GOVERNOR'S 1999-00 BUDGET PROPOSAL FOR: K-12 EDUCATION

DEPARTMENT OF EDUCATION

MAJOR PROPOSALS

- $186 million for a series of programs and augmentations to improve reading skills;
- $51.3 million in new funds for a package of reforms to improve teacher preparation and quality;
- $206.7 million to implement a system of rewards and interventions to hold schools and students accountable for their success;
- A total of $344 million in growth funding for school districts, county offices of education and the programs that they run;
- A cost of living adjustment of 1.83 percent for school districts (district apportionment) and the categorical programs they run; and
- $200 million for deficit reduction.

OVERALL K-12 EDUCATION FUNDING

The Governor's proposed budget for 1999-00 includes a total of almost $43 billion for K-12 education. This total includes all funds (see table 1 below). This year's total is an increase of $2.8 billion, or 7 percent over 1998-1999. The Governor's budget cites the total spending level for K-12 education at $7,253 per pupil.

Table 1

Funding for K-12 Education: All Sources
(Dollars in millions)

	1998-99	1999-2000	Dollar Change	Percent Change
General Fund	$23,677	$25,642	$1,965	8.3
Federal Funds	3,611	3,932	321	8.9
Local Property Taxes	9,253	9,731	478	5.2
Lottery Funds	757	786	29	3.8
Other Funds	2817	2,810	-6.5	-0.2
Total	**$40,115**	**$42,901**	**$2,786**	**6.9**

The Governor's proposed 1999-2000 budget includes a K-12 Proposition 98 funding level of $32.8 billion (not including the $310 million loan repayment). This is an increase of approximately $1.5 billion, or 4.8 percent, over last year's level of $31.3 billion. On a per pupil basis, this year's proposed K-12 Proposition 98 funding level is $5,944 per pupil, a $190 increase of 3.3 percent over last year's level of $5,753 per pupil. The percentage increase in per pupil Prop. 98 spending slightly outpaces the inflation rate assumed by the proposed budget and estimated at 1.83 percent, which means that schools will receive a 1.5 percent per pupil increase in real (inflation-adjusted) terms. (For more information on Proposition 98, see below.)

This year's proposed budget assumes a pupil population increase of 1.4 percent over last year's level (in unduplicated average daily attendance or "ADA"). The proposed budget assumes that total ADA for 1999-2000 will be approximately $5.5 million and it provides $344 million in statutory growth funding to pay for the population increase. This growth funding includes $233.1 million for school district apportionments, $17.3 million for county offices of education, $30.5 million for special education, $7.5 million for summer school, $12.4 million for adult education, $6.6 million for regional occupational centers and programs (ROC/P's) and a total of $32.4 million for categorical programs contained in the Mega-Item.

PROPOSITION 98

Proposition 98, known as "The Classroom Instructional Improvement and Accountability Act", was passed by the voters in November 1988. The initiative amended the State Constitution to provide for an annual minimum guaranteed level of funding for school and community college districts. This minimum annual funding guarantee is based on changes in statewide average daily attendance, the inflation rate, General Fund revenues, and per capita personal income from one year to the next.

The amount of this year's increase in the Proposition 98 guarantee is modest, and the Legislative Analyst's Office estimates that this year will most likely be following by lean increases at best in the coming years. Table 2 displays the Proposition 98 guarantee for the current year, and for the budget year. The table shows that 1999-2000 General Fund allocations toward the guarantee for K-12 account for $23.1 billion, while local revenues contribute $9.7 billion. This total K-12 guarantee level of $32.8 billion (which does not include the $310 million loan repayment) is an increase of $1.5 billion, or 4.8 percent, over last year's guarantee. As shown in Table 2, the proposed K-12 Proposition 98 funding level for the budget year is $5,944 per pupil, which is a $190 increase of 3.3 percent over last year's level of $5,753 per pupil.

No One-Time (Settle Up) Funds: The requirements of Proposition 98 usually create one-time "settle up" funds every year that must be used toward K-12 education but are not ongoing. Settle up funds are funds that the Legislature is required to spend in the current year to meet the minimum funding obligations for Proposition 98 in that year. In any given fiscal year, the Legislature appropriates a certain level of Proposition 98 spending, based on an initial projection of total General Fund revenues. Because this initial projection is often a conservative estimate, the actual amount of General Fund revenues available in a fiscal year often turns out to be greater than the initial estimate and consequently the required Proposition 98 spending level is also greater than the original estimate/appropriation. In these cases, the Legislature must appropriate additional money in the current year (settle up funds) to ensure that it is meeting the minimum level of spending on education. School districts typically use one-time funds for one-time expenses such as facilities-related expenses and textbooks.

This year, however, the budget contains no settle up funds, due to the fact that for the current year the Legislature appropriated hundreds of millions of dollars over the required Proposition 98 spending level. The Legislature's action created enough "room" above the guarantee, that there is very little likelihood that any re-calculations of General Fund revenues for the current year will necessitate using additional funds to meet the guarantee.

Proposition 98 Reversion Account: The Governor's budget proposes to spend a total of approximately $108 million in one-time funds from the Proposition 98 Reversion Account on the following items: $52.2 million on the 1998-99 special education COLA, $42.2 million for the Digital High Schools program, $4.3 million for an extended year pilot program in Oxnard, $1.6 million for two desegregation programs, $5 million for the California Student Information System and $250,000 for the implementation of the Standardized Account Code Structure**.** More than $90 million of the more than $100 million available in the Reversion Account results from a reduction in 1998-99 mandate reimbursement claims.

Proposition 98 Loan Repayment: The proposed budget for 1999-2000 contains a $310 million Proposition 98 loan repayment as part of an existing settlement regarding actions the state took in the early 1990's. During this period, the state economy was in recession. The state attempted to keep education funding levels from drastically decreasing, but it treated some of the education funding as a loan against future Proposition 98 entitlements. The CTA challenged the constitutionality of these "Proposition 98 loans" in court and eventually came to a settlement with the state on the matter. The settlement requires the state to pay specified amounts per year through an increase in the Proposition 98 minimum funding level. The proposed $310 million is in accord with the settlement agreement.

Proposition 98 Split Between K-12 and Community Colleges: For 1999-2000, the required total Proposition 98 funding level is $37 billion, a 4.9 percent increase over the revised current year level. Of this amount, $32.8 billion, or approximately 89.4 percent, is allocated to K-12 education while the community colleges are budgeted $3.8 billion, or 10.4 percent. In addition, $310 million is set aside for repayment of Proposition 98 loans. Other agencies receive approximately $85 million in Proposition 98 funds for educational programs.

Table 2

PROPOSITION 98 ALLOCATION
(Dollars in millions)

	1998-1999	1999-2000	Amount Change	Percent Change
K-12 Proposition '98 Revenues				
General Fund	$22,065	$23,076	$1,011	4.6%
Local Revenues	9,252	9,731	479	5.2
Total (net repayment)	**$31,317**	**$32,807**	**$1,490**	**4.8%**
Per pupil (in straight dollars)	5,753	5,944	190	3.3
Total Proposition 98				
K-12 Education	31,317	32,807	1,490	4.8
Community Colleges	3,614	3,807	193	5.3
Other Departments	87	85	-1.6	-1.8
Loan repayment	250	310	60	24.0
Total General Fund	**$35,268**	**$37,009**	**$1741**	**4.9%**

GOVERNOR'S REFORM PROPOSALS

The Governor's proposed 1999-2000 budget contains the following augmentations as part of a three-part reform package, labeled "Raising Expectations, Achievements, and Development (READ) in Schools" to improve reading skills, improve teacher quality and preparation and hold schools and students accountable for their success. Note: the budget amounts listed below are not exclusively K-12 education expenditures. They also include community college, UC and CSU expenditures.

Improving Reading Results ($186 million)

- $75 million to establish after-school, Saturday and summer session Intensive Reading Academies for students in grades K-4 who need to further develop reading skills;

- $60 million to meet the needs of students learning English and their teachers, and an additional $14 million to administer an English Language Development test (see testing below);

- $25 million to purchase additional books for libraries in K-4 classrooms;

- $6 million for a Governor's Reading Campaign and Award Program to educate the public about the importance of reading and to reward schools whose students meet reading targets;

- $5 million in Goals 2000 funding for the State Department of Education to distribute proven instructional models for teaching reading to secondary school students; and

- $1 million from the federal Child Care and Development Block Grant to provide professional development regarding pre-kindergarten reading and development guidelines.

(Also related to improving reading skills but not included as part of the $444 million is $96,000 in state operations to revise and publish the State's Recommended Literature List for K-12.)

Enhancing Professional Quality ($51.3 million—new funds)

- $100 million ($83.2 million redirected from the Mentor Teacher Program and $16.8 million in new funds) to establish a program of peer review and assistance for veteran teachers;

- $12 million to the University of California (UC) to establish California Reading Development Institutes for 6,000 beginning teachers of reading and to pay for the stipends of participating teachers;

- $10 million to develop partnerships among neighboring community colleges, four-year universities, and K-12 schools, to support early reading development and teacher internships;

- $10 million to expand the California School Paraprofessional Teacher Training Program, which prepares paraprofessional educators to become fully credentialed teachers;

- $1.5 million to pay for waiving the $60 credential fee for all new teachers; and

- $1 million to UC divided evenly to: (1) develop the proposed Teacher Scholars Program, a master's level preparation program for prospective teachers, and (2) to recruit and train highly skilled school site administrators to become principals.

(Also related to enhancing professional quality but not included as part of the $444 million are: (1) a $5 million augmentation to provide cash awards to teachers who obtain National Board of Professional Teaching Standards certification and (2) $28.5 million in federal Goals 2000 funds for school districts to conduct staff development for math aligned with the new standards.)

Increasing School Accountability ($206.7 million)

- $150 million to reward high performing schools—those schools that improve student performance by meeting or exceeding goals established by the State Board of Education;

- $42.3 million ($32.3 million in federal Title I Comprehensive School Reform Demonstration Grant Program money and $10 million Proposition 98) to help two hundred under-performing schools in improving the performance of their students. (**Note**: the $32.3 million in federal funds includes $16 million vetoed by Governor Wilson in last year's budget);

- $10.6 million for the Community Colleges to annually prepare and publish report cards on how well local high schools have academically prepared new community college students;

- $2 million in federal Goals 2000 funds for the State Department of Education to begin development of high school exit exams in reading/writing and math, which will be required as a condition of high school graduation effective 2003; and

- $1.8 million for the Community Colleges to create 12 new Middle Colleges for high ability at-risk youth.

OTHER PROPOSALS

Other proposals included in the 1999-00 Governor's Budget include:

- $571 million for a 1.83 percent COLA to school districts for both general purpose and categorical programs. (See COLA discussion below); and

- $250.4 million statutory growth funding for apportionments ($233.1 million for school districts and $17.3 million for county offices of education). $85.4 million in growth funding for categorical programs (see below).

Deficit Reduction: $200 million general purpose funds to reduce the revenue limit deficit of K-12 and county office of education programs ($195.7 million for K-12 programs and $4.3 million for county office of education programs). The revenue limit deficit results from the early 1990's, when the annual budget did not fully fund revenue limit COLA's. School districts and county offices of education would have discretion over how to spend these additional funds.

Adult Education and Regional Occupational Centers and Programs: $12.4 million is provided in growth funding for Adult Education and $6.6 million in growth funding for ROC/Ps programs to train CalWORKSs recipients and those transitioning off of public assistance. Also, a COLA of $9.3 million for Adult Education and $5.8 million for ROC/P's is proposed by the Governor's budget. The budget additionally provides $87,000 in federal funds for a state operations position to provide audit support to the adult education unit.

Summer School: $7.5 million in growth funding for summer school programs and a $5.4 million COLA.

Mega-Item: $32.4 million for Mega-Item growth and $43.1 million for a Mega-Item COLA. The Mega-Item is an item in the Budget Act that makes a single appropriation for money of the state's categorical programs for education. The Legislature created the Mega-Item in the 1992-93 budget year to protect individual categorical programs from being singled out for budget cuts. The budget also proposed to continue some Mega-Item flexibility: districts may transfer up to 15 percent out of any item into another item in the Mega-Item (or a Healthy Start program), as long as the increase to that program does not exceed 20 percent.

Testing: An augmentation of approximately $52 million for various testing programs (see testing below).

Class Size Reduction: An augmentation of $49 million for the full-year cost of expanding high school class size reduction to two class periods for ninth grade students ($4.5 million is for projected enrollment growth, but the budget does not propose a COLA. This is a program that was expanded in the current year to reduce class sizes in grade 9 in certain subjects).

The budget also provides $27.7 million in COLA money for the K-3 Class Size Reduction Program, which will enter its fourth year of implementation in 1999-2000. However, this COLA amount is offset by a $32.6 million decrease in funding due to a lower projection of the population served by this program. The budget also proposes $620,000 in federal Goals 2000 funds for state operations to support an evaluation of the K-3 Class Size Reduction Program.

Special Education: $13.9 million in Proposition 98 local assistance for special education growth. (This is comprised of $30.5 million provided for program growth, offset by $16.6 million to reflect an increase in property taxes.) The budget also provides $50.7 million for a budget year COLA and $52.2 million in additional one-time money to fully fund the 1998-99 COLA at 3.95 percent. Increases in federal funds include $34.5 million for equalization and $14.4 million for a low incidence disability adjustment. In addition, the budget provides $432,000 to fully fund special education participation in ROC/P's.

Digital High Schools: $44.2 million in one-time money for the Digital High Schools program for a total of $151 million. The 1999-00 funding will provide 391 schools with implementation funding.

Staff Development Buy-out Program: $26.9 million to fund estimated growth in the number of teachers participating in the Staff Development Day Buy-out Program. (The budget does not propose a COLA for this program). This program provides funding per day, per certified classroom teacher, for up to three a days, to "buy-out" existing staff development days in order to increase the number of instructional days in the academic year.

After-School Programs: $50 million reappropriation of current year funding due to the delayed implementation of the recently enacted After School Learning and Safe Neighborhoods Partnership program. The budget continues the $500,000 for state operations to support six new positions administratively established in the current year to administer this program. (The budget does not propose a COLA for this program).

Community Day Schools: A $9.6 million augmentation for Community Day Schools to fully fund the program and its higher costs that result from AB 1845 (Honda), a bill approved by the Legislature last year which increased the per-ADA add-on for this program from $1,500/ADA to $4,000/ADA and allows county offices of education to operate these schools.

Childcare:

- $33.6 million reappropriation of current year Proposition 98 child care savings is proposed for the Child Care Facilities Revolving Fund;

- $25.7 million to annualize the expansions of Pre-School ($15.7 million) and General Child Care ($10 million) for infants and toddlers originally initiated in the current year;

- $279.3 million increased transfers from the Temporary Assistance to Needy Families (TANF) Block Grant to the Child Care and Development Block Grant for additional CalWORKS child care slots, including $253.5 million for Stage 2 and $25.8 million for Stage 3 slots;

- $16.6 million for COLA for state-subsidized childcare programs;
- An increase of more than $0.5 million (federal funds) in additional state operations to support childcare programs;
- $2.9 million in federal funds to increase support of Local Child Care Planning Councils; and
- $1.5 million in federal funds to increase capacity in under-served areas.

Other:

- $3 million in state operations funding to partially restore cuts made to the Department of Education in the current year;
- A $11.2 million increase in federal funding for the Federal Public Charter Schools Grant Program;
- A $1.4 million augmentation to fully fund partnership academies;
- $100,000 in state operations funding for an evaluation of the American Indian Early Childhood Education Program;
- $10 million in one-time funds (reappropriation due to delayed operation) for the Healthy Start Pregnancy Prevention Program;
- $6 million (including $5 million in one-time funds) for the California Student Information System;
- A $250,000 augmentation in one-time money for the Standardized Account Code Structure;
- $0.5 million for COLA for child nutrition programs not run by school districts;
- $308,000 in state operations funding and $100,000 in one-time funding to support implementation of the new Cal-SAFE program, which consolidates existing teenage pregnancy prevention and parenting programs;
- $3 million to annualize funding for the Foster Youth Services program for children in licensed children's institutions;
- $1.5 million in ongoing funds for Moorpark Unified's voluntary integration program;

- An augmentation of $500 million to the State Teachers' Retirement System, which results from Chapter 967, Statutes of 1998;

- The elimination of the budget for the Commission for the Establishment of Academic Content and Performance Standards, due to the fact that the Commission's authority sunsetted on December 31, 1998; and

- An increased of $5 million for a college preparatory program for disadvantaged secondary students called Advancement Via Individual Determination (AVID).

The budget also proposes various statutory changes, among them:

- A change in the state code regarding what may be considered in teacher evaluations, to include student progress toward meeting state standards as a criteria in these evaluations; and

- A requirement that independent study be for ten consecutive days before a school district may claim funding, and a recommendations that the state evaluate whether or not the needs of at-risk students are served by independent study.

ONGOING POLICY / BUDGET ISSUES IN K-12 EDUCATION

ENGLISH LEARNERS AND PROPOSITION 227

English Learner Population: Approximately one-fourth of all children enrolled in California's K-12 public schools are designated "English learners," and have limited proficiency in speaking, writing, reading and understanding the English language. English learners in California are of many different backgrounds and speak many languages, although almost 80 percent of all English learners speak Spanish as their primary language.

Proposition 227: In June of 1998, California voters approved Proposition 227, a statutory ballot initiative entitled the "English Language in Public Schools Initiative." Proposition 227 requires that schools place English learners in sheltered English immersion programs taught overwhelmingly in English, that English learners attend these programs for a "period not normally to exceed one year", and that after children have acquired "a good working knowledge of English," they are to be placed in mainstream classes taught entirely in English, with students who are native English speakers. (State Board of Education regulations for implementing Proposition 227 allow school districts to re-enroll children in the one-year immersion programs, if they determine that children have not learned sufficient English after one year.) The initiative specifies that parents may apply for waivers for their children to attend programs other than the mandated one-year sheltered English programs, but only under certain circumstances. It also mandates $50 million in annual funding for local community-based English tutoring for children and adults. Last year, the State Board of Education determined that it did not have the authority to waive portions of Proposition 227 for districts that apply for waivers, even though it does have authority to waive other parts of the State Education Code. Several districts sued the SBE over its interpretation of its waiver authority to provide districts with waivers from provisions

of Proposition 227. The outcome of this lawsuit is still pending.

Implementation Issues: Schools on traditional calendars were required to begin implementing the law last fall, while schools on year-round schedules are required to begin implementation in January of 1999. Anecdotal evidence suggests that school districts are approaching implementation of Proposition 227 in different ways. Nevertheless, the following are statewide implementation issues that have potential budget implications:

- **Teacher Training** – If parents do not request waivers from the immersion programs or school districts choose not to grant them, teachers will be required to teach with a structured English method. Teachers may need immediate and intensive training to assist them in implementing this method;

- **Supplementary Instruction** – If Proposition 227 results in attempts to teach English learners English more quickly, these children may need supplemental instruction (in the form of after-school, Saturday or summer school classes), either before their transition to mainstream English classes or after; and

- **Instructional Materials** – The instructional method required by Proposition 227, sheltered English immersion, requires the use of specific instructional materials that provide academic content in English but are designed to be understood by children that are learning English. School districts may need to purchase new materials in order to properly implement this method.

Budget Provisions for English Learners: The Governor's proposed budget for 1999-2000 contains the following items earmarked for English learners:

- A $60 million augmentation to (1) provide supplemental instruction in after-school, summer or Saturday programs to children who are learning English and (2) provide professional development for teachers and other personnel who provide instruction and support to English language learners;

- A $14 million augmentation to pay for the administration of a new English language development test to identify English learners and determine their level of English language fluency as they progress in school;

- $414 million in existing funds for the Economic Impact Aid program, which is part of the Mega-Item, and as such received growth and COLA funding. This program has been in existence for many years, and is used by school districts to fund services for English learners; and

- A $100 million appropriation for ESL classes for adults that pledge to help English learner children acquire English. The initiative itself makes an annual appropriation of $50 million for this purpose for 10 years. The $100 million includes $50 million in carryover funds from the current year.

TESTING

California's assessment system includes a variety of different instruments, some of which are still in the development stages. These include:

- The STAR (Standardized Testing and Reporting Program). SB 376 (Alpert), Chapter 828, Statutes of 1997, created this program, which requires that all children in grades 2 through 11 (including English learners) be tested with an off-the-shelf, basic skills test (selected as the SAT 9). The 1997-98 instructional year was the first year that the test was administered. The law also requires that this test be aligned to new state content standards, and the new aligned STAR will be administered for the first time this Spring;

- The Assessment of Applied Academic Skills, or "matrix-sampled test." AB 265 (Alpert), Chapter 975, Statutes of 1995 requires the development of statewide academic content and performance standards and the development of a test for grades 4, 5, 8 and 10 that is aligned to these standards. This test is designed to provide detailed information about students' performance in meeting the standards at the school-, district- and statewide levels, but will not provide individual scores like the STAR. This exam is expected to be ready for administration in the Spring of 2000;

- The statewide English Language Development test. AB 748 (Escutia), Chapter 936, Statutes of 1997, requires that the state develop performance standards for learning English and an assessment tool for 1) identifying English learners as they enter school and 2) evaluating their progress in acquiring English on an annual basis. This exam is expected to be ready for administration beginning in the 1999-2000 instructional year; and

- The Golden State Exam is part of the Golden Seal Merit Diploma program to recognize outstanding academic achievement among graduating seniors. The program began in June of 1997.

The Governor's budget includes a $52 million augmentation for the above testing programs, as follows:

- A $2.4 million augmentation to pay for more detailed reporting and increased participation in the STAR program;

- $32.2 million for the development, production and administration of the matrix-sampled test and the continuing development of statewide standards;

- $14 million for the administration of the English Language Development test; and

- $3.3 million to support an increased demand to participate in the Golden State Exam, and $450,000 in federal Goals 2000 money for state operations to align this exam to the new state standards.

COST OF LIVING ADJUSTMENT

The Governor's budget proposes a change in the statutory formula that determines the inflation index to be used for the Cost of Living Adjustments (COLA) for K-12 expenditures. Current law requires DOF to calculate the COLA by dividing the prior-year revised index by the unrevised index of a year earlier. The Governor's estimated inflation rate of 1.83 percent used for the COLA amounts are based on a formula that divides the prior-year revised index by the revised index of the prior year. The use of this formula requires a change in current law, which DOF proposes to carry out in the annual trailer bill. As of the date of this publication, it is unclear whether the inflation rate that would be calculated under which the Department of Finance believes would be the COLA under current law would actually be lower than the 1.83 percent proposed by the budget, or higher at 2.42 percent.

Last year the Governor's January budget proposed the same statutory change, which would have resulted in a reduction in the inflation index from approximately four percent to 2.2 percent. The Legislature did not approve this statutory change and the formula remained the same.

FACILITIES

In November of 1998, California voters approved Proposition 1A, a $9.2 billion General Obligation bond, $6.7 billion of which is set-aside over four years for K-12 facilities. The bond's provisions require that at least $2.9 billion of the proceedings be used for new construction, at least $2.1 billion for rehabilitation of older schools, no more than $700 million for class size reduction-related facilities and no more than $1 billion for hardship situations.

While the cost of constructing and modernizing facilities is great, school districts also face high costs from maintaining their facilities. Budgets in prior years contained General Fund appropriations for districts' deferred maintenance of their facilities. The Governor's proposed budget for 1999-2000 decreased funding for deferred maintenance by discontinuing a $150 million funding level that the current year budget projected to be ongoing for deferred maintenance.