01	2001-02	2002-03 Estimated[b]
Consortia	5	9	12	12-15
LEAs	63	121	219	369
Percent of LEAs in state	6%	11%	20%	33%
Approximate enrollment	598,000	1,325,000	2,254,000	3,038,000
Percent of state enrollment	10%	22%	37%	49%

a Local education agencies.

b Based on funding level proposed in the 2002?03 Governor's Budget.

When Does the Legislature Want CSIS Completed?

We recommend that the Legislature annually adopt budget bill language stating the intended completion date for the California School Information Services and align funding accordingly.

The FCMAT has provided detailed estimates of the costs of fully implementing CSIS statewide over varying implementation scenarios. Based on the funding needs for participating school districts in the first two years of the CSIS implementation, FCMAT developed a funding formula which can be used to estimate the costs to fund the remainder of the state's school districts' CSIS costs. School districts would receive one-time implementation funding of $8.51 per student plus $2,500 per school site (adjusted annually for inflation). The FCMAT has also developed a small school district formula because the pupil-funding rate would not cover the costs for smaller school districts.

Legislature Signals Intent to Have CSIS Completed Expeditiously. In fall 2001, the Legislature passed AB 295 (Strom-Martin), which among other things required CSIS to be fully operational in 90 percent of school districts and county offices of education by 2004-05. The Governor vetoed the bill in part because of potential state mandate costs that might result. By enrolling AB 295, the Legislature signaled that it wanted CSIS completed in the near term. The funding level provided in the *2001-02 Budget Act* and proposed in the Governor's budget, however, would not be sufficient to meet the 2004-05 goal. If for example, the Legislature chose to continue appropriating around $11 million annually for LEA implementation grants, we estimate that FCMAT would be able to provide grants to all LEAs by 2007-08. Since implementation takes two years, the current LEA implementation grant funding level could have all LEAs fully operational by 2009-10.

We recommend that the Legislature align the funding level provided in the budget with the timeline in which the Legislature wants CSIS operational. The Legislature faces a trade-off between the speed at which the program is completed and the annual funding level that the Legislature must provide. Since the appropriation level is closely linked to the completion date of the program, we recommend the Legislature annually adopt budget bill language stating the intended completion date for CSIS. By adopting budget bill language, the Legislature would have the flexibility from year to year to modify the completion timeline for the project, but would be able to signal its intent and track the progress toward its goals from one year to the next.

Provide Needs Assessment for School Districts Not Participating in CSIS

We recommend that the Legislature adopt budget bill language to allow the Fiscal Crisis and Management Assistance Team to use a portion of its annual appropriation to provide a California School Information Services (CSIS) compatibility and needs assessment for school districts not yet participating in CSIS.

Problems School Districts Face. Many school districts are not prepared to apply for participation in CSIS. Problems school districts face include:

- Districts do not understand the changes CSIS would require.
- Poor quality of data in their existing student information system make CSIS participation difficult.

- Districts have many other problems with existing student information systems (such as inadequately trained staff, antiquated hardware, data stored on multiple information systems, and insufficient data security).

Helping these less prepared school districts assess their data information needs and develop a plan to prepare for CSIS implementation would help FCMAT ensure the CSIS statewide system is operational in a timely fashion. We think that many school districts would benefit from external assistance in becoming "CSIS ready."

How FCMAT Can Help. We believe that FCMAT has the experience to develop a set of professional standards for assessing the CSIS readiness of school districts and help them prepare to participate in CSIS. One of FCMAT's core missions is to provide management assistance to school districts—generally at the invitation of the district. The FCMAT provides school districts with an assessment of how their current management is working and provides specific action steps that school districts should implement to improve their management operation.

The Governor's budget plans to revert $2.6 million from CSIS funding for LEA grants provided in 2001-02 because FCMAT has reported that it will be unable to use the funds by July 2002. The FCMAT gives two reasons why it will revert funds in the 2001-02 fiscal year: (1) some school district started the CSIS implementation process and backed out prior to entering into an implementation contract with FCMAT and (2) FCMAT did not receive enough quality proposals to use all of the funding effectively. In the future, we believe it would be in the state's interest to use any potential excess LEA implementation grant funds to help LEAs prepare for future integration into CSIS. This could be accomplished by having FCMAT conduct a CSIS readiness assessment for LEAs that request such assistance. Due to the timing of the implementation grant process, FCMAT will know by November 2002 whether it will be able to use all of the implementation grant funding for 2002-03.

Accordingly, we recommend the Legislature adopt budget bill language to allow FCMAT to use up to $2 million of its appropriation to conduct a CSIS compatibility and needs assessment for LEAs, if FCMAT determines that it will be unable to expend all of the funding appropriated for CSIS on implementation grants. We recommend the Legislature amend the budget bill as follows:

Amend Item 6110-485, Provision (7) to read:

(7) $11,000,000 to the State Department of Education for the purpose of funding the Fiscal Crisis and Management Assistance Team's (FCMAT) implementation of the local California School Information Services

Project (CSIS). The first priority for use of the funding shall be to fund CSIS local implementation grants. To the extent that FCMAT determines that not enough quality local implementation grant proposals have been submitted, FCMAT may use up to $2 million of this appropriation to provide CSIS readiness assistance services to local education agencies.

The CSIS Mission Needs Greater Specificity

We recommend that the Legislature amend statute to clarify the California School Information Services (CSIS) mission, specifically with regard to CSIS's role in: (1) supporting the Academic Performance Index calculation, (2) providing the Legislature and state agencies with individual student information, and (3) supporting state and federal data collections.

The administration is finishing the following two studies that may have significant workload implications for the CSIS project. The Office of the Secretary for Education (OSE) has contracted for a study of data collection needed to support the Academic Performance Index (API), and the Department of Finance (DOF) has contracted for a data management study of the SDE.

The OSE Contracts for API Data Collection Study. The *2000-01 Budget Act* provided $500,00 for the OSE to conduct a study to determine how data on graduation rates, student and teacher attendance rates, and other potential academic indicators should be collected by the state to support the API. The study is due to the Legislature soon. If it suggests an active role for CSIS, the Legislature may want to use the information in the study to help clarify the program mission for CSIS. Here are two examples of issues that the report may raise:

- ***Switching to a Value-Added Measure of Student Achievement in Calculating the API.*** Education experts suggest that using a value-added measure of achievement for accountability purposes is preferable to using school-wide averages. The SDE currently calculates the API using an averaging approach. If the Legislature decides to eventually switch to a value-added measure of student achievement in the API, CSIS would likely need to be involved because it would allow the state to track students over time.

- ***Collecting Data on Graduation Rates.*** Current law requires SDE to include graduation rates in the API when the data can be accurately collected to support the calculation of graduation rates. Under the recently reauthorized federal Elementary and Secondary Education Act, each state must have an accountability system for schools serving Title I students, and that accountability system must include student assessment data and high school graduation rates. The SDE has determined that CSIS would be the best way to collect graduation rate data. The OSE report will likely address whether CSIS should be used to collect graduation rates, or whether some alternative data collection mechanism is preferable.

The DOF Data Management Study. The DOF has contracted for a $500,000 study of the data management practices at SDE. The DOF plans to release the report by the end of February. The scope of the study required an independent contractor to report to the Legislature and others on potential efficiencies and improvements in the SDE's data collection and management. Specifically, the study is to:

- Assess the current data collection process.
- Identify short-term improvements and develop a long-term plan.
- Recommend changes to the current data management system.
- Assess costs and benefits of moving toward a centralized data system.
- Assess the validity of data collections selected for CSIS transition.

The findings of this study will provide information to help the Legislature clarify the role of CSIS in supporting SDE data collection and management. In addition, the Legislature provided $175,000 in the *2001-02 Budget Act* for SDE to begin the next phase of transitioning state data collection to CSIS contingent on the findings of the data management study.

Studies Should Provide Legislature With Necessary Information to Clarify CSIS' Mission. As mentioned above, CSIS program goals are building local capacity to maintain and use data systems, facilitating student records transfer, and supporting electronic submission of state reporting. The first two goals are relatively straight forward, but we believe the goal of supporting submission of state reporting could use further clarification. We believe that the Legislature should take the opportunity to clarify the CSIS mission as it reviews the two administration reports described above. In the legislative review process, we recommend the Legislature clarify the following three issues on how CSIS should support state and federal reporting requirements:

- ***Should CSIS Support the Academic Performance Index?*** The state could use CSIS to support data collection needed to calculate the API. If the state decides to (1) switch to a value-added measure of student achievement; (2) add the graduation rate, student attendance rate, or teacher attendance rate to the API; or (3) add other measures of school outcome, CSIS is the most capable entity to provide this data to SDE.

- ***Should CSIS Provide the State Access to Individual Student Information?*** The SDE currently has access to some individual level student information, contained in Standard Testing and Reporting data that SDE receives from the test publisher and data collected on students receiving special education services. However, with the exception of special education students, SDE does not collect longitudinal data that would allow them to track the progress of students, schools, and the success of state and federal programs over time. If the Legislature determines that SDE should have access to individual student level data, CSIS is best positioned to provide that data.
- ***Which State Data Collections Should Be Transmitted Via CSIS?*** Local education agencies participating in CSIS have been, or are transitioning to, reporting the California Basic Educational Data System (CBEDS) electronically through CSIS. The CBEDS transition will eventually reduce the workload of both LEAs and SDE in collecting demographic information. The SDE has proposed transitioning up to an additional 36 separate data collections. The DOF data management study should provide information for the Legislature to determine which of the additional data collections should be transferred to SDE via CSIS, and what the timeline should be for those transitions.

After reviewing the two administration reports, we recommend that the Legislature amend statute to clarify the CSIS mission addressing these three topics.

Resource Needs for SDE to Transition State and Federal Reporting Uncertain

We withhold recommendation on the appropriation level provided to the State Department of Education (SDE) to transition to electronic submission of state and federal reporting requirements through California School Information Services, pending receipt and review of the Department of Finance report evaluating the data management practices of the SDE.

The Governor's budget provides $650,000 to SDE to continue transitioning to electronic submission of state and federal reporting requirements via CSIS, and an additional $175,000 contingent on the findings of the DOF management study. The workload requirements for SDE to continue transitioning reporting requirements will depend on the findings of the DOF data management study discussed above. Accordingly, we withhold recommendation on the SDE state operations budget for SDE and CSIS, pending the receipt and review of the DOF report evaluating the data management practices of SDE.

SPECIAL EDUCATION

The Governor's budget includes $2.7 billion in General Fund support (Proposition 98) for special education in 2002-03. As Figure 1 shows, the Governor's budget provides a total increase in special education funding of $117 million or about 3 percent. This increase is comprised of (1) a decrease in the General Fund contribution of $17.8 million, (2) an increase in local property taxes earmarked for special education of $22.6 million, and (3) an increase in federal special education funds of $112.3 million.

Figure 1

Special Education Funding

2001-02 and 2002-03
(Dollars in Millions)

	2001-02	2002-03	Change Amount	Change Percent
General Fund	$2,732.7	$2,714.9	-$17.8	-1%
Local property taxes	302.3	324.9	22.6	7
Federal funds	670.0	782.3	112.3	17
Total	**$3,705.0**	**$3,822.1**	**$117.1**	**3%**

The budget uses the net additional monies to fund the special education cost-of-living adjustment (COLA) and growth. Specifically, the Governor's budget contains $77.5 million for a 2.15 percent COLA, the same percentage increase proposed for K-12 revenue limits and other categorical programs, and $39.6 million to pay for enrollment growth of 1.1 percent.

In addition, the Governor's budget contains the second of ten annual installments of $25 million each in accordance with the terms of the special education settlement agreement set forth in Chapter 203, Statutes of 2001 (SB 982, O'Connell).

Background

In 2000-01, approximately 651,000 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 Special Education Local Plan Areas (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 2000-01, there were 116 SELPAs. Of these, 3 were multicounty, 33 were countywide, 48 were multidistrict, and 32 were single-district SELPAs.

Federal Special Education Funds

For 2002-03, the state will receive a total increase of $131.6 million of federal special education monies from the Individuals with Disabilities Education Act (IDEA) Part B funds (special education funding for children ages 3 through 21). This is $19.3 million more than is reflected in the Governor's budget because, at the time the Department of Finance (DOF) put together the 2002-03 budget in November 2001, the federal government had not finalized its appropriation level. This level turned out to be higher than what DOF built into the budget.

In 1975, Congress enacted the Education for All Handicapped Children Act of 1975, now known as IDEA, to ensure that all disabled children have available to them special education and related services that are designed to meet their unique needs. In this bill, Congress stated its intent to provide 40 percent of the additional cost of meeting special education requirements (computed on a national average). More recently, in 1997 Congress recommitted to the 40 percent funding share.

Despite the federal government's promise, it has never contributed more than 17 percent (compared to the 40 percent goal) of the costs of educating children with disabilities under IDEA. In California, the federal share of cost is close to 10 percent. The State Department of Education (SDE) estimates that California would receive about $1.7 billion annually—more than double the current amount—if the federal government met its 40 percent promise.

The Governor's Budget Proposal

The Governor's budget proposes to fund baseline increases in special education and uses the $112.3 million of additional federal special education funds to "free up" budget-year Proposition 98 General Fund monies. Given the state's fiscal situation and the sizable funding increases that special education has received over the last few years, we think the Governor's proposal for these federal funds is reasonable.

Recommendation for Allocating Additional Federal Funds

We recommend that the Legislature use the additional $19.3 million of federal special education funds that California will receive for 2002-03 for the following purposes: (1) $4 million to further offset the state's General Fund contribution, (2) $300,000 to conduct a study to calculate new factors for the special disabilities adjustment, and (3) $15 million split between special education equalization and per-average daily attendance (ADA) distributions.

In the *2001-02 Budget Act*, the Legislature signaled its intent to use additional federal special education funds for special education augmentations. The Legislature has the opportunity to appropriate $19.3 million of additional federal special education funds that are not currently scheduled in the Governor's budget to help meet its legislative priorities.

We make the following recommendations:

- ***Meet Other Legislative Priorities ($4 Million).*** We recommend the Legislature use $4 million of the additional $19.3 million California will receive to free up Proposition 98 funds for other legislative priorities. Within the confines of federal nonsupplanting language, the Legislature may only use $4 million of federal special education funds for this purpose.

- ***Fund Special Disabilities Adjustment Study ($300,000).*** As part of recent special education funding reform, the state created a funding mechanism to provide additional funding to SELPAs that have a disproportionately large number of high-cost special education students. In 1998, the state completed a study that calculated a special disability adjustment factor to determine appropriate funding adjustments for these SELPAs. Current law states that these factors expire after 2002-03 and calls for a new study to be completed by March 2003. In order to update the factors and assess appropriate funding adjustments, we recommend that the Legislature fund a new study for 2002-03. The Governor's budget does not include funding for this study. We estimate it would take about a year to complete this study and it would cost about $300,000.
- ***Split Remaining $15 Million Between Equalization and Per-ADA Distribution.*** With the remaining $15 million of federal special education funds, we recommend that the Legislature follow the precedent it set in the *2001-02 Budget Act* and allocate half of the funds for further equalization of special education funding levels and distribute the other half to all SELPAs on a per-ADA basis. This distribution recognizes that special education funding levels vary considerably and trail the progress made in revenue limit equalization. It also provides some additional funding to all SELPAs rather than just the low-funded SELPAs.

Charter Schools

Background

The budget provides $49.7 million from the General Fund (Proposition 98) for the charter school categorical block grant (CSCBG), an increase of $8.4 million, or 20 percent, from estimated expenditures in the current year. The Department of Finance (DOF) proposed the 20 percent increase as a "placeholder" for growth and cost-of-living adjustments, due to uncertainties in projecting charter school enrollment growth. The May Revision will update these estimates. Chapter 34, Statutes of 1998 (AB 544, Lempert), required the State Department of Education (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 developed by SDE, 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).
- ***CSCBG.*** The block grant provides schools a per-pupil amount equivalent to what school districts receive on average through a set of specified categorical programs (see discussion below).
- ***Direct Application Programs.*** Charter schools can apply directly for programs not included in the block grant, and must adhere to all laws governing these 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.

Charter School Access to Revenue Limit Funding Sunsets

We recommend that the Legislature enact urgency legislation to extend the sunset of statutes providing charter schools with revenue limit funding.

As established by Chapter 78, Education Code Section 14002 (f) and (g) provide charter schools with a continuous appropriation of revenue limits. These provisions will sunset on July 1, 2002, after which charter schools no longer will be able to receive revenue limit funding unless the Legislature either extends the sunset, or provides some alternative funding mechanism.

AB 1132 (Canciamilla), introduced in the current legislative session, proposed to extend the revenue limit provision of the charter school direct funding model by two years, as well as make numerous other changes to charter school law. The two-year extension would have provided the Legislature an opportunity to review the revenue limit funding mechanism following completion of the legislatively mandated evaluation of charter school effectiveness that will be submitted by RAND by July 1, 2003. Because of other provisions of AB 1132, the Governor vetoed the bill.

Without a change in statute, charter schools would not be able to receive revenue limit funding in the budget year either directly from the state or indirectly through their school districts. Revenue limit funding represents approximately 60 percent of the funding received by charter schools. We recommend the Legislature enact legislation to extend the sunset to July 1, 2004 to continue to provide charter schools direct access to revenue limit funding. We recommend the Legislature take this action on an urgency basis to ensure that charter schools continue to have access to these funds for the 2002-03 fiscal year.

Extending Grandfather Clause for Charter School Direct Funding Model Would Save $15 Million in One-Time Costs

We recommend that the Legislature extend a grandfather clause allowing some charter schools to opt out of the direct funding model. Extending the grandfather clause would enable the state to avoid an unbudgeted cost of $15 million in 2002-03.

Chapter 78 provided a "grandfather" clause that gave existing charter schools the option of not participating in the direct funding model 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. The SDE estimates that around 39,000 average daily attendance (ADA) attend charter schools opting out of the direct funding model. Many of the schools choosing to opt out of the funding model are conversion schools (charter schools that previously were noncharter public schools). Conversion charter schools often maintain strong fiscal ties with their sponsoring school districts.

Under current law, beginning in the budget year, all charter schools will have to participate in the direct funding model. We estimate that the increased cost of bringing the additional charter schools into the direct funding model will be around $15 million annually. At some point, these additional costs would be roughly offset by reductions in the costs of the categorical programs on which the categorical block grant was based. The state, however, faces a one-time transition cost of approximately $15 million. The Governor's budget makes no provision for this one-time cost.

The Legislature has three basic options to address the expiration of the grandfather clause:

- Plan for an additional cost of approximately $15 million for the categorical block grant in the *2002-03 Budget Act*.
- Plan reductions of approximately $15 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.
- Extend the grandfather clause.

We recommend that the Legislature extend the grandfather clause for two years. By 2004, the Legislature will be able to consider the direct funding model as part of reauthorization of charter school law. Also, the findings of the evaluation of charter school effectiveness will be complete, and may assist the Legislature in improving the funding model. Finally, extension of the grandfather provision would enable the state to avoid an unbudgeted cost of $15 million in 2002-03.

Charter School Funding Model Removes Legislative Discretion

We recommend the Legislature amend the funding calculation for the charter school categorical block grant to reflect the appropriation level made in the annual budget bill and accompanying legislation, instead of the funding level proposed by the Department of Finance at May Revision.

As discussed above, Chapter 78 created the CSCBG to provide funding in lieu of any categorical programs for which charter schools are *not* required to apply separately. In the first year the block grant operated, charter schools received funding in lieu of 34 specific categorical programs. Since the Legislature knew that new categorical programs would be created over time, Chapter 78 requires DOF to submit annually at the May

Revision the growth rate in funding for categorical programs for which charter schools are not required to apply separately. Because the DOF is required to make the calculation at May Revision, DOF can determine, for purposes of the block grant calculation, which programs require charter schools to apply separately. Requiring the CSCBG funding amount to be based on the May Revision proposals causes four problems:

- ***Difficult to Make Calculation at May Revision.*** The original rationale for having DOF conduct the calculation at May Revision was to (1) assist DOF in determining the funding level needed for the CSCBG, and (2) assist charter schools in developing their budgets earlier. The earliest that DOF has calculated the per pupil amount of the CSCBG is the end of July, over a month after the final budget has been adopted. So, neither of the supposed benefits of basing the calculation on the May Revision are being realized.

- ***Removes Legislative Authority.*** The DOF administratively determines which categorical programs are in the CSCBG even if the Legislature disagrees. For example, the *2001-02 Governor's Budget* proposed trailer bill language to remove the Elementary School Intensive Reading Program from the CSCBG, and instead allow charter schools to apply separately for the program. This would have required charter schools to adhere to all laws and regulations governing the program in order to receive funding. The Legislature rejected the DOF proposal. However, DOF's calculation of the per ADA funding level for the CSCBG excluded the reading program funds from the block grant because that had been the May Revision proposal. This calculation prevailed due to the current wording of Chapter 78's provision for adjusting CSCBG funding. This reduced funding for schools participating in the block grant by about $300,000. However, because the Legislature rejected the proposed DOF trailer bill, charter schools also could not apply separately for the reading program, thus losing access to program funds. In this example, an administrative action by DOF prevailed over a formal legislative vote and created an irrational "Catch-22" for the charter schools.

- ***The CSCBG Calculation Does Not Reflect Actual Budget Adopted by Legislature.*** Because the CSCBG funding level is determined by the May Revision proposal, not legislative action, the CSCBG amount is based on funding levels that inevitably differ from the funding levels adopted in the annual budget act.

- ***Difficult for Stakeholders to Verify DOF Funding Calculation.*** Because much of the fiscal data needed to make the CSCBG calculation is not publicly available at the time of the May Revision, it is difficult for anyone, to verify the DOF calculation. Last year, for example, we had numerous technical concerns with DOF's calculation. We were able to resolve some of the issues with DOF, but could not agree on others. Members of the charter school community have had similar difficulty in verifying the accuracy of the DOF calculation. If the calculation were based on the final budget decisions, the fiscal information needed to make the calculation would be available publicly, and the calculation would be more transparent.

Because the current CSCBG calculation negates the Legislature's authority and causes other problems, we recommend the Legislature amend statute to have DOF calculate the CSCBG funding level based on the final adopted budget and accompanying legislation. Implementing this recommendation would eliminate all of the point-in-time problems that arise from basing the amount on the administration's May Revision proposals and restore legislative authority.

Charter County Community Day School

Chapter 58, Statutes of 1997 (SB 1318, Polanco), allows the Los Angeles County Office of Education (LACOE) to grant a charter petition for a charter school that serves at-risk pupils, and authorizes that charter school to receive base and supplemental grant funding as if the charter school were a county community day school. Under the authority granted by Chapter 58, LACOE granted a charter to the Soledad Enrichment Action (SEA) Charter School in 1997. Community day schools serve students who have been expelled, probation-referred, or referred by a school attendance review board. Chapter 19, Statutes of 2000 (AB 696, Washington), extends the statutory authorization for the charter school through the 2002-03 fiscal year.

Chapter 19 also requires the Legislative Analyst's Office to report in the *Analysis of the 2002-03 Budget Bill* on the need to continue the community day school funding rate for a charter school operating under this statute. This analysis is in response to that requirement. Below, we provide background information on community day schools in general and SEA in particular. We then address the issue of the funding rate mechanism, followed by information on the performance of the SEA Charter School to date.

Background on Community Schools

The Governor's budget proposes $42.3 million for community day schools. The State Department of Education reports that, in 1999-00, 175 school districts and 5 county offices of education operated community day schools serving approximately 10,000 pupils.

Community Day Schools Created to Serve Expelled Students. Chapter 972, Statutes of 1995 (SB 966, Johnston), requires school districts to provide an educational placement to all students who are expelled, and further requires that the educational placement not be at a regular public school. Chapter 974, Statutes of 1995 (AB 922, Friedman), allows school districts to establish community day schools for students who are expelled, probation-referred, or referred by a school attendance review board. Community day schools must:

- At minimum offer a six-hour instructional day.
- Be located on a site separate from comprehensive, continuation, or opportunity schools.
- Not offer independent study.

Funding for Community Day School Students. School districts receive base revenue limit funding for students attending community day schools. In addition, school districts receive a supplemental grant based on average daily attendance (ADA). These grants are capped as follows:

- 0.375 percent of an elementary school district's ADA.
- 0.5 percent of a unified school district's ADA.
- 0.625 percent of a high school district's ADA.

School districts receive (1) no supplemental grant if a pupil attends school less than five hours, (2) one-half of the per pupil supplemental grant if a student attends school for five hours, and (3) a full supplemental grant if a pupil attends school for six hours or more. County Offices of Education (COEs) may also operate schools that serve expelled students. The cap for supplemental grants for county community day schools is the unused portions of the funding caps of the school districts within the county. Since COEs have higher revenue limit funding, their supplemental grant rate is less than for school districts. For 2000-01 the county supplemental grant rate was $3,326 per ADA.

Both school district and COE community day schools may offer education services beyond the six-hour requirement. In 2000-01, schools received $4.19 per pupil/hour for students attending a seventh and/or eighth hour of school per day.

Background on the SEA Charter School

In the 2000-01 school year, SEA served approximately 730 ADA at 17 locations throughout Los Angeles County. The school received $8.2 million in revenues from revenue limit funds, community day school supplemental grant funding, and hourly reimbursements. Figure 1 shows a breakdown of SEA's revenues in 2000-01. The funding level equates to over $11,200 per ADA, and is roughly equivalent to the per-pupil funding rate LACOE receives for serving similar at-risk students. Generally, serving these students is more costly than students in traditional public school because students need greater individual attention (smaller class sizes) and more support services (counseling, reading specialists, and psychologists).

Student turnover is very high in community day schools, and SEA is no exception. Even though average attendance was 730 pupils, over 2,000 pupils were enrolled during the 2000-01 school year, and less than 5 percent of the pupils remained at the school for longer than one year.

Figure 1

Breakdown of Soledad Enrichment Action's Revenues for 2000-01

	ADA	Per ADA Funding Rate	Revenues
Community Day Base Funding	729	$7,502	$5,465,330
Supplemental Community Day for 5th and 6th Hour	718	3,326	2,388,567
Subtotal			$7,853,897
	Hours	**Hourly Funding Rate**	**Revenues**
7th and 8th hourly for either program	84,453	$4.19	$353,858
Total			**$8,207,755**

One of the goals of SEA is to serve students in their home communities. Based on prior experience serving at-risk students in Los Angeles County, SEA found that if a student had to cross a gang boundary to go to school, the student would often choose not to attend school. The SEA has strategically located its sites to ensure that students do not have to cross gang boundaries and can attend school in their local communities.

Community Day School ADA Caps Drive the Fiscal Implications of SEA. As discussed above, the county community day school ADA cap for a COE is determined by the unused community day school caps of the school districts in that county. Chapter 19 capped ADA that could be served by SEA at 2,500, and counted that ADA against the LACOE county community day school cap to ensure that the statewide costs of county community day schools did not increase. Historically, LACOE has not served enough eligible pupils to reach its attendance caps. Thus, the services provided by SEA have not limited the level of service provided by other county community day schools in Los Angeles County.

Funding Mechanism Consistent With Charter School Funding Model

We conclude that the funding mechanism created in Chapter 19 is a reasonable funding mechanism for a charter school serving expelled/ probation-referred pupils.

Chapter 78, Statutes of 1999 (AB 1115, Strom-Martin), establishes the direct funding model for charter schools, and states that "it is the intent of the Legislature that each charter school be provided with operational funding that is equal to the total funding that would be available to a similar school district serving a similar pupil population." Chapter 78 does not specify which student characteristics should be considered in defining a "similar pupil population." In creating and funding county community day schools, the Legislature recognized that educating pupils that have been expelled or probation-referred is more expensive than typical pupils. Since the cost of serving expelled/probation-referred pupils is significantly higher than standard pupils, we conclude that it is reasonable to provide a higher funding rate for a charter school serving expelled/probation-referred pupils. If the Legislature chooses to continue to authorize charter schools to serve expelled/probation-referred pupils similar to those served in community day and county community day schools, we conclude that it is consistent with charter school law and county community day school law to continue the funding mechanism established by Chapter 19.

Benefits of Operating as a Charter School

Generally, charter schools have statutory relief from much of the Education Code in exchange for greater accountability because charter schools must be rechartered every five years. We identify three major differences in how the SEA charter school operates compared to how a county community day school would operate:

- ***Exemption From Field Act.*** The Field Act imposes special requirements for seismic safety of K-12 school facilities. Generally, the Field Act restricts converting a site that was used for a noneducation activity into a school site. Exemption from the Field Act makes it easier for SEA to find sites that can be converted to schools.
- ***Relationship With Community Based Organization.*** The SEA charter school is operated by SEA, Inc., a nonprofit community based organization. Such a governance structure could only occur with charter school status.

- ***Flexibility in School Staffing.*** Chapter 19 exempts SEA from the Education Code's certificated teacher requirements. This exemption allows SEA to use staff that are not certificated teachers.

Mixed Performance on Accountability Goals

We find that Soledad Enrichment Action (SEA) charter school did not meet its statutorily required outcome goals, but SEA did develop, and has begun to implement the statutorily required school improvement plan.

Chapter 19 requires the establishment of specific accountability criteria and goals to measure the performance of SEA. These accountability goals include:

- ***Goal 1:*** At least 62 percent either graduate or return to their school district of residence.
- ***Goal 2:*** At least 80 percent of pupils meet pupil objectives defined in the school's charter. These objectives are shown in Figure 2.
- ***Goal 3:*** The parents of at least 59 percent of pupils participate in weekly parenting education sessions and other charter school activities.

Based on conversations with staff at LACOE and the State Department of Education, these outcome goals are generally ambitious for schools serving expelled/probation-referred students.

The SEA Meets Only One of the Three Statutory Goals. Figure 3 (see page E-154) summarizes SEA charter school's achievements with regard to its accountability requirements in 2000-01. It shows that the SEA charter school met one of the three goals established in statute, and fell somewhat short on the other two.

- ***SEA Met Goal 1—Many Students Returned to School District.*** The SEA charter school tracked each student that entered its program to determine when and why the student eventually left the school. Figure 4 (see page E-154) summarizes the reasons students gave for leaving the school. We calculate that of the students that had a measurable outcome, there was a positive outcome (graduating, returning to their school district, or leaving for work) for 65 percent of students (954 students of the 1,462 students with either a positive or negative outcome). Based on the student exit data, SEA met the first statutory goal.
- ***SEA Failed to Meet Goal 2—Students Struggle to Meet SEA's Pupil Outcomes.*** The SEA charter school also provided us with

Figure 2

SEA Charter School Six Pupil Objectives

- ✓ Acquire the ability to communicate clearly and expressively; use oral and written language to accomplish tasks, take charge of one's life, express opinions, function as a productive citizen and entertain and enjoy oneself and others; communicate with, understand, and respect other cultures; and use technology to acquire, communicate, and create information.
- ✓ Use ideas, problem-solving skills, and abstract thinking, encourage self-expression and a positive self-image through participation in the visual and performing arts.
- ✓ Participate in the practical skills curriculum that will augment, enrich, and integrate with the core curriculum.
- ✓ Possess the ability to use the knowledge and skills of mathematics, think logically and solve problems related to mathematics, and communicate their ideas about mathematics in both written and oral forms.
- ✓ Have sufficient knowledge, skills, and strategies of science to be intelligent consumers, responsible users of scientific information, and scientific problem-solvers.
- ✓ Participate in a program of service learning. Through this program, students will be provided with the opportunity to obtain work experience through volunteering at a local community-based organization or business, thus helping students become responsible and acquainted citizens in a democratic society and inter-dependent world.

data on the rate at which students met the six objectives described in Figure 2. For each of the six objectives, the SEA charter school reported its students' success rate for meeting each objective. Depending on the objective, 70 percent to 77 percent of students met the goal of the objective. Given the qualitative nature of the objectives, we are unable to verify the reliability of this data, but the achievement levels were below the 80 percent required by statute.

- ***SEA Failed to Meet Goal 3—Parental Involvement Below Expectations.*** The final required accountability measure is parental involvement. Approximately 56 percent of parents have participated in weekly parenting education sessions and other charter school activities—slightly less than the 59 percent required by statute.

Figure 3

SEA Charter School's Goals and Achievements

2000-01

	Statutory Goals	Achievements	Met Statutory Goal
Goal 1: Students either graduating or returning to their school district	62%	65%	Yes
Goal 2: Students meeting educational objectives	80	70-77	No
Goal 3: Parental Participation	59	56	No

Figure 4

SEA Charter School Reasons that Students Left During 2000-01 School Year

	Number of Students	Percent of Total
No Outcome		
Transferred to other education setting	297	
Moved out of area	76	
Subtotals	373	20%
Positive Outcome		
Returning to school district	848	
Graduated/Passed GED	61	
Left to workforce	45	
Subtotals	954	52%
Negative Outcome		
Incarcerated	259	
Terminated for expellable offense	145	
Ran away from home, pregnancy, or deceased	104	
Subtotals	508	28%
Total Students Leaving SEA	**1,835**	**100%**

The SEA School Improvement Plan. If SEA was not able to make its statutory goals, Chapter 19 required it to submit a comprehensive improvement plan to the COE. In 2001, SEA submitted to LACOE its improvement plan that focused on helping the school meet outcome targets established in Chapter 19 by the 2002-03 school year. Major components of that plan include:

- ***Three Station Education Model.*** Under this model, SEA plans to use different parts of the classroom to serve as (1) a traditional classroom, (2) an independent learning environment, and (3) a computer aided learning center.
- ***Establish New Classes and Refine Curriculum.*** The school will establish two new classes—academic education and computer skills. Staff will meet to refine the curriculum in math, English, science, and social science.
- ***New Assessment Program.*** Immediately upon arriving at SEA, students are assessed in core subject areas—math, reading, and language. Based on the assessment, SEA will develop an individual learning plan for each student.
- ***Expand Workforce Investment Act (WIA) Program.*** The school plans to increase the number of students participating in WIA programs operated in conjunction with Los Angeles County.
- ***Expand Parenting Program.*** By providing additional classes for parents, SEA plans to improve its rate of parental involvement.

We conclude that while the SEA charter school did not meet its statutorily required outcome targets, it did develop and has begun to implement a school improvement plan to help the school meet its outcome targets in 2002-03. Based on our assessment, SEA met the requirements of Chapter 19, and has developed a plan to help it meet its statutory goals in the future.

Child Care and Development

The Governor's Child Care Reform Proposal

The Governor's budget proposes substantial changes to current child care eligibility rules, reimbursement rate limits, and family fees. We withhold recommendation on the Governor's child care reform proposals pending further review of programmatic and fiscal impacts.

The Subsidized Child Care System. California's subsidized child care system is administered primarily through the State Department of Education and the Department of Social Services. A limited number of child care slots are also provided through the California Community Colleges. The Governor proposes $3.2 billion ($1.8 General Fund and $1.4 federal funds) for all subsidized child care programs in 2002-03, as shown in Figure 1. This level of funding will support approximately 736,000 child care slots.

Figure 1

California Subsidized Child Care System Proposed Budget

2002-03
(Dollars in Millions)

	Governor's Budget		
Department	**General Fund**	**Federal Funds**	**Total**
Department of Education	$1,628	$902	$2,530
Department of Social Services	122	520	642
California Community Colleges	15	—	15
Totals	**$1,765**	**$1,422**	**$3,187**

Governor's Child Care Reform Proposal. The Governor proposes to reform California's subsidized child care system by modifying current eligibility rules, reimbursement rate limits, and family fees. Specifically, the Governor proposes to reduce income eligibility limits, reduce reimbursement rates for child care providers, implement fees for lower-income families, increase current fees for higher-income families, and eliminate eligibility for 13-year-old children. The administration estimates that the proposed reforms will result in savings of approximately $400 million. These savings result from a combination of higher family fees, lower reimbursement rates, an estimated 21,000 children losing eligibility for Stage 1 CalWORKs child care, and an estimated 29,000 slots losing funding under the Stage 3 "set-aside" for former CalWORKs recipients. The Governor proposes to reinvest the savings, thereby increasing the availability of regular subsidized child care for approximately 96,000 children. In addition, the Governor proposes to increase the availability of after-school child care by about 79,000 new slots. These enrollment changes from the current year (November Revision) are shown in Figure 2 (see next page), along with estimated program enrollments based on the enacted *2001-02 Budget Act*.

The CalWORKs Child Care System. Of the total appropriation for subsidized child care, the Governor proposes $1.3 billion for CalWORKs child care (funded from both the Departments of Social Services and Education). For a discussion of the CalWORKs child care system and the impact of the Governor's systemwide reform proposal on this system, please see our analysis of the CalWORKs program in the "Health and Social Services" chapter of this *Analysis*.

Withhold Recommendation. The Governor's proposed reforms are extensive and involve significant policy and fiscal considerations. At the time this *Analysis* was prepared, the administration had not provided the Legislature with draft language for legislation needed to enact the proposed reforms. Major fiscal uncertainty also exists regarding the amount of General Fund support that will be needed for the Proposition 98 guarantee in 2002-03. If in the spring the guarantee proves to be significantly higher than the budget's estimate, the Legislature may wish to consider various changes, such as (1) providing full funding of the Stage 3 "set-aside" for former CalWORKs recipients (discussed in our analysis of the CalWORKs program) and (2) replacing federal Temporary Assistance for Needy Families (TANF) block grant funds currently budgeted for child care with Proposition 98 funds. (These freed-up TANF funds could replace non-Proposition 98 General Fund spending in the CalWORKs program.) This would help the state meet increased funding requirements under the Proposition 98 guarantee at no additional cost to the General Fund, and thereby help preserve the Legislature's ability to maximize the

Figure 2

California Subsidized Child Care System Estimated Children Served

2001-02 and 2002-03

Program	2001-02 Budget Act	2001-02 Revised	2002-03 Budget	Change From Revised
Department of Education:				
State preschool	100,000	100,000	100,000	—
General child care	89,500	89,500	89,500	—
Alternative payment programs	33,400	33,400	110,000	76,600
Stage 2 CalWORKs	103,500	103,500	114,000	10,500
Stage 3 set-aside	43,500	43,500	14,500	-29,000
CalSAFE	4,500	4,500	4,500	—
After school programs	139,000	97,500	176,500	79,000
Other child care activities	16,000	16,000	16,000	—
Subtotals	(529,400)	(487,900)	(625,000)	(137,100)
Department of Social Services:				
Stage 1 CalWORKs	99,600	99,600	78,500	-21,100
CalWORKs child care reserve	21,300	21,300	29,500	8,200
Subtotals	(120,900)	(120,900)	(108,000)	(-12,900)
California Community Colleges:				
Stage 2 CalWORKs	2,700	2,700	3,000	300
Totals	**653,000**	**611,500**	**736,000**	**124,500**

provision of child care services in a challenging fiscal environment. In view of the above, we withhold recommendation on the Governor's child care reform proposals pending further review of their fiscal and programmatic implications.

OTHER K-12 ISSUES

INDEPENDENT STUDY

The Governor's budget proposes to reduce by 10 percent the funding rate for students served through independent study by noncharter schools because of claims that nonclassroom-based instruction is less expensive than instruction in a classroom setting. Through independent study, students may receive attendance credit for work completed outside of the classroom under the supervision of a certificated teacher. Teachers must determine the "time value" of the work that a student submits for attendance credit through independent study.

The budget estimates that the rate reduction would save the state $42 million annually. The Governor's reduction assumes that approximately 89,800 average daily attendance (ADA) are served annually through independent study. This represents around 1.5 percent of statewide ADA. The Governor's proposal would implement the rate reduction by counting a full day of independent study as nine-tenths of an ADA, thereby reducing funding for revenue limits and ADA-based categorical programs.

Independent Study Proposal Excludes Charter Schools. The Governor's proposal excludes charter schools because of recent legislation that would potentially reduce funding for independent study offered by charter schools. Chapter 892, Statutes of 2001 (SB 740, O'Connell), requires the State Board of Education (SBE) to develop a policy to review funding for charter schools providing 80 percent or less of their instruction in a classroom-based environment. The SBE must review these charter schools and take one of the following three actions:

- Elect not to fund a charter school for its nonclassroom-based instruction.
- Reduce the school's funding rate by 10 percent in 2001-02, 20 percent in 2002-03, and 30 percent in 2003-04.

- Continue to fund the charter school at a non-reduced funding rate.

We have two main concerns with the Governor's proposal:

- Proposed savings assume more ADA is served through independent study than the State Department of Education's (SDE) data support.
- The administration is not able to provide information to show that the costs of independent study differ from classroom-based education.

These issues are discussed below.

Lack of Cost Data Makes It Difficult to Evaluate Proposal

Our analysis indicates that the budget overstates expected savings from its independent study proposal by at least $13 million. We withhold recommendation on the reduction of the funding rate for independent study until the administration provides, and the Legislature reviews, better data justifying the remaining $29 million of expected savings.

The Department of Finance (DOF) savings estimate assumes that 89,800 ADA would participate in independent study in school districts and county offices of education in 2002-03. We have concerns, however, regarding DOF's estimate of savings related to school districts. Problems with the data include:

- ***Charter School Enrollment Included in DOF Data.*** The DOF bases its estimate of savings on the independent study enrollment collected in the California Basic Education Data System (CBEDS). The CBEDS independent study enrollment data include charter school enrollment. Since the Governor's proposal excludes charter schools, potential savings from the DOF estimate are too high.
- ***Enrollment Versus ADA.*** The DOF estimates are based on enrollment rather than ADA. Statewide, students attend school around 95 percent of the time on average. Therefore, ADA generally is around 5 percent less than associated enrollment.
- ***Assumes No Change in Level of Service.*** If the independent study-funding rate is reduced, some school districts may choose to offer less instruction through independent study, and commensurately more in classrooms. Any reduction in the level of independent study offered by school districts therefore would result in a reduction in achievable savings.

The SDE provided us with independent study attendance data that excluded charter school attendance. Based on the SDE attendance data, we estimate that noncharter school independent study attendance in 2002-03 would be 56,700—with 51,000 ADA in school districts and 5,700 ADA in county offices of education. As a result, we estimate that the budget overstates the expected savings from its proposal to reduce the funding rate for independent study by at least $13 million.

Lack of Independent Study Cost Data. The administration not only has overstated savings, it is unable to provide any cost data to support its general contention that the per-pupil cost of independent study is cheaper than classroom-based instruction. Our analysis indicates that the cost of providing independent study may be lower than classroom-based instruction in some cases (such as facility costs), similar in other cases (teaching costs), and higher in yet other situations (instructional materials). However, without district level budget data, it is difficult to determine whether funding currently provided for independent study, on balance, exceeds the costs. The administration should collect budget data for a sample of school districts and provide these data to the Legislature prior to budget hearings. We withhold recommendation on the reduction of the funding rate for independent study pending review of this data.

ELIMINATE READING INCENTIVE PROGRAMS

We recommend deletion of $4.75 million for the Governor's Reading Award Program and the California Reads program. (Reduce Item 6110-147-0001 by $4.75 million.)

The budget includes $4.75 million from the General Fund (Proposition 98) to continue the Governor's Reading Award program ($4 million) and the California Reads program ($750,000) in the budget year.

Governor's Reading Award Program. Chapter 2x, Statutes of 1999 (AB 2x, Mazzoni), established the Governor's Reading Award program. Currently in its third year, the program provides competitive awards to K-8 schools based on the number of books students read. Winning schools receive a maximum grant award of $5,000. Although program funds are appropriated to the Department of Education (SDE) and the department distributes the awards, it is the Office of the Secretary for Education (OSE) that selects the winning schools. The OSE indicates that most winning schools use awards to purchase books. We have two main concerns with the program.

- ***Program Unlikely to Improve Instruction.*** Given the small size of the grants and the fact that winning schools use awards for one-time purchases, it is unlikely the program has an impact on the quality of instruction provided for students.

- ***Program Focuses on Quantity Not Quality.*** The program's goal is to serve as an incentive for students in grades K-8 to read. Schools receive funds based on the average number of pages or books reported to have been read per pupil. However, what is important is not how many books a student reads but that they enjoy and comprehend what they read and develop a positive attitude towards reading. Because this program does not focus on reading content or comprehension and treats reading as a competitive activity, it is unclear if this program is a cost-effective use of $4 million annually to foster better reading skills and accomplishment.

California Reads Program. California Reads is a collaborative program among the Governor's office, SDE, the federal Eisenhower State Grant program, and Books and Beyond Nonprofit Corporation. The program encourages recreational reading by K-8 students through various activities such as read-a-thons, parental involvement activities, and professional development. In the read-a-thons, for example, schools set up a bulletin board charting the reading progress of each participating child. Students receive incentive "prizes," such as pencils, as they move along the board.

Recommendation. We recommend that the Legislature delete funds for both programs because:

- The effectiveness of the programs is unknown.
- Elimination of the programs would not have an impact on the quality of instruction or the level of services provided for students.
- School districts can provide similar reading award activities, if they choose, from various local funding sources.
- The $4.75 million can help the Legislature meet other education priorities in a difficult fiscal year.

In addition, California will be receiving a substantial amount of federal funds in the budget year for reading instruction and professional development. Thus, the Legislature has other opportunities in the budget year to highlight reading and to focus on the quality rather than the quantity of reading.

High-Tech High Schools

We recommend that the Legislature eliminate the second-year appropriation for the selected high-tech highs because these schools will receive funding in the current year to enable them to leverage private funding sources for 2002-03. (Delete $4 million in Item 6110-485, Schedule 1.)

The state provided $10 million in the *2001-02 Budget Act* for a new program to provide one-time start up grants to ten eligible school districts or charter schools (five in 2001-02 and five in 2002-03) for purposes of establishing high-tech highs. The Governor and the Legislature have since modified the proposal to provide only $10 million in grants (five grants of $2 million each) to be awarded over 2001-02 and 2002-03. The program was appropriated $6 million in the current year, with budget-year funding contingent on an appropriation in the *2002-03 Budget Act*. For 2002-03, the Governor proposes $4 million for the high-tech high program.

Background

A high-tech high is a public comprehensive high school maintained by a school district or charter school that offers a rigorous college preparation program emphasizing math, science, and engineering. Technology is integrated throughout the curriculum. Two high-tech highs opened in California within the last several years—a high school in Napa (1996) and a charter high school in San Diego (2000).

Concerns With Budget-Year Appropriation for High-Tech Highs

As we noted in our *Analysis of the 2001-02 Budget Bill*, we have the following concerns with this program:

- ***Significant Additional Costs.*** Because these types of schools have lower student-to-computer and teacher-to-student ratios and require frequent technology upgrades, they face significant additional costs compared to more traditional public schools.
- ***Questionable Cost-Effectiveness.*** These types of high schools typically serve about 200 to 300 students and incur extraordinary start-up and annual operating costs. We question whether the benefit of this approach justifies the additional costs.
- ***Is Additional Involvement Necessary.*** Both existing high-tech highs receive sizable private donations and federal funds that support both start-up and ongoing costs.

Due to these concerns, and given the state's fiscal situation, we recommend the Legislature eliminate the budget-year appropriation for high-tech highs. If the current-year funds ($6 million) are evenly distributed, the five grantees would receive about $1.2 million each to establish their programs. This funding should help them leverage private funding sources for 2002-03. We think that there are sufficient alternative funding sources available to these schools that make the budget-year appropriation unnecessary. Moreover, these schools will need to find alternative funding sources to cover the high cost of running their programs in the future. In view of the above, we recommend the Legislature use the $4 million proposed for high-tech highs for other state priorities.

Commission on Teacher Credentialing (6360)

The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues permits and credentials to all classroom teachers, student services specialists, school administrators, and child care instructors and administrators. In total, it issues more than 100 different types of documents.

The Governor's budget includes a total of $72 million for CTC. This is $16 million, or 18 percent, less than CTC's budget for the current year. Of CTC's total budget, $46 million is from the General Fund (Proposition 98) for five local assistance programs generally directed at getting more certificated teachers into public schools. The budget also includes $1.7 million from the General Fund (non-Proposition 98) for state operations. In addition, the CTC expects to receive $14 million from the Teacher Credentials Fund (TCF). The CTC currently charges $55 million for the issuance and renewal of a teaching credential. The revenue it collects from this credential fee is deposited into the TCF. Additionally, CTC expects to receive $10 million from the Test Development and Administration Account (TDAA). The CTC administers a number of examinations, including the California Basic Educational Skills Test, for which it charges $41, and the Reading Instruction Competence Assessment, for which it charges $122. It deposits revenue collected from these test fees into the TDAA. The CTC uses funds from the TCF and TDAA primarily for covering operating expenses.

Major General Fund Budget Proposals

Figure 1 (see next page) lists the Governor's major General Fund budget proposals. The Governor's budget proposes to reduce General Fund spending by $12 million, or 20 percent, from the current year.

Figure 1

Commission on Teacher Credentialing General Fund Budget Proposals

(Dollars in Millions)

	2001-02	2002-03	Change from 2001-02 Amount	Change from 2001-02 Percent
State Operations				
Teacher Credential Fee Buyout Program	$1,650	$1,575	-$75	-5%
Teacher Credentialing Service Improvement Project	1,200	—	-1,200	-100
Governor's Teaching Fellowships	79	66	-13	-16
Paraprofessional Training Program	60	51	-9	-15
Adjustments	-25	—	25	-100
Subtotals	($2,964)	($1,692)	(-$1,272)	(-43%)
Local Assistance—Proposition 98				
Internship Teaching Program	$31,800	$25,600	-$6,200	-19%
Pre-Internship Teaching Program	11,800	11,800	—	—
Paraprofessional Training Program	11,478	7,478	-4,000	-35
California Mathematics Initiative	1,613	1,013	-600	-37
Teacher Misassignment Monitoring	350	350	—	—
Subtotals	($57,041)	($46,241)	(-$10,800)	(-19%)
Totals	**$60,005**	**$47,933**	**-$12,072**	**-20%**

Eliminates Funding for Information Technology Project. As Figure 1 shows, the Governor's budget proposes to eliminate General Fund support for the Teacher Credentialing Service Improvement Project, which is CTC's major information technology project. The CTC would still be authorized to expend $1.5 million (all from the TCF) on the project in 2002-03, which is the same amount it was authorized to expend in 2001-02. In the current year, of the $1.5 million designated for the project—$1.2 million was General Fund and $298,000 was TCF monies.

Continues Funding for Fee Waiver Program. The Governor's budget also proposes to continue funding a teacher credential fee buyout program. The Governor's budget includes $1.6 million for this program, which waives the $55 application fee for first-time applicants. (See write-up below.)

Reduces Funding for Local Assistance Programs. Additionally, the Governor's budget proposes to reduce funding for three local assistance programs that CTC administers.

- ***Internship Program.*** The Governor's budget proposes to reduce the Internship Teaching Training program by $6.2 million, or almost 20 percent. This program currently provides training and on-site support for approximately 7,500 new teachers who have not been through traditional teacher-education programs. The CTC provides the universities and districts that administer these programs with $2,500 per intern.
- ***Paraprofessional Program.*** The Governor's budget proposes to reduce the Paraprofessional Teaching Training program by $4 million, or almost 35 percent. The Paraprofessional program provides academic scholarships to teachers' aides and assistants for the purpose of completing college coursework and obtaining teaching credentials. The CTC provides grants to school districts to cover program costs in an amount not to exceed $3,000 per paraprofessional. The program currently serves approximately 2,400 paraprofessionals.
- ***California Mathematics Initiative.*** The Governor's budget proposes to reduce the California Mathematics Initiative for Teaching program by $600,000, or 37 percent. The program provides financial assistance to individuals who complete coursework so they can obtain a teaching credential in mathematics. Program participants are eligible to receive a total of $7,500 in financial assistance over four consecutive years. To date, the program has served fewer than 200 teachers.

We discuss these programs in more detail in the "Education Cross-cutting Issues" section of the *Analysis*. In that discussion, we recommend that the Legislature include all four of these programs in a new formula-based teacher support and development block grant. Under the new block grant, school districts would receive per-teacher funding rates greater than or comparable to the current-year rates. Additionally, under the new block grant, the programs would not be limited in size—districts that wanted to operate an approved internship program, for example, could serve as many teachers as they wanted.

Eliminate Fee Waiver for First-Time Credential Applicants

We recommend the Legislature eliminate the fee waiver program for first-time credential applicants, thereby saving $1.6 million of General Fund monies, as there is no evidence it helps attract additional or better qualified teachers.

The Governor's budget includes $1,575,000 for a teacher credential fee buyout program. This program waives the $55 application fee for first-time applicants for multiple subject, single subject, special education, and specialist credentials. The state has provided General Fund support to waive the applicant fee since 1999-00.

No Evidence Program Attracts Additional, Better Qualified Teachers. Neither the administration nor CTC has provided any evidence to suggest that the $55 application fee is a barrier that prevents individuals from becoming teachers. There also is no evidence that it helps attract better qualified teachers. Indeed, by the time individuals apply for their credential, they have already completed a rigorous set of credentialing requirements and invested substantial time and resources. For example, a student enrolled in a two-year teacher-education program at the University of California (UC) pays approximately $10,000 in fees and more than $20,000 in living expenses. A student enrolled in a one-year program at the California State University pays approximately $2,000 in fees and approximately $10,000 in living expenses. These represent only the monetary costs—individuals also devote a significant amount of energy and personal resources toward completing a teacher-education program. Individuals who have completed these programs therefore are unlikely to be discouraged from becoming teachers by the relatively small $55 fee required to obtain the necessary credential documentation.

State Funds Several Special Teacher Recruitment and Retention Programs. Although the fee waiver program probably does not attract additional teachers or better qualified teachers, the state does fund several programs specially designed to meet these objectives. For example, the Governor's budget includes $119 million for the Teaching As A Priority program, which allows districts to offer certificated teachers signing bonuses, retention bonuses, housing subsidies, and classroom supplies. Unlike the fee waiver program—which provides a subsidy to *all* perspective teachers—this program provides financial incentives directly to teachers that districts either want to hire or retain.

The Governor's budget also includes more than $15 million to support the California Center for Teaching Careers, which is a statewide agency that promotes the teaching profession, and six Teacher Recruitment Centers, which are regional agencies that provide aspiring teachers with a variety of recruitment services. Although limited data exist on the effectiveness of these programs in attracting individuals who would not otherwise have become teachers, the programs do advertise throughout the country and attempt to recruit qualified teachers to work in areas with teacher shortages.

State Funds Several Financial Assistance Programs for Aspiring Teachers. In addition to funding these teacher recruitment and retention programs, the state funds several financial assistance programs for aspiring teachers. These direct assistance programs are designed to recruit students that might not otherwise become teachers because of the educational cost. For example, the Assumption Program of Loans for Education provides students with up to $19,000 in loan forgiveness if they agree to teach four years in a designated subject shortage area or in a low-income and/or low-performing school. Similarly, the Cal Grant T program provides students enrolled in teacher-education programs with grants to cover their educational fees. In 2000-01, the Governor also initiated the Governor's Teaching Fellowships, which provides $20,000 fellowships to students enrolled in teacher-education programs. In part, because these programs provide direct assistance to financially needy and/or particularly meritorious students, they are more likely than the fee waiver program to attract additional, better qualified teachers.

Legislature Could Structure Waiver Program for Financially Needy Applicants. If the Legislature wants to waive the application fee for financially needy students, it could establish a needs-based fee waiver program. Similar needs-based programs already exist. For example, the UC waives an examination fee (for the Subject A Examination) for all financially needy students. Although a needs-based fee waiver program would probably be a poor recruitment strategy, it would reduce the financial burden of the application fee for financially needy students.

In sum, we recommend that the Legislature eliminate funding for the fee waiver program, thereby saving $1.6 million of General Fund monies. The Legislature should eliminate the program because (1) there is no evidence it attracts additional, better qualified teachers; (2) the state has several programs specially designed to recruit and retain qualified teachers—programs that are likely to be more effective than the fee waiver program; and (3) the state already offers considerable financial assistance to financially needy and/or particularly meritorious students enrolled in teacher-education programs.

INTRODUCTION

Higher Education

The Governor's budget proposes a $150.5 million increase in General Fund expenditures for higher education in 2002-03. This represents an increase of 1.6 percent above estimated expenditures in the current year. The 2002-03 budget proposal would fund 1.5 percent base increases for the University of California (UC) and the California State University (CSU), and a 2.15 percent inflation adjustment for the California Community Colleges (CCC). It also funds enrollment growth of 4 percent for UC, 4 percent for CSU, and 3 percent for CCC. For the eighth consecutive year, the budget proposes no increase to resident student fees. However, in a departure from recent practice, the budget does not propose General Fund support in lieu of raising resident student fees for UC and CSU.

Total Higher Education Budget Proposal. As Figure 1 (see next page) shows, the 2002-03 budget proposal provides a total of $28.8 billion from all sources for higher education. This amount is $729 million, or 2.6 percent, more than the Governor's revised current-year budget proposal. The total includes funding for the UC, CSU, CCC, Hastings College of the Law, the California Student Aid Commission, and the California Postsecondary Education Commission (CPEC). Funded activities include instruction, research, and related activities, as well as other activities, such as providing medical care at UC hospitals ($2.8 billion) and managing three major U.S. Department of Energy laboratories ($3.3 billion). The Governor's current-year estimates include a variety of technical adjustments and assume adoption of the Governor's November Revision proposal, which would reduce current-year expenditures in higher education by $61 million.

Major Funding Sources. The 2002-03 budget proposes General Fund expenditures of $9.6 billion for higher education. This amount is $150 million, or 1.6 percent, more than estimated expenditures in the current year. The budget also projects that local property taxes will contribute $2 billion for CCC in 2002-03, an increase of $147 million, or 7.9 percent, over the revised current-year amount. In addition, student fee and tuition revenue at all the higher education segments account for $1.9 billion of proposed expenditures. This amount is $78 million, or 4.4 percent, greater

Figure 1

Higher Education Budget Summary[a]

(Dollars in Millions)

	Revised Estimated 2001-02	Proposed 2002-03	Change	
			Amount	Percent
University of California				
General Fund	$3,326.7	$3,367.1	$40.3	1.2%
Student fee revenue	942.2	994.6	52.4	5.6
Federal and other funds	11,354.4	11,676.6	322.2	2.8
Totals	**$15,623.4**	**$16,038.3**	**$414.9**	**2.7%**
California State University				
General Fund	$2,707.5	$2,735.6	$28.2	1.0%
Student fee revenue	655.6	676.4	20.8	3.2
Federal and other funds	1,880.6	1,864.9	-15.7	-0.8
Totals	**$5,243.7**	**$5,276.9**	**$33.2**	**0.6%**
California Community Colleges				
General Fund	$2,819.5	$2,739.4	-$80.1	-2.8%
Local property tax revenue	1,855.3	2,001.9	146.6	7.9
Student fee revenue	162.4	167.3	4.9	3.0
Federal and other funds	1,198.8	1,229.0	30.2	2.5
Totals	**$6,035.9**	**$6,137.6**	**$101.6**	**1.7%**
Student Aid Commission				
General Fund	$571.4	$733.7	$162.3	28.4%
Federal and other funds	576.0	575.7	-0.3	-0.1
Totals	**$1,147.4**	**$1,309.4**	**$162.0**	**14.1%**
Other[b]				
General Fund	$18.9	$18.7	-$0.2	-0.9%
Federal and other funds	32.9	50.0	17.1	52.1
Totals	**$51.8**	**$68.7**	**$17.0**	**32.8%**
Grand Totals	**$28,102.2**	**$28,830.9**	**$728.7**	**2.6%**
General Fund	$9,444.0	$9,594.5	$150.5	1.6%
Property tax revenue	1,855.3	2,001.9	146.6	7.9
Student fee revenue	1,774.0	1,851.7	77.7	4.4
Federal and other funds	3,674.5	3,706.2	31.7	0.9

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

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

than student fee revenue in the current year. (This increase results almost entirely from proposed enrollment growth rather than higher fees.) Lastly, the budget includes $3.7 billion in other funds—including federal funds, restricted funds, and funds from private sources. The amounts 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 chapter.

General Fund and Proposition 98 Proposals by Segment. The budget proposes General Fund expenditures for UC of $3.4 billion, which is $40.3 million, or 1.2 percent, more than the Governor's revised current-year estimate. For CSU, the budget proposes General Fund expenditures of $2.7 billion, an increase of $28.2 million, or 1 percent, over the current year. These increases are understated due to one-time costs reflected in the segments' current-year budgets.

For CCC, the budget proposes General Fund expenditures of $2.7 billion, which is $80.1 million, or 2.8 percent, less than the current year. (This decrease is offset by an increase in local property tax revenue.) Incorporating local property tax revenue, the budget anticipates $4.7 billion in CCC's Proposition 98 expenditures, an increase of $68.2 million, or 1.5 percent, over the current-year estimate.

Major Budget Changes

The Governor's budget proposal provides all three segments of higher education with funding for modest base budget increases and enrollment growth above the growth projections by the Department of Finance and CPEC, which traditionally are used for planning purposes. Figure 2 (see next page) describes the major General Fund budget changes proposed by the Governor for UC, CSU, and CCC.

Enrollment Growth. The largest changes in UC's and CSU's budgets are for enrollment growth. As Figure 3 (see page E-175) shows, the budget proposes total higher education full-time equivalent (FTE) student enrollments of 1.6 million, which is about 52,000 (3.4 percent) over the budgeted enrollments for the current year. The budget provides funding for 7,100 additional FTE enrollments at UC and 12,030 additional FTE enrollments at CSU. The Governor proposes $8,987 and $6,488, 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 $63.8 million and the total cost at CSU is $78.1 million. (The Governor also proposes new funding for students enrolled in summer sessions. We discuss this proposal separately in "Update on Summer Operations at UC and CSU" later in this chapter.)

Figure 2

Higher Education
Proposed Major General Fund Changes

University of California	Requested:	$3.4 billion	
	Increase:	$40.3 million	(+1.2%)

Base Budget Adjustments: Increase of $47.6 million (1.5 percent) for salary and other cost increases. Also reflects a $77.5 million reduction due to one-time costs in current year.

Enrollment Growth: $63.8 million (4 percent: 7,100 full-time-equivalent [FTE] students).

Proposed Current-Year Reductions: $36 million for natural gas costs, Professional Development Institutes, and UC teaching hospitals.

Proposed Budget-Year Adjustments: Reduction of $30 million in financial aid, outreach, teacher training, and K-12 Internet 2. Augmentation of $36.3 million in staff benefits, summer courses, lease-revenue bond payments, and new initiatives.

California State University	Requested:	$2.7 billion	
	Increase:	$28.2 million	(+1.0%)

Base Budget Adjustments: $37.7 million (1.5 percent) for salary and other cost increases. Also reflects a $54.7 million reduction due to one-time costs in current year.

Enrollment Growth: $78.1 million (4 percent: 12,030 FTE students).

Proposed Current-Year Reductions: $20 million for natural gas costs.

Proposed Budget-Year Reductions: $35.1 million in financial aid, K-12 professional development and teacher recruitment, and lease-revenue bond payments.

California Community Colleges	Requested:	$2.7 billion	
	Decrease:	$80.1 million	(-2.8%)

Base Budget Increase: $88.8 million (2.15 percent).

Enrollment Growth: $114.3 million (3 percent: 31,864 FTE students).

Proposed Current-Year Reductions: $5 million (Proposition 98 Reversion Account) to reduce Teacher and Reading Partnership program by one-half, and $24.8 million (Proposition 98 General Fund) in apportionments to reflect increased property tax revenues.

Proposed Budget-Year Adjustments: Reductions of $171.4 million in apportionments to reflect higher property tax revenues and $131.4 million in various categorical programs. Augmentation of $66 million for instructional equipment and scheduled maintenance.

The budget also includes $114.3 million for CCC to accommodate a 3 percent, or 31,864 FTE, increase in enrollment. This is equivalent to $3,587 in Proposition 98 support for every additional CCC FTE student. The proposed level of growth is $40.4 million above the statutorily recommended level of 1.94 percent.

Figure 3

Higher Education Enrollment

2000-01 Through 2002-03
Full-Time Equivalent (FTE) Students

	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Change from 2001-02	
				Amount	Percent
University of California					
Undergraduate	131,534	136,972	142,886	5,914	4.3%
Postbaccalaureate	634	625	868	243	38.9
Graduate	26,524	27,803	28,746	943	3.4
Health Sciences	12,578	12,266	12,266	—	0.0
UC Totals	**171,270**	**177,666**	**184,766**	**7,100**	**4.0%**
California State University					
Undergraduate	246,082	254,709	264,895	10,186	4.0%
Postbaccalaureate	20,824	21,554	22,417	863	4.0
Graduate	23,219	24,033	24,995	962	4.0
CalState Teach	429	443	462	19	4.3
CSU Totals	**290,554**	**300,739**	**312,769**	**12,030**	**4.0%**
California Community Colleges	1,031,206	1,062,142	1,094,006	31,864	3.0%
Hastings College of the Law	1,198	1,200	1,200	—	—
Grand Totals	**1,494,228**	**1,545,112**	**1,597,003**	**51,891**	**3.4%**

Compensation and Cost-of-Living Increases. As Figure 2 shows, the second largest increase in UC's and CSU's budgets are 1.5 percent adjustments in their General Fund bases—designated for faculty and staff compensation and other costs. The budget provides $47.6 million to UC and $37.7 million to CSU for these base increases.

For CCC, the budget contains $84.4 million for a 2.15 percent adjustment for inflation. This adjustment is specified in statute. Another $4 million is provided for a 2.15 percent discretionary cost-of-living adjustment for several categorical programs.

Governor's Initiatives. The proposed budget contains few new programs or initiatives. Instead, it proposes reductions for a number of existing programs. These are summarized in Figure 2.

Student Fees: Resident Student Fees Held Constant. We discuss student fees at some length in the "Intersegmental" section of this chapter. Therefore, we give only a brief overview of student fees in this section.

Figure 4 shows student fee levels at California's public colleges and universities. Last year was the seventh consecutive year the state either

Figure 4

Higher Education Proposed Annual Student Fees in 2002-03

	Residents		Nonresidents	
	Educational Fee	Total Fee[a]	Tuition	Total Fee[a]
University of California				
Undergraduates	$2,716	$3,859	$11,132	$15,361
Graduates	2896	4,914	11,132	16,236
Professionals[b]				
Lowest fee	4,696	6,620	11,132	17,752
Highest fee	8,896	11,193	11,132	22,325
California State University				
Undergraduates	$1,428	$1,876	$7,380	$9,256
Graduates	1,506	1,954	7,380	9,334
California Community Colleges	$330	$330[c]	$3,900	$3,900[c]
Hastings College of the Law	$10,175	$11,409	$9,486	$20,895

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.

reduced fees or held them constant. For the budget year, the Governor proposes once again to hold resident student fees constant for all the segments. For 2002-03, undergraduate systemwide and campus-based fees for full-time resident students would remain $3,859 at UC, $1,876 at CSU, and $330 at CCC. However, in a departure from past practice, the budget does *not* provide funding to compensate UC and CSU for additional revenue they would otherwise collect if they raised fees to keep pace with rising costs.

Nonresident Fees. The Governor's budget proposes to increase fees charged to nonresident students at UC by $428, or approximately 2.9 percent. The budget does not propose to increase nonresident student fees at CSU.

Chapter 814, Statutes of 2001 (AB 540, Firebaugh), exempts from nonresident fees most nonresident high school graduates (including undocumented immigrants) who nevertheless have attended a California high school for at least three years. Chapter 814 applies to both CSU and CCC. At the time of this *Analysis*, the UC Regents had decided to adopt this policy contingent on the enactment of legislation protecting UC from legal liability in implementing this policy.

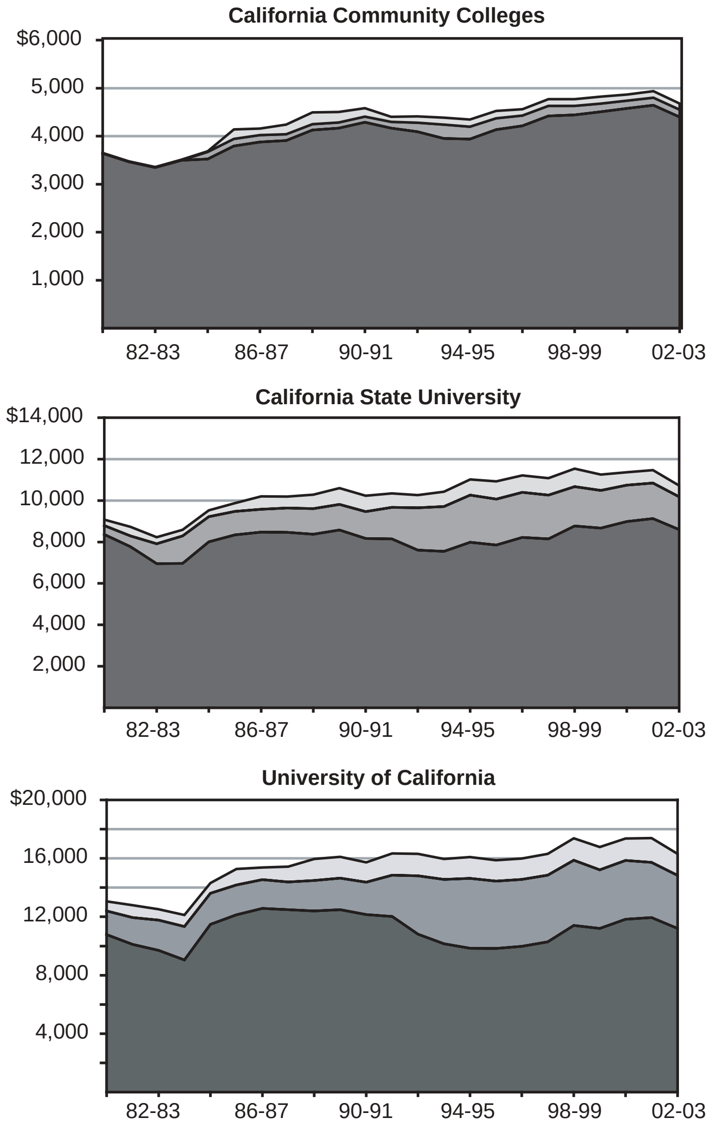
Changes in Higher Education Funding Over Time

Figure 5 (see next page) shows inflation-adjusted funding for UC, CSU, and CCC per FTE student over the past two decades. As illustrated in the figure, per-student funding in all segments declines slightly in the budget year. This is largely due to proposed programmatic cuts and because proposed base increases do not keep pace with inflation. Still, per-student funding for all segments remains near historically high levels. Proposed total per-student funding is $16,313 for UC, $10,722 for CSU, and $4,678 for CCC.

Figure 5

Higher Education Resources Per FTE Student

1980-81 Through 2002-03
(2002 Dollars)



Source: California Postsecondary Education Commission and Department of Finance.

BUDGET ISSUES

Higher Education

INTERSEGMENTAL

STUDENT FEE POLICY NEEDED

California lacks a consistent fee policy for postsecondary education. Typically, changes to student fee levels have been influenced more by the availability of state funds in any given year than through an established policy for sharing the cost of higher education between the state and students. This year, changes to student fee levels are under discussion by the segments of higher education and others in response to budgetary concerns. Given these ongoing discussions, as well as the recent expansion of financial aid opportunities, we believe that the Legislature should enact in statute a consistent fee policy that provides for an appropriate sharing of educational costs between students and the state, and which preserves student access to higher education.

Background

Figure 1 (see next page) displays current annual fees for students at state colleges and universities. For the eighth consecutive year, the budget proposes no increase in resident student fees at the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC).

Figure 1

Higher Education 2002-03 Fees

	Undergraduate	Graduate
UC		
Resident		
Educational fee	$2,716	$2,896
Registration fee	713	713
Subtotals, mandatory	$3,429	$3,609
Miscellaneous fee	$430	$1,305
Totals	**$3,859**	**$4,914**
Nonresident		
Base fee	$4,229	$5,104
Nonresident tuition	11,132	11,132
Totals	**$15,361**	**$16,236**
CSU		
Resident		
Systemwide fee	$1,428	$1,506
Average campus fee	448	448
Totals	**$1,876**	**$1,954**
Nonresident		
Base fee	$1,876	$1,954
Nonresident tuition	7,380	7,380
Totals	**$9,256**	**$9,334**
CCC		
Resident	$330	—
Nonresident	$3,900	—

State "Backfill" Compensates for Flat or Declining Fees

When fees are held constant over time and educational costs increase (due to inflation, for example), the proportion of total educational cost covered by fees necessarily shrinks. In order to maintain services at the same level, additional funding must be provided (typically from the General Fund). Since 1995-96, the state has done just that, compensating for inflationary effects by backfilling "foregone" fees with additional General Fund support for UC and CSU. (Because of the way its annual funding level is calculated, there is no need to backfill foregone fee increases for the CCC. Therefore, the following discussion involves UC and CSU only.)

As a matter of practice, fee backfills have been based on the additional revenue the segments would have received if they had raised fees at the rate of increase in California per-capita personal income. As Figure 2 shows, this General Fund backfill has resulted in substantial costs to the state. The amount of the fee backfill since 1995-96 is $279 million for UC and $239 million for CSU. Adjusted for inflation, the cumulative total of the General Fund backfill in UC and CSU's base is $518 million. It is important to note that the backfill has not increased the buying power of total resources for higher education programs; it has merely substituted one funding source (General Fund) for another (student fee revenue).

Figure 2

UC and CSU General Fund "Backfill" In Lieu of Fee Increases

1995-96 Through 2002-03
(In Millions)

	University of California		California State University		Total[c]
	Backfill[a]	Cumulative Backfill in Base[b]	Backfill[a]	Cumulative Backfill in Base[b]	Cumulative Backfill in Base[b]
1995-96	$28.5	$28.5	$22.5	$22.5	$51.0
1996-97	27.0	56.1	30.2	53.2	109.2
1997-98	37.0	95.3	30.4	85.7	181.0
1998-99	62.0	160.6	50.8	139.4	299.9
1999-00	43.1	210.1	37.8	182.8	392.8
2000-01	19.3	237.8	15.0	205.1	442.9
2001-02	21.5	273.6	16.6	234.0	507.5
2002-03	—	279.0	—	238.7	517.7

a Amounts shown are provided in Chapter 853 (AB 1318, Ducheny), Chapter 734 (SB 1896, Peace), and budget acts to backfill for reductions or maintenance of resident fees.

b Total backfill carried in the budget base, including annual base adjusts.

c Totals may not add due to rounding.

Although the amounts are substantial in the aggregate, the corresponding annual fee increase for an individual student would have been relatively manageable. If the state had allowed fees to rise by per capita income and had not reduced fees over the past seven years, current resident undergraduate mandatory (educational and registration) fees would be $6,666 at UC and $2,780 at CSU. The largest increase would have occurred in 1998-99, when UC fees would have increased by $492 and CSU fees would have increased by $205.

Budget Proposes No Backfill. In a departure from past practice, the Governor's 2002-03 budget proposal does not provide funding for a General Fund "backfill." The budget assumes that the revenue that could have been collected by raising fees by 7.8 percent (the increase in per-capita income, as lagged two years) is $36.1 million for UC and $27.9 million for CSU.

Fees Have Fluctuated Over Time

Figure 3 shows UC and CSU fees since 1980-81, adjusted for the effects of inflation. The figure shows that fee levels at UC and CSU reached their peak in 1994-95. The table also shows that fees grew most rapidly during the recessionary periods in the early 1980s and the early 1990s, again suggesting that the state's fiscal condition has been a key factor in determining fee levels. While student fees adjusted for inflation have decreased over the past several years, General Fund expenditures for UC and CSU since the mid-1990s have increased at rates that have generally exceeded inflation. As a result, student fee revenue as a share of UC and CSU spending has dropped significantly.

UC and CSU Fees in Perspective

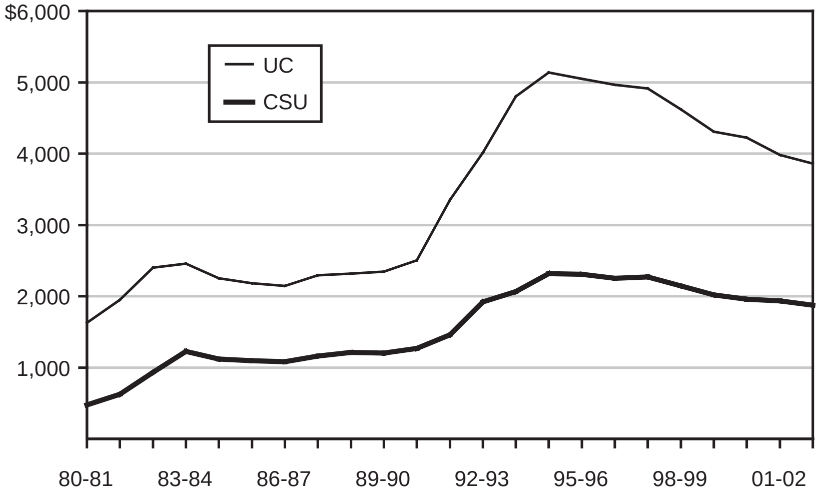
Although UC and CSU fees have increased from their levels in the 1980s, the two systems continue to provide undergraduate and graduate instruction at a cost to students well below the national average. The bottom portion of Figure 4 (see page E-184) compares student fees at the two segments with the public and private institutions to which UC and CSU are compared when evaluating faculty salaries. Total student fees at UC and CSU are substantially lower than the average of their comparison institutions. The average resident student fee at UC's four public comparison institutions in 2001-02 is $5,585**,** which is almost one-third greater than the total resident student fee at UC. The UC fee is well below the $26,254 average of fees charged by its four comparison private institutions—Yale, Harvard, Massachusetts Institute of Technology, and Stanford. At CSU's 15 public comparison institutions, the average student fee of $4,168 is more than double CSU's 2001-02 fee of $1,876. The CSU fee is about a twelfth of the $24,258 average of fees at its five private comparison universities.

Moreover, student fees continue to cover a small portion of the costs the state incurs to provide educational services to students. The top por-

Figure 3

Student Fees Over Time

2002 Dollars



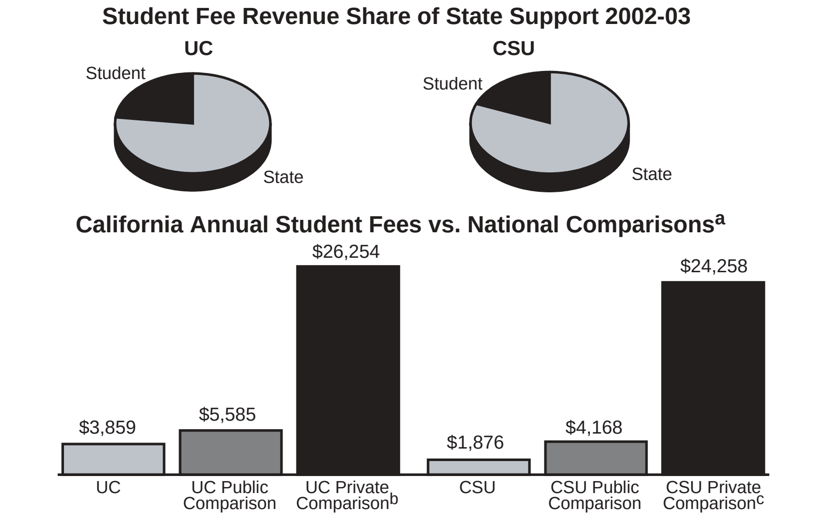
tion of Figure 4 (see next page) shows that student fee revenue comprises only a small portion of all state and local support provided to the two segments. For example, at CSU, total student fee revenue comprises less than 20 percent of all state and student fee funding.

Fee Policy Needed to Promote State Objectives and Facilitate Planning

As previously mentioned, changes to student fees are influenced largely by the availability of state funds in any given year. This practice tends to neglect opportunities to set fees in a way that promotes state objectives in higher education. For instance, the Governor's proposal to hold fees constant and not to provide General Fund support in lieu of a fee increase effectively dilutes the 1.5 percent base increase to approximately 1.2 percent. Viewed differently, for the segments actually to provide a 1.5 percent salary increase and other inflation adjustments as envisioned in the Governor's proposal, they will have to make reductions in spending in other areas.

Figure 4

Two Perspectives on Student Fees



[a] The data for UC and CSU comparison institutions represent 2001-02 fee levels.
[b] UC's private comparison institutions are Yale, Harvard, Massachusetts Institute of Technology, and Stanford.
[c] CSU's private comparison institutions are Bucknell, Tufts, Loyola, Reed, and USC.

Past Attempts at a Fee Policy

The state has attempted to develop fee policies in the past. For example, Chapter 1523, Statutes of 1985 (SB 195, Maddy), was meant to establish a long-term student fee policy. This legislation was, in part, a reaction to significant fee increases in the early 1980s. Generally, it required CSU and requested UC to establish specific fee methodologies, limited annual adjustments to student fees to 10 percent, and required a ten-month lead time before a fee change could go into effect. Chapter 572, Statutes of 1990 (SB 1645, Dills), reauthorized major expiring provisions of Chapter 1523 until 1996. Next, Chapter 853, Statutes of 1997 (AB 1318, Ducheny), reduced fees at UC and CSU by 5 percent, and backfilled those reductions from the General Fund. (Chapter 853 also reduced the per unit resident fee at the CCC to $12.) Figure 5 summarizes the provisions of these three bills. Finally, the *1999-00 Budget Act* reduced fees at UC and CSU by an additional 5 percent. (In addition, community college fees were reduced from $12 to $11 per unit.)

Setting Fee Levels: A Balancing Act

Despite these and other efforts, however, no explicit fee policy has been consistently observed. Even when there has been agreement on a fee policy, the state has tended to ignore the policy and instead has ad-

Figure 5

Student Fee Legislation in California

Chapter 1523, Statutes of 1985 (SB 195, Maddy)

- States the intent that the state shall bear primary responsibility for the cost of providing postsecondary education, that students shall be responsible for a portion of the total cost of their education, and any increases in fees shall be gradual, moderate, predictable, and equitably borne by students in each segment.
- Directs the segments to establish long-term fee policies which prescribe a specific methodology and policies for the expenditure of student fee revenues.
- Requires fees to be fixed at least ten months prior to the fall term in which they become effective.
- Limits change in systemwide student fees to 10 percent annually.
- Requires the state to provide sufficient student financial aid to offset increased fees for students with demonstrated financial need.
- Prohibits segments from imposing mandatory systemwide fees upon postgraduate students which differ from those charged undergraduate students.
- Bill in effect from 1986 to 1990 when it sunset.

Chapter 572, Statutes of 1990 (SB 1645, Dills)

- Extended major provisions of Chapter 1523 through 1995-96.
- Requires student fees at Hastings College of the Law be identical to fees charged students in UC law schools.
- Effective from 1991-92 through 1995-96.

Chapter 853, Statutes of 1997 (AB 1318, Ducheny)

- Reduced the 1998-99 UC and CSU resident undergraduate fee to a level 5 percent below that charged in 1997-98, and maintained that level for 1999-00.
- Held UC professional school fees at 1997-98 levels for 1998-99 and 1999-00.
- Appropriated sufficient funds to UC and CSU in 1998-99 and 1999-00 to reimburse the systems for fiscal losses resulting from the fee reductions.

justed fees in response to the state's fiscal condition. This can make it difficult for students, their families, and the segments to plan effectively. It also treats students differently over time. As a practical matter, students who attend college in good fiscal times pay less than those who attend in bad fiscal times.

Low Fees Can Hinder Informed Choices and System Accountability. As noted earlier, student fees cover only about one-fifth of the cost of providing UC and CSU educational services. This level of subsidy can distort behavior. For example, fees that are set too low may improperly encourage some students to attend state public universities when other options might be more appropriate (such as attending private universities). Low fees may also result in students' having lower expectations about the *quality* of their education. Students and their families invest in higher education expecting benefits that justify their investment. When students and their families pay too little for their education (in the form of fees), they may be inclined to tolerate a lower level of service from the segments (such as poor quality instruction or inappropriately large class sizes). As a result, the segments' accountability is diminished.

High Fees Without Financial Aid Can Restrict Access. If fees are set too high, it is possible that access to higher education could be financially restricted. Qualified students could be prevented from attending college if fees are above their ability to pay. The state *Master Plan for Higher Education* states that in setting fees, the state should consider "whether an increase in the cost to the students can be levied without depriving many able and qualified youth of educational opportunity and in so doing fail to meet the needs of society for trained personnel." The availability of financial aid can ensure that a student's financial circumstances do not limit his or her educational opportunities. Recent changes in the state's Cal Grant program effectively guarantee this.

New Financial Aid Guarantee Changes the Fee Landscape

The new Cal Grant entitlement program, administered by the Student Aid Commission, ensures the availability of financial aid to qualified students from low-income families. Chapter 403, Statutes of 2000 (SB 1644, Ortiz), authorized the expansion of the Cal Grant program. Figure 6 summarizes the purpose, eligibility requirements and awards for Cal Grant A and Cal Grant B. The new Cal Grant entitlement program specifies that all recent high school graduates and community college transfer students (under 24 years of age) who demonstrate need and meet certain other criteria are entitled to an award.

In addition to establishing an entitlement program, Chapter 403 created a competitive Cal Grant A and competitive Cal Grant B program. These programs serve financially needy students who are not eligible for the entitlement program.

Cal Grant A awards cover systemwide fees at CSU and UC, or up to $9,708 of tuition at private colleges and universities. The Cal Grant B awards cover the same fees as Cal Grant A (excluding fees for the freshman year of college) and provide recipients with a $1,551 stipend for other expenses for four years of college. In light of the new Cal Grant entitlement program, therefore, fees provide little in the way of an obstacle to access to students from lower-income families.

Figure 6

Description of Cal Grant A and B Programs

2002-03

	Cal Grant A	Cal Grant B
Family-Income Ceiling (based on family size)		
Six +	$76,500	$42,000
Five	70,900	38,900
Four	66,200	34,800
Three	60,900	31,300
Two	59,400	27,800
Family-Asset Ceiling (excluding principal residence)		
	$51,200	$51,200
Minimum Grade-Point Average (GPA)		
Freshmen	3.00	2.00
Transfers	2.40	2.40
Maximum Award[a]	$9,708	$9,708
Additional Annual Grant for Living Expenses in 2002-03		
	None	Up to $1,551
Maximum Number of New Entitlement Awards		
	No Limit	No Limit
Maximum Number of New Competitive Awards		
	22,500 total for A and B awards	
Proposed Budget for 2002-03		
	$670 million[b]	$670 million[b]
Projected Total Recipients for 2002-03		
	63,434[c]	126,761[c]

a Represents maximum award for students attending private college. For UC and CSU, grants cover systemwide fees.

b Includes funding for the entitlement program, the competitive program, and the existing Cal Grant A and B programs.

c Assumes 70 percent of all competitive and entitlement awards are Cal Grant B awards. Assumes 30 percent of all competitive and entitlement awards are Cal Grant A awards.

Low Fees Now Help Only Wealthier Families. Given the new Cal Grant entitlement policy, the impact of fee changes is considerably different. Figure 7 (see next page) displays self-reported parental income for dependent undergraduates at UC and CSU. Virtually all undergraduate students with parental income below $30,000 (and most with income below $60,000) qualify for Cal Grants or other forms of financial aid. Because low-income students effectively do not pay fees (because they receive grants for this purpose) lowering fees tends to benefit students from wealthier families.

Figure 7

Distribution of Students by Parental Income UC and CSU

	UC	CSU
Percent of Students With Parental Income[a]:		
Below $30,000	29%	29%
Below $60,000	53	59
Above $90,000	27	21

[a] Source: 1997-98 survey (most recent available) by the Student Aid Commission [Sears survey]). Dependent undergraduate students (full-time and part-time).

Enact New Fee Policy

We believe the state needs a new, explicit fee policy for its higher education segments. Toward that end, we (1) offer guidelines to serve as the basis of a new fee policy and (2) suggest options for enacting a new fee policy.

Below, we offer some policy guidelines to consider in developing a fee policy for the higher education segments.

Students Should Contribute Towards Their Educational Cost. We believe the state's policy toward student fees should recognize that higher education results in *both* private and public benefits. Private benefits to the individual student include increased income, personal enrichment, and broader options regarding lifestyle and employment. The public benefits from higher education include a better-informed citizenry, as well as improved economic development and increased tax payments to state and local government.

Avoid Sudden "Sticker Shock." Students should not be faced with a sudden, large fee increase. Instead, fees should change moderately over time.

Fees Should Be Adjusted Annually. After the Legislature and the segments agree on a basis for determining student charges, we recommend that fees be adjusted annually.

One of the most important issues for the Legislature and the segments to resolve is the basis for the fee level. While there are a variety of options from which to choose, we present two possibilities: (1) a fixed percentage of educational costs and (2) the average of relevant comparison schools.

Option 1: Set Fees at a Fixed Percentage of Educational Costs. One option for the Legislature in establishing a long-term fee policy is to set fee levels as a fixed percentage of the "cost of education." This approach recognizes that students receive direct benefits from their education, and therefore should pay a portion of the cost that is proportional to their benefits. Figure 8 shows the hypothetical fees that would be charged students attending UC and CSU in 2002-03 if fees were set equal to various percentages of total segment's costs. Figure 8 shows that if the Legislature set undergraduate student charges at 30 percent of education costs, the fee charged UC undergraduates would be $4,859 in 2002-03, which is $1,000 above the current-year fee. The fee charged CSU undergraduates would be $3,335, which is $1,459 above the current-year fee.

Figure 8

Hypothetical Fees Calculated As Different Percentages of Segmental Cost in 2002-03[a]

Segment	Proposed Fee 2002-03	Hypothetical Fees in 2002-03 Using Different Percentages of Segmental Costs		
		30%	40%	50%
UC	$3,859	$4,859	$6,479	$8,099
CSU	1,876	3,335	4,447	5,559

a Fee based on percentage of average cost per student for 2001-02 as determined by the California Postsecondary Education Commission (CPEC). There are a number of alternative ways to calculate average cost per student. This is for illustrative purposes only.

If the Legislature selects a fixed percentage that results in a fee that is significantly higher than the current fee, it could increase fees gradually over a number of years until they reached the selected percentage of educational costs. Once the target is reached, fees would be adjusted annually to maintain the same percentage. If educational costs increase, fees would increase by a proportional amount. Conversely, if educational costs decreased (for example, from increases in efficiency), then fees would decrease.

Option 2: Set Fees at the Average for Comparison Institutions. As an alternative, student fees could be set at the average fee charged at the segments' national comparison institutions. The average could be limited to public comparison schools or could be a weighted average of public and private comparison schools. For 2002-03, the estimated difference between UC fees and the average of its public comparison institutions is $2,005. For CSU, the estimated difference between its fees and the average of its public comparison institutions is $2,500.

If the Legislature decided to use the average of comparison institutions as a basis for resident fees, it could raise fees gradually to avoid sticker shock. For example, if UC were to increase fees by 10 percent a year, fees would reach their public comparison target by 2009-10. (This assumes that the average of the public comparison institutions increases by 5 percent annually. The actual length of time required would depend on inflation in the intervening years). For CSU, more time would be required because current fee levels are further below CSU's public comparison institutions. If CSU fees increased by 10 percent a year, fees would reach the average of comparison institutions in 2019-20.

In conclusion, there is no one correct fee policy. The Legislature and the segments have many options from which to choose. Controversy about the mechanics of a policy, however, should not prevent the establishment of a long-term fee policy. Accordingly, we recommend that during budget deliberations, the Legislature consider its options regarding a fee policy for higher education and establish such a policy in statute.

UPDATE ON SUMMER OPERATIONS 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. Expanding summer operations has the benefit of significantly increasing UC's and CSU's enrollment capacity while reducing out-year costs associated with constructing new classrooms and campuses. Additionally, it increases students' access to high demand campuses and allows students, if they desire, to accelerate their time to degree. It even offers faculty greater flexibility in managing their workload (because they can select the terms they wish to work) without increasing their overall workload.

Expanding summer terms is a cost-effective strategy, however, only if the segments' capital outlay plans reflect year-round utilization. In the "Capital Outlay" chapter of the *Analysis*, we recommend the state fund additional instructional facilities only when existing facilities have reached their capacities through all academic terms.

In this section, we briefly review the recent actions the state has taken to promote summer expansion. We then provide an update on UC's and CSU's efforts to expand operations during summer 2001. Although both systems served substantially more students in summer 2001 compared to the prior summer, we recommend the Legislature ask the segments to report on some of their summer-expansion efforts during budget deliberations. We conclude by discussing the Governor's budget proposal to expand operations at UC Davis and CSU Chico during summer 2002. We recommend the Legislature fund these expansions to the extent that resources are available, but this funding should be made contingent on the campuses' meeting summer enrollment targets.

Key State Actions Promoting Summer Expansion

The nearby box (see next page) provides a 35-year timeline of key actions the state has taken to promote year-round operations at UC and CSU. The LAO report, *Year-Round Operation in Higher Education*, dated February 1999, discusses these prior actions in more detail. In recent years, the state has undertaken four major initiatives to promote the expansion of summer operations at UC and CSU.

Established Consistent Funding Policy for Enrollment Growth. Prior to 1998-99, the state provided General Fund support only for students enrolled in fall, winter, and spring. Summer-session costs were not directly supported by the state. Instead, they were "self-supported" by student fees, which were set higher than the other terms. Between 1998-99 and 1999-00, the state made a series of decisions indicating its intent to fund all enrollment growth, regardless of term, at the same funding rate. For example, in 1998-99, the Legislature and the Governor agreed to provide the same funding rate during all terms and at all UC and CSU campuses for students enrolled in teacher preparation programs. (As we discuss later, the administration has chosen, however, to exclude summer enrollment growth at some campuses from its overall growth calculation.)

The state funds enrollment growth at UC and CSU based upon a "marginal-cost formula," which estimates the cost of educating one additional full-time equivalent (FTE) student. The state covers most of this cost through General Fund support. The remainder is covered by student fees. Based upon this formula, in 2002-03, the state would be providing \$8,987 for every additional FTE student at UC and \$6,487 for every additional FTE student at CSU.

Established Consistent Fee Policy. The next action the state took to expand summer enrollment was to reduce the summer fee rate to the regular fee rate. Chapter 383, Statutes of 2000 (AB 2409, Migden), prohibited UC and CSU from charging students more in summer than in fall, winter, and spring. Prior to this action, UC campuses charged students approximately 15 percent more (on average) for courses in the summer. At CSU, campuses charged between 120 percent and 160 percent more for summer courses. Thus, Chapter 383 created a consistent, year-round fee policy at all UC and CSU campuses (effective summer 2001). 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 forego by reducing summer fees at all of their campuses.

Provided Supplemental Summer-Expansion Funding. In 2001-02, the state provided $33.1 million in supplemental funding for the purpose of

State-Supported Summer Operations Date Back More Than 35 Years

1965	CSU Hayward is first campus to convert to year-round operations (YRO).
1966	CSU Pomona and CSU San Luis Obispo convert to YRO.
1967	UC Berkeley and CSU Los Angeles convert to YRO.
1968	UC Los Angeles converts to YRO.
1970	Governor proposes to eliminate funding for all existing UC and CSU summer terms. Funding is eliminated for UC campuses.
1998	State begins funding enrollment growth for all terms, including summer.
2000	State enacts Chapter 383 (AB 2409, Migden), lowering summer fees to regular fee levels.
	CSU Humboldt becomes fifth YRO campus.
2001	UC converts three campuses to YRO (Berkeley, UCLA, Santa Barbara).
	CSU converts ten additional campuses to YRO: Dominguez Hills, Fullerton, Long Beach, Sacramento, San Bernardino, San Diego, San Francisco, San Jose, San Marcos, and Stanislaus.
2002	UC Davis proposed for YRO conversion.
	CSU Chico proposed for YRO conversion.

enhancing summer operations at three UC campuses (Berkeley, Los Angeles, and Santa Barbara) and four CSU campuses (Fullerton, Long Beach, San Diego, and San Francisco). This funding was sufficient to provide the full marginal-cost rate for all *existing* FTE enrollments in these campuses' self-supported summer sessions.

Linked Supplemental Funding to Growth in Summer Enrollments. Although supplemental funding is not strictly necessary for summer enrollments to grow, the state has decided to provide it as an incentive to expand summer operations at UC and CSU as rapidly as possible. The *2001-02 Budget Act* made summer-expansion funding (of $33.1 million) contingent on the campuses' meeting minimum summer 2001 growth targets (700 additional FTE enrollments at UC and 400 additional FTE enrollments at CSU). Failure to meet these targets would trigger the reversion of a proportionate share of the summer-expansion appropriations. The *2001-02 Budget Act* required the universities to report to the Legislature by December 1, 2001, whether they had met their enrollments targets. The universities were also required to provide the fiscal committees, by January 15, 2001, with a comprehensive five-year plan that included summer enrollment targets for each of their campuses.

Three of Four Required Reports Overdue. As of January 23, 2002, UC had not provided the Legislature with its December 1, 2001 report (though, at our request, UC provided data showing they have met the enrollment growth targets). Prior to the due date, CSU provided summer 2001 enrollment data for ten campuses. However, it cannot yet provide summer enrollment data for its remaining campuses. Moreover, neither UC nor CSU had provided the fiscal committees with their five-year plans.

Update on Summer 2001— All UC Campuses Succeed at Attracting Additional Students

The UC met the summer 2001 enrollment targets specified by the *2001-02 Budget Act*. Summer enrollments at UC, however, increased at both the three "full conversion" campuses (those receiving state funding for the fee buydown, existing summer enrollments, and summer enrollment growth) and the five partial conversion campuses (those receiving state funding only for the fee buydown).

The UC Exceeds Summer Enrollment Targets. Figure 9 (see next page) compares summer 2000 and summer 2001 annualized FTE enrollments at all eight general UC campuses. Total summer 2001 enrollments at the three full conversion campuses increased by more than 2,000 FTE students, or 58 percent, over summer 2000 enrollments. This greatly exceeded the enrollment target of 700 FTE specified in the *2001-02 Budget Act*. Total summer 2001 enrollments at the five partial conversion campuses also grew substantially (by 42 percent). Two partial conversion campuses (Riverside and Santa Cruz) actually increased summer enrollments by a greater percentage than one of the full conversion campuses (Berkeley).

Figure 9

Summer Enrollments Grew Significantly at UC

(Matriculated Annualized Full-Time Equivalent Enrollments)

	Summer 2000	Summer 2001	Change from Summer 2000	
			Amount	Percent
Full Conversion Campuses[a]				
Berkeley	1,390	1,925	535	38%
Los Angeles	1,222	2,099	877	72
Santa Barbara	854	1,446	592	69
Subtotals	(3,466)	(5,470)	(2,004)	(58%)
Partial Conversion Campuses[b]				
Davis	824	933	109	13%
Irvine	971	1,240	269	28
Riverside	430	636	206	48
San Diego	775	906	131	17
Santa Cruz	351	502	151	43
Subtotals	(3,351)	(4,217)	(866)	(26%)
Totals	**6,817**	**9,687**	**2,870**	**42%**

[a] Full conversion campuses received funding to buy down summer fees as well as fully fund existing summer enrollments and all new summer enrollments.

[b] Partial conversion campuses received funding only to buy down summer fees to fall fee levels.

Summer Term at UC Serves About One-Third the Number of Students as Fall Term. Figure 10 compares the numbers (or "headcount") of UC students served in summer 2001 with the number served in fall 2001. There is little difference in the proportion of students served in summer term by the full conversion campuses and the partial conversion campuses—both serve about one-third the students as the fall term. (We note that summer and fall headcount numbers are not fully comparable because of differing courseloads. While fall students average close to a full load, or 15 units, students in the summer average about 9 units. The summer courseload, however, has been increasing.)

Figure 10

Summer Term at UC Serves About One-Third the Number of Students As Fall Term

	Summer 2001 Headcount	Fall 2001 Headcount	Summer As Percent of Fall Headcount
Full Conversion Campuses[a]			
Berkeley	8,792	29,876	29%
Los Angeles	11,170	31,544	35
Santa Barbara	6,800	19,406	35
Subtotals	(26,762)	(80,826)	(33%)
Partial Conversion Campuses[b]			
Davis	6,073	23,086	26%
Irvine	7,759	18,118	43
Riverside	3,672	12,654	29
San Diego	5,386	18,394	29
Santa Cruz	2,407	11,735	21
Subtotals	(25,297)	(83,987)	(30%)
Totals	**52,059**	**164,813**	**32%**

a Full conversion campuses received funding to buy down summer fees as well as fully fund existing summer enrollments and all new summer enrollments.

b Partial conversion campuses received funding only to buy down summer fees to fall fee levels.

Update on Summer 2001— CSU Expands Summer Session At Ten Campuses

As noted earlier, in 2000-01 CSU received funds (on an ongoing basis) to buy down summer fees at all campuses, and in 2001-02 it received supplemental funds (also on an ongoing basis) to expand summer operations at four campuses. Because summer 2000 fees were already set by the time the *2000-01 Budget Act* was enacted, CSU (and UC) used the 2000-01 fee-buydown appropriation to lower fees in summer 2001. The CSU then decided to use the 2001-02 fee-buydown monies to expand summer 2001 operations at six additional campuses. (The UC states it will use its 2001-02 fee-buydown monies to buy down fees in summer 2002—as the state intended.)

Six-Campus Expansion Generates Ongoing Unanticipated Costs for the State. This expansion meant that CSU provided full marginal-cost support for a total of 5,115 FTE students at ten campuses in summer 2001. This was 1,977 more FTE enrollments than CSU was funded to serve. These 1,977 FTEs will generate $4.9 million in ongoing costs beyond what the Legislature committed to in the 2001-02 budget. It is unclear how CSU expects to cover these out-year costs. We presume it can absorb this cost because it has not requested and the Governor does not propose providing it with additional funding. (Later in the write-up, we recommend the Legislature require CSU to explain its actions during budget hearings.)

The CSU Exceeds Summer Enrollment Targets. Figure 11 compares estimated FTE enrollments in summer 1999 with actual FTE enrollments in summer 2001 for the ten targeted campuses. Like UC, CSU exceeded the

Figure 11

Summer Enrollments Also Grew Significantly at CSU

(Matriculated Annualized Full-Time Equivalent Enrollments)

	Estimated Summer 1999	Actual Summer 2001	Change from Summer 1999	
			Amount	Percent
Campuses Budgeted for Summer Expansion				
Fullerton	678	1,490	812	120%
Long Beach	1,145	1,604	459	40
San Diego	579	1,330	751	130
San Francisco	736	1,569	833	113
Subtotals	(3,138)	(5,993)	(2,855)	(91%)
Additional Campuses CSU Selected for Summer Expansion				
Dominguez Hills	400	740	340	85%
Sacramento	220	552	332	151
San Bernardino	285	666	381	134
San Jose	705	1,156	451	64
San Marcos	189	226	37	20
Stanislaus	178	305	127	71
Subtotals	(1,977)	(3,645)	(1,668)	(84%)
Totals	**5,115**	**9,638**	**4,523**	**88%**

growth targets specified in the *2001-02 Budget Act*, growing 91 percent at the four campuses authorized to receive full funding and 88 percent at the six additional campuses it selected to receive full funding.

Unlike UC, CSU cannot provide actual summer 2000 enrollment figures for any of its campuses, nor can it provide summer 2001 enrollment figures for the remaining 11 campuses that operate summer sessions. Thus, it cannot be determined if campuses that did not receive additional funding experienced similar enrollment growth. Moreover, because CSU cannot provide headcount figures, it cannot be determined how many students are being served in summer term compared to fall term. (Later in this write-up, we recommend that CSU provide this data to the fiscal committees during budget hearings.)

Both UC and CSU Manage First Transition Successfully

No UC or CSU campus experienced serious problems in expanding their operations in summer 2001. As noted earlier, both universities attracted more than enough students to meet their enrollment targets. The universities' success is likely to be partly attributable to lower summer fees, coupled with more generous financial aid policies at the full conversion campuses. (In most cases, full conversion campuses expanded financial aid opportunities to be consistent with the fall-spring terms.) Their success is likely also attributable to special summer incentives campuses provided to help attract additional students. (See box "Special Summer Incentives" on next page.)

In serving the additional summer students, neither university system reported problems of note in attracting faculty, providing sufficient academic support and student services, or scheduling maintenance projects.

Faculty Given Additional Flexibility, Income. In most cases, full conversion campuses allowed faculty either (1) to work during the summer term as an alternative to another academic term (for example, switching from teaching during the fall and spring term to teaching during the spring and summer term) or (2) to teach extra classes during the summer for extra pay. This latter option was the more common option used by faculty at both full and partial conversion campuses.

Under this option, faculty received additional pay above their academic-year contracts, typically on a per-course basis. Additionally, at UC Santa Barbara and UC Berkeley, faculty's overload-teaching salary rate was increased. At CSU, being paid on a per-course basis meant faculty did not receive compensation for summer activities that occurred outside the classroom (such as committee work and student advising). The CSU states that it will begin to compensate faculty for these other activities as summer term expands and as these other responsibilities are required. Even though CSU faculty did not receive compensation for outside-classroom activities, faculty teaching in the new state-supported summer terms are compensated at a higher rate than they were in the previous self-supported summer terms.

Additional Tenured and Tenure-Track Faculty Teach During Summer. Although information remains limited, tenured and tenure-track faculty apparently comprised at least a slightly greater proportion of total faculty in summer 2001 compared to summer 2000. For example, in its second year of expanded summer operations, CSU Humboldt states that many more tenured and tenure-track faculty expressed a willingness to teach than in past summers. These tenured and tenure-track faculty comprised about 45 percent of all faculty teaching during summer 2001 (compared to approximately 70 percent of all faculty teaching during fall 2001).

Special Summer Incentives

The University of California (UC) and the California State University (CSU) used a variety of incentives to encourage students to enroll during the summer. Below are some of these incentives:

- ***Fee Incentives.*** The UC Santa Barbara campus capped its fees at eight units, thereby encouraging students to enroll in more units for no additional cost. Six CSU campuses offered students a per-unit fee option that allowed them to take one course without having to pay the entire part-time fee or three courses without having to pay the entire full-time fee.
- ***Rebates for Seniors.*** UC Berkeley (in summer 2000) and UC Los Angeles (in summer 2001) offered rebates of up to $500 to seniors who graduated at the end of the summer rather than returning in the fall.
- ***Priority Housing and Registration.*** Several UC and CSU campuses offered students priority housing and priority registration for the fall if they enrolled in the summer. For example, CSU San Francisco, where housing facilities are in great demand, offered both priority housing and registration to new students who started in the summer.
- ***Expanded Travel and Undergraduate Research Opportunities.*** The UC made efforts to expand its summer travel-study programs. Additionally, UC sought to expand undergraduate research opportunities by encouraging its faculty to offer unit-bearing activities that corresponded to their summer research projects.

At UC's three full conversion campuses, approximately 150 additional faculty taught in summer 2001 compared to summer 2000, with the growth split about evenly between lecturers and tenured/tenure-track faculty. Tracking changes in faculty composition will become increasingly important because the state expects those campuses that have received supplemental state funds to attract additional tenured and tenure-track faculty to teach during summer.

Support Services. Although neither UC nor CSU reports difficulty attracting sufficient numbers of faculty, most campuses report some difficulty in transitioning their regular 12-month staff to handle the increased workload in summer. Many of these academic-support and student-services staff—responsible for services such as libraries, computer labs, learning centers, and counseling offices—previously vacationed during the summer months. In summer 2001, because campuses attempted to expand support services proportionally with student enrollment, many of these support staff encountered scheduling difficulties. These types of challenges, however, are likely to be temporary because campuses can hire additional staff (with the full marginal-cost funding they receive) and can encourage staff to coordinate vacations and spread them across the year rather than only in summer.

Maintenance Projects Sometimes Rescheduled but Still Completed. Although many maintenance projects at universities are reserved for the summer months, no campus reported serious problems with scheduling these projects. Campuses used a variety of strategies, such as scheduling summer courses in buildings that did not require any major maintenance or rescheduling projects throughout the year to relieve the concentration on the summer term. As with other support activities, full-conversion campuses have received the necessary resources (through marginal-cost funding) to hire additional staff to manage increased workload and new scheduling challenges.

In short, all of the campuses that attempted to expand summer operations were able to attract qualified faculty, expand academic support and student services, and schedule maintenance projects. Moreover, CSU Humboldt (which converted one year earlier than the other campuses) reports that it was able to improve its second-year operations based upon lessons learned during the first year. For example, it was able to address its staffing issues and provide more comprehensive support services in its second-year operations.

UC and CSU Should Account for Summer 2001 Activities

We recommend the Legislature ask the universities to respond to several issues relating to summer 2001 expansion during budget hearings.

Specifically, we recommend the Legislature ask the universities to report on the following issues.

Report on CSU's Summer Expansion. The CSU should explain why it expanded summer operations at six campuses when it had not been funded to do so. The CSU should also explain how it intends to cover the out-year costs associated with its decision to expand summer operations at these campuses. Additionally, CSU should provide summer 2000 and summer 2001 enrollment figures for all of its campuses, such that comparisons can be made between those campuses that did and did not receive supplemental funding to expand summer operations.

Report on Summer 2001 Expenditures. Although UC and CSU exceeded their enrollment targets, it is not yet clear how they expended the $33.8 million the state provided in 2001-02. Accounting for the expenditure of these funds is particularly important given that campuses without additional General Fund support experienced similar growth in summer enrollments. Furthermore, notwithstanding the universities' claims, UC's and CSU's expanded summer terms are likely not to have high initial start-up costs. Unlike the establishing of a new enterprise, the expansion of summer term builds on infrastructure, personnel, and support that are already in place. The systems, however, are now receiving comparable funding year-round even though the services they provide in summer are not yet comparable to the services they provide throughout the rest of the year.

Report on Overdue Five-Year Plans. Neither UC nor CSU provided their five-year plans to the Legislature in accordance with budget bill language. Accordingly, they should provide the Legislature with these plans as soon as possible. The plans should explain the criteria used for determining when additional campuses should expand their summer operations.

Governor Proposes to Expand Summer Operations at UC Davis and CSU Chico

The Governor's budget includes a total of $8.6 million for UC and CSU to continue expanding summer operations. Of this amount, $7.4 million is associated with providing "full" funding for approximately 900 existing FTE enrollments at UC Davis. The remaining $1.2 million is for CSU to provide full funding for 240 existing FTE enrollments at the Chico campus. (Based upon the accepted methodology used last year, we calculate that CSU requires only $977,000 rather than $1.2 million to buy out the 240 existing FTE enrollments at the Chico campus.)

Continue Linking Funding to Summer Enrollment Growth

We recommend that the Legislature approve the $7.4 million and $977,000 to expand summer operations at UC Davis and CSU Chico, respectively, but continue to link the funding to summer enrollment targets and require the universities to report on whether they meet these targets.

We recommend the Legislature approve $7.4 million and $977,000 to promote summer expansion at UC Davis and CSU Chico, respectively. However, we recommend this funding continue to be linked to summer enrollment targets specified in the *2002-03 Budget Act*. Given the campuses' recent performance, growth targets of approximately 30 percent—suggesting growth of approximately 300 additional FTE students at UC Davis and 80 additional FTE students at CSU Chico—would be relatively modest. As was done in the *2001-02 Budget Act*, the universities should revert a proportionate amount of the summer-related appropriation if the campuses fail to meet those growth targets. Finally, to monitor the newly converted campuses' success in meeting these targets, the Legislature should continue to require UC and CSU to report on summer enrollments at all their campuses by December 1, 2002.

Support Consistent Enrollment-Growth Policy

We recommend the University of California (UC) and the California State University (CSU) use enrollment-growth funding to support additional summer students at all campuses. Because UC and CSU have resisted including additional summer students in their budgeted enrollment-growth figures until they receive funding for existing summer enrollments, we further recommend the Legislature state its intent to fund remaining summer enrollments over the next several years.

In addition to providing funds to expand summer operations at UC Davis and CSU Chico, the Governor's budget includes $1 million to buy down fees for additional enrollments in UC summer sessions that do not yet receive full funding. (The Governor's budget does not include fee-buydown monies for the six CSU campuses that also have not received full funding for summer session.) We recommend a different approach. The Legislature should adopt a consistent enrollment-growth policy, thereby making the proposed $1 million augmentation for the fee buydown unnecessary.

Support Consistent Enrollment-Growth Policy. Instead of providing fee-buydown monies for UC campuses that have not yet received full funding for summer session, we recommend the Legislature direct both UC and CSU to support additional summer students at all campuses with enrollment-growth funds. This would enable all campuses to receive full funding for additional summer students, thereby increasing the incentive for all campuses (even those that have not yet received funding for existing summer students) to expand summer operations. It would therefore create a consistent enrollment-growth funding policy—providing full funding for all additional student in all terms at all campuses. It would also greatly simplify the transition process at remaining campuses.

Declare Intent to Fund Existing Summer Enrollments Over Next Several Years. In the past, UC and CSU have resisted including additional summer students in their budgeted enrollment-growth figures because they have been concerned that the state would decide to fund summer enrollment growth without ever funding existing summer enrollments. The UC and CSU stated they would not be able to offer comparable services during the summer without funding for these existing enrollments. We believe the state's considerable investments in summer operations over the past two years, as well as in the budget year, demonstrate its commitment to provide funding for existing summer enrollments. To respond directly to the systems' concerns, however, we recommend the Legislature state its intent in budget bill language to fund the remaining summer enrollments over the next several years.

In conclusion, both UC and CSU exceeded targets in summer 2001—enrolling many more students, attracting more tenured and tenure-track faculty to teach, offering a greater number and breadth of courses—and doing so without any notable problems. Despite their success, we recommend the Legislature continue its oversight of some outstanding summer-related issues during budget deliberations. In 2002-03, the Governor proposes to provide additional General Fund support for UC Davis and CSU Chico to expand summer operations. We recommend the Legislature approve the requested funding, but link it to summer enrollment targets and require the universities to report on whether they meet these targets. We further recommend the state implement a consistent enrollment-growth funding policy—using enrollment-growth funding to support all additional students in all academic terms at all campuses.

REEXAMINING THE ROLE OF COLLEGES AND UNIVERSITIES IN PROVIDING STATE-FUNDED FINANCIAL AID

Financial assistance for higher education comes in many forms and is offered by many entities. The major forms of financial assistance for higher education include grants (scholarships and fellowships), loans, work study, and investment accounts. The major providers of financial assistance are the federal government, state government, universities, and private benefactors.

California provides financial assistance for students in higher education in several ways. Major efforts include the following programs.

Cal Grant Programs. The Student Aid Commission administers the Cal Grant Entitlement program and several competitive Cal Grant programs (the new Competitive Cal Grant A and Cal Grant B programs, the longstanding Cal Grant C program for vocational-education students, and the Cal Grant T program for students enrolled in teacher-education programs). These statewide programs provide needs-based financial aid.

Institutional Aid. In addition, the higher education systems administer the following needs-based financial aid programs.

- The University of California (UC) administers the University Student Aid Program (USAP).
- The California State University (CSU) administers the State University Grant (SUG) program and the Educational Opportunity Program (EOP).
- The California Community Colleges (CCC) administer the Board of Governors (BOG) fee waiver program.

Merit Scholarships. The Governor's Scholars program provides $1,000 college scholarships to students in grades 9 through 11 who obtain high scores on state assessment tests. The Governor's Distinguished Mathematics and Science Scholars program provides supplemental $2,500 college scholarships for students who also obtain high scores on Advanced Placement examinations in both calculus and science (biology, chemistry, or physics).

In addition to these programs, the state provides incentives for families to save for higher education expenses by allowing them to make tax-deferred investments through the Golden State Scholarshare Trust program. The state also offers several more specialized forms of financial assistance, including loan forgiveness, internships, and work study.

Governor Proposes Reduced Funding for Institutional Financial Aid Programs

The Governor's budget would reduce UC's and CSU's needs-based institutional financial aid programs by $17 million and $14.5 million, respectively. The administration states that the reduction responds to the existence of "excess" funds that remain in UC's and CSU's financial aid base budgets from prior years. In both 1998-99 and 1999-00, the state reduced student fees by 5 percent (for a total reduction of 10 percent) and compensated UC and CSU for revenue they would lose as a result of the fee reduction. During these years, the state could have reduced UC's and CSU's financial aid budgets on the assumption that lower fees resulted in less annual need, but it chose not to do so. The Governor's budget now proposes making this adjustment.

Proposal Raises Broader Financial Aid Issues. The Governor's budget proposal raises important questions regarding (1) the total amount of state funding that should be designated for financial aid, (2) the criteria for determining who receives financial assistance, and (3) the agency or agencies that should administer state-funded financial aid programs. Currently, the state funds both statewide and institutional aid programs, which operate independently under different rules. Below, we discuss several concerns we have with this dual financial aid system. We recommend the Legislature redirect resources currently designated for needs-based financial aid and use them to expand the competitive Cal Grant programs.

Expand Competitive Cal Grant Programs by Pooling State Funds

We recommend the Legislature expand competitive Cal Grant programs by redirecting state funds currently provided for institutional financial aid programs. This would help create a statewide financial aid policy that is consistent and objective. It would entail the shifting of a total of $294 million from the University of California's and California State University's institutional aid programs to competitive Cal Grant programs. (Augment Item 7980-101-0001 by $294 million and reduce Items 6440-001-0001 by $172 million and 6610-001-0001 by $122 million.)

The Governor's budget includes $294 million for institutional financial aid programs at UC and CSU. Of this amount, $172 million is for UC's USAP program and $122 million is for CSU's SUG and EOP programs. The USAP and SUG programs are funded partially by state General Fund and partially by student fee revenue. The EOP program is funded entirely by the General Fund. All three programs provide needs-based aid to undergraduate and graduate students.

We recommend the Legislature redirect the monies currently designated for these institutional financial aid programs to expand the competitive Cal Grant programs because (1) the state can directly offset increases in student fees through the Cal Grant program, (2) statewide programs have shown better performance, (3) the competitive Cal Grant programs can assist only about one in four qualified applicants, and (4) the state—not the systems—should determine how state resources designated for financial aid are distributed across financially needy students.

Rationale for State-Funded Institutional Financial Aid Unclear. Initially, the state funded UC's and CSU's financial aid programs to mitigate the effect of increases in student fees. This objective is appropriate because financially needy students require additional resources when fees increase. However, the state can provide this same assistance directly to students through the Cal Grant program—as it currently does for more than 75,000 new students each year. Given this, we see no compelling rationale for continuing institutional financial aid programs.

Statewide Aid Programs Have Shown Better Performance. Although data are limited, some evidence suggests that statewide aid programs can yield better results than institutional aid programs. For example, according to CSU, only 7 percent of the students receiving SUG grants and entering teacher-education programs in 1998-99 had received their teaching credential by October 1999. By comparison, almost one-third of the students receiving Cal Grant awards and entering teacher-education programs in 1998-99 had received their teaching credentials by October 1999. It is unclear why the statewide programs produce better results, but it is possible that subtle differences in award criteria produce noticeable differences in programmatic outcomes.

Low-Income Students Now Guaranteed Financial Aid. The use of state-funded institutional financial aid is especially unclear now that the state has established the Cal Grant Entitlement program. When the state first began funding institutional financial aid programs, the Cal Grant program was much smaller than it is today and the number of grants the commission awarded each year depended upon available funding. The award process was also entirely competitive. In 2000, the state enacted Chapter 403 (SB 1644, Ortiz), which significantly expanded the existing Cal Grant program by creating a new entitlement program. Today, all financially needy applicants are assured of receiving a Cal Grant award if they are either (1) recent high school graduates with a minimum grade point average (GPA) of 2.0, or (2) community college students transferring to a four-year university who are less than 24 years old with a minimum GPA of 2.4.

Many Students Do Not Receive Competitive Cal Grant Awards. Students who do not qualify for Cal Grant entitlement awards may apply for competitive awards. Chapter 403 limited the number of competitive awards (Cal Grant A and Cal Grant B awards) to 22,500. Half of these awards are distributed in March and the other half are distributed in September and reserved exclusively for community college students. Data released by the commission show that more than 41,000 financially needy and academically qualified students did not receive competitive awards in the March cycle alone. The number of Cal Grant C and Cal Grant T awards are also capped, with the number of eligible applicants exceeding the number of available awards. Thus, many more students could benefit from statewide financial aid if resources were available. Moreover, in the competitive programs, students with the greatest financial need benefit regardless of which higher education institution they choose to attend.

Entitlement Program Spurred Significant Policy Changes in Institutional Financial Aid. The state has not yet undertaken an exhaustive review of how institutional financial aid policies have changed in the aftermath of Chapter 403, but available evidence suggests that the purpose of institutional aid has changed. For example, prior to Chapter 403, CSU allowed SUG grants to be used only to cover educational fees. The maximum award therefore equaled the State University Fee, which was $1,428 in 2000-01. In 2001-02, CSU made three important policy changes. It (1) provided awards to students with less financial need, (2) increased its maximum grant amount, and (3) allowed grants to be used for living expenses. In 2001-02, the maximum award increased to $3,600 for a student enrolled full-time for an academic year, which is more than a 150 percent increase in a single year.

State-Funded Institutional Aid Takes Important Decisions Out of Legislative Arena. Whereas the Legislature scrutinizes policy changes related to the statewide Cal Grant program, it cannot exercise the same level of scrutiny for institutional financial aid programs. Yet these institutions are making significant policy decisions—such as altering the amount and coverage of financial aid grants—that affect numerous students. Moreover, these choices can affect different types of students in very different ways.

LAO Recommendation. For these reasons, we recommend the Legislature expand the competitive Cal Grant programs by redirecting $294 million from existing institutional aid programs. This would enable the state to directly offset increases in student fees and assist more financially needy students who currently are not receiving Cal Grant awards. It would also allow the state to guide key policy decisions more directly and with greater transparency.

Key Policy Options. If the Legislature redirects these resources, it would have several issues to consider when designating the additional state funds for financial aid. For instance, the Legislature could redirect General Fund monies to increase:

- The maximum Cal Grant A award for students attending private colleges and universities, thereby allowing students greater choice among institutions.
- The amount of the Cal Grant B subsistence award, thereby providing additional aid to financially needy students.

- The number of competitive awards distributed in the March 2 cycle, thereby expanding financial aid opportunities for eligible nontraditional students.
- Income and asset ceilings, thereby helping more students cover educational fees.

In assessing its options, the Legislature should consider students' financial need rather than the particular needs of a higher education institution. A statewide financial aid policy would promote consistency and objectivity in helping financially needy students cover higher education costs.

Other Budget-Savings Options Might Have Less Adverse Consequences

Our recommendation above is based on the amount of funding provided in the Governor's budget for institutional financial aid programs. As mentioned earlier, the Governor's budget reflects a total reduction of $31.5 million for these programs. If the Legislature did not want to reduce funding for financial aid, it could consider alternative budget-savings options that would have less adverse consequences for students. For example, in the student fees write-up in the "Intersegmental" section of the *Analysis*, we recommend the Legislature adopt a consistent, fair, and predictable fee policy, which could yield budget-year savings. The Legislature also could examine relative growth in various portions of UC's and CSU's total budgets over the last several years to determine if more appropriate cuts might be made elsewhere. Finally, in *Options for Addressing the State's Fiscal Problem* (a companion publication to this *Analysis*), we suggest several other options for achieving savings in higher education.

UPDATE ON UC'S AND CSU'S EFFORTS TO EXPAND JOINT EDUCATION DOCTORAL PROGRAMS

During the 2001 legislative session, the Legislature considered a bill—SB 713 (Alpert)—which declared the importance of educational leadership in K-12 schools, colleges, and universities and stated the intent to ensure that a sufficient number of affordable, high-quality opportunities were available for individuals interested in obtaining a doctor of education (Ed.D.) degree. The Ed.D. is one of several types of training programs for K-12 and community college administrators—including superintendents, principals, vice principals, and other central administrative officers, such as budget directors. Although expert opinion varies greatly, the California State University (CSU) maintains that Ed.D. programs can produce more effective K-12 and community college administrators.

During fall 2001, CSU and the University of California (UC) agreed to establish additional joint Ed.D. programs—believing they could address the Legislature's concerns without the need for the enactment of SB 713. In recent months, CSU and UC have established a Joint Ed.D. Board and developed a new set of policies to govern their joint Ed.D. programs. (See box for a description of CSU's and UC's current Ed.D. program capacity.)

Report on New Policies

We recommend the Legislature ask the California State University (CSU) and the University of California (UC) to report during budget hearings on their policies for creating new joint doctor of education (Ed.D.) programs. Specifically, we recommend the Legislature ask CSU and UC to: (1) identify what reductions or funding shifts were required to fund $4 million in planning costs, (2) provide an update on their expectations regarding the number of new programs they would establish and the number of students they would serve, (3) explain why their joint Ed.D. programs require a higher per-student funding level and fee level compared to existing joint doctoral programs, and (4) discuss their efforts to align their new programs to the revised Administrative Services Credential requirements.

The new policies CSU and UC have established for their joint Ed.D. programs represent a noticeable departure from prior policies governing joint doctoral programs. Moreover, these new policies would generate out-year costs that might be greater than the Legislature anticipates. Furthermore, the projected cost of the new joint Ed.D. programs is consider-

Existing CSU and UC Joint Ed.D. Programs

Currently, CSU and UC offer three joint Ed.D. programs and one joint Ph.D. program in education. They estimate that the three joint Ed.D. programs serve between 45 and 65 full-time equivalent (FTE) enrollments each year. Of these three programs, the largest is the Joint Doctoral Program in Educational Leadership, which serves 35 to 45 FTE students each year and is operated by CSU Fresno and UC Davis. The other two joint Ed.D. programs—one operated by CSU Los Angeles and UC Los Angeles and the other by CSU San Francisco and UC Berkeley—are considerably smaller.

ably greater than the costs associated with other major administrator-training initiatives. We recommend the Legislature ask CSU and UC during budget hearings to discuss their recent planning efforts and justify the specific changes made to the policies governing their joint Ed.D. programs. Below we discuss these proposed changes and our concerns with them.

Report on $4 Million CSU and UC Have Designated for Planning. The CSU and UC propose to designate a total of $4 million during the next two years (2002-03 and 2003-04) for the planning of additional joint Ed.D. programs. Of this amount, each system proposes to contribute an equal amount ($2 million). The systems state that the $4 million will be one-time funding provided for planning, program development, and initial start-up costs. During budget hearings, the systems should identify what reductions or funding shifts would be required to obtain the $4 million in planning monies. This information will help the Legislature identify the programmatic implications of shifting the $4 million from current programs to new joint Ed.D. programs.

Report on Systems' Future Expectations. The CSU and UC have not yet decided exactly how many new joint Ed.D. programs they will establish. During preliminary discussions, they proposed creating at least four additional programs. They project that each program would serve approximately 12 new students each year and would be three to four years in length. If they were to establish four new three-year programs, at full capacity they could serve a total of 144 students annually. If they were established as four-year programs, they could serve a total of 192 students annually. The total annual enrollment-related cost for these programs would range from $1.3 million to $1.7 million (based upon 2002-03 marginal cost funding rates). The systems state that most ongoing expenses could be covered through budgeted enrollment-growth funding. During budget hearings, the systems should provide an update on their expectations regarding the number of new programs they would establish and the number of students they would serve. They should also clarify whether they will require any state funding for these programs over the next several years beyond enrollment-growth funding.

Report on New Policy to Fund All Students at UC Rate. Under the new arrangements proposed by UC and CSU, all students in joint Ed.D. programs would be counted as UC FTE enrollments regardless of whether they are taking courses at UC or CSU. Therefore, all students in the program would generate state revenue at the UC funding rate. This revenue would presumably be shared by the systems to cover their joint expenses.

In 2002-03, the proposed UC per-student funding rate exceeds the proposed CSU per-student funding rate by $2,500, or almost 40 percent. Under previous joint Ed.D. arrangements, students were subsidized at the CSU funding rate when they were enrolled in CSU courses and subsidized at the UC funding rate when they were enrolled in UC courses. The new funding policy deviates from the previous funding policy governing the three existing CSU and UC joint Ed.D. programs as well as joint doctoral programs in other disciplines. The systems state that "the UC funding level was needed to provide an adequate incentive for CSU and UC campuses to collaborate in making these programs a high priority and to ensure appropriate quality." During budget hearings, the systems should justify why they are adopting the UC funding rate for all students, why they are deviating from existing policies, and why such a significant funding change is needed to provide "adequate incentive."

Report on New Policy to Charge All Students UC Fee Rate. Under the new arrangements, joint Ed.D. programs would charge students the UC fee rate for all of their courses. In 2002-03, the total resident fees for UC graduate students exceed the total resident fees for CSU graduate students by almost $3,000, or 50 percent. Under previous arrangements, joint Ed.D. programs typically charged students the UC fee rate for courses taught at (or provided by) the UC campus and the CSU fee rate for courses taught at the CSU campus. Similar to the change in funding policy, the change in fee policy deviates not only from previous joint Ed.D. arrangements but also from current arrangements for other joint doctoral programs. During budget hearings, the systems should explain why they have changed their fee policy to charge students the UC fee rate for all their courses. They should also report on the impact the change in fee policy would have on student access.

Placing Administrator Training in Broader Context—Other Options, Lower Costs

As noted earlier, an Ed.D. program is only one of several training programs designed to improve the preparation and skills of K-12 and community college administrators. Given other training options exist, the Legislature should examine the cost-effectiveness of creating additional Ed.D. programs. For instance, to fund a single student in a three-year Ed.D. program at the proposed rates, the state would incur a marginal cost of approximately $27,000 and the student would be required to pay almost $15,000 in fees. By comparison, the Legislature has recently supported several major new administrator-training programs, which have the potential to benefit many more individuals at much less cost (to both the state and the individual). In addition to these recent efforts, the state has provided ongoing funding since the mid-1980s to support comprehensive administrator-training programs. These too are much less costly than Ed.D. programs.

Established New Training Program for All Principals and Vice Principals. Last year, the Legislature enacted Chapter 697, Statutes of 2001 (AB 75, Steinberg), which established a program to train all 15,000 principals and vice principals serving in public K-12 schools in California. The program is designed to provide K-12 administrators with training, over a two-year period, in six core areas—including school financial and personnel management, instructional leadership and technology, and core academic standards and student assessment. The state has agreed to appropriate a total of $45 million (providing $3,000 per administrator) between 2001-02 and 2003-04. Chapter 697 requires a local match of $1,000 per administrator. California has received $18 million from the Gates Foundation, which will be used to cover the local match. (The Gates Foundation monies will cover the costs associated with training superintendents as well as principals and vice principals.)

Established the Principal Leadership Institute. During the 1999 Extraordinary Legislative Session, the Legislature enacted Chapter 2x, Statutes of 1999 (AB 2x, Mazzoni), which established a new Principal Leadership Institute at the UC Berkeley and the UC Los Angeles campuses. In summer 2000, these two campuses launched a two-year administrator-preparation program designed for highly talented individuals who wanted to become school principals. When fully implemented, the program is to serve 400 students. Each student: (1) receives a scholarship (funded from private donations) to cover all educational fees and (2) must agree to serve four years as an administrator in a California public K-12 school. The program annually receives $500,000 in state funds. In 2000, it also received $7.5 million from a private donation.

In addition to the above UC programs, Center X, based at UC Los Angeles, provides leadership training for K-12 and community college administrators. Also, the New Teacher Center, based at UC Santa Cruz, began a pilot program in 1998 to support beginning principals.

Existing Programs Also Support Administrator Training. In addition to these new programs, the state provides ongoing funding for several longstanding administrator-training programs. In 2002-03, the Governor proposes to provide a total of $7.2 million to support these existing programs—including the California School Leadership Academy and regional School Leadership Centers, both of which provide ongoing, comprehensive support and training for K-12 administrators.

Requirements for Administrative Services Credential Under Review

In examining the systems' new policies, the Legislature should also keep in mind that the Commission on Teacher Credentialing (CTC) is in the process of formally reviewing the requirements for the Administrative Services Credential. The CTC-assembled Administrative Services Credential Task Force is currently reexamining the content and structure of professional preparation programs, placing greater emphasis on an induction program for new principals (and therefore presumably less emphasis on formal theory-based preparation). Given the changes CTC is likely to make to the Administrative Services Credential, the systems should discuss during budget hearings their efforts to align their new programs to the new credential requirements.

In sum, we recommend the Legislature ask CSU and UC to report during budget hearings on their policies for creating new joint Ed.D. programs. These new policies deviate significantly from existing policies governing joint CSU and UC doctoral programs. Most notably, the new policies provide joint Ed.D. programs with a higher funding rate and a higher fee rate compared to previous joint Ed.D. programs and other existing joint doctoral programs. Moreover, the proposed new joint Ed.D. programs would serve fewer students at much higher cost compared to the new administrator-training options the state has recently established and the longstanding administrator-training programs the state already funds.

California Postsecondary Education Commission (6420)

The California Postsecondary Education Commission (CPEC) is responsible for the planning and coordination of postsecondary education. The CPEC provides analysis, advice, and recommendations to the Legislature and the Governor on statewide policy and funding priorities for colleges, universities, and other postsecondary education institutions. The commission has 16 members, representing the public and private university segments, the State Board of Education, students, and the general public.

Proposed Budget. The Governor proposes total appropriations of $11.9 million in 2002-03. This is a decrease of $0.6 million, or 4.7 percent, from estimated current-year expenditures. Total General Fund expenditures are proposed at $3.3 million, a decrease of $0.5 million, or 12 percent, below estimated current-year expenditures. The decrease in the General Fund amount is primarily due to the proposed elimination of four staff positions.

CPEC Paying $96,000 for Data Services It Does Not Receive

We recommend the deletion of $96,000 (General Fund) for budgeted data services, expenses the commission no longer receives. (Delete $96,000 from Item 6420-001-0001.)

The CPEC's budget includes $96,000 for payments to Teale Data Center for data processing and storage on Teale's Terradata system. However, since 2000 CPEC has not used these services, having moved its data from the Terradata system to CPEC's own computers. Nevertheless, CPEC continues to make payments of $8,000 a month to Teale for these unused services.

We recommend that CPEC terminate its payments for Terradata services, and that funding for this purpose be removed from CPEC's budget.

Outreach Inventory Should Be Clarified

We recommend approval of $150,000 for the California Postsecondary Education Commission to develop a study of outreach programs. However, this recommendation is contingent on adoption of budget bill language to ensure that the report is timely and responds to the Legislature's needs.

The Governor's budget proposal includes $150,000 for CPEC to develop an inventory of K-12 outreach programs. This amount is an addition to $150,000 received for the same purpose in 2001-02, bringing total funding for this study to $300,000. The CPEC indicates that work on the inventory is still in its preliminary stages.

We believe that a comprehensive study of outreach programs has the potential to identify opportunities for program consolidation and to identify overlap and duplication. (We raise concerns with duplication and overlap among K-12 outreach programs in the section on the "University of California" elsewhere in this chapter.) We believe that a report on K-12 outreach programs should include, at a minimum, the following: an inventory of outreach programs, estimated programs expenditures for each school, identification of program overlap and duplication of services, and the potential for program consolidation.

While we support the need for an outreach study, we believe that the Legislature should approve this funding only with the addition of budget bill language that ensures the study is timely and responds to the Legislature's needs. Specifically, we recommend adoption of the following budget bill language:

> 6420-001-0001 Provision 1. Of the amount appropriated in Schedule (2), $150,000 in one-time funds is included to complete a comprehensive study of state outreach programs. This study shall include the name and County-District-School code of all public elementary, middle, and high schools participating in the following K-12 outreach programs: Advancement via Individual Determination program; Collaborative Academic Preparation Initiative; Precollegiate Academic Development program; California Academic Partnership Program; Educational Opportunity Program; Student Opportunity Access Programs; Early Academic Outreach Program; Mathematics, Engineering, and Science Achievement; Puente; and K-12 School-University Partnerships. For each school, the study shall also include the number of students participating in each program, and estimated program expenditures. Finally, the study shall identify overlap and duplication among these programs. The study shall be submitted to the Legislature and the Governor on or before March 1, 2003.

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 in 2002-03, an increase of $40.2 million, or 1.2 percent, over estimated expenditures in the current year. (The Governor's current-year estimate assumes passage of his November Revision, which reduced current-year spending for UC by $36 million.) Major augmentations include $63.8 million for increases in budgeted enrollments, $47.6 million for a general 1.5 percent increase in the university's base budget, $14 million for increased costs of annuitant health and dental benefits, and $8.4 million for increased state support for summer instruction at the Davis campus.

The budget also proposes ongoing reductions of $30 million in 2002-03. Of this total, $17 million comes from General Fund support for campus-based financial aid. (This reduction is based on slightly reduced average financial need, due to earlier reductions in student fees.) The remaining reductions occur in various K-12 outreach programs. Figure 1 (see next page) summarizes the various changes in UC's budget.

Partnership Funding Reduced. In 2000-01, the Governor initiated a four-year "partnership" agreement with UC and California State University (CSU). In this partnership, the Governor committed to provide UC and CSU with annual 5 percent base increases, plus funds for enrollment growth, capital needs, and high-priority initiatives. During the 2001 May Revision, the Governor—citing limited state revenues—proposed reducing the base increase from 5 percent to 2 percent. Similarly, the 2002-03 budget proposal is below the partnership level.

The 2002-03 budget proposes a base increase of 1.5 percent or $47.6 million. The UC indicates that most of these funds will be applied toward various salary increases. The Governor indicates that he intends to resume his commitment to the 5 percent base increases when the state's fiscal situation improves.

Figure 1

University of California
Governor's General Fund Budget Proposals

(In Millions)

2001-02 Budget Act	**$3,357.7**
November revision reductions	
Ongoing reduction for natural gas costs	-$25.0
Ongoing reduction in funds for Professional Development Institutes	-6.0
Eliminate one-time funds for teaching hospitals[a]	-5.0
Baseline funding adjustments	
PERS rate adjustment	0.1
Transfer funds for Institutes for Science and Innovation from capital outlay budget	5.0
2001-02 Revised Budget	**$3,326.8**
Reduction of one-time expenditures in 2001-02	-$77.5
Proposed increases	
1.5 percent base increase[b]	$47.6
Enrollment growth (4 percent)	63.8
Enhance summer courses	8.4
Increased costs of annuitant health and dental benefits	14.0
Lease revenue bond payments	5.1
One-time funds for UC and Governor's initiatives[c]	8.8
Subtotal	($147.7)
Proposed reductions	
Savings from excess financial aid funds provided in prior years	-$17.0
Reduce funding for various outreach programs	-4.2
Reduce funding for Subject Matter Projects	-4.0
Reduce funding for K-12 Digital California Project	-4.9
Subtotal	(-$30.0)
2002-03 Proposed Budget	**$3,367.1**[d]
Change from 2001-02 revised budget	
Amount	$40.2
Percent	1.2%

a Chapter 1, Statutes of 2002 (SB 1xxx, Peace), restored these funds.

b The 1.5 percent augmentation is on an adjusted base of about $3.2 million that excludes one-time expenditures and includes other adjustments.

c Initiatives include: recruiting faculty at UC Merced ($4 million) and support for the California Institutes for Science and Innovation ($4.75 million).

d Total may not add due to rounding.

Enrollment Growth of 4 Percent. The budget assumes that UC will serve 7,100, or 4 percent, additional full-time equivalent students in 2002-03. The budget provides UC with $63.8 million to fund the "marginal cost" to serve the additional students.

No Increase in Resident Student Fees and No Fee "Buyout." The budget does not propose any increase in resident student fees, nor does the budget propose General Fund support in lieu of raising resident student fees. (The UC estimates that the "foregone" fee increase is 7.8 percent, which is the estimated increase in per-capita income lagged for two years.) Fees for resident undergraduate, graduate, and professional school students would remain at current levels. The proposed fee for a full-time resident undergraduate is $3,859 and the proposed fee for a resident graduate is $4,914.

The supplementary fee for *nonresident* students would increase by 4 percent—from $10,704 to $11,132. (When the supplementary fee for nonresident students is combined with educational and other fees, the increase in the total nonresident undergraduate charge is 2.9 percent.) We discuss student fees in more detail in "Crosscutting Issues" in this chapter.

Crosscutting and Intersegmental Issues Involving UC

We address several issues relating to UC in other sections of this chapter. In "Crosscutting Issues—Teacher Support and Development," we discuss the Governor's proposal to continue the $6 million current-year reduction to the California Professional Development Institutes and make a $4 million budget-year reduction to the California Subject Matter projects. We recommend that the Legislature approve the reduction, but do so as part of a broader effort to streamline existing professional development programs for K-12 teachers. Specifically, we recommend the Legislature shift the two programs into a formula-based teacher support and development block grant. Additionally, we recommend the Legislature create a competitively based teacher support and professional development block grant. The block grant would fund consortia to test pilot programs and conduct research on teacher training and professional development.

In the "Intersegmental" section of the chapter we discuss:

- The UC's student fee policies. We recommend the Legislature adopt a fee policy for UC that is consistent and predictable.
- The UC's state funded institutional financial aid programs. We recommend the Legislature create a consistent statewide financial aid policy and shift state funds from institution-specific programs to the statewide competitive Cal Grant program.

- The Governor's proposal to provide UC with $7.4 million to expand summer operations at UC Davis. We recommend the Legislature approve the augmentation but continue to link the funding to summer enrollment growth.
- The UC's and CSU's joint doctoral programs in education. We recommend the Legislature ask the systems to report on their new funding and fee policies.

Funding for Faculty Hiring For Unopened Campus Unnecessary

We recommend deletion of $4 million in one-time General Fund support requested for hiring faculty for the Merced campus, which is not scheduled to open until 2004-05, because the University of California can recruit and hire faculty using existing resources . (Reduce Item 6440-004-001 by $4 million.)

The Governor's budget requests $13.9 million for support of the Merced campus, which is not scheduled to open until 2004-05. Of this amount, $4 million is provided to hire faculty. The requested amount is in addition to $2 million in one-time General Fund support that UC received in the current year for the same purpose.

Since 1998-99, the state has appropriated $43.5 million for support of the planned Merced campus. The Governor's budget proposes an additional $13.9 million for 2002-03—$9.9 million in "base" spending on startup costs and the $4 million specifically for hiring faculty. Budget bill language specifies that the entire amount is for planning and startup costs associated with academic programs and ongoing support for the unopened campus including academic planning activities, faculty recruitment, and ongoing support for faculty and staff.

Current-Year Funding Will Not Be Spent. To date, the university has not hired any faculty. The UC plans to hire 20 permanent faculty beginning in 2002-03, and an additional 20 faculty in both 2003-04 and 2004-05 (for a total of 60 faculty when the campus opens). Although initial recruitment for the first 20 faculty has begun, UC informs us that it has not yet spent the $2 million it received for the current year, and expects to carry most of this funding into the budget year.

Proposed Funding Not Urgent; Recommend Deletion. Even without the proposed $4 million in new one-time funding, UC still will have $2 million (in carried-over current-year funding) and $9.9 million (in budget-year baseline funding) for planning and startup costs at the Merced campus. We believe this amount is sufficient given that the campus is not scheduled to open for more than two years. Accordingly, we recommend the Legislature eliminate the augmentation, for a savings of $4 million.

K-12 OUTREACH PROGRAMS

The state administers a number of K-12 outreach programs that focus on preparing students from disadvantaged backgrounds for college. We find that for a variety of reasons these programs may not be achieving their goals. We review the current structure of K-12 outreach programs and recommend steps for improving the efficiency and effectiveness of the system.

The state has long supported "traditional" K-12 outreach programs that focus on preparing students from disadvantaged backgrounds for college. Student-based academic development programs such as the Early Academic Outreach Program (EAOP) and the Mathematics, Engineering, Science Achievement (MESA) program have been in existence for over 25 years. However, both the scope of outreach programs and the level of funding for outreach have expanded significantly since 1996.

Majority of K-12 Outreach Funds Directed to UC. The majority of K-12 outreach funding is appropriated to UC. However, a number of other state agencies, including the CSU, the Student Aid Commission, the Department of Education (SDE), and the California Community Colleges (CCC), also administer K-12 outreach programs. Estimated K-12 outreach expenditures in 2001-02 for all these entities total $127 million. Almost all of this spending is supported from the General Fund.

Proposed K-12 Outreach Reductions. The proposed budget includes approximately $63 million for UC's K-12 outreach programs—almost half of total state spending on K-12 outreach. This is a reduction of $4.2 million (General Fund) from the current year. The reductions effect eight UC outreach programs, some of which are relatively new and others which have been recently expanded. We believe it would be helpful to consider the Governor's proposal in the context of the performance and effectiveness of the state's entire portfolio of K-12 outreach efforts.

In the following sections, we:

- Review the central objectives of outreach and how various K-12 outreach programs are funded.
- Explain existing programs and evaluate how well programs are aligned to outreach objectives.
- Recommend options for improving achievement of outreach objectives.

Purpose and Priorities of Outreach

There are three basic obstacles that can restrict students' access to higher education: inadequate academic preparation, lack of information concerning the accessibility and purposes of a college education, and lack of information on and assistance with financial aid. We believe that an effective outreach strategy should address all three of these areas.

What distinguishes outreach from other programs that address the academic performance of disadvantaged students (such as compensatory education programs) is that outreach programs ultimately seek the enrollment of disadvantaged students in higher education. Along these lines, the stated goals of UC's outreach efforts are to (1) contribute to academic enrichment by increasing the diversity of UC's student body and (2) improve opportunities for California's educationally disadvantaged students to more fully participate in higher education.

Expansion of UC K-12 Outreach

In 1995, the UC Regents approved SP-1, a policy that prohibited campuses from using race, religion, sex, color, ethnicity, or national origin as criteria in granting admission. The policy became effective January 1, 1997. In 1996-97, largely in response to the new environment created by SP-1, UC began a major initiative to improve and expand outreach efforts at the university. As part of the new effort, the Regents established an Outreach Task Force (OTF). The OTF proposed the following four-point strategy for UC's K-12 outreach, which the Regents adopted in 1997:

- Improve K-12 systemically through school-university partnerships.
- Help prepare disadvantaged students for higher education through academic development programs.
- Help students plan and prepare for college through informational outreach and recruitment programs.
- Research and evaluate the root causes of educational disparity and the effectiveness of outreach programs.

The UC received substantial augmentations to its K-12 outreach budget for implementation of this outreach strategy. Prior to the implementation of the OTF strategy, UC spent approximately $14 million on systemwide K-12 outreach in 1997-98. The majority of this money was used to support K-12 student academic programs and informational outreach and recruitment. In 1998-99, UC's K-12 outreach budget received a major augmentation of about $40 million—almost quadrupling its K-12 outreach budget to $54 million. The UC's K-12 outreach was augmented again by $20 million between 1999-00 and 2000-01. These augmentations allowed UC to expand student academic programs and to implement a number of new initiatives which broadened the scope of K-12 outreach.

Existing Outreach Programs and Funding Levels

As discussed above, a number of state agencies engage in outreach activities. Figure 2 (see next page) lists state K-12 outreach programs by agency, provides brief descriptions of each program, and indicates proposed funding for 2002-03. This list is not exhaustive but includes major K-12 outreach programs by department. (The figure does not include programs or funding for professional development for K-12 teachers because professional development programs generally do not focus on outreach as we have defined it.) Generally, we find that most of the state's various K-12 outreach programs address one or more of our three stated objectives.

In addition, a number of federal and private programs also provide K-12 outreach services (see Figure 3, page E-224). Furthermore, individual UC, CSU, and CCC campuses conduct a variety of K-12 outreach efforts of their own. Although this analysis focuses on systemwide UC programs, the existence of many federal, private, and campus level outreach efforts increases the complexity of outreach options for a K-12 school.

Problems With Current K-12 Outreach Programs

Our review identified a number of concerns with the current structure and funding of K-12 outreach.

Programs Often Overlap and Provide Duplicate Services. As Figure 2 shows, there are multiple K-12 outreach programs with many similar components targeting similar populations. For example, the Faculty-to-Faculty Alliance portion of CSU's Collaborative Academic Preparation Initiative (CAPI) program shares similarities with CSU's California Academic Partnership Program, and with UC's K-12 School-University Partnerships. While slightly different in academic focus, the EAOP, MESA, Puente, and Educational Opportunity Program all offer academic development programs, academic advising, and informational outreach. Indeed, UC notes in its 2001 status report on educational outreach that schools often participate in one or more outreach programs simultaneously. As a result, the same student may be participating in multiple outreach programs such as EAOP and MESA that essentially offer the same service (academic preparation, parental involvement, and academic advising). Because different programs include the same student, it is difficult to ascertain the extent that involvement occurs in multiple programs or to estimate how many additional students could be served if program inefficiencies and duplication were reduced.

Interaction Among K-12 Outreach Programs Is Typically Not Well Coordinated. Prior to the program expansion of the mid-1990s, there was frequently a lack of coordination and collaboration among outreach programs at UC campuses. The UC has made efforts to centralize outreach

Figure 2

Major K-12 Outreach Programs

(Dollars in Thousands)

Program	Description	2002-03 Governor's Budget
SDE		
Advancement via Individual Determination (AVID) Program	Funds assist 11 regional centers supporting the AVID program in middle and high school. The AVID focuses on academic instruction, tutorial support, and motivational activities.	$12,300
College Preparation	Grants to districts and county offices of education to operate preparation courses for college admission tests.	7,573[a]
Academic Improvement and Achievement Act	Grants to fund activities to increase the percentage of pupils that meet admission requirements for CSU or UC.	5,000[a]
CSU		
Collaborative Academic Preparation Initiative (CAPI)	*Faculty-to-Faculty Alliances*: The CSU English and mathematics faculty collaborate with high school faculty and staff to increase the rigor of high school courses to better prepare students to meet CSU's standards.	5,000
	Learning Assistance Programs: Funds used to hire CSU students as tutors for high school students.	4,000
Precollegiate Academic Development Program (PAD)	Funds used to train and support CSU students who tutor and mentor K-12 students in English and mathematics.	5,300
California Academic Partnership Program (CAPP)	Funds used to build 30 partnerships between K-12 and higher education institutions for the purpose of strengthening high school curricula and improving instruction. Funds also support the Mathematics Diagnostic Test Project.	3,500
Educational Opportunity Program (EOP)	Funds a comprehensive array of academic support services for K-12 students.	2,000
CSAC		
Student Opportunity and Access Programs (Cal-SOAP)	Funds consortia of secondary schools, higher education institutions, and community agencies in 15 locations. Goal is to provide information about college and financial aid, and improve student academic achievement.	8,644

Continued

Program	Description	2002-03 Governor's Budget
UC		
Central Valley Programs	Supports various K-12 outreach programs and community college programs.	1,937
Informational Outreach and Recruitment	Supports college counseling programs for potential students, community and media relations activities, telephone campaigns, direct-mail, campus visits, events with high-level campus administrators.	5,103
Evaluation	Measures the progress of UC programs, assesses the effectiveness of outreach, describes the evolution of outreach, and provides feedback to campus programs to facilitate improvement.	$1,530
Early Academic Outreach Program (EAOP)	Offers a variety of services including academic development programs, academic advising, test preparation and parent workshops and informational outreach.	17,477
MESA[b]	Includes School Program, Success Through Collaboration, and Engineering Program. Goal is to increase the number of disadvantaged students who make careers in mathematics and science-based fields. Supports various services such as academic preparation, financial aid and academic counseling, and parental involvement.	10,198
Puente	Serves both high schools and CCC students with an integrated program of college preparatory English courses, academic counseling, and professional mentors.	2,300
K-12 School-University Partnerships	Incorporates school and student centered efforts with teacher centered and curriculum-based programs aimed at training developing teachers. Seeks to strengthen academics at partner schools where student performance is low.	12,063
UC College Preparatory Initiative (online courses)	Initiative to develop online Advanced Placement (AP) courses for schools/students who do not have access to an AP program.	8,437
Charter School	Prepares students from low-income and educationally disadvantaged backgrounds for postsecondary education.	591
Arts Bridge	Scholarships to UC students to teach or conduct art-related workshops in K-12 schools.	750
CCC		
Middle College High School	Establishes high schools on college campuses. Focuses on retention, career preparation, and college enrollment.	1,800[a]

a Proposition 98 Funding.
b Mathematics, Engineering, Science Achievement.

Figure 3

Major Nonstate Outreach Programs

Program	Description
Programs at CSU	
Upward Bound	Federal program whose goal is to increase the rates at which participants enroll in and graduate from college. Students are usually admitted during grade 9 or 10 and may participate in the program through high school graduation. In 2000-01, 17 CSU programs received a total of $7.5 million.
Talent Search	Federal program designed to increase the number of students from disadvantaged backgrounds who graduate from high school and enroll in college. In 2000-01, nine CSU campuses participated in Talent Search programs, receiving a total of approximately $2.2 million.
America Reads and America Counts	America Reads is a national grassroots program that helps children learn to read. America Counts is a federal program that equips teachers to teach challenging mathematics, provides student assistance, supports research on mathematics teaching and learning, and encourages a rigorous math curriculum. In 2000-01, 15 CSU campuses participated in America Reads and America Counts programs, receiving a total of $5.5 million.
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	Federal program that encourages students to prepare for and attend college. In 2000-01, 11 CSU campuses received a total of $7.5 million to participate in GEAR UP programs.
Programs at UC	
GEAR UP	Federal program that encourages students to prepare for and attend college. UC administers the grant in coordination with the other segments, California Postsecondary Education Commission, SAC, and the Governor's office. GEAR UP is a five-year grant. The first year of funding was 1999.

programs systemwide and at individual campuses to address this. For example, in 1999 UC formed the EAOP, MESA, and Puente (EMP) collaborative with the goal of strengthening the connections among the three programs statewide and regionally. It appears, however, that there is still a considerable lack of coordination between state outreach providers and local school sites. The burden of trying to coordinate and integrate various K-12 outreach programs typically falls to the school site. The UC notes this phenomenon in its 2001 status report: "The number and variety of these program is such that many teachers and principals have reached a point of initiative fatigue, as managing these efforts (coordinating various outreach programs) can be a demanding job in and of itself." Generally, the report is descriptive, identifying the unexpected challenges facing the university's outreach efforts, but it provides little substantive data on program effectiveness.

Outreach Services Focused on Certain Geographical Locations. Another limitation of providing the majority of outreach funding to higher education institutions, especially UC (which has eight general campuses statewide), is that schools far from UC campuses tend to have less access to outreach services. For example, UC currently has partnerships with 72 high schools—which is only about 8 percent of the state's public high schools. The UC's student academic programs (EAOP, MESA, and Puente) tend to follow a similar geographic pattern—the programs tend to be in schools that are close to a UC campus. The CSU generally is able to serve more high schools than UC, largely due to the greater number of CSU campuses. For example, CSU's CAPI program works with about 223 high schools.

Preliminary data indicate that many schools that potentially could benefit from outreach do not receive these services. Using data from the 1999 school year provided by the California Postsecondary Education Commission (CPEC) and SDE, we estimate that approximately 20 percent of schools scoring in the lowest two deciles of the Academic Performance Index (API) were not served by major outreach programs. It is unclear whether these schools did not participate in outreach because of location, lack of cooperation with the higher education segments, or other reasons. The data also indicate a number of high schools in the highest two API deciles were served by at least one outreach program, although it is not clear if these programs were targeting pockets of disadvantaged students. Thus, providing outreach funding to the higher education segments may result in many schools and students not receiving services.

Focus on Yield Efforts Is Misplaced. In addition to improving educational opportunities for disadvantaged students, a goal of UC and CSU's K-12 outreach is to improve the "yield" of already-qualified underrepresented students attending their respective institutions. This approach may work against the state's outreach efforts. This is because rather than increasing preparedness or awareness among disadvantaged students, yield-focused efforts typically work to convince already qualified or eligible students to choose UC or CSU over some other higher education institution. For example, UC campuses may compete for students and use outreach resources to try to convince a potential student to choose a particular campus or to attend UC rather than CSU or a private institution. In our opinion, the chief goal of outreach should be to increase the eligibility and qualifications of students for higher education, rather than directing already-qualified students to a particular campus within the segment.

Little Evidence of Program Effectiveness. The university has been provided about $1.5 million annually for the last four years (approximately $6 million since 1998-99) for the purpose of evaluating its outreach efforts. The UC now indicates that its studies of programmatic outcomes and cost-effectiveness will not be complete until the end of the 2003-04 academic year. Consequently, little is known about the effectiveness of the state's K-12 outreach programs. Without reliable data on program effectiveness, it is difficult for the Legislature to determine which outreach programs are most successful in achieving the important objectives of increased awareness, preparation, and access to undergraduate education.

In addition to continuing funding for UC's outreach evaluation, the Governor's budget provides $150,000 in one-time funds for CPEC to complete an inventory of state-funded outreach programs for high school students. (The total cost of the inventory is $300,000; CPEC received half of this amount in the current year.) A comprehensive outreach study could be a valuable tool in identifying program overlap and duplication of services. (We recommend approval of this funding, contingent on the adoption of budget bill language in the "CPEC" Item elsewhere in this Chapter.)

The CSU only recently started trying to measure the effectiveness of its outreach programs. The *Supplemental Report of the 2001-02 Budget Act* directed CSU to assess and annually report on the effectives of the CAPI program, including data reflecting changes in student achievement and quality of services provided to teachers in high schools. However, the first of these comprehensive annual reports is not due until December 2002. At present, there is little substantive data on the effectiveness of state outreach programs.

How Can the Legislature Improve Its K-12 Outreach Efforts?

Principles for K-12 Outreach

We first offer the following principles that we believe can guide the Legislature in developing an effective K-12 outreach program.

Outreach Efforts Should Focus on the Needs of Students Rather Than Higher Education Institutions. Local school sites are in the best position to assess students' needs, provide services, and avoid duplication of services. Outreach programs that actively involve school-site teachers, administrators, and districts in the design of outreach programs are more likely to succeed than those that do not. Too often, the segments take a top-down approach to outreach that stifles local innovation and ignores variation in schools and populations throughout the state.

K-12 Districts and Schools Should Have Greater Control Over Outreach Activities. Schools are generally as qualified as the higher education segments to provide certain outreach activities, such as tutoring and parental involvement. Moreover, because teachers and staff at school sites interact with students almost daily, they are generally quite knowledgeable about local students, their families, and the community. For these reasons, K-12 schools and districts should have greater control and increased flexibility over how certain outreach programs are provided for their students. Schools should have the option of collaborating with higher education institutions to provide these services. However, they should be provided increased flexibility and choice in making such arrangements.

We recommend several actions the Legislature can take to better improve the effectiveness and efficiency of its K-12 outreach programs consistent with the principles outlined above.

Approve Outreach Reductions Proposed in Budget

We recommend the Legislature approve the Governor's proposed reductions for K-12 outreach because the majority of these programs do not provide direct services or increase preparedness of students.

Figure 4 (see next page) lists the Governor's proposed reductions to UC's K-12 outreach program in the budget year. The majority of these programs focus on research or yield activities and do not provide direct services to students. For example, the Urban Community-School Collaborative, Presidential Grants, and Research focus on research activities. Student-initiated outreach and many graduate and professional school outreach activities focus on yield activities rather than academic preparation.

Given the focus of these programs, we recommend approval of the Governor's proposed reduction.

Ask UC to Report on Evaluation Efforts

We recommend the Legislature direct University of California to report at budget hearings on the status of its evaluation efforts.

Figure 4

Proposed General Fund Reductions to UC Outreach Programs

(In Thousands)

Program	2001-02 Budget	Proposed 2002-03 Budget	Change Amount
Student-Initiated Outreach	$1,000	—	$1,000
Urban Community-School Collaborative	361	—	361
Community Education Resource Center	320	—	320
Charter School (Pruess School)	1,013	$591	422
ArtsBridge	1,500	750	750
Presidential Grants in Education	522	—	522
Graduate & Professional School Outreach	8,257	7,757	500
Research	809	509	300
Totals	**$13,782**	**$9,607**	**$4,175**

Data on program effectiveness is vital to understanding the value of outreach efforts and whether outreach is in fact changing student outcomes. This information is critical for assessing whether current programs are achieving their goals and how outreach programs and coordination could be improved. The UC should explain the current status of these evaluation efforts and possibilities for providing effectiveness data prior to 2004.

Consolidate Existing Programs

We recommend that the Legislature consider consolidating existing outreach programs to reduce inefficiencies and administrative overlap.

The Legislature should direct UC, as well as the other segments, to report at budget hearings on the potential for consolidation or integration of existing outreach programs. Consolidating many of these programs and integrating outreach services into regular school programs could lead to increased efficiency and effectiveness and has the potential to better meet the needs of local schools and students. Not only would program consolidation make it simpler for schools to use outreach resources effectively, consolidation would benefit the segments as well, since less effort would be needed to administer different programs.

In the current outreach system, it is difficult to identify who is responsible for student achievement—schools or the agencies providing the outreach. Integrating and redirecting funding for outreach more directly to schools, in line with the principles outlined above, would make it easier to identify the party responsible for student achievement. Schools and districts would become the focus of accountability.

Target Funding Depending on Type of Outreach

We recommend that the Legislature consider redirecting funding for certain outreach programs to schools and districts.

Directing the majority of outreach funding to higher education institutions tends to result in: duplication of services, lack of coordination, decreased school choice, and schools receiving services based on location. For these reasons, we believe that the Legislature should consider providing resources for some components of outreach—such as academic preparation, tutoring, and parental involvement activities—directly to schools. We believe that redirecting a portion of K-12 outreach resources directly to schools could result in increased efficiency and improved academic achievement for educationally disadvantaged students throughout the state. We believe it is appropriate for UC, CSU, and CCC to continue providing other components of outreach—such as information on financial aid, college advising, and summer residential programs.

For example, the state could provide funding to local education agencies (LEAs), which could then develop interagency agreements with local colleges or academic service providers. These agreements would specify how outreach services would accomplish measurable objectives. Another option is to create a K-12 outreach/academic preparation competitive block grant administered by SDE. The LEAs could apply directly or form collaboratives with higher education institutions with priority given to low performing schools or schools with high percentages of students currently ineligible or underprepared for higher education.

In conclusion, we believe that these steps could help improve K-12 outreach and better prepare disadvantaged students for higher education.

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 $128 million, or 4.9 percent, over the enacted 2001-02 budget and an increase of $28 million, or 1 percent, over the Governor's proposed revision of the 2001-02 budget. For the budget year, the Governor proposes $118 million in augmentations and $35 million in reductions. Figure 1 indicates General Fund changes from the enacted 2001-02 budget to the revised 2001-02 budget. It also describes the Governor's 2002-03 General Fund budget proposals.

Base Budget Increase. The Governor's budget provides CSU with a 1.5 percent base increase totaling $37.7 million. The budget assumes that CSU will use this increase for adjustments to faculty and staff salaries (pursuant to collective bargaining negotiations), maintenance, information technology projects, and other programs.

Enrollment Growth of 4 Percent. In addition to a 1.5 percent base increase, the Governor's budget provides CSU with $78.1 million for enrollment growth. The budget assumes that CSU will serve 12,030 additional full-time equivalent (FTE) students, or 4 percent more FTE students than budgeted in the current year. This growth rate is above the growth rate projected by the Department of Finance (3.4 percent).

In the current year, CSU served substantially more students than budgeted. Although CSU was budgeted for 3 percent growth in the current year, it estimates (based upon fall 2001 enrollment) that it will experience 5.9 percent growth (serving an additional 17,181 FTE students rather than the 8,760 additional FTE students for which it was budgeted). The CSU attributes much of the unanticipated growth to the recent economic downturn. It used temporary measures (such as salary savings and an increased student-per-faculty ratio) to cover the cost of educating these additional students.

Figure 1

California State University General Fund Budget Proposal

(In Millions)

2001-02 Budget Act	**$2,607.4**
Baseline Adjustments	
Carryover/reappropriation	$35.8
PERS employer rate increase	84.2
Ongoing reduction for natural gas costs	-20.0
2001-02 Revised Budget	**$2,707.5**
Baseline Adjustments	
Reductions for one-time appropriations in current year	-$18.9
Carryover/reappropriation	-35.8
Proposed Increases	
4 percent enrollment growth (12,030 FTE)	78.1
1.5 percent base increase	37.7
Support for summer term at CSU Chico	1.2
Other	1.0
Subtotal	($118.0)
Proposed Reductions	
Financial aid adjustment	-$14.5
Education Technology Professional Development program	-6.5
CalTEACH teacher recruitment	-5.0
Other	-9.1
Subtotal	(-$35.1)
2002-03 Proposed Budget	**$2,735.6**
Change from 2001-02 Revised Budget	
Amount	$28.2
Percent	1.0%

Student Fees Maintained at Current Levels. The Governor proposes to maintain both resident and nonresident fees at their current levels. The total proposed fees are:

- $1,876 for full-time resident undergraduates.

- $1,954 for full-time resident graduates.
- $9,256 for nonresidents.

In contrast to the previous six years, the Governor does *not* propose to provide General Fund support in lieu of an increase in student fees. Since 1996-97, the state has annually provided CSU with this support. From 1996-97 though 1998-99, the state provided General Fund support in lieu of increases in student fees at an annual rate of 10 percent. From 1999-00 through 2001-02, the state provided such support at an average annual rate of 4.5 percent. As a matter of recent practice, the foregone fee increases are assumed to reflect the percent change in per capita income, with a two-year lag.

The CSU has not raised fees in eight years. After adjusting for the effects of inflation, total resident undergraduate fees are actually $384, or 18 percent, less today than they were in 1994-95. By choosing not to provide General Fund support in lieu of a increase in student fees, the Governor is assuming that CSU will either (1) absorb the associated inflationary impact or (2) raise fees (which the CSU Board of Trustees has the statutory authority to do). We discuss student fees for all three segments in more detail in the "Intersegmental" section of the *Analysis*.

Summer Expansion at CSU Chico. The Governor's proposal includes $1.2 million to continue the enhancement of summer operations at CSU. The system intends to use this funding to provide General Fund support for 240 existing FTE summer enrollments at CSU Chico. In the current year, the state began providing this additional support as an incentive for CSU to expand its summer enrollment more rapidly. According to the "buyout" formula used in the current year (but updated to account for the higher marginal cost rate in 2002-03), CSU needs $977,000 to fully support the 240 FTE enrollments at Chico. We discuss this issue, as well as related issues, in our "Update on Year-Round Operations," which is included within the "Intersegmental" section of the *Analysis*.

Proposed Reductions. While the budget proposes a total of $118 million in augmentations, it also proposes $35 million in reductions.

- ***Financial Aid Adjustment.*** The Governor proposes a $14.5 million reduction in General Fund support for campus-based financial aid. The Governor argues that this reduction is made possible as a result of fee reductions in 1998-99 and 1999-00 that were not accompanied by corollary reductions in financial aid. Over those two years, the state increased CSU's base budget by a total of $43.6 million (General Fund) to backfill the reduction in fee revenue. One-third of this amount, or $14.5 million, had been designated for student financial aid and is now proposed for elimination.

- ***Education Technology Professional Development Program.*** The Governor proposes a $6.5 million reduction to CSU's education technology institutes, reducing the total appropriation for the program to $6 million.

- ***California Center for Teaching Careers (CalTeach).*** The Governor proposes a $5 million reduction in CalTeach's advertising activities. The previous two budgets provided CalTeach with $9 million annually (in addition to the funding it receives for operating expenses) to run a statewide advertising campaign aimed at attracting individuals into the teaching workforce.

General Fund Support Per Student. Figure 2 shows the average and marginal General Fund support per FTE student at CSU from 2000-01 through 2002-03. The budget proposes average General Fund support of $8,599 per FTE student. This is $74, or 0.9 percent, more than the average General Fund support provided in the enacted current-year budget. For each additional FTE student budgeted in 2002-03, the Governor provides $6,487 in General Fund support. This is $127, or 2 percent, more than the marginal General Fund support provided in the current year.

Figure 2

California State University
General Fund Support Per FTE[a] Student

	Actual 2000-01	Enacted 2001-02	Proposed 2002-03	Change From 2001-02	
				Amount	Percent
Average support per FTE student	$8,360	$8,525	$8,599	$74	0.9%
Marginal support per FTE student	5,813	6,360	6,487	127	2.0

[a] Full-time equivalent.

Crosscutting and Intersegmental Issues Involving CSU

We address several issues relating to CSU in other sections of this chapter. In "Education Crosscutting Issues—Teacher Support and Development," we discuss the Governor's proposal to reduce funding for the CSU-administered Education Technology Professional Development program. We recommend that the Legislature approve the reduction but do so as part of a broader effort to streamline existing professional development programs for K-12 teachers. Specifically, we recommend the Legislature shift the program into a formula-based teacher support and development block grant.

In the "Intersegmental" section of the chapter we discuss:

- The CSU's student fee policies. We recommend the Legislature adopt a fee policy for CSU that is fair, consistent, and predictable.
- The CSU's institutional financial aid programs. We recommend the Legislature create a fair and consistent statewide financial aid policy and shift state funds from institutional aid programs to the statewide Competitive Cal Grant program.
- The Governor's proposal to provide CSU with $1.2 million to expand summer operations at CSU Chico. We recommend the Legislature approve $977,000 but continue to link the funding to summer enrollment growth.
- The CSU's and UC's joint doctoral programs in education. We recommend the Legislature ask the systems to report on their new funding and fee policies for these programs.

Convert Governor's Teaching Fellowships Into APLE Warrants

We recommend the Legislature convert the Governor's Teaching Fellowships into awards issued under the longstanding Assumption Program of Loans for Education (APLE), which is administered by the Student Aid Commission. The Legislature could then authorize the commission to issue 1,000 additional new warrants (for a total of 7,500 new warrants) each year. This program conversion would allow more students to receive financial aid, save $21.1 million in the budget year, reduce future costs by several million dollars, eliminate the fellowship repayment process, and reduce administrative costs.

The CSU administers the Governor's Teaching Fellowship program, which was established in 2000. The Governor's budget includes a total of $21.1 million for the program in the budget year. The program offers nonrenewable $20,000 grants to meritorious students enrolled in teacher-education programs. The CSU issues 1,000 fellowships each year. The Student Aid Commission administers a similar program—the longstanding APLE, which offers up to $19,000 in loan forgiveness to meritorious students enrolled in teacher-education programs. The commission currently issues 6,500 new warrants each year. We recommend the Legislature convert the Governor's Teaching Fellowships into APLE warrants and authorize the commission to issue 1,000 additional warrants (for a total of 7,500 new warrants) each year.

Programmatic Similarities

These two programs share several central characteristics, including: (1) serving similar students and (2) requiring similar teaching commitments.

Programs Serve Similar Students. The eligibility criteria for the fellowship program and APLE program are very similar. Under both programs, recipients must have outstanding ability as demonstrated by academic performance, faculty evaluations, interviews, and/or letters of recommendation. The only notable difference is that APLE recipients must already have or agree to receive a federal or state educational loan.

Programs Require Similar Teaching Commitments Additionally, both programs require very similar teaching commitments. The most notable difference in teaching commitment is that APLE recipients have more flexibility. Whereas fellowship recipients must agree to teach four years in a low-performing school, APLE recipients must agree to teach four years in one of the following areas: a low-performing school, a low-income school, a school with a high percentage of uncredentialed teachers, or a designated subject matter shortage area.

The penalties for not fulfilling these teaching commitments are also similar. Fellowship recipients are required to repay $5,000 for each year they renege on their teaching agreement, whereas APLE recipients are denied loan forgiveness (ranging from $2,000 to $5,000) for each year they renege on their teaching agreement.

The APLE Has Benefit of Multiple Incentives. The APLE program has the added benefit of multiple incentives, in which individuals can obtain greater loan forgiveness if their teaching assignment addresses multiple areas of need. For example, an APLE recipient who agrees to teach in a low-income school is eligible for a total of $11,000 in loan forgiveness; an APLE recipient who agrees to teach *mathematics* in a low-income school is eligible for a total of $15,000; and an APLE recipient who agrees to teach mathematics in a school in the *lowest 20 percent* of the Academic Performance Index rankings is eligible for a total of $19,000. The fellowship program does not have any of these additional incentives.

Fiscal Efficiencies

Although the two programs could be combined simply because they serve similar students and require similar teaching commitments, the Legislature could obtain several fiscal benefits by converting the $20,000 fellowships into $19,000 redeemable APLE warrants. These benefits include: (1) saving $21 million in the budget year, (2) reducing out-year costs, (3) reducing enforcement costs, and (4) reducing administrative costs.

Saves $21 Million in Budget Year. Converting the fellowships into warrants saves $21 million in the budget year because award recipients would not begin redeeming their warrants until 2003-04. Although this is a short-term savings, the Legislature can also obtain the long-term savings, as described below.

Reduces Enforcement Costs. Under the fellowship program, recipients must repay $5,000 for each year of their teaching commitment they do not fulfill. State law gives CSU the authority to adopt any rules and regulations that are necessary for "the recovery of funds it determines are owed to the state." It also gives CSU the authority "to seek a civil penalty on a recipient of funds under this program." Under the fellowship program, therefore, CSU potentially can become involved in a time-consuming, difficult, and costly enforcement process to obtain repayment from individuals who have already received fellowships yet have decided not to teach. In contrast, under the APLE program recipients agree to take a loan in their own name and are held immediately liable if they do not fulfill their teaching commitment. (In such cases, the state simply does not forgive that portion of their loan.)

Reduces Administrative Costs. To administer the fellowship program and track fellowship recipients, CSU receives $1 million annually and the Commission on Teacher Credentialing receives $66,000. These two agencies have received this funding since the inception of the program—when there were few fellowship recipients and no fellowship recipients to track. They continue to receive this funding even though the program involves only 1,000 fellowship recipients. Thus, the state pays more than $1,000 in administrative costs for each fellowship that CSU awards. By comparison, the commission expends approximately $400,000 annually to administer the APLE program. With this $400,000, the commission is able each year to issue 6,500 new warrants as well as track more than 15,000 existing warrants. Thus, the state pays less than $19 in administrative costs for each APLE warrant issued.

In sum, we recommend the Legislature convert the Governor's Teaching Fellowships into APLE warrants and authorize the commission to issue 1,000 additional warrants (for a total of 7,500 new warrants) each year. This would result in both short- and long-term fiscal benefits, including: (1) saving $21.1 million in the budget year, (2) reducing future costs by several million dollars, (3) reducing enforcement costs, and (4) reducing administrative costs.

CALIFORNIA COMMUNITY COLLEGES (6870)

The California Community Colleges (CCC) provides 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; and 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 $104.2 million, or 1.7 percent, above the revised current-year level.

Reversion Account Funding Is Significant. The Proposition 98 amounts shown in Figure 1 are the amounts *expended* in each fiscal year. These amounts include both new appropriations as well as reappropriations from the Reversion Account in each fiscal year. (The Reversion Account contains unexpended Proposition 98 appropriations from prior fiscal years, and can be used to fund Proposition 98-eligible activities only.) A relatively large amount of Reversion Account funding is provided in the current year and budget year. Figure 2 (see page E-239) shows these amounts, and reconciles the Proposition 98 *appropriations* with the *expenditure* of these funds. It also shows actual and anticipated savings due to increased property tax receipts.

Figure 1

Community College Budget Summary

(Dollars in Millions)

	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Change	
				Amount	Percent
Community College Proposition 98[a]					
General Fund	$2,640.9	$2,806.1	$2,727.8	-$78.4	-2.8%
Local Property Tax	1,711.5	1,855.3	2,001.9	146.6	7.9
Subtotals, Proposition 98	($4,352.3)	($4,661.5)	($4,729.7)	($68.2)	(1.5%)
Other Funds					
General Fund					
State operations	$12.4	$13.3	$11.6	-$1.7	-12.8%
Teachers' retirement	68.6	66.3	70.9	4.6	7.0
Bond payments	81.7	93.0	108.5	15.6	16.7
Other state funds	12.4	11.9	9.1	-2.8	-23.6
State lottery funds	121.0	138.1	138.1	—	—
Student fees	154.7	162.4	167.3	4.9	3.0
Federal funds	201.7	216.2	219.4	3.2	1.5
Other local	775.3	831.0	843.3	12.2	1.5
Subtotals, Other funds	($1,427.6)	($1,532.3)	($1,568.2)	($36.0)	(2.3%)
Grand Totals	**$5,780.0**	**$6,193.8**	**$6,297.9**	**$104.2**	**1.7%**
Students					
Enrollment	1,565,087	1,683,933	1,734,451	50,518	3.0%
Full-time equivalent (FTE)	1,031,206	1,062,142	1,094,006	31,864	3.0
Amount Per FTE Student					
Proposition 98	$4,221	$4,389	$4,323	-$65	-1.5%
All funds	5,605	5,831	5,757	-75	-1.3

[a] Expenditures, including Reversion Account funds.

The CCC's Share of Proposition 98. The Governor's budget includes $4.7 billion in Proposition 98 funding for the community colleges for 2001-02. This is about 75 percent of overall community college funding.

Total Proposition 98 funding (approximately $46 billion in the budget year) is split among K-12 education, CCC, and several other state agencies (such as the Departments of Mental Health and Developmental Services). As proposed by the Governor, CCC would receive 10.2 percent

Figure 2

Community College Proposition 98 Reconciliation

(Dollars in Millions)

	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	Change	
				Amount	Percent
Proposition 98 appropriations	$4,391.8	$4,547.9	$4,683.9	$136.0	3.0%
Anticipated savings	-39.4	-24.8	—	24.8	N/A
Proposition 98 Reversion Account reappropriations	—	138.3	45.8	-92.5	-66.9
Total Proposition 98 Expenditures	**$4,352.3**	**$4,661.5**	**$4,729.7**	**$68.2**	**1.5%**

of total Proposition 98 funding, K-12 education would receive 89.6 percent, and the other state agencies would receive the remaining 0.2 percent. This split is unchanged from the revised current-year estimate.

Major Budget Changes

Figure 3 (see next page) shows the changes proposed for community college Proposition 98 appropriations (*not* expenditures) in the budget year. Key changes include:

- Augmentation of $120.2 million for enrollment growth, based on a projected increase of 3 percent in 2002-03.
- Augmentation of $88.8 million to provide a 2.15 percent cost-of-living adjustment (COLA) to apportionments and some categorical programs.
- Augmentation of $91.2 million to replace one-time Proposition 98 reversion account funding in the current year for ongoing program costs.
- Augmentation of $20.2 million for instructional equipment and scheduled maintenance.
- Reduction of $121.7 million in various categorical programs.

Figure 3

Governor's Community College Budget Proposals Proposition 98[a]

(In Millions)

2001-02 (revised)	**$4,547.9**
Enrollment growth—3 percent	
Apportionments	$114.3
Selected categorical programs	5.9
Subtotal	($120.2)
Cost-of-living—2.15 percent	
Apportionments	$84.4
Selected categorical programs	4.4
Subtotal	($88.8)
Proposed new spending	
Replace Reversion Account money in current year with new Proposition 98 funds for ongoing programs	$91.2
Scheduled maintenance and repairs	9.1
Instructional equipment and library materials	11.1
Subtotal	($111.4)
Proposed reductions	
CalWORKs	-$50.0
Matriculation	-26.8
Telecommunications and technology programs	-19.8
Fund for Student Success	-10.0
Economic development program	-9.9
Faculty and staff development program	-5.2
Subtotal	(-$121.7)
Adjustments	
Lease purchase costs	-$24.8
Other (including current-year savings)	-37.9
Subtotal	(-$62.7)
2002-03 (proposed)	**$4,683.9**
Change from 2001-02 (revised)	
Amount	$136.0
Percent	3.0%

[a] 2002-03 appropriations only; excludes Proposition 98 Reversion Account funding.

Proposition 98 Spending by Major Program

Figure 4 (see next page) shows Proposition 98 expenditures (including Reversion Account spending) for community college programs. "Apportionment" funding (available for the districts to spend on general purposes) accounts for $3.8 billion in 2002-03, or about 81 percent of total Proposition 98 expenditures. The state General Fund supports about 48 percent of apportionment expenditures, and local property taxes provide the remaining 52 percent.

"Categorical" programs (expenditures earmarked for a specified purpose) are also shown in Figure 4. These programs support a wide range of activities—from services for disabled students to maintenance and special repairs. We discuss the Governor's proposed reductions in some categorical programs, as well as ways that categorical programs could be restructured, in the following section.

Update on Partnership for Excellence

Now in its fourth year, the Partnership for Excellence (PFE) program provides supplementary funding to community colleges in exchange for their commitment to improve student outcomes in specified areas. We find that improvement, to date, has been marginal and that the accountability intended by the Legislature has been elusive. We recommend that the Legislature either end the PFE experiment or consider modifications to address existing problems with the program.

The Legislature and the Governor established the PFE program in 1998 through Chapter 330 (SB 1564, Schiff). In general, the PFE provides additional funding (currently $300 million per year) to community colleges in exchange for their commitment to improve their performance in specified areas.

Background

Chapter 330 required CCC to develop between five and ten specific goals related to student success, as well as related outcome measures to assess district performance. The act states that the goals must include at least the following areas: (1) student transfers, (2) degrees and certificates, (3) successful course completion, (4) workforce development, and (5) basic skills. The act expresses the state's commitment to provide supplemental funding (above funding for enrollment growth and COLAs) "to invest in program enhancements that will increase performance toward the community colleges' system outcome measures."

Figure 4

Major Community College Programs Funded By Proposition 98[a]

(In Millions)

	Estimated 2001-02	Proposed 2002-03	Change
Apportionments			
State General Fund	$1,810.0	$1,838.3	$28.2
Local property tax revenue	1,855.3	2,001.9	146.6
Subtotals	($3,665.4)	($3,840.2)	($174.8)
Categorical Programs			
Partnership for Excellence	$300.0	$300.0	—
Extended opportunity and services	79.7	83.8	$4.2
Disabled students	79.6	83.7	4.1
Matriculation—credit/noncredit	76.3	49.5	-26.8
Lease-payment bonds	61.9	37.1	-24.8
Services for CalWORKs recipients	65.0	15.0	-50.0
Part-time faculty compensation	57.0	57.0	—
Part-time faculty office hours	10.3	7.2	-3.2
Part-time faculty health insurance	1.0	1.0	—
Maintenance/special repairs	17.0	49.0	32.0
Instructional equipment/library	15.0	49.0	34.0
Economic development program	50.2[b]	40.3	-9.9
Telecommunications and technology	44.3	24.5	-19.8
Basic skills	26.5	27.9	1.4
Apprenticeships	12.7	12.7	—
Cooperative Agencies Resources for Education program	11.8	12.4	0.6
Financial aid administration/outreach	7.1	7.8	0.6
Teacher and reading development	5.0	5.0	—
Greater Avenues for Independence program	8.0	—	-8.0
Faculty and staff development	5.2	—	-5.2
Fund for student success	16.2	6.2	-10.0
Energy	49.0	—	-49.0
Mandates	1.7	1.7	—
Other programs	20.4	18.7	-1.7
Subtotals	($1,020.9)	($889.5)	(-$131.4)
Anticipated savings	-$24.8	—	$24.8
Totals	**$4,660.9**	**$4,729.7**	**$68.2**

a Includes Proposition 98 Reversion Account funding.

b Includes $5 million for nursing program expansion per Chapter 514, Statutes of 2001 (AB 87, Jackson).

As conceived, the PFE's success depends on (1) the establishment of appropriate goals and outcome measures, (2) the accurate measurement of progress toward achieving those goals, and (3) the linking of funding to performance. We summarize activities in these areas below.

Setting of Goals and Outcome Measures. In the fall of 1998, CCC adopted preliminary goals and accountability measures for the five mandatory categories specified in Chapter 330. (The CCC chose not to adopt any additional categories at that time.) These goals are to be achieved by 2005-06 (although the PFE statute is to sunset on January 1, 2005.) In accordance with Chapter 330, the Department of Finance (DOF), the California Postsecondary Education Commission (CPEC), and the Legislative Analyst's Office (LAO) reviewed and recommended modifications to CCC's proposed goals and accountability measures. Specifically, the three agencies recommended changing the base year of performance data, adding the goal of transfer-*preparedness* (and not merely actual transfers), and including separate subgoals within certain categories.

In September 1999, in accordance with language in the *1999-00 Budget Act*, CCC reported (1) its response to the three agencies' concerns, (2) performance targets and baseline data, and (3) a plan for annual district-specific accountability reports beginning in April 2000. The report was reviewed jointly by the three agencies.

Although the report addressed some of the agencies' earlier concerns (including the addition of a "transfer-prepared" goal), the agencies' written response to the report expressed "serious concerns" with CCC's modified goals and assumptions. Most significantly, the three agencies disagreed with CCC's contentions that (1) "full funding" of the PFE requires annual augmentations of $100 million (reaching a $700 million annual appropriation in 2004-05), and (2) any lower level of funding would justify a commensurate reduction in their numerical targets. The three agencies also expressed concern that the plan did not ensure accountability, that its proposed outcomes did not reflect an adequate return on state investments, and that it did not provide annual benchmarks.

In 2000, CCC and the three agencies made several efforts to reconcile these issues, but no formal resolution was reached. The CCC's annual reports on the PFE in 2000 and 2001 were based on essentially the goals and measures outlined in CCC's September 1999 report (with minor modifications). Figure 5 (see next page) summarizes these goals and outcome measures.

Measurement and Reporting of Outcomes. Pursuant to Chapter 330, community college districts report campus-level performance data to the CCC Chancellor's office, which in turn provides annual reports to the Governor and Legislature. To date, CCC has provided district and col-

Figure 5

PFE Goals and Outcomes

Transfer

***CCC definition*:** Number of students who transfer from community colleges to baccalaureate institutions.

2005 Target*[a]*: 5,500 to 9,000 additional transfers.

***Subgoals*:** Transfers to UC, CSU, and independent/out-of-state institutions.

Transfer-Prepared

***CCC definition*:** Net number of students in the system who earned 56 transferable units with a minimum GPA of 2.00.

***2005 Target*:** 4,900 additional transfer-prepared students.

Degrees and Certificates

***CCC definition*:** Number of degrees and certificates awarded. Currently, only degrees and certificates of at least 18 units are counted.

2005 Target: 3,231 additional degrees and 1,423 additional certificates.

Successful Course Completion

***CCC definition*:** Overall rate of successful course completions. "Successful completion" requires a course grade of A, B, C, or "credit."

2005 Target: 3.6 percent greater course completion rate.

***Subgoals*:** Transferable courses, vocational courses, basic skills courses.

Work Force Development

***CCC definition*:** Successful completion of vocational courses, and provision of contract education to California businesses. "Successful completion" requires grade of A, B, C, or credit.

2005 Target: 43,560 additional course completions, 121 to 184 additional businesses benefiting, and 760 to 1,127 employees benefiting.

Subgoals:

- Course completion: apprenticeship courses, advanced-level vocational courses, introductory vocational courses.
- Contract education: California businesses and employees benefiting from contract training.

Basic Skills Improvement

***CCC definition*:** Number of students successfully completing coursework at least one level above their prior basic skills enrollment in the same subgroup (writing, reading, etc.). "Successful completion" requires grade of A, B, C, or credit for credit courses, and 75 percent attendance for noncredit courses.

2002 Target: 8,533 additional students.

a Target figures reflect additional performance beyond that accounted for by enrollment growth and use various base years from 1995-96 to 1997-98.

lege baseline data in a May 1999 report, reports on district and system performance data in July 2000 and April 2001, and reports on local investments of PFE funding in July 2000 and April 2001.

The system and district performance reports present statewide and college-specific data for each of the PFE categories. The reports on local investments show how each college has allocated its PFE funding among the goal areas, and the number of employees (by category) hired with PFE funds. Overall, as shown in Figure 6, the system as a whole was actually *losing* ground in two goal categories as of the latest report (in April 2001).

Figure 6

Partnership For Excellence Goals and Performance

Goal	Base	Actual 1998-99	Actual 1999-00	Target (2005-06)	Progress Toward Target[a]
Transfer	55,149	55,149	58,532	78,582	14.4%
Transfer-prepared	106,951	107,980	96,501	135,935	-36.1%[b]
Degrees and Certificates	84,179	88,978	89,598	116,054	17.0%
Successful Course Completion	68.1%	68.4%	67.9%	70.6%	-9.2%[b]
Workforce Development					
Vocational courses	1,078,741	1,146,430	1,181,454	1,463,665	26.7%
Businesses benefiting	1,263	—[c]	—[c]	1,700	—
Employees benefiting	73,801	—[c]	—[c]	99,600	—
Individuals receiving fee-based training	140,505	—[c]	—[c]	189,700	—
Basic Skills Improvement	108,566	115,630	120,970	150,754	29.4%

a Percent of difference between base and target figures that had been achieved by end of 1999-00.

b Movement in opposite direction of goal.

c The CCC reports that data “are not yet available.”

Source: CCC "System Performance on PFE Goals" report, April 2001.

Linking Funding to Performance. Although the PFE attempts to impose “accountability” on CCC’s use of Partnership funding, the PFE is not truly a “pay-for-performance” mechanism. Instead, annual funding is provided at whatever level the Governor and Legislature agree upon, and the CCC reports back on its progress in achieving the specified goals.

Funding is provided to the CCC Chancellor’s office, which distributes it to community college districts. Chapter 330 specifies that, for the first three years of the PFE, this funding shall be allocated among districts in relation to the number of full-time equivalent (FTE) students being served in each district. The PFE gives districts "broad flexibility in expending the funds for program enhancement that will improve student success and make progress toward system goals." Examples of PFE expenditures made by districts include hiring academic counselors, purchasing library materials, redesigning courses, and upgrading computers and other technology.

Beginning in 2001-02 (the fourth year of the PFE), CCC is annually to assess and report on the extent to which the system's PFE goals are being achieved. If it finds that progress has not been satisfactory, CCC is to implement a "contingent funding mechanism" of its own design, which would directly link a district's PFE funding to its achievement of PFE goals. Funding would no longer be guaranteed on a per-student basis. Instead, the amount of money received by a district would be dependent on its progress in meeting its PFE goals. In this way, the contingent funding mechanism would impose some measure of accountability at the district level.

In November 2000, the CCC Board of Governors approved a design for a contingent funding mechanism. Essentially, the only fiscal accountability provisions of the mechanism would be to (1) dedicate up to 1 percent of total PFE funds for planning and technical assistance to failing districts, and (2) allocate up to 5 percent of total PFE funds for one-time grants to high-achieving districts. The board's mechanism mandates that PFE spending plans be developed for districts that fail to meet three of their five PFE goals. (It does not, however, provide for any change to the funding levels of districts that perform poorly.)

At its March 2001 meeting, the CCC Board of Governors determined that the system as a whole was making satisfactory progress toward the goals and, thus, chose not to activate the contingent funding mechanism. As a result, funding in 2001-02 continues to be distributed on a per-student basis. At the time this *Analysis* was written, the CCC Board of Governors had not yet decided whether system progress remained adequate to avoid activation of the contingent funding mechanism in 2002-03.

PFE Failing to Meet Objectives

Chapter 330 requires LAO (as well as CPEC) annually to (1) provide independent assessments of CCC's progress toward system goals, (2) recommend necessary changes to the program, and (3) recommend ways of improving incentives for districts to contribute toward the achievement of system goals. Our findings and recommendations follow.

PFE Funding Welcomed by Districts, But Little Progress Is Evident. As shown in Figure 7, the PFE is funded at $300 million in 2001-02, and the Governor's 2002-03 budget proposal would continue that funding level. The PFE accounts for only 7.8 percent of districts' noncategorical funding (and 6.3 percent of their total funding). Still, PFE funding—currently at an average level of $274 per FTE student—has provided a boost in discretionary revenue to CCC districts.

As a system, however, CCC has shown mixed results regarding its PFE goals. As shown in Figure 6, after the first two years of the program, progress ranged from 29 percent achievement of the 2005 Basic Skills goal to a worsening—or movement *away* from—the transfer-prepared goal by 36 percent.

Figure 7

Partnership For Excellence Funding

(In Millions)

1998-99	$100
1999-00	145
2000-01	300
2001-02	300
2002-03[a]	300
Total	**$1,145**

a Proposed.

Measurement of Results Hindered by Methodological Disagreement and Conceptual Vagueness. As reviewed above, the process of establishing goals and outcome measures, as well as setting guidelines for how they might be adjusted over time, has been controversial. It remains unclear how much of the perceived movement towards system goals is due to the PFE, and how much is simply the result of enrollment growth. For example, between 1998-99 and 1999-00, Basic Skills completions increased by 4.6 percent as shown in Figure 6. However, CCC enrollment increased by 3.5 percent during this period, thus accounting for a substantial majority of measured "progress." Given this level of enrollment growth, the 0.7 percent increase in degrees and certificates awarded during this period reflects only marginal improvement.

In enacting the PFE legislation, the Legislature expressed its intent that the goals be "rigorous and challenging to the system, and exceed what could be expected to occur based on increases in funded enrollment." It is not at all clear that this has been the case.

What makes measuring outcomes especially difficult is CCC's expressed intention of continually adjusting targets whenever the levels of state financial support, local property taxes, student fees, adult population, student courseloads, and inflation do not match hypothetical "expected" levels. For example, if the rate of inflation were higher than anticipated, CCC would adjust target figures for workforce development to reflect a different business climate. To be sure, various factors beyond CCC's control do affect outcomes. But this applies to most endeavors for which a public agency is held accountable. Moreover, these kinds of adjustments require a sophistication that has not been evident in CCC's PFE modeling to date.

Administration's Budget Proposal Raises Questions About Core PFE Assumptions. As discussed above, the PFE is premised on the understanding that PFE funding is provided *in addition to* funding for base program enrollment growth and COLAs. In other words, PFE funding is meant to allow districts to enhance services, equipment, and programs in a way that targets *additional* improvement in the specified goal areas. The Governor's 2002-03 budget proposal calls this assumption into question. Specifically, the administration states that PFE funding should be used to replace base funding the Governor has proposed to eliminate from various student services and faculty development programs. In other words, rather than *supplementing* core funding as called for in Chapter 330, PFE funds are now proposed for *supplanting* core funding.

Accountability Is Lacking. Notwithstanding poor performance on some goals by a number of districts, the contingent funding mechanism has not been put into effect. Even if it *were* implemented, the mechanism adopted by the CCC Board of Governors only weakly links funding to performance. It provides no sanctions—in the form of reduced funds—for districts not performing well. It would offer a pool of up to $15 million (at current funding levels) to exceptional districts, and provide technical assistance in developing spending plans for failing districts. In short, there is currently little incentive for individual districts to improve performance in the specified goal areas.

Legislature Should Reconsider PFE in Light of Performance

We recommend that the Legislature reconsider the Partnership For Excellence (PFE) program in light of its performance to date. If the Legislature chooses to continue the program, we suggest two modifications that could be made to address existing problems with the PFE.

We believe the PFE is failing to meet the Legislature's expectations in enacting Chapter 330. As discussed above, PFE's central principle of accountability has only been weakly realized, improvement in the five specified areas has been mixed, and PFE funding is proposed to be diverted to backfill reductions in categorical programs. For these reasons, the Legislature may wish to terminate the PFE experiment.

We recognize that the Legislature and the administration have committed to supporting the PFE until 2005. As an alternative to ending the PFE at the conclusion of the current year, the Legislature could allow the PFE to continue until nearer its sunset date of January 1, 2005. The program could be thoroughly evaluated and the Legislature could choose at that time whether or not the PFE should be allowed to continue. If the Legislature chooses to continue the PFE for now, we believe it should make several changes to the program which would address some of the more serious problems we have identified.

Create a Meaningful Link Between Funding and Performance. In order to increase accountability and provide districts with a financial incentive to improve performance in the specified goal areas, we believe there must be a meaningful link between funding and performance. Accordingly, the Legislature could adopt budget bill language allocating all or part of PFE funding to the CCC Chancellor's office for distribution to districts based on their PFE performance. We believe that at least $100 million of PFE funding would be a reasonable amount for this purpose.

Focus on Actual Performance Rather Than Progress Toward Disputed Numerical Targets. We believe the five PFE *goals* (such as "increasing the rate of course completion") are generally appropriate, and provide a reasonable set of guidelines for assessing CCC performance. We further believe it is appropriate to attempt to measure progress in each of those goal areas using quantitative measures. However, we do *not* believe that the particular numerical targets adopted by CCC (see Figure 5) provide a meaningful guide to progress. As discussed above, considerable time and energy is spent establishing, measuring, defending, and modifying the numerical targets for PFE goals. Significant disagreements concerning these targets remain among various parties in the administration, the Legislature, and the CCC system.

Because the Legislature has never agreed to the numerical targets adopted by CCC, and because they have become a distraction from more basic performance issues, we recommend that the Legislature focus on actual year-by-year performance by the CCC rather than on movement in relation to the 2005-06 targets.

Categorical Consolidation Should Accompany Proposed Cuts

The Governor's budget proposes a total of $121.7 million in reductions to six categorical programs. We believe that, in the aggregate, these programmatic reductions are reasonable, and we recommend their adoption. However, we recommend that these reductions be accompanied by a consolidation of funding for several categorical programs in order to allow community college districts greater flexibility in directing available resources to where they are the most needed.

Governor Proposes $122 Million in Cuts to Categorical Programs

The Governor's budget proposal would reduce funding for six categorical programs by a total of $121.7 million. As detailed in Figure 8, the proposed cuts amount to a 47 percent reduction in Proposition 98 General Fund support for these programs.

Figure 8

Proposed General Fund[a] Reductions in CCC Categorical Programs

(Dollars in Millions)

Program	Estimated 2001-02	Proposed 2002-03	Change	
			Amount	Percent
CalWORKs	$65.0	$15.0	-$50.0	-76.9%
Matriculation	76.3	49.5	-26.8	-35.1
Telecommunications and Technology	44.3	24.5	-19.8	-44.7
Fund for Student Success	16.2	6.2	-10.0	-61.6
Economic Development	50.2[b]	40.3	-9.8	-19.6
Faculty and Staff Development	5.2	—	-5.2	100.0
Total	**$257.2**	**$135.6**	**-$121.7**	**-47.3%**

a Proposition 98.

b Includes $5 million for nursing program expansion per Chapter 514, Statutes of 2001 (AB 87, Jackson).

We describe the six programs and the specific funding changes below.

CalWORKs. The California Work Opportunity and Responsibility to Kids (CalWORKs) program is financed by a combination of federal Temporary Assistance for Needy Families (TANF) block grants, the state General Fund, and county funds. To receive the annual TANF block grant, California must meet a $2.7 billion maintenance-of-effort (MOE) spending requirement. Although this requirement is met primarily with state and county spending in the CalWORKs program, state spending in other departments, including CCC, is also used to satisfy the requirement.

Specifically, each year since 1997-98, CCC has received $65 million from the General Fund—countable toward the MOE spending requirement—to provide services that help CalWORKs recipients move toward employment and self-sufficiency. The current-year budget requires that at least $49.5 million of this amount be used for work study and job placement services, coordination with welfare organizations, curriculum development, and child care (which must receive at least $15 million of this amount). Up to an additional $10 million of this total appropriation may be used for providing services to former CalWORKs recipients.

The 2002-03 budget proposal reduces CCC's CalWORKs funding to $15 million, and requires that this amount be expended solely on childcare services for current and former CalWORKs recipients. To maintain MOE compliance, this reduction in MOE-countable expenditures is offset by increased state spending in the CalWORKs program. (For a fuller description of the "CalWORKs" program, see the "Health and Social Services" Chapter in this *Analysis*.)

Matriculation. Community colleges provide matriculation services to help students succeed in their educational goals. Matriculation services include enrollment, orientation, skills evaluation, counseling, referral, and related activities. The current-year budget provides $76.3 million for matriculation services. The 2002-03 budget proposal reduces this amount to $49.5 million, which is similar to the amount provided in 1996-97. The proposal includes budget bill language specifying that 15.7 percent, or $7.7 million, of this amount be allocated for matriculation services directed at students enrolled in noncredit classes and programs.

Telecommunications and Technology. The Telecommunications and Technology Infrastructure Program (TTIP) supports the development and expansion of technological applications at CCC campuses. Funding is divided among (1) allocations to all community college districts for the development of computer and related information networks, (2) competitive grants for technology that improve student learning, and (3) allocations to districts to fund faculty and staff training in the use of technology.

Funding for TTIP in the current year ($44.3 million) is allocated as follows: $23.6 million for networks, $12.7 million for competitive grants, and $8 million for training. The current-year budget also includes budget bill language requiring CCC to submit a report on the status of the program to the Legislature and the DOF by November 1, 2001. As of early February 2002, CCC had not provided this report.

The 2002-03 budget proposal would reduce TTIP funding to $24.5 million, which is slightly less than the level of state support in 1999-00. The budget proposal would allocate $12.5 million for networks and $12 million for competitive grants. No TTIP funding would be provided for faculty and staff training.

Fund for Student Success. The Fund for Student Success (FSS) was established in 1997-98 mainly to provide competitive, limited-term grants for the development of campus programs that improve student performance. (In addition, a relatively small amount of FSS funds have been available for specific outreach and other programs.) Budget bill language requires that competitive grant funding is available for a limited duration, after which programs initiated with FSS grants must be institutionalized within campus budgets (without FSS funds).

The current-year budget provides $16.2 million for FSS. It also includes language requiring CCC to submit to the Legislature and DOF report outlining the results achieved by programs funded from competitive grants by November 1, 2001. As of early February 20002, no such report had been provided.

The 2002-03 budget proposal provides $6.2 million for the FSS—a reduction of $10 million from the current year. The budget allocates this amount to specified outreach programs, and provides no funding for competitive grants.

Economic Development. Beginning in 1990-00, CCC's budget has included an increasing amount of funding for economic development programs. This amount rose from $5.2 million in 1990-91 to $50.2 million in 2001-02. Chapter 939, Statutes of 2000 (AB 2794, Havice), recast CCC's economic development program and established a sunset date of January 1, 2003. Chapter 939 also requires CCC to provide annual reports to the Governor and Legislature by January 1 that detail activities and expenditures of the program. As of early February 2002, the January 1, 2002 report had not been provided.

The 2002-03 budget proposal would reduce funding for CCC's economic development program to $40.3 million. This amount includes $9.2 million for grants to regional business resources and centers, $16.4 million for regional development and training program grants,

$3.6 million for economic development networks, $5 million for job creation for public assistance recipients, $2.1 million for Mexican International Trade Centers, and $4 million for nursing programs.

Faculty and Staff Development. Since 1992-93, CCC has received $5.2 million annually for campus-based faculty and staff development efforts. Funded activities include training, conferences, workshops, and similar development opportunities that increase the effectiveness of CCC faculty and staff. The 2002-03 budget proposal eliminates funding for this program, expressing concern about its lack of meaningful accountability.

Reductions Are Reasonable, But Greater District Flexibility Needed

The Governor's proposed reductions are focused in areas not directly related to CCC's core mission of providing classroom instruction. Instructional programs, therefore, should not be affected by this proposal. Moreover, there has been little accountability for most of the programs proposed for reduction. Finally, we note that many of the activities conducted through these programs could be funded from other sources, including districts' general apportionment funds, PFE funding, and private funding from regional businesses. (We discuss "PFE" in detail in this Item.) For these reasons and given the state's current fiscal situation, we recommend approval of the proposed reductions to the CCC categorical programs.

Restructuring Categorical Programs Would Increase Flexibility. We also believe that districts' ability to use these and other categorical funds effectively could be enhanced by increasing their flexibility. There are 72 locally governed community college districts in the state, each with different student populations, local resources, and job environments. District needs, therefore, can vary greatly. For example, some districts may have a relatively high need for matriculation services, while other districts may require relatively less matriculation funding and more resources for technological investment.

The state creates categorical programs to ensure that districts address specific priorities. While this is an important goal, we believe there are opportunities to combine funding for similar programs in a way that increases local flexibility while ensuring that state priorities continue to be addressed. (In recent years the state has taken a number of actions toward categorical reform in K-12 education. We discuss some of these efforts, and identify additional opportunities, in the "K-12 Education" section of this chapter.)

For CCC, we recommend that funding for several existing categorical programs be combined into two block grants—Student Services and Faculty Support. Figure 9 (see next page) summarizes the elements of our two proposed block grants.

Figure 9

LAO's Proposed Consolidation of Funding for CCC's Existing Categorical Programs

(In Millions)

	Proposed 2002-03 Budget
Student Services Block Grant	
Financial Aid	$7.8
Extended Opportunity Programs and Services	96.2
Disabled Students	83.7
Fund for Student Success	6.2
Matriculation	49.5
Total	**$243.4**
Faculty Support Block Grant	
Instructional Improvement	$1.6
Faculty and Staff Diversity	1.9
Part-time faculty compensation	57.0
Part-time faculty office hours	7.2
Part-time faculty health insurance	1.0
Faculty and Staff Development	—
Total	**$68.7**

Our proposed Student Services block grant includes three of the categorical programs that the Governor has proposed to be reduced in 2002-03, as well as three other related programs. By combining funding for all six of these programs into one block grant, community college districts would be able to allocate student services funding among specific programs in a way that best meets the needs of their students. We recommend that the funds provided under this block grant be allocated to districts primarily on an FTE basis. However, because some of these services are used disproportionately by needy students, we recommend that districts with a high percentage of such students receive a larger share of the funding.

Our proposed Faculty Support block grant includes funding for six programs to improve faculty performance and to recruit and retain part-time faculty. Although the Governor proposes to eliminate the Faculty and Staff Development program, we believe that the activities currently funded by that program could appropriately be carried out under our proposed Faculty Support block grant. We recommend that the funds provided under this block grant be allocated to all districts on an FTE basis.

Recommend Adoption of Categorical Reforms. We recommend that the Legislature adopt these proposed categorical reforms. We also recommend that the Legislature combine and recast the reporting requirements currently connected with existing programs to reflect the consolidation of funding for these programs.

OTHER ISSUES

Possible Increase in PERS Contribution Rate Would Add District Expenses

Community college districts contribute to the Public Employees' Retirement System (PERS) on behalf of their PERS-covered employees (generally, noninstructional staff). The contribution rate paid by college districts (as well as K-12 school districts and county offices of education) is set by PERS using a formula that takes into account performance of the fund. The employer rate has been zero percent of covered payroll since 1997-98, due to the actuarial performance of the PERS fund.

The PERS now estimates that the contribution rate would increase to 1.72 percent in 2002-03. The Governor's budget, however, proposes to defer employer contributions to PERS, resulting in a zero percent contribution rate again in the budget year. As we discuss in the "Crosscutting Issues" section of the "General Government" chapter of this *Analysis*, we recommend that the Legislature reject this proposal. Our recommendation would have implications for CCC. We estimate that, without the PERS deferral, community college districts would have to pay $12 million in employer contributions in 2002-03. Unlike school districts and county offices of education, community college districts do not automatically receive a corresponding increase in apportionments with which to pay this contribution to PERS. Thus, this amount would have to come from CCC's general apportionments.

Even if the PERS deferral proposal is rejected and CCCs experience these costs, there may be available funds to offset these costs. As described below, the COLA for CCC apportionments may be $15 million less than provided in the Governor's budget. This would more than offset the PERS cost. In addition, we estimate that the budget-year Proposition 98 minimum guarantee may increase by $825 million. If so, there would be a significant amount of "room" to accommodate the added PERS costs.

Statutory COLA May Be Overfunded

The Governor's budget includes $84.4 million for a COLA for district apportionments. According to state statute, the COLA is calculated using a specified formula incorporating official data in a federal price index. That index will not be available until April 2002, at which time the precise amount of the COLA will be known. The Governor's budget assumes that this COLA will be 2.15 percent. As we discuss in "K-14 Education Priorities" in this chapter, we currently project that the statutory COLA will be about 1.8 percent. Funding this smaller COLA would require about $79.5 million, or approximately $15 million less than proposed in the Governor's budget. If our projection is correct, budgeted funds for COLA purposes could be reduced by $15 million. This amount would then be available for other K-14 priorities.

Governor Proposes to Move Adult and Vocational Education Programs From K-12 to CCC

The Governor's budget summary includes a proposal for reforming the state's workforce development system. As we explain in our "Cross-cutting Issues" write-up in the "Health and Social Services" chapter, this proposal would, among other things, consolidate vocational and adult education under CCC.

Consolidation Would Involve Major Fund Shift to CCC. According to the Governor's budget summary, community colleges currently receive approximately $459 million (Proposition 98 General Fund) for vocational education and related job development services. Consolidation would involve moving approximately $1.3 billion ($1.1 billion Proposition 98 General Fund and $138 million other funds) worth of additional adult and vocational programs from the State Department of Education (SDE) and the Secretary for Education to CCC.

Proposal Not Developed. The budget summary provides little detail about how this consolidation would be accomplished. It does not explain, for example, how the proposed transition would be phased in, how long it would take, whether aggregate funding for the program would be affected, and whether administrative savings or other efficiencies could be achieved. We understand that the administration is still developing the details of this proposal, and that it will likely provide a more complete proposal at the time of the May Revision.

The *2002-03 Budget Bill*, as introduced, does not reflect any consolidation of vocational and adult education programs under CCC. We believe that there will be little time for an adequate review and consideration of a consolidation proposal in May if the Legislature does not examine the implications of a consolidation beforehand. We therefore recommend that the Legislature have CCC, SDE, and other affected agencies report as soon as possible on the implications of consolidating the programs.

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 2002-03 budget includes state and federal funds totaling $1.3 billion. Of this amount, $734 million is General Fund support. Of the total General Fund appropriation, 97 percent is for direct student aid for higher education. The balance is for the cost of operating the commission (1.7 percent) and administering an outreach program for K-12 students (1.2 percent).

Major General Fund Budget Changes

Figure 1 provides a summary of the proposed General Fund changes from the 2001-02 estimated budget. As the figure shows, the budget requests a total General Fund increase of $162 million, or 28 percent, more than estimated General Fund expenditures in the current year. This amount includes a $3.3 million reduction in state operations (due primarily to an adjustment for one-time appropriations in the current year) and a $166 million augmentation for the commission's local assistance programs. The local-assistance augmentation includes $155 million (or 29 percent more) for the Cal Grant program and $11 million (or 90 percent more) for the Assumption Program of Loans for Education (APLE).

The budget includes a total of $694 million for all Cal Grant programs. This amount includes: (1) $361 million for the new Cal Grant Entitlement program; (2) $95.5 million for the new Competitive Cal Grant program; (3) $213 million to renew existing Cal Grant awards for students issued awards prior to the two new programs; (4) $14.2 million for the Cal Grant C program, which serves vocational-education students; and (5) $10 million for the Cal Grant T program, which serves teacher-education students.

As Figure 2 (see page E-260) shows, the budget proposal assumes that the total number of Cal Grant awards (both new and renewal awards)

Figure 1

Student Aid Commission General Fund Budget Summary

(Dollars in Millions)

	Estimated 2001-02	Proposed 2002-03	Change from 2001-02	
			Amount	Percent
State Operations	$15.5	$12.2	-$3.3	-21.0%
Local Assistance				
Cal Grant program				
Entitlement awards	$136.7	$361.3	$224.6	164.3%
Competitive awards	48.0	95.5	47.5	99.0
Existing awards	330.4	213.3	-117.1	-35.0
Cal Grant C awards	14.2	14.2	—	—
Cal Grant T awards	10.0	10.0	—	—
Subtotals, Cal Grant program	($539.3)	($694.3)	($155.1)	(28.8%)
APLE program[a]	$11.7	$22.3	$10.6	90.4%
Cal-SOAP[b]	8.6	8.6	—	—
Graduate APLE program	0.4	0.4	—	—
Work study	5.3	5.3	—	—
Graduate fellowships	0.1	0.1	-0.1	-50.0
Law enforcement scholarships[c]	0.1	0.1	—	—
Federal trust fund[d]	-9.5	-9.5	—	—
One-time appropriation	0.1	—	-0.1	-100.0
Totals, local assistance	$556.0	$721.5	$165.5	29.8%
Grand Totals	**$571.4**	**$733.7**	**$162.3**	**28.4%**

a Assumption Program of Loans for Education.

b Student Opportunity and Access Programs. Includes $990,000 in Proposition 98 funds and excludes $97,000 from the Student Loan Operating Fund.

c These are scholarships for dependents of law enforcement personnel.

d Federal Trust Fund monies directly offset Cal Grant program costs.

will grow by more than 33,300 between the current year and budget year—reaching a total of almost 210,000 awards in 2002-03. The budget proposal assumes that the commission will issue 65,000 *new* entitlement awards and, as Chapter 403 specifies, 22,500 *new* competitive awards.

Figure 2

Total Number of Cal Grant Awards Steadily Increasing

	Actual 2000-01	Revised 2001-02	Proposed 2002-03
Entitlement			
New	—	48,600	65,000
Renewal	—	—	38,880[a]
Subtotals	—	(48,600)	(103,880)
Competitive			
New	—	22,500	22,500
Renewal	—	—	18,000[a]
Subtotals	—	(22,500)	(40,500)
Pre-Chapter 403[b]			
Renewal	140,439	92,270	52,315
Cal Grant C	9,286	10,514	10,514
Cal Grant T	2,476	2,495	2,495
Total awards	**152,201**	**176,379**	**209,704**

a The commission assumes that 20 percent of the individuals receiving new awards in the current year will not renew them for the budget year. This projected attrition rate is based on historical data.

b Represents Cal Grant awards issued prior to the enactment of Chapter 403. As the numbers suggest, this award group will be phased out as students graduate or otherwise do not renew their awards.

For the APLE program, the budget includes a total of $22 million. Under this program, the state issues redeemable warrants to prospective K-12 teacher-training students. Students who receive warrants can have a maximum of $19,000 of their college loan debt forgiven (paid by the state), provided they (1) obtain a teaching credential and (2) teach for four years in certain subject areas or in disadvantaged schools. (A portion of their loan is forgiven annually at the completion of each school year.)

The commission expects to redeem a *total* of almost 7,800 warrants in 2002-03, which is approximately 3,400 more warrants than redeemed in the current year. The number of *new* warrants the commission is authorized to issue has increased from 400 warrants in 1997-98 to 6,500 warrants in 2000-01. The 2002-03 budget proposes again to authorize 6,500 new warrants. Given this volume, the total cost of the APLE program is likely to grow considerably over the next several years as more of these students begin to redeem their warrants.

Cal Grant Programs Prior to 2001

Prior to 2001, the commission distributed all Cal Grant awards on a competitive basis and established award criteria administratively. Students could compete for a Cal Grant A, Cal Grant B, Cal Grant C, or Cal Grant T award.

- Cal Grant A awards were for students with a relatively high grade point average (GPA) and moderate financial need who were enrolled in academic programs at least two years in duration.
- Cal Grant B awards were for students typically with a lower GPA but greater financial need who enrolled in academic programs at least one year in duration.
- Cal Grant T and Cal Grant C awards were (and continue to be) for students with academic and financial characteristics the same as those for Cal Grant A awards, but Cal Grant T awards are only for students enrolled in postbaccalaurate teacher-education programs and Cal Grant C awards are only for students enrolled in vocation-educational programs.

Awards Based on Scoring System. Students seeking one of these awards were scored according to several factors—including GPA, family income and household size, household status, parents' educational level, and disadvantaged background (such as graduating from a high school with a large proportion of students participating in the free or reduced-price lunch program). Each year, the score needed to obtain an award depended on the amount of available funding, the number of applicants, and the make-up of the applicant pool.

New Entitlement and Competitive Programs

Chapter 403, Statutes of 2000 (SB 1644, Ortiz), significantly expanded and revised the existing Cal Grant program. Most significantly, Chapter 403 created a new entitlement program. This program supports recent high school graduates (who apply within nine months of high school graduation), as well as relatively young students (less than 24 years old), who are transferring from a community college to a four-year university. Depending on their academic performance and financial need, these students can receive either a Cal Grant A Entitlement or a Cal Grant B Entitlement award. The number of new entitlement awards issued each year depends on the number of eligible students.

Award Criteria Specified for Entitlement Program. Chapter 403 specified the award criteria for entitlement awards, thereby allowing high school graduates and transfer students to know as early as possible whether they qualified for an award. For a Cal Grant A entitlement award, the primary award criteria for a recent high school graduate are:

- Have a minimum 3.0 grade point average.
- Meet income and asset ceilings. (The income ceiling for a dependent in a family of four is $66,200 and the asset ceiling is $51,200.)
- Demonstrate financial need. (Students are defined as financially needy if the difference between their cost of college attendance and expected family contribution is at least $1,500 plus the maximum program award.)

Transfer students must meet the same economic criteria for a Cal Grant A entitlement award but they need to have only a 2.4 GPA.

For a Cal Grant B entitlement award, the primary eligibility criteria for a recent high school graduate are:

- Have a minimum 2.0 grade point average.
- Meet income and asset ceilings. (The income ceiling for a dependent in a family of four is $34,800 and the asset ceiling is $51,200.)
- Demonstrate financial need. (Students are defined as financially needy if the difference between their cost of college attendance and expected family contribution is at least $700.)

Again, transfer students must meet the same economic criteria for a Cal Grant B entitlement award but they need to have a 2.4 GPA.

Competitive Program Remains Similar to Prior Cal Grant Program, but Number of Awards Is Capped. In addition to establishing an entitlement program, Chapter 403 created a Competitive Cal Grant A and Competitive Cal Grant B program. These programs serve students who graduated from high school more than nine months ago, or are more than 23 years of age, or both. Chapter 403 specifies that the commission is to issue 22,500 new Competitive Cal Grant A and Cal Grant B awards annually. The commission is to issue half of these awards to students who apply by a March 2 deadline and the other half to *community college* students who apply by a September 2 deadline. Community college students who do not receive awards in March are automatically placed in the September applicant pool.

Award Criteria—Competitive Program. These awards are distributed based upon a scoring system that is similar to that used in the prior Cal Grant program. As in the past, students seeking competitive Cal Grant A and Cal Grant B awards are ranked based upon several factors—including GPA, family income and household size, and parents' educational level—and the score needed to obtain an award depends on the total number of applicants and the make-up of the applicant pool.

No Change in Award Coverage. For the entitlement and competitive programs, the Governor's budget does not propose any changes in award coverage from the current year. Cal Grant A awards continue to cover tuition and educational fees (as do Cal Grant T awards). Cal Grant B awards continue to provide a subsistence award the first year of college and both a subsistence award and fee coverage for the remainder of college. (Cal Grant C awards continue to cover tuition, educational fees, books, and supplies for vocational programs.)

No Change in Maximum Award Amounts. The Governor's budget also does not increase maximum award amounts for any of these types of awards. As proposed, all maximum award amounts would remain at the following current-year levels:

- $9,708 for Cal Grant recipients attending private and independent institutions and full mandatory fees for recipients attending the University of California ($3,429) and the California State University ($1,428).
- $1,551 for recipients of Cal Grant B subsistence awards.
- $2,592 for recipients of Cal Grant C awards.
- $576 for recipients of Cal Grant C book and supply awards.

The Governor and the Legislature determine award amounts annually through the budget process. Award amounts increased between 1999-00 and 2000-01. Except for a $3 increase in the Cal Grant B subsistence award between 2000-01 and 2001-02, award amounts have not increased since 2000-01.

First-Year Implementation of Chapter 403

As noted earlier, Chapter 403 launched a significantly different Cal Grant program. Most notably, the legislation created relatively powerful incentives for recent high school graduates to pursue college immediately and for community college students to apply for Cal Grant financial assistance and transfer to four-year universities.

Data on the first-year implementation of Chapter 403 suggests that the legislation had several significant consequences, including: (1) altering the recipient pool, (2) changing the relative distribution of Cal Grant A and Cal Grant B awards, (3) issuing fewer awards than initially assumed, and (4) potentially denying some eligible students awards because schools did not transmit GPA verification forms (which are required for all awards) to the commission prior to the deadlines.

Grant Recipients Are Now Primarily Recent High School Graduates And Community College Students Rather Than Older Students

Chapter 403 created powerful incentives to attend college immediately after high school or transfer from a community college to a four-year university within a relatively short period of time (about five or six years). As a result, the number of high school graduates and community college students receiving new Cal Grant awards increased substantially between 2000-01 and 2001-02 (the first year of the new entitlement and competitive programs). In contrast, the number of new Cal Grant recipients who were older and not attending community colleges decreased substantially.

Substantial Growth in Recent High School Graduates Receiving Awards. In 2000-01, approximately 31,000 recent high school graduates were issued Cal Grant A and Cal Grant B awards. In 2001-02, more than 48,000 recent high school graduates were issued Cal Grant A and Cal Grant B entitlement awards, representing an increase of 55 percent. (In contrast, the number of high school graduates grew by less than 2 percent.)

Even Greater Growth in Awards Issued to Students Attending Community Colleges. Similarly, in 2000-01, a total of approximately 17,500 new Cal Grant recipients attended community colleges. In 2001-02, a total of more than 30,000 new Cal Grant recipients attended community colleges, representing growth of more than 70 percent. (The number of awards for 2001-02 is split about evenly between entitlement awards and competitive awards.) Moreover, students attending community colleges received almost 70 percent of all competitive awards.

Older Students, Especially Those Not Attending Community Colleges, Received Fewer Awards. The commission states that prior to Chapter 403 the majority of Cal Grant recipients were older, nontraditional students (such as those students who did not go directly to college from high school). It states that these students comprised approximately 60 percent of all new Cal Grant recipients in 2000-01, whereas they comprised less than 32 percent of all new Cal Grant recipients in 2001-02.

Older students attending postsecondary systems other than the community colleges were most affected by Chapter 403—receiving substantially fewer awards in 2001-02 compared to the prior year. For example, approximately 11,700 older students attending CSU received awards in 2000-01, whereas less than 3,400 of these students received awards in 2001-02—a decline of more than 70 percent. Similarly, approximately 6,500 older students attending private and independent colleges received awards in 2000-01, whereas approximately 1,200 of these students received awards in 2001-02—a decline of more than 80 percent. Because awards for older students who are not attending a community college are limited to one-half of the 22,500 competitive awards, they will make up a decreasing proportion of all new Cal Grant recipients.

Additionally, many of these students can demonstrate financial need and are academically qualified, but they are now less likely to obtain an award. For example, there were more than 41,000 eligible students competing for the 11,250 awards offered in March 2001 who did not receive an award.

Competitive Awards Have Become More Competitive. The statutory limit of 22,500 competitive awards has resulted in the commission's using much more selective criteria in determining who will receive these awards. For example, in 2000-01 and 2001-02, the commission assigned students that applied for competitive awards a score between 1 to 100, with higher scores representing more financial need, lower family income and assets, larger families, less parental education, and higher GPAs. To receive a new award in 2000-01, students attending a community college needed a score of 42 or higher, and students attending four-year universities needed a score of 54 or higher. By comparison, in the March 2001 pool (of the 2001-02 award year), older students (attending either a four-year university or a community college) needed a score of 82 or higher to receive an award.

More Cal Grant B Awards Are Now Issued

In addition to changing the recipient pool, Chapter 403 also changed the relative distribution of Cal Grant A and Cal Grant B awards. Prior to Chapter 403, the number of Cal Grant A awards and the number of Cal Grant B awards were the same. Chapter 403 removed this requirement, allowing the proportion of Cal Grant A and Cal Grant B awards to fluctuate annually depending upon the applicant pool. The result in the first year was that Cal Grant A awards comprised roughly 30 percent of all awards, and Cal Grant B awards comprised roughly 70 percent.

More Cal Grant B Awards Raises Out-Year Costs. Cal Grant B recipients receive only a subsistence award (of approximately $1,500) their first year of college. In subsequent years, these students receive both a subsistence award (which remains at $1,500 each year) and an award to cover educational fees and tuition. The four-year cost of a Cal Grant B is therefore typically greater than the four-year cost of Cal Grant A. (For example, for a UC student, the four-year cost of a Cal Grant B award is approximately $2,800 more than the four-year cost of a Cal Grant A award.)

Thus, the fiscal result of changing the distribution of Cal Grant A and Cal Grant B awards is to reduce first-year costs but increase out-year costs.

Fewer Awards Issued Than Commission Initially Projected

Much attention has been drawn to the fact that the commission did not issue as many new awards as it initially projected. Based upon the most recent official data, the commission issued approximately 81,400 new awards in 2001-02 compared to approximately 79,800 new awards the prior year. This is 1,600 additional new awards, which represents less than 2 percent growth. The commission had initially projected that it would issue more than 25,000 additional new awards, growing by almost 33 percent.

Inflated Projections. Many factors might explain why fewer new awards were issued than the commission projected. One explanation is that the original projections were based on inflated assumptions. For example, the commission assumed that it would issue approximately 41,200 additional new Cal Grant awards to high school graduates, an increase of 132 percent. As noted earlier, the commission did issue substantially more new awards to high school graduates—an increase of 55 percent—but this is still much lower than the commission's initial projection. Despite not meeting projections, the first year of implementing Chapter 403 did result in considerably more high school graduates being motivated to apply for and obtain Cal Grant awards.

Another possible reason for the failure to meet projections is that the commission's model apparently did not account for the likely change in the composition of the recipient pool. As noted earlier, the legislation capped the number of competitive awards due to cost considerations and concerns about potential growth in the program, thereby substantially reducing the number of awards available for older students. This offsetting effect, however, does not seem to have been incorporated into the commission's original projections.

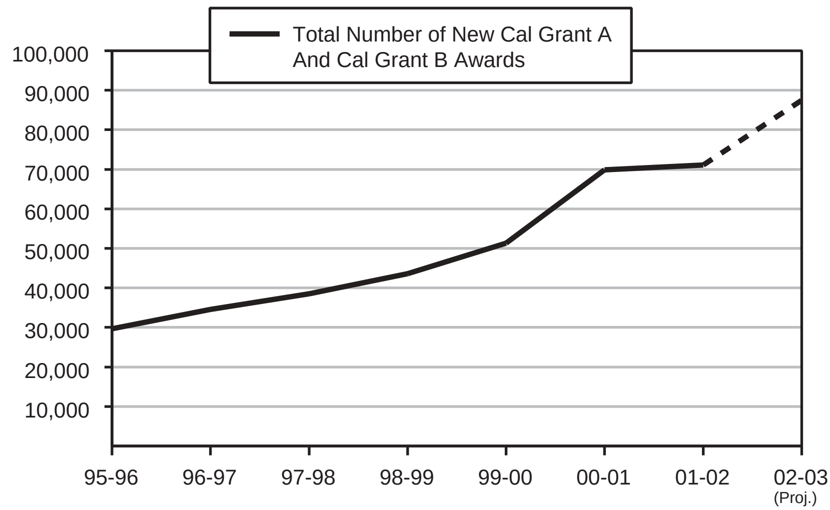
Cal Grant Program Has Grown Dramatically Since Mid-1990s. Although the Cal Grant program so far has not expanded as significantly as many expected, it should be noted that the program *has* grown substantially since the mid-1990s. As Figure 3 shows, from 1995-96 to 2001-02, the number of new Cal Grant A and Cal Grant B awards issued annually grew by 140 percent.

High Schools and Community Colleges Need to Improve Transmission of GPA Verification Forms

Although inflated projections may partly explain why the commission did not meet its original growth targets, another reason might be

Figure 3

Cal Grant Program Has Grown Significantly Since Mid-1990s



that some high schools and community colleges did not transmit the GPA verification forms for all their students. This is just one of a number of tasks that agencies had to undertake in response to the new award programs. It was, however, one of the most important new tasks because the commission considered students ineligible for awards until it received their GPA verification form. (Students can send these forms to the commission themselves, or they can ask their high school or community college to send their verification form directly.)

Transmission Rates Vary Widely. In implementing the first year of the new program, the commission attempted to communicate with high schools and community colleges to inform them of the number of students for whom it had received GPA verification forms. For example, the commission sent frequent (weekly or daily) email messages to county superintendents updating them on the number of all GPA verification forms it had received from high schools in that region.

Additionally, because several community colleges did not transmit all their GPA verification forms before the September 2 deadline, the commission extended the deadline to October 15. Despite these efforts, a number of schools and colleges evidently failed to transmit GPA verification forms for a substantial portion of their students.

Provide Update on Second-Year Implementation of Entitlement Program and Future Cost Projections

We recommend the Legislature ask the commission to provide an update on: (1) the second-year implementation of the entitlement program and (2) the revised out-year award and cost projections for the entitlement program.

Given the continuing uncertainty about growth in the entitlement program, we recommend the commission provide an update on the second-year implementation of the entitlement program. After the upcoming March 2 application deadline for the entitlement program, the commission will have additional information on the number of awards it is likely to issue in 2002-03. Although the 2002-03 Governor's budget assumes much less growth in the entitlement program between the current year and the budget year (compared to the assumptions used during the last budget cycle), the budget still assumes that the number of entitlement awards will increase by 34 percent. Additionally, the Governor's budget assumes a 20 percent attrition rate (that is, it assumes that one in five original entitlement recipients will not renew their award). Because these initial assumptions might be unreliable, the commission should provide updated information during budget hearings on the number of new entitlement awards and renewal awards granted for 2002-03.

Additionally, at the time of this writing, neither the commission nor the Department of Finance could provide revised out-year cost projections for the entitlement program. Given the uncertainty in projecting future participation, there remains considerable uncertainty in estimating costs—both in the budget year and in the out-years. We therefore recommend the Legislature ask the commission to provide updated out-year cost projections (based upon the assumptions used in the Governor's budget as well as actual participation as reflected in the March 2002 reward cycle).

FINDINGS AND RECOMMENDATIONS

Education

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K-14 Education Priorities—Proposition 98

E-13 ■ **General Fund Spending Could Increase by $825 Million for Proposition 98**. Our estimates indicate that the Governor's budget could understate General Fund requirements for Proposition 98 by a total of about $825 million. We discuss ways for the Legislature to act strategically in response to this challenge, in order to minimize impacts on non-Proposition 98 needs yet still meet important K-14 education priorities.

Public Employees' Retirement System

E-19 ■ **Implication of Public Employees' Retirement System (PERS) Deferral for K-14 Education.** Legislature's action regarding budget's proposed deferral of employer contributions to PERS has important implications for Legislature's efforts to craft a K-14 education budget.

Proposition 98 Mandates

E-26 ■ **Include Proposition 98 Mandates in Categorical Reform**. Recommend, to the extent Legislature enacts categorical funding reform, it redirect related mandate funding to our recommended block grants to provide districts with increased funding flexibility and incentives to minimize costs.

E-30 ■ **Savings in Test Claims and Reimbursement Claims Mandate. Reduce Item 6110-295-0001, Subdivision 10, by $6 Million**. Recommend, to the extent Legislature enacts our proposed categorical reform block grants, it reduce this mandate appropriation because districts no longer would incur administrative costs for mandate funding redirected to these block grants.

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E-31 ■ **Delete Reimbursement of District Collective Bargaining Costs. Reduce Item 6110-295-0001 by $41.5 Million.** Recommend Legislature initiate a reconsideration of this mandate by redirecting funds to other legislative priorities and specifying that this law no longer meets the criteria of a state-reimbursable mandate.

E-37 ■ **Delete Funding for Expired Mandate. Reduce Item 6110-295-0001, Subdivision 39, by $696,000**. Recommend Legislature delete funding for the School Testing—Physical Fitness mandate because school districts and county offices of education no longer are required to meet the provisions of this mandate.

E-38 ■ **Make American Government Course Documents Mandate Optional. Delete Item 6110-295-0001, Subdivision 40, for $207,000**. Recommend Legislature enact legislation making this mandate optional because the state already holds school districts accountable for meeting the same requirements through academic content standards and the assessment and accountability system.

Teacher Support and Development

E-53 ■ **Create Formula-Based Teacher Support and Development Block Grant.** Recommend Legislature create new formula-based block grant totaling $722 million Proposition 98 that school districts could use for a coherent, comprehensive series of teacher support and professional development activities.

E-58 ■ **Create Competitively Based Teacher Support and Development Block Grant.** Recommend Legislature create a new competitively based block grant totaling $20 million Proposition 98 General Fund to fund educational agencies that develop innovative training programs, conduct research on their effectiveness, and broadly disseminate findings.

E-58 ■ **Overbudgeted Funds in the Advanced Placement Challenge Grant Program. Reduce Item 6110-193-0001 by $8.3 Million Proposition 98 General Fund. Increase New Competitively Based Block Grant by $8.3 Million Proposition 98 General Fund.** Recommend Legislature shift $8.3 million Proposition 98 to a new competitively based block grant.

E-60 ■ **Eliminate Support for Secondary Schools Reading Program. Reduce Item 6110-142-0001 by $8 Million Proposition 98.** Recommend Legislature eliminate program because it is duplicative of other reading professional development programs and is not authorized by statute as a state program.

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Governor's Distinguished Math and Science Scholars Program

E-62 ■ **Eliminate Governor's Distinguished Math and Science Scholars Program. Reduce Item 0954-101-0001 by $14 Million**. Recommend Legislature eliminate the Governor's Distinguished Math and Science Scholars Program because it does not create additional incentive for California's highest achieving students. Further recommend deletion of $14 million of General Fund (non-Proposition 98) provided for the program.

Discretionary Funds

E-75 ■ **Continue Budget-Year Funding for Revenue Limit Equalization and a Reduced Public Employees' Retirement System (PERS) Offset. Add New Item 6110-223-0001 of $78 Million**. Recommend that, to the extent funds are available, the Legislature provide budget-year funding for revenue limit equalization ($42 million) and a reduced PERS offset to revenue limits ($36 million) because (1) additional general purpose funds enhance ability of schools to improve student outcomes in ways that suit varying local needs and (2) these programs meet important legislative priorities.

Reforming Categorical Program Funding

E-77 ■ **Reforming Categorical Program Funding.** Recommend the Legislature (1) consolidate various categorical programs into five categorical block grants and (2) create additional block grant features for small school districts and state mandates in order to increase local flexibility and efficiency.

E-80 ■ **Create an Academic Improvement Block Grant.** Recommend the Legislature consolidate eight categorical programs focused on academic improvement, in order to increase local flexibility and effectiveness in providing materials and services to all pupils.

E-87 ■ **Create a Compensatory Education Block Grant.** Recommend consolidation of eight categorical programs for pupils who need additional services to be successful in school, in order to increase local flexibility and effectiveness in serving these pupils.

E-89 ■ **Create an Alternative Education Block Grant.** Recommend consolidation of eight existing programs for disruptive and other at-risk students, in order to increase local flexibility and effectiveness in serving these pupils.

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E-92 ■ **Create a School Safety Block Grant.** Recommend the Legislature consolidate three categorical programs and ten state-mandated programs involving school safety in order to increase flexibility and effectiveness for school districts to ensure safe and orderly campus environments.

E-95 ■ **Provide Additional Flexibility to Small Districts.** Recommend that the Legislature adopt budget bill language allowing small school districts to move funds among our recommended block grants. Further recommend that the Legislature incorporate this language into statute so that districts may adequately plan for future fiscal years.

E-98 ■ **Redefine Role of the State Department of Education (SDE).** Recommend the Legislature redefine the mission of SDE to focus on assisting schools and school districts by (1) improving the accountability system, (2) providing technical assistance and program oversight, and (3) improving research and evaluation.

Instructional, Library, and Science Materials

E-102 ■ **Place Instructional, Library, and Science Materials in a Larger Block Grant.** Recommend Legislature (1) redirect $625 million requested for Instructional Materials Realignment Initiative instead to our recommended Academic Improvement Block Grant and (2) deny requested advance appropriations totaling $1.95 billion for fiscal years 2003-04 through 2006-07, in order to increase local flexibility and preserve the Legislature's fiscal flexibility in the future.

Assessments

E-106 ■ **Federal Assessment Funds for STAR Growth and COLA. Add New Item 6110-113-0890 for $2.1 Million and Reduce Item 6110-113-0001 by $2.1 Million.** Recommend Legislature (1) use $2.1 million of federal assessment funds to pay for growth and cost-of-living adjustment (COLA) for the Standardized Testing and Reporting (STAR) program and (2) save a corresponding amount of General Fund monies for other education priorities.

E-106 ■ **Waiver for Federal Assessment Funding.** Recommend Legislature direct the State Department of Education to seek a federal waiver to reallocate $26.5 million federal funds provided for grade 3 through 8

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assessments instead to support federally required assistance and intervention in Title I schools (programs for disadvantaged pupils).

E-107 ■ **State Department of Education Assessment Workload. Augment Item 6110-001-0890 by $300,000.** Recommend Legislature add $300,000 of new federal assessment funds and three personnel-years to the department for increased workload in administering the STAR assessment program.

E-108 ■ **Use Federal Funds for English Language Development Test. Add New Item 6110-113-0890 for $2.1 Million and Reduce Item 6110-113-0001 by $2.1 Million.** Recommend Legislature (1) use $2.1 million of federal English Acquisition, Language Enhancement, and Academic Achievement Act funds to pay for additional district apportionments for the English Language Development Test; and (2) save a corresponding amount of General Funds monies for other education priorities.

Accountability and Low-Performing Schools

E-112 ■ **Eliminate the Certificated Staff Performance Award Program. Reduce Item 6110-133-0001 by $50 million.** Recommend Legislature eliminate the Certificated Staff Performance Award Program because program (1) often rewards short-term fluctuations in test scores not long-term academic improvement, (2) small number of awards is not likely to create a strong incentive for teachers and principals, and (3) program does not provide additional services to students.

E-116 ■ **Aligning State and Federal Accountability Systems.** Recommend Legislature align state law more closely to the federal Title I accountability system by adjusting the Academic Performance Index calculation to measure growth in number of students meeting proficiency standards so that schools are held to one set of accountability standards instead of two.

E-118 ■ **Aligning Existing Intervention Programs.** Recommend Legislature align planning requirements for existing intervention programs to focus attention of schools and districts on core components of action plans.

E-120 ■ **Funding Available for More School Intervention and Sanctioning Activities.** Legislature would have up to $55.6 million of federal Title I, Part A funding for school improvement purposes, including school intervention and sanction activities, if state waiver request is successful.

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E-120 ■ **Schools at Risk of Sanctions under Federal Title I.** Recommend Legislature enact legislation to include schools subject to federal sanctions in the sanctioning process under existing state law, in order to align the state and federal accountability systems.

E-124 ■ **Create School Assistance and Intervention Teams.** Recommend Legislature use excess Immediate Intervention for Underperforming Schools Program funds and Title I School Improvement funds to help school districts pay for school assistance and intervention teams.

E-125 ■ **Clarifying Public Schools Accountability Act and Federal Sanction Process.** Recommend Legislature clarify in statute how school finance, facility funding, and other issues should operate before the Superintendent of Public Instruction takes over some low-performing schools in fall 2002.

E-126 ■ **Excess Comprehensive School Reform Demonstration (CSRD) Funds.** Recommend Legislature enact legislation to (1) allow State Board of Education-approved CSRD applications to meet the requirements of Immediate Intervention for Underperforming Schools (II/USP) Program action plans, and (2) create a priority in the II/USP application process for schools that commit to apply for CSRD.

E-129 ■ **Fund Public Schools Accountability Act (PSAA) Evaluation and Extend Timeline. Augment 6110-001-0890 by $500,000.** Recommend Legislature (1) provide $500,000 from federal Comprehensive School Reform Demonstration funds to the State Department of Education to continue the contract for an evaluation of the PSAA, and (2) amend the statutory deadline for submitting the evaluation to June 30, 2003.

California School Information Services

E-132 ■ **Establish Timeline for California School Information Services (CSIS) Completion.** Recommend Legislature annually adopt budget bill language stating the intended completion date for CSIS.

E-133 ■ **Fiscal Crisis and Management Assistance Team Provide CSIS Needs Assessment.** Recommend Legislature adopt budget bill language to allow CSIS to use a portion of their annual appropriation to conduct CSIS compatibility and needs assessment for local education agencies.

E-135 ■ **Clarify CSIS Mission.** Recommend Legislature amend statute to clarify the CSIS mission with regard to its role in (1) supporting the Academic Performance Index calculation, (2) providing the

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Legislature and state agencies with access to individual student information, and (3) supporting state and federal data collections.

E-137 ■ **State Department of Education (SDE)—Electronic Submission of State and Federal Reporting Requirements.** Withhold recommendation on the appropriation level provided to SDE to transition state and federal reporting requirement to electronic submission through CSIS, pending receipt and review of the Department of Finance report evaluating the data management practices of SDE.

Special Education

E-141 ■ **Use Part of Federal Special Education Funds to "Free Up" Proposition 98 General Funds. Augment Item 6110-161-0890 by $4 Million. Reduce Item 6110-161-0001 by $4 Million.** Recommend that the Legislature use $4 million of the additional $19.3 million available as an offset within the definition of federal nonsupplanting language to free up Proposition 98 General Fund monies for other legislative priorities.

E-141 ■ **Fund Study of Special Disabilities Adjustment. Augment 6110-161-0890 by $300,000**. Recommend that the Legislature allocate $300,000 of the additional $19.3 million of federal special education funds California will receive for 2002-03 to conduct a study to calculate new factors for the special disabilities adjustment.

E-141 ■ **Continue Special Education Equalization and Equal Per-Average Daily Attendance (ADA) Allocation. Augment 6110-161-0890 by $15 Million**. Recommend that the Legislature allocate about $15 million of the additional federal special education funds that California will receive for 2002-03 to continue the precedent set in the *2001-02 Budget Act* and allocate half of these funds to further equalize special education funding levels and the other half to be distributed equally per ADA.

Charter Schools

E-144 ■ **Charter School Access to Revenue Limit.** Recommend Legislature enact urgency legislation to allow charter schools to continue to receive revenue limit funding.

E-144 ■ **Expiration of Charter School Funding Model Grandfather Clause.** Recommend Legislature provide a two-year extension for the "grandfather clause" to allow charter schools to opt out of the charter

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school direct funding model in order to avoid an unbudgeted one-time cost of $15 million in the General Fund (Proposition 98).

E-145 ■ **Charter School Categorical Block Grant (CSCBG) Calculation.** Recommend Legislature enact legislation to amend the funding calculation for the CSCBG to reflect the appropriation level made in the annual budget bill and accompanying legislation, instead of the Governor's May Revision.

Charter County Community Day School

E-151 ■ **Charter Community Day School Funding Mechanism.** Conclude that the funding mechanism created in Chapter 19, Statutes of 2000 (AB 696, Washington), is a reasonable funding mechanism for a charter school serving expelled/probation-referred pupils.

E-152 ■ **Charter Community Day School Struggles to Meet Outcome Goals**. Find that Soledad Enrichment Action (SEA) Charter School did not meet their statutorily required outcome goals, but SEA did develop, and has begun to implement the statutorily required school improvement plan.

Child Care and Development

E-156 ■ **The Governor's Child Care Reform Proposal.** Withhold recommendation on the Governor's child care reform proposals pending further review of programmatic and fiscal impacts.

Other Issues

E-160 ■ **Withhold Recommendation on Funding Rate Reduction Until Administration Provides Cost Data for Independent Study.** Our analysis indicates that the budget overstates expected savings from its proposed independent study funding rate reduction by at least $13 million. Withhold recommendation on the reduction of the funding rate until the administration provides, and the Legislature reviews, better data justifying the remaining $29 million of expected savings.

E-161 ■ **Reading Awards Programs. Reduce Item 6110-147-0001 by $4.75 Million.** Recommend deletion of funds for the Governor's Reading Awards Program and the California Reads program because the effectiveness of the programs is unknown and nonstate

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funds are available for these types of awards if local districts consider them priorities.

E-163 ■ **Eliminate Budget-Year Appropriation for High-Tech Highs. Delete Item 6110-485, Schedule 1, Saving $4 Million.** Recommend Legislature reject second-year appropriation for high-tech highs because these schools will receive funding in the current year to enable them to leverage private funding sources for 2002-03.

Commission on Teacher Credentialing

E-168 ■ **Eliminate Fee Waiver Program for First-Time Credential Applicants. Delete Item 6360-002-0001 and $1,575,000**. Recommend Legislature eliminate teacher credential fee buyout program because (1) there is no evidence it attracts additional, better qualified teachers and (2) the state has many other programs likely to be more effective at recruiting and retaining qualified teachers.

Intersegmental

E-179 ■ **Student Fee Policy Needed.** Recommend the Legislature enact in statute a fee policy for the University of California (UC) and California State University (CSU) that provides for an appropriate sharing of costs between students and the state.

E-200 ■ **Expanding Summer Operations at the UC and the CSU. Reduce Item 6440-001-0001 by $1 Million and Item 6610-001-0001 by $180,000.** Recommend Legislature provide funding to expand summer operations at UC Davis and CSU Chico, but link funding to specified enrollment targets and require universities to report on whether they meet these targets. Recommend the state also implement a consistent enrollment-growth funding policy—using budgeted enrollment-growth funding to support all additional students in all academic terms at all campuses.

E-204 ■ **Expand Competitive Cal Grant Programs by Pooling Resources From Institutional Aid Programs. Augment Item 7980-101-0001 by $294 Million and Reduce Items 6440-001-0001 by $172 Million and 6610-001-0001 by $122 Million.** Recommend the Legislature expand the competitive Cal Grant programs by pooling state funds currently provided for institutional financial aid programs, thereby promoting a statewide financial aid policy that is consistent and objective.

E-208 ■ **The CSU and the UC Should Report on New Policies for Joint Doctor of Education (Ed.D.) Programs.** Recommend the Legislature ask CSU and UC to report during budget hearings on their policies for creating new joint Ed.D. programs.

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California Postsecondary Education Commission

E-213 ■ **Data Services Funding. Reduce 6420-001-0001 by $96,000.** Reduce funding for services California Postsecondary Education Commission (CPEC) no longer receives.

E-214 ■ **Budget Bill Language Regarding CPEC Outreach Inventory.** Recommend the Legislature approve the Governor's proposed $150,000 for CPEC to complete a study of state-funded outreach programs, but adopt budget bill language specifying the scope and due date of the study.

University of California

E-218 ■ **Funding for Hiring Faculty at Unopened Campus Unnecessary. Reduce Item 6440-004-0001 by $4 Million**. We recommend deletion of $4 million (General Fund) requested for hiring faculty at the planned Merced campus of the University of California (UC) because UC can recruit and hire new faculty using existing resources.

E-219 ■ **Governor's Proposed Reductions for UC's K-12 Outreach. Related to Item 6440-001-0001**. Recommend approving proposed K-12 outreach reductions to UC because programs generally do not provide direct services or increase preparedness of students.

E-227 ■ **Status of UC's Outreach Evaluation Efforts. Related to Item 6440-001-0001**. Recommend the Legislature direct UC to report on the status of its ongoing outreach evaluation and the potential for providing information on effectiveness and cost-effectiveness studies before 2004.

E-228 ■ **Potential for Consolidation and Integration of Existing K-12 Outreach Programs. Related to Items 6440-001-0001 and 6610-001-0001.** Recommend Legislature consider the consolidation and integration of existing outreach programs to decrease inefficiencies and administrative overlap.

E-229 ■ **Target Funding Depending on Type of Outreach.** Recommend Legislature consider redirecting funding for some types of outreach—such as academic preparation and tutoring—directly to K-12 schools and districts.

California State University

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E-234 ■ **Convert Governor's Teaching Fellowships Into Assumption Program of Loans for Education (APLE) Warrants. Reduce Item 6610-001-0001 by $21 Million**. Recommend the Legislature convert the Governor's Teaching Fellowships into Assumption Program of Loans for Education warrants, thereby saving $21 million in the budget year as well as reducing future enforcement and administrative costs.

E-234 ■ **Eliminate the Commission on Teacher Credentialing's (CTC) Administrative Position for Tracking Fellowship Recipients. Reduce Item 6360-001-0002 by $66,000 and One Personnel-Year.** Recommend the Legislature eliminate the administrative position CTC uses to track recipients of Governor's Teaching Fellowships.

California Community Colleges

E-241 ■ **Partnership for Excellence (PFE) Has Shown Mediocre Performance, Little Accountability.** Recommend the Legislature either (1) end the PFE or (2) take steps to address significant shortcomings in anticipation of the January 1, 2005 sunset date.

E-250 ■ **Categorical Consolidations Should Accompany Proposed Cuts**. Recommend approval of $121.7 in proposed reductions to categorical programs. Also recommend that these reductions be accompanied by a consolidation of 12 categorical programs into two programs in order to allow greater flexibility in directing available resources to where they are the most needed.

E-255 ■ **Possible Increase in Public Employees' Retirement System (PERS) Contribution Rate Would Add to District Expenses**. If the Governor's proposal to defer PERS contributions is rejected (as we recommend), community college districts will face $12 million in unreimbursed costs.

E-256 ■ **Statutory Cost-of-Living Adjustment (COLA) May Be Overfunded.** The budget's provision of a 2.15 percent COLA for California Community Colleges (CCC) may exceed the statutory COLA by $15 million.

E-256 ■ **Governor Proposes to Move Adult and Vocational Education Programs from K-12 to CCC**. While we believe the objectives behind the consolidation proposal have merit, the administration has not been able to provide adequate information to evaluate whether the consolidation it envisions is appropriate. We recommend the Legislature have CCC, the State Department of Education, and other

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affected agencies report at budget hearings on the implications of this proposal.

Student Aid Commission

E-268 ■ **Provide Update on Second-Year Implementation of Entitlement Program and Future Cost.** Recommend the Legislature ask the commission to provide an update on: (1) the second-year implementation of the entitlement program and (2) the revised out-year cost projections for the entitlement program.