

## **EXECUTIVE SUMMARY**

In fiscal year 1991-92, total education revenues for California are expected to be approximately \$26.76 billion. These revenues, of which more than 63 percent are provided by state government, are supposed to be used for the education of approximately 5.5 million students through 1,013 school districts and 58 county offices of education.

Much criticism has been leveled at the quality of education in California, as well as in the nation as a whole. Academic performance indicators can be described as "mixed," with enough evidence to support an ardent proponent's argument that the State is doing incredibly well considering all circumstances, and to support an equally fervent critic's contention that K-12 education in California is in a crisis. But additional concerns over the product of education in the State are expressed by the business community, which complains that the available labor supply is adversely affected by dropouts, functional illiterates and high school graduates that either cannot pass even the most basic employment screening exams or who require extensive remedial training in fundamental skills. The problem of a dwindling qualified labor force could result in detrimental economic consequences for the State.

Another specific worry relates to the spending of education revenues. Studies conducted in other states, most notably New York and Wisconsin, indicated that substantial amounts of money were being wasted on vast educational bureaucracies. These reports claimed that one-third or less of education revenues actually reached the classroom. Allegations of similar waste were heard concerning California's largest school district, Los Angeles Unified.

This study by the Little Hoover Commission examines educational costs in an attempt to determine where the billions of education dollars are going and how much reaches the classroom. In addition, this study addresses one of the most critical problems facing education today -- the dropout. Following are the findings and corresponding recommendations resulting from this study:

**Finding #1**

**Current School Funding Methods Prevent School Districts from Shifting Priorities and Allocating More Money for Instruction**

Much of California's education money has been restricted by state or federal law for specifically defined purposes, such as food services and child development centers. These dollars are allocated to districts only if the districts have the required service or program, meaning that a district will not receive the funding if it chooses not to operate the specific service or program. Thus, the revenues are not available for use in the instructional program based on decision-making by the local board or administration.

***Recommendation #1***

To allow more flexibility in the decision-making of the districts and to further coordinate funding for special programs, the Governor and the Legislature should allow additional block grant funding to local school districts. Such a block grant program must include sufficient safeguards to ensure that the funds ultimately accomplish the objectives of programs identified as being necessary in state statute. Further, revenues for the block grant program must be tied to the positive results from the districts' special programs.

**Finding #2**

**The Collective Bargaining Process Improperly Controls How School Districts Spend the Majority of General Fund Monies**

In determining where education money goes, it is clear that, even though "non-classroom" services represent significant costs to a school district, instruction accounts for the majority of a district's General Fund expenditures. In determining what drives educational costs, it appears that the collective bargaining process and related agreements are a major factor. The process itself allows districts to be fully reimbursed by the State for an unlimited amount relating to collective bargaining costs so long as those costs are in line with state parameters and guidelines. For fiscal year 1991-92, the State has budgeted almost \$32 million for such reimbursements. Moreover, the agreements reached through the collective bargaining process not only regulate school employees' salaries and benefits, but also affect a variety of other costs in categories other than instruction. Ultimately,

these costs reduce the flexibility in a district's management procedures and provide for an inefficient system.

***Recommendation #2***

To reduce the adverse fiscal effects of unsound agreements reached through collective bargaining at the district level, as well as to make the collective bargaining process more cost-efficient, the Governor and the Legislature should require a study examining the feasibility of the establishment of a statewide council of recognized exclusive bargaining representatives to carry out the collective bargaining process with a joint council of school districts. The study should assume that the statewide councils would delegate local issues, including cost-of-living adjustments, to local employee representatives and districts for the negotiation of subsidiary agreements. In addition, recognizing that the State provides the majority of education funding, and to ensure uniform and fiscally sound agreements are reached, all agreements would be subject to the approval of the State Board of Education, the governing body of the State Department of Education.

***Recommendation #3***

To allow districts greater flexibility in managing their costs, the Governor and the Legislature should enact legislation to review the current parameters of what can be included in the collective bargaining process so as to identify areas that might be better removed from the realm of negotiations. Once these areas are identified, the Governor and the Legislature should exclude them from the collective bargaining process.

***Recommendation #4***

To provide an incentive for districts to scrutinize and minimize their costs associated with collective bargaining, the Governor and the Legislature should make the statutory changes and, along with the people, the constitutional changes necessary to limit the amount that districts may be reimbursed for Mandated Cost Claims related to collective bargaining costs. Districts should not be precluded from spending more on collective bargaining; they should only be limited in what they may be reimbursed for by the State. Each district will have to determine how they will cover additional collective bargaining costs from their unrestricted revenues.

In addition, if, in the negotiation of a new contract, no agreement is reached within 60 days prior to the expiration of the existing contract, the negotiating parties should submit to mandatory and binding dispute settlement mechanisms under the auspices of the Public Employment Relations Board.

**Finding #3**

**California's K-12 System Continues to Operate Without Adequate Controls and With No Accountability at the Top**

Despite an increase in the fiscal reporting requirements placed on school districts, the current assignment of local authority and responsibility for fiscal decision making, coupled with a primarily State-funded education system, does not ensure the financial stability of the districts. It appears that many local decisions defy sound fiscal practices, without the State able to exert control early enough to prevent fiscal adversity. Consequently, many districts are at risk of financial failure which will result in the costly process of the State bailing out the districts.

***Recommendation #5***

To avoid an increasing problem of district financial failure stemming from deficit spending, the Governor and the Legislature should provide the State's Superintendent of Public Instruction or the State Board of Education with additional authority and responsibility for financial recovery when it appears that a district is in jeopardy of failing to meet its financial obligations. Suggested measures include giving the Superintendent of Public Instruction or the State Board of Education the authority to proceed with cost containment measures once a district submits to the State Department of Education a qualified certification. Another possible measure would be to give the Superintendent of Public Instruction or the State Board of Education greater authority to ensure the fiscal soundness of budgets proposed by local school boards. For example, if a budget review committee is established and does not recommend approval of a school district budget and, instead, proposes an alternative budget that subsequently is not adopted by the local school board, the Superintendent of Public Instruction could be given the option to either accept the district's proposed budget, accept the budget review committee's proposed budget, or prepare an alternative budget and approve it.

***Recommendation #6***

The Governor and the Legislature should enact legislation providing for penalties against any school board member who votes to approve a budget or expenditure in knowing violation of current statutory standards and criteria developed by the Superintendent of Public Instruction, the State Controller and the Director of the Department of Finance and reviewed and approved by the State Board of Education for the use by local educational agencies in the development of annual budgets and the management of subsequent expenditures from that budget.

**Finding #4**

**The State's Dropout Rate Has Exceeded 20 Percent;  
Current Statistics Fail to Reveal the Total Picture**

Despite state law that allows the collection of dropout statistics for students leaving school as early as seventh grade, the Department historically has counted dropouts from only the tenth grade forward. Further, it is not ordinarily determined whether dropouts eventually return to some alternative means of education, such as trade school or community college. Finally, the dropout figures reported by districts to the Department are not periodically audited. As a consequence of these shortcomings in the procedures for developing dropout statistics, the actual extent of the dropout problem in California remains clouded, thus depriving the State's policy makers of information needed to make decisions.

***Recommendation #7***

To account for the sizable number of students who drop out prior to the 10th grade, the Department should implement its plan to collect dropout data for grades 7, 8 and 9 beginning with the school year 1991-92.

***Recommendation #8***

To facilitate data collection on dropouts at all grade levels as well as the tracking of dropouts once they leave school, the Governor and the Legislature should require the design and implementation of a statewide, student-level data base that will incorporate the use of standard student identification numbers, such as social security numbers. Once the data base has been established and reliable figures are generated for dropouts who eventually return to some form of formal education or pass a diploma equivalency test, the Department should publish those figures along with the dropout rate.

***Recommendation #9***

To ensure the accuracy of the dropout data in the California Basic Educational Data System, and thus the calculation of the dropout rate, the Department should periodically review and confirm the accuracy of the dropout data sent to the Department by school districts.

**Finding #5**

**If California Fails to Reduce the Dropout Rate, the State's  
Economy Will Be Severely Affected**

California's dropout rate, although fraught with imprecision, indicates that large numbers of students annually leave school without graduating. Further, current data suggests that some ethnic groups, such as Hispanics, contain a disproportionate share of dropouts, and that these

ethnic groups are increasing as a percentage of the State's school population. The State, however, has failed to devote sufficient resources to effectively alleviate the dropout problem. As a result, California's economy could eventually suffer the consequences of a diminished qualified labor force, lost tax revenues resulting from lost earnings, and increased costs related to police, judicial, penal, employment, welfare and health services.

***Recommendation #10***

To effectively address the dropout problem, the Governor and the Legislature should support current successful efforts at dropout prevention and recovery, such as the SB 65 programs and the California Partnership Academies, so long as those efforts are directed at the aspects of the problem demanding the highest priority, such as the unique problems associated with Hispanic dropouts based on projected trends. In addition, to the extent possible, efforts aimed toward at-risk youth should be consolidated and coordinated to achieve the most efficient and effective use of limited education dollars. Finally, legislation should be enacted to provide sufficient resources to further the efforts of promising initiatives, such as the Every Student Succeeds initiative, that will effectively address the highest priorities of the dropout problem.

***Recommendation #11***

Within existing resources, the Department should continue its efforts to develop and implement initiatives that will substantially contribute to the alleviation of the dropout problem. In particular, given that population and dropout figures show Hispanics as having a high dropout rate while becoming the largest single ethnic or racial group in the State, the Department's efforts should place special emphasis on the unique problem of Hispanic dropouts.