

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.