



# **Little Hoover Commission**

1303 J Street, Suite 270 • Sacramento, CA 95814 • (916) 445-2125

## **K-12 EDUCATION IN CALIFORNIA: A LOOK AT SOME POLICY ISSUES**

**FEBRUARY 1990**



# Little Hoover Commission

1303 J Street, Suite 270 • Sacramento, CA 95814 • (916) 445-2125

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February 14, 1990

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Jeannine L. English  
*Executive Director*

Dear Governor and Members of the Legislature:

As you may know, for the past 17 years the Little Hoover Commission has studied various aspects of K-12 education in California, concentrating mostly on fiscal accountability and responsibility in the public school system. Each time the Commission reviews the education system, there has been a concern that the system is a bottomless pit into which state taxpayers continually throw their money. Now that K-12 education in California has evolved into a \$23.4-billion behemoth which derives 68 percent of its sustenance from the State, the concern is further exacerbated.

Although the Commission has been involved in effecting substantial improvements in the way education funding is accounted for, there appears to be a need for greater efficiency and effectiveness in the system. What is needed are changes in some of education's most fundamental areas, changes that will have far-reaching, positive effects on the system. "K-12 Education in California: A Look At Some Policy Issues" presents the Commission's findings and recommendations concerning such changes.

In the report, the Commission concludes that the State's education governance structure is not operating as legally intended; the Superintendent of Public Instruction has assumed the role of policy maker and the State's schools are without the benefits associated with an educational policy governed by a strong state board. In addition, the Department of Education is circumventing the State's regulatory process by issuing policy "guidelines" to

local education agencies; these "guidelines" have the same effect as regulations but have not received public input or the legal scrutiny of the State's Office of Administrative Law.

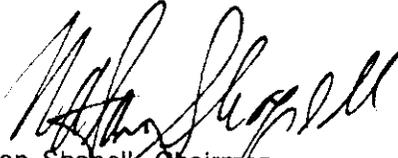
Further, the Commission concludes that improvements are greatly needed in the area of categorical programs. With 80 separate programs funded from 86 different pots of money totaling approximately \$5.3 billion, the system has become too complex and does not allow for local education agencies to efficiently deliver services to those schools and students with the greatest need. In addition, there are efficiencies to be realized through the reorganization of some school districts and the regionalization of services delivery throughout California. Finally, the State's attendance reporting system spends too much time tracking students who are not actually attending school and does little to effectively encourage attendance.

In addressing these findings related to K-12 education in California, the Commission has made eight recommendations for change. Foremost among them are:

- The State Board of Education's superiority to the Superintendent of Public Instruction should be validated by giving the Board approval authority for the State's proposed education budget.
- The Attorney General should file an action to prevent further violations of the Administrative Procedure Act by the Superintendent, and under threat of administrative budget penalties, the Department and the Board should be expressly prohibited from issuing "guidelines" that are in the nature of regulations.
- Further coordination of categorical funding at the local level should be encouraged, and the State should allow schools to commingle categorical funds and general purpose revenues to the extent that federal law allows such commingling.
- All appropriate categorical funding should be based on indicators of need.
- Studies should be conducted on the feasibility of increased consolidation of school districts and regionalization of services delivery.
- The current attendance accounting procedures should be revised so that only actual attendance is counted, and local education agencies should be encouraged to emphasize the importance of school attendance.

The Commission believes that the implementation of these recommendations will achieve greater efficiencies and effectiveness in California's K-12 education system. Such improvements are needed if California is to make the best use of taxpayers' money and if our children are going to get the quality of education they deserve.

Sincerely,

A handwritten signature in black ink, appearing to read "Nathan Shapell", written in a cursive style.

Nathan Shapell, Chairman

Haig Mardikian, Vice Chairman

Senator Alfred Alquist

Mary Anne Chalker

Albert Gersten

Senator Milton Marks

Assemblywoman Gwen Moore

George Paras

Abraham Spiegel

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Assemblyman Phillip Wyman

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## EXECUTIVE SUMMARY

The K-12 education system in California, which serves over 5 billion students, is funded by approximately \$23.4 billion from state, local and federal governments. Of this total, the State will provide approximately \$15.81 billion (67.6 percent), local funding will account for about \$5.84 billion (25.0 percent), and the remaining \$1.75 billion (7.4 percent) will come from the federal government.

The governance structure at the state level consists of a part-time State Board of Education, appointed by the Governor with Senate confirmation, and the Superintendent of Public Instruction who is an elected constitutional officer who directs the activities of the State Department of Education. Only 12 other states have a similar arrangement, although in one of the states the board is appointed by the legislature. Most states have governance structures in which administration of the school system flows from the board down to the chief.

The forces of tax reform, equity, declining enrollments and special educational needs have molded the current school finance system since the early 1970's. Some of the major effects on education and the calculation of state funding came from the court, ballot initiatives and legislation. The major events affecting K-12 education include the Serrano v. Priest cases (requiring equalization in districts' base funding), Proposition 13 (which limited the amount of property taxes that could be levied by local government and had the effect of shifting the burden of school financing from local government to the State), Proposition 4 (also known as the "Gann limit", it placed a ceiling on state spending), Senate Bill 813 (the State's comprehensive education reform package), and Proposition 98 (which established a constitutionally guaranteed minimum level of state funding for local school districts and community colleges).

In general, education is funded through two primary methods. The core of educational funding in California is a system of allocating revenues to districts based on the districts' average daily attendance (ADA) of school children. Based on ADA, the State calculates each district's revenue limit, which is the amount of general purpose revenue that a school district is entitled to receive from state and local sources. Categorical program funding is in addition to base funding for the revenue limit and is designed to provide funding for a particular program or type of student. Unlike the revenue limit, for the most part categorical funds must be separately accounted for and spent on designated purposes. For the fiscal year 1989-90, there are 80 categorical programs and approximately \$5.3 billion in categorical funding.

Administering the funds and services at the local level are 1,010 individual school districts and 58 county offices of education. Each of these entities supports an executive and administrative staff, and each is responsible for various functions such as accounting, budgeting, procurement and transportation. The districts vary greatly in size; Los Angeles Unified School District is the largest with over 570,000 ADA and Reservation Elementary School District is the smallest with an ADA of 10.

In January 1989, the Little Hoover Commission began its study on K-12 education in California. The Commission focused on the effectiveness of the State's education governance structure, the equity and effectiveness of funding categorical programs, the potential reorganization of districts, the potential regionalization of services delivery, and the efficiency of the State's

method for reporting average daily attendance. The Commission's study resulted in the following findings:

**1. THE STATE'S GOVERNANCE STRUCTURE FOR EDUCATION IS NOT OPERATING AS STATUTORILY INTENDED**

Contrary to the legal description of the State's education governance structure, the Superintendent of Public Instruction is not operating at the direction of the State Board of Education. Instead, the Superintendent has assumed the role of policy maker and the State's schools are without the benefits associated with having a state board govern educational policy. This situation results from an inherent flaw in the governance structure itself, the Superintendent's control of the budget, ambiguity created by the State's statutes and Constitution, and the makeup of the Board.

**2. THE DEPARTMENT MAY BE CIRCUMVENTING THE STATE'S REGULATORY PROCESS THROUGH THE USE OF POLICY GUIDELINES**

State law requires that state agencies proceed through the State's regulatory process when prescribing actions based on the agencies' interpretations of statute. However, the State Department of Education frequently issues to schools and school districts various policy guidelines that appear to be prescriptive in nature. If these guidelines are determined to be in the nature of regulations, then local education agencies will have been forced to comply with the Department's interpretations of state law without the benefit of public input and the legal scrutiny of the State's primary agency responsible for approving administrative regulations.

**3. THE STATE'S SYSTEM OF FUNDING CATEGORICAL PROGRAMS IS NEITHER EFFECTIVE NOR EFFICIENT**

In attempting to provide earmarked funding for programs designed to meet special educational needs, the State has created an extremely complex system that recognizes 80 different categorical programs funded from 86 sources totaling approximately \$5.3 billion. However, the system does not link all program funding to identified needs and performance indicators. For example, some funds become "institutionalized" over time and do not follow students when they shift among districts. Further, the State's system of categorical funding does not allow for an efficient coordination of all appropriate funds at the local level. As a consequence of the current system, the proliferation of specially funded programs has resulted in a duplication of services, curriculum fragmentation and ineffective delivery of services.

**4. THE CATEGORICAL "SUNSET LAWS" HAVE NOT BEEN WORKING AS STATUTORILY INTENDED**

Despite the statutory elimination of specific program requirements for certain categorical programs, the State Department of Education has imposed similar, if not more stringent, requirements on schools for the operation of the programs. The Department issued the requirements as guidelines to ensure that program goals are met. However, contrary to legislative intent, schools are denied flexibility in achieving the programs' original objectives. Consequently, the Department stifles the creativity and efficiency of local education agencies in accomplishing the initial objectives of the programs that were sunsetted.

**5. THE REORGANIZATION OF SOME SCHOOL DISTRICTS NEEDS TO BE CONSIDERED**

Recent data have indicated that there are potential efficiencies to be realized through the consolidation of some extremely small districts and the breakup of some extremely large districts. Opposing political pressure, the lack of fiscal incentives, and the lack of analysis related to specific California school districts have prevented such reorganizations from occurring in the State. As a result, excessive administrative and other overhead costs are incurred in some districts.

**6. THE ORGANIZATION OF OFFICES OF EDUCATION BY COUNTY BOUNDARY IS INEFFICIENT AND DOES NOT MAXIMIZE SERVICE DELIVERY**

Operating as intermediate agencies between the State and the local school districts, county offices of education are intended to coordinate services among the districts within each county. Under this organization, however, many offices restrict their activities to county boundaries rather than operate according to the needs shared by districts from different counties within the same region. Consequently, these county offices of education are unable to realize the efficiencies available through the greater coordination of district efforts and the services delivery in those districts is not maximized.

**7. THE STATE'S SYSTEM FOR REPORTING ATTENDANCE IS INEFFICIENT AND DOES NOT ENCOURAGE ATTENDANCE**

As the foundation for the allocation of basic education revenues to school districts, California's attendance reporting system requires schools to identify those students who are properly excused and thus eligible for state aid. The attendance system requires schools to invest much time and effort in accounting for students who are not actually attending. Further, the current system encourages schools to classify questionable absences as excused absences because of the otherwise potential loss in revenue to the schools. As a result, more emphasis is placed by schools on attendance procedures than on increasing students' attendance.

In addressing these findings related to K-12 education in California, the Commission's report presents eight recommendations:

1. The Governor and the Legislature should enact legislation to amend the Education Code so that approval authority for the State's proposed education budget is given specifically to the State Board of Education. Such an amendment should make it clear that the Board's authority is superior to the authority of the State Department of Education over the proposed budget for the Board's activities as well as the activities of the Department.
2. The Governor and the Legislature should enact legislation that would expressly prohibit the State Department of Education and/or the State Board of Education from issuing any policy guidelines or other documents that are defined as regulations under existing law. The recommended legislation would subject the Department and/or the Board to a reduction in its/their administrative budget(s) if the Department and/or the Board is found to have issued regulations as defined under existing law.
3. The Governor and the Legislature should enact legislation that encourages the coordination of categorical funding at the local level by allowing the inclusion of many more existing categorical programs under the School-Based Program Coordination Act. The legislation

should explicitly emphasize that target group students and instructional improvement needs must be met, and that the system for monitoring performance of this program be designed to validate compliance.

Further, the Governor and the Legislature should enact legislation that would allow schools to commingle categorical funds and general purpose revenues to the extent that federal law allows such commingling. After three years, the schools must demonstrate that achievement levels among compensatory education students have either increased over time, or are greater than the achievement levels of comparable students in other district schools.

4. The Governor and the Legislature should enact legislation to base all appropriate categorical funding on indicators of need. To the extent possible, such indicators should be found in district demographics that are updated annually by the districts and analyzed annually by the State Department of Education in reviewing and approving districts' application for funding.
5. The Governor and the Legislature should enact legislation that would amend the "sunset laws" (Education Code Section 62000 et seq.) to explicitly prohibit the State Department of Education from restricting the local education agencies' flexibility in meeting the general requirements of the State's original program laws and federal statutes.
6. The Governor and the Legislature should enact legislation to provide sufficient funding for the advisory commission authorized by Chapter 1229, Statutes of 1988, so that the commission can conduct a study of the feasibility of increased consolidation of school districts and recommend statutory revisions based upon the results of the study. The revisions should include fiscal and other incentives for the implementation of consolidations that are determined to be feasible.
7. The Governor and the Legislature should enact legislation to require the advisory commission provided for under Chapter 1229, Statutes of 1988 to expand its study to include a review of the activities of county offices of education and existing cooperative arrangements between districts and/or county offices of education. The legislation should require the commission to report to the Governor and the Legislature the results of its study and recommendations for statutory revisions no later than January 1, 1991, and should provide sufficient funding for a comprehensive study.
8. The Governor and the Legislature should enact legislation that would revise the current attendance accounting procedures so that only actual attendance is counted toward ADA when determining base revenue limits, thereby eliminating the current process of verifying absences for apportionment purposes. Further, the legislation should encourage local education agencies to emphasize the importance of school attendance.

## INTRODUCTION

The K-12 education system in California has been under much scrutiny in the past two decades. The system has gone through a tumultuous fiscal and programmatic evolution, with the education, political and legal communities all having had a hand in bringing the system to its present state. The changes that have evolved are openly debated both as strides forward and as steps backward. Certainly, some of the most fundamental areas in education have been affected, including the funding of the system and the organization of the entities at the state and local level responsible for administering education.

Included below is a brief description of the State's governance structure, a historical review of the Department's budget and educational funding, a brief description of events resulting in the current funding system in California, an outline of the methods of basic appropriations and categorical funding, and a synopsis of the organization of local education agencies.

### Background

California's public education system is administered at the state level by the Department of Education, under the direction of the State Board of Education and the Superintendent of Public Instruction. The State's public education system provides education to approximately 5.0 million students from preschool age to adulthood.

Pursuant to its constitutional option, the Legislature chose to provide for members of the State Board of Education to be appointed by the Governor with the advice and consent of two-thirds of the Senate. The part-time Board consists of 11 members; 10 serve four-year terms and one, a student member, serves a one-year term.<sup>1</sup> The Superintendent of Public Instruction, by contrast, is a constitutional officer who is elected every four years in the November general election.<sup>2</sup> Only 12 other states have an identical arrangement, although in one of the states the board is appointed by the legislature. Most states have governance structures in which administration of the school system flows from the board down to the chief. In fact, in all but three of the remaining states, the board is either appointed or elected and the board appoints the chief.<sup>3</sup> (Please see Appendix 1 for a description of each of the 10 models of state governance structures in education and a listing of the states by model.)

Schools in California receive funding from state, local and federal governments. Table 1 displays the total funding for education programs (by source), the State's average daily attendance (ADA), and the Department's budgeted staff for the 10 fiscal years, 1980-81 through 1989-90.

**Table 1**  
**Total Education Revenues, ADA, and Department Staff**  
**Fiscal Years 1980-81 through 1989-90**  
**(Dollars in Millions)**

<u>Fiscal Year</u>	<u>State<sup>a</sup></u>	<u>Local<sup>b</sup></u>	<u>Federal<sup>c</sup></u>	<u>Total Funding</u>	<u>ADA</u>	<u>Budgeted Staff<sup>d</sup></u>
1980-81	\$ 7,800.4	\$3,311.1	\$1,151.4	\$12,262.9	4,215,399	2,642.3
1981-82	7,762.3	3,767.3	998.4	12,528.0	4,202,000	2,687.1
1982-83	7,884.8	3,787.5	963.2	12,635.5	4,231,431	2,553.4
1983-84	8,478.8	3,806.5	1,063.1	13,348.4	4,260,873	2,442.7
1984-85	9,674.6	4,185.8	1,135.0	14,995.4	4,352,597	2,376.2
1985-86	11,015.1	4,564.1	1,197.2	16,776.3	4,469,821	2,373.1
1986-87	12,268.2	4,743.0	1,229.3	18,240.5	4,611,637	2,389.1
1987-88	13,284.4	5,105.9	1,312.5	19,702.8	4,722,792	2,358.9
1988-89	14,704.2	5,485.0	1,570.4	21,759.6	4,859,162	2,728.8
1989-90	15,811.3	5,838.6	1,749.4	23,399.1	5,003,461	2,710.5

<sup>a</sup> Includes all General Fund and special fund monies in K-12 education budget item, contributions to the State Teachers' Retirement Fund, state capital outlay, and lottery revenues.

<sup>b</sup> Includes local property tax levies, state property tax subventions, combined state/federal grants, income from the sale of property and supplies, cafeteria revenues, interest income, developer fees and other revenues.

<sup>c</sup> Includes Federal Impact Aid and all other revenues received from the federal government.

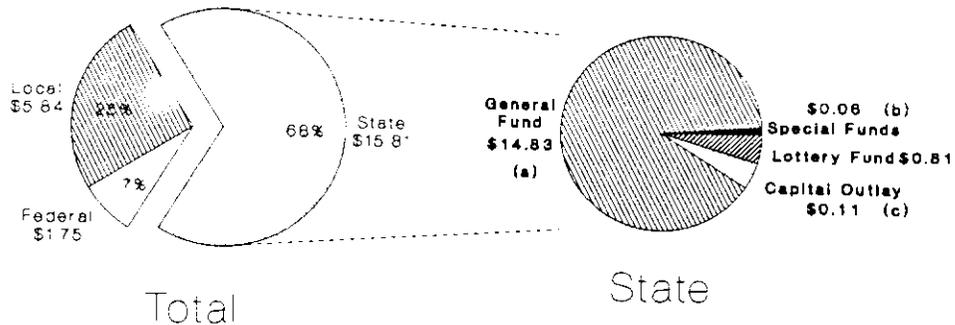
<sup>d</sup> Includes Departmental Operations, State Special Schools and State Library. (See Appendix 2 for a breakdown of the Department's budgeted staff positions.)

Source: Legislative Analyst's Office; Salaries and Wages Supplements for various years' Governor's Budgets

As shown above, in fiscal year 1989-90 total education revenues are expected to be approximately \$23.4 billion. Of this total, the State will provide approximately \$15.81 billion (67.6 percent), local funding will account for about \$5.84 billion (25.0 percent), and the remaining \$1.75

billion (7.4 percent) will come from the federal government.<sup>4</sup> Chart 1 displays the funding by government source as well as a breakdown of the State's portion.

CHART 1  
**SCHOOL FUNDING IN CALIFORNIA**  
**Fiscal Year 1989-90**  
 (Dollars in Billions)



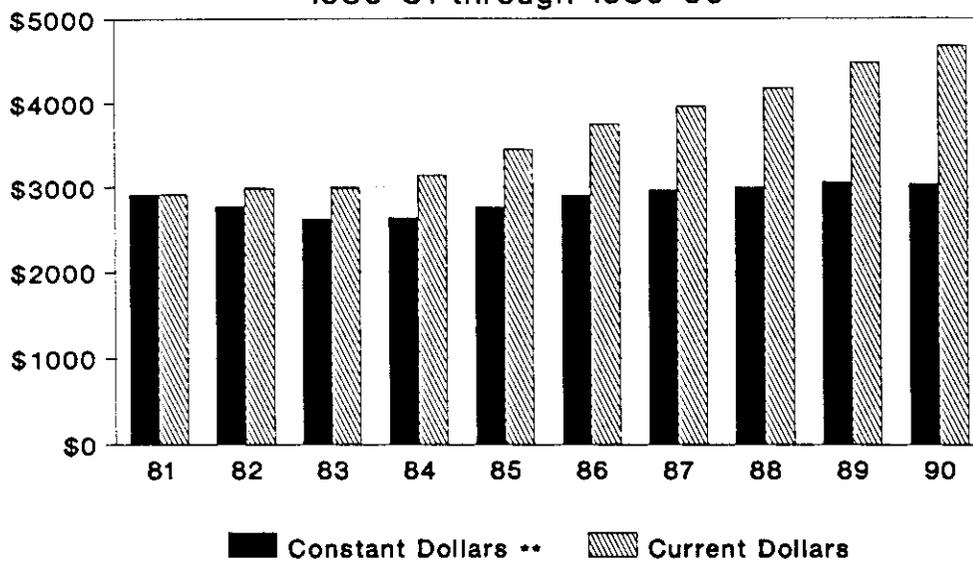
- (a) Includes contributions to the State Teachers' Retirement Fund and payments on general obligation bonds and Pooled Money Investment Account loans; excludes capital outlay and state library programs.
- (b) Includes the State School Fund, Donated Food Revolving Fund, and others.
- (c) Includes General Fund and tidelands oil revenues for capital outlay and year-round school incentives.

Source: Legislative Analyst's Office

As shown in Chart 1, of the \$15.81 billion provided by the State, approximately \$14.9 billion will come from the General Fund and special funds (excluding capital outlay and state library programs), \$109 million is state capital outlay (including general fund and tidelands oil revenues for capital outlay and year-round school incentives), and \$808 million will come from the State Lottery.<sup>5</sup>

Chart 2 shows the amount of total education funding on a per-pupil basis during the 10-year period, in both current and constant dollars. The chart shows per-pupil funding in current dollars growing from \$2,909 to \$4,677 (60.8 percent) since fiscal year 1980-81. When these revenues are adjusted for inflation and measured in constant dollars, however, fiscal year 1989-90's budgeted per-pupil expenditure level is only \$3,039, just 4.5 percent above the 1980-81 level.<sup>6</sup> Thus, although in current dollars it appears that California has significantly increased per-pupil funding, a 4.5 percent increase in constant dollars over a 10-year period illustrates only a marginal improvement in funding.

**CHART 2**  
**K-12 EDUCATION FUNDING PER ADA**  
**IN CONSTANT AND CURRENT DOLLARS**  
 1980-81 through 1989-90 \*



- \* Data are for fiscal years ending in years specified.
- \*\* As adjusted by the GNP deflator for state and local government purchases.

Source: Legislative Analyst's Office, Analysis of the 1989-90 Budget Bill

Total education funds represent a complex mixture of discretionary-use revenues such as apportionments based on ADA revenue limits, dedicated revenues such as the funding for categorical programs, and special revenues such as revenues from the state lottery, Proposition 98 excess funds and local developer fees.

The forces of tax reform, equity, declining enrollments and special educational needs have molded the current school finance system since the early 1970s. Some of the major effects on education and the calculation of state funding came from court rulings, ballot initiatives and legislation.

The Serrano v. Priest cases were two judicial decisions of the State's high court in the early 1970s holding that the California school funding system, which was then based on property values

and property tax rates set by local school boards, violated the equal protection provisions of the State's constitution. The court ruled that wide variation in property values and rates resulted in higher per student expenditures in wealthier districts than in poorer districts. Serrano required the Legislature to bridge these inequities, which it attempted to do by requiring all districts to have revenue limits and permitting low-revenue districts to increase their limits faster than high-revenue districts. In this way, districts were to achieve equalization in base funding. In its most recent review of the Serrano decision, the California Supreme Court let stand an appellate court decision holding that the State had fully complied with the requirement to reduce wealth-related disparities in per-pupil general education expenditures to "insignificant differences."<sup>7</sup>

Approved by the voting public in 1978, Proposition 13 precipitated a fiscal crisis in public finance by limiting the amount of property taxes that could be levied by local government. The effect of the initiative was to shift the burden of school financing from local government to the State. Education revenues, however, were placed in an unusual fiscal vise in 1979 when voters passed Proposition 4 (Gann limit) to place a ceiling on state spending. California thus simultaneously subjected school spending to both local and state fiscal restraints.<sup>8</sup>

Enacted in July 1983, Senate Bill 813 (Chapter 498, Statutes of 1983) was California's comprehensive education reform. This reform was designed specifically to improve the State's overall education system through an amalgamation of funding revisions and programmatic reforms. Specifically, SB 813 included numerous revisions to the method by which basic apportionments are calculated. In addition, it provided fiscal incentives for districts offering a longer school year and increasing the total instructional time, and it increased funding for textbooks. Further, the legislation revised procedures for teacher credentialing, staff layoffs and dismissals, and pupil expulsions and suspensions, and it reinstated statewide graduation requirements and provided measures for attracting and improving quality staff.<sup>9</sup>

Proposition 98, passed by less than 51 percent of the voters in November 1988, is the most recent action having a major statewide impact on school funding. The initiative established a constitutionally guaranteed minimum level of state funding for local school districts and community colleges. The proposition also required that all state revenues in excess of the State's appropriations limit (Gann limit), up to a specified amount, are to be transferred and allocated to the State School Fund in proportion to the enrollment in school districts and community college districts. Further, the amount of this allocation will not become part of the district's appropriations subject to the Gann limit. Funds allocated under this provision are required to be expended solely for instructional improvement and accountability. Recently passed legislation, most notably Senate Bill 98 (Chapter 82, Statutes of 1989) and Assembly Bill 198 (Chapter 83, Statutes of 1989), is designed to implement Proposition 98 through such mechanisms as revising the calculation of districts' basic appropriations and categorical funding.

The core of educational funding in California is a system of allocating revenues to districts based on the districts' average daily attendance (ADA) of school children. As a full-time equivalency measure, ADA is not the same as enrollment. Enrollment is the total number of children enrolled in the school and eligible to attend; ADA is the number of the enrolled children who are actually attending school or who are absent for a legitimate reason, such as illness.

Based on ADA, the State calculates each district's revenue limit, which is the amount of general purpose revenue that a school district is entitled to receive from state and local sources.

The revenue limit is adjusted for inflation and for certain special needs of the district. Below is an extremely abridged example of a revenue limit calculation.<sup>10</sup>

**TYPICAL UNIFIED SCHOOL DISTRICT**

1986-87 ADA.....	298
1987-88 ADA.....	317
1986-87 Revenue Limit.....	\$2,423
1987-88 Inflation Increase.....	\$66

Inflation Adjustment:  $\$2,423 + 66 = \$2,489$   
 Base Revenue Limit:  $\$2,489 \times 317 = \$789,013$

Revenue Limit Adjustments:  
 Small School District Transportation ..... \$17,500

Total Revenue Limit:  $\$789,013 + \$17,500 = \$806,513$

Local Property Tax Income ..... \$375,460

Revenue Limit State Aid:  $\$806,513 - \$375,460 = \$431,053$

Please see Appendix 3 for a more detailed, narrative description of the method of calculating revenue limits.

Categorical program funding is in addition to base funding for the revenue limit and is designed to provide funding for a particular program or type of student. Unlike the revenue limit, for the most part categorical funds must be separately accounted for and spent on designated purposes. For the fiscal year 1989-90, there are 80 categorical programs and approximately \$5.3 billion in categorical funding. (Please see Appendix 4 for a list of the programs and their funding.) Depending on their eligibility, school districts may receive revenue from some but not all types of categorical funds. Further, the categorical programs may be either state- or federal-mandated.

State categorical programs are classified by four general types depending on the broad, primary purpose of each program: variable cost revenues, instructional improvement revenues, special needs revenues and ancillary revenues. Program funds in recognition of variable costs are allocated to a school district to provide for costs that are higher than those in other districts and that are not under the control of the school district. Examples of programs receiving variable cost revenues include school bus replacement, urban impact aid and court-ordered desegregation funding. Instructional improvement program funds are provided to enhance activities for all students in a school or instructional area. Examples of programs receiving such funds include mentor teacher training, driver training, teachers' improvement training and bilingual teacher training. Program funds for special needs are allocated to school districts for the purpose of providing supplemental or enhanced services to schools and students with specifically defined needs. Examples of these programs include foster youth services, the Miller-Unruh Reading

Program, Native American Indian education, and vocational education. Ancillary program funds are provided to the K-12 education system for activities that are administered by the school system but that are generally not considered to be directly related to the K-12 instructional role. Examples of ancillary programs include adult education, child care and development and preschool.

With the exception of federal aid to districts for children living on federal property, all federal aid has restrictions on its program use. Major categories of federal funding include:

- o School lunch programs. The meals programs designed to feed needy students are supported in large part by federal funding.
- o Migrant education programs. These are supplementary education programs for children of migrant workers, and are funded almost exclusively in rural districts.
- o Low-income compensatory education. Eligible schools and districts are selected on the basis of the number of attending children who come from low-income households, and programs consist primarily of remedial reading and math.
- o Block grant funds. This is a collection of smaller funds used for educational improvement with a requirement that at least 80 percent of the funds be allocated to districts for instructional purposes.
- o Special education. Federal funding for special education is only a fraction of the money spent by the State for special education programs such as instruction for the handicapped.

Currently, there are 1,010 individual school districts<sup>11</sup> and 58 county offices of education<sup>12</sup> that operate as local educational agencies in California. Each of these entities supports an executive and administrative staff, and each is responsible for various functions such as accounting, budgeting, procurement and transportation. The districts vary greatly in size; Los Angeles Unified School District is the largest with more than 580,000 ADA and Reservation Elementary School District is the smallest with an ADA of 10.<sup>13</sup>

### **Scope and Methodology**

In January 1989, the Commission initiated its most recent in a series of reviews of California's K-12 education system. The purpose of this study is to identify major issues related to K-12 education and make recommendations in areas that are in need of improvement.

As a part of this study, the Commission held two public hearings on K-12 education in California. The first hearing, held on January 17, 1989 in Sacramento, focused on administrator/teacher ratios, special funds such as lottery revenues and developer fees, the potential effects of Proposition 98, and fiscal accountability in general. Subsequently, the Commission's Education Subcommittee decided to address some of the broad issues surrounding the State's system of K-12 education. As a consequence, the Commission's second hearing, held on November 2, 1989 in Los Angeles, concentrated on the effectiveness of the State's education governance structure, the efficiency of the State's method for reporting average daily attendance,

the equity and effectiveness of funding categorical programs, the potential reorganization of districts, and the potential regionalization of services delivery.

In addition to the hearings, Commission staff interviewed numerous individuals involved in state and local government in California, and interviewed state-level officials from the states of Arizona, Florida, Illinois, Massachusetts, Michigan, Minnesota, New York, Ohio, Pennsylvania, Texas and Virginia. (Please see Appendix 5 for a comparison between California and these other states in terms of selected school finance variables and performance indicators.) Further, Commission staff reviewed volumes of publications related to K-12 education in California and nationally, and performed an extensive analysis of the state laws pertinent to education in California.

### **Report Format**

In addition to the Executive Summary, this report is presented in four sections, the first of which is this introduction and background. The second section contains the seven major study findings; the third section presents the Commission's overall conclusions and recommendations for addressing the study findings. The fourth section includes appendices that give detailed information associated with K-12 education.

## STUDY FINDINGS

### Overview Statement

Among the myriad of issues surrounding education are a few that can be considered quite fundamental: the State's education governance structure, the basis for the State's allocation of revenues to school districts, the method of funding special programs for designated schools and students, and the organization of the local government entities responsible for administering education. Because these areas are so basic, changes in any one area can have far-reaching effects. Therefore, to achieve substantive improvements in the education system, one should begin by making changes in these basic areas. This being the intent of the Commission, the following findings largely address some of the more elemental concerns facing K-12 education in California.

This section begins with two findings concerning issues at the state level, including the State's governance structure for education. Next are two findings that address the method of funding special programs, or categoricals. Following are two findings that deal with the organization of local government entities responsible for administering the funding. The final finding looks at the foundation for California's allocation of basic education revenues: the attendance reporting system.

### State-Level Issues

#### **FINDING #1 - THE STATE'S GOVERNANCE STRUCTURE FOR EDUCATION IS NOT OPERATING AS STATUTORILY INTENDED**

Contrary to the legal description of the State's education governance structure, the Superintendent of Public Instruction is not operating at the direction of the State Board of Education. Instead, the Superintendent has assumed the role of policy maker and the State's schools are without the benefits associated with having a state board govern educational policy. This situation results from an inherent flaw in the governance structure itself, the Superintendent's control of the budget, ambiguity created by the State's statutes and Constitution, and the makeup of the Board.

#### **Board Described as Policy Maker**

Article IX, section 7 of the California Constitution states that the California Legislature "shall provide for the appointment or election of a State Board of Education...." The Constitution further requires the Board to adopt textbooks for use in grades one through eight throughout the State.<sup>14</sup> The only other power given to the Board by the Constitution is the authority to appoint, on the nomination of the Superintendent, one deputy and three associate superintendents of public instruction.<sup>15</sup> All other powers possessed by the Board are set out in statute.

According to state statute,<sup>16</sup> the Board is responsible for determining all questions of policy within its jurisdiction related to:

- its own government;
- the government of its appointees and employees;

- the government of the day and evening elementary schools, the day and evening secondary schools, and the technical and vocational schools of the State; and
- the government of other schools, excepting the University of California and California State University, that may receive financial support from the State.

Further, state law<sup>17</sup> proclaims that the Department of Education is to be administered through the Board, "which shall be the governing and policy determining body of the department." There exists a multitude of other statutes related to the Board; most address the Board's authority and responsibilities in specific areas, however, and are not directly relevant here.

Article IX, section 2 of the Constitution provides for a Superintendent of Public Instruction who is elected by the voters in California. This, however, is the only constitutional reference to the powers of the Superintendent. According to an opinion issued by the State Attorney General in 1963, "the duties of the Superintendent of Public Instruction are nowhere enumerated in the Constitution... accordingly, the Superintendent of Public Instruction has no identifiable powers other than those that may be found in statutes enacted by the Legislature."<sup>18</sup>

State law is very specific in describing the responsibilities of the Superintendent of Public Instruction. Notwithstanding the fact that the Superintendent is an elected constitutional officer, Education Code Section 33111 states that "the Superintendent shall execute, under direction of the State Board of Education, the policies which have been decided upon by the Board and shall direct, under general rules and regulations adopted by the State Board of Education, the work of all appointees and employees of the Board." (Emphasis added.) The law goes on to declare that the Superintendent is the executive officer of the Board and, as the ex officio Director of Education, is vested with all executive and administrative functions of the Department of Education.<sup>19</sup>

Clearly, the intent of state law is for the Board to have superior authority and the Superintendent to act at the direction of the Board. This intent was supported by the 1963 Attorney General opinion, mentioned earlier, which echoed a 1943 Attorney General opinion that noted the relationship between the two governing entities was similar to a corporate board of directors and their chief executive officer.<sup>20</sup> In practice, however, it is the Superintendent who is more powerful than the Board. The Superintendent goes largely unchecked in formulating and administering educational policy, in establishing rules and guidelines for schools, school districts and county offices of education, and in setting the Department's and the Board's proposed annual budget.

The exact role and authority of the Superintendent in comparison to that of the Board has been unclear since the Legislature founded the Department in 1921.<sup>21</sup> In 1943, the State Attorney General was asked by the president of the Board to delineate "the legal position of the [Board] and the [Department]."<sup>22</sup> In that opinion it was concluded as follows:

The state board is the governing and policy determining body of the department. The director is the administrative executive of the department and board. The department is a collective term which describes the entire state school system, in so far as the law provides for State, as distinguished from local, administration of school affairs.

The relative positions of the director and board are not unlike the relationship between the executive head of a corporation and its board of directors.

The opinion further noted that:

It is our opinion that it would be a difficult if not impossible task to attempt the solution of possible conflicts which might arise between the policy determining body and the executive officer until a specific case presents itself so that facts may be studied to determine whether the question is one of governing policy or administrative execution.

In 1963, a confrontation arose when then-Superintendent Max Rafferty refused to personally convey the Board's opposition to legislation that was designed partially to circumscribe the Board's powers with respect to textbooks.<sup>23</sup> Superintendent Rafferty sought an opinion from the State Attorney General that would answer the questions:

- May the Superintendent refuse to execute an order of the Board to perform an act that is contrary to the Superintendent's beliefs and wishes?
- What remedy does the Board have in the event the Superintendent fails or refuses to execute an order? Can the Superintendent be removed from office?
- If the Board and the Superintendent issue contrary orders to an officer or employee of the Department, which order is that officer or employee bound to follow?

The principal points of the Attorney General opinion are as follows:

- The Board is the governing and policy determining body of the Department and its control over the conduct of the officers and employees of the Department is to be executed by the Superintendent through rules or regulations adopted by the Board rather than by orders directed to named officers or employees of the Department.
- The Board may require the Superintendent to make known to the Legislature its positions on legislation, and the Superintendent may not refuse to execute this order solely because the order may be contrary to his own personal beliefs and wishes.
- In the absence of a Board rule or directive, the manner in which a Board resolution is to be executed is an administrative matter properly left to the Superintendent; the Superintendent may make the Board's position known personally or through a subordinate employee.
- The law does not provide for the removal of the Superintendent for failure to obey lawful orders of the Board other than by recall. The Constitution does not provide for the impeachment of the Superintendent.

- Since the particular situation did not involve a refusal to carry out a Board order, that question is only hypothetical and, thus, "we deem it appropriate to defer a reply."

Criticism of the relationship between the Superintendent and the Board continued in the 1970s. Ms. Nancy Reeves, a former Board member who resigned after one and one-half years of service beginning in 1976 and who was described by the Senate Education Committee as "one of the most knowledgeable of Governor Brown's appointees,"<sup>24</sup> stated the following in 1978:

With a budget of almost \$8 billion, this knowledge industry is one of the largest enterprises in the State -- and yet the board that oversees it is paralyzed by ambiguities in the California Education Code that prevent it from even governing itself, let alone the state educational system. For unlike those in other states, California's board is subordinate to its executive officer, the superintendent of public instruction, instead of the other way around.<sup>25</sup>

The issue has not been decided yet. The current president of the Board claims that there are severe problems in the working relationship between the Superintendent and the Board, and stated that the Superintendent "is able to undertake a variety of programmatic, fiscal and legislative policy initiatives without Board involvement or approval."<sup>26</sup> The Board's president offered as an example the Superintendent's sponsorship of the recent Proposition 98, the landmark initiative that provided for a guarantee of minimum funding for education in California. The president stated that the Board "did not actively support this initiative, but was required, due to approval by the voters, to adopt a model school accountability report card for the schools."<sup>27</sup>

Even more critical of the current governance structure is the current vice president of the Board, a professor of management in the Graduate School of Management at UCLA. The vice president described the organizational relationship between the Board and Superintendent as "the worst case [he has] ever seen" and that "it is managerially impossible to perform the tasks [the Board has] been assigned to do."<sup>28</sup>

### Obstacles to Improvement

How is it that the organization of the education governance structure is still in question in the face of statutes that broadly address the relationship between the Superintendent and the Board, and two Attorney General opinions that conclude the Board has a higher authority? The answer lies in the governance structure itself, the Superintendent's control of the budget for all of K-12 education in California, the ambiguity created by statutes that address specific areas for which the Superintendent and the Board are responsible, and the makeup of the Board.

The governance structure itself presents a problem that makes it difficult to improve the working relationship between the Board and the Superintendent. The Superintendent is an elected constitutional officer who draws a full-time salary, while the Board is only part-time and is appointed by the Governor. As such, the Superintendent believes he is "clearly the highest ranking public school official in the state of California,"<sup>29</sup> and Board members feel they "lack a political constituency of any kind."<sup>30</sup> Thus, there is an inherent flaw in the relationship between the Superintendent and the Board that is expected to direct the Superintendent's actions. Even in recognizing the statutory superior/subordinate relationship between the Board and Superintendent,

the 1963 Attorney General stated "it would be fruitless... to discourse upon the difficulty of requiring a policy-making board appointed by the Governor to have its policies carried out by and through an individual who is elected by the people."<sup>31</sup> It comes as no surprise that such a relationship has experienced problems in each of the 12 states that has a governor-appointed board and an elected chief state school officer.<sup>32</sup> For example, there appears to be a confrontation between the board of education and the state superintendent in North Carolina over obtaining staff for the board. The board, having no independent staff but desiring some, is having to make its own efforts because it believes the state superintendent has not pushed hard enough legislatively to get them the staff.<sup>33</sup>

Another obstacle to improving the current governance structure relates to one of the principles of effective management in any organization: responsibility must be accompanied by authority. Contrary to this tenet, state law does not provide the Board, which is the policy making body for K-12 education, approval authority for the education budget. Instead, the statutes give control of the budget to the Department of Education and, implicitly, the Superintendent. If the Board is the body ultimately responsible for education policy in California, it is difficult for the Board to ensure that its policies are carried out if the Board does not control the budget for education and, thus, the direction of funds spent on education.

Moreover, the Board does not even have control of its own budget, despite Education Code Section 33330, which states, in part, "[t]he funds of the [Board] in respect to functions retained by it...are now or may hereafter be entrusted to the [Board] for administration." Instead, the Board's budget is also controlled by the Superintendent, presumably through Education Code Section 33331 which states, "The [Department] may expend the moneys in any appropriation heretofore or hereafter made for the support of the [Board]." Without control of its own budget, the Board has no employees under its direct control to represent it to the Legislature, no funds to conduct independent research and publish its findings on current educational issues, and no independent staff, other than its executive director, to provide the analyses and assessments needed in the formulation of educational policy.<sup>34</sup>

Yet another example of the Board having responsibility without commensurate authority is the lack of statute or constitutional provision that allows for the removal of the Superintendent if the Superintendent refuses or fails to execute his or her duties. While the Superintendent could argue that he or she is accountable to the people of the State and is subject to recall, it does not satisfy the need for the Board to have a Superintendent accountable to it for the execution of its directions. Without being accountable to the Board, the Superintendent can choose whether to follow the Board's directions, thus reducing the power of the Board's directions to mere suggestions.

The ambiguity created by existing statutes accounts for another part of the problem in California's governance structure for education. Many statutes give the Board specific authority in certain areas but give the Department authority in the same areas without clearly defining each entity's role. For example, the statutes mentioned earlier relating to the Board's finances obviously contribute to the confusion over the control of the education budget and the Board's finances. In addition, many code sections give the Board the authority and duty to perform operations related to categorical programs; these duties, however, are carried out through the Department since the Department has responsibility for administering educational policy.

Another example of the confusion created by statutes is found in Education Code Section 33143, which was enacted shortly after the current Superintendent took office. The statute gives the Superintendent the authority to appoint a deputy superintendent and three associate superintendents in addition to the same positions authorized in the Constitution; the positions authorized in the Constitution require Board approval upon nomination by the Superintendent. Instead of appointing people to the positions in addition to the ones provided for in the Constitution, however, the Superintendent has chosen to appoint people only to the positions authorized by statute. Thus, the Board does not have the opportunity to approve any deputies or associate superintendents. The Board feels this legislation is unconstitutional since it indirectly takes from the control of the Board a matter that the Constitution specifically entrusts to the Board.<sup>35</sup>

The confusion existing in statutes is long-standing. The 1963 Attorney General opinion suggested that a 1943 Attorney General recommendation be considered: "It would appear appropriate...that the problem be called to the attention of the Legislature so that it may, if it deems proper, clarify the code sections relative to the respective powers, duties and functions of the State Board of Education, the Superintendent of Public Instruction and the State Department of Education."<sup>36</sup> Although the formal adoption of rules and regulations by the Board could help mitigate the ambiguity created by statutes, such help has not been forthcoming. According to the Board's current president, it has been the Board's policy to not formally adopt its own policies and directives. Consequently, the Board's issuances are ignored over time.<sup>37</sup>

Finally, the makeup of the Board presents a problem. The Board's current president admits that current and past state superintendents are not the sole reason for the Board's lack of power. The president states that "the fairly rapid turnover of Board members, usually due to petty politics within and between parties, provides a transient Board that often lacks the depth of Board membership experience and/or professional experience necessary to understand the operation of the huge enterprise called 'public education'." Both the current president and vice president of the Board suggested that the current Board has been rather weak in exerting its authority because most of the Board's members are more concerned about being reappointed than they are about effecting lasting policy. This opinion was repeated during several of the discussions between Commission staff and persons interviewed for this study.

### **Benefits of a Board**

Given the current situation and governance structure, the Board is rendered practically powerless. As a result, aside from the specific mandates set out in statute and the adoption of textbooks as specified in the Constitution, the majority of the State's educational policies are subject to the influence of one person: the Superintendent. Thus, one person has all available control over the State's programs for K-12 education and the State's portion of an education budget that has increased to more than \$23 billion annually.

Lacking are the benefits associated with having a State Board of Education, such as the input of a variety of perspectives on educational issues. Likewise, unlike one elected official, a board that must be confirmed by the Senate is not likely to be subject to one particular political ideology. Under a strong board, the long-range vision for California education is more likely to be the result of consensus among interested parties.

## **FINDING #2 -THE DEPARTMENT MAY BE CIRCUMVENTING THE STATE'S REGULATORY PROCESS THROUGH THE USE OF POLICY GUIDELINES**

State law requires that state agencies proceed through the State's regulatory process when prescribing actions based on the agencies' interpretations of statute. However, the Department frequently issues to schools and school districts various policy guidelines that appear to be prescriptive in nature. If these guidelines are determined to be in the nature of regulations, then local education agencies will have been forced to comply with the Department's interpretations of state law without the benefit of public input and the legal scrutiny of the State's primary agency responsible for approving administrative regulations.

### **Administrative Procedure Act**

California's Administrative Procedure Act (APA),<sup>38</sup> originally enacted by the Governor and the Legislature in 1945, has two prime objectives: meaningful public participation in and effective judicial review of the State's regulatory process. The APA was significantly amended in 1979,<sup>39</sup> most notably by the creation of the Office of Administrative Law (OAL). The statute establishes the State's current regulatory process, which allows for public comment on proposed regulations and requires a response to every comment from the state agencies proposing the regulations. Further, the APA gives to the OAL the power and duty to review regulations to ensure that they are written in a comprehensible manner, are authorized by statute and are consistent with other law.<sup>40</sup> Regulations do not become legally effective until reviewed and approved by the OAL and filed with the Secretary of State.

To ensure that state agencies go through the regulatory process, the APA states that "no state agency shall issue, utilize, enforce, or attempt to enforce any guideline, criterion, bulletin, manual, instruction, order, standard of general application, or other rule, which is a regulation as defined [by the APA] unless...adopted as a regulation and filed with the Secretary of State pursuant to [the APA]."<sup>41</sup> The APA defines a regulation as "every rule, regulation, order, or standard of general application or the amendment [thereof] adopted by any state agency to implement, interpret, or make specific the law enforced or administered by [the agency], or to govern [the agency's] procedure, except one which relates only to the internal management of the state agency."<sup>42</sup> Finally, only agencies that are expressly exempted from the APA are able to issue regulations without going through the regulatory process.<sup>43</sup> For example, the Industrial Welfare Commission is "expressly exempted from the provisions of [the APA]" when it issues orders that fix minimum wages, maximum hours and standard conditions of labor for all employees.<sup>44</sup>

Notwithstanding the legislative reforms of 1979, one category of agency regulatory activity continues to pose special problems. These are the so called "underground regulations" -- requirements of a regulatory nature imposed upon the public by state agencies without first having been subject to public scrutiny and comment pursuant to the APA. Unlike ordinary regulations, such "informal rules" are not submitted to the OAL for review.<sup>45</sup>

California's courts struggled for years with the related questions of (1) which agency "rules" constituted an exercise of quasi-legislative power, (2) which "rules" were generally subject to the APA and (3) which were "regulations" within the meaning of Government Code Section 11342. Some court decisions held that the "rules" in question did not constitute an exercise of quasi-legislative power; other decisions held that the "rules" in question were not subject to the APA, or were not regulations. Yet other cases held certain "rules" to be invalid unless adopted pursuant

to the APA. In 1978, the California Supreme Court decided a case which authoritatively clarified the scope of the statutory term "regulation."<sup>46</sup>

In 1982, concerned about the ramifications of "underground regulations," legislation was enacted authorizing the OAL to determine whether informal rules are in fact regulatory in nature and therefore unenforceable without compliance with the APA.<sup>47</sup>

### Department's Guidelines

In administering the State's policies on K-12 education, the Department has always issued to local education agencies guidelines relating to various procedures, programs and issues. During fiscal year 1988-89, the Department issued more than 170 various advisories, memoranda and bulletins. The Department cites various code sections as evidence that it has authority to issue these communication devices. For example, the Department claims that two types of these documents, fiscal management advisories and program advisories, are authorized under Education Code Section 33308.5.<sup>48</sup> This law states, in part: "Program guidelines issued by the [Department] shall be designed to serve as a model or example, and shall not be prescriptive. Program guidelines issued by the Department shall include written notification that the guidelines are merely exemplary, and that compliance with the guidelines is not mandatory."

The Department also cites Education Code Section 33319.5 as giving it authority "to issue, publish, and disseminate advisory opinions as to whether a particular program or activity is authorized by the permissive Education Code."<sup>49</sup> It should be noted, however, that the "permissive Education Code" statute states that such opinions can be rendered only upon the request of local education agencies that question "whether a program, activity or course of action is not in conflict with or inconsistent with, or preempted by, any law and which is not in conflict with the purposes for which school districts are established."<sup>50</sup>

Further, the Department contends that "in many instances, the APA process would not need to be followed for actual rule making because either the [Board] or [Superintendent] has been specifically authorized by the Legislature to waive the actual statute which would provide the authority for an underlying regulation."<sup>51</sup> As an example, the Department correctly points out that Education Code Section 33131 specifically exempts from the APA the Department's issuance of standards and criteria to be used by local education agencies in budget development and management.<sup>52</sup> The Department also claims that Education Code Section 33052.3 authorizes the Superintendent to "waive any current law if it is necessary in order to improve the financial and management practices of school districts or county offices of education."<sup>53</sup> It should be noted, however, that the law in question relates only to developing and testing improvements in financial management and reporting practices of local education agencies. The law further specifies that such a waiver "shall only be available to school districts and county offices of education that volunteer to develop and test the proposed improved financial management and reporting practices," and that the waiver is limited to three consecutive fiscal years.<sup>54</sup>

As mentioned above, the Department claims that its fiscal management advisories and program advisories are authorized under Education Code Section 33308.5.<sup>55</sup> In reviewing several of these advisories, however, Commission staff found that some of the documents appeared to fit the statutory definition of "regulation," that language in some of the documents appeared prescriptive and that almost none of the documents contained written notification that they were not mandatory. For example, two of the Department's fiscal management advisories, numbered 87-

05 and 88-09, related to local education agencies' calculation of teacher/administrator ratios. Each of the advisories interpreted the law relating to teacher/administrator ratios and instructed local agencies to calculate the ratios based on the Department's interpretation. Further, the advisories gave deadlines for the completion of the ratio calculations, and neither advisory contained any language indicating that it was merely exemplary and that compliance was not mandatory.

Another fiscal management advisory, which discussed the impact of outside employment on students' performance in school and set out recommended policies on the issuance of work permits, instructed local school officials to "limit work permits to not more than 20 hours total per week, with the possibility of exceptions in special circumstances, and require maintenance of satisfactory grades prior to and following issuance of work permits." This particular advisory, issued after the Commission began reviewing the concern over "underground regulations," was the only guideline reviewed by Commission staff to contain language indicating that the guideline was exemplary only and that compliance was not mandatory. However, the advisory was accompanied by a cover letter directed to local superintendents from the current State Superintendent stating, "I am asking you to join with me to limit the amount of time a student can work each week to 20 hours, except in those cases where special circumstances exist," and "I will ask Department staff to begin periodically reviewing work permit files to test the appropriateness of the justifications that are provided for those students who work in excess of 20 hours each week."

Some of the Department's program advisories and policy memoranda also contained prescriptive language without indicating that the guidelines were not mandatory. In fact, one of these documents<sup>56</sup> currently is being reviewed by the OAL to determine whether it is an "underground regulation." According to the Department, the memorandum in question serves as "budget guidelines for use by [Department] staff and child development agencies contracting with [the Department]."<sup>57</sup> The entity that requested the determination, the Child Care Law Center, contends that the Department is using the memorandum "as a rule of general application," and that "[the Department] has notified its contractors that non-compliance with the budget 'guidelines' may result in non-approval of their proposed budgets and program applications." Specifically, the requestor points out that the Department's memorandum states that "[d]eviations from these ranges must be justified by the agency and will be reviewed by [Department] staff as part of the application review process. If justifications for variances are inadequate, agencies will be required to submit additional justification or revised budgets."<sup>58</sup>

Regarding the compulsory nature of any of its guidelines, the Department claims that they "are non-binding, and although the Department hopes the reader will accept its advice and recommendations, the reader is just as free to reject it."<sup>59</sup> However, this contention was disputed by each of the district consultants interviewed by Commission staff. Moreover, at one of the Commission's public hearings on education, the president-elect of the California School Boards Association testified that local education agencies view the Department's guidelines as mandatory. Specifically, the president-elect agreed that the guidelines, in practice, are "orders or regulations that should be complied with and if they are not complied with there is some real penalty to the district that doesn't comply." She further stated that "while [the guidelines] may say the word 'recommendation', and they may say they are advisory, the fact of the matter is that in order to get 'check-off' on compliance in programs you already have to adhere to [the guidelines]." She also described as "almost insidious" the Department's issuance of guidelines "because they are couched as advisor[ies] as opposed to going through the process of becoming administrative regulation[s] and having administrative law," and added that "[i]t would be far preferable to have

the process in place where the input was clearly given prior and then [the guidelines] did have force of law, then to have it come through the back door internally from the Department and have to, basically, organize a rebellion...to [force] political pressure to change them."<sup>60</sup>

### **Without the Regulatory Process**

In part, the legislative reforms of the APA in 1979 were enacted to prevent state agencies from imposing on private persons and entities prescriptive standards that "place an unnecessary burden on California citizens and discourage innovation, research, and development of improved means of achieving desirable social goals."<sup>61</sup> Without going through the regulatory process, the Department avoids any public input and can impose upon local educational agencies whatever educational policy the Department deems appropriate. Out of fear that they would not get the necessary state approval for certain program funding, it is not likely that local agencies would openly oppose the Department's informal mandates.

The main purpose for the creation of the OAL was to have a central office in state government that provides the legal scrutiny necessary to review regulations to ensure that they are written in a comprehensible manner, are authorized by statute and are consistent with other law.<sup>62</sup> Although the Department has its own legal counsel, the counsel does not review every guideline issued by the Department; even if it did, the review could not be considered independent. Further, without legal scrutiny, guidelines that interpret state law may not always provide a correct interpretation. For example, reliance by school districts on the previously mentioned advisories relating to teacher/administrator ratios resulted in the districts being out of compliance with state law, according to the State Controller.<sup>63</sup> The Controller suggested that the Department's liberal interpretation of the applicable statute substantially broadened certain employee classifications to allow districts to carry a larger number of administrators. If these particular advisories had gone through the regulatory process, it is possible that a uniform interpretation could have cleared up any ambiguity in the law.

The current Superintendent has expressed a concern that going through the regulatory process for every interpretation of state statute "would stop [the Department] from doing business," and, therefore, the Department has to make judgments of "whether it's serious enough for regulation."<sup>64</sup> This attitude, however, ignores the very principles upon which the APA is based: meaningful public participation and centralized legal scrutiny.

## **Funding of Special Programs**

### **FINDING #3 - THE STATE'S SYSTEM OF FUNDING CATEGORICAL PROGRAMS IS NEITHER EFFECTIVE NOR EFFICIENT**

In attempting to provide earmarked funding for programs designed to meet special educational needs, the State has created an extremely complex system that recognizes 80 different categorical programs but does not link all program funding to identified needs and performance indicators. Further, the State's system of categorical funding does not allow for an efficient coordination of all appropriate funds at the local level. Consequently, the proliferation of specially funded programs has resulted in a duplication of services, curriculum fragmentation and ineffective delivery of services.

## Size and Complexity

In addition to basic district funding allocations, the State and the federal government allocate funds to school districts for specific K-12 education programs to meet variable expenses, for instructional improvement and for supplementary services to students with special needs. Further, funds are allocated to districts for several non-educational programs.<sup>65</sup> The purposes of each of these programs are specified in law, and the funding provided may be used only for those purposes and may not be used to augment the general education program.

For the fiscal year 1989-90, California has 80 separate categorical programs, each with its own special requirements. These programs are funded from 86 separate state and federal funding sources. Thus, one can see why one of the main criticisms of the State's system for categorical programs is that there are "too many programs" and the funding for the programs is "unnecessarily complex."<sup>66</sup>

The proliferation and complexity of California's system of categorical programs is unparalleled in the nation. Most of the other states also have created specially funded programs and provide for separate funding to an extent; however, none rival California in sheer volume of funding requirements. Even New York, often compared to California in size and complexity, has only 45 categorical programs.<sup>67</sup>

Some other states have made efforts to simplify the funding of categorical programs by including some or all of their categorical funding in their basic aid formulas. For instance, Virginia allocates a base funding amount for individual categorical programs to each district based on average daily enrollment. This method assumes that there are special needs inherent to all student populations. In addition, Virginia analyzes enrollment data and applies criteria from state-board-approved "Standards of Quality", and distributes additional funds based on average daily enrollment.

Both Massachusetts and Texas distribute categorical funding based on a full-time equivalent student (FTE) calculation for each district. A regular student is funded for one FTE while students entitled to categorical funding receive funding for one FTE plus an add-on for the program as defined in law. The demographics of the individual districts are used to determine the number of students entitled to the add-ons.<sup>68</sup>

## Attempts at Reform

California has made attempts at simplifying the funding requirements for some categorical programs and allowing flexibility in the local application of the funding. Most notably, the School-Based Program Coordination Act of 1981 (SBPCA)<sup>69</sup> provides a basic mechanism for allowing schools to coordinate funding for selected programs based on approved school site plans. Schools may coordinate the programs with one another, or with the regular program, without being required to use resources from each program to provide services exclusively to "eligible" students. The major programs which currently can be coordinated under this act are: School Improvement Program; Gifted and Talented Education; School Staff Development; Economic Impact Aid (including Bilingual Education); Special Education; and the Miller-Unruh Reading Program.<sup>70</sup> The SBPCA was enacted in response to school district desires to reduce the difficulty and effort required in managing separate programs. In general, it grants the flexibility to school districts and school sites while ensuring that plans provide for meeting categorical student needs.<sup>71</sup>

Under the SBPCA, participating schools are required to select a School Site Council, with half the members representing the principal, teachers and other school personnel. The other half is comprised of parents, students or other community members. The School Site Council develops a school site plan for the use of the coordinated funds in purchasing materials and compensating staff, and obtains approval of the plan from the governing board. The school site plan must list all of the categorical programs participating in the school-based program, contain an explicit statement of what the school seeks to accomplish, include a budget with all approved modifications, and provide for ongoing evaluation of the school's educational program. In addition, the planned program must provide for staff development for teachers, paraprofessionals, volunteers and other school personnel.

New Haven School District in Alameda County provides an example of the success of the SBPCA. Schools in New Haven have used this system to provide appropriate evaluation and counseling for individual students. Instead of determining which program a student qualifies for and placing the burden of evaluation and counseling on the staff assigned to that program, the school site plans allow staff to evaluate the student's needs collectively and determine which staff could most effectively counsel the student. This type of coordination has allowed the funding to be more effectively focused on meeting the needs of the students.

Although the SBPCA has enjoyed some success in coordinating funding for programs, it has not been widely implemented as statutorily intended. This conclusion is reached despite the impressive statistics regarding implementation; following are the number of schools participating by year:

<u>Fiscal Year</u>	<u>Number of Schools</u>
1984-85	512
1985-86	372
1986-87	175
1987-88	1539
1988-89	2586

These numbers are deceiving because the substantial increase in participation in the last two years primarily is due to the June 30, 1987 "sunset" of the School Improvement Program (SIP). The SIP, one of the programs covered under the SBPCA, allowed districts to receive full reimbursement for average daily attendance for a maximum of eight staff development days. When the SIP sunsetted, the eight days of staff development was terminated for those schools that participated in the SIP independent of the SBPCA. However, schools that participated in the SIP and the SBPCA retained the reimbursement for the eight days. Consequently, many of the schools that would have lost the reimbursement now are participating in the SBPCA to retain it. Specifically, the Legislative Analyst determined that 39 percent of the participating schools are coordinating SIP and regular education funds only, even though such coordination is possible without participating in the SBPCA.<sup>72</sup> These schools may not be taking advantage of the other opportunities inherent in the program.

Regardless of how many schools participate under the SBPCA, however, the act does not include as many programs as could be coordinated. Unlike federal law, state law does not permit school districts to commingle state categorical funds with general purpose revenues, thereby further discouraging program coordination.<sup>73</sup> If the State allowed further coordination, it would encourage schools to upgrade their entire educational program. In 1988, a blue ribbon panel identified nine

additional programs that are good candidates for coordination under the SBPCA.<sup>74</sup> Also in 1988, legislation sponsored by the California School Boards Association (Assembly Bill 3053) would have extended the provisions of the SBPCA to a broad range of additional categorical programs; the bill became "tangled in the sunset reauthorization battle over various categoricals" and was lost on the Assembly floor by one vote.<sup>75</sup>

### **Programs Not Based On Need**

Another of the main criticisms of California's system of categorical programs is that, over time, the programs have ceased to be based on the needs of students and districts. One of the basic premises of categorical funding is that it can be appropriately provided to address specific needs. However, in some cases the funding has failed to be tied to need. At the Commission's November 1989 hearing, the president-elect of the California School Boards Association testified:

We believe that the principle equity problem associated with categorical programs lies in the inability of some districts to receive funding for a specific categorical program need which is identical to a funded need in another district. It does not follow that a child who qualifies under the 'need' definition always gets funded. Additionally, while most of the categorical programs have been created to meet very specific needs, ... some programs in the categorical list have been created for more political purposes in an effort to provide additional revenue to specific types of districts. Because the special needs funding does not keep pace with growing special needs and the shifts in those needs from one district to another occur, existing recipient districts institutionalize their expectations for what they think of as their entitlements, irrespective of the genuine need. This creates large problems when attempts are made to redistribute funding based on the need for which the program was originally created. Existing recipient districts in some cases become losers financially whenever attempts at equalizing the system occur. The resulting political mobilization by those who are going to lose generally paralyzes what we feel has been needed reform.<sup>76</sup>

Additional testimony by Dr. Allan Odden, Director of Policy Analysis for California Education, also was critical of the funding for categorical programs:

The formulas in these programs are outdated; the data elements are not kept current, they do not get updated every year. For many of the formulas, the money you get this year is... what you got in '79 plus a series of adjustments. If you were in the program in '79, you're in it today; if you weren't in in '79, but you've got poor kids or limited-English-proficient kids or a whole series of special needs kids, you don't get the money. That clearly is a major problem.<sup>77</sup>

The concern over the effectiveness of funding categorical programs became a major roadblock during the negotiations in the Assembly for the 1989-90 budget bill. In question was the allocation of about \$400 million in new categorical aid made available by Proposition 98. As one of their arguments, critics of the current system of funding contended that many of the large urban areas in California have enjoyed high amounts of categorical funding even though they did not

demonstrate a need by having more children from lower socioeconomic levels than districts receiving less amounts of funding. An illustration used in the argument:

<u>District</u>	<u>Percent of Enrolled Students from Families Receiving AFDC October 1988<sup>78</sup></u>	<u>Categorical Funding Per Student Fiscal Year 1988-89<sup>79</sup></u>
Los Angeles Unified	20.9%	\$1,045
San Jose Unified	13.6%	\$1,346
San Francisco Unified	22.6%	\$ 934
Sacramento City Unified	37.3%	\$ 442
Rio Linda Union Elementary	29.0%	\$ 333

As the data show, major urban districts such as Los Angeles Unified, San Jose Unified and San Francisco Unified receive more funding but appear to have less need than districts such as Sacramento City Unified and Rio Linda Union Elementary.

The compromise that was worked out for the budget bill is reflected in Assembly Bill 198 (Chapter 83, Statutes of 1989), one of the two major measures that implement Proposition 98. AB 198 attempts to equalize categorical funding by establishing a new "Supplemental Grants" program for allocating additional funding to school districts that receive less than average funding from existing state-supported educational programs. A formula based on historical data is used to allocate the funds. These grants are intended to enhance existing categorical programs or to establish programs where none currently exist. Schools receiving these funds are required to use them for one or more of 26 selected programs, but no further specific requirements are defined for the use of the funds.

Although the supplemental grants may equalize funding levels among districts, they still fail to tie the funding to demonstrated need. Because the supplemental grants are based on the history of districts' relative funding, it is possible that grants could be allocated to districts that do not need the funding. Specifically, a district historically may have received less categorical funding than other districts because it had less of a need than those districts. Under the supplemental grant program, such a district could now receive additional funding even though it still does not have the need for the funding. Thus, the supplemental grants may provide funding for districts that historically have received inequitable funding, but also may provide funding for districts that have not. Without providing a mechanism to allocate categorical funding according to need, the system will continue to perpetuate the ineffective expenditure of categorical funds.

#### **FINDING #4 - THE CATEGORICAL "SUNSET LAWS" HAVE NOT BEEN WORKING AS STATUTORILY INTENDED**

Despite the statutory elimination of specific program requirements for certain categorical programs, the Department of Education has imposed similar, if not more stringent, requirements on schools for the operation of the programs. The Department issued the requirements as guidelines to ensure that program goals are met. However, contrary to legislative intent, schools are denied flexibility in meeting the programs' general purposes.

##### **"Sunset" Provisions**

Education Code Section 62000 et seq. provides for a system of program review for various categorical programs and for the "sunset" of these programs on specified dates in the event the Legislature does not enact legislation to continue the program(s). Although the term "sunset" previously was used by the Legislature to mean "abolish," with regard to education it currently connotes the elimination of specific statutory and regulatory constraints on categorical programs while continuing the funding for those programs (to the extent it is appropriated).<sup>80</sup> Specifically, Education Code Section 62002 provides, "If the Legislature does not enact legislation to continue a program..., the funding of that program shall continue for the general purposes of that program as specified in the provisions relating to the establishment and operation of the program.... The funds shall be used for the intended purposes of the program, but all relevant statutes and regulations adopted thereto regarding the use of the funds shall not be operative...." The only exception to this law is that parent advisory committees and school site councils in existence pursuant to statute must continue or be established.<sup>81</sup>

The intent of the law clearly is to provide schools with flexibility in meeting the general purposes of the categorical programs subject to sunset. Instead of allowing schools this flexibility, however, the Department imposes new requirements after the programs sunset. For example, on August 26, 1987, the Department issued to all schools a program advisory relating to the five programs that sunsetted on June 30, 1987.<sup>82</sup> The Department has taken the position that, even though specific statutes and regulations on the sunset programs are eliminated, local discretion is not unlimited.<sup>83</sup> The program advisory outlined the procedures the schools should use in continuing to meet the general purposes of the five programs. Further advisories have been issued to address the specific requirements of most of the sunsetted programs. It should be noted that while the Department claims that the advisories are suggestions only, they are viewed by local education agencies as requirements. (Please see Finding #2.)

One of the programs that was sunsetted, Bilingual Education, has caused considerable concern among districts. Not only are the districts concerned that the Department issued new requirements at all, but they believe that the new requirements are more stringent than the requirements established by the program's statute originally.<sup>84</sup> Since the date the bilingual program was sunsetted, the Department has issued several program advisories and other documents relating to requirements for the program. These advisories identified the statutorily defined general purposes of the program, the federal legal requirements to provide services, the minimum services that must be provided post-sunset, elements of the program no longer required, the method of funding the program, and some general "advice."

The Department has determined that, in addition to the sunset statutes, federal law guides the requirements of the post-sunset bilingual program. In one of its advisories, the Department quotes the federal statute providing for bilingual education:

No state shall deny equal educational opportunity to an individual on account of his or her race, color, sex, or national origin, by... the failure by an educational agency to take appropriate action to overcome language barriers that impede equal participation by the students in its instructional programs.<sup>65</sup>

Federal court cases<sup>66</sup> that have interpreted this law have established the following three part analysis of whether "appropriate action" is being taken:

- 1) The educational theory or principles upon which the instruction is based must be sound.
- 2) The school system must provide the procedures, resources and personnel necessary to apply the theory in the classroom. That is, the programs actually used by the school system must be reasonably calculated to implement effectively the educational theory adopted.
- 3) After a reasonable period of time, the application of the theory must actually overcome the English language barriers confronting the students and must not leave them with substantive academic deficit.

Despite the general nature of the federal analysis, the Department has identified in its advisories numerous program requirements necessary to meet the federal and sunset statutes. For example, on May 20, 1988 and February 10, 1989, the Department issued program advisories that identified options available to districts for achieving compliance with the staffing and instructional requirements of the program.<sup>67</sup> These options were provided to supply "guidance" to the districts on complying with the sunset statutes, but were seen by districts as strict requirements that must be adhered to for continued funding of the program.

By imposing requirements on schools, the Department does not allow schools the flexibility that was intended by the sunset laws. Consequently, it stifles the creativity and efficiency of local education agencies in meeting the general purposes of the programs that were sunsetted.

## Organization of Local Entities

### **FINDING #5 - THE REORGANIZATION OF SOME SCHOOL DISTRICTS NEEDS TO BE CONSIDERED**

Recent data have indicated that there are potential efficiencies to be realized through the consolidation of some extremely small districts and the breakup of some extremely large districts. Opposing political pressure, the lack of fiscal incentives, and the lack of analysis related to specific California school districts have prevented such reorganizations from occurring in the State. As a result, excessive administrative and other overhead costs are incurred in some districts.

#### **Economic Efficiency Potential**

Much of the available literature on the subject of district reorganization suggest that there is some evidence of a relationship between district size and economic efficiency. It appears that, up to a point, economies of scale are possible in some districts. What is uncertain is the point at which increasing a district's size no longer results in greater efficiency.<sup>88</sup>

Economic theory suggests that there may be a relationship between school district size and economics.<sup>89</sup> It stands to reason that some efficiencies should be gained by increasing a district's size up to some level. For example, consider the following hypothetical, albeit simple, illustration of the consolidation of two contiguous districts serving 300 students each:

Prior to consolidation, each district had a governing board, a superintendent, a deputy superintendent, a full complement of administrative staff including accounting and business services, a transportation unit, a maintenance unit, and all overhead expenses normally incurred by districts; total administrative and overhead expenses in each district was \$450,000, or \$1,500 per pupil. After consolidation, there was the elimination of one superintendent and one deputy superintendent, and at least a 50 percent reduction in board size and all other non-teaching, non-certificated staff. In addition, the district's combined resources make available other savings, such as through bulk purchasing and lower marginal costs for insurance. The combined districts' total costs are now \$600,000; spread over a student population of 600, the per-pupil cost is \$1,000.

If the argument is simple in principle, it is anything but simple in application. For more than two decades, literature on the economics of education has been filled with studies and debates about this matter.<sup>90</sup> A Cornell University study on organizational alternatives for rural schools sums up a key point:

Our own review of this literature suggest that economies of scale are possible in education, but that diseconomies seem to be equally likely. Most importantly, it is unclear from the extant research when the latter will surpass the former. This is because a multitude of factors determines the 'tipping point,' and these factors and their combinations are unique to each situation. Thus, when State officials urge a consolidation of two or more school systems, they cannot assume that the resulting

district will be able to offer the same (or better) services at a lower cost without a highly sophisticated study of the particular instance. Such studies are not done.<sup>91</sup>

Thus, when considering the consolidation of school districts, one needs to consider all factors. Some of the factors that must be studied are fiscally oriented; for example, despite savings in some areas through economies of scale, there could be cost increases in other areas such as transportation of students and distribution of supplies.

Perhaps more importantly, non-financial factors such as student achievement need to be considered when reviewing the possibility of consolidating districts. A 1970 study reviewed the relationship between district size and achievement and concluded that "all of the studies that have tried to relate school size or school district size to education outcomes have found either no relationship or a negative one between student enrollments and the level of education outcome."<sup>92</sup> In 1986, a large-scale study of school district efficiency in New Jersey stated, "Research on district size... is at best equivocal; and much of it suggests that bigger districts yield low achievement, and poor student, parent, and staff morale." The study concluded that, after controlling for socioeconomic status and per-student expenditures, larger district enrollments were associated with lower student achievement. The study further concluded that "[the] consolidation of districts into larger units that has been taking place for the past half century may have been a move in the wrong direction." The study suggested that the greater achievement in small districts could have been due to "superintendent and central staff awareness of citizen and parent preferences, the absence of bureaucratic layers and administrative complexity, teacher involvement in decisionmaking, and close home-school relations."<sup>93</sup> Such studies point out that any consideration of district reorganization should involve a cost/benefit analysis that weighs the benefits of consolidation against the potential costs of decreased student performance.

Since available data suggest that, at least in some cases, an increase in district size could result in greater economic efficiency, it makes sense to consider the possibility. Some data unique to California suggest that there is a potential for greater efficiency. In the State, there are 249 districts with an ADA of 300 or less. Although many of these districts may not be suitable for consolidation because of some of the factors mentioned above, certainly some of the districts might benefit from merging.

### California Data

Data recently generated by the Department for the Commission support this possibility. In comparing the "support services" costs per pupil of small districts with those of large districts during fiscal year 1987-88, there appears to be a relationship between district size and economic efficiency in terms of administration and overhead. For example, of the 132 unified districts with an ADA of 5,000 or more, only one district had "support services" costs of more than \$2,000 per pupil. On the contrary, of the 146 unified districts with an ADA of less than 5,000, 32 exceeded \$2,000 per pupil. In fact, all but 3 of the 32 districts have an ADA of less than 1,000.<sup>94</sup> Recognizing that districts may differ in interpreting what to report as "support services" and that there is an inherent danger in making comparisons between those districts, the data at least suggest that further study is warranted. Although the data indicate that larger districts may be

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\* "Support services" includes total certificated salaries (excluding teachers), total classified salaries (excluding instructional aides), total benefits not related to instruction, total books and supplies (excluding textbooks and instructional materials and supplies), total other operating expenses (excluding instructional consultants/lecturers), books/media for libraries, equipment, and equipment replacement.

more economically efficient than small districts, a multitude of other factors must be considered for each situation before determining whether districts should be consolidated.

A recent study by the California Assembly Office of Research adds evidence to the possibility of a positive correlation between district size and efficiency. The study assessed the relationship between school district size and economic efficiencies in terms of cost for necessary items such as utilities, supplies, transportation, janitorial service, insurance and other overhead expenses. Although the review did not include administrative costs, it did show that other overhead expenditures per pupil generally decline as district size increases up to a point. For example, large districts such as Long Beach Unified (\$408 in selected overhead expenses per pupil), San Francisco Unified (\$379 per pupil), and Fresno City Unified (\$530 per pupil) appeared more efficient than extremely small districts such as Cuyama Joint Unified (\$1,920 per pupil), Princeton Joint Unified (\$1,143), and Southern Trinity Joint Unified (\$2,833 per pupil).<sup>95</sup> As with the comparison of district's per-pupil costs for "support services," it should be noted that these figures alone do not suggest that the small districts should be consolidated.

Some studies suggest that there is an even stronger association between school size and overall operating costs. For example, according to sample data in an Auditor General report issued in November 1987, small schools spent approximately 37.7 percent of their total funds on administration and support, while medium-sized schools spent 34.7 percent and large schools spent 34.9 percent.<sup>96</sup> A 1982 study by the Evaluation and Training Institute of various schools in Los Angeles Unified further corroborates this finding.<sup>97</sup>

The correlation between school size and overhead costs does not contradict the evidence of a relationship between district size and economic efficiency. Other studies show that since small schools occur disproportionately in small districts, school level inefficiency contributes to high per pupil costs in such districts.<sup>98</sup> One can draw the conclusion that an advantage of a larger district is that costly schools generally can be offset by efficient schools, whereas smaller districts are prone to higher overhead costs overall.

### **Barriers to Reorganization**

Ultimately, any district reorganization must be approved by the State Board of Education.<sup>99</sup> However, current state statute requires that any reorganization must be initiated by either 25 percent of the registered voters, the owner of property (if the territory in question is uninhabited), or a majority of the governing board(s) in the district(s) that would be affected by the proposed reorganization.<sup>100</sup> Moreover, once the State Board has approved the reorganization, the electorate in the affected district(s) must vote on the proposal. Thus, the decision to reorganize is greatly influenced by local politics. One of the main arguments by opponents to district consolidation is that districts would give up "local control." In addition, some of the most influential members of the educational community, the governing school boards, may fear a loss of power and possibly employment. Consequently, many proposals for consolidations that could provide an overall benefit to the districts involved are defeated. It should be noted, too, that political pressure is most often cited as the primary reason why the Los Angeles Unified School District has not been reorganized.

According to testimony received at the Commission's November 1989 hearing on K-12 education, another barrier to the consolidation of some school districts is the lack of fiscal incentives offered by the State. The president-elect of the California School Boards Association

stated that the State government needed to provide enough fiscal inducements to make it worthwhile for districts to go through the effort of consolidating. She further pointed out that even the minimal state incentives that had been offered in recent years were negated by laws enacted during the 1989 legislative session. Specifically, she was referring to the recently enacted Senate Bill 98 (Chapter 82, Statutes of 1989), one of two measures designed to implement the provisions of Proposition 98, and its effect on Education Code Section 35735. To illustrate the effect:

District A, which had a revenue limit of \$3,000 and a fairly high salary schedule, consolidates with District B, which had a revenue limit of \$2,000 and a medium-ranged salary schedule, to form District C. Prior to SB 98, Section 35735 would allow District C to blend the revenue limits and salary and fringe benefit schedules for certificated and classified employees so long as (1) District C's cost to the State is no greater than 10 percent higher than the sum of District A's and District B's costs, and (2) District A (which had the higher salary and fringe benefit schedule) comprises at least 10 percent of District C's certificated and classified employees. SB 98 now requires that District A comprise at least 25 percent of District C.

This change in law, claim its detractors, makes consolidation less attractive to some districts.

Some other states offer substantial fiscal incentives to local education agencies for consolidation. For example, districts that consolidate in Illinois receive from the state government an additional 20 percent operating aid for five years after the consolidation; there have been 45 consolidations in the last five years.<sup>101</sup> New York offers a combination of increased salaries and a guaranteed level of state aid for three years, and may cover the consolidating districts' short term debt; New York currently has 12 fewer districts than it did five years ago.<sup>102</sup> Finally, the Minnesota state government offers an additional \$200 per pupil (scaled down over time) to districts that consolidate; 7 districts accepted this offer in the school year 1988.<sup>103</sup>

One additional barrier to consolidation is the lack of analysis related to specific districts in the State. There has been no recent, statewide study to determine which districts are candidates for consolidation; accordingly, there has been no study analyzing the multitude of factors that would be unique to each situation. In the past, there have been several committees and commissions established by the Legislature to consider consolidation and reorganization of school districts within the State.<sup>104</sup> Most recently, Senate Bill 2357 (Chapter 1229, Statutes of 1988) created a 13-member commission to study the feasibility of the increased consolidation of school districts and to recommend statutory revisions based upon the results of the study. The commission is to be appointed by the Governor (nine members) and the Legislature (two members each by the Senate and the Assembly), but does not explicitly provide for a representative of either the State Board of Education or the Department. Further, although the commission is supposed to report the results of its study no later than January 1, 1990, as of this writing there have been no appointments made and the \$100,000 that had been earmarked for use by the commission was deleted from the bill by the Governor. The Governor's message indicating the deletion stated that the legislation's "merits do not sufficiently outweigh the need this year for funding top priority programs and continuing a prudent reserve for economic uncertainties."<sup>105</sup>

### Reorganizing Large Districts

As alluded to earlier, extremely large districts also may be operating less efficiently than possible. Rather than continue to enjoy economies of scale, such districts are said to experience

diminishing returns once they grow past a certain size. Unfortunately, little research has been conducted on the break-up of large districts, even though large urban districts such as New York City, Detroit and Chicago have gone through waves of centralization and decentralization that relate to changes in superintendency, district size and political climate.<sup>106</sup>

The 1982 study by the Evaluation and Training Institute (ETI), however, was a comprehensive review of the Los Angeles Unified School District (LAUSD), where, for years, there has existed a controversy over the large size of the district. With more than 570,000 average daily attendance, the LAUSD is the second largest school district in the nation. The study by the ETI analyzed the potential reorganization of the LAUSD in terms of educational quality, fiscal efficiency, fiscal equity, constitutionality, community access and involvement, and feasibility of implementation. The study revealed major inefficiencies and inequities in the LAUSD, but concluded that "none of the alternatives for reorganization offered a complete solution to the problems confronting [the] LAUSD."<sup>107</sup> The reorganization alternative with the highest ranking was one that would dissolve all school boundaries for the LAUSD and other districts in Los Angeles County and create a number of new, autonomous and independent districts. The authors acknowledged that the implementation of this alternative "would require extensive study, widespread community participation, and would undoubtedly prove very costly."<sup>108</sup>



## **FINDING #6 - THE ORGANIZATION OF OFFICES OF EDUCATION BY COUNTY BOUNDARY IS INEFFICIENT AND DOES NOT MAXIMIZE SERVICE DELIVERY**

Operating as intermediate agencies between the State and the local school districts, county offices of education are intended to coordinate services among the districts within each county. Under this organization, however, many offices restrict their activities to county boundaries rather than operate according to the needs shared by districts from different counties within the same region. Consequently, these county offices of education are unable to realize the efficiencies available through the greater coordination of district efforts and the services delivery in those districts is not maximized.

### **Role of County Offices**

Article 9, Section 3 and Section 3.3 of the California Constitution provide for a superintendent and board of education in each of the State's counties. Accordingly, each of the counties has an office of education to support the activities and duties of the superintendent and board. Historically, county offices of education were regarded as an extension of the Department and played a substantial regulatory role, performing such functions as ensuring compliance with state standards.<sup>109</sup> In addition, in the early 1960s, county offices worked closely with county tax assessors in developing projections for school revenues and budgets. To an extent, county offices still have responsibility for collecting and certifying detail data;<sup>110</sup> however, since the State has assumed responsibility for funding schools, the fiscal function of county offices has diminished.<sup>111</sup>

In providing testimony at one of the Commission's hearings on K-12 education, the firm of Policy Analysis for California Education submitted:

To a growing degree, county offices have come to offer direct services to school districts, often providing system efficiencies through cost containment and cost reduction programs. Examples include educational telecommunications networks, staff development training and coordination, transportation management, centralized payroll data processing systems, library and film distribution, business services consulting, and coordinated or centrally provided student instructional services. In specialized areas such as services for the handicapped and in vocational education, services for which there can be substantial economies of scale, county offices have assumed actual operating functions. In general, smaller and more rural areas depend to a greater extent on the services of county offices.

These types of services could be provided in a more efficient manner, however, if not restricted to county boundaries. The current organizational structure that defines intermediate agencies by county boundary appears to be "more root[ed] in history than in practicality."<sup>112</sup> While such a structure may have worked when it was first established in the Constitution, the varying rates of growth among counties and an increase in population mobility has rendered county lines useless in terms of defining the area to be covered by services most efficiently. In coordinating and providing services within its boundaries, a county office of education ignores other counties' districts that have similar needs. Some counties, particularly rural ones, could realize economies of scale and a broader curriculum by pooling their resources through cooperative arrangements.

Other states have found success in using a regional basis to organize the delivery of certain services. New York, for example, has extensive experience with shared educational services and is one of the national leaders in sharing services among districts on a regional basis.<sup>113</sup> New York relies heavily on 41 regionalized intermediate agencies, known as Boards of Cooperative Educational Services (BOCES), to allow districts to share services in occupational education, in education for the handicapped, in planning, in educational communications, and many other broad-based programs. Other services offered through a BOCES include drug and health education programs, continuing education, staff development, data processing, and cooperative purchasing.<sup>114</sup> Although membership is optional, each of New York's 721 school districts belongs to a BOCES, partly because the state offers financial incentives to districts that use some of the services provided through a BOCES.

Pennsylvania also organizes its intermediate agencies to provide services to districts on a regional basis. This state's 29 "Intermediate Units" operate across county boundaries, and provide districts services that include special education, curriculum development, transportation, and bulk purchasing. The Intermediate Units are administered by appointees of the participating school districts' boards, and are funded primarily by local government with a set level of state support.<sup>115</sup>

Texas offers another good example of regionalized services. Texas' 20 "Education Service Centers" are used by districts for cooperative applications for state grants, special education, specialty instruction, curriculum design and central purchasing. The Education Service Centers are funded through contracts with local districts and receive very little state support.<sup>116</sup>

### **Cooperative Arrangements In California Could Be Expanded**

Regionalized services are offered in a limited capacity in California as some counties have already entered into cooperative arrangements for certain services. For example, there are over 100 Special Education Local Plan Areas (SELPA) in California formed to deliver special education services to students with such needs. SELPAs are formed in various configurations ranging from several SELPAs within a single district to several counties within a single SELPA. There are also many Joint Powers Authorities (JPAs) formed for a diversity of reasons including the provision of vocational education services, transportation services, various types of insurance, health and medical services, and quantity purchasing.<sup>117</sup>

In 1988, the Governor's California Commission on Educational Quality suggested that "many cooperative programs are in place throughout the state," but that the role of county offices of education was not clearly defined and, therefore, the potential of regionalization of services delivery has not been fully realized.<sup>118</sup> The commission report stated that increased regionalization of program and service delivery would provide substantial management efficiencies and cost containment in the K-12 education system. Similarly, the Association of California School Administrators' Commission on Public School Administration and Leadership recommended that regional service centers be created by a consortium of county offices to provide a wide range of support services to districts. The administrators acknowledged that such centers currently exist to a certain degree, but indicated that additional centers would be useful in achieving economic efficiencies and improving the availability of technical resources.<sup>119</sup>

## Attendance Reporting

### **FINDING #7 - THE STATE'S SYSTEM FOR REPORTING ATTENDANCE IS INEFFICIENT AND DOES NOT ENCOURAGE ATTENDANCE**

As the foundation for the allocation of basic education revenues to school districts, California's attendance reporting system requires schools to identify those students who are properly excused and thus eligible for state aid. The attendance system requires schools to invest much time and effort in accounting for students who are not actually attending. Further, the current system encourages schools to classify questionable absences as excused absences because of the otherwise potential loss in revenue to the schools. As a result, more emphasis is placed by schools on attendance procedures than on increasing students' attendance.

#### **Negative Attendance System Is Inefficient**

Existing law<sup>120</sup> requires the governing board of each school district and each county superintendent of schools to report to the Superintendent of Public Instruction the average daily attendance (ADA) of pupils in their respective jurisdictions. The statutes prescribe a formula for the calculation of ADA that requires schools to count students who are actually attending as well as students who are absent for a legitimate reason, such as illness.<sup>121</sup> Based on the ADA reported by the local education agencies, the Superintendent of Public Instruction apportions basic education revenues to each agency using the complex formula for calculating each agency's revenue limit.

California's system, considered a negative attendance system because it accounts for some students who are not actually attending, is unlike any other state's in the nation. All but one of the other states derive their basic funding apportionments from either a positive attendance system, from enrollment figures, or from a combination of both. For example, Illinois and New York use actual attendance based on a daily head count,<sup>122</sup> Texas uses actual attendance based on a census taken during four weeks in October and four weeks in February of each year, and uses the highest four weeks to compute an average.<sup>123</sup> Minnesota and Pennsylvania use average daily enrollment figures,<sup>124</sup> while Massachusetts uses enrollment figures taken at the end of the school year<sup>125</sup> and Ohio uses enrollment figures based on a census taken on October 15 and January 15 of each year.<sup>126</sup> Arizona uses an interesting combination of attendance and enrollment figures that are taken daily: districts are funded based on 106 percent of average daily attendance up to a maximum of 100 percent of average daily enrollment.<sup>127</sup> Like California, Michigan includes excused absences with actual attendance; however, Michigan bases its average daily attendance on a census taken on the fourth Friday after Labor Day each year.<sup>128</sup>

According to a June 1988 report of a technical advisory committee to the Commission on Educational Quality, California's current system invests thousands of person-hours in determining those students who are properly excused and thus eligible to be counted for state aid. The advisory committee's review of selected Los Angeles County schools showed that between 2 percent and 8 percent of external auditor time is expended in the review of attendance documentation, and that a portion of clerical worker time in all programs, perhaps between 1 percent and 2 percent, could be freed for other tasks if the attendance system were streamlined.<sup>129</sup> Resources could be better spent in other areas, such as attempting to prevent the absenteeism that the schools currently are busy accounting for.

Another problem with the State's current system is that it encourages schools to avoid following up on excused absences. For example, most schools will accept a note from a parent as evidence that the parent's child was absent for a legitimate reason. Because such a note is sufficient evidence for state auditors to verify a school's inclusion of an excused absence in its ADA, a school is unlikely to investigate further to determine whether the note is authentic or whether the reason for absence as described in the note is factual. If a school determined that an absence actually was unexcused, the school would lose revenue. Thus, rather than focus on actual attendance, the system creates an incentive for excused absences. Further, the system concentrates on "the 'sorting of absence slips' for auditors to verify accountability... [and] makes teachers function as clerks for auditors."<sup>130</sup>

### **Positive Attendance System Increases Attendance**

In 1980, the Department established the Attendance Improvement Pilot Study<sup>131</sup> in which 32 schools from 28 districts used a positive attendance system to report attendance daily. After two years of testing strategies, the study showed marked attendance improvement in the participating schools. Using the 1979-80 school year to make baseline comparisons, the Department reports for the 1982-83 school year that 11 elementary schools averaged a 3.12 percent improvement in actual attendance, 5 intermediate/junior high schools had an average gain of 3.42 percent, and 15 high schools averaged a 5.39 percent increase.<sup>132</sup> (The Department excluded one continuation high school from the study results.)

The Department emphasizes that the positive results were the effect of a comprehensive approach to improving attendance. Specifically, the Department suggests that in addition to streamlining attendance reporting systems, schools and school districts should:

- assess actual attendance;
- develop policies and procedures related to attendance;
- select program strategies such as school-to-home contact, incentives, counseling, School Attendance Review Boards, in-house suspension, etc.;
- train staff members on the attendance program; and
- involve community members.

Based on the results of its pilot study, the Department currently is sponsoring legislation, Senate Bill 611 (Cecil Green), to change to a positive attendance system. Under the proposed system, local education agencies would continue to take attendance daily but would not include excused absences as part of average daily attendance for revenue limit calculations. In its analysis of the bill, the Legislative Analyst's Office estimates that if the State were to change to a positive attendance system, actual attendance could increase up to three percent, phased in over several years. The Legislative Analyst's Office further points out that the increase in attendance would result in a corresponding increase in the cost of funding the schools: as high as \$1.0 billion annually.

Thus, the State's decision makers are faced with the issue of increasing funding for education in return for increasing the number of students exposed to that education. This decision is made easier in light of the common knowledge that the cost of exposure to education is more than offset by the long-term costs associated with students that drop out of the public education system.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

Contrary to the legal description of the State's education governance structure, the Superintendent of Public Instruction is not operating at the direction of the State Board of Education. Instead, because of an inherent flaw in the governance structure itself, ambiguity created by the State's statutes and Constitution, and a weak State Board, the Superintendent has assumed the role of policy maker and the State's schools are without the benefits associated with an educational policy governed by a strong state board. The State's regulatory process is being circumvented through the Superintendent's use of "guidelines" that are actually regulations adopted without the benefit of public input and legal scrutiny by the Office of Administrative Law required under statute. These tactics are an abuse of the Superintendent's power and violate the law governing creation of administrative regulations.

In addition, efficiencies could be effected in various aspects of educational practice and organization. For example, the complex system of categorical programs and funding does not sufficiently allow for local education agencies to efficiently deliver services to those schools and students with the greatest need. Further, there are potential efficiencies to be realized through the reorganization of some school districts and the regionalization of services delivery in the State. Finally, California's attendance reporting system requires schools to invest much time and effort in accounting for students who are not actually attending, and does not effectively encourage attendance in the schools.

### Recommendations

1. To reduce the ambiguity created by the State's statutes and Constitution regarding the relationship between the State Board of Education and the State Department of Education, the Governor and the Legislature should enact legislation to amend the Education Code so that approval authority for the State's proposed education budget is given specifically to the Board. Such an amendment should make it clear that the Board's authority is superior to the authority of the Department over the proposed budget for the Board's activities as well as the activities of the Department. Further, it should be clear that the Board would be responsible for establishing and administering the proposed budget for its own activities and the Department still would be responsible for establishing and administering the budget for all other education activities at the state level.
2. To prevent the State Department of Education from circumventing the State's regulatory process, the State Attorney General should file an action to prevent further violations of the Administrative Procedure Act (Government Code Sections 11340 to 11356, inclusive) by the Superintendent of Public Instruction and require the Superintendent to adopt regulations only after public hearing followed by review by the Office of Administrative Law. The Governor and the Legislature should enact legislation to eliminate any ambiguities of existing law and all waiver power previously granted to the Department of Education or the State Board of Education relating to regulations except as they are provided to all agencies under the Administrative Procedure Act. Further, the recommended legislation should subject the Department and/or the Board to a reduction in its/their administrative budget(s) if the

Department and/or the Board is found by the Office of Administrative Law, through the provisions of the Administrative Procedure Act (including Government Code Section 11347.5), to have issued regulations as defined under Government Code Section 11342 without adhering to the requirements of the Administrative Procedure Act.

3. To provide a more efficient and effective method of meeting the special needs of schools and students, the Governor and the Legislature should enact legislation that encourages the coordination of categorical funding at the local level by allowing the inclusion of many more existing categorical programs under the School-Based Program Coordination Act. Specifically, the legislation should allow the inclusion of:

- Agricultural Vocational Education Incentive;
- Continuation Education;
- Demonstration Program in Reading and Mathematics;
- Independent Study;
- Instructional Materials (9-12);
- Native American Indian Early Childhood Education;
- Opportunity Schools and Programs;
- Pupil Dropout Prevention and Recovery;
- Regional Occupational Centers/Programs;
- Specialized Secondary Schools;
- Specialized Vocational Education;
- Tenth Grade Counseling; and
- Work Experience.\*\*

The legislation should explicitly emphasize that target group students and instructional improvement needs must be met, and that the system for monitoring performance of this program be designed to validate compliance.

Further, to ensure that local school district governing boards, administrators and staff have complete information on the School-Based Program Coordination Act so that they understand and appreciate the benefits this program option could have for their students, the legislation should require the State Department of Education to disseminate such information, including model programs currently operated, and provide technical assistance to local school districts and their staff.

In addition, the Governor and the Legislature should enact legislation that would allow schools to commingle categorical funds and general purpose revenues to the extent that federal law allows such commingling. Specifically, schools with large numbers of disadvantaged students would be allowed to combine appropriate categorical funds with other revenues to conduct "schoolwide projects" aimed at upgrading the schools' entire educational programs. These projects would serve all students in the school, not just those who are eligible for funding under the categorical programs. After three years, the schools must demonstrate that achievement levels among compensatory education students have

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\*\* With the exception of "Instructional Materials (9-12)," each of these programs were proposed for coordination under the School-Based Program Coordination Act by Assembly Bill 3053 (O'Connell), the 1988 legislation that was sponsored by the California School Boards Association. "Instructional Materials (9-12)" was proposed for coordination by the Commission on Educational Quality's Technical Advisory Committee on Categorical Programs.

either increased over time, or are greater than the achievement levels of comparable students in other district schools. Secondary schools would be able to use dropout or graduation rates in lieu of achievement test scores.<sup>133</sup>

4. To guarantee that categorical funding is going to those districts and students that have special needs, particularly when the needs shift from district to district, the Governor and the Legislature should enact legislation to base all appropriate categorical funding on indicators of need. To the extent possible, such indicators should be found in district demographics that are updated annually by the districts and analyzed annually by the State Department of Education in reviewing and approving districts' application for funding.
5. To ensure that the statutory intent of the "sunset laws" is carried out and to encourage creativity and efficiency in the local education agencies' accomplishment of the initial objectives of categorical programs which have sunsetted, the Governor and the Legislature should enact legislation that would amend the "sunset laws" (Education Code Section 62000 et seq.) to explicitly prohibit the State Department of Education from restricting the local education agencies' flexibility in meeting the general purposes of the State's original program laws and federal statutes.
6. To provide for a study of the feasibility of increased consolidation of school districts and to recommend statutory revisions based upon the results of the study (including fiscal and other incentives for the implementation of consolidations that are determined to be feasible), the Governor and the Legislature should enact legislation to provide sufficient funding for the advisory commission authorized by Chapter 1229, Statutes of 1988. In addition, the legislation should amend Chapter 1229, Statutes of 1988 to allow an officer or employee of the State Department of Education to represent the State Board of Education on the commission.
7. To study the extent of existing, and feasibility of additional, regionalization of services delivery, the Governor and the Legislature should enact legislation to require the commission provided for under Chapter 1229, Statutes of 1988 to expand its study to include a review of the activities of county offices of education and existing cooperative arrangements between districts and/or county offices of education. The legislation should require the commission to report to the Governor and the Legislature the results of its study and recommendations for statutory revisions no later than January 1, 1991, and should provide sufficient funding for a comprehensive study. If the commission determines that further regionalization is feasible, the commission's recommendations should include fiscal and other incentives for the implementation of such regionalized services. Further, if the commission finds potential improvements available through the reorganization of the State's intermediate agency, the commission should make specific recommendations for statutory and constitutional revisions.
8. To streamline the State's attendance reporting system and better encourage attendance by pupils in public schools, the Governor and the Legislature should enact legislation that would revise the current attendance accounting procedures. The new system should base the calculation of average daily attendance on actual attendance and a one-time modification of base revenue limits for the purpose of determining base revenue limits only, and actual attendance plus a factor representing each district's base-year rate of apportionable excused absences for all other purposes, thereby eliminating the current

verification of absence process for apportionment purposes. Further, the legislation should encourage school districts and county offices of education to develop and implement strategies and activities that emphasize the importance of school attendance and that encourage pupils to attend school regularly. Finally, the legislation should encourage school districts to use an attendance accounting procedure that promotes accountability and the most efficient and effective use of public funds.

## APPENDICES

Appendix 1 - Current State Governance Structures in Education

Appendix 2 - Breakdown of the Department's Budgeted Staff Positions for Fiscal Years 1980-81 through 1989-90

Appendix 3 - Calculation of Revenue Limit

Appendix 4 - Categorical Programs and Funding -- Fiscal Year 1989-90

Appendix 5 - Comparison of Selected School Finance Variables and Performance Indicators -- California Versus Several Other States



## Appendix 1

### **CURRENT STATE GOVERNANCE STRUCTURES IN EDUCATION**

There are ten distinct governance models in the 50 states, although three of these are applicable to almost three-fourths of the states.

**MODEL 1:** The governor appoints the board and the board appoints the chief.

In thirteen states, the governor appoints the state board of education and the state board appoints the chief state school officer. These states are: Alaska, Arkansas, Connecticut, Delaware, Illinois, Maryland, Massachusetts, Missouri, New Hampshire, Rhode Island, South Dakota, Vermont and West Virginia.

**MODEL 2:** The governor appoints the board and the chief is elected.

Unlike most models of governance, where the administration of the school system flows from the board down, there are dual sources of educational leadership in the 12 states using Model 2. These states include: Arizona, California, Georgia, Idaho, Indiana, Kentucky, Montana, North Carolina, North Dakota, Oklahoma, Oregon and Wyoming.

**MODEL 3:** The state board is elected and the board appoints the chief.

Instead of being appointed by the governor, Model 3 state board members are elected (by partisan ballot in more than half the states). The state board appoints the chief state school officer. Those 10 states are: Alabama, Colorado, Hawaii, Kansas, Michigan, Nebraska, Nevada, Ohio, Texas and Utah.

**MODEL 4:** The governor appoints the board and the chief.

The governor exercises more authority over education in the 7 states using this governance model. These states are: Iowa, Maine, Minnesota, New Jersey, Pennsylvania, Tennessee and Virginia.

**MODEL 5:** The board has a mixed method of selection but they appoint the chief.

Two states, Louisiana and New Mexico, have a majority of elected state board members and a minority of governor appointed members. The nine-member Mississippi State Board has five of those members appointed by the Governor, two appointed by the President of the Senate (Lieutenant Governor) and two appointed by the Speaker of the House.

(Continued on next page)

MODEL 6: The legislature appoints the board and the board appoints the chief.

In New York, both houses of the state legislature share the power of appointing members to the Board of Regents. The Regents appoint the Commissioner of Education.

MODEL 7: The legislature appoints the board and the chief is elected.

In South Carolina, legislators from a given district select the state board member to represent their district. The state superintendent is elected.

MODEL 8: Local school boards elect the state board and the chief is elected.

In the State of Washington, the board of education is elected by local school board members and the chief is elected at-large.

MODEL 9: The state board is composed of members of the governor's cabinet, including an elected chief.

The Governor's cabinet in Florida serves as the state board of education. All of the officials on that cabinet, including the Commissioner of Education, are elected by partisan ballot.

MODEL 10: No state board with an elected chief.

Wisconsin is the only state without a state board of education. The state superintendent is elected by a non-partisan ballot.

Source: National Association of State Boards of Education, February 1989.

## Appendix 2

### BREAKDOWN OF THE DOE'S BUDGETED STAFF POSITIONS FOR FISCAL YEARS 1980-81 THROUGH 1989-90 (Figures in Personnel Years)

<u>Fiscal Year</u>	<u>Departmental Operations</u>	<u>State Special Schools</u> <sup>2</sup>	<u>State Library</u> <sup>3</sup>	<u>Total Positions</u>
1980-81	1435.6	1029.0	177.7	2642.3
1981-82	1457.6	1049.8	179.7	2687.1
1982-83	1355.4	1030.7	167.3	2553.4
1983-84	1297.6	983.2	161.9	2442.7
1984-85	1231.7	973.0	171.5	2376.2
1985-86	1248.3	952.2	172.6	2373.1
1986-87	1249.2	967.6	172.3	2389.1
1987-88	1219.6	967.1	172.2	2358.9
1988-89 <sup>4</sup>	1431.8	1094.6	202.4	2728.8
1989-90 <sup>5</sup>	1413.5	1094.6	202.4	2710.5

1 Includes Executive Branch, Public & Government Affairs Branch, Legal & Audits Branch, Field Services Branch, Department Management Services Branch, Curriculum & Instructional Leadership Branch, and Specialized Programs Branch (except for State Special Schools). Staff mostly located in Sacramento, but there are a relatively small number located in Los Angeles, Oakland, San Francisco, Pomona, Fresno, and Chico.

2 Includes a school for the blind in Fremont, a school for the deaf each in Fremont and Riverside, and a diagnostic school for neurologically handicapped children each in San Francisco, Los Angeles and Fresno.

3 Includes the main library and the Braille and Talking Book Library in Sacramento, and the Sutro Library in San Francisco.

4 Figures for fiscal year 1988-89 are authorized positions at the time the 1989-90 Governor's Budget was published.

5 Figures for fiscal year 1989-90 are proposed positions at the time the 1989-90 Governor's Budget was published.

Note: Except where otherwise noted, all figures are positions actually filled.

Source: Salaries and Wages Supplements for various years' Governor's Budgets; DOE organization charts effective 7/1/89 (Management Memo 89-5); 1989 State of California Telephone Directory



### Appendix 3

#### CALCULATION OF REVENUE LIMIT

1. Establish the prior year revenue limit per average daily attendance (ADA) - Any recalculations necessary are done at this point.
2. Inflate the adjusted prior year revenue limit according to the formulas in state law - Using the implicit price deflator for government goods and services and the statewide average revenue limit for the three types of districts, the inflation adjustment per ADA is added to the prior year's revenue limit. For example, in 1987-88 the implicit price deflator was 2.54 percent and the 1986-87 unified average was \$2,581; so, the 1987-88 inflation adjustment for all unified districts was \$66 per ADA ( $\$2,581 \times 2.54$  percent).
3. Multiply the current year's revenue limit per ADA by the district's ADA to calculate the base revenue limit - Beginning in 1983-84, districts are allowed to use either their current year or prior year ADA. This allows districts with declining ADA to forestall the loss of revenue by one year, giving them time to make any necessary budget reductions.

Senate Bill 813 (Chapter 498, Statutes of 1983) also restricted funding for additional ADA to no more than 105 percent of the statewide average revenue limit per ADA. In other words, growing districts with revenue limits that are 5 percent greater than the statewide average would not receive their full revenue limit for these additional pupils but would instead receive 105 percent of the statewide average revenue limit. This is another mechanism that the State has put in place to equalize revenue limits.

4. Calculate revenue limit adjustments if funding is provided by the State and the district qualifies for the adjustment. Examples include the minimum guarantee, the small district transportation allowance, meals for needy pupils adjustment, longer year/longer day adjustment, minimum teacher's salary adjustment, and necessary small school adjustment.
5. Add the revenue limit adjustments to the base revenue limit to determine the total revenue limit.
6. Deduct local property tax revenues from the amount calculated in Step 5. The result is the amount of revenue limit state aid to which the district is entitled.

Source: California School Boards Association, "School Finance Handbook," May 1988, p. 36.



Appendix 4

**CATEGORICAL PROGRAMS AND FUNDING  
Fiscal Year 1989-90**

Categorical Program <u>Description</u>	1989-90 <u>Budget Item</u>	<u>Amount (COLA)</u>
1. Meals for Needy Pupils	6110-101-001(c)	\$ 32,893 (1,560)
2. Apprentice Programs	6110-101-001(d)	5,458
3. Summer Schools	6110-101-001(e)	95,978 (4,479)
4. ECIA Ch.2 - Block Grant	6110-101-890(a)	38,298
5. ECIA Ch.2 - Other	6110-101-890(b)	1,436
6. Regional Occupational Centers/Programs	6110-102-001	220,562 (9,998)
7. Tenth Grade Counseling	6110-109-001	7,115 (330)
8. Pupil Transportation	6110-111-001(a)	290,311 (13,459)
9. School Bus Replacement	6110-111-001(b)	3,151 (146)
10. Court Ordered Desegregation	6110-114-001	382,361 (13,040)
11. Voluntary Desegregation	6110-115-001	62,128 (2,883)
12. School Improvement Program (K-6) & (7-12)	6110-116-001(a&b)	248,081 (11,437)
13. Vocational Education - Organization	6110-118-001	550
14. Foster Youth Services	6110-119-001(a)	821 (38)
15. Opportunity Programs	6110-119-001(b)	1,315 (61)
16. Specialized Secondary Programs	6110-119-001(c)	2,101 (97)
17. Dropout Programs - School Based	6110-120-001(1.)	8,000 (387)
18. Dropout Programs - Clinic Based	6110-120-001(5.)	350
19. Economic Impact Aid	6110-121-001	196,952 (9,139)
20. Gifted and Talented Education	6110-124-001	23,433 (1,087)
21. Miller-Unruh Reading Program	6110-126-001	19,869 (922)
22. Intergenerational Programs	6110-128-001	165 (8)
23. Math/Science Teacher Training	6110-128-890	7,294
24. Native American Indian Education	6110-131-001	365 (17)
25. ECIA Ch.1 - Compensatory Funds	6110-136-890	401,793
26. ECIA Ch.1 - Migrant Education	6110-141-890	93,207
27. Demonstration Programs; Reading/Math	6110-146-001	4,367 (203)
28. American Indian Education Centers	6110-151-001	861 (40)
29. Adult Education (State & Federal)	6110-156-001 & 890	270,656 (12,048)
30. Adult Education/Correctional Facilities	6110-158-001	2,401 (111)
31. Special Education	6110-161-001	1,203,824 (88,575)
32. Federal Special Education-Local Entitlements	6110-161-890(a)	121,359
33. Federal Special Education-Instruction	6110-161-890(b)	11,267
34. Federal Special Education-Preschool Grants	6110-161-890(c)	33,228
35. Federal Special Education-Deaf/Blind Centers	6110-161-890(d)	240
36. Federal Special Education-Handicapped Grants	6110-161-890(e)	657
37. Federal Special Education-Architectural Barrier Removal	6110-161-890(f)	3,640
38. Federal Special Education - Least Restrictive Environ.	6110-161-890(g)	260

Categorical Program Description	1989-90 Budget Item	Amount (COLA)
39. Alternatives to Special Education	6110-162-001	\$ 600 (20)
40. Job Training Partnership Act - State/Federal	6110-166-001 & 890	87,498 (26)
41. Partnership Academic	6110-166-001(2)	1,449 (67)
42. Agricultural Vocational Education	6110-167-001	3,000 (139)
43. Driver's Training	6110-171-178	21,236
44. Refugee Program (Federal)-Emergency Education	6110-176-890(a)	13,610
45. Refugee Programs (Federal)-Transition Program	6110-176-890(b)	5,131
46. Institute for Computer Technology	6110-180-001	338
47. Environmental Education	6110-181-140	515 (24)
48. Health/Physical Education-Drug Free Schools	6110-183-890	20,480
49. Instructional Materials, K-8	6110-186-001	91,639 (3,429)
50. Instructional Materials, 9-12	6110-187-001	23,798 (1,011)
51. Staff Development - Administrator Training	6110-191-001(a)	4,802 (223)
52. Staff Development - Mentor Teacher Program	6110-191-001(b)	64,104 (2,974)
53. Staff Development - Bilingual Teacher Training	6110-191-001(c)	842 (39)
54. Staff Development - International Studies	6110-191-001(d)	880 (41)
55. Staff Development - Teacher Improvement	6110-191-001(e)	1,132 (53)
56. Staff Development - Reader Services/Blind Teacher	6110-191-001(f)	175 (8)
57. Staff Development - Beginning Teacher Support	6110-191-001(g)	1,718 (80)
58. Staff Development - Regional Service Center	6110-191-001(h)	500 (23)
59. Staff Development - Geography Education	6110-191-001(i)	100
60. Child Development - Preschool	6110-196-001(a)	37,263 (1,729)
61. Child Development(Federal & State)-General Programs	6110-196-001(b1)& 890	211,625 (9,671)
62. Child Development - Campus Children's Centers	6110-196-001(b2)	6,374 (297)
63. Child Development - Parenting/Infant Development	6110-196-001(b3)	6,941 (322)
64. Child Development - Migrant Day Care	6110-196-001(b4)	7,326 (340)
65. Child Development - Rent Allowances	6110-196-001(b5)	441 (20)
66. Child Development - Handicapped Allowances	6110-196-001(b6)	740 (34)
67. Child Development - Alternate Payment Programs	6110-196-001(b7)	33,055 (1,538)
68. Child Development - Resource & Referral	6110-196-001(b8)	7,597 (353)
69. Child Development - Campus Care Bailout	6110-196-001(b9)	4,191 (194)
70. Child Development - Protective Services	6110-196-001(b10)	1,069 (50)
71. Child Development - Extended Day Care	6110-196-001(b11)	16,111 (748)
72. Child Development - Child Care Initiative	6110-196-001(b12)	250
73. Child Development - Exceptional Needs	6110-196-001(b13)	684 (20)
74. Child Nutrition (State & Federal)	6110-201-001(a) & 890	584,525 (2,269)
75. Pregnant/Lactating Minor	6110-201-001(b)	265 (14)
76. Year-Round School Incentives	6110-224-001(a)	35,700
77. Year-Round School Demonstration Project	6110-224-001(b)	300
78. Year-Round School Construction Alternatives	6110-224-344	7,255
79. School Law Enforcement Partnership	6110-225-001	150

Grand Total \$5,297,977

\*All dollars in thousands

Source: Department of Finance, "1989-90 Final Budget Summary"

(Notes on next page)

- Notes: 1. Some programs have combined state and federal funding; unless otherwise specified they are treated as a single program.
2. Not included in the table, but included in the Categorical Totals below, is the Asbestos Abatement Fund (balance \$23,000,000), administered by the Department of General Services, Office of Local Assistance. The program funds asbestos removal/repair in local schools.
3. General definition of "categorical programs" for table purposes are as follows:
- Usually funded beyond revenue limits
  - Funds allocated for particular needs or purposes
  - Separate funding within State Budget
  - Specific program authority and integrity

**Categorical Totals -**

Identified Programs	80
Funding Sources	86



Appendix 5

COMPARISON OF SELECTED SCHOOL FINANCE VARIABLES AND PERFORMANCE INDICATORS  
CALIFORNIA VERSUS SEVERAL OTHER STATES

	Estimated Expenditure Per Pupil For Instruction, 1988-89 *	Est. Expend. Per Pupil For Support Services & Non-Instructional, 1988-89 **	Est. Total Expenditure Per Pupil In ADA, 1988-89	Estimated Average Teacher Salary, 1988-89 ***	Student Enrollment Per Teacher, 1988-89 ***	Graduation Rate, 1987 ***
California (4.6 million)	\$2,412 (59.2%)	\$1,663 (40.8%)	\$4,075 (100%)	\$35,285 (Ranks 5th)	22.7 (Ranks 50th)	66.1% (Ranks 42nd)
Arizona (0.5 million)	\$2,284 (58.5%)	\$1,620 (41.5%)	\$3,904 (100%)	\$28,684 (Ranks 22nd)	19.8 (Ranks 39th)	64.4% (Ranks 45th)
Florida (1.6 million)	\$2,580 (57.5%)	\$1,907 (42.5%)	\$4,487 (100%)	\$26,648 (Ranks 28th)	17.2 (Ranks 31st)	58.6% (Ranks 50th)
Illinois (1.6 million)	\$2,721 (60.3%)	\$1,792 (39.7%)	\$4,513 (100%)	\$31,195 (Ranks 12th)	17.4 (Ranks 27th)	75.7% (Ranks 22nd)
Massachusetts (0.2 million)	\$3,776 (64.9%)	\$2,042 (35.1%)	\$5,818 (100%)	\$31,670 (Ranks 10th)	13.8 (Ranks 3rd)	76.5% (Ranks 20th)
Michigan (1.5 million)	\$2,608 (57.0%)	\$1,968 (43.0%)	\$4,576 (100%)	\$34,419 (Ranks 6th)	21.3 (Ranks 45th)	62.4% (Ranks 48th)
Minnesota (0.7 million)	\$2,861 (62.5%)	\$1,716 (37.5%)	\$4,577 (100%)	\$31,500 (Ranks 11th)	16.9 (Ranks 24th)	90.6% (Ranks 1st)
New York (2.3 million)	\$4,799 (65.4%)	\$2,539 (34.6%)	\$7,338 (100%)	\$36,500 (Ranks 3rd)	14.6 (Ranks 10th)	62.9% (Ranks 46th)
Ohio (1.6 million)	\$2,412 (58.3%)	\$1,726 (41.7%)	\$4,138 (100%)	\$29,152 (Ranks 20th)	17.7 (Ranks 33rd)	82.8% (Ranks 8th)
Pennsylvania (1.5 million)	\$3,451 (61.4%)	\$2,170 (38.6%)	\$5,621 (100%)	\$30,720 (Ranks 14th)	16.2 (Ranks 19th)	78.7% (Ranks 15th)
Texas (3.0 million)	\$2,317 (60.3%)	\$1,525 (39.7%)	\$3,842 (100%)	\$26,513 (Ranks 27th)	17.1 (Ranks 29th)	65.1% (Ranks 43rd)
Virginia (0.9 million)	\$3,103 (65.4%)	\$1,641 (34.6%)	\$4,744 (100%)	\$29,056 (Ranks 23rd)	16.0 (Ranks 22nd)	74.0% (Ranks 25th)
National Average	N/A	N/A	\$4,509	\$29,567	17.5	71.1

(Footnotes on next page)

- \* Instruction expenditures include activities dealing directly with the interaction between students and teachers (salaries, employee benefits and purchased instructional services). Data reported are as of September 1, 1989; estimates based on previous year's data.
- \*\* Support services expenditures include student support services (attendance, guidance, health, speech, psychological); staff support services (improvement of instruction, educational media, including librarians); general administration (board of education, central office); school administration (principal); business (fiscal services, purchasing, warehousing, printing); operation and maintenance of plant; student transportation services; and central expenditures (research, information services, data processing). Non-instructional services include food service operations, and other auxiliary enterprise operations (bookstore, interscholastic athletics) and exclude community services (child care, swimming pool). Data reported are as of September 1, 1989; estimates based on previous year's data.
- \*\*\* Relative national ranking is in parentheses.

Note: Expenditure figures do not include debt service and capital outlay.

Source: National Education Association, Estimates of School Statistics, 1988-89; U.S. Department of Education, National Center for Education Statistics, "Common Core of Data -- Revenues and Current Expenditures for Public Elementary and Secondary Education."

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