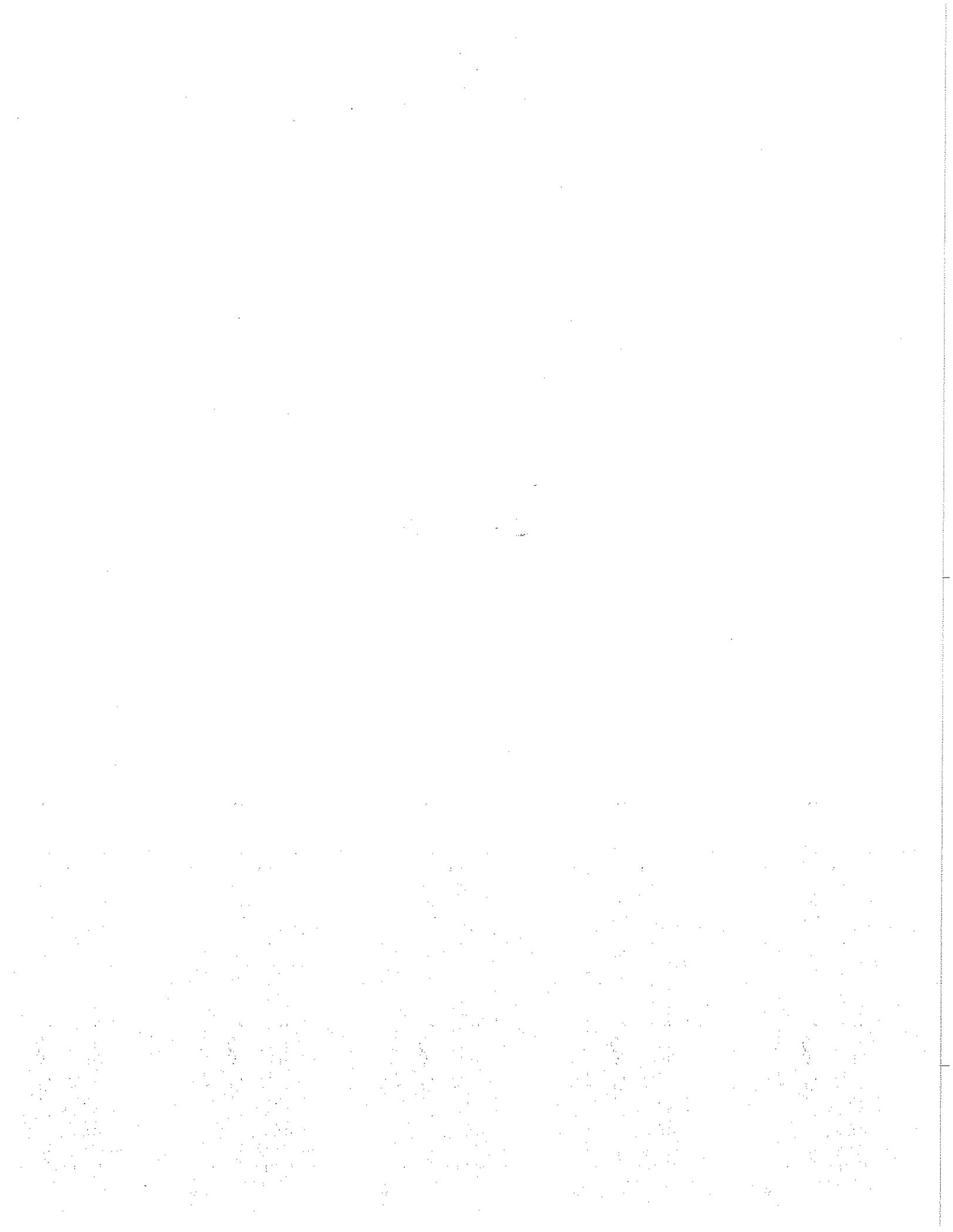


LITTLE HOOVER COMMISSION

COSTS AND CASUALTIES OF  
K-12 EDUCATION IN  
CALIFORNIA

*June 1991*



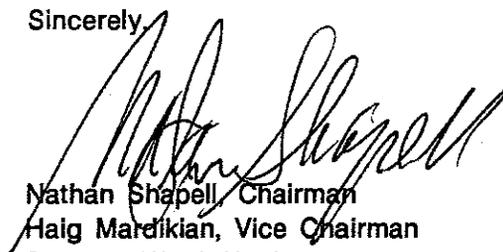


In addition, the report contains 11 recommendations to address the Commission's concerns. Chief among those are recommendations to:

- \* Conduct a study examining the feasibility of statewide collective bargaining.
- \* Give the Superintendent of Public Instruction or the State Board of Education more authority to step in when a school district is in financial trouble.
- \* Enact a law that would penalize individual school district board members if they knowingly approve a budget that doesn't comply with state standards and criteria.
- \* Adjust the way dropouts are counted so that a true picture can be obtained.
- \* Expand programs that currently are successful in deterring dropouts.

The Little Hoover Commission believes that quick and firm action on these matters holds the key to improving the educational system in our State while at the same time checking the rising costs that seem to do little to benefit our children.

Sincerely,



Nathan Shapell, Chairman  
Haig Mardikian, Vice Chairman  
Senator Alfred Alquist  
Mary Anne Chalker  
Arthur F. Gerdes  
Albert Gersten  
Senator Milton Marks  
Assemblywoman Gwen Moore  
Angie Papadakis  
Abraham Spiegel  
Barbara S. Stone  
Richard R. Terzian  
Assemblyman Phillip D. Wyman

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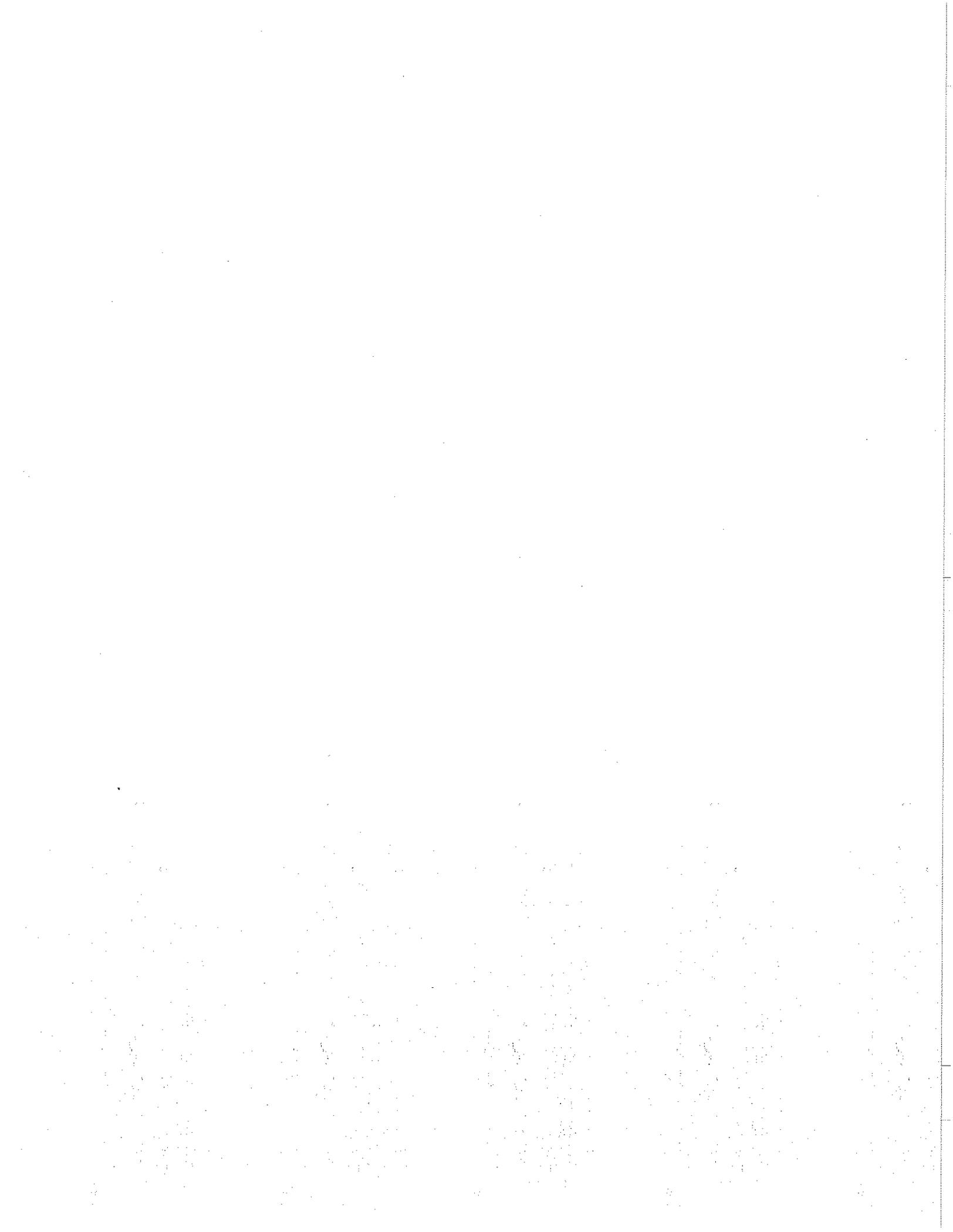
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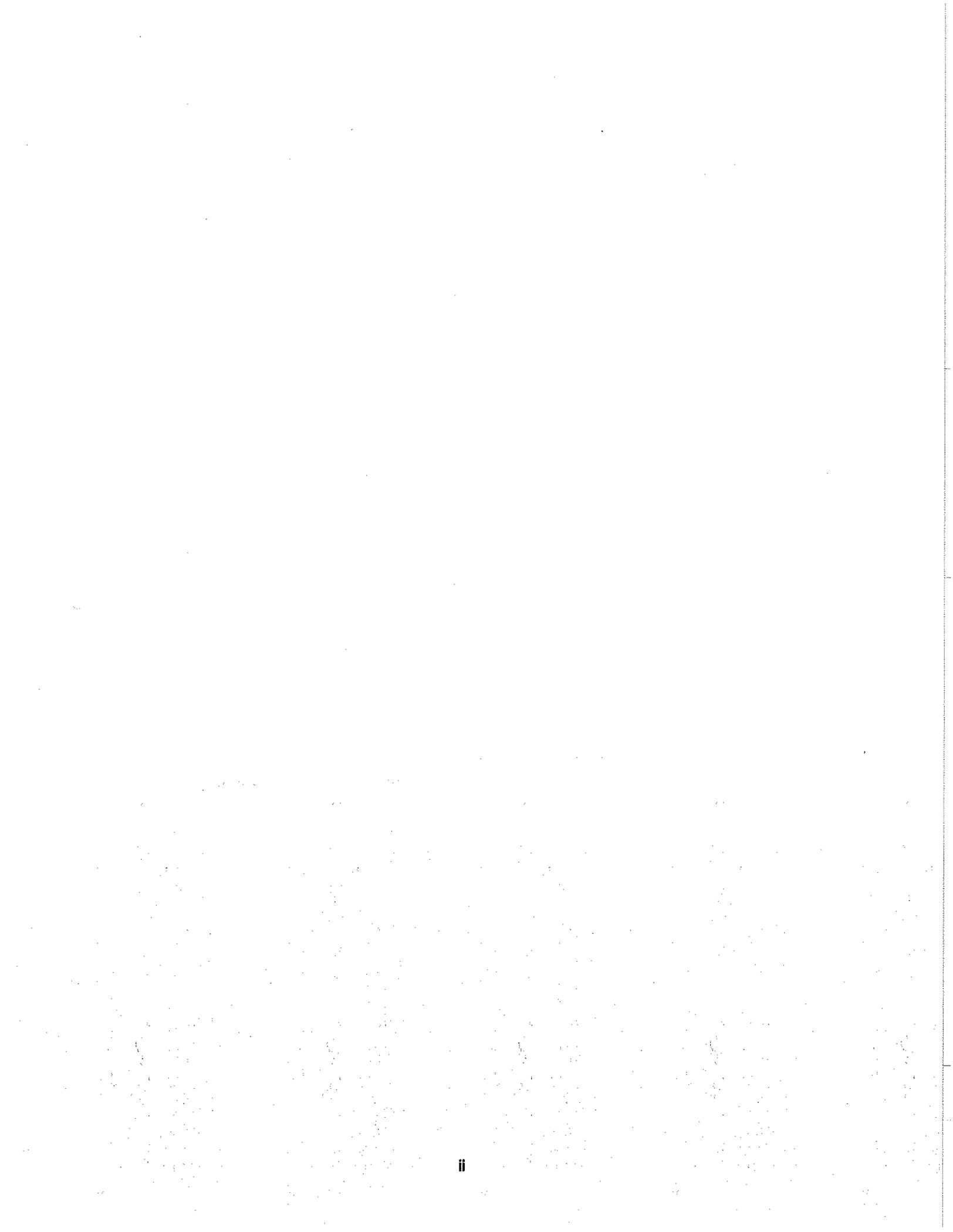
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# Executive Summary



## **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.

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# Introduction



## **INTRODUCTION**

At a time when education is feared to be in a crisis nationally, the Little Hoover Commission revisits K-12 education in California. Many currently are calling for major changes to occur; the suggested vehicles by which such changes are to be accomplished range from the revision of policy in narrowly defined areas to wholesale reform of the system. Prominent among the myriad issues debated by critics and proponents of the present system are the matters of administrative costs and dropouts. These are the issues focused on by the Commission in this study.

Included below is a brief review of funding for education in California, a summary of concerns over administrative costs in education, an outline of some indicators of performance in California's schools, a discussion of some additional concerns related to the product of our schools, and an explanation of the scope and methodology for this study.

### ***Education Funding***

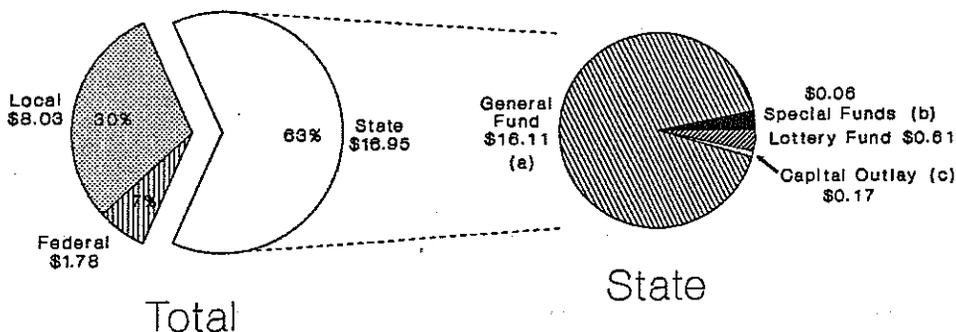
California's public education system is administered at the state level by the Department of Education (Department), under the direction of the State Board of Education and the Superintendent of Public Instruction. At the local level, 1,013 school districts and 58 county offices of education provide education to approximately 5.5 million students from preschool age to adulthood.<sup>1</sup>

Schools in California receive funding from state, local and federal governments. The relative shares of revenue provided by the different levels of government have changed dramatically since the 1978 passage of Proposition 13, which limited the amount of property taxes that could be levied by local government and thus shifted the burden of school financing from local government to the State. The problems

created by this change are covered in greater detail later in **Finding #3**, but an illustration of the shift in revenue sources is appropriate here. In fiscal year 1977-78, local funding comprised 53.9 percent of all K-12 revenues while state funding made up 39.1 percent and federal funding constituted 7.0 percent. In fiscal year 1991-92, total education revenues are expected to be approximately \$26.76 billion. Of this total, the State will provide approximately \$16.95 billion (63.3 percent), local funding will account for about \$8.03 billion (30.0 percent), and the remaining \$1.78 billion (6.7 percent) will come from the federal government.<sup>2</sup> Chart 1 displays the 1991-92 funding by government source as well as a breakdown of the State's portion.

**CHART 1**

## SCHOOL FUNDING IN CALIFORNIA Fiscal Year 1991-92 (Dollars in Billions)



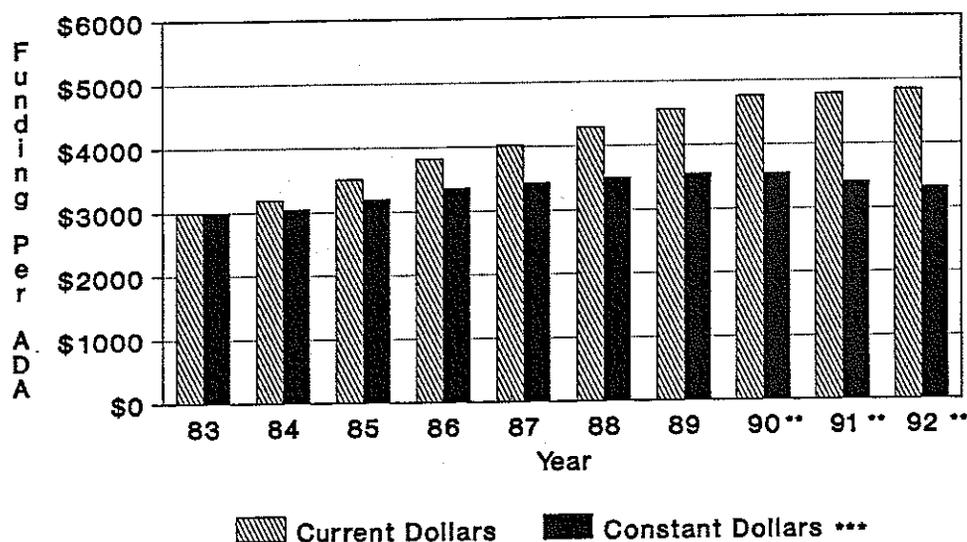
- (a) Includes contributions to the State Teachers' Retirement Fund and payments on general obligation bonds and Pooled Money Investment Account loans; excludes capital outlay and State Library programs.
- (b) Includes the State School Fund, Donated Food Revolving Fund, and others.
- (c) Includes General Fund and tidelands oil revenues for capital outlay and year-round school incentives.

Source: Legislative Analyst's Office

As shown in Chart 1, of the \$16.95 billion provided by the State, approximately \$16.17 billion (95.4 percent) will come from the General Fund and special funds (excluding state library programs), \$171 million (1.0 percent) is state capital outlay (including General Fund and tidelands oil revenues for capital outlay, and year-round school incentives), and \$614 million (3.6 percent) will come from the State Lottery.

Chart 2 shows the amount of total education funding on a per-pupil basis during the 10-year period, fiscal years 1982-83 through 1991-92, in both current and constant dollars.

CHART 2  
K-12 EDUCATION FUNDING PER ADA  
IN CURRENT AND CONSTANT DOLLARS  
1982-83 through 1991-92 \*



- \* Data are for fiscal years ending in years specified.
- \*\* Figures for 90 and 91 are estimated; 92 is budgeted.
- \*\*\* As adjusted by the GNP deflator for state and local government purchases.

Source: Legislative Analyst's Office, Analysis of the 1991-92 Budget Bill

As Chart 2 illustrates, per-pupil funding in current dollars has grown from \$2,992 to \$4,853 (62.2 percent) since fiscal year 1982-83. When these revenues are adjusted for inflation and measured in constant dollars, however, fiscal year 1991-92's budgeted expenditure level is only \$3,204 per pupil -- only 10.8 percent above the 1982-83 level. Thus, although in current dollars it appears that California has significantly increased per-pupil funding, a 10.8 percent increase in constant dollars over a 10-year period illustrates only a marginal improvement in funding. These figures should be viewed in the context that since there has been a large increase in the number of students, just keeping even might be considered a good accomplishment.

**Administrative  
Costs**

Despite the marginal increase in per-pupil funding based on constant dollars, the total amount of funding in current dollars is large by any standard. In fact, the Governor's Budget for fiscal year 1991-92 shows that K-12 Education represents 30.2 percent of California's proposed total expenditures (excluding selected bond funds) and 37.6 percent of proposed General Fund expenditures.<sup>3</sup> It is this magnitude of spending that fuels the Little Hoover Commission's interest in the efficiency and effectiveness of the education system.

The Commission's interest was piqued further during its study that resulted in the February 1990 report, "K-12 Education: A Look at Some Policy Issues." For that report, the California Department of Education provided cost data from the most recent fiscal year for which it had complete information, fiscal year 1987-88. A cursory analysis of those data derived statewide averages for costs per average daily attendance; these figures are presented in Table 1.

**Table 1**

**Statewide Averages for  
Costs/Average Daily Attendance (ADA)  
by District Type  
Fiscal Year 1987-88**

<u>District Type</u>	<u>Instructional Costs/ADA</u>	<u>Support Services Costs/ADA</u>	<u>Total Costs/ADA</u>
Elementary (952,308 ADA)	\$2,043 (63.5%)	\$1,173 (36.5%)	\$3,216 (100%)
High (436,701 ADA)	\$2,201 (57.3%)	\$1,641 (42.7%)	\$3,842 (100%)
Unified (3,013,201 ADA)	\$2,144 (60.6%)	\$1,395 (39.4%)	\$3,539 (100%)
Total (4,402,210 ADA)	\$2,128 (60.8%)	\$1,372 (39.2%)	\$3,500 (100%)

Source: California Department of Education, "Instructional vs. Support Services Costs per ADA -- (Special Report for the Little Hoover Commission)," November 27, 1989.

As Table 1 shows, the statewide average support services costs per ADA for all districts during fiscal year 1987-88 was \$1,372, almost 40 percent of total costs. The average support services costs per ADA for the different

district types ranged from 36.5 percent of total costs for elementary school districts to more than 40 percent of total costs for high school districts.

That only 60 percent of education monies is spent in the classroom, at first glance, would be unacceptable in the context of private business standards. Not many businesses would survive if 40 percent of revenues were devoured by the costs of support services. Recognizing, however, that the Department's data base was compiled from information submitted by school districts, and thus is subject to differing interpretations as to how to categorize various costs, the Commission believed further review was warranted.

The figures derived in the Commission's cursory analysis, however, are not unlike the results of in-depth studies conducted in other states. For example, a study tracking the spending for New York City's public high schools concluded that, in 1988-89, less than a third of the \$1.4 billion spent on high school students reached the classroom. Specifically, of the \$6,107 in city, state and federal funds (excluding federal funds for special education programs) received by the New York City Board of Education for each high school student, \$2,969 (almost half) was siphoned off by the board's central operations for activities such as school bus programs, school security and strategic planning. The remaining \$3,138 was passed on to New York City's high school division, which spent \$133 per student on overhead and passed \$3,005 per student on to the schools. Of this residual amount, the schools spent \$1,033 per student on non-classroom elements such as administration (principals, assistant principals, clerical workers), curriculum development and counseling. Thus, \$1,972 (32.3 percent of the original \$6,107) was left for classroom expenses.<sup>4</sup>

A similar study of the Milwaukee Public Schools (MPS) was conducted in 1990 and found that only 26 percent of the MPS' total education funds for elementary schools (approximately \$575.8 million) was spent on classroom instruction. The review also determined that only 57 percent of total MPS funds was spent in the average elementary school and that the remainder was "going into layers of bureaucracy and administrative costs that have little to do with educating...children." The study further concluded that, over the last two decades, the proportion of MPS money going to instruction has been diminishing as a percentage of the total budget while the proportion of funds spent on administration has increased.<sup>5</sup>

The startling results of other states' studies came at a time when allegations of "administrative bloat" were frequently heard in California. Loudest among these critics

has been the teachers' union for the Los Angeles Unified School District (LAUSD), by far the largest district in California and second largest in the nation, surpassed in size only by New York City's public school system. Specifically, the United Teachers - Los Angeles (UTLA), claimed that the LAUSD's audited financial statements revealed that, for the fiscal year ended June 30, 1989, the district spent more than \$1 billion on running its central and regional administrative offices. The union indicated that these expenditures included administrators' salaries and benefits, and operating expenses such as district cars and chauffeurs. The UTLA further contended that the more than \$1 billion represented 31 percent of the district's total budget, and that it did not include any administration costs actually incurred on school campuses. Finally, the union stated that the district spent only 36 percent of its budget on teachers' salaries, textbooks and supplies.<sup>6</sup> LAUSD officials denied the UTLA's allegations, contending that the union had distorted the facts in an attempt to discredit the efforts of public schools. A review of the district's actual costs is presented later in **Finding #2**.

### *Performance Indicators*

Another catalyst for the Commission's review of K-12 education is the academic performance of California's students. Not unlike the nation, California has seen a major decline in the intellectual performance of its students over the last 20 years. This decline initially was evident in the 1970s, and appears to have bottomed out in the early 1980s.<sup>7</sup> The indicators of student academic performance are quite varied and include:

- The statewide California Assessment Program (CAP) test of reading, writing and mathematics for grades 3, 6, 8 and 12, and history/social science and science for grade 8;
- The Scholastic Aptitude Test (SAT), which is designed to measure scholastic aptitude (verbal and math) and to predict college performance in the freshman year;
- The College Board Achievement Tests, which provide a direct measure of subject matter knowledge (for the college-bound population<sup>a</sup>) in 14 areas (English Composition, Mathematics I, American History, Mathematics II, Spanish, Biology, Literature, Chemistry, French, Physics, German, European History, Latin, and Hebrew); and

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<sup>a</sup> "College-bound" is interpreted as that portion of the student population who, through the taking of particular exams (such as the SAT, the College Board Achievement Tests and Advanced Placement exams) indicate that they are headed for postsecondary education.

- Advanced Placement examinations in which college-bound students take any of the more than 20 nationally developed subject-area tests as high school students to qualify as having completed college-level courses in the subjects.

In an attempt to answer the question, "What is the California trend in educational achievement?," Policy Analysis for Education (PACE) comprehensively analyzed the various performance indicators for California in its policy paper, "Conditions of Education in California 1989," and produced these conclusions:<sup>8</sup>

- \* As measured by CAP tests, the performance of elementary and secondary school students has shown a generally upward trend over the past decade. The pattern, however, is a halting and uneven one across grades, subjects and years.
- \* At most grade levels and in most tested subjects, California students rank near the national average. Overall, the academic performance of California's students is neither dramatically below nor reassuringly above the national average.
- \* With an increased emphasis on widening access to postsecondary education, a greater proportion of the California student population has been taking the SAT.
- \* California verbal SAT scores have improved slightly since 1983 despite a small dip in 1988-89. (Note: The score for 1989-90, published after the issuance of PACE's 1989 report, decreased further to the point of being below the 1983 level. In fact, California's verbal SAT scores for 1989-90 were at an all-time low.)
- \* California math SAT scores have remained at a level higher than the national average since 1978-79. Over the last few years, California college-bound seniors have improved their SAT scores in math; nonetheless, neither California nor U.S. students have regained the ground lost over the last 20 years.
- \* Scores from the College Board Achievement Tests reveal California students to be substantially below their counterparts nationwide. This is the case for 11 of the 14 achievement tests; only on the Spanish, Latin and Hebrew tests do California students score higher than the national average.

- \* The percentage of California students scoring higher than 500 on SAT and College Achievement tests has increased over the last five years. These increases have occurred across all major subjects.
- \* Over the past five years, the number of California high school seniors taking Advanced Placement exams has more than doubled, as has the number of students passing the exams.
- \* The proportion of California students who excel on SAT, Achievement Tests and Advanced Placement exams has increased steadily for several years. However, while the larger number of California students taking the more general SAT aptitude test score nearly as well as or better than both the national average and the average of five similar urban states, students taking the more content-oriented Achievement Tests do not do as well as similar students throughout the nation, and even less well than their counterparts in comparable urban states.
- \* The achievement gap continues to be substantial for blacks and Hispanics. Black and Hispanic students are gaining little ground in reading, but continue to close the achievement gap in mathematics.
- \* Asian students are scoring well, improving rapidly in reading, and continue to score excellently in math.
- \* For the college-bound portion of the ethnic minority student population, significant progress has been made in closing the achievement gap with white students. The proportion of ethnic minority students who graduate from high school who meet the University of California's high school course requirements is increasing faster than for white graduates.<sup>b</sup>
- \* At the same time, limited-English-proficient students, although their scores are low, are generally progressing very rapidly, more rapidly than English-proficient students, in both reading and math.<sup>c</sup>

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<sup>b</sup> From this conclusion alone, it is unclear how significant the closure of the achievement gap is because of the relatively small proportion of college-bound students are made up by ethnic groups.

<sup>c</sup> It should be noted that average scores for the limited-English-proficient group are probably the net result of the diverging patterns of Asian and Hispanic students, the two largest groups in the limited English-proficient-population.

If these conclusions seem confusing and conflicting, they are made all the more puzzling when the assorted arguments for and against the conclusions are heard. For example, California's Superintendent of Public Instruction has argued that the improvement in the State's average SAT scores is better than what the figures indicate because the dramatic increase in the number of students taking the test has masked significant improvement in performance. He also contends that a better indicator of actual performance levels is to measure the increase in the number of students scoring above a given performance level as a percentage of the senior class.<sup>9</sup> As indicated above, this indicator does show consistent improvement. Conversely, the College Board Achievement Tests, considered to be a more direct measure of subject matter knowledge for the college-bound population,<sup>10</sup> show California students substantially below their counterparts nationwide.

Then the argument can be made that, although useful to a degree, comparisons between California and the national average can be misleading. Various reasons for this possible mismatch include:<sup>11</sup>

- Many States in the nation are not comparable to California on such educationally important factors as the number of students attending inner city schools, the proportion of disadvantaged and minority students, and the number of students whose native language is not English.
- Because California composes a substantial portion (about 10 percent) of the national average, comparing California to the national average is, to an extent, comparing it to itself.
- Regarding the SAT, it is not the primary college admission test used in approximately half the states. Thus, in those states where it is not the principal test, the much smaller number taking it are likely to be more able students applying to more selective, out-of-state schools.

In fact, when compared to five urban states that predominantly use the SAT (Florida, Massachusetts, New York, Pennsylvania and Texas), California performs better on the SAT than when compared to the national average. When the same comparison is made on the Achievement Tests, however, California's disadvantage relative to the national average is the same or greater.<sup>12</sup>

Thus, the results of measuring California's students can be described as "mixed." Moreover, there is 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.

***Additional  
Concerns***

In addition to the concerns over the performance of California students as measured by academic achievement tests, there are worries that students are not being prepared for today's employment requirements. After arguing over the implications of scores for admission and achievement tests, debaters of education policy must also view the product of education through an employer's eyes.

Of distress to employers are two types of students: (1) dropouts, which represent the ultimate education system failure (and are discussed at length in the second part of the Findings and Recommendations section of this report); and (2) ill-prepared graduates. The following is an excerpt from a 1988 report to the California Business Roundtable that sums up the employers' perspective on the second type of student.<sup>13</sup>

*Dropout statistics tell only part of the story. Unfortunately, the difference in learning between dropouts and many high school graduates may be negligible. Substantial numbers of California's high school graduates are functionally illiterate. Military services report significant failure rates on entry tests among high school graduates seeking to enlist in the armed services. Many employers complain about candidates for entry level positions who cannot understand or complete employment application forms, and businesses have increasingly turned to providing training in basic skills to compensate for the limited supply of employees who can read, write, calculate and comprehend simple instructions.<sup>d</sup> California may now have 5 million functionally illiterate adults, and this total undoubtedly will grow rapidly.<sup>e</sup>*

*Dropouts and illiteracy are visible problems, and, therefore, provide dramatic*

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<sup>d</sup> About 75 percent of the largest corporations nationally offer or require remedial basic education to their employees; about 20 percent of all organizations with 50 or more employees provide remedial training in basic skills. A conservative estimate of the cost of basic skills training is \$1.2 billion dollars annually.

<sup>e</sup> Nationally, the Census Bureau estimates that 27 million adults cannot read, that another 30 million are functionally illiterate, and that functional illiterates could comprise one-half of the population by the turn of the century. It has been conservatively estimated that the cost of functional illiteracy to business (because of lost productivity) is over \$6 billion annually.

*testimony of the education system's profound inability to cope with almost fifty percent of its students. What of the other half?*

*Seventy-five percent of entering community college students read below the twelfth grade level, 50 percent of community college English and mathematics courses are remedial, and many California State University and University of California entering students learn they must take remedial work. Though their learning deficiencies do not involve rudimentary literacy, their education is seriously limited. Students in both the middle and high achievement ranges on standardized tests (which primarily test rudimentary basic skills) have trouble with the so-called higher order cognitive skills -- clear writing, two-step calculations, critical thinking, and problem-solving. And it is precisely these higher order skills that are needed for a full and productive life in our increasingly complex society.<sup>†</sup>*

In its November 15, 1990 public hearing, the Little Hoover Commission received testimony from a panel representing the Industry Education Council of California, a coalition representing leaders in industry, labor, government and education. The Council is concerned about the efficacy of the State's labor supply and the ability of California to remain competitive in the national and global economy. Included in the panel at the hearing was the vice president of human resources for Knott's Berry Farm, a corporation that includes an amusement park and food products plant in southern California. The following is an excerpt from the vice president's testimony, which articulates a frequently heard concern about the competence of those emerging from K-12 schools:<sup>14</sup>

*Employers are becoming increasingly frustrated in seeking competent or employable workers. Therefore, many are conducting on-the-job training and retraining starting at the very basic levels....*

*Knott's Berry Farm is also forced into educating employees on subjects they should have learned in school... In fact, we have a catalog of programs that we use in training and orientation... This is what we have to do*

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<sup>†</sup> See Endnote #13 for reference.

to make up for what schools aren't doing. As a vice president of human resources, my time should be spent on strategic issues of human resource development, organizational structuring, employment, cost analysis, etcetera. Instead, I find myself and my staff doing what our schools should have done -- educating. Businesses should only be required to train employees, not to provide a basic education.

Knott's historically has hired youths who had not graduated from high school as "sweepers" at the park to pick up trash. However, because they are also in continuous contact with our guests, answering questions and giving directions, we needed to hire more competent and educated youths. As a result, the title for this position has been upgraded to park attendant, and the position now requires a high school diploma. At our food products plant, educational requirements have also changed. Due to advanced technology, we no longer look for employees who can lift 100-pound bags of sugar. Instead, we now need employees who can operate the computers that run the process equipment.

Knott's also hires for "seasonal" positions. These are for the busy summer months. Most of the positions are filled by high school and college students. On the positive side, we do have an ample number of applicants. However, on the negative side, we have to interview at least 7,500 candidates in order to fill just 2,500 positions, at a cost of more than \$700,000. Fully two-thirds of all applicants are rejected.

This situation worries me as I'm sure it does you. If those other 5,000 people are not employable for simple, basic jobs at Knott's, where are they going to find jobs to support them and their families?

At the same hearing, the president of the Industry Education Council of California echoed the misgivings over the output of California schools. She pointed out that one adverse effect of having an ill-prepared labor force is the flight of businesses from California to other states:<sup>15</sup>

*It's very frustrating to be a CEO of a utility company [or] a petroleum company who can't hire in the State. We can go next door to Oregon where... instead of having 18 out of 20 flunk a test here in California, we can go across the border and have 18 out of 20 pass the test.*

These concerns appear typical of those expressed by the business community at large regarding the quality of the labor supply. The link to the quality of high school graduates is a castigation of the educational system's product.

***Scope and Methodology***

Based on findings in its February 1990 report as well as the host of allegations and concerns outlined earlier in this section, the Commission in September 1990 initiated this study of K-12 education in California. Its focus was twofold: (1) determine how much of the money spent on education in the State actually reaches the classroom and identify where the remainder goes; and (2) assess the extent of the dropout problem in California schools.

As a part of this study, the Commission held two public hearings on K-12 education. The first hearing, held on October 25, 1990, focused on administrative costs in school districts but addressed a wide variety of education topics, including systems of choice and model technology programs. The Commission's second hearing, held on November 15, 1990, again addressed administrative costs but focused on the problem of dropouts.<sup>9</sup>

To obtain assistance in the review of educational costs incurred by school districts, the Commission issued a Request for Proposals. The winning contractor, Brewer, Grose & Co., along with their sub-contractor, AVA Education Policy/Planning Services, designed the approach to collecting all of the necessary cost information from the four districts selected by the Commission to be included in the study:

- Los Angeles Unified School District;
- San Diego Unified School District;
- Richmond Unified School District; and
- Heuneme Elementary School District.

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<sup>9</sup> Please see Appendix 1 for a list of witnesses testifying at each of the Commission's hearings.

The contractor's project data base was constructed from existing financial data that was collected and reported in all California school districts. Because there are too many uncontrollable factors during a school year that affect projected information, the contractor collected actual expenditure and revenue information to provide a more accurate picture of school district finances. Thus, when possible, data were collected for the three most recent fiscal years for which actual figures were available: 1987-88, 1988-89 and 1989-90. The data were collected in the following formats:

- J-200 annual budget information, which contains the prior year's actual revenue and expenditures;<sup>h</sup>
- J-380 Program Cost Accounting, which provides the prior year's actual expenditures according to pre-defined cost categories; and
- J-380 Matrix, which documents program cost information according to major object codes.<sup>i</sup>

In addition to collecting the data, the contractor visited each of the four districts reviewed to determine the reasons for any major aberrations in a district's costs between years.<sup>j</sup> Further, the contractor and Commission staff collected data from the California State Department of Education for an analysis of the Department's costs and costs associated with county offices of education. Finally, to provide insight to the variety of cost issues encountered during this study, the contractor relied on data collected and interviews obtained not only at the four study districts, but also at other California school districts that are clients to the contractor.

In its analysis of the dropout problem, the Commission relied heavily on testimony received at its November 15, 1990 hearing. In addition, Commission staff interviewed numerous individuals involved in dropout programs or research at the state and district levels.

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<sup>h</sup> Transition to the J-200 format from the previous budget reporting document, the J-41, occurred during fiscal year 1987-88. During that year, some districts, such as Richmond Unified, were allowed to use the old format, which did not contain information delineated as it is in the J-200. Thus, the contractor was unable to collect the necessary information from Richmond for 1987-88.

<sup>i</sup> The J-380 Matrix format was used by districts beginning in fiscal year 1988-89, therefore data for only that year and 1989-90 were collected.

<sup>j</sup> Note: To calculate per-pupil costs, the contractor used enrollment figures rather than Average Daily Attendance (ADA) figures because districts hire staff and purchase equipment and materials based on how many students are enrolled rather than on ADA. It should be pointed out, however, that the districts' major form of revenue is based on the revenue limit, which is calculated on the basis of ADA.

Further, Commission staff reviewed various publications related to K-12 dropouts.

***Report Format***

In addition to the Executive Summary, this report is presented in five sections, the first of which is this introduction. The next two sections contain the study's five major findings and their corresponding recommendations, and are broken out in accordance with the study's two areas of focus: educational costs and dropouts. The fourth section presents the Commission's overall conclusions; the fifth section includes appendices containing detailed information related to the study.



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# Findings and Recommendations



## **EDUCATIONAL COSTS**

As noted earlier, part of the Little Hoover Commission's purpose in this study is to determine how much of the total education money in California actually reaches the classroom. The Commission's concern over educational costs was partially prompted by studies conducted in other states, most notably New York and Wisconsin, that 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 for California's largest school district, Los Angeles Unified.

Such claims did not fall on deaf ears, particularly in light of the education dollars at stake in California. To give a sense of the magnitude of what education in the State represents, Table 2 on the following page displays the total funding for education programs (by source), the State's average daily attendance (ADA), and the California State Department of Education's budgeted staff for the 10 fiscal years, 1981-82 through 1990-91.

**Table 2**

**Total Education Revenues, Average Daily Attendance (ADA),  
Department Staff and Department Budget  
Fiscal Years 1982-83 through 1991-92  
(Dollars in Millions)**

<u>Fiscal Year</u>	<u>State<sup>a</sup></u>	<u>Local<sup>b</sup></u>	<u>Federal<sup>c</sup></u>	<u>Total Funding<sup>d</sup></u>	<u>ADA</u>	<u>Budgeted Staff<sup>e</sup></u>	<u>Department Budget<sup>f</sup></u>
1982-83	\$7,884.8	\$3,812.8	\$963.2	\$12,660.8	4,231,431	1,463	\$186.3
1983-84	8,724.2	3,834.3	1,016.6	13,575.1	4,260,873	1,273	89.2
1984-85	9,940.0	4,216.1	1,094.7	15,250.8	4,352,597	1,314	97.6
1985-86	11,361.0	4,598.2	1,125.9	17,085.0	4,469,821	1,315	92.3
1986-87	12,584.8	4,783.5	1,166.5	18,534.8	4,611,637	1,312	93.7
1987-88	13,137.0	5,749.1	1,344.5	20,230.6	4,722,792	1,313	98.0
1988-89	14,402.0	6,305.0	1,517.4	22,224.4	4,871,916	1,324	104.4
1989-90 <sup>g</sup>	15,599.3	6,762.1	1,682.1	24,043.5	5,050,944	1,405	116.2
1990-91 <sup>g</sup>	16,181.8	7,395.6	1,763.9	25,341.3	5,294,211	1,419	112.5
1991-92 <sup>g</sup>	16,952.1	8,027.6	1,775.6	26,755.3	5,513,326	1,411	118.5

- <sup>a</sup> Includes all General Fund and special fund monies in K-12 education budget item, contributions to the State Teachers' Retirement Fund, non-bond state capital outlay, and lottery revenues. Also includes payments on general obligation bonds and Pooled Money Investment Account. Excludes revenues from bond sales and funding for State Library programs.
- <sup>b</sup> Includes local property tax levies, local debt, property taxes in excess of revenue limits, and state property tax subventions. Also includes revenue from developer fees, sales of property and supplies, cafeteria revenues, interest and lease income, and other income.
- <sup>c</sup> Includes funds from the Petroleum Violation Escrow Account for the replacement of school busses for 1988-89 through 1991-92. Also includes Federal Impact Aid (PL 81-874), State Legalization Impact Aid Grants for 1987-88 through 1991-92, and excludes funding for State Library programs.
- <sup>d</sup> Details may not sum to totals, due to rounding.
- <sup>e</sup> Includes only Departmental Operations; does not include State Library, State Special Schools and Private Postsecondary Education. Also excludes Federal Audit Exceptions from 1989-90 through 1991-92.
- <sup>f</sup> State Department of Education state operations excluding State Special Schools, the Office of Food Distribution, the Private Postsecondary Education Division, and the State Library.
- <sup>g</sup> Figures for 1989-90 and 1990-91 are estimated; figures for 1991-92 are budgeted.

Source: Legislative Analyst's Office Analysis of the 1991-92 Budget Bill; California State Department of Education figures for staff and operational budget.

As shown in Table 2, total education revenues are expected to be more than \$26.7 billion in fiscal year 1991-92. Total funding for the three years looked at in this study, fiscal years 1987-88 through 1989-90, ranged from more than \$20 billion to more than \$24 billion. Obviously, education in California is "big business."

As outlined in the introduction section of this report, K-12 education in California is administered at the state level by the California State Department of Education, and is executed at the local level by county offices of education and school districts. Playing its administrative role at the

state level, the Department absorbs a portion of the total pot of education revenues. Unlike the reported shares of state departments in some other states, however, the California State Department of Education took only a fraction (between 0.47 percent and 0.48 percent of total education funding) for its operations during fiscal years 1987-88 through 1989-90. Without conducting an intensive review focusing on the Department's operations, the Commission cannot determine whether the Department could operate even more efficiently. But based on the fact that it spends less than one-half of one percent of total education revenues, it is beyond doubt that the Department is operating at a level of efficiency far better than the bureaucratic nightmares reported in other states.

At the local level, county offices of education consume a piece of the education funding pie. Unlike the Department, county offices do not perform only administrative functions. In addition to providing to local districts administrative and organizational services and curriculum and staff support, as well as providing to the Department management information systems, policy assistance and legal compliance assessment, county offices provide direct services to students. Such student services include juvenile court schools, vocational education, special education and teenage parent programs in addition to a number of student welfare and special services, activities and events.<sup>16</sup> In total, county offices of education account for a smaller percentage of education money. During fiscal years 1987-88 through 1989-90, county offices received between 5.4 percent and 5.5 percent of total K-12 education revenues in California.

Having established that roughly 94 percent of all education money in California is expended at the school district level, the Commission concentrated its efforts on determining where the money goes once it reaches the district. In conducting this study, it was necessary to categorize all educational costs so that there would be standard definitions when comparing district costs. Following are the district cost categories and their definitions as used in this study:<sup>k</sup>

#### **Instruction**

Instruction is defined as those programs and services that are directly related to student instruction, such as salaries and benefits for teachers, instructional aides, and pupil personnel services specialists (counselors, nurses, psychologists).<sup>17</sup>

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<sup>k</sup> Please see **Appendix 2** for a more detailed listing of the cost categories and subcomponents.

### **Ancillary Instructional Expenditures**

This category contains costs directly supporting instruction, and is comprised of five sub-categories:

**Instructional Administration** is defined as those expenditures related to the direct support of instruction and necessary to the instructional process, including salaries and benefits of those engaged in the development of curriculum, teachers on special assignments, mentor teachers, and other like positions.

**School Administration** is defined as those administrative and staffing expenditures required to operate a local school, including salaries and benefits of principals, assistant principals, and their clerical staff.

**Project Administration** is defined as the administrative and staffing expenditures related to the management of specially funded educational projects.

**Pupil Transportation** is defined as expenditures related to the management, staffing and operations of the district's transportation program, which includes the transportation of students to and from school and between schools for special education students.

**Facilities** is defined as district expenditures related to the use or construction of school site facilities, including rents, leases, new construction or improvements.

### **Central Administration**

Central Administration is defined as the expenditures related to district-wide management (including board members, the superintendent and assistant superintendents) and support services such as accounting, payroll, attendance, purchasing, personnel and other business costs.

### **Maintenance and Operations**

Maintenance and Operations is defined as those expenditures related to the maintenance and operations of all district facilities, including schools.

**Food Services**

Food Services is defined as those expenditures related to the management, staffing and operations of the food services program.

**Child Care**

Child Care is defined as those expenditures related to the management, staffing and operations of the district's child development program.

**Other Expenditures**

Other Expenditures includes a number of costs not categorized above, such as community services and retiree benefits.

Throughout the following findings, the above categories and definitions of school district costs are applicable.

**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.

***Restricted and Unrestricted Revenues***

School district revenues can be separated into a multitude of different funds,<sup>1</sup> but can be generally categorized as restricted or unrestricted. The General Fund, by far the largest single fund, has both restricted and unrestricted revenues. All other district funds are restricted.

Restricted funds are established to account for the proceeds from specific revenue sources that are reserved for the financing of particular activities. The source of restrictions on the use of the revenues can be state or federal law, as is the case with Adult Education, Child Development, Food Services and State School Building Lease-Purchase; or the restrictions can be self-imposed, as

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<sup>1</sup> Please see Appendix 3 for a listing of the four study districts' revenues and expenditures by fund.

with Self-Insurance, Bond Interest and Special Reserve for Lottery. By law, once a separate fund has been set up for particular revenues, the revenues cannot be spent on anything other than the purpose for which the fund was established.

Unrestricted revenues are those over which the district has local discretion for spending, and which are available for general use, such as instruction. For instance, teachers' salaries and benefits, books and supplies are examples of expenditures from unrestricted revenues. The greater majority of revenues available for Instruction costs are from the unrestricted portion of the General Fund.

One way of looking at the difference between restricted and unrestricted funds is to ask the question, "How much of the revenues would be available for instruction costs if the fund were eliminated?" As explained in greater detail later, in the case of most restricted funds, none of the money would be available for instructional uses. Only in the case of self-imposed restrictions might some of the revenues be available for instruction if a fund were eliminated; but even then, the majority would not. For example, if a district decided not to self-insure, insurance would have to be paid for out of the General Fund; moreover, most districts that self-insure would incur even higher costs through an outside insurance company (if they could even find someone to insure them), thus effectively reducing the money available for instruction. As another example, districts establish bond interest funds to reserve revenues for debt service payments; if they did not have the fund, either they would have to service the debt from the General Fund or they would not have had the debt in the first place and would have not received bond revenues.

*Extent of  
Restrictions*

So, what portion of all revenues is restricted? On the following page, Table 3 delineates the restricted and unrestricted portions of the four study districts' revenues for the three fiscal years covered in this study.

**Table 3**  
**Total Revenue\***  
**Percent Restricted Versus Unrestricted**  
**All Four Study Districts**  
**1987-88 through 1989-90**

	<u>Fiscal Year</u> <u>1987-88</u>	<u>Fiscal Year</u> <u>1988-89</u>	<u>Fiscal Year</u> <u>1989-90</u>
<b><u>Los Angeles Unified</u></b>			
Total Restricted Revenue	\$1,500.3 (47%)	\$1,784.7 (50%)	\$1,954.1 (51%)
Total Unrestricted Revenue	<u>1,688.4 (53%)</u>	<u>1,803.2 (50%)</u>	<u>1,848.1 (49%)</u>
Total Revenue	<u>\$3,188.8 (100%)</u>	<u>\$3,587.9 (100%)</u>	<u>\$3,802.3 (100%)</u>
<b><u>San Diego Unified</u></b>			
Total Restricted Revenue	Not Available <sup>b</sup>	\$263.3 (43%)	\$288.4 (44%)
Total Unrestricted Revenue	Not Available <sup>b</sup>	<u>354.5 (57%)</u>	<u>374.5 (56%)</u>
Total Revenue	<u>\$546.2</u>	<u>\$617.8 (100%)</u>	<u>\$662.8 (100%)</u>
<b><u>Richmond Unified<sup>c</sup></u></b>			
Total Restricted Revenue	Not Available <sup>b</sup>	\$ 49.9 (36%)	\$ 60.0 (37%)
Total Unrestricted Revenue	Not Available <sup>b</sup>	<u>89.1 (64%)</u>	<u>102.4 (63%)</u>
Total Revenue	<u>\$124.8</u>	<u>\$139.0 (100%)</u>	<u>\$162.4 (100%)</u>
<b><u>Hueneme Elementary</u></b>			
Total Restricted Revenue	\$ 7.0 (27%)	\$ 9.9 (32%)	\$11.1 (33%)
Total Unrestricted Revenue	<u>18.9 (73%)</u>	<u>21.2 (68%)</u>	<u>22.2 (67%)</u>
Total Revenue	<u>\$25.9 (100%)</u>	<u>\$31.2 (100%)</u>	<u>\$33.4 (100%)</u>

Dollars in millions

- a. Totals may not add due to rounding
- b. District did not have revenue data available in format required for study comparison
- c. Richmond Unified's current financial situation is discussed in greater detail in Finding #3

As shown in Table 3, restricted revenues for the four study districts in fiscal year 1989-90 ranged from 33 percent (Hueneme Elementary) to 51 percent (Los Angeles Unified) of each district's total revenues. This means that from one-third to one-half of each districts' total revenues have been set aside for specific purposes. In each of the three fiscal years presented, the study districts with the highest percentages of restricted revenues were Los Angeles Unified

and San Diego Unified. The major reasons for such high rates of restriction are outlined below:

Los Angeles Unified

- Modernization of old buildings, such as installation of air conditioning, to accommodate year-round school program
- The district's self-insurance fund
- Court-ordered integration which affects activities such as busing and curriculum development

San Diego Unified

- The district's self-insurance fund
- Capital equipment for purchase and installation of a new management information system bringing all school sites on line
- Court-ordered integration affecting activities such as magnet schools and race relation counselors

Another way to view the extent of restrictions on revenues is to view the districts' expenditures. Tables 4A through 4D show each of the four study district's expenditures per pupil, by fund, for each of the three fiscal years 1987-88 through 1989-90. In reviewing these expenditures, it is helpful to keep in mind that all funds other than the General Fund are restricted.<sup>m</sup>

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<sup>m</sup> Note: Not all districts use the same funds, which can be confusing when comparing districts. For example, only Los Angeles Unified used Regional Occupational Centers because San Diego Unified's program is handled by its county office of education, and neither Richmond Unified nor Heuneme Elementary have the program. Also confusing are the names of some of the funds, such as Routine Repair and General Maintenance. This fund was used by Los Angeles Unified for a portion of the monies it used in the modernization of buildings to accommodate its year-round school program. The fund's title was established by the State for districts receiving state matching funds for any repair and maintenance.

Table 4A

**Los Angeles Unified School District  
Total Expenditures Per Student, By Fund  
Fiscal Years 1987-88 Through 1989-90**

Fund	1987-88 Expenditures	1988-89 Expenditures	1989-90 Expenditures	Percent Change in Expenditures	
				88 to 89	89 to 90
General Fund	\$ 4,050	\$ 4,418	\$ 4,834	9.1%	9.4%
Adult Education	134	200	201	49.3	0.5
Cafeteria	257	284	299	10.5	5.3
Child Development	82	87	94	6.1	8.0
Deferred Maintenance	46	34	41	-26.1	20.6
Capital Facilities	14	12	115	-14.3	858.3
Building	3	5	0	66.7	-100.0
State School Building (SSB)	0	0	0	--	--
SSB Lease/Purchase	156	113	169	-27.6	49.6
Bond Interest	26	24	21	-7.7	-12.5
Tax Override	12	12	12	0	0
Self Insurance	284	488	542	71.8	11.1
Warehouse	0	0	0	--	--
Continuing Education	21	24	25	14.3	4.2
Special Reserve (Non-capital)	0	0	0	--	--
Special Reserve (Capital)	30	33	58	10.0	75.6
Retiree Benefits	0	0	0	--	--
Supplemental Grants	0	0	0	--	--
Routine Repair and General Maintenance	106	113	4	6.6	-96.5
Annuity Reserve	0	8	5	--	-37.5
Regional Occup. Centers	74	75	85	1.4	13.3
Adult Education Concurrent Enrollment	0	30	0	--	-100.00
Capital Services (Debt Service)	0	0	20	--	--
State School Building (Debt Service)	0	0	0	--	--
Special Rsrv. - Lottery	0	0	0	--	--
Special Rsrv. - Model Tech	0	0	0	--	--
Special Rsrv. - Model Tech (Capital Services)	0	0	0	--	--
<b>TOTAL</b>	<b>\$ 5,295</b>	<b>\$ 5,959</b>	<b>\$ 6,526</b>	<b>12.5%</b>	<b>9.5%</b>

**Table 4B**

**San Diego Unified School District  
Total Expenditures Per Student, By Fund  
Fiscal Years 1987-88 through 1989-90**

Fund	1987-88 Expenditures	1988-89 Expenditures	1989-90 Expenditures	Percent Change in Expenditures	
				88 to 89	89 to 90
General Fund	\$ 4,074 <sup>a</sup>	\$ 4,271	\$ 4,687	4.8%	9.7%
Adult Education	6	7	9	16.7	28.6
Cafeteria	178	181	194	1.7	7.2
Child Development	91	93	93	2.2	0.0
Deferred Maintenance	44	29	24	-34.1	-17.2
Capital Facilities	13	269	109	1969.2	-59.5
Building	0	0	0	--	--
State School Building (SSB)	0	0	0	--	--
SSB Lease/Purchase	0	0	0	--	--
Bond Interest	13	13	7	0.0	-46.2
Tax Override	0	96	94	--	-2.1
Self Insurance	135	143	229	5.9	60.1
Warehouse	0	0	0	--	--
Continuing Education	0	0	43	--	--
Special Reserve (Non-capital)	0	3	29	--	866.7
Special Reserve (Capital)	0	25	34	--	36.0
Retiree Benefits	1	1	1	0.0	0.0
Supplemental Grants	0	0	0	--	--
Routine Repair and General Maintenance	0	0	0	--	--
Annuity Reserve	0	0	0	--	--
Regional Occup. Centers	0	0	0	--	--
Adult Education Concurrent Enrollment	0	0	0	--	--
Capital Services (Debt Service)	0	0	0	--	--
State School Building (Debt Service)	0	0	0	--	--
Special Rsrv. - Lottery	0	0	0	--	--
Special Rsrv. - Model Tech	0	0	0	--	--
Special Rsrv. - Model Tech (Capital Services)	0	0	0	--	--
<b>TOTAL</b>	<b>\$ 4,663</b>	<b>\$ 5,131</b>	<b>\$ 5,554</b>	<b>10.0%</b>	<b>8.2%</b>

<sup>a</sup> Included in the General Fund figure for 1987-88 are expenditures made out of the following funds: Property Insurance, Property Management, Balboa Stadium, Comprehensive Facilities/Real Property, State Instructional Materials, and Total Retired Medical Benefits.

Table 4C

**Richmond Unified School District  
Total Expenditures Per Student, By Fund  
Fiscal Years 1987-88 through 1989-90**

Fund	1987-88 Expenditures	1988-89 Expenditures	1989-90 Expenditures	Percent Change in Expenditures	
				88 to 89	89 to 90
General Fund	\$ 3,750	\$ 4,103	\$ 4,576	9.4%	11.5%
Adult Education	58	64	77	10.3	20.3
Cafeteria	147	159	171	8.2	7.5
Child Development	112	117	0	4.5	-100.0
Deferred Maintenance	96	93	116	-3.1	24.7
Capital Facilities	20	102	103	410.0	1.0
Building	0	0	0	--	--
State School Building (SSB)	16	0	0	-100.0	--
SSB Lease/Purchase	0	112	68	--	-39.3
Bond Interest	0	14	0	--	-100.0
Tax Override	0	11	0	--	-100.0
Self Insurance	9	8	8	-11.1	0.0
Warehouse	0	0	0	--	--
Continuing Education	0	30	0	--	--
Special Reserve (Non-capital)	0	0	0	--	--
Special Reserve (Capital)	0	0	0	--	--
Retiree Benefits	0	0	0	--	--
Supplemental Grants	0	0	0	--	--
Routine Repair and General Maintenance	0	0	0	--	--
Annuity Reserve	0	0	0	--	--
Regional Occup. Centers	0	0	0	--	--
Adult Education Concurrent Enrollment	0	0	0	--	--
Capital Services (Debt Service)	0	0	0	--	--
State School Building (Debt Service)	0	0	0	--	--
Special Rsrv. - Lottery	0	0	0	--	--
Special Rsrv. - Model Tech	0	0	0	--	--
Special Rsrv. - Model Tech (Capital Services)	0	0	0	--	--
<b>TOTAL</b>	<b>\$ 4,208</b>	<b>\$ 4,814</b>	<b>\$ 5,120</b>	<b>14.4%</b>	<b>6.4%</b>

Table 4D

**Hueneme Elementary School District  
Total Expenditures Per Student, By Fund  
Fiscal Years 1987-88 through 1989-90**

Fund	1987-88 Expenditures	1988-89 Expenditures	1989-90 Expenditures	Percent Change in Expenditures	
				88 to 89	89 to 90
General Fund	\$ 3,449	\$ 3,685	\$ 3,815	6.8%	3.5%
Adult Education	0	0	0	--	--
Cafeteria	137	145	156	5.8	7.6
Child Development	18	0	0	-100.0	--
Deferred Maintenance	0	19	16	--	-15.8
Capital Facilities	48	37	55	-18.8	48.6
Building	0	0	0	--	--
State School Building (SSB)	0	0	0	--	--
SSB Lease/Purchase	0	0	0	--	--
Bond Interest	0	0	0	--	--
Tax Override	97	121	111	24.7	-8.3
Self Insurance	0	0	0	--	--
Warehouse	0	0	0	--	--
Continuing Education	0	0	0	--	--
Special Reserve (Non-capital)	46	0	332	-100.0	--
Special Reserve (Capital)	76	0	26	-100.0	--
Retiree Benefits	0	0	0	--	--
Supplemental Grants	0	0	0	--	--
Routine Repair and General Maintenance	0	0	0	--	--
Annuity Reserve	0	0	0	--	--
Regional Occup. Centers	0	0	0	--	--
Adult Education Concurrent Enrollment	0	0	0	--	--
Capital Services (Debt Service)	0	0	0	--	--
State School Building (Debt Service)	0	0	0	--	--
Special Rsrv. - Lottery	0	125	159	--	27.2
Special Rsrv. - Model Tech	0	14	141	--	907.1
Special Rsrv. - Model Tech (Capital Services)	0	1	0	--	-100.0
<b>TOTAL</b>	<b>\$ 3,871</b>	<b>\$ 4,147</b>	<b>\$ 4,811</b>	<b>7.1%</b>	<b>16.0%</b>

The high rates of restricted revenues for Los Angeles Unified and San Diego Unified as described earlier are shown in Tables 4A and 4B. Another example of restricted revenues is found in Heuneme Elementary School District. As shown in Table 4D, Heuneme Elementary's expenditures for capital facilities (Special Reserve - Model Technology Fund) increased over 900 percent between fiscal years 1988-89 and 1989-90. This increase reflects the district's installation of new technology in classrooms as part of its participation in the State's model technology schools program. The revenues for these expenditures come from special grants from the State.

In each of the above cases, if the district did not operate the program or have construction projects, the funds would not have been available for some other use (such as instruction). A good example of this point is demonstrated in Table 4C, which shows that Richmond Unified saw its child development revenues disappear in 1989-90 after it decided to turn over operation of its child centers to the city. Once the district chose not to operate the centers, it no longer received revenues for that purpose.

These realities fly in the face of the common myth that schools can simply cut certain programs and spend the money on instruction. Such juggling of revenues is expressly prohibited by a host of state and federal laws and other mandates, as shown in the following section.

### *Source of Restrictions*

All school districts are regulated in the spending of a portion of their revenues by state and federal laws and regulations. For instance, the Food Service program receives revenues for the feeding of children who qualify for a free or reduced lunch program. For federal audit purposes, a district must document that each child who receives these services is qualified on the basis of income levels.<sup>18</sup> Another example of mandated restrictions is that, when using State School Building Fund revenues, a district must submit its plans to a three-phase application process that restricts the square footage allowed, and dictates other construction parameters.<sup>19</sup>

Categorical programs such as the federal Chapter I<sup>20</sup> and the State's School Improvement Program<sup>21</sup> require a planning process before a district can submit a plan to the State for funding. Districts also must document that only qualified children receive these services. Further, districts must show that other children are not participating in the programs or using equipment paid for by revenues restricted for the programs. In addition, these programs cannot be used to supplant the local educational program; rather, they must be supplemental in nature.

Certainly the State has little control over the restrictions placed on revenues by the federal government. It does, however, have ultimate authority over the restrictions effected by state law or regulation. One reason cited by many as the cause for the State's placement of restrictions on revenues is the fear that if left unrestricted, the revenues would be used by districts only to increase teachers' salaries. In determining whether such restrictions are conclusively beneficial, however, one must review the impact of the restrictions.

*Impact of  
Restrictions*

The effects of restricting a district's revenues can be felt in a number of different ways. As shown earlier in Table 3, restricted revenues in 1989-90 ranged from 33 percent (Hueneme Elementary) to 51 percent (Los Angeles Unified) of total revenues. These levels of restriction have the obvious impact of limiting district flexibility in planning and decision making since the dollars must be spent on only those activities allowed under the restrictions.

Further, a lack of effective use of funding occurs when certain students are prohibited from receiving services they need because of mandates restricting the funding of those services. For example, if a psychologist's full salary is paid through special education funds because the services performed by that psychologist are mandated for special education students, that psychologist is not allowed to provide services to non-special education students, regardless of whether such students could benefit from the services. Likewise, a computer paid for through special education funding cannot be used by students who are not in special education, even if the computer sits idle during a portion of the day. Districts are able to mitigate some of these restrictions if they participate in the State's school-based coordination program, which is designed to allow the coordination of some funds. One must realize, however, that in any case administrative costs still are incurred to account for differences in funding.

Another adverse effect of restricting funds, particularly in light of the current movement toward site-based management,<sup>1</sup> is that districts have difficulty in releasing additional revenues for site-based programs. Most likely, a district is limited to allocating to an individual school only those funds that the school qualifies for based on its number of students eligible for categorical programs. In addition, a district's discretionary use of revenues becomes so limited

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<sup>1</sup> Site-based management generally is defined as a situation in which authority for decision-making is vested with the school sites, usually incorporating the input of teachers and parents with the input of school management.

that the district winds up with many small programs attempting to further the educational attainment of students rather than one concentrated, focused effort. This finding is not unlike the one put forth in the Little Hoover Commission's February 1990 report, which stated that "the proliferation of specially funded programs has resulted in a duplication of services, curriculum fragmentation and ineffective delivery of services."<sup>22</sup>

From a broader policy perspective, the variety of services provided through the restriction of funds encompass more than what can be strictly defined as education. For instance, the programs for feeding children who qualify for a free or reduced-price lunch and the programs designed to provide free child care can also be viewed as health and social services. Similarly, some of the services offered through special education programs and a variety of other categorical programs to address the special needs of certain students might also be considered as ancillary to education.

Certainly these services are appropriate for those students who need them, but a lack of efficiency arises when the plethora of programs and corresponding restricted revenues are not accompanied by a comprehensive plan to coordinate the delivery of the services with other government entities that provide like services. For example, education-funded programs with an orientation toward social services are not automatically coordinated with the local welfare agency; likewise, health-related programs are not always organized to operate in conjunction with the local health services agency. The need for better coordination was recognized by the State's new administration, which established as one of its initial actions a new cabinet-level position to oversee better coordination between education and the other areas that provide children's services.

In addition to the adverse effects of restricting funds, there are positive outcomes as well. For example, through special grants from the State, Heuneme Elementary is participating in California's model technology school program. Although the district first established their technology program with their own discretionary funds, the State grants have provided the resources for the district to elevate the program into an internationally recognized model of innovation.

Also, despite the inefficient use of restricted funds for special programs, students with the greatest educational needs do receive a greater share of the resources. Special education students are, after all, benefitting from revenues restricted for use only on those students, even if additional students could, but are not allowed to, also benefit.

Furthermore, certain other identified needs, such as construction of school facilities, are being met through a policy of restricting specific revenues for use in building and renovating schools.

From the perspective that restricted revenues are not being used for purposes other than they were intended, the system is working as it was planned. Nevertheless, a policy question is raised in comparing the need for spending flexibility with the need for ensuring that specific programs and policies are funded. The question raised is: "Are the ultimate educational goals being met in the most efficient and effective manner?"

***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 enact legislation to 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 in the block grant program should 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. They 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.

***Breakdown of District Costs***

Understanding that restricted revenues, by definition, are not available for use at a district's discretion, one method of analyzing a district's spending methods is to review its General Fund expenditures.<sup>23</sup> Tables 5A through 5D show the four study districts' General Fund expenditures per pupil, according to the cost categories defined in this study.<sup>o</sup>

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<sup>o</sup> Please see Appendix 4 for the total amount of General Fund expenditures, by cost category, for each of the four study districts during fiscal years 1987-88 through 1989-90.

**Table 5A**

**Los Angeles Unified School District  
General Fund Expenditures Per Pupil, By Cost Category  
Fiscal Years 1988-89 and 1989-90**

<u>Cost Category</u>	<u>1988-89 Expenditures Per Pupil</u>	<u>1989-90 Expenditures Per Pupil</u>
<b>Instruction</b>	<b>\$ 2,887 (65.3%)</b>	<b>\$ 3,056 (63.2%)</b>
<b>Ancillary Instructional Expenditures</b>		
Instructional Administration	107 (2.4%)	121 (2.5%)
School Administration	301 (6.8%)	209 (4.3%)
Project Administration	50 (1.1%)	64 (1.3%)
Pupil Transportation	209 (4.7%)	244 (5.0%)
Facilities	32 (0.7%)	40 (0.8%)
<b>Category Subtotal</b>	<b>699 (15.7%)</b>	<b>678 (13.9%)</b>
<b>Maintenance and Operations</b>	<b>460 (10.4%)</b>	<b>481 (10.0%)</b>
<b>Central Administration</b>	<b>212 (4.8%)</b>	<b>200 (4.1%)</b>
<b>Food Services</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Child Care</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Other Expenditures</b>	<b><u>160 (3.6%)</u></b>	<b><u>419 (8.7%)</u></b>
<b>Total</b>	<b><u>\$ 4,418 (100%)</u></b>	<b><u>\$ 4,834 (100%)</u></b>

**Table 5B**

**San Diego Unified School District  
General Fund Expenditures Per Pupil, By Cost Category  
Fiscal Years 1988-89 and 1989-90**

<u>Cost Category</u>	<u>1988-89 Expenditures Per Pupil</u>	<u>1989-90 Expenditures Per Pupil</u>
<b>Instruction</b>	<b>\$ 2,946 (69.0%)</b>	<b>\$ 3,153 (67.3%)</b>
<b>Ancillary Instructional Expenditures</b>		
Instructional Administration	153 (3.6%)	187 (4.0%)
School Administration	407 (9.5%)	466 (9.9%)
Project Administration	14 (0.3%)	16 (0.3%)
Pupil Transportation	181 (4.2%)	228 (4.9%)
Facilities	31 (0.7%)	22 (0.5%)
<b>Category Subtotal</b>	<b>786 (18.3%)</b>	<b>919 (19.6%)</b>
<b>Maintenance and Operations</b>	<b>338 (7.9%)</b>	<b>364 (7.8%)</b>
<b>Central Administration</b>	<b>138 (3.2%)</b>	<b>164 (3.5%)</b>
<b>Food Services</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Child Care</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Other Expenditures</b>	<b>63 (1.5%)</b>	<b>87 (1.9%)</b>
<b>Total</b>	<b><u>\$ 4,271 (100%)</u></b>	<b><u>\$ 4,687 (100%)</u></b>

Table 5C

**Richmond Unified School District  
General Fund Expenditures Per Pupil, By Cost Category  
Fiscal Years 1988-89 and 1989-90**

<u>Cost Category</u>	<u>1988-89 Expenditures Per Pupil</u>	<u>1989-90 Expenditures Per Pupil</u>
<b>Instruction</b>	<b>\$ 2,620 (63.9%)</b>	<b>\$ 3,032 (66.3%)</b>
<b>Ancillary Instructional Expenditures</b>		
Instructional Administration	47 (1.1%)	169 (3.7%)
School Administration	265 (6.5%)	309 (6.8%)
Project Administration	45 (1.1%)	25 (0.5%)
Pupil Transportation	71 (1.7%)	70 (1.5%)
Facilities	1 (0.0%)*	2 (0.0%)*
<b>Category Subtotal</b>	<b>429 (10.5%)</b>	<b>575 (12.6%)</b>
<b>Maintenance and Operations</b>	<b>463 (11.3%)</b>	<b>490 (10.7%)</b>
<b>Central Administration</b>	<b>266 (6.5%)</b>	<b>294 (6.4%)</b>
<b>Food Services</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Child Care</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Other Expenditures</b>	<b><u>325 (7.9%)</u></b>	<b><u>185 (4.0%)</u></b>
<b>Total</b>	<b><u>\$ 4,103 (100%)</u></b>	<b><u>\$ 4,576 (100%)</u></b>

\* Negligible Percentage

**Table 5D**

**Hueneme Elementary School District  
General Fund Expenditures Per Pupil, By Cost Category  
Fiscal Years 1988-89 and 1989-90**

<u>Cost Category</u>	<u>1988-89 Expenditures Per Pupil</u>	<u>1989-90 Expenditures Per Pupil</u>
<b>Instruction</b>	<b>\$ 2,390 (64.9%)</b>	<b>\$ 2,478 (65.0%)</b>
<b>Ancillary Instructional Expenditures</b>		
Instructional Administration	11 (0.3%)	15 (0.4%)
School Administration	204 (5.5%)	230 (6.0%)
Project Administration	43 (1.2%)	43 (1.1%)
Pupil Transportation	27 (0.7%)	32 (0.8%)
Facilities	3 (0.1%)	4 (0.1%)
<b>Category Subtotal</b>	<b>288 (7.8%)</b>	<b>324 (8.5%)</b>
<b>Maintenance and Operations</b>	<b>365 (9.9%)</b>	<b>437 (11.5%)</b>
<b>Central Administration</b>	<b>196 (5.3%)</b>	<b>234 (6.1%)</b>
<b>Food Services</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Child Care</b>	<b>0 (--)</b>	<b>0 (--)</b>
<b>Other Expenditures</b>	<b><u>446 (12.1%)</u></b>	<b><u>342 (9.0%)</u></b>
<b>Total</b>	<b><u>\$ 3,685 (100%)</u></b>	<b><u>\$ 3,815 (100%)</u></b>

An analysis of Tables 5A through 5D shows that, for fiscal year 1989-90, the districts' Instruction costs ranged from \$2,478 to \$3,153 per student. These costs, which include teachers' and instructional aides' salaries and benefits, books and instructional materials and supplies, represent from 63.2 percent to 67.3 percent of all General Fund expenditures. The remaining costs, often considered "non-classroom" expenditures, account for between 32.7 percent and 36.8 percent of all General Fund expenditures.

Included in these "non-classroom" costs, Ancillary Instructional Expenditures is the largest category, comprising between 8.5 percent and 19.6 percent of General Fund expenditures for fiscal year 1989-90. This category includes curriculum development, school site administration, pupil transportation and facilities costs. In general, the administrators included in this category are the personnel who serve as principals, assistant principals and project directors, and the majority of their work is in direct support to the instructional program. Instructional administrators direct and develop new curriculum, develop student materials for the classroom and train teachers in new techniques and methods. Project administrators often assist the principals and teachers with the implementation of the various special programs such as the federal categorical program known as Chapter I.

Another type of Ancillary Instructional Expenditure is the payment to teachers who work extra hours in the development of new curriculum and materials. Often, districts hire teachers in the summer or during holiday breaks to perform such functions, and the expenditures are charged to categorical or special projects. The costs must be accounted for as non-instructional activities because they occur outside the classroom.

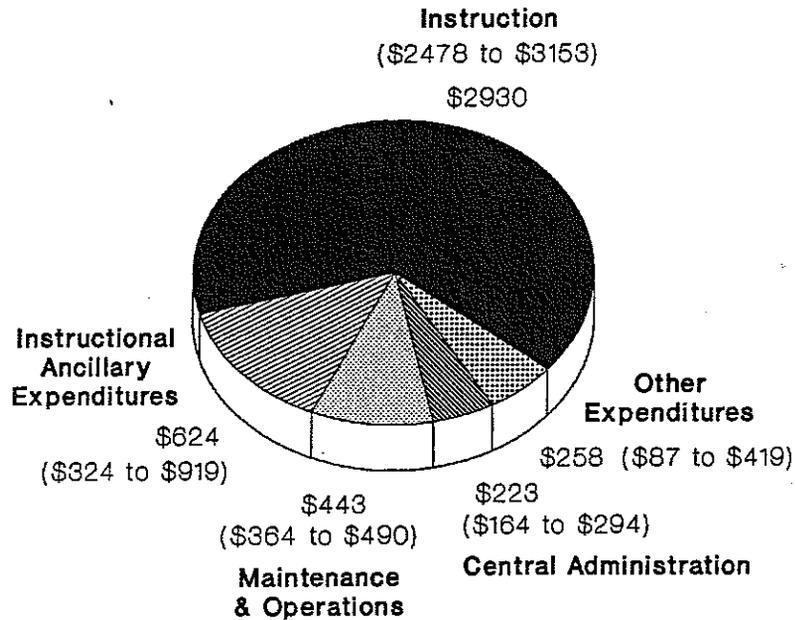
The next largest cost category for the four study districts was Maintenance and Operations at all district facilities, including schools. These costs represented between 7.8 percent and 11.5 percent of all General Fund expenditures. The highest percentage was at Hueneme, where they made modifications to their buildings to accommodate new technology in the classrooms.

In reviewing each of the cost categories, it is interesting to note that, contrary to popular belief, Central Administration does not represent a large portion of the districts' costs, accounting for between only 3.5 percent and 6.4 percent of the districts' General Fund expenditures. This cost category includes not only salaries and benefits for central district administrators, but also includes similar costs for boards of education, costs for district insurance and other

district-wide costs. The fact that this category is not a large portion of General Fund expenditures is particularly piquant as it relates to the Los Angeles Unified School District, whose teachers' union claimed that the district spent 31 percent of its total budget on central and regional administration. While the figures cited in this study cannot be used as conclusive evidence that Los Angeles Unified is operating at optimal administrative efficiency, they do dispel the perpetual myth that a large portion of the district's budget is consumed by central administration. To determine whether Los Angeles Unified and other large districts are efficient, a study should be done comparing the efficiency of large districts with the efficiency of small districts.

A graphical analysis of the four districts' cost categories also is helpful to provide a perspective of where the districts spend their money. On the following page, Chart 3 shows the average of the four study districts' General Fund expenditures, by cost category, for fiscal year 1989-90 on a per-pupil basis.

**Chart 3**  
**Average General Fund Expenditures**  
**Per Pupil, By Cost Category**  
**Fiscal Year 1989-90**



Source: J-380 and J-380 Matrix for each of four study districts.

As Chart 3 graphically shows, Instruction clearly is the largest single cost category and accounts for the majority of the districts' General Fund expenditures. The next logical step in determining what drives these costs is an analysis of the components of the Instruction cost category.

***Breakdown of Instruction Costs***

District cost data can be delineated to show each component of the Instruction cost category. Beginning on the next page, Tables 6A through 6D show, for fiscal years 1988-89 and 1989-90, each of the four study districts' General Fund expenditures per pupil for each of the components of the Instruction cost category. In addition, the tables identify these component costs as a percent of the Instruction cost category and of total General Fund expenditures.

Table 6A

**Los Angeles Unified School District  
Instructional Costs Components: General Fund Expenditures Per Pupil  
and As a Percent of Instruction Costs and Total General Fund Expenditures  
Fiscal Years 1988-89 and 1989-90**

<u>Component of instruction</u>	<u>1988-89</u>			<u>1989-90</u>		
	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>
Teacher Salaries	\$ 1,951	67.6%	44.2%	\$ 2,179	71.3%	45.1%
Instructional Aide Salaries	124	4.3%	2.8%	130	4.3%	2.7%
Teacher/Aide Benefits	395	13.7%	8.9%	311	10.2%	6.4%
Books	31	1.1%	0.7%	33	1.1%	0.7%
Instructional Supplies	63	2.2%	1.4%	67	2.2%	1.4%
Library/Media Salaries	26	0.9%	0.6%	26	0.9%	0.5%
Pupil Personnel Services Salaries	161	5.6%	3.6%	164	5.4%	3.4%
Pupil Personnel Services Benefits	32	1.1%	0.7%	31	1.0%	0.6%
Pupil Personnel Services Books and Supplies	2	0.1%	0.1%	2	0.1%	0.0 <sup>a</sup>
Equipment	27	0.9%	0.6%	26	0.8%	0.5%
Other <sup>b</sup>	<u>76</u>	<u>2.6%</u>	1.7%	<u>86</u>	<u>2.8%</u>	1.8%
Total	<u>\$ 2,887</u>	<u>100%</u>	--	<u>\$ 3,056</u>	<u>100%</u>	--

<sup>a</sup> Negligible percentage

<sup>b</sup> Includes in-service training, consultants, travel, rentals and equipment repair

**Table 6B**

**San Diego Unified School District  
Instructional Costs Components: General Fund Expenditures Per Pupil  
and As a Percent of Instruction Costs and Total General Fund Expenditures  
Fiscal Years 1988-89 and 1989-90**

<u>Component of Instruction</u>	<u>1988-89</u>			<u>1989-90</u>		
	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>
Teacher Salaries	\$ 1,880	63.8%	44.0%	\$ 1,997	63.3%	42.6%
Instructional Aide Salaries	144	4.9%	3.4%	152	4.8%	3.2%
Teacher/Aide Benefits	345	11.7%	8.1%	368	11.7%	7.9%
Books	40	1.3%	0.9%	60	1.9%	1.3%
Instructional Supplies	61	2.1%	1.4%	83	2.6%	1.8%
Library/Media Salaries	83	2.8%	1.9%	70	2.2%	1.5%
Pupil Personnel Services Salaries	228	7.7%	5.3%	240	7.6%	5.1%
Pupil Personnel Services Benefits	45	1.5%	1.1%	47	1.5%	1.0%
Pupil Personnel Services Books and Supplies	2	0.1%	0.1%	2	0.1%	0.0 <sup>a</sup>
Equipment	30	1.0%	0.7%	57	1.8%	1.2%
Other <sup>b</sup>	88	3.0%	2.1%	79	2.5%	1.7%
<b>Total</b>	<b>\$ 2,946</b>	<b>100%</b>	--	<b>\$ 3,153</b>	<b>100%</b>	--

<sup>a</sup> Negligible percentage

<sup>b</sup> Includes in-service training, consultants, travel, rentals and equipment repair

**Table 6C**

**Richmond Unified School District  
Instructional Costs Components: General Fund Expenditures Per Pupil  
and As a Percent of Instruction Costs and Total General Fund Expenditures  
Fiscal Years 1988-89 and 1989-90**

<u>Component of Instruction</u>	<u>1988-89</u>			<u>1989-90</u>		
	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>
Teacher Salaries	\$ 1,719	65.6%	41.9%	\$ 1,936	63.8%	42.3%
Instructional Aide Salaries	156	5.9%	3.8%	165	5.4%	3.6%
Teacher/Aide Benefits	368	14.0%	9.0%	428	14.1%	9.4%
Books	14	0.6%	0.3%	14	0.5%	0.3%
Instructional Supplies	33	1.3%	0.8%	78	2.6%	1.7%
Library/Media Salaries	52	2.0%	1.3%	60	2.0%	1.3%
Pupil Personnel Services Salaries	132	5.1%	3.2%	148	4.9%	3.2%
Pupil Personnel Services Benefits	24	0.9%	0.6%	32	1.1%	0.7%
Pupil Personnel Services Books and Supplies	8	0.3%	0.2%	6	0.2%	0.1%
Equipment	16	0.6%	0.4%	60	2.0%	1.3%
Other <sup>a</sup>	<u>98</u>	<u>3.7%</u>	2.4%	<u>106</u>	<u>3.5%</u>	2.3%
<b>Total</b>	<b><u>\$ 2,620</u></b>	<b><u>100%</u></b>	--	<b><u>\$ 3,032</u></b>	<b><u>100%</u></b>	--

<sup>a</sup> Includes in-service training, consultants, travel, rentals and equipment repair

Table 6D

**Hueneme Elementary School District**  
**Instructional Costs Components: General Fund Expenditures Per Pupil**  
**and As a Percent of Instruction Costs and Total General Fund Expenditures**  
**Fiscal Years 1988-89 and 1989-90**

<u>Component of Instruction</u>	<u>1988-89</u>			<u>1989-90</u>		
	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>	<u>Per Pupil Expenditures</u>	<u>As % of Instr. Costs</u>	<u>As % of Gen. Fund Expenditures</u>
Teacher Salaries	\$ 1,660	69.5%	45.1%	\$ 1,726	69.7%	45.2%
Instructional Aide Salaries	100	4.2%	2.7%	99	4.0%	2.6%
Teacher/Aide Benefits	351	14.7%	9.5%	391	15.8%	10.3%
Books	20	0.8%	0.5%	12	0.5%	0.3%
Instructional Supplies	5	0.2%	0.1%	73	3.0%	1.9%
Library/Media Salaries	28	1.2%	0.8%	29	1.2%	0.8%
Pupil Personnel Services Salaries	66	2.7%	1.8%	54	2.2%	1.4%
Pupil Personnel Services Benefits	15	0.6%	0.4%	14	0.6%	0.4%
Pupil Personnel Services Books and Supplies	1	0.0 <sup>a</sup>	0.0 <sup>a</sup>	2	0.1%	0.1%
Equipment	94	4.0%	2.6%	31	1.2%	0.8%
Other <sup>b</sup>	<u>50</u>	<u>2.1%</u>	1.4%	<u>47</u>	<u>1.9%</u>	1.2%
Total	<u>\$ 2,390</u>	<u>100%</u>	--	<u>\$ 2,478</u>	<u>100%</u>	--

<sup>a</sup> Negligible percentage

<sup>b</sup> Includes in-service training, consultants, travel, rentals and equipment repair

As shown in Tables 6A through 6D, teacher salaries was, by far, the largest component of the Instruction cost category. In fiscal year 1989-90, the four study districts spent from \$1,726 to \$2,179 per pupil for teacher salaries, which represented between 63.3 percent and 71.3 percent of the Instruction cost category. Further, teacher salaries

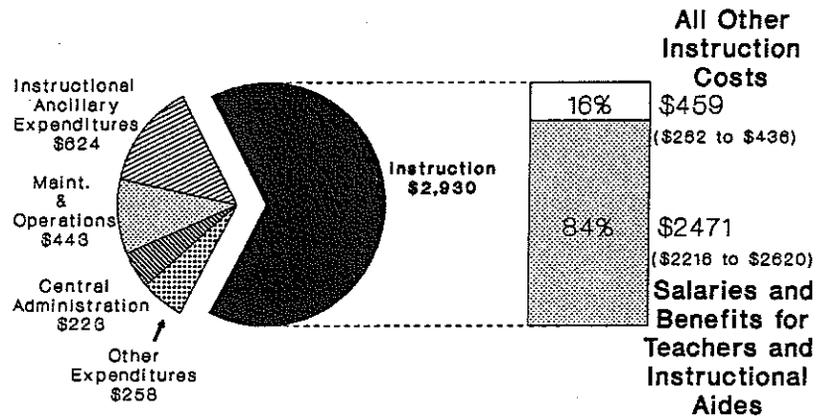
represented between 42.3 percent and 45.2 percent of all General Fund expenditures.

Another major component of the Instruction cost category in 1989-90 was instructional aide salaries, which ranged from \$99 to \$165 per pupil. These costs accounted for between 4.0 percent and 5.4 percent of Instruction costs, and between 2.6 percent and 3.6 percent of all General Fund expenditures.

Expenditures for benefits for teachers and instructional aides were between \$311 to \$428 per pupil during fiscal year 1989-90. These expenditures represented between 10.2 percent and 15.8 percent of Instruction costs, and between 6.4 percent and 10.3 percent of all General Fund expenditures.

Further analysis of these tables reveal that, combined, salaries and benefits for teachers and instructional aides represented between 79.8 percent and 89.5 percent of all Instruction costs, and between 53.7 and 58.1 percent of all General Fund expenditures in 1989-90. On the following page, Chart 4 depicts the average costs of salaries and benefits for teachers and instructional aides during fiscal year 1989-90 at the four study districts.

Chart 4  
 Average General Fund Expenditures  
 Per Pupil, By Cost Category and  
 As Components of Instruction  
 Fiscal Year 1989-90



Source: J-380 and J-380 Matrix for each of four study districts.

As illustrated in Chart 4, salaries and benefits for teachers and instructional aides comprise the vast majority of Instruction, which is, by far, the largest cost category for General Fund expenditures. To determine what greatly influences the costs over which a district has the most control, one need only look at what has the largest impact on salaries and benefits for teachers and instructional aides: collective bargaining.

***Influence of  
 Collective  
 Bargaining***

Clearly, the single largest factor affecting salaries and benefits of teachers and instructional aides is the collective bargaining process. It is this process that results in School District Employee Agreements which regulate not only salaries and benefits, but also evaluation processes and standards, complaint and grievance procedures, rights of administration, seniority, layoff and transfer procedures. The accumulated impact on a school district is many hours spent in negotiating, monitoring and implementing the required actions, and a loss of flexibility in the district's management procedures.

To fully understand the costs associated with collective bargaining, one must consider the contracted items typically provided for in School District Employee Agreements, including:

- \* Future years' salary schedules for teachers and other certificated personnel that govern the computation of annual salaries. These schedules are based on a person's years of experience plus numbers of hours beyond her or his Bachelor's degree. Under this method, salaries increase annually based on personnel's education and years of experience; even teachers who are on probation receive these increases. Thus, a district can have a year with no cost of living adjustment and still have to pay teachers more money than it did in the preceding year. Education is the only industry in which the professional staff is ensured an annual raise irrespective of revenues or the staff's performance. These automatic salary increases cost districts million of dollars each year and cannot be changed without renegotiating the contract.

Along this line of thought, the standards set by inter-district comparisons of agreements also result in a large cost factor. For example, when a district settles a contract for a significant increase in salaries, such as Los Angeles Unified School District did in 1989, other bargaining units around the State use the increase as a standard from which to negotiate. During the negotiation process, factfinding and mediation procedures call for comparisons to be made between the local district and other districts to determine the local district's "maintenance of effort" in keeping salaries in line with other districts. Often, because the local district historically has not given the same percentage of salary increases as other districts, it is forced to raise its offer in its negotiations with the union. To fund such increases, districts have had to reduce their budgets for books, materials, deferred maintenance and other needs. Throughout this study, several districts intimated that, because of Los Angeles Unified's contractual settlement, they were forced to raise their offers during their most recent negotiations. Problems such as these could be avoided if salary schedules were more consistent throughout the State.

- \* Benefits of medical, dental and vision insurance for employees represent another large expenditure for school districts, since most districts pay for the employee's share of these benefits and

such benefits historically have been considered a "given." The four districts reviewed in this study indicated that their insurance vendors have raised the costs of these benefits from between 11 percent and 26 percent in just the last year. While the increase in the cost of insurance is outside the control of districts, what is covered under the insurance is a matter of negotiation. For example, at one point, a particular district's benefit package included some forms of elective plastic surgery. Because of such inappropriate benefits being offered to school employees, the wisdom of including certain benefits within the scope of bargaining is questionable.

\* Contracts often stipulate that teacher training cannot be scheduled before regular school hours, after regular school hours, on weekends or during holiday periods without additional pay for the teachers. Consequently, much of the training is done during regular school hours, resulting in double costs for the district because the district must pay the salaries of the teacher plus a substitute teacher. This practice also takes the teacher away from the classroom, causing an interruption in the instructional process because it is directed by a person unfamiliar with the students and the curriculum. The average cost for a substitute teacher at the four study districts ranges between \$80 and \$85 per day. Again, thought should be given to what should be included within the scope of bargaining.

\* A teacher/student ratio is dictated by contract and often requires that an instructional aide be placed in the classroom when certain student/teacher ratios are realized. If a district exceeds these negotiated levels, a teacher has the right to pursue the complaint and grievance process, which represents another cost to the district. Further, because class size levels already are partly controlled by the State, the contracted levels appear to be redundant. If a district exceeds the state restriction for class size, the State penalizes the district by reducing (by 97 percent) the district's regular apportionment<sup>p</sup> for the excess students. This penalty obviously results in a reduction in revenue to the district. Because the contracted class sizes often are below the state levels, however, the districts incur even higher costs because they must employ additional instructional aides or teachers to meet the negotiated levels.

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<sup>p</sup> Based on average daily attendance

Clearly, the state standards could be used uniformly by all districts if this item were removed from the scope of bargaining.

\* Extensive procedures for employee complaints and grievances are dictated by contracts. Usually there are three levels for these procedures, all of which require the originating employee, a group of peers, the supervisor and other administrators to sit in a panel review meeting to determine if a contracted right has been abused. Each procedure takes several hours and districts have many such sessions each year. The hours spent in preparing for and conducting the hearings take management and staff alike away from their assigned job responsibilities, thus negatively impacting the districts' cost-effectiveness.

\* Evaluations of teachers and other employees are delineated in the contracts and can restrict the ability of management to fully evaluate staff. For instance, in each of the four study districts, principals are limited to conducting only scheduled evaluations. In other words, administrators cannot visit classrooms unscheduled and then include their observations as part of the evaluation process. In another district, the contract prohibits principals from giving evaluations other than average and below average; principals cannot rank someone as having exceeded expectations or standards. Evaluations of classified staff are also highly regulated by contract language.

The costs of these restraints are realized when management cannot, without much additional time and extended effort, remove teaching or classified staff who are performing in an unsatisfactory manner. Because negative evaluations are subject to the hearing process, and the hearing process most often sides with the employee receiving the evaluation, many administrators feel that it does not pay to spend the time required to document poor performance. Consequently, the jobs of many poor-performing employees may be perpetuated.

Because of the adverse effects associated with the inclusion of performance evaluations within the scope of bargaining, consideration should be given to removing such evaluations from the scope of the collective bargaining process.

\* Seniority for classified staff is calculated based on hours worked within a specific job classification

according to the contract. When districts conduct layoff procedures, they must develop a seniority list for all classified employees. As each individual is given a layoff notice, they can "bump" a person with less seniority in the district, regardless of the individual's qualifications or where the less senior person is working in the district.

This practice has multiple effects. First, it results in a district's inability to lay off its highest paid staff, a cost-cutting move often used in other industries. Second, the seniority system results in higher district costs through the placement of employees in positions for which they are not suited or trained. For example, through the "bumping" process, an account clerk who has worked only in a district's transportation department can be assigned to the district's payroll department and be placed in a job for which the clerk is not trained. In this example, the district must then train the clerk for the new jobs, suffering inefficiencies and inaccuracies while the employee is learning his or her new job.

Third, the seniority system may work against supplying students with the best possible teachers. Teachers also have seniority and "bumping" rights during layoffs. As with classified employees, this practice has resulted in teachers being assigned to classes that do not match their skills and experiences. For example, in one district, teachers who had taught band and instrumental music classes for over 15 years were assigned to regular classrooms. Not surprisingly, the teachers were not prepared to teach all of the required subjects and were not familiar with current teaching techniques and methods. Contrary to sound management principles, district management cannot assign staff based on skills, job requirements and other standards because the employees have the right to choose their assignment through seniority rankings, so long as they meet statutory credential requirements. Therefore, districts could benefit if bargaining scope parameters were redefined for seniority policies.

\* Negotiated leave policies that require districts to reserve employees' jobs until they return is another factor contributing to districts' costs. By combining their sick leave, maternity leave and other such leaves, teachers often are away from their districts for several years. During this time, the teachers' jobs are filled by temporary employees because districts cannot recruit and hire teachers looking for

permanent positions. This practice arguably affects the quality of the teaching staff and, therefore, should be considered for exclusion from the scope of bargaining.

Another cost to the district resulting from these leave policies is the management time spent monitoring and controlling the various leaves and the time required to keep records to ensure that an employee's job is not filled by a permanent new employee. Additionally, most contracts allow employees who are on leave to continue their benefits by paying the districts for their dental and vision insurance. This practice requires districts to bill the employees, accept payments and maintain the necessary records, again resulting in additional costs associated with time spent by district accounting and personnel staff. In at least three districts with an average daily attendance of more than 40,000, there are between one and one-half and two clerical positions dedicated full-time to the administration, accounting and reporting of these benefits. These examples provide further evidence for the consideration of narrowing the scope of bargaining related to leave policies.

\* Many contracts call for district-paid benefits to be given to early retirees until the retirees reach age 65. Some districts even have negotiated contracts that pay retired administrators and teachers at least a portion of their benefits for the remainder of the employees' lives. Consequently, districts pay for health, dental and vision insurance premiums for retirees from the time of retirement until long after the retirees leave the districts. Such practices support an argument for redefining the parameters of bargaining scope for health and welfare benefits.

Individually, the above items may not significantly add to a district's costs; collectively, however, the agreements reached through the collective bargaining process have a major impact on a district's spending patterns. While one can argue that district management need not agree to anything that does not conform to sound fiscal policy, in reality it is the threat or execution of labor strikes that will force management's hand in the collective bargaining process. Moreover, it is the local school board that makes the final decisions regarding what the district will or will not agree to, and the board is working from a position of being responsive to its electorate. From this position, the board does not always give primary consideration to sound fiscal policies because of other political considerations. That is, a

locally elected board is more likely to "cave in" to labor's demands because it realizes that an imminent teachers' strike is politically dangerous. Thus, many of the agreements reached through collective bargaining are not based on the long-term interests of the district and the financial condition of the State. And while the decisions are not based on the soundest of fiscal considerations, they are arrived at nevertheless because of political pressures. (This issue is addressed more fully in **Finding #3.**)

The situation is further complicated by the representation on local boards by union-backed members. There is a perception that a great number of school boards, particularly in the large districts, are "owned" by the local labor unions. This perception may be caused, in part, by the monetary contributions made by teachers' unions to the election/re-election campaigns of board members.<sup>9</sup>

For example, four out of the seven members sitting on the Los Angeles City School Board received contributions from teachers' unions or affiliated political action committees during the period of 1987 through 1990. The amount of contributions varied by person and by year, and none of the four board members received contributions every year. In any given year in which contributions were received by an individual board member, the union contributions comprised between 8.8 percent (\$3,875 of \$44,028) and 53.1 percent (\$85,617 of \$161,291) of the total contributions received by the individual member in that year.<sup>7</sup>

In San Diego Unified, three of the five board members received contributions; one in 1988 and two in 1990. In 1988, the one member received \$750 (3.2 percent of a total of \$23,567), and the two in 1990 received \$5,775 (29.4 percent of \$19,651) and \$5,275 (12.0 percent of \$48,863), respectively. In Richmond Unified, four of the five board members received union contributions, each in one year only (either 1987 or 1989). The contributions ranged

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<sup>9</sup> To provide analysis in this area, Commission staff examined campaign contributions made to existing school board members in three of the four study districts (Heuneme Elementary was not examined). Staff reviewed contributions made in the years 1987 through 1990, inclusive. Figures attributed to teachers' unions are for contributions of \$100 or more, but do not include contributions from: individual teachers; unions that are not specifically teacher organizations (such as public employee unions); or groups that may be affiliated with teachers but that, by their name and address, are not easily identifiable as having such an affiliation. Further, the figures do not include teachers' union contributions of less than \$100.

<sup>7</sup> It should be noted that one of the four board members receiving union contributions received them in only one year, in the amount of \$2,000 (15 percent of \$13,354), but that her term expires on June 30, 1991. She will be replaced by an individual who received \$34,358 (60.3 percent of \$56,991) in union contributions in the district's recent board member elections. In addition, the term of one of the three members who did not receive union contributions also expires on June 30, 1991, and she will be replaced by one of two candidates currently facing each other in a runoff election. One of the candidates is heavily backed by the local union and the other is supported by district management.

from the minimum \$100 (0.6 percent of \$18,308) to \$1,250 (11.2 percent of \$11,121).

The fact that school board members receive monetary contributions from teachers' unions does not, in and of itself, mean that the unions control the members in the promulgation of local policy or negotiation of local bargaining agreements. Such contributions, however, do make for the appearance of a relationship between unions and school boards and, at the very least, can contribute to diminished public confidence in the boards' independence.

The agreements reached through the collective bargaining process are but one set of factors impacting districts' costs. Another major cost associated with collective bargaining is the process itself. When a contract is being negotiated, there is a team of employees and a team of administrators who must meet to discuss the contract. These proceedings can, and often do, continue for more than a year before a contract is agreed upon. The time spent by employees and management on negotiating cannot be spent on their assigned jobs. Further, districts often incur additional costs by hiring lawyers and other specialists to assist in the negotiation process. Although school districts are allowed to include all of these costs associated with collective bargaining in their Mandated Cost Claim to the State for reimbursement, (an exercise that requires much detailed recordkeeping and data collection -- yet another cost), the costs still affect California taxpayers.

These costs are not immaterial, either. An April 1990 report by the Little Hoover Commission found that more than \$30 million was allocated by the State for reimbursement for school district collective bargaining costs in fiscal year 1988-89.<sup>24</sup> The report further found:

*With the passage of Proposition 98, the reimbursement of costs for state mandated programs, including collective bargaining, reduces the total funds available for education so that there is a one-to-one correspondence between expenditures on collective bargaining and reduction in funds available for classroom instruction, teachers' salaries, or other education purposes, abolishing the luxury which school districts previously possessed of having the state underwrite their collective bargaining costs without affecting the funds available for education. However, since dollars spent on school districts' collective bargaining come out of total education appropriations at the state level, but each*

*school district determines what it will spend on collective bargaining, there still is no incentive for the districts to scrutinize their spending with a cost/benefit analysis clearly in mind.<sup>25</sup>*

It is interesting to note that these collective bargaining costs are on the rise. For fiscal year 1991-92, the State has budgeted almost \$32 million for reimbursements to school districts for such costs. The increase in these costs should come as no surprise given the breadth of the scope of bargaining issues, the lack of a restriction on the time allowed for contract negotiations, and the unlimited reimbursement from the State for bargaining costs.

It is clear that the costs associated with the collective bargaining process are manifested in a variety of different forms, ranging from those costs stemming from the agreements resulting from collective bargaining to the impact of inter-district comparison of contractual agreements to the costs of the process itself.

***Alternative System  
for Employee  
Representation***

California's current system of collective bargaining in public schools was established in 1975 by Chapter 961, Statutes of 1975,<sup>26</sup> also referred to as the Education Employment Relations Act.<sup>27</sup> This system allows full-scale collective bargaining between local school districts and organizations that are the exclusive representatives of district employees. The districts are obligated to "meet and negotiate" with the employee organizations. The scope of representation includes wages, hours and other "terms and conditions of employment." The courts have interpreted this phrase to include, among other things, health and welfare benefits, leave and transfer policies, class size and performance evaluations.

Upon arriving at an impasse in negotiations over matters within the scope of representation, a mediator appointed by the Public Employment Relations Board may, at the parties' request, attempt to resolve the parties' differences.<sup>28</sup> If, after a certain period, mediation procedures are unable to effect settlement of the controversy, the mediator may request the parties to submit their differences to a factfinding panel which may make inquiries and investigations, hold hearings and take any other appropriate

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<sup>25</sup> This statute is also commonly referred to as the "Rodda Act," after its author, then-Senator Albert Rodda.

<sup>26</sup> It is also possible for the parties to agree upon their own mediation procedure.

steps to make findings of fact and to recommend terms of settlement. The recommended terms are advisory only, however, and if the parties continue to disagree, there is no mandatory mechanism for resolution of their dispute. When a collective bargaining agreement expires, the risk of a strike is a real one. It should be noted that neither the permission for nor the prohibition of strikes are explicit in state law.

Prior to the Education Employment Relations Act, California teachers were covered by 1965 legislation, known as the Winton Act, that provided for a "meet and confer" process. Under that process, (which currently is in place in six other states for various types of public employees), there was no exclusive representative of employees and the scope of representation was more narrow. Further, the school districts' obligation was only to meet and confer with recognized employee organizations before implementing policies within the scope of representation, not to negotiate a legally binding agreement.

The system of employee representation that existed in California before the Education Employment Relations Act clearly was far less costly than what currently exists. It is likewise apparent from the numerous examples provided earlier in this finding, that the collective bargaining process now in force affects not only the largest component (teacher/aide salaries and benefits) of the largest cost category (Instruction), but also impacts a number of other district cost categories as well as direct State costs. For these reasons, the Commission's recommendations related to **Finding #2** focus on changing the collective bargaining process for school districts to make the process and related agreements less costly and to provide for greater accountability.

***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 enact legislation to 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 Education 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. Consequently, many districts are at risk of financial failure which will result in the costly process of the State bailing out the districts.

***District Reporting Requirements***

During the last three years, there has been an increase in the accountability of districts to county offices of education and to the State Department of Education (Department). For example, the Department designed and implemented a new annual budget format, the J-200 Annual Budget Report, that each district must submit to its county

office of education for review and approval. If the county office approves the budget, it gives the budget to the State's Superintendent of Public Instruction for review and approval. But if, based upon its review, the county office finds the district's proposed budget to be fiscally unsound, it will return the budget to the district along with recommendations for revision. The district may make revisions or, if it disagrees with the county office's recommendations, the county office will call for the formation of a budget review committee.<sup>27</sup>

The review committee is composed of three persons selected by the local board from a list of candidates prepared by the Superintendent of Public Instruction. The list of candidates must be composed of persons who have expertise in the management of a school district or county office of education and who have experience in the fiscal and educational aspects of local educational agency management.<sup>28</sup> After reviewing the district's proposed budget, the review committee recommends to the district, county office and Superintendent of Public Instruction either approval of the budget or an alternative budget.<sup>29</sup> If the review committee recommends approval of the budget, the Superintendent of Public Instruction approves the budget. If the review committee proposes an alternative budget, the district can accept the budget (in which case the Superintendent will approve the budget) or reject it. If the district chooses not to adopt the review committee's alternative budget, it appeals to the Superintendent of Public Instruction who either approves the district's budget or prepares an alternative budget that must be jointly agreed to by the county office and the review committee.<sup>30</sup>

This process has resulted in many districts being advised that their current spending practices are placing the districts at risk and that costs need to be contained in future years.

Assuming that, in most cases, better financial reporting results in a better chance for sound financial management, the Department has made laudatory efforts in providing assistance to local districts. For example, three years ago, the Department instituted the J-380 Program Cost Accounting Report, which requires local districts to account for both their direct and indirect costs according to pre-defined categories. This information has allowed the State to develop statewide data and has provided district management with additional information regarding their expenditure patterns. This year, the Department is preparing and sending to districts comparisons of their expenditures in

relation to bands of comparable districts."<sup>u</sup> These reports should allow a district to compare its expenditures and revenues to districts with similar characteristics, and have been instituted by the Department as another aid for districts to analyze and contain their costs.

In addition, the Department, in cooperation with professional associations, developed training manuals and workshops for all of the major financial reporting processes. These workshops have been given in twelve locations each year. Additionally, the Department has sponsored telecommunication conferences in accounting and budgeting methods and techniques. Further, software programs for use on personal computers have been designed by the State so that districts can submit their financial reports by floppy disk. In addition to facilitating easier reporting, this process also has decreased the number of errors made by district staff in completing the required reports.

All of the reporting requirements and the Department's efforts may be for naught, however. Sound financial reporting does not always translate to sound financial decisions, and, short of a district's financial failure, the only authority the Department has is to offer advice and counsel to districts. Because ultimate authority for spending decisions is vested with the districts, any advice received by districts may be ignored.

*Local  
Control*

Most voting citizens of California would probably consider it heresy to suggest that ultimate authority for education spending decisions should rest with some entity other than the locally elected school board. This attitude was born with the advent of school districts, during a time when education was primarily funded through local property taxes. In 1978, however, Proposition 13 limited the amount of property taxes that could be levied by local government, and effectively shifted the burden of school financing from local government to the State. A concomitant shift in public attitude toward local control did not occur. Thus, regardless of the fact that more than 63 percent of education funding comes from the state level, local control over education is considered an absolute right.

Because of the public's demand for local control, the laws of the State are such that the only real authority county offices and the State have over the spending of unrestricted education revenues is the approval/disapproval process that requires each district to have a balanced budget each year. In short, neither the county nor the State can dictate how a

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<sup>u</sup> Please see Appendix 5 for examples of the Department's comparative reports.

district spends its revenues that are not already restricted by state or federal law. Although local control is desirable, it seems logical that the provider of the majority of funds (the State) should have some control when unsound fiscal decisions are made.

When a district experiences deficit spending, both the county office and the Department offer consulting services to assist the district in containing costs and raising revenues. District administrators often have the subsequent job of convincing the local board, which retains final authority over decisions to balance the budget, that cost-cutting measures must be implemented. This process occurs notwithstanding the fact that many board members do not have strong backgrounds in education finance. Not surprisingly, most of the typical recommendations for paring costs are viewed negatively by elected board members and their constituents. For example, a district superintendent may recommend to the board that school sites be closed to save money, but the local board often rejects such a recommendation. Board members receive tremendous pressure from employee groups and community members to give raises and increase benefits, and to not cut staff, close schools or sell district property. These political influences often outweigh sound fiscal considerations. Consequently, district management and the board often disagree on how to contain costs. More importantly, management cannot take cost-cutting actions without board approval. Such an arrangement may work fine until the district cannot meet its financial obligations because of faulty fiscal decisions. At that point, the district must pursue costly alternatives.

*Consequences of  
Financial  
Failure*

According to state law, if a district is unable to meet its payroll, it must either issue certificates of participation or request a loan from the State. If it issues certificates of participation, the district will incur debt service costs. If the district requests a state loan, a management and fiscal audit is required to determine the dollar amount of the loan, and the procedures and practices within the district that must be altered to return the district to a healthy financial picture. If a loan is granted, not only does the district have to contend with debt service payments, but the State appoints a trustee to oversee the management of the district. To contain costs and increase revenues, the trustee has the authority to reject board actions and to deny expenditures. Under the direction of the trustee, a fiscal recovery plan is developed and implemented incorporating recommendations from the audits, and a loan repayment schedule is established. Obviously, local boards find the assignment of a trustee highly unfavorable.

As painful and costly as the state loan process is, more and more districts may find themselves in the position of seeking a state loan. Because of the problems that arise from the system of spending authority as described above, as well as the continuing fiscal woes of the State, many districts are having financial difficulties. At the time of this writing, one district (Richmond Unified) has already filed for federal bankruptcy protection and required a fiscal bailout from the State of up to \$19 million to remain open for the rest of the current school year. Further, earlier in the year, three other districts filed "negative certifications" of their ability to meet all of their financial obligations,<sup>v</sup> and another 22 filed or were ruled to have "qualified certifications," which means their ability to pay all their bills is in doubt.<sup>31</sup> More recently, the State Controller reported that 32 districts (not including Richmond Unified) indicated that they might end the year with either a deficit General Fund Balance or, more seriously, a deficit cash balance.<sup>32</sup>

Many districts perennially have financial difficulties. The State Controller recently found that 482 districts spent more money than they received last year. Further, 90 districts have had two consecutive years of deficit spending, 27 districts have had three consecutive years, and 20 districts have had four consecutive years.<sup>33</sup>

In the case of Richmond Unified, the district got into trouble through an ambitious school reform program that cost more money than the district had to spend. Included in the program were substantial pay increases for the district's employees. After firing its superintendent in December 1990 by purchasing the remainder of his contract for \$94,000, the district appealed to the State for a \$29 million bailout loan. The Governor would not approve such a loan unless the district's employee organizations agreed to throw out its existing bargaining agreements and negotiate new agreements in light of the district's dismal fiscal situation.

After failing to reach a compromise with the unions, the district filed for bankruptcy protection in April 1991. Further, as the district's funds were running out and it was preparing to shut its doors for the remaining six weeks of the current school year, an action was filed in Superior Court to enjoin the closure. On April 29, 1991, the court ordered "the State and Bill Honig, the Superintendent of Public Instruction, to ensure that the students of the Richmond Unified School District are not deprived of six weeks of

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<sup>v</sup> Each local district must file an annual certification of its ability to meet all of its financial obligations. A negative certification means a district does not have the funds to meet its obligations.

public education...<sup>34</sup> The court further ruled that it was within the discretion of the district and the State to comply with that order "by whatever means they deem appropriate..."<sup>35</sup>

Upon the court's order, the State's Superintendent of Public Instruction and Controller presented the court with an agreement for a loan of up to \$19 million to the district. The agreement places stringent requirements on the district that effectively place the district under the State's control by allowing the Superintendent of Public Instruction to appoint an administrator for the district and removing the district board's legal rights, duties and powers. Further, the district must develop plans for its financial recovery and have those plans approved by the State. After the Superintendent of Public Instruction and Controller determine that future compliance with the district's approved recovery plans is probable, which can occur no sooner than the end of the current calendar year, the district will regain its rights, duties and powers and the Superintendent will appoint a trustee for the district in accordance with the laws pertaining to bailout loans made by the State to school districts.<sup>36</sup>

On May 2, 1991, the court approved the agreement. Further, the court concluded that "...the public school system in California is a function of the State. The State of California is therefore ultimately responsible for the operation of the public school system."<sup>37</sup>

Critics of the court's ruling and subsequent loan agreement, including the Governor, contend that Richmond Unified's situation sets an intolerable precedent. Essentially, the district was allowed to unconscionably spend beyond its means, drive itself into bankruptcy and force the State to provide fiscal relief. Once the district does recover, it will be allowed to continue as if nothing had occurred. This set of circumstances does little to provide an incentive to other districts to remain fiscally sound. Instead, it sends other districts the message that even if they abdicate their responsibilities, the State will be forced to pick up after them. The court's decision, in this case, has the effect of saying that no district can be held accountable. Finally, it should be noted that the State Attorney General has appealed the court's decision.

Because it is clear that the State continues to have the responsibility for the well-being of school districts, the following recommendations serve to give the State commensurate authority and provide other measures to ensure fiscal soundness in school districts.

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.



## **DROPOUTS**

In the introduction section of this report there was documented concern over the competency of K-12 graduates and their adverse effect on the State's labor force and, consequently, California's competitiveness in the national and international economy. But what of the educational system's refuse, the dropouts? These K-12 casualties create an even larger burden and cause greater alarm for society than do their more "successful" counterparts, the ill-prepared graduates.

### *Defining Dropout*

To begin a background discussion of dropouts, it is helpful to define what a dropout is and to recognize some of the characteristics of dropouts. A typical definition associated with the term *dropout* is a student who leaves school without attaining a high school diploma. Such a simple definition, however, becomes quite muddled from the variation in what is reported by schools, districts, states or researchers as dropout behavior. In testimony submitted to the Little Hoover Commission for its November 15, 1990 public hearing, a nationally recognized expert on dropouts wrote that when some locales (and states) generate information, it is founded on highly variable decision rules, illustrated by all of the following:<sup>38</sup>

- The grade levels tracked vary. Dropout rates may be reported for particular grade levels, and are alternatively shown for grades 10 through 12, or 9 through 12, or 7 through 12 depending on local requirements or preferences.
- Schools may or may not require transcripts of previous school work for

new enrollees, particularly at lower grade levels such as grades 7 and 8. This results in abandoned schools not knowing that a pupil has re-enrolled elsewhere.

- There is no standard length of time between a pupil's initial absence and the declaration of dropout status. Does a week's absence constitute dropping out? Is a pupil who enters a high school equivalency test preparation program 6 months after leaving school considered a dropout?
  
- There is no standard length of time enrolled and attending a particular school prior to dropping out established for a student to be considered a dropout from that school. Is a student who enters and then leaves a school within a week *that* school's dropout? Or rather a dropout from his/her previous school?

Notwithstanding the possible variables that arise on a national level in determining whether a student is a dropout, the California State Department of Education (Department) defines, for data collection purposes, a high school dropout as a person who meets the following criteria:<sup>39</sup>

- was formerly enrolled in grades 10, 11, or 12;
- has left school for 45 consecutive school days and has not enrolled in another public or private educational institution or school program;
- has not re-enrolled in the school;
- has not received a high school diploma or its equivalent;
- was under twenty-one years of age; and
- was formerly enrolled in a school or program leading to a high school diploma or its equivalent.

In an attempt to mitigate the variations that can occur when local education agencies define dropouts, the Department includes definitive language in an administrative manual that it sends annually to school principals and local

coordinators for the California Basic Educational Data System (CBEDS), the Department's statewide data base.<sup>40</sup> In addition, the Department periodically issues memos that clarify definitional problems relating to dropouts.<sup>41</sup>

*Dropout  
Characteristics*

There is far less uncertainty in identifying the characteristics associated with dropouts than in defining dropouts. Research has tied school completion and dropping out rather firmly to pupil family background and practices, academic ability and performance, social integration with the life of the school, and certain early transitions to adult roles, particularly work and childbearing.<sup>42</sup> In a December 1987 report, Policy Analysis for California Education (PACE) analyzed a multitude of research documents and identified the following 15 characteristics as having been found to be strongly associated with students who drop out of school:<sup>43</sup>

1. Low or failing grades and low standardized test scores.
2. Placement in a remedial academic track.
3. Bored or apathetic attitude toward school.
4. Chronic truancy.
5. Over age for a particular grade.
6. In-school delinquency.
7. Parents who did not complete high school.
8. Family with serious economic problems.
9. Family headed by a single parent (although the absence of natural parents in itself may be less important than associated financial problems).
10. Minority group status (ethnic, racial, linguistic or cultural).
11. Social isolation from peers (less participation in academic and extracurricular activities).
12. Low academic self-esteem (perception of ability to succeed at academic tasks).
13. Low sense of personal autonomy (power to influence the environment and to effect desired outcomes).
14. Low educational and occupational aspirations.

15. Teenage marriage or pregnancy.

PACE correctly points out that the list must be qualified because research in this area continues to refine our understanding of the characteristics associated with dropouts. The listed characteristics, however, are commonly found in most of the literature reviewed by Commission staff in the course of this study.

It should be noted that the preceding information is presented only as a thumbnail sketch of who dropouts are and why they drop out. Literally volumes of research material are available to more precisely describe the complexities involved in a student's leaving school. As explained in the introduction section of this report, however, the purpose of this study is to assess the extent of the dropout problem in California's K-12 schools and to recommend changes in the law to address and mitigate the problem. Thus, dropout statistics and the magnitude of the problem are a more logical target of focus.

*Confusion over  
Dropout Statistics*

When viewing dropout statistics for California, particularly when national comparisons are involved, it is not uncommon for confusion to arise. Often, the dropout rates presented by the State appear to conflict with rates produced by the federal government, implicating two different perspectives of the extent of the dropout problem. To a large degree, the variations in statistics merely are the result of differences in measuring students' completion rates.

For example, the U.S. Department of Education provides three separate rates in evaluating students' completion of high school: the event rate (dropouts in a single year), the status rate (number of dropouts at a given point in time), and the cohort rate (dropouts from a single group, or cohort).<sup>44</sup> In addition, the federal government calculates a graduation rate that is used to compare each state to each other and to the national average. This graduation rate can be considered a pseudo-cohort rate in that it is calculated by dividing the number of public high school graduates in a particular year by the public ninth grade enrollment four years earlier.<sup>\*</sup> Ninth grade enrollments include a prorated portion of the secondary school students who are unclassified by grade, and the graduation rate itself is corrected for interstate population migration.<sup>45</sup>

Prior to school year 1985-86, California used a calculation similar to the above described graduation rate to

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<sup>\*</sup> The graduation rate described here is a pseudo-cohort measure because graduates from any particular year in which the rate is calculated were not necessarily ninth grade students four years earlier.

estimate the State's dropout rate; this calculation is known as an attrition rate. Attrition is measured for a cohort of students in a high school graduating class by deducting the total number of graduates from the students in ninth grade four years earlier.<sup>46</sup> Beginning in school year 1985-86, the Department began calculating a dropout rate based on Section 54721 of the California Education Code, which defines the dropout rate as "the percentage of pupils enrolled in any of grades 7 to 12, inclusive, who stop attending school prior to graduation from high school and who do not request, within 45 days of leaving high school, that their academic records be forwarded to another school." Thus, the State's current dropout rate involves counting actual dropouts.<sup>47</sup>

Much of the confusion that arises over dropout rates occurs when different types of rates are compared to each other, such as comparing attrition rates with dropout rates. For example, it is not uncommon for one to use the federal calculation of California's graduation rate to derive an attrition rate for the State (1.0 minus the graduation rate = the attrition rate). The most recent data available from the federal government show California as having a graduation rate of 65.9 percent for 1988.<sup>48</sup> In deriving an attrition rate, the calculation is:

$$1.0 - .659 = .341 \text{ or } 34.1 \text{ percent}$$

For the same year, the Department's calculated dropout rate for California was 22.3 percent.<sup>49</sup>

To attempt to compare the federal government's derived attrition rate with the Department's dropout rate, however, would be erroneous for at least two reasons:

- First, as noted earlier, the graduation rate is a pseudo-cohort rate, and does not involve tracking students that were actually enrolled four years earlier than the year in which the rate was calculated; thus, the derived attrition rate is pseudo at best. For instance, unlike the dropout rate, the attrition rate does not consider students who pass diploma equivalency tests, students who graduate early or students who are still in school but fail to graduate on time. Further, the attrition rate does not account for students who transfer to private schools, as does the dropout rate. In addition, and perhaps most importantly, the attrition rate is not adjusted for immigration; that is, population increases due to migration from outside the country.

- Second, the graduation rate, hence the derived attrition rate, is based on comparing ninth grade enrollment with completion of school four years later. The Department's dropout rate is based on tenth grade enrollment.

Thus, a comparison of the derived attrition rate with the dropout rate is not valid and only serves to confuse an already complex issue. A better comparison would be between the federal government's derived attrition rate of 34.1 percent and the Department's attrition rate, which for 1988 was 31.5 percent. The much smaller difference between these rates might be explained by some of the adjustments made by the federal government in calculating the original graduation rate. Of course, in analyzing attrition rates, one still must be careful to recognize the differences between attrition and dropping out.

In addition to the confusion that arises over invalid comparisons, there are enough questions that arise solely from the examination of only one method of measuring the extent of the dropout problem, as is described in the following finding.

**Finding #4**

**The State's Dropout Rate Now Exceeds 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 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.

***Reporting Requirements***

As mentioned in the overview above, Education Code 54721 defines the dropout rate as "the percentage of pupils enrolled in any of grades 7 to 12, inclusive, who stop attending school prior to graduation from high school and who do not request, within 45 days of leaving high school, that their academic records be forwarded to another school." This definition clearly assumes that the Department will collect statistics on students who drop out from school as early as seventh grade. Moreover, to provide a more comprehensive view of the extent of the dropout problem, one would expect that statistics should be gathered for students leaving school as early in the educational continuum as is possible. That

is to say, collecting statistics on students who drop out from grades 7 through 12 would more accurately depict the extent of the dropout problem than collecting statistics from only grades 10 through 12.

Even the federal government, in comparing states' graduation rates, sees fit to use ninth grade enrollment as the base for the rate calculations.

Despite these compelling reasons for earlier collection, however, the Department has required local education agencies to collect dropout data for only grades 10, 11 and 12.

*Understatement  
of Rate*

As a consequence of tracking dropouts for only the last three years of high school, students who drop out in earlier grades are not reflected in the State's overall dropout rate; thus, the rate is understated from that perspective. How much understated? It is difficult to tell because of the paucity of research done in this area.

In testimony given at the Commission's November 15, 1990 public hearing, the Superintendent of Public Instruction agreed that collecting dropout statistics only for the tenth grade forward is a problem, but estimated that students who drop out in grades 7, 8 or 9 might add only three or four percent to the current overall dropout rate.<sup>50</sup>

This estimate was questioned at the same hearing by a nationally recognized dropout expert who indicated that a lot more dropping out occurred in the junior high years. Specifically, he estimated that, based on all of the research he has done and considering all grade levels, the current statewide dropout rate is approximately 30 percent.<sup>51</sup> This compares with the Department's most recent figure, for school year 1989-90, of 20.2 percent.<sup>52</sup>

At the same hearing, the president of an international management consulting firm that specializes in education also questioned the Superintendent's estimate, stating that his research indicated that the dropout rates for Hispanic children prior to the sixth grade were 33 percent in Los Angeles, 47 percent in Detroit and 50 percent in New York.<sup>53</sup>

The Los Angeles Unified School District's Dropout Prevention/Recovery Office is one of the few entities keeping statistics on pre-tenth-grade dropouts. For the school year 1988-89, the district's 72 junior high schools averaged a dropout rate of 7.3 percent. The schools ranged from a low of 0.7 percent to a high of 32.3 percent.<sup>54</sup> As one might expect, even these numbers and the method by which they are calculated are disputed by the schools with high rates.

While the data on dropouts in the junior high years may be sketchy, it does indicate that substantial numbers of students are dropping out prior to high school. Fortunately, the Department recognizes the gap in its data collection methodology and, beginning with school year 1991-92, the Department will begin collecting dropout data for grades 7, 8 and 9.<sup>55</sup> This expansion of data collection should assist in giving a much better picture of the numbers of students dropping out, but there are other gaps that will continue to conceal the "true" extent of the dropout problem.

### ***Overstatement of Rate***

Also missing from the dropout rate calculations and reporting requirements, is a consideration of dropouts who eventually return to some alternative means of education, such as private trade school or community college. Further, some students take and pass high school diploma equivalency tests more than 45 days after dropping out, and thus would be counted in the dropout rate.

Although the students described above did drop out of school at one time, a more comprehensive perspective on the dropout problem might be achieved if it were known how many of these ex-students "drop back in" to participate in some formal manner of education or to attain a diploma equivalent. Arguably, such education and achievements generally net the individual and society better long-term results.

Given that perspective, the dropout rate as currently presented is overstated to some degree. How much overstated? As with the understatement of the rate, it is difficult to determine. A national longitudinal study of 1980 high school sophomores and seniors suggests that between one-third to one-half of dropouts enter some form of educational setting or pass a diploma equivalency test after they have dropped out.<sup>56</sup> Additional data from the federal government indicate that more than half of the dropouts "drop back in."<sup>57</sup> Specific to California, a 1985 study by the California Assembly Office of Research estimated that of the class of 1983's 98,312 dropouts, 38,758 (39.4 percent) either passed diploma equivalency tests, entered private trade schools, or entered community colleges.<sup>58</sup>

One can only estimate how many of the 371,230 students that have dropped out of California high schools during the five-year period of 1985-86 through 1989-90<sup>59</sup> actually returned to some formal means of education or passed diploma equivalency tests. Even less exact would be a guess as to the same figure for the pre-10th-grade dropouts, since there have been no longitudinal studies tracking these ex-students. Without individually tracking any

of these dropouts after they have left school, the State really has no way of knowing the fate of the dropouts.

To be fair, however, tracking dropouts is a costly, labor-intensive proposition, mostly due to the transiency of students, and it is not regularly carried out anywhere.<sup>60</sup> Understandably, school districts are unwilling to incur the high expense of tracking students once they leave school.

In the long run, one cost efficient method of tracking dropouts would be through a student-level data base, the foundation of which would be a standard identification number assigned to each enrolled student. Only through such a system could the problems of tracking dropouts be overcome efficiently and effectively. Further, such a system would have additional positive applications for educators, such as the assignment of categorical funds based on the special needs of particular students. In any event, the Department and dropout experts alike view a student-level data base as essential to more effective management of the dropout problem.<sup>61</sup> In fact, in testimony submitted at the Commission's November 1990 hearing, the Superintendent of Public Instruction stated:<sup>62</sup>

*Until a student-level data base with a standard student identification number has been designed and implemented statewide, the problems of identifying and reporting dropouts and the subsequent calculation of dropout rates will continue to be troublesome and retain certain statistical problems.*

Conceivably, such a data base could also ease the collection of dropout data for students who leave school before 10th grade. Thus, some of the problems cited in the preceding subsection regarding the counting of dropouts in pre-secondary school grades also could be alleviated.

### *Accuracy of Rate*

Another concern over how well the State's dropout rate reliably portrays the extent of the dropout problem relates to the accuracy of the figures reported to the Department by local education agencies. Because the figures are not periodically audited by either the Department or any other control entity, there is no assurance that the figures are correct. Thus, the accuracy of the dropout rate is suspect. How much could the rate be affected? Once again, because of a lack of available data, this question is hard to answer. The only indication of the rate's precision comes from an

October 1987 report issued by the Auditor General's Office, which stated, in part:<sup>63</sup>

*The number of high school dropouts reported in the California Basic Educational Data System (CBEDS) of the [Department] is inaccurate. We found errors in the data submitted by the 15 high schools in our sample. The errors range from an understatement of 88 percent to an overstatement of 94 percent. Overall, however, the data in our sample were overstated by 39 percent. The data were inaccurate because the [Department's] definition of a high school dropout was not clear. Consequently, the high schools did not use the same criteria to determine their number of dropouts. ...The [Department] did not define what constitutes a 10th, 11th, or 12th grade student. Also, [the Department] did not clearly define the 45-day requirement for consecutive school day absences. Finally, some high schools are including students as high-school dropouts even though these students never enrolled at the school.*

Since that report, the Department has included sufficient definitions in its annually published administrative manual for CBEDS coordinators and school principals.<sup>64</sup> In addition, the Department periodically issues memos to local educational agencies clarifying definitional problems related to dropouts.<sup>65</sup> Further, it is likely that the accuracy of districts' reporting has improved now that the procedures have been in place for a few years; but to what extent remains unclear without periodic examination. In response to the Auditor General's report, the Department agreed that it should periodically review dropout data submitted by school districts to the extent that resources permit. To date, however, the Department has not conducted such reviews. Therefore, the accuracy of the dropout figures reported by local education agencies to the Department and the resultant statewide dropout rate remains dubious.

***Bottom Line on Dropout Rate***

To the Department's credit, its efforts to collect meaningful dropout statistics for California are regarded as superior to most other states.<sup>66</sup> Further, the Department recognizes the shortcomings of its data collection methodology and is making an effort to correct some of the problems.<sup>67</sup> The bottom line on the State's current dropout rate, however, is that it does not accurately portray the full extent of the dropout problem. Considering all of the potential understatements, overstatements and inaccuracies

that plague the calculation of the dropout rate currently, it is impossible to determine the exact magnitude of the problem. Such inconclusiveness can be summarized as follows:

## IMPRECISION OF DEPARTMENT'S DROPOUT RATE

Dropout Rate Reported  
By Department of Education

**+** Pre-10th-Grade Dropouts

**-** Dropouts Who Eventually Return To  
Formal Education Or Pass Diploma  
Equivalency Test

**+** Accuracy Factor Based On Quality  
Of Data Submitted By Districts

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**-** **UNCLEAR PICTURE OF ACTUAL  
EXTENT OF DROPOUT PROBLEM**

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Certainly enough is known to conclude that the problem is bad; but how bad? Such a distinction is necessary to assist policy makers in deciding how to approach the problem as well as how much resources to devote to the problem. If misleading or inaccurate data were used to determine where funding should be disbursed for programs such as dropout prevention and recovery programs, the results could be an inappropriate disbursement of funds. Further, without knowing the actual extent of the dropout problem, the full results of efforts to abate the problem may go undetected.

### *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 enact legislation for 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.

If implemented, these recommendations will help develop meaningful data that will give the State's policy makers a more comprehensive picture of the full extent of the dropout problem. For the present, although the full extent of the problem is not clear, enough is known to see that a major crisis is in store for California if more attention is not given to dropouts, as explained in the next finding.

**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 contain a disproportionate share of dropouts, and 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.

***California  
Dropout  
Figures***

Although the State's dropout rate does not provide a comprehensive picture of the full extent of the dropout problem, as detailed in the preceding finding, it does provide enough information to conclude that large numbers of students are dropping out of school each year. On the next page, Table 7 presents the Department's dropout figures from school years 1985-86 through 1989-90, the only five years for which the Department has collected dropout figures.

Table 7

**Number of Dropouts in California  
Public High Schools  
1985-86 through 1989-90**

<u>School Year</u>	<u>Number of Dropouts</u>
1985-86	85,450
1986-87	74,534
1987-88	75,797
1988-89	70,270
1989-90	<u>65,179</u>
Total	<u>371,230</u>

Source: California State Department of Education

As Table 7 shows, more than 370,000 students have dropped out of California's public high schools during the five-year period. As noted in **Finding #4**, there is an unknown number of students dropping out before the 10th grade that are not represented in the State's dropout figures. Thus, the actual total number of dropouts for the five-year period has not been determined. Indications are, however, that the numbers would be substantially higher if all dropouts were identified. During the Commission's November 1990 public hearing, one dropout expert considered the Department's most recently published, three-year statewide dropout rate of 20.4 percent and estimated that 30 percent would be more representative of the actual dropout rate if all grades were included in the calculations.<sup>68</sup> For only a three-year period, 1986-87 through 1988-89, such an increase in the rate roughly translates to an additional 34,795 dropouts.<sup>69</sup> Thus, for the five-year period ending in 1989-90, a conjecture as to the actual number of students leaving school without graduating totals well in excess of 400,000; this amount averages more than 80,000 per year.

By anyone's count, the number of students dropping out is substantial and is a major problem for the State. What exacerbates the problem is that at least one of the groups of students most likely to drop out is also becoming a larger part of California's school population. On the following page, Table 8 shows the Department's three-year dropout rates for various racial and ethnic groups in 1989-90,<sup>70</sup> as well as each group's actual percentage of K-12 enrollment for the same year and projected percentage of enrollment for school year 2005-06.<sup>71</sup>

**Table 8**

**Various Racial and Ethnic Groups'  
Three-Year Dropout Rates in 1989-90,  
Actual Percent of K-12 Enrollment in 1989-90  
and Projected Percent of K-12 Enrollment in 2005-06**

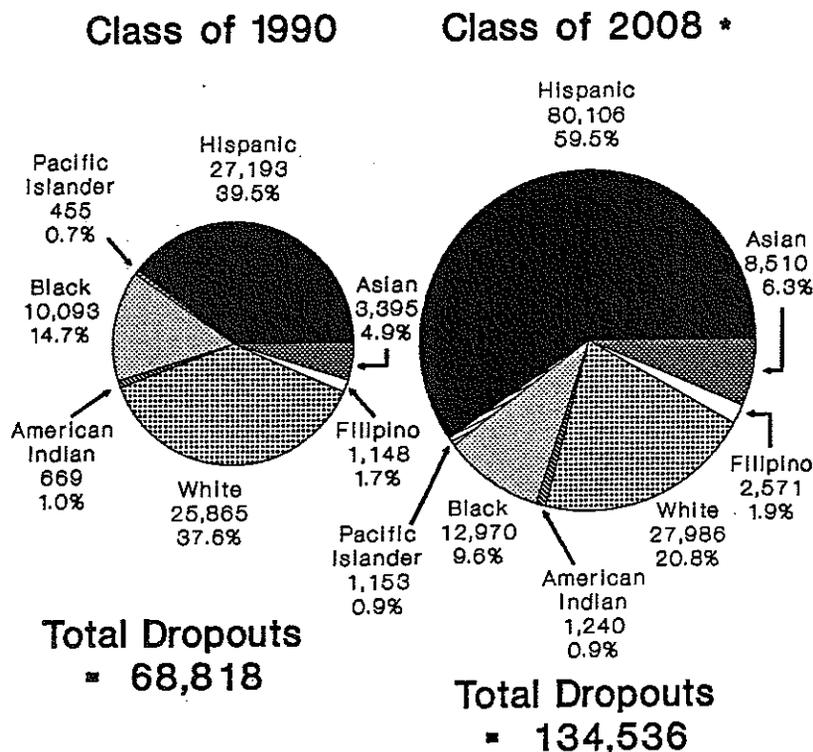
<u>Racial or Ethnic Group</u>	<u>Three-Year Dropout Rate 1989-90</u>	<u>Actual Percent of K-12 Enrollment 1989-90</u>	<u>Projected Percent of K-12 Enrollment 2005-06</u>
Black	32.8	8.64	7.24
Hispanic	29.2	32.95	43.37
Pacific Islander	22.8	0.53	0.67
American Indian	21.1	0.77	0.86
White	14.4	47.15	34.96
Filipino	12.9	2.22	2.70
Asian	10.9	<u>7.75</u>	<u>10.20</u>
Statewide	20.2	<u>100.00</u>	<u>100.00</u>

Source: California State Department of Education and Department of Finance

As shown in the table, Hispanic students account for a disproportionate share of dropouts at 29.2 percent, while they are also becoming the largest single ethnic or racial group in the State, representing over 43 percent of the school population in school year 2005-06. To a far lesser degree, but of concern nonetheless, is the high rate of dropouts (22.8 percent) among Pacific Islanders, whose relative percentage of enrollment, albeit small, is also growing. The same holds true for American Indians, who currently have a dropout rate of 21.1 percent. Black students, at 32.8 percent, have the highest dropout rate of any single racial or ethnic group; even though their relative percentage of enrollment is expected to decrease slightly to 7.24 percent, they still will represent a significant segment of the K-12 population as well as the dropout population.

The above combinations will result in extremely large numbers of dropouts in the future unless effectively addressed. As an overall picture, the four groups with dropout rates above the statewide average will account for over one-half (52.14 percent) of the State's K-12 school population in school year 2005-06, but nearly 71 percent of the dropouts for the class of 2008 if current dropout rates hold.<sup>72</sup> On the following page, Chart 5 compares the composition of dropouts for the class of 1990 with the projected composition for the class of 2008, by racial or ethnic group.<sup>73</sup>

**CHART 5**  
**Number and Composition of Dropouts**  
**from California K-12 Public Schools,**  
**By Racial or Ethnic Group**



\* Projected dropout figures based on current three-year rates and projected tenth-grade enrollment for class of 2008.

Source: Based on data from the California State Department of Education and Department of Finance

As illustrated in Chart 5, if current dropout rates remain constant, the total number of dropouts per graduating class in California will increase from almost 69,000 to more than 134,000, an increase of about 95 percent.<sup>x</sup> The most dramatic shift, however, occurs in regard to Hispanic students. For the class of 1990, Hispanics represented 39.5 percent of the dropout population; but for the class of 2008, Hispanics will make up 59.5 percent of the dropouts. In an extraordinary fashion, the number of Hispanic dropouts will increase by about 195 percent, from 27,193 to 80,106.<sup>y</sup>

<sup>x</sup> Dropout figures for each of the two classes are based on tenth-grade enrollments: tenth-grade enrollment for the class of 1990 was 345,137 and for the class of 2008 is projected to be 614,416. This increase in tenth-grade enrollment amounts to 269,279 (78.0 percent).

<sup>y</sup> Dropout figures for Hispanics in each of the two classes are based on tenth-grade enrollments: tenth-grade enrollment for the class of 1990 was 97,147 and for the class of 2008 is projected to be 286,093. This increase in tenth-grade enrollment for Hispanics amounts to 188,946 (195 percent).

In fact, the number of Hispanic dropouts from the class of 2008 will be 16.4 percent larger than the total number of dropouts for all racial or ethnic groups in the class of 1990.

Certainly it is difficult to project almost 20 years into the future what the dropout rates will be for all students, much less any particular racial or ethnic group. Still, the specter of the Hispanic dropout problem becomes all the more frightening given the possibility that the group will continue to suffer high dropout rates while becoming the largest part of the K-12 population. At the very least, such a possible combination points out the crucial need for directing dropout efforts toward Hispanics.

Indications are that if such efforts were made, substantial progress could be achieved. Based on a recent survey of Hispanics, it appears that, if given an opportunity, Hispanics show significant improvement from one generation to the next. For example, first-generation Hispanics (whose parents were born outside of the United States) had a 25 percent graduation rate while third-generation Hispanics graduated from high school at a rate of between 70 percent and 80 percent. Improvement between generations was shown in other areas as well. For instance, the college attendance rates of first- and third-generation Hispanics were 12 percent and 29 percent, respectively. Likewise, the college graduation rates of first- and third-generation Hispanics were 3 percent and 10 percent, respectively.<sup>74</sup>

As the director of the survey cautions, these data do not indicate that if we wait long enough all of the educational problems related to Hispanics will correct themselves. Rather, the data suggest that there is great potential among Hispanics, but that it will go to waste if more effort is not made to provide Hispanics with sufficient opportunities for progress.<sup>75</sup> If insufficient emphasis is placed on the Hispanic dropout problem, serious problems lie ahead for California, as elucidated in the following section.

### *Consequences of Dropping Out*

Several studies have documented the costs to individuals associated with under-education and dropping out. Dropouts face higher unemployment rates than their graduating classmates, and they are more likely to suffer periodic losses of employment and relegation to lower-paying occupations throughout their working lives. These individual or private costs are obvious.

Perhaps not so apparent are the costs to society as a result of students' leaving school. One 1987 study on the social costs of dropping out summarizes:<sup>76</sup>

*Dropouts generate substantially less income over their lifetimes than those who finish school generally and a good deal less even than those for whom graduation day is the last they will see of school. A human capital perspective suggests that public costs result -- the dropout is less productive because of a shortage of skills with which to produce and from which to draw on during on-the-job training. And the nation's productive capacity and actual output suffer because individuals have curtailed the development of their skills. The reduction in national income in turn produces public costs in the form of lower tax collections for various levels of government....*

*The dropout is a more frequent recipient of welfare and unemployment subsidies, ostensibly because of comparatively low earnings and intermittent employment patterns. Further, dropouts are more likely to engage in criminal activities that can lead to direct losses of a social nature, and that also results in their comparatively high involvement with public judicial and penal services -- activities we know to be expensive....*

*Higher costs for health services also have been attributed to under-education -- with lack of information regarding sound nutritional and preventive practices held up as a plausible tie. Beyond these social costs, which are reflected in public budgets, the dropout's lower evident electoral participation and the propensity of those less-schooled to have children follow in their educational footsteps can be cast as socially troublesome.*

*A final dimension of social cost tied to the failure of youngsters to finish high school has to do with the imbalanced distribution of the problem across groups in society. Language and ethnic minorities as well as the poor have been much more likely than others to experience shortened school careers. Suggesting that we bear social responsibility for this is the possibility that we have not offered to these groups the experience or resources needed for them to benefit as fully as others from our schools.*

The same study quantified some of these social costs and indicated that, nationally, the initial projected total earnings loss to society as a result of a high school class dropping out was approximately \$229 billion in lifetime earnings and approximately \$69 billion in tax revenues for all government levels. The study also pointed out, however, that because of numerous variables to be considered in such a projection, such as the time value of money and the effects of an increased supply of an educated work force on earnings, the projection would have to be deflated. But even at a fourth of its projected size, or roughly \$57 billion in lost earnings and \$17 billion in lost tax revenues, the magnitude remains substantial.<sup>77</sup>

A similar study in 1985 projected the economic activity costs resulting from dropouts in Los Angeles at \$3.2 billion in lost earnings and \$120 million in lost local tax collections per high school class. In addition, the study estimated annual service costs to local government (for police, judicial, penal, employment, welfare and health services) in the Los Angeles area to be \$488 million.<sup>78</sup>

Clearly, the costs of dropping out of school are considerable to not only the individual, but also to society. For this reason, dropping out is considered by many to be the most severe problem facing education today.

### *Attention Paid to Dropouts*

For all the press and public acknowledgement of the dropout problem, however, there does not seem to be a corresponding commitment of resources on the State's part. Despite the public's outrage that, by even the lowest estimate, one out of every five (20.2 percent) California high school students drop out, the State has only two programs that have been explicitly designed to address the dropout issue.<sup>79</sup> Moreover, these two programs account for only approximately \$14.4 million in state funding for the budget year 1991-92.<sup>80</sup> The two programs, the SB 65 program<sup>81</sup> and the California Partnership Academies,<sup>82</sup> have proven to be successful but exist only at a limited number of schools. For example, preliminary evaluations of the SB 65 program by an independent consultant found that the program had demonstrated success in reducing dropout rates. Schools that have instituted one of the program's components, Motivation and Maintenance, are significantly more likely to have reduced their overall dropout rates than comparable schools without such a program. Two other components of the program, Alternative Education and Work Centers and Educational Clinics, show a similar success and are meeting their goal of keeping high-risk students in school and returning some students who have left school to the classroom. Yet, the current budget for the SB 65 program is only approximately \$12.1 million annually.<sup>83</sup> Consequently,

only 230 schools have been allowed to participate in the SB 65 program, and at least twice that number have applied but been turned down because of a lack of additional funding.<sup>84</sup>

Regarding the other program aimed specifically at dropouts, the California Partnership Academies, "the latest evaluation revealed an improvement in student outcomes in all areas, including a high correlation with the degree to which the model was replicated."<sup>85</sup> In expanding the three-year "school within a school" program in 1984, the Legislature found that the program "has proven to be an effective school-business partnership program to provide occupational training to educationally disadvantaged high school students who present a high risk of dropping out of school."<sup>86</sup> Despite the recognized success of the programs, however, the current fiscal year's budget for the Partnership Academies is only approximately \$2.3 million.<sup>87</sup>

Addressing the broader issue of "at-risk" students, there are 18 programs in California, including the two programs mentioned above. According to a statutorily mandated report on programs for at-risk youth, the programs can be divided into four groups, which are:<sup>88</sup>

*(1) programs explicitly developed to address the dropout problem;*

*(2) alternative education options, typically operated at the secondary level, which are largely designed to serve pupils who are not succeeding in the regular program;*

*(3) categorical education programs, typically concentrated in the elementary grades, to help at risk students succeed in the regular school setting, and;*

*(4) special purpose programs, which are typically small in size from a statewide perspective, to address the needs of specific groups of pupils who are considered to be at risk.*

These programs and the funding provided for them during fiscal year 1988-89 are listed on the following page in Table 9.

**Table 9**

**Programs for At-Risk Youth in California  
and Corresponding Funding  
Fiscal Year 1988-89**

<u>Program</u>	<u>1988-89 Funding*</u>
<b>Dropout Programs</b>	
1) SB 65 Dropout Prevention Options	\$ 12.3
2) Partnership Academies	1.2
<b>Alternative Education Programs</b>	
1) Concurrent Enrollment in Adult Education	73.8
2) Continuation Schools**	136.4
3) County Court and Community Schools	46.9
4) Independent Study**	111.1
5) Opportunity Programs	1.4
6) Pregnant Minors Programs	3.8
<b>Categorical Education Programs</b>	
1) Native American Indian Early Childhood Education	0.4
2) Native American Indian Education Centers	0.9
3) ECIA Chapter 1	363.4
4) Economic Impact Aid	196.6
5) Migrant Education	87.1
6) Refugee and Immigrant Education Program	13.3
7) Transition for Refugees Program	5.0
<b>Special Purpose Programs</b>	
1) Drug Abuse Prevention	12.0
2) Foster Youth Services	0.8
3) Vocational Education for Single Parents and Disadvantaged Students	<u>5.9</u>
<b>TOTAL</b>	<b><u>\$ 1,072.3</u></b>

\* Dollars in millions

\*\* Although questions have been raised as to the effectiveness of these programs, a review of individual programs for at-risk youth was outside the scope of this study.

Source: "Programs for At-Risk Youth - As Required by SB 410, Chapter 1187, Statutes of 1989," San Bernardino County Office of Education, October 1990, p. 2.

As shown in Table 9, the 18 programs for at-risk youth generated \$1.07 billion in state and federal funding to schools during fiscal year 1988-89. The programs range from compensatory education programs for elementary school pupils to alternative education options, such as

independent study and continuation schools, to the dropout programs noted earlier in this section. The statutorily mandated report on programs for at-risk youth indicated, however, that although the programs were "well administered and have proven effective in reducing the link of poverty to failure and dropping out,"<sup>89</sup> there are several gaps in the system with regard to pupils who are at risk. Among the shortfalls were services to homeless pupils, services to pregnant minors and teenage parents, early intervention, services to recover students who have already dropped out, and the adequacy of a linkage between "regular" secondary education and alternative education.<sup>90</sup>

In addition to the above established programs, the Department started an initiative in 1990 called "Every Student Succeeds" (ESS). ESS is founded on the premise that there is a great deal more we can do for at-risk youth with existing resources by providing an umbrella of key concepts to better guide existing efforts. The initiative has six guiding elements:

1. Organize schools so that every student succeeds in learning the district's rich curriculum through effective instruction.
2. Identify students at risk of school failure early and intervene with appropriate strategies to prevent future failure.
3. Integrate all core and supplementary services for each student to ensure that students experience an effective, comprehensive, integrated and coherent educational experience.
4. Provide effective staff development.
5. Establish site processes and structures to plan, implement, and evaluate school programs.
6. Do whatever else it takes within legal, professional and ethical standards to make it possible for every student to succeed in school -- no matter what.<sup>91</sup>

The specifics of the initiative indicate a logical approach to integrating into the core curriculum the flexibility for different instruction techniques needed by many at-risk students. Further, ESS appears to facilitate the entrepreneurship necessary at the local level to find ways to keep kids in school and to elevate all students' performance. The premise that ESS can be implemented with existing resources, however, does not appear as reasonable. Initially, the Department hopes that, to some extent, ESS activities

will dovetail with restructuring activities and funding authorized under recent statutes that allow pilot districts to reorganize their schools according to site-based management principles.<sup>92</sup> It appears that some resources will be needed to implement this new, promising initiative.

All in all, the State does not appear to have devoted sufficient attention to the problem of dropouts. Although the Superintendent of Public Instruction points to a decrease in statewide dropout rates,<sup>93</sup> considering the ambiguities associated with the rates (as described in Finding #4), it is difficult to interpret substantial progress in this area. That is not to say that current efforts are not worthwhile; as described above, many programs seem to be working quite well. Rather, it is on a larger scale that success needs to be experienced, so as to make the dropout rate so small that minor imperfections in its calculation need not be deliberated. Otherwise, the consequences suffered by California could be enormous and long-lasting.

***Recommendation #10***

To effectively address the dropout problem, the Governor and the Legislature should enact legislation supporting 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.

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## Conclusions



## **CONCLUSIONS**

Reviewing the costs of education as well as the problem of dropouts is a major undertaking, as the various aspects of the related issues are both many and complex. In conducting this study, however, the Little Hoover Commission has identified several issues that shed light on some of the problems facing K-12 education in California.

First, it is obvious that education is a costly endeavor; not just for actual classroom expenses, which consume the majority of education funding, but for the myriad other costs directly and indirectly associated with teaching children. The days of the cost-efficient, one-room school house have faded with a tremendous growth in population, the development of technology and the evolution of an increasingly complex society that has developed special needs not existent heretofore. It is not enough to simply provide all students with a teacher, a desk, some books, paper and a pencil and expect that education will occur instantaneously.

An increase in the number of students has required not only more teachers, but additional construction of schools and maintenance of existing facilities, as well as added transportation costs. The demands of technological progress have directly or indirectly necessitated a higher quality product from education. At the same time, an increase in the variety of students has been accompanied by an increase in special needs requiring advanced curriculum development and instruction methods. Sadly, education also has had to establish additional policies and practices to cope with an escalation in society's ills. The proliferation of special interests also has had an effect on education by applying pressure to the decision makers of the State to require the education industry to provide more than just the

three R's. The consequent host of statutory restrictions on the use of education revenues has hampered school districts' flexibility in managing their costs, as noted in **Finding #1**. To address this problem, **additional block grant funding should be given to districts, so long as the funding is based on program results.** Basing special funding on program results cuts very quickly to the bottom line on education: How well have children been taught? The costs of education are much easier to bear when children clearly are performing well. As an example, in Heuneme Elementary District, a lot of money has been poured into the district's innovative model technology program. What has the district gotten for its efforts? Consistent improvement among disadvantaged, limited English proficient children who perform better than the vast majority of their counterparts throughout the State and who perform as well, if not better than, half of all children in the State.

In analyzing the educational costs of the State, it becomes clear that the activities on which education revenues are spent are justifiable; that is, a good argument can be made by someone for why money should be spent on each of the multitude of items absorbing education revenues. A problem occurs, however, with the realization that there is not an endless supply of funding for education. Quite simply, to achieve the things that everyone wants out of education requires more money than is available; or, at least, it requires more money than everyone is willing to spend. Thus begins the competition of interests and the development of education policies that address the needs proclaimed by the loudest voices.

Not least among those voices are those who have shaped the current system for collective bargaining in education. As illustrated in **Finding #2**, the current system is inefficient and adversely affects school district costs by encouraging agreements based on unsound fiscal policies. Because collective bargaining is a major factor affecting costs in instruction as well as a number of other areas, major changes in the system are warranted to achieve greater efficiency and reduced costs. Thus, **a study should be conducted to examine the feasibility of a statewide system of collective bargaining, and the scope of issues subject to the collective bargaining process should be reviewed to identify areas that should be excluded from the realm of negotiations.** Finally, **districts should be limited in their Mandated Cost Claims for reimbursement from the State for their collective bargaining costs, and there should be a limit on the amount of time that can be spent negotiating before the bargaining parties must submit to a final dispute resolution mechanism.**

Likewise, the current system of authority for educational spending decisions fosters the increasing problem of school districts having financial difficulties. Under an archaic organization developed during a now-defunct system of local funding, decisions as to how to spend state-provided revenues often are made under political duress. Per recommendations developed under **Finding #3**, when conditions warrant it, spending authority should be vested in the State's Superintendent of Public Instruction or the State Board of Education to make sound financial decisions.

Regarding the problem of dropouts in California K-12 schools, the Commission has identified a need for a better method of assessing the full extent of the problem. As described in **Finding #4**, the State's current means of calculating a dropout rate has a number of problems that render the dropout rate unreliable as a precise measurement tool. **Modifications need to be made to the calculation and verification of the dropout rate to ensure that only the most comprehensive and accurate data is used to determine where funding should be disbursed for programs such as dropout prevention and recovery programs, and to decrease the likelihood that the full results of efforts to abate the dropout problem will go undetected.**

Also regarding dropouts, the State needs to devote more attention to the problem or California's economy could suffer serious adverse effects. Although the current dropout rate is imprecise, enough is known to suggest that the problem is one of huge proportions. A specific area of concern is the growing problem of Hispanic dropouts, which, as noted in **Finding #5**, could result in dangerous social and economic consequences if insufficiently addressed. To address this area, **more resources should be devoted to existing, successful programs as well as promising initiatives that will address the problems with the highest priority.**



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## Appendices and Endnotes





## **APPENDICES**

- Appendix 1 - Witnesses Testifying at the Little Hoover Commission's October and November 1990 Hearings on K-12 Education
- Appendix 2 - Definitions and Subcomponents of Cost Categories Used in Conducting This Study
- Appendix 3 - Total Revenues and Expenditures for All Funds in the Four Study Districts, Fiscal Years 1987-88 through 1989-90 (Prepared by Study Contractor)
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**APPENDIX 1**

**Witnesses Testifying at the Little Hoover Commission's  
October and November 1990 Hearings on K-12 Education**

October 25, 1990, Los Angeles

**Ms. Jeanne Allen, Education Policy Analyst  
The Heritage Foundation**

**Mr. Terry M. Moe, Professor of Political Science  
Stanford University**

**Mr. John Perez, Secondary Vice President  
Mr. Bill Lambert, Director of Governmental Relations  
United Teachers - Los Angeles**

**Ms. Jackie Goldberg, President  
Los Angeles City School Board  
Mr. William R. Anton, Superintendent  
Mr. Robert Booker, Chief Business and Financial Officer  
Mr. Henry Jones, Budget Director  
Los Angeles Unified School District**

**Dr. Ronald Rescigno, Superintendent  
Heuneme Elementary School District**

November 15, 1990, Sacramento

**Mr. Bill Honig, Superintendent of Public Instruction  
California State Department of Education**

**Dr. Joseph Carrabino, President  
California State Board of Education**

**Dr. Joan M. Bowen, President  
Industry Education Council of California  
Mr. Andy Rich, Vice President of Human Resources  
Knott's Berry Farm  
Mr. Joe Davila, Governmental Affairs Director  
California Association of Student Councils**

**Dr. Carlos Bonilla, President  
International Consulting Associates, Inc.**

**Ms. Pat Dingsdale, Vice President for Education  
California State Parent/Teachers Association**

## APPENDIX 2

### Definitions and Subcomponents of Cost Categories Used in Conducting This Study

#### Instruction

Instruction is defined as those programs and services that are directly related to student instruction. Including:

- Teacher salaries and benefits
- Instructional aides salaries and benefits
- Books
- Instructional supplies
- Library/Instructional media salaries and benefits
- Pupil Personnel Services salaries and benefits (counselors, nurses, psychologists)
- Equipment used in instruction
- Other Outgo such as equipment rental and repairs, in-service training, consultants, and travel

#### Ancillary Instructional Expenditures

This category contains costs directly supporting instruction, and is comprised of five sub-categories:

**Instructional Administration** is defined as those expenditures related to the direct support of instruction and necessary to the instructional process, including:

- Salaries and benefits for those engaged in the development of curriculum, teachers on special assignments, mentor teachers, and other like positions
- Support staff salaries and benefits
- Books and supplies used by those engaged in these activities
- Equipment
- Other outgo such as equipment rental and repairs, in-service, consultants, and travel

**School Administration** is defined as those administrative and staffing expenditures required to operate a local school, including:

- Salaries and benefits for principals, assistant principals
- Salaries and benefits for support staff (clerical, secretarial)
- Books and supplies used by the principal's office
- Equipment used in the school office
- Equipment rental and repairs, in-service training, consultants, and travel

**Project Administration** is defined as the administrative and staffing expenditures related to the management of specially funded educational projects, including:

- Salaries and benefits for those engaged in the administrative direction and supervision of special projects
- Salaries and benefits for the clerical support staff to these projects
- Books and supplies used by those assigned to these projects
- Equipment rental and repair, in-service, consultants and travel associated with these projects
- Equipment purchased for these projects

**Pupil Transportation** is defined as expenditures related to the management, staffing and operations of the district's transportation program, which includes the transportation of students to and from school and between schools for special education students, including:

- Salaries and benefits
- Supplies
- Equipment
- Equipment rental and repair, training, travel and consultants

**Facilities** is defined as district expenditures related to the use or construction of school site facilities, including:

- Rents and Leases
- New construction or improvements

### Central Administration

Central Administration is defined as the expenditures related to district-wide management and support services such as accounting, payroll, attendance, purchasing, personnel and other business costs. Included in this category:

- Salaries and benefits for superintendent, board members, and assistant superintendents (certificated)
- Salaries and benefits for classified management and support staff assigned to central administrative functions, such as budget, controller, personnel, etc., (classified staff)
- Books and supplies used in the central administrative functions
- Insurance for the district
- Fingerprinting, TB Testing, audit fees, legal fees, travel and consultants
- Equipment used in the central office

### Maintenance and Operations

Maintenance and Operations is defined as those expenditures related to the maintenance and operations of all district facilities, including schools. Included in this category:

- Salaries and benefits for management and staff assigned to the maintenance and custodial functions for the district buildings

- Supplies used for these functions
- Utilities for the district
- Equipment repair and rental, training, travel and consultants
- Equipment purchased for these functions

### **Food Services**

Food Services is defined as those expenditures related to the management, staffing and operations of the food services program, including:

- Salaries and benefits for those assigned to the district's food service program
- Supplies
- Equipment rental and repair, training, consultants and travel
- Equipment purchased for this program

### **Child Care**

Child Care is defined as those expenditures related to the management, staffing and operations of the district's child development program, including:

- Salaries and benefits for those assigned to these programs
- Books and supplies
- Equipment rental and repair, training, consultants and travel
- Equipment purchased for the program

### **Other Expenditures**

Other Expenditures includes a number of costs not categorized above, such as:

- Community Services, which is defined as those expenditures related to the use of district facilities by community groups
- Retiree Benefits, which is defined as those contracted health and welfare benefits the district pays for retirees
- Other Outgo, which includes expenditures such as tuition for students in state schools and special education placements out of the district. Also included in this category is other outgo such as debt service and district contributions to other agencies who operate programs such as Regional Occupational Centers (ROP).
- Reduction for PERS, which is defined as the reduction to the district's revenue limit for projected, not yet realized, increased costs of PERS.
- Miscellaneous Other, which incorporates all of the miscellaneous costs not included in any of the above categories or sub-categories.



**Appendix 3**

**Total Revenues and Expenditures  
for All Funds in the Four Study Districts  
Fiscal Years 1987-88 through 1989-90  
(Prepared by Study Contractor)**



Total Revenue and Expenditure for All Funds

1	A		B		C		D		E		F		G		H		I		J		K		L		M		N		O				
	ALL FUNDS (R&B)	L.A. Unified	L.A. Unified	'87-'88	'88-'89	L.A. Unified	S.D. Unified	'87-'88	'88-'89	S.D. Unified	'87-'88	'88-'89	S.D. Unified	'87-'88	'88-'89	S.D. Unified	'87-'88	'88-'89	S.D. Unified	'87-'88	'88-'89	S.D. Unified	'87-'88	'88-'89	S.D. Unified	'87-'88	'88-'89	S.D. Unified	'87-'88	'88-'89			
1																																	
2																																	
3																																	
4	General Fund - R	2388179440	2638057970	2818831368	464233143	495403405	54326272	109806545	120982097	137599856	23005200	26578018	27680957																				
5	General Fund - E	2415181181	2587806419	2949491461	459374565	486981203	54326272	109806545	120982097	137599856	23005200	26578018	27680957																				
6	Adult Education - R	80917038	123442340	119616183	705983	873274	1114189	1273789	1854243	2643235																							
7	Adult Education - E	79235105	119033882	122550211	702286	853274	1091499	1640387	1906962	2342272																							
8	Cafeteria - R	143895015	149712046	178148911	20288887	21232809	2261603	4263774	4576869	5351408	987980	1047726	1121508																				
9	Cafeteria - E	151935224	169040370	182444656	20074847	20689025	22459079	4144512	4720246	5227254	956916	1032322	1132688																				
10	Child Development - R	48461125	51975077	57267448	10287599	10384547	10837548	3169067	3465443	0	122832																						
11	Child Development - E	9625003	29771136	21784354	2538428	5387132	3833692	2324700	2314800	2075795	11224	11224	161837																				
12	Deferred Maintenance - R	27153465	20006387	25032878	4921972	3301220	2765101	2713046	2746079	3551303	133897	133897	113736																				
13	Deferred Maintenance - E	45409901	53388346	58917292	14708422	41389184	27718495	1861427	1181129	5133787	270953	222951	186940																				
14	Capital Facilities - R	8483734	7350043	70694398	1423703	30659544	12583461	558929	3032875	3152300	337389	266336	397801																				
15	Capital Facilities - E	1476043	2194999	741750	0	0	0	0	0	0	0	0	0																				
16	Building - R	1709086	2842290	219599	0	0	0	0	0	0	0	0	0																				
17	Building - E	0	0	0	1529	0	0	0	0	0	0	0	0																				
18	State School Building - R	0	0	0	0	0	0	0	0	0	0	0	0																				
19	State School Building - E	-3732	73987634	106420380	0	0	0	0	0	0	0	0	0																				
20	State Sch. Bldg. Lease-Purchase - R	103254120	67174230	103122634	0	0	0	0	0	0	0	0	0																				
21	State Sch. Bldg. Lease-Purchase - E	92308938	67174230	103122634	0	0	0	0	0	0	0	0	0																				
22	Bond Interest - R	15067161	12756719	11012639	1730371	885970	646905	847794	397281	159045	806594	794193	816466																				
23	Bond Interest - E	15623361	14508585	13006445	1466926	1440769	847794	847794	397281	159045	806594	794193	816466																				
24	Tax Override - R	8180668	6954947	8319703	1086678	11441659	10947878	10951110	335681	678326	867325	804584																					
25	Tax Override - E	7303216	7334556	7622770	18501452	21353989	23796716	2404356	223302	239406	0	0	0																				
26	Self Insurance - R	173861495	290469499	318839019	18501452	21353989	23796716	2404356	223302	239406	0	0	0																				
27	Self Insurance - E	168085324	290089062	330701060	15268053	16270548	26520458	2404356	223302	239406	0	0	0																				
28	Warehouse - R																																
29	Warehouse - E																																
30	Continuing Education - R	7941374	8271498	6529659	1745630	887360	887360	887360	887360	887360	887360	887360	887360																				
31	Continuing Education - E	12585259	14363785	15372505	0	2451406	2285988	3394006	385154	318115	374314	41402	1771984																				
32	Special Reserve (non-capital) - R				0	309494	394006	394006	385154	318115	374314	41402	1771984																				
33	Special Reserve (non-capital) - E				0	6164715	3012080	3979854	385154	318115	374314	41402	1771984																				
34	Special Reserve (Capital) - R	56676374	20651497	19230015	0	6164715	3012080	3979854	385154	318115	374314	41402	1771984																				
35	Special Reserve (Capital) - E	17828777	19467874	35596484	0	2837943	3979854	3979854	385154	318115	374314	41402	1771984																				
36	Retiree Benefits - R				153664	141383	153170	153170	153664	141383	153170	153170	153664																				
37	Retiree Benefits - E				135499	123874	121382	121382	135499	123874	121382	121382	135499																				
38	Supplemental Grants - R																																
39	Supplemental Grants - E																																

Source: J 200 Budget



**Appendix 4**

**Total General Fund Expenditures**

**in the Four Study Districts, by Cost Category**

**Fiscal Years 1987-88 through 1989-90**

**(Prepared by Study Contractor)**



General Fund Expenditures, 1987-1990

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	
	J-380 MATRIX		L.A. Unified '87-'88		L.A. Unified '88-'89		S.D. Unified '88-'89		S.D. Unified '89-'90		Richmond '88-'89		Richmond '89-'90		Huenneme '89-'90	
1																
2																
3																
4	INSTRUCTION															
5	Teachers Salaries	1076891436	1160718018	1329491599	2004181339	2144024222	2316118771				50879919	59136300	11143115	11850851	12501237	
6	Aides-Salaries	65640355	7346950	79430979	14891679	16434364	17577045				46033335	5030031	759810	715778	714592	
7	Teacher Aids/Benefits	223657984	234777607	189903913	367942853	39301499	42680934				10880637	13072317	2193001	2504322	2834691	
8	Books/Handback	15886288	18318729	19949921	749913	4514813	6994503				425660	413507	127620	141392	65738	
9	Instructional Supplies	n.a.	n.a.	40972819	n.a.	6984971	9566803			n.a.	980257	2396595	n.a.	369991	531679	
10	* Librarian/Instruct. Media Salaries	n.a.	n.a.	15665328	n.a.	16045154	8126157			n.a.	1531539	1822527	n.a.	200475	213695	
11	Pupil Services	n.a.	n.a.	95686922	n.a.	25999940	27783206			n.a.	3920939	4535164	n.a.	468212	393359	
12	Pupil Services Benefits	n.a.	n.a.	18767903	n.a.	5088711	5428685			n.a.	715468	981075	n.a.	108920	101606	
13	Pupil Services Books/Supplies	n.a.	n.a.	113912	n.a.	1160626	246816			n.a.	250657	184881	n.a.	5399	10870	
14	Equipment	n.a.	n.a.	16006441	n.a.	15610893	6555267			n.a.	469521	1826756	n.a.	673951	222984	
15	Inservice, Consultants, Travel															
16	Repairs and Equipment repairs,															
17	Other Outgo															
18	** Special Education Instruction	218435647	243700891	293074779	n.a.	50729516	54744799			n.a.	2896792	3235886	n.a.	358502	338417	
19										13805002	14255768	14763131	1715721	1858251	1873484	
20	INSTRUCTIONAL ADMINISTRATION															
21	Central Adm. Salaries	n.a.	n.a.	44254226	n.a.	49988094	10678945			n.a.	1074717	2129062	n.a.	32525	54210	
22	Central Adm. Benefits	n.a.	n.a.	4905300	n.a.	5895627	16739226			n.a.	43754	414666	n.a.	3047	9076	
23	Support Staff Salaries	n.a.	n.a.	768258	n.a.	8818801	3815854			n.a.	110765	1624229	n.a.	10676	13065	
24	Support Staff Benefits	n.a.	n.a.	861062	n.a.	1040405	598135			n.a.	4509	316343	n.a.	1040	2187	
25	Books/Supplies	n.a.	n.a.	2193810	n.a.	2162565	784083			n.a.	35240	206378	n.a.	10062	10283	
26	Consultants, Travel,															
27	Other Costs	n.a.	n.a.	2692598	n.a.	4046416	3723028			n.a.	47161	300673	n.a.	16617	18554	
28	Equipment	n.a.	n.a.	860594	n.a.	1833368	402521			n.a.	79750	185746	n.a.	5206	3024	
29																
30																
31	SCHOOL ADMINISTRATION															
32	Salaries(Cert.)	n.a.	n.a.	82900737	n.a.	87753436	27904320			n.a.	4274833	4940779	n.a.	790284	919826	
33	Benefits	n.a.	n.a.	19048814	n.a.	33264384	5353384			n.a.	821155	117920	n.a.	192127	234121	
34	School Support Staff Salaries	n.a.	n.a.	60001460	n.a.	12478412	14481633			n.a.	2214990	2644925	n.a.	338607	379113	
35	School Support Staff Benefits	n.a.	n.a.	13787050	n.a.	1787654	2778270			n.a.	425479	598451	n.a.	82319	96495	
36	Books/Supplies	n.a.	n.a.	671381	n.a.	11867	1163458			n.a.	64248	72916	n.a.	9560	11441	
37	Consultants, Travel, Other Costs	n.a.	n.a.	2111294	n.a.	224206	1274000			n.a.	31145	22010	n.a.	35377	21445	
38	Equipment	n.a.	n.a.	487660	n.a.	0	1031535			n.a.	0	28102	n.a.	8290	6378	
39																

Source: J - 380 Program Cost Report

General Fund Expenditures, 1987-1990

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	
	L.A. Unified		L.A. Unified		L.A. Unified		S.D. Unified		S.D. Unified		Richmond		Hueneme		Hueneme	
	'87-88		'88-89		'89-90		'87-88		'88-89		'89-90		'87-88		'88-89	
	L.A. Unified		L.A. Unified		L.A. Unified		S.D. Unified		S.D. Unified		Richmond		Richmond		Hueneme	
	'87-88		'88-89		'89-90		'87-88		'88-89		'89-90		'87-88		'88-89	
40	I-380 MATRIX															
41	(Continued)															
42	PROJECT ADMINISTRATION															
43	Salaries (Cert)															
44	n.a.	8394225	10589439	702710	873815	493223	308232	n.a.	n.a.	142106	134938					
45	n.a.	1235885	1834722	134660	159909	128238	62888	n.a.	n.a.	32864	31303					
46	n.a.	16713658	18179242	515388	526321	560236	261176	n.a.	n.a.	91510	75120					
47	n.a.	246076	3123997	98802	96317	143661	53288	n.a.	n.a.	21163	17426					
48	n.a.	671381	708422	30084	24020	0	3848	n.a.	n.a.	21522	2044					
49	n.a.	2111294	3452888	121000	137608	0	70663	n.a.	n.a.	0	51584					
50	n.a.	487660	933280	16723	21083	0	0	n.a.	n.a.	0	0					
51	n.a.							n.a.	n.a.							
52	CENTRAL OFFICE ADMINISTRATION															
53	n.a.	17703859	18698837	1003527	1110724	1032729	1664200	n.a.	n.a.	377589	397924					
54	n.a.	4499915	4809552	233739	252510	246072	402375	n.a.	n.a.	103976	118497					
55	n.a.	52039527	5872556	10044516	1095452	3128443	3300456	n.a.	n.a.	425474	464198					
56	n.a.	13223684	14928655	2339540	253161	74542	781082	n.a.	n.a.	117249	139106					
57	n.a.	2567071	1940204	809088	443733	259856	251892	n.a.	n.a.	44326	64427					
58	n.a.	8565946	4174004	321389	175227	629619	248528	n.a.	n.a.	151189	193746					
59	n.a.							n.a.	n.a.							
60	n.a.	22022865	10256751	885954	1679717	159534	2322570	n.a.	n.a.	165141	281598					
61	n.a.	5329403	1105791	216564	1855551	242149	19475	n.a.	n.a.	15694	38645					
62	n.a.							n.a.	n.a.							
63	n.a.							n.a.	n.a.							
64	MAINTENANCE/OPERATIONS															
65	n.a.	156041295	164246415	19702956	22654534	7847100	8718890	n.a.	n.a.	1300004	1568981					
66	n.a.	43179657	44995645	6898098	5528338	2267669	2566352	n.a.	n.a.	437884	533528					
67	n.a.	23577340	24689309	3110943	3032470	786502	548375	n.a.	n.a.	300972	340874					
68	n.a.	42216487	47119778	8479819	9142716	2432896	2416608	n.a.	n.a.	462106	513740					
69	n.a.	5995665	9315667	771	1518393	105516	493621	n.a.	n.a.	82516	183540					
70	n.a.	2752306	3372619	361659	278709	262175	222507	n.a.	n.a.	19860	23504					
71	n.a.							n.a.	n.a.							
72	n.a.							n.a.	n.a.							
73	PUPIL TRANSFORMATION															
74	n.a.	63773706	71692773	6076706	8280928	65868	76514	n.a.	n.a.	179196	204761					
75	n.a.	17363236	2005494	1130658	172409	12947	26144	n.a.	n.a.	54280	64277					
76	n.a.	8108070	10337000	2640935	1222889	274	2128	n.a.	n.a.	20950	18106					
77	n.a.							n.a.	n.a.							
78	n.a.	32871237	44214944	9868131	10169179	2023994	2044808	n.a.	n.a.	<59,800>	<56,071>					
79	n.a.	1910810	2606381	918552	4944467	0	707	n.a.	n.a.	0	0					
80	n.a.							n.a.	n.a.							

Source: J - 380 Program Cost Report





**Appendix 5**

**Examples of Reports**

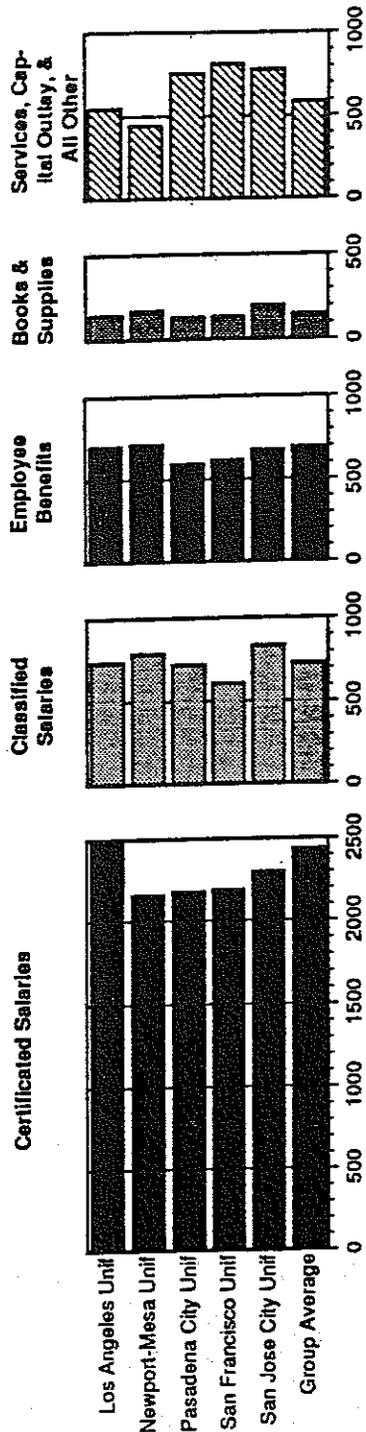
**Comparing Districts' Expenditure Data**

**Prepared by the California State Department of Education**



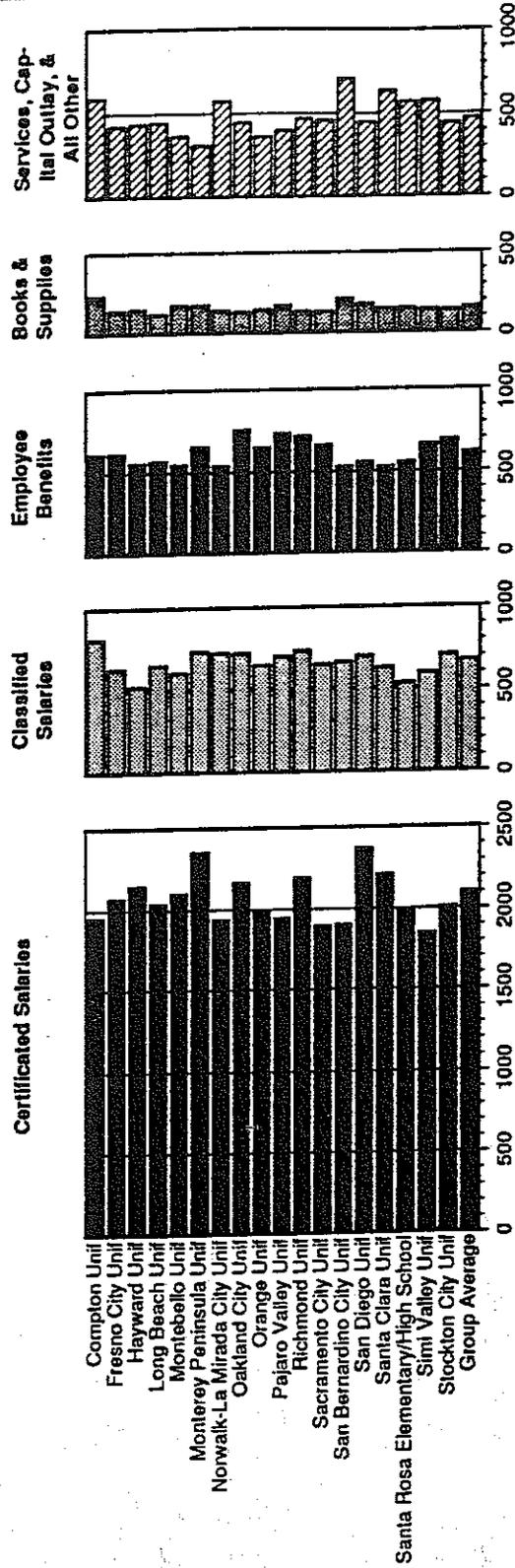
Source: 1988-89 Form J-200

Figure 4. General Fund Expenditure Categories  
 Group 40: Unified Districts, Large Size, Very High Expenditures



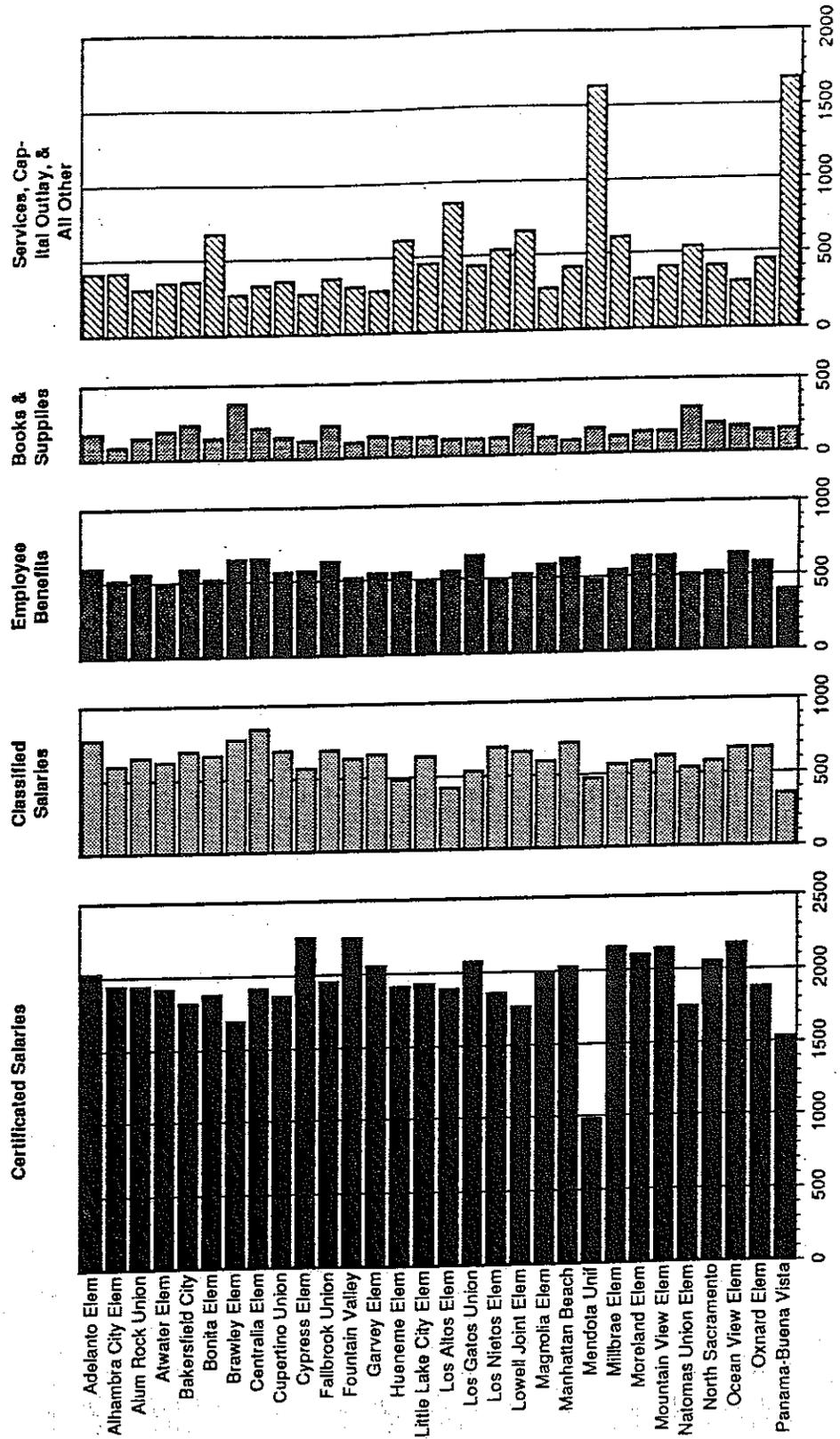
Source: 1988-89 Form J-200

Figure 4. General Fund Expenditure Categories  
Group 39: Unified Districts, Large Size, High Expenditures



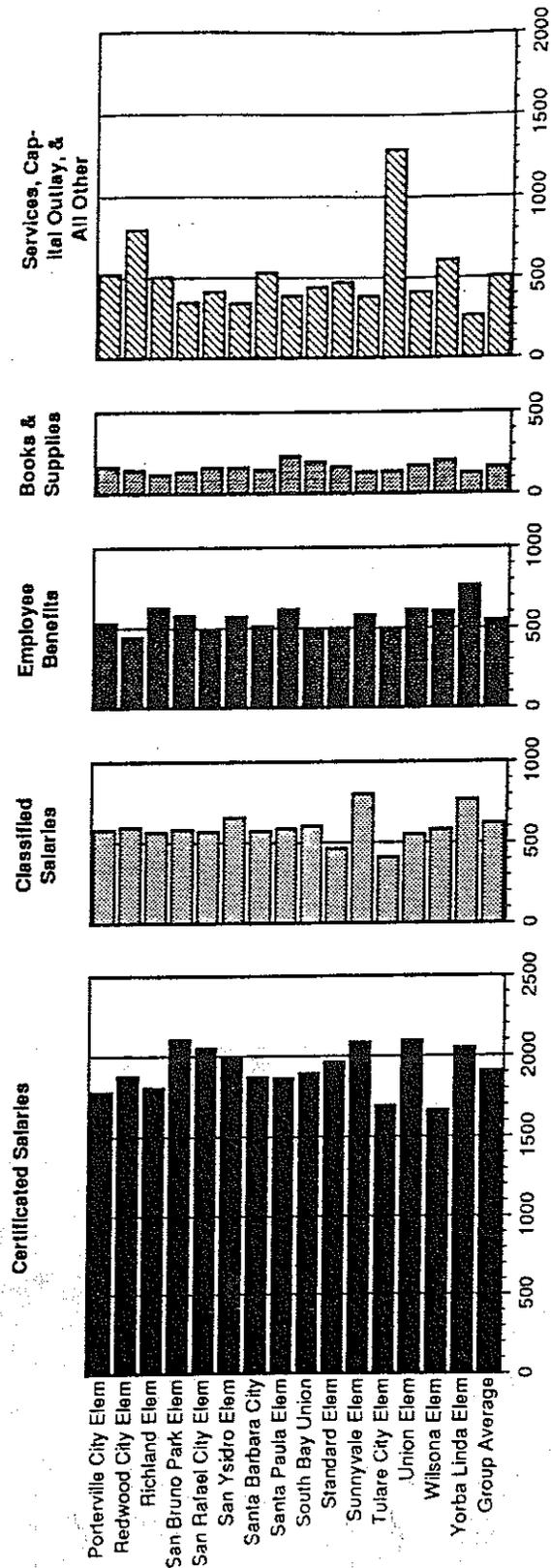
Source: 1988-89 Form J-200

Figure 4. General Fund Expenditure Categories  
Group 15: Elementary Districts, Large Size, High Expenditures

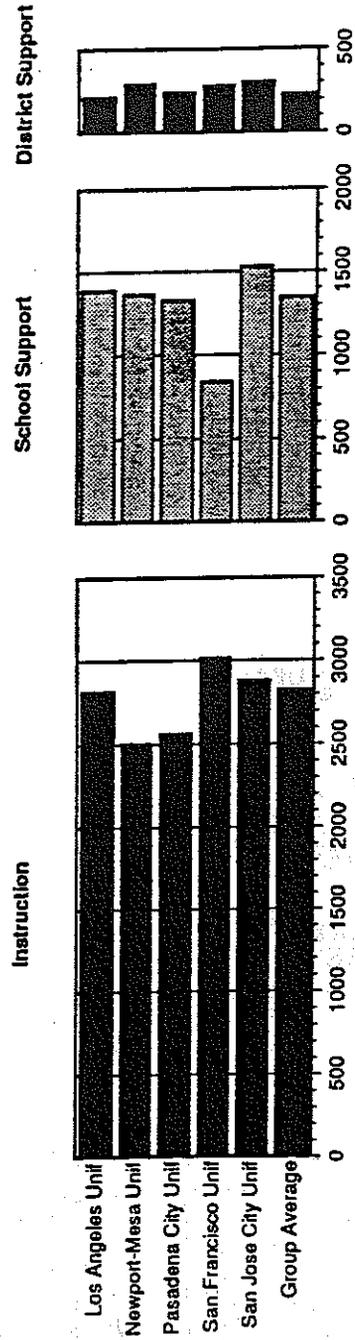


Source: 1988-89 Form J-200

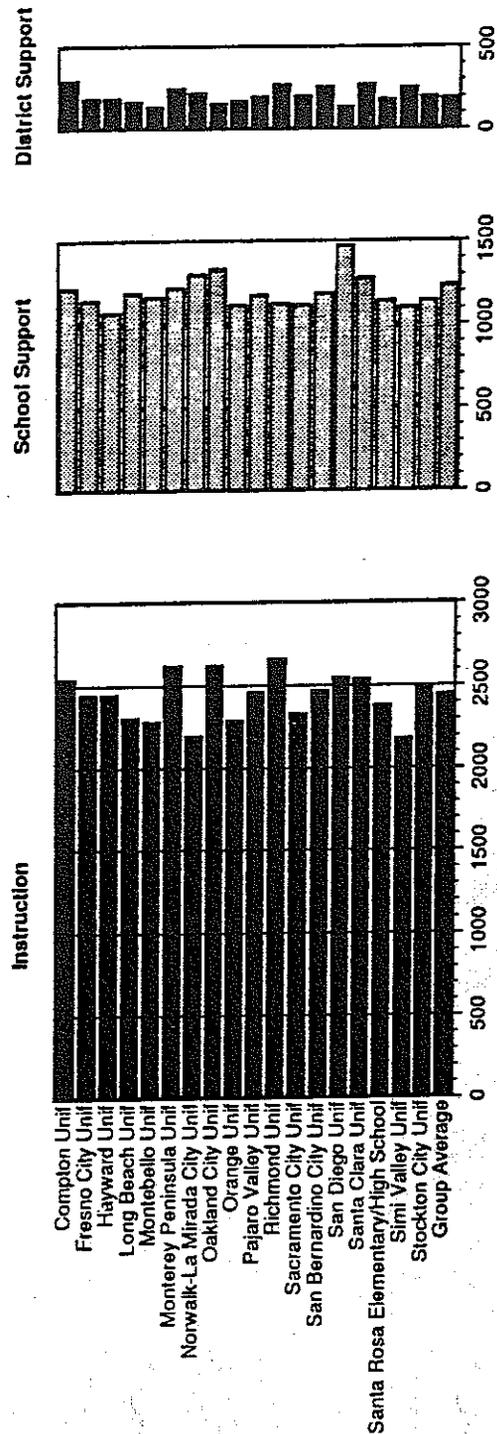
Figure 4. General Fund Expenditure Categories  
Group 15: Elementary Districts, Large Size, High Expenditures



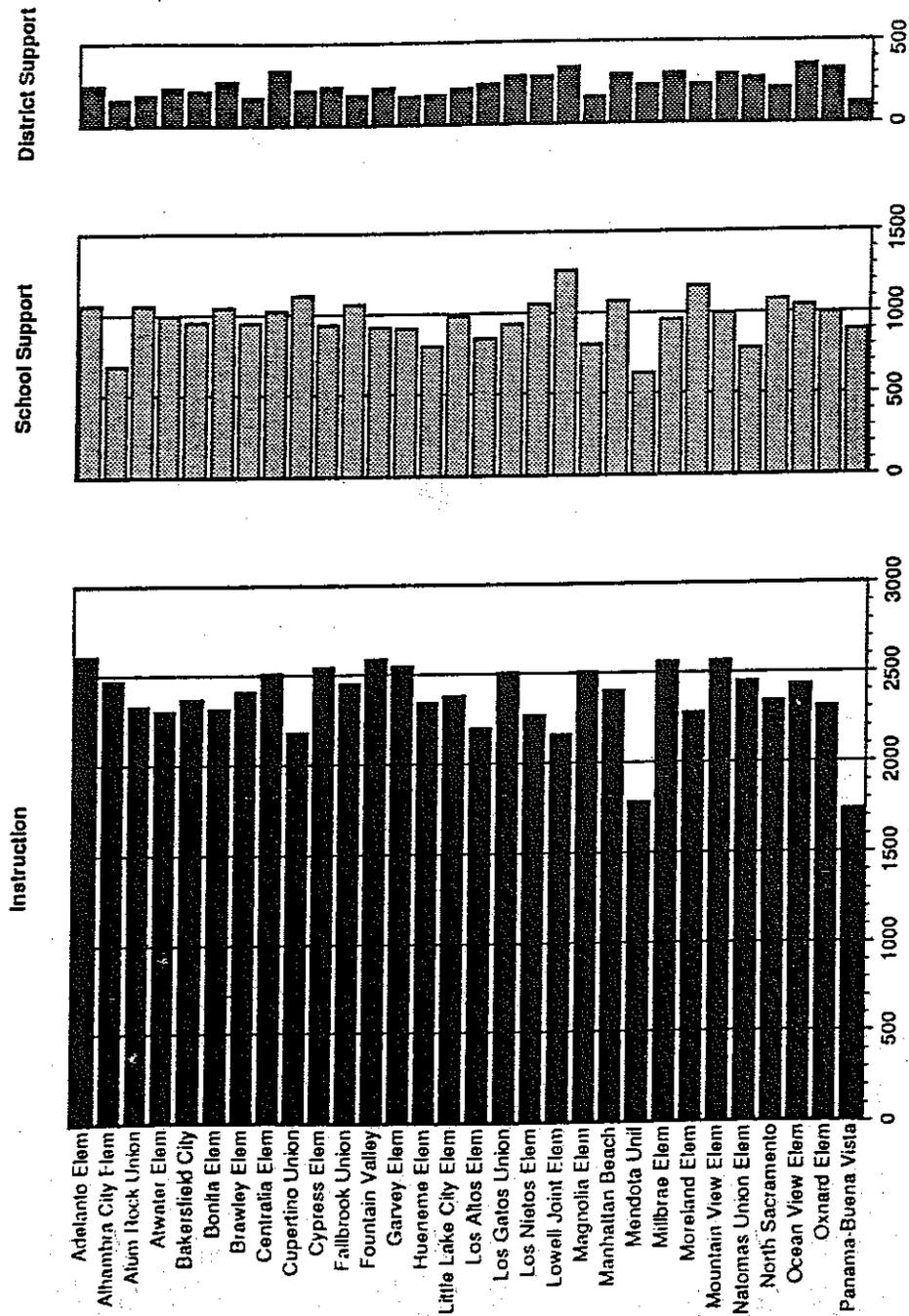
**Figure 7. Expenditures per Student (ADA) for Instruction, School Support and District Support**  
**Group 40: Unified Districts, Large Size, Very High Expenditures**  
 Source: 1988-89 Form J-380



**Figure 7. Expenditures per Student (ADA) for Instruction, School Support and District Support**  
 Source: 1988-89 Form J-380

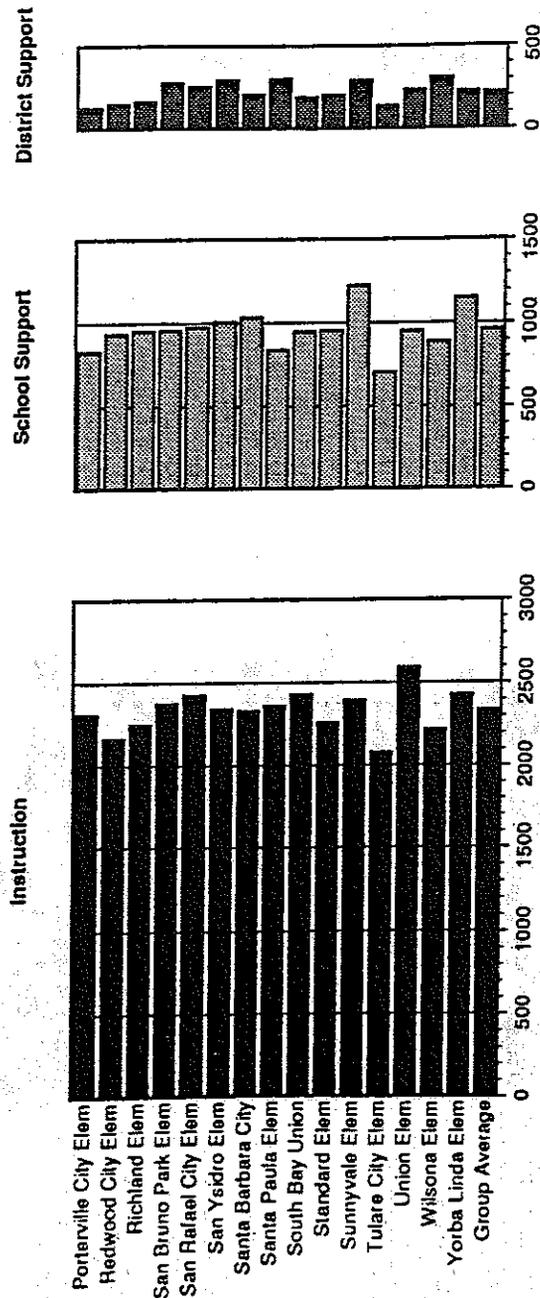


**Figure 7. Expenditures per Student (ADA) for Instruction, School Support and District Support**  
**Group 15: Elementary Districts, Large Size, High Expenditures**  
 Source: 1988-89 Form J-380



IV-4

**Figure 7. Expenditures per Student (ADA) for Instruction, School Support and District Support**  
**Group 15: Elementary Districts, Large Size, High Expenditures**  
 Source: 1988-89 Form J-380



## ENDNOTES

1. *"Analysis of the 1991-92 Budget Bill," Report from the Legislative Analyst's Office to the Joint Legislative Budget Committee, p. 908, and "Governor's Budget, 1991-92," California Governor's Office, p. E1.*
2. *Derived from "Analysis of the 1991-92 Budget Bill," Report from the Legislative Analyst's Office to the Joint Legislative Budget Committee, Table 3, p. 909.*
3. *California Governor's Office, "Governor's Budget Summary, 1991-92," p. 13.*
4. *Study conducted by Bruce Cooper, professor at Fordham University's school of education, and his student, Robert Sarrel, who was then budget director of the New York City Board of Education's high school division. Information from Forbes, June 25, 1990, pp. 52 - 56.*
5. *"Fiscal Accountability in Milwaukee's Public Elementary Schools -- 'Where Does the Money Go?'," Wisconsin Policy Research Institute, September 1990, Volume 3, No. 4.*
6. *"United Teacher," United Teachers Los Angeles, Volume XXI, Number 10, February 9, 1990, pp. 2 and 4.*
7. *"Conditions of Education in California 1989," Policy Analysis for California Education (PACE), Policy Paper No. PP90-1-2, January 1990, p. 77.*
8. *Ibid., pp. 77, 87 and 100.*
9. *Opinion written by Superintendent of Public Instruction Bill Honig, appearing in the Sacramento Bee newspaper, June 5, 1989.*
10. *"Conditions of Education in California 1989," Policy Analysis for California Education (PACE), Policy Paper No. PP90-1-2, January 1990, p. 81.*
11. *Ibid., p. 86.*
12. *Ibid., pp. 86-87.*

13. "Restructuring California Education, A Design for Public Education in the Twenty-First Century, Recommendations to the California Business Roundtable," Berman, Weiler Associates, 1988, p. 4.

Footnote d is referenced to the Center for Public Resources, 1983 as cited in "Literacy Training: A Hidden Need," Chris Lee, Training, September 1986; "Where the Training Dollars Go," Chris Lee, Training, October 1987; data from the American Society for Training and Development; and Corporate Classrooms: The Learning Business, Nell P. Eurich, Princeton NJ, Carnegie Foundation for the Advancement of Teaching, 1985.

Footnote e is referenced to Adults in Crisis, James Johnson, San Francisco, Far West Laboratory for Educational Development, 1987; and "Training in the Face of Illiteracy," David R. Torrence and Jo Ann Torrence, Training and Development Journal, August 1987.

Footnote f is referenced to What Do Our 17-Year-Olds Know?: A Report on the First National Assessment of History and Literature, Diane Ravitch and Chester Finn, New York, Harper and Row, 1987.

14. Testimony submitted by Mr. Andy Rich, Vice President of Human Resources for Knott's Berry Farm, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.
15. Testimony submitted by Dr. Joan Bowen, President of the Industry Education Council of California, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.
16. Summary of "Basic Menu of Services Provided by California County Offices of Education and California Educational Services Regions," prepared by the Holmes Commission on County Office of Education Services appointed by the California Association of County Superintendents of Schools, June 1990.
17. For the purposes of this study, pupil personnel specialists who provide instructional services to students are included in the Instruction category. Examples of how such specialists actually instruct students include counselors who develop and teach units in classrooms related to test-taking skills, study skills, techniques of writing resumes and other similar activities. Other examples include nurses who teach classes in health education covering a range of topics, often as a part of a district's Health curriculum.
18. PL 89-642, National School Breakfast Program, and PL 79-396, National School Lunch Program.
19. As outlined in the Leroy Green State School Lease-Purchase Law of 1976 (Chapter 1010, Statutes of 1976).
20. Chapter I of the Education Consolidation and Improvement Act of 1982-83.
21. Established by SB 813 (Chapter 498, Statutes of 1983).
22. "K-12 Education in California: A Look At Some Policy Issues," Little Hoover Commission, February 1990, p. 18.
23. Because a significant portion of any district's revenues are restricted, the best way to analyze an expenditure is in relationship to the revenue available and allowable for that expenditure. For instance, in analyzing teachers' salaries as a part of a district's total budgeted expenditures, one must also note that the vast majority of the restricted portion of the revenues corresponding to those expenditures cannot legally be spent on teachers' salaries. Thus, it would be more accurate to analyze

teachers' salaries only as they relate to expenditures corresponding to revenues available for teachers' salaries. For this study's analysis, it was determined that the most appropriate way to view any cost category or sub-category is as a percentage of a district's General Fund expenditures, rather than as a percentage of the district's total expenditures.

24. "The Public Employment Relations Board (PERB): Costly, Slow and Unsure," Little Hoover Commission, April 1990, p. 10.
25. *Ibid.*, p. 11.
26. California Government Code Section 3540 et seq.
27. California Education Code Section 42127.
28. California Education Code Section 42127.1.
29. California Education Code Section 42127.2.
30. California Education Code Section 42127.3.
31. Sacramento Union, March 18, 1991, p. A7. Following, listed alphabetically, are the districts with negative or qualified certification of their solvency:

Negative Certifications

- 1) Montebello Unified, Los Angeles County
- 2) Richmond Unified, Contra Costa County
- 3) Ukiah Unified, Mendocino County
- 4) Woodland Unified, Yolo County

Qualified Certifications

- 1) Beardsley School District, Kern County
- 2) Bellevue Union Elementary, Sonoma County
- 3) Bonita Unified, Los Angeles County
- 4) Central Union High School District, Imperial County
- 5) Coachella Valley Unified, Riverside County
- 6) Colfax Elementary, Placer County
- 7) El Monte Elementary, Los Angeles County
- 8) Hesperia Unified, San Bernardino County
- 9) Healdsburg Union High School District, Sonoma County
- 10) Holtville Unified, Imperial County
- 11) Hughes-Elizabeth Lakes Elementary, Los Angeles County
- 12) Inglewood Unified, Los Angeles County
- 13) Kentfield Elementary, Marin County
- 14) National School District, San Diego County
- 15) Nevada City School District, Nevada County
- 16) Plumas Unified, Plumas County
- 17) San Francisco Unified School District
- 18) San Lorenzo Valley Unified, Santa Cruz County
- 19) San Ramon Valley Unified, Contra Costa County
- 20) Santa Paula Elementary, Ventura County
- 21) Southern Kern Unified, Kern County
- 22) Tahoe-Truckee Unified, Placer County

32. State Controller's Office internal memorandum from Mark Steinwert, Manager of the School Districts Special Project, to Jack R. Brown, Chief of the Division of Audits, Subject: Problem School Districts, dated May 14, 1991.

The 32 financially troubled school districts listed by the State Controller's Office are

the same 26 districts listed in Endnote #27, excluding Richmond Unified and Bellvue Union Elementary, (which brings the list total to 24), plus:

- 1) Santa Rosa City Schools, Sonoma County
  - 2) Vallecito Union Elementary, Calaveras County
  - 3) Bret Harte, Calaveras County
  - 4) Mt. Diablo, Contra Costa County
  - 5) Oro Grande, San Bernardino County
  - 6) Delano Joint Union High, Kern County
  - 7) Santa Cruz City, Santa Cruz County
  - 8) Madera Unified, Madera County
33. *Ibid.*
34. Order of the Superior Court of the State of California, County of Contra Costa, in the case of Butt v. Richmond Unified School District et al., No. C-91-01645 (ESC), May 2, 1991 (also referring to order of April 29, 1991), p. 1.
35. *Ibid.*, p. 2.
36. "An Agreement Between the State Controller and the Superintendent of Public Instruction Regarding Richmond Unified School District," May 2, 1991, pp. 1 - 3.
37. Order of the Superior Court of the State of California, County of Contra Costa, in the case of Butt v. Richmond Unified School District et al., No. C-91-01645 (ESC), May 2, 1991 (also referring to order of April 29, 1991), p. 2.
38. "A Review of Selected Data and Research on School Dropouts: Evidence of Longitudinal Processes Leading to School Attrition," Dr. James S. Catterall, The Urban Educator, Spring/Summer 1987, p.24.
39. "Administrative Manual for CBEDS (California Basic Educational Data System) Coordinators and School Principals," California State Department of Education, October 1990, p. 8.
40. *Ibid.*
41. An example is the December 26, 1990 memo from James R. Smith, Deputy Superintendent, Curriculum and Instructional Leadership Branch of the California State Department of Education to all county and district superintendents of schools regarding changes in dropout rate calculation, dropout re-allocation procedure and expanded dropout data collection.
42. "School Dropouts: Here Today, Here Tomorrow," Dr. James S. Catterall, UCLA Journal of Education, Winter 1990, p. 29.
43. "Dropping Out: A Preschool through High School Concern," Betty Merchant, Policy Analysis for California Education (PACE), Policy Paper No. PP87-12-13, December 1987, pp.2-3.
44. "Dropout Rates in the United States: 1989," National Center for Education Statistics, September 1990, p. v. The three rates are described in more detail as follows:
- a. The event rate measures the proportion of students who drop out in a single year without completing high school. This rate is considered important because it reveals how many students are leaving high school each year and how each year's rates compare with previous ones.

- b. The **status rate** measures the proportion of the population who have not completed high school and are not enrolled at one point in time, regardless of when they dropped out. This rate is considered important because it reveals the extent of the dropout problem in the population and, therefore, suggests the magnitude of the challenge for further training and education that will permit these individuals to participate more fully in the economy and the life of the nation.
- c. The **cohort rate** measures what happens to a single group (or cohort) of students over a period of time. For example, a dropout rate might be calculated for the sophomore class of 1989 in terms of what percent of the class had not completed high school by June 1982.
45. "State Education Performance Chart: Student Performance, Resource Inputs, State Reforms, and Population characteristics, 1982 and 1989," (also known as the "U.S. Secretary of Education's Wall Chart"), U.S. Department of Education, Office of Planning, Budget and Evaluation, May 1990 Revised.
46. "Dropping Out, Losing Out: The High Cost for California," California Assembly Office of Research, Report #074-A, September 1985, p. 1.
47. Further adding to the confusion is the fact that beginning with school year 1989-90, the California State Department of Education changed its methodology for calculating dropout rates. For comparative purposes, the Department recalculated the dropout rates for previous years using the new formula. In this report, wherever successive years' rates are shown, we used the Department's newly calculated rates. Instances in which it was necessary to use rates calculated with the Department's previous methodology are described in Endnote #69 and Endnote #73.
48. "State Education Performance Chart: Student Performance, Resource Inputs, State Reforms, and Population characteristics, 1982 and 1989," (also known as the "U.S. Secretary of Education's Wall Chart"), U.S. Department of Education, Office of Planning, Budget and Evaluation, May 1990 Revised.
49. "3 Year Derived Dropout Rate in California Public Schools, 1987-88," prepared by Educational Demographics Unit, Program Evaluation and Research Division, California State Department of Education, revised May 21, 1991.
50. Testimony by Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.
51. Testimony by Dr. James S. Catterall, Professor, UCLA Graduate School of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.
52. "3 Year Derived Dropout Rate in California Public Schools, 1989-90," prepared by Educational Demographics Unit, Program Evaluation and Research Division, California State Department of Education, revised May 21, 1991.
53. Testimony by Dr. Carlos A. Bonilla, President, International Consulting Associates, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.
54. "Dropouts, 1988-89 -- Regular Junior High Schools, In Regions, Grades 6-7-8-9," Dropout Prevention/Recovery Office, Los Angeles Unified School District.

55. **Testimony by Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990; and**  
  
**December 26, 1990 memo from James R. Smith, Deputy Superintendent, Curriculum and Instructional Leadership Branch of the California State Department of Education to all county and district superintendents of schools regarding changes in dropout rate calculation, dropout re-allocation procedure and expanded dropout data collection.**
56. **"High School and Beyond," National Center for Education Statistics, cited by Dr. James S. Catterall, Professor at UCLA Graduate School of Education, during testimony at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.**
57. **"The Condition of Education," National Center for Education Statistics, U.S. Department of Education, 1984, Table 1.24, p. 60, as cited in "A Review of Selected Data and Research on School Dropouts: Evidence of Longitudinal Processes Leading to School Attrition," Dr. James S. Catterall, The Urban Educator, Spring/Summer 1987, p. 25.**
58. **"Dropping Out, Losing Out: The High Cost for California," California Assembly Office of Research, Report #074-A, September 1985, p. 11.**
59. **"3 Year Derived Dropout Rate in California Public Schools, (for each of school years 1985-86, 1986-87, 1987-88, 1988-89 and 1989-90)" prepared by Educational Demographics Unit, Program Evaluation and Research Division, California State Department of Education, revised May 21, 1991.**
60. **"A Review of Selected Data and Research on School Dropouts: Evidence of Longitudinal Processes Leading to School Attrition," Dr. James S. Catterall, The Urban Educator, Spring/Summer 1987, p. 31.**
61. **Testimony at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990 by: Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education; and Dr. James S. Catterall, Professor, UCLA Graduate School of Education.**
62. **Ibid., (Honig).**
63. **"California's Data on High School Dropouts are Inaccurate," Report P-641, Office of the Auditor General, October 15, 1987, p. S-1 and transmittal letter.**
64. **"Administrative Manual for CBEDS (California Basic Educational Data System) Coordinators and School Principals," California State Department of Education, October 1990, p. 8.**
65. **An example is the December 26, 1990 memo from James R. Smith, Deputy Superintendent, Curriculum and Instructional Leadership Branch of the California State Department of Education to all county and district superintendents of schools regarding changes in dropout rate calculation, dropout re-allocation procedure and expanded dropout data collection.**
66. **Testimony by Dr. James S. Catterall, Professor, UCLA Graduate School of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990; and**  
  
**"A Review of Selected Data and Research on School Dropouts: Evidence of Longitudinal Processes Leading to School Attrition," Dr. James S. Catterall, The Urban Educator, Spring/Summer 1987, p. 30.**

67. Testimony by Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.

68. Testimony by Dr. James S. Catterall, Professor, UCLA Graduate School of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.

69. At the time (November 1990), the Department's three-year rate of 20.4 percent was calculated as follows:

10th grade dropouts in 1986-87	28,385
11th grade dropouts in 1987-88	25,438
12th grade dropouts in 1988-89	<u>20,507</u>
Total	<u>74,330</u>

Divided by  
10th grade enrollment in 1986-87 363,750  
0.204 or 20.4 percent

If 30 percent were the actual dropout rate once all grades were included, one could estimate the total number of dropouts by applying the percentage to 10th grade enrollment in 1986-87. This would be only an approximation, however, because the enrollment figure against which the 30 percent is applied should be from an earlier grade, which would likely be a higher enrollment figure because not as many students have dropped out. Nevertheless, as a conservative approximation:

10th grade enrollment in 1986-87	363,750
Multiplied by 30 percent	<u>.30</u>
Estimated total number of dropouts	<u>109,125</u> which is 34,795 greater than the previous total of 74,330

70. "3 Year Derived Dropout Rate in California Public Schools, 1989-90," prepared by Educational Demographics Unit, Program Evaluation and Research Division, California State Department of Education, revised May 21, 1991.

71. Enrollment figures taken from "K-12 Graded Public School Enrollment by Ethnicity, History and Projection - 1990 Series," prepared by Demographic Research Unit, State of California Department of Finance.

72. The assumption that current dropout rates will remain constant is a valid one. The four most recent years have seen little decrease in the three-year, statewide rate:

1986-87	21.8
1987-88	22.3
1988-89	21.5
1989-90	20.2

73. Beginning with school year 1989-90, the California State Department of Education changed its method of calculating a three-year dropout rate. The new method, called a derived rate, uses the dropout rate for each grade for a single year to estimate the accumulated loss of students over a three-year period. The single-year dropout rate for a particular grade is calculated by dividing the total number of dropouts reported from a grade by the enrollment reported for that grade. The methodology used to calculate this derived rate using the single-year rate for each grade is as follows:  $1.0 - (1.0 - \text{grade 10 dropout rate}) \times (1.0 - \text{grade 11 dropout rate}) \times (1.0 - \text{grade 12 dropout rate})$ . For example, using this method, a school which has a 1989-90 single year dropout rate of 8.0% for grade 10, 7.0% for grade 11, and 6.0% for grade 12, would have a derived dropout rate of 19.6%.

The Department maintains that this derived rate minimizes the effect of transiency because the enrollment data used in the denominator for each grade are from the same year as the reported dropout data. For comparative purposes, the

Department recalculated the dropout rates for previous years using the same derived dropout rate formula. In this report, wherever successive years' rates are shown, we used the Department's derived rates.

For the purpose of comparing dropouts from the class of 1990 with projected dropouts from the class of 2008, it was necessary to use figures achieved through the Department's previous method of calculating a three-year rate. The Department calculated previous rates by using the sum of dropouts reported in grades 10, 11 and 12 for a particular class divided by the original grade 10 enrollment reported for that class. (Endnote #69 provides an example of this calculation.)

It should be noted that the Department's previous method of calculation resulted in slightly lower rates. For example, the Department's derived three-year rate for 1990 is 20.2 percent; if the rate is calculated using the previous method, the rate is 19.9 percent. Therefore, the rates used in projecting dropouts for the class of 2008 should be viewed as conservative estimates.

74. Telephone conversation with Dr. David E. Hayes-Bautista, Professor in the Department of Medicine, Director of the Chicano Studies Research Center, University of California, Los Angeles, on May 7, 1991.
75. *Ibid.*
76. "On the Social Costs of Dropping Out of School," Dr. James S. Catterall, The High School Journal, October/November 1987, pp. 20-21.
77. *Ibid.*, pp. 22-25.
78. "The Costs of School Dropouts to the City of Los Angeles," provided by Dr. James S. Catterall to the City of Los Angeles, Mayor's Education Advisory Committee, as cited in "On the Social Costs of Dropping Out of School," Dr. James S. Catterall, The High School Journal, October/November 1987, pp. 26-27.
79. "Programs for At-Risk Youth -- As Required by SB 410, Chapter 1187, Statutes of 1989," San Bernardino County Office of Education, October 1990, p. 5.
80. "Governor's Budget, 1991-92," California Governor's Office, p. E12, and discussion with Mr. Jim Allison, Administrator for California Partnership Academies, California State Department of Education, on March 1, 1991.
81. Created pursuant to the School-Based Pupil Motivation and Maintenance Program and Dropout Recovery Act, Education Code Sections 54720 et seq., (Chapter 1431, Statutes of 1985).
82. Originally established pursuant to the Peninsula Academies Model Program, Education Code Section 54690 et seq., (Chapter 1568, Statutes of 1984).
83. "Governor's Budget, 1991-92," California Governor's Office, p. E12.
84. "Against All Odds: SB 65 Program Success in Preventing & Retrieving High School Dropouts -- A Preliminary Report," SRA Associates, November 30, 1990, pp. iv, 2 and 3.
85. Reference to an evaluation of the Partnership Academies by Policy Analysis for California Education (PACE) in testimony by Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.

86. *California Education Code, Section 54690, as amended by Chapter 1405, Statutes of 1987.*
87. *Discussion with Mr. Jim Allison, Administrator for California Partnership Academies, California State Department of Education, on March 1, 1991.*
88. *"Programs for At-Risk Youth -- As Required by SB 410, Chapter 1187, Statutes of 1989," San Bernardino County Office of Education, October 1990, p. ii.*
89. *"Programs for At-Risk Youth Producing Results," news release by California State Department of Education, November 14, 1990, referring to "Programs for At-Risk Youth - As Required by SB 410, Chapter 1187, Statutes of 1989," San Bernardino County Office of Education, October 1990, p. iv.*
90. *Ibid., and testimony by Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.*
91. *Testimony by Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.*
92. *Chapter 1556, Statutes of 1990, (SB 1274, Hart).*
93. *Testimony by Mr. Bill Honig, Superintendent of Public Instruction, California State Department of Education, at the Little Hoover Commission's public hearing on K-12 Education in California, Sacramento, November 15, 1990.*