

## I. SUMMARY OF FINDINGS AND RECOMMENDATIONS

### Increased Cost of California's K-12 Education System

The total cost of K-12 education, including federal, state and local funds, is estimated to be \$12.7 billion for fiscal year 1981-82, or approximately \$3,000 per student. Over 92 percent of total expenditures occur at the school district level. The Department of Education's budget for state administration and support is one percent of total expenditures, with county offices of education comprising the remainder of nearly 7 percent. Because 85 percent of local expenditures are directly related to personnel, the most efficient use of school employees is central to the overall economy of the system.

The Commission found that increased school district staffing of about 30 percent, relative to the number of students, has been a major factor in K-12 education costs. The number of school employees per thousand students increased from 67.80 to 87.25 between fiscal years 1970-71 and 1979-80. School district expenditures increased from \$4 billion in 1970 to \$10 billion by 1980 despite a concomitant decline of more than 500,000 students in the period.

If the number of school employees per thousand students had remained constant rather than dramatically increasing during the last decade, there would have been at least 80,000 fewer employees in fiscal year 1979-80 with annual savings estimated at \$1.4 billion in salaries and benefits. The total, unadjusted cost for extra school employees in the ten fiscal years of 1971-72 through 1980-81 (more than 500,000 extra employee-years) is approximately \$8 billion, which is equivalent to about \$9 - \$10 billion in current dollars.

School officials told the Commission that increases in employees are almost entirely attributable to the institution and expansion of special purpose or "categorical" programs designed to address the specific needs of disadvantaged, limited English-speaking, handicapped, and other student subgroups.

Although Proposition 13 limited the amount of local property taxes available to finance state programs, a recent report by the California Taxpayers Association indicated that total revenues per K-12 student (expressed as "constant dollars" to adjust for inflation) increased 22 percent over the period FY 1971-72 to 1980-81.

Neither the State Superintendent of Public Instruction nor the State Department of Education have advocated significant program modifications or alternative modes of service delivery to control the growth of education costs.

### Bureaucratic Growth of the State Department of Education

DOE employees have increased 68 percent (from 852 to 1,432 employees exclusive of special schools, state libraries, surplus property and the

Credentials Commission) since FY 1970-71. This rate of increase is seven times that of all local school employees for the same period.

State-level administration of categorical programs occupies a disproportionately large number of Department staff. The activities of this staff flourish in a regulatory environment perceived by local school officials as excessive and without corresponding benefits.

DOE administrative costs were \$20 million in FY 1981-82 for more than 300 employees to fund, coordinate, and review consolidated categorical, other compensatory, bilingual, and special education programs (exclusive of state schools) which received a total of \$1.5 billion in local assistance. By contrast, administrative costs were only \$2 million for 42 employees to apportion nearly \$6 billion for basic education. State Administrative support, expressed as a percentage of local assistance, was thus about 1.3 percent for the aggregate of compensatory, bilingual, and special education programs, but only one twenty-fifth of one percent (.04 percent) for general education exclusive of instructional support.

Since most categorical programs were instituted 5-15 years ago and receive allocations according to formula, their extraordinary administrative costs suggested the need for an examination of the nature and proper extent of state participation in such areas as program planning, review, and quality assurance.

Although an exacting management audit was beyond the scope of this general study of the K-12 education system, the Commission notes that the DOE Consolidated Program Division, which includes 170 employees, is said by school officials to intrude unnecessarily into local program planning. Similarly, the Office of the Legislative Analyst has recommended that this Division's school-site review teams should no longer engage in unproductive, quasi-"reviews" of program quality, but should rather confine their monitoring activities to verification of essential program compliance with federal and state law.

#### Diminished Local Authority for Efficient Education Programs

Education officials interviewed in connection with this investigation reported that the State Department of Education's professional leadership and technicians are preoccupied with detailed preview, prescription, and review of local program operations although emphasis should properly be on the effectiveness of these programs.

Rand Corporation's recent report on The Aggregate Effects of Federal Education Programs observed that federal and state governments share a measure of responsibility for this administrative nightmare. Although state categorical requirements sometimes exceed federal requirements, the report stated that both federal and state governments tend to "write and administer each new requirement separately from all previous requirements." This creates bedlam in schools because: "Requirements that have been kept apart at higher levels... all come together in the schools, the only organizations in the intergovernmental system that are too small to have a

separate bureaucracy for each requirement. Principals and teachers must therefore cope with the combined effects of requirements that legislators and higher-level administrators can deal with separately."

The report implies that many program prescriptions and procedures, created ostensibly to promote efficiency and student achievement, are actually of dubious merit. Notwithstanding state and local efforts to coordinate categorical programs with the "core" instruction program, the former were found to mutually interfere with one another--as well as with core instruction--with the result that overall educational objectives were not attained.

A Study of California's Categorical Education Program for Kindergarten through Grade 12, completed by the State Department of Finance in April 1981, corroborated elements of the Rand study. This study found that "comprehensive coordination generally does not exist among all categorical programs" and "few, if any, formal efforts existed to coordinate services to students" who were targeted by multiple programs with similar objectives. The study team reported "few efforts at the state or district levels which encouraged or facilitated coordination at any level of operation."

Local officials reported that they often received "different interpretations of compliance and implementation requirements" with consequent "confusion at the school site level." School officials likewise informed the Commission that DOE guidelines were sometimes misrepresented as regulations.

Inequity, as well as inefficiency, is institutionalized in our education system. An analysis by the Office of the Legislative Analyst concluded that, due to anomalies in eligibility criteria for compensatory and bilingual categorical programs, funds are not assigned on an equitable basis to assist all the lowest-achieving needy students for whom these programs are intended.

With due recognition of the complexity, enormity, and longevity of these problems, but with the conviction that our \$12 billion K-12 education system will surely deteriorate unless positive intervention is initiated, the Commission recommends the following courses of action:

- The Legislature should terminate statutory provisions and regulations pertaining to consolidated categorical programs, and related compensatory programs, except for sections on program intent, eligibility criteria, and allocation formulas. Terminated statutory provisions and associated regulations should be clearly designated as non-binding guidelines.
- Each local education agency should have sole discretion, to the maximum extent permitted by federal regulations, in the formulation of instructional programs and strategies which satisfy specified intents of the categorical programs.
- Funding of the programs should continue according to current allocation formulas.

- Since related programs are so operationally intermixed that they cannot be held individually accountable for results (see later discussion), state audits of fiscal compliance should simply be limited to verification that expenditures are made for the legitimate purposes of any of the included programs.
- The State Superintendent of Public Instruction should prepare congressional and legislative recommendations for further consolidation and reduction in the number of uniquely defined categorical programs which actually serve related eligibility groups and have similar allocation formulas.

### Fiscal Compliance and Accountability

The Commission learned that the State Department of Finance (DOF) has defined uniform standards for contracted annual fiscal audits of local education agencies including K-12 school districts, county offices of education, and community college districts. Due to the efficiency of this "single audit" concept, results are useful to various state agencies without needless duplication of audits. The cost of local fiscal audits and all ancillary state audits of K-12 education expenditures is estimated by the DOF to be \$13 million, or about \$3.00 per student in FY 1982-83.

Field audits by the DOF continue to identify significant fiscal compliance problems. For example, 40 of 50 recently completed audits of school districts found that they were not providing the funded, statutory minimum of at least 175 days education per year. Some schools have been found to provide no more than two and one-half hours of instruction per day. Under the present circumstances, the Commission views the level of expenditures for fiscal audits (equivalent to one-tenth of one percent of the cost of K-12 education) as commensurate with the need for essential fiscal controls.

- Consistent with the Auditor General's testimony to this Commission, it is recommended that the single audit concept be more broadly applied by shifting greater responsibility to the school district level, thereby reducing the need for additional auditing at the state level. Specifically, fiscal audits prepared annually by local CPA's include audit standards for various programs. The scope of these audits should be expanded to include review of the control systems used by school districts to ensure program compliance.
- The Commission further recommends the examination of school district expenditures for the last month of each school year. If these expenditures are found to be inordinate, standards should be developed for incorporation in the annual audits.

A report just completed by the Auditor General on Improvements Needed in the State Department of Education's Apportionment of State School Funds recommended strengthening of apportionment review and documentation functions. The report made no recommendations regarding the use of ADA.

- Since excessive gathering and maintenance of local records are required to report students' average daily attendance (ADA) during the

fiscal year, the Commission recommends that this anachronism be replaced by an economical measure uniformly based on one or several school days. These attendance records would have the same purposes for program funding, and be subject to the same stringent audit requirements, as the current ADA.

The Commission is deeply concerned that school districts' compliance with administrative procedures does not ensure education programs' public accountability for results. The Department of Finance's report on categorical programs stated that they are so operationally intermixed that it would be "nearly impossible" to determine their specific contributions to educational achievement. The report by Rand Corporation more emphatically concluded that interference between categorical and core education programs actually has an adverse effect on the students involved.

The Office of the Legislative Analyst has commented on the questionable performances of a number of categorical programs. In one instance, for example, it was concluded that the "lack of demonstrated effectiveness of the state's more [than federal] comprehensive and prescriptive requirements" for bilingual programs "coupled with the high cost of these requirements, persuade us that state law should not prescribe a bilingual approach." The LAO recommended that school districts should be given broad discretion to develop their own approaches consistent with federal regulations.

These program costs must be placed in perspective. The cost of bilingual programs was estimated by the Legislative Analyst to be \$115 million in state and federal funds for 233,000 California children several years ago (five-percent of all K-12 students in FY 1977-78) or nearly \$500 per program participant in addition to the cost of "core" and other possible compensatory instruction. The State Department of Education estimates that there will be about 500,000 limited English-proficient children in California by 1990. The Legislative Analyst's most recent conclusion about costs associated with these unproven, bilingual programs is as follows: "Because of the multiplicity of programs and funding sources for bilingual education, California's total expenditures for bilingual education cannot be determined."

Since allocations for categorical programs are based on need but do not systematically include information about the extent to which these programs *realize their objectives*, there is insufficient assurance that these expenditures are cost-effective.

#### Systematic Development and Use of Management Information

- The State Department of Education should structure available information to assist in district-by-district comparisons of trends in student achievement and district fiscal management.
- Districts should be given greater flexibility in planning and management of instructional programs, but should be held accountable for program results.

- The California Achievement Program (CAP) should be used to identify, on an exception basis, school districts in which instructional program results vary substantially from expectations based on socioeconomic and demographic variables. Since categorical programs aimed at low achievers comprise such a significant proportion of education costs, student achievement data should be structured to illuminate the learning gains of the lower quartile (25 percent) of students as well as those of average students. Performance gains should be related, to the extent justified, to aggregate expenditures for categorical programs as well as the core instruction program.
- Additionally, the State Board of Education should study the probable benefits of broader use of the CAP in order to supplant a variety of other achievement tests used at grade levels currently untested by the CAP.

Management operations subject to oversight should include those which are susceptible to reliable measure and have the largest potential impact on costs--such as efficient utilization of education facilities. The Commission notes that the DOE has failed to exercise even rudimentary leadership in this area. Despite the Commission's identification of facilities utilization problems and recommendations (See A Study of the Utilization of Public School Facilities, July 1978), the DOE has neglected to systematically gather information about utilization and publish an essential manual for use by school districts.

It should also be noted that the DOE did not participate in deliberations on a Senate resolution (SCR 67) which recommended postponement of closing underutilized San Fernando Valley schools until at least February 1983. With more than 100 schools classified as "underenrolled" -- many with less than 200 students in buildings designed for more than 500 pupils -- this measure forestalled potential savings of many millions of dollars.

- Prior to approving any general increase in K-12 appropriations, the Legislature should be assured that school districts are effectively and economically managing their operations.
- The DOE should immediately initiate a study of school facilities utilization throughout the State.
- Underutilized schools should be consolidated. Unused property and facilities should be sold or leased.
- A multi-year program should be designed and implemented to service school facilities since deferred maintenance has already reached catastrophic proportions.

#### Sanctions

When instances of district misuse of funds are identified through audit procedures, subsequent reductions of district apportionments penalize students. Since the Commission is aware that some school districts demonstrate responsible and skilled leadership, but other districts are flagrant

examples of inept management, the Commission recommends institution of remedial sanction procedures as warranted to strengthen overall accountability without adversely affecting students.

- The Commission recommends, consistent with a suggestion of the Auditor General, the establishment of sanctions against school district officials who fail to operate educational programs in compliance with essential state requirements. These sanctions could include actions against the credentials of school districts officials or the imposition of fines.
- The Commission further recommends that--if intermediate methods of problem resolution have failed to improve particular districts' seriously substandard managerial or instructional program performances --they should ultimately be accountable to the State Superintendent in hearings preliminary to their placement under a trusteeship.

### Roles of the State Superintendent, Board of Education, and Department of Education

The Commission believes that responsibilities for leadership and management of California's vast, K-12 education system must be carefully delineated. The recommendations in this report will enhance the overall accountability of the system while reducing state-level administrative impediments to effective and efficient instructional programs in the 1,042 school districts.

The Superintendent should have full responsibility for leadership and administration of the education system, subject only to state and federal statutory constraints. Although the Legislature and State Board establish educational policy, the Superintendent has the responsibility and opportunity to recommend courses of action based on comprehensive planning to meet present and future needs of California's students.

- The Commission recommends that the Legislature empower the Superintendent with such further authority as necessary to ensure that school districts provide effective instructional programs and prudent management of school facilities to control excessive costs.
- The Commission further recommends that the Board should establish basic standards for academic achievement, including future goals to be met through a combination of core and supplemental instruction programs. Aggregate student achievement should be periodically reviewed to see whether instruction programs are effectively satisfying specific goals as well as general objectives. These standards and goals could appropriately be discussed within the context of a "Master Plan for General Education" to be prepared, at the request of the Superintendent, for executive and legislative use.

The Department should play an important role in securing and arraying specified achievement and management information necessary to identify exceptionally effective or ineffective school districts. The Department

should disseminate information about effective programs so that districts may emulate them as appropriate. When the Department identifies singularly ineffective districts, the Superintendent should, as stated previously, initiate a course of remediation which might ultimately result in the use of available sanctions to ensure accountability in the education system.

The Commission believes that the Board's Educational Management and Evaluation Commission (assisted as necessary by staff from the Department of Education's Office of Program Evaluation and Research) should assist the Board in goal-setting and evaluation activities. It is a suitable agency to consider broad issues of quality education and effective management practices. The Superintendent serves as executive secretary to the Commission. Members include appointees of the Governor, Senate Rules Committee, Speaker of the Assembly, and Board.

- This Commission recommends that the Board's Educational Management and Evaluation Commission be strengthened to give higher priority to the critical functions of evaluation and management in the education system.