



Little Hoover Commission

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Governor of California

The Honorable David Roberti
President Pro Tempore of the Senate
and Members of the Senate

The Honorable Willie L. Brown Jr.
Speaker of the Assembly
and Members of the Assembly

The Honorable Kenneth L. Maddy
Senate Minority Floor Leader

The Honorable Bill Jones
Assembly Minority Floor Leader

Dear Governor and Members of the Legislature:

In the past few weeks as education funding has moved to the forefront of the State's budget deliberations, the Little Hoover Commission has sought to identify ways to help schools absorb spending cuts without damaging the education of our children. In reviewing past reports and recommendations, the Commission believes there are steps the State can take immediately to lessen the impact of necessary cuts and to allow school districts to trim their own budgets in the least damaging areas.

To assist the Legislature in its deliberations, attached is a brief issue paper prepared by Commission staff. The paper outlines five areas where reforms may yield as much as \$383 million in savings that can be redirected into the classroom for maximum impact on students. Those reforms are:

1. **Giving the State more authority to move in quickly when school districts do a poor job of budgeting.** The State has spent almost \$50 million over the past 10 years to rescue school districts, in each case after years of mismanagement. School districts should lose the privilege of local control if they engage in repeated deficit spending.
2. **Creating statewide collective bargaining.** It doesn't make sense to have school boards setting salaries without any assurance that the State will provide adequate funding. Since the State is picking up two-thirds of the tab, the State should be negotiating salaries, not the districts.
3. **Ensuring more dollars reach the classroom.** Too much of the \$5 billion that California spends on 80 categorical programs is eaten up by administration, paperwork and red tape. If the administrative nightmare of categoricals is abolished, school districts will have more flexibility and more dollars to spend directly on meeting the needs of students.

LITTLE HOOVER COMMISSION

COPING WITH EDUCATION BUDGET CUTS

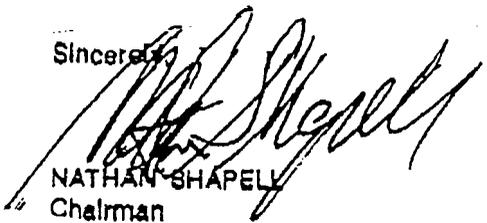
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4. **Consolidating small school districts.** There are 365 school districts with fewer than 600 students, and 308 districts have only one school. Small districts have disproportionately high administrative and overhead costs per pupil. Consolidating small districts could free up dollars to be shifted into the classroom.
5. **Eliminating or regionalizing county offices of education.** The expense of these 58 offices, with their elected county superintendents and elected county boards, could be saved if their duties were shifted to large school districts in urban areas and if regional centers were set up in rural areas.

The major benefit of each of these reforms is that education dollars that now are wasted through inefficiency and bureaucracy can be redirected into the classroom. In the face of California's dire financial plight, school districts must be given the tools to cut away unnecessary expenditures and concentrate on their primary function: educating California's children.

I hope the information provided is helpful. If there are any questions, please don't hesitate to call the Commission's Executive Director Jeannine L. English (916-445-2125).

Sincerely,



NATHAN SHAPELL
Chairman

Little Hoover Commission Issue Paper

Coping With Education Budget Cuts

For the past 15 years, the Little Hoover Commission has examined California's K-12 education system with great regularity. In numerous reports, the Commission has made recommendations that, if adopted by the State, would result in more effective educational programs and more efficient use of taxpayers' money. Unfortunately, while some progress has been made, many of the recommendations have yet to be implemented.

The State's \$11 billion fiscal crisis has intensified the need to scrutinize education spending carefully. In the current 1991-92 fiscal year, California is expected to spend \$27 billion to educate 5.1 million K-12 students. The Governor's proposed budget for fiscal year 1992-93, issued in January, earmarked \$29 billion to educate 5.3 million students. In both cases, K-12 education funding represents more than 40 percent of the State's spending on all programs.

To bridge the State's \$11 billion shortfall and to avoid even deeper cuts in other state programs, the Governor has proposed cutting education funding \$2.3 billion from the level specified in the January budget. Representing a cut of about 1 percent from this year's level of funding, this would provide schools the bare minimum needed to comply with Proposition 98 (the State's education funding guarantee). Some legislators are advocating a far smaller cut of \$605 million, while still others believe education cannot be cut at all without seriously damaging the future of the State's children.

State Superintendent of Public Instruction Bill Honig has said the proposed \$2.3 billion cut from the amount schools districts had anticipated receiving for next year is enough funding to pay for 30,000 teachers, 10,000 classroom aides and 10 million textbooks. However, the Commission believes that there are steps the State could take immediately to lessen the impact of any necessary cuts and to allow school districts to trim their own budgets in the least damaging areas.

This issue paper is designed to outline those steps, all of which are based on previous Little Hoover Commission reports.

*Historical
Perspective*

While the 1970s was a decade of declining enrollment, the 1980s and '90s have been a time of explosive growth for the school population in California. Similarly, education spending in the State has greatly increased.

According to the Legislative Analyst, from 1982-83 to 1991-92, the budget for K-12 education rose from \$12.7 billion to \$27 billion. After adjusting for inflation and student population increases, schools gained 13 percent -- an additional \$3 billion in funding. About 80 percent of

Districts Out Of Control

During the past decade of relatively flush budgetary times for schools, the State has spent almost \$50 million to rescue school districts that have made poor decisions and found themselves facing bankruptcy. Now that lean times are facing the State and school districts, the situation only can be expected to worsen, with the potential for the State to be plunged into hundreds of millions of dollars in added obligations by school districts that are out of control. While recent legislation tightens requirements for school districts to report when they are in financial trouble, the Commission believes more stringent steps need to be taken.

The case of Richmond Unified School District, which filed for bankruptcy in 1991, illustrates this point. While it is popularly believed that the district was the victim of a spendthrift superintendent (who joined the district in 1987) and a bamboozled board, the fact is that Richmond outspent its revenues every year from 1984-85 through 1989-90 (except in 1985-86, the first year schools received lottery funds).

State education officials were aware of Richmond's financial troubles, but no one stopped the district from:

- * Meeting ongoing expenses by selling \$9.8 million in Certificates of Participation (a financing tool that is more typically used for capital outlay).
- * Borrowing \$9.5 million from the State in the same year it granted 9.5 percent raises to employees.
- * Spending \$5 million in desegregation funds improperly.
- * Filing false attendance figures to net an additional \$1 million in state funding.

When the district ran out of funds and tried to close schools six weeks early in 1991, the State was ordered by the courts to keep the school district afloat. The court decision made the State's role clear: regardless of whether a school district is foolish, irresponsible or devious, the State has an obligation to pick up the tab. The Commission believes this is a stark warning that the State must heed.

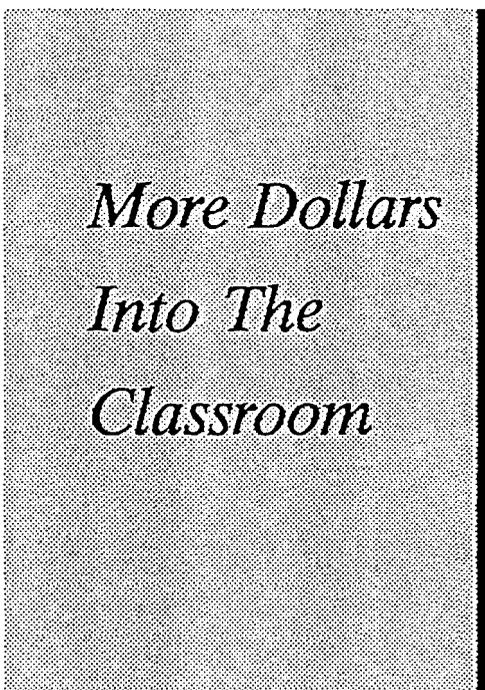
Richmond is not a unique situation. Last year, the State Controller reported that 355 school districts incurred deficit spending, a figure that has now risen to 529 districts -- more than half the districts in the State. In addition, the Commission is aware of several severely troubled districts:

- * Coachella Valley this year has been granted a \$7.3 million bailout loan from the State. School financing experts say Montebello, Antelope Valley, Kings Canyon and Fresno are in severe trouble.
- * Centinela Valley Union High School District is embroiled in divisive battles that prompted the district to spend an estimated \$850,000 in legal fees in the past 18 months. Legal expenses continue at a high rate this year as the district tries to bridge a \$4 million shortfall in a \$28 million budget.

candidates. It also is subject to leap-frogging pay increases, in which some school districts are forced to grant raises higher than they feel are reasonable because of prior agreements reached in other districts in the State. In addition, the State covers all costs of negotiations for the districts, leaving them no fiscal incentive for bargaining expeditiously. These costs total more than \$40 million a year.

The Commission believes that adequate compensation for teachers is a key to quality education, and that teachers should be able to bargain collectively to set that compensation. However, it only makes prudent fiscal sense for salary negotiations to be conducted by the party that will pay the bill in the end. Therefore, the Commission urges the adoption of statewide collective bargaining, a concept that has also been endorsed by Superintendent Honig. In addition, the Commission believes that all multi-year contracts should contain a clause that would cancel existing agreements when school revenues drop precipitously.

Potential Savings: At least \$30 million. It is difficult to determine the fiscal impact of statewide collective bargaining in terms of salary savings, although it may be substantial over the years. However, negotiations at the state, rather than local, level should have an immediate impact on the cost of negotiations. Conservatively, one could presume that three-quarters of the \$40 million could be saved.



School districts receive more than \$5 billion a year for 80 different categorical programs. Each program has rigid restrictions and multiple reporting requirements that limit a district's flexibility to meet needs and that increase the district's administrative costs.

The system has unintended, inefficient consequences. For instance, if a psychologist's salary is provided by one categorical program, he or she cannot provide services to students outside of that program even if time is available and the need is present. In another example, a school that uses categorical funds to provide busing or a computer may not allow students outside of the categorical program to use the equipment even when it is not in use by students covered by the program.

In addition to limiting flexibility, categorical programs also divert education dollars into administration that otherwise could be directed into the classroom. School districts are allowed administrative costs that can range up to 8 percent of funding. On nine of the larger programs, which involve about \$1 billion in funding, administrative

costs run about \$58 million. Extrapolating these figures, it is possible to estimate administrative costs for the \$5 billion at about \$290 million.

The Commission believes that school districts should be mandated to meet the needs of special students. However, greater efficiency and value for education dollars can be achieved if the manner of meeting those needs is left up to the individual district. The State can accomplish this, at substantial administrative savings, by eliminating the categorical nature of funding and giving districts wide latitude to provide services to students with block grants or augmented per-pupil funding.

Potential Savings: About \$145 million if eliminating categorical restrictions saves half of current administrative costs.

County Offices Of Education

There are 58 county offices of education, one in each county run by an elected county superintendent of schools and an elected county school board. The offices provide local districts with administrative support, organizational services, and curriculum and staff support. The offices also provide direct services to some students: juvenile court schools, vocational education, special education and teenage pregnancy programs. The offices account for more than \$1.5 billion of the \$27 billion education budget.

The offices provide a layer of bureaucracy in many counties that would appear to be unneeded, and in other counties may be under-used. For example, in counties with large school districts the Commission is told there is often duplicative administrative functions in the county office and the district office.

From the other end of the spectrum, in small rural counties, a regional approach to the services now offered by individual county offices of education might prove more efficient. This is in keeping with measures introduced by legislators, such as Assembly Speaker Willie Brown, to make services more efficient through regionalization.

The Commission believes much of the administrative portion of the \$1.5 billion could be saved and redirected into classrooms if county offices of education were abolished where school districts are capable of taking on their duties and were consolidated into regional offices where appropriate.

Potential Savings: \$150 million. A conservative estimate of 10 percent savings yields this figure, based on the elimination of duplicate administrators, an elected official and elected county school boards.

Conclusion

All state programs next year must juggle drastic budget cutbacks with increased demands for services. When the elderly may be cut off from nursing home payments, the impoverished sick may have to go without treatment, and welfare mothers may see their checks shrink, it is necessary for schools to do their part in making the best of California's dire financial situation. But the Commission believes the State must give school districts the tools to cope with cuts and must step in quickly if irresponsible districts place a strain on the State's limited education resources.

Therefore, the Commission urges the State to: set up a program to take over districts that deficit spend for three years; implement statewide collective bargaining; ensure more dollars reach the classroom by providing schools with block grants rather than categorical funding; consolidate small school districts; and eliminate or regionalize county offices of education.