

## Technical Appendices

# California's New School Funding Flexibility

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# Appendix A:

## California's Previous Flexibility Policies

This appendix describes five earlier, major efforts in California to contain the number of categorical programs or to provide more flexibility in the use of categorical revenues. Several major conclusions or lessons can be drawn from these previous efforts:

- Initial participation is typically low.
- Clear communication and program requirements are critical to district participation.
- Prior flexibility provisions have provided very limited flexibility without substantive evaluation.

### Sunset Reviews

Sunset reviews were established by AB 8 (Chapter 282, Statutes of 1979).<sup>1</sup> Under this legislation, each categorical program was given a sunset date. If the legislature failed to reauthorize the program, school districts continued to receive funds for the program to be used for the same purposes, but all existing statutes and regulations governing the program terminated and the program technically ceased to exist.<sup>2</sup>

An evaluation revealed that the sunsets provided little increased flexibility and that many programs did not actually terminate.<sup>3</sup> According to the LAO (1982), one of the weaknesses was the state's inability to evaluate the effectiveness of the programs or quantify their impact. This problem persists today, in the absence of a strong statewide longitudinal data system.

### School-Based Program Coordination

Just two years after initiating the sunset review process, the legislature passed AB 777 (Chapter 100, Statutes of 1981), the School-Based Program Coordination Act. AB 777 gave districts more flexibility over categorical program requirements by allowing them to coordinate 11 categorical programs at school sites. This flexibility meant that schools could integrate programs and expand services and materials for disadvantaged or gifted and talented students, for example, to all students.<sup>4</sup>

Initial district participation was low because of widespread confusion even among principals at participating schools (LAO 1988). A second impediment to participation was the associated administrative and reporting burden (LAO 1985). Despite the repeal of those administrative requirements in 1983, participation continued to decline. In a survey, CDE found that districts' decisions over whether to participate were heavily centered on the programs eligible to coordinate (LAO 1988). Following the 1987 sunset of the state School Improvement

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<sup>1</sup> Mockler (1987) describes earlier efforts: SB 1 (1968), AB 606 (1969), and Assembly Concurrent Resolution 127 (1969).

<sup>2</sup> The sunset review process was established by Chapter 1270, Statutes of 1983 and amended by Chapters 482 and 1318, Statutes of 1984. See LAO (1983 and 1986) for a description of the process and the reports required by the process. See Timar (1994) for a historical account of the enactment of AB 8.

<sup>3</sup> LAO (1993b and 1988).

<sup>4</sup> The major programs eligible for coordination included special education, Economic Impact Aid, school improvement, Miller-Unruh reading, gifted and talented, education technology, and staff development. AB 777 also authorized districts to seek waivers from Education Code requirements that hinder local needs. See LAO (1985 and 1991) and Mockler (1987).

Program (SIP) and changes in federal law that provided more flexibility over Title I funds for disadvantaged children, participation increased to 62 percent of all districts (LAO 1991).

The overall assessment of AB 777 was poor. Based on limited available data, the LAO (1989) concluded that districts may have chosen to participate after the sunset of SIP so as to continue to receive staff development funding, rather than for the purposes of coordinating categorical programs. District confusion over program requirements and benefits continued through the duration of the program. By 1993, the LAO concluded that the School-Based Program Coordination Act failed to provide flexibility.

## The Mega-item

In 1992, the legislature created the mega-item, to diminish Governor Wilson’s line-item veto authority over specific categorical programs. The mega-item grouped approximately 30 programs into a single budget appropriation and provided increased flexibility over mega-item program revenues.<sup>5</sup> By 1995, districts were able to transfer up to 15 percent of funds from one mega-item program to another and to increase the funding for any single program by up to 20 percent.<sup>6</sup> Using a rationale similar to the current categorical flexibility provisions, mega-item flexibility was provided to help districts respond to a 2.2-percent cut to categorical revenues in 1992 and to allow districts to prioritize programs to meet local needs. The flexibility allowed some districts to maintain spending in some mega-item programs and make larger reductions to others (LAO 1995).

Surveys and analyses of the mega-item found that many districts used this flexibility to reduce “encroachment,” the amount of unrestricted revenues that they used to support categorical programs. By using mega-item funds to reduce encroachment, districts were able to avoid using some of their unrestricted funds to support categorical programs, an unintended outcome (LAO 1995). Special education is one program with high levels of encroachment. Lipscomb (2009) found that districts spent \$2.9 billion of local general purpose funds on additional services for children with disabilities. This amounts to 38 percent of the total additional funds, from all sources, spent on special education services. Districts used the mega-item to reduce special education encroachment, until special education was removed from the mega-item in 1994.

The overall assessment of the mega-item was mixed. Some school districts chose not to participate because they thought it provided too little flexibility while others said the flexibility was “too disruptive.”<sup>7</sup> The LAO (1995) found that despite calls to continue and increase local flexibility, districts were evenly divided over making the mega-item flexibility provisions permanent.

The mega-item, as a single budget item, ceased to exist starting in 1999–2000. It was replaced with a budget control provision (section 12.40) that continued districts’ ability to transfer funds among programs and increased the limit on transfers to 20 percent of a program’s funds, and the total funding limit to 125 percent.<sup>8</sup> Following the new flexibility provisions in 2009, section 12.40 was eliminated from the 2009 and 2010 budget acts.

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<sup>5</sup> The programs included in the mega-item changed over the course of its existence See LAO (1993-1997) for more information and analysis.

<sup>6</sup> Little Hoover Commission (1997) and LAO (1997).

<sup>7</sup> LAO (1995); Little Hoover Commission (1997).

<sup>8</sup> These were later reduced to 10 percent and 115 percent, respectively, in 2003–04.

## The Pilot Project for Categorical Education Program Flexibility

Assembly Bill 615 (Chapter 369, Statutes of 2000) established the Pilot Project for Categorical Education Program Flexibility. Districts selected to participate in the pilot project were to receive a minimum of five years of funding flexibility over 24 categorical programs within three thematic clusters: school improvement and staff development, alternative and compensatory education, and school district improvement. The state auditor (2003) found that although 85 districts initially expressed interest in the 75 slots available, only five districts applied and were approved within the first year of the pilot project. A CDE survey found that districts did not apply because they deemed the evaluation “too burdensome, the timeline too short, and the application too difficult” and believed that the pilot project would not offer much additional flexibility beyond the mega-item and Section 12.40.<sup>9</sup> The state auditor’s assessment of the program was severely critical of the CDE’s communication about the program and its oversight. Applications for the pilot program in 2002 never materialized, and the program was essentially terminated.

## Block Grant Consolidations

In 2003 and 2004, the Davis and Schwarzenegger budgets decried restrictions, and proposed granting unprecedented flexibility through categorical reform. Although the mechanics and criteria for inclusion of the two proposals differed, each would have reclassified a significant number of categorical program funds as general purpose funds.<sup>10</sup>

Citing concerns about collective bargaining, accountability, and adverse incentives that some of the categorical programs corrected, the LAO (2003, 2004) proposed alternative categorical consolidations into thematic block grants. In general, a block grant funds a broad theme (e.g. school safety) rather than a specific program (e.g. gang prevention) and allows districts to determine which programs or activities to fund under the broad theme. Block grants allow the state to direct funding to state priorities while providing districts with flexibility to meet local needs within those priorities.

The legislature responded by passing AB 825 (Chapter 871, Statutes of 2004) that consolidated 26 programs into six block grants. The block grant funds must be spent on the purposes of the programs consolidated in each block grant. AB 825 allowed districts to transfer up to 15 percent of funds within four of the six block grants or to other categorical programs, and to increase funding for a single program or block grant by 20 percent. Generally, AB 825 was much smaller in scope than the governors’ proposals and accordingly provided a “small increase in flexibility” (LAO 2005).

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<sup>9</sup> All but three mega-item programs were part of the AB 615 pilot project (California State Auditor 2003, pp. 21–24).

<sup>10</sup> Davis proposed consolidating 64 programs into a single \$5.1 billion block grant. Schwarzenegger proposed shifting \$2 billion from 22 categoricals to revenue limits. For more on the two proposals, see California Department of Finance (2003 and 2004) and LAO (2003 and 2004).

# Appendix B: Data and Methods

## District Organization and Average Daily Attendance

California students attend schools in three types of school districts: elementary districts that typically serve students in grades K–8, high school districts that typically serve students in grades 9–12, and unified districts that serve students in all grades. The number of districts varies annually according to district reorganizations and consolidations. This paper reflects districts in existence in 2009–10.

Most of a school’s funding is based on a district’s average daily attendance (ADA), a measure of its student population. There are multiple measures of ADA used in different program funding formulas. Each measure may include or exclude certain types of students. For the purposes of this report, the ADA measure only includes pupils attending regular district schools, district-operated community day schools, and Necessary Small Schools (small, geographically isolated schools that receive general purpose funds through a different formula).

This measure excludes several types of students: those in charter schools,<sup>11</sup> in special county schools and classes, in nonpublic school or licensed children’s institution placements, and pupil counts from the prior year in districts with declining enrollment. All these excluded students may be counted in some program funding formulas. Some districts are also excluded from the analysis in the accompanying report: two all-charter districts that receive funding through the charter school block grant formula and three state Board of Education charter systems with multiple school sites throughout California.

The end result encompasses 961 school districts serving approximately 5.6 million students (Table B1), about 95 percent of all California students.

**TABLE B1**  
District ADA by district type and size, 2009–10

		Number of districts	ADA	Percent of total ADA
Elementary	Small (0 – 250)	198	20,010	0.4
	Medium (251 – 1,500)	171	110,860	2.0
	Large (1,501+)	175	969,421	17.5
High school	Small (0 – 1,500)	26	20,312	0.4
	Medium (1,501 – 6,000)	26	82,848	1.5
	Large (6,001+)	31	444,893	8.0
Unified	Small (0 – 3,000)	128	158,856	2.9
	Medium (3,001 – 10,000)	96	566,215	10.2
	Large (10,001+)	110	3,181,060	57.3
All districts		961	5,554,475	100.0

## Flex Item Revenues

Of the 40 flexible categorical programs, several are excluded from the accompanying report. First, if the program does not support school districts. For example, funding for civic education does not go to districts. Rather, a nonprofit, the Center for Civic Education, annually receives funding and provides civics materials to participating districts statewide. Similarly, the charter school categorical block grant goes to charter schools. Since the report excludes charter schools, the charter school categorical block grant is excluded from the district flex item.

<sup>11</sup> Except six all-charter districts that choose revenue limits over the charter school general purpose block grant per Education Code 42238.

Second is a lack of data. In particular, funds for alternative certification programs are allocated to the California Commission on Teacher Credentialing (CCTC). Apportionment data to districts or other local education agencies is not publicly available. Similarly, teacher dismissal apportionments are made by the state controller and the data cannot be found. The program’s apportionment data is not available from the California Department of Education or the Controller’s Office website. In total, nine programs totaling less than \$200 million in 2009–10 (less than 0.5 percent of all flex item funds), are excluded. Table B2 reports all flexible programs, the source of data, and whether that program is included in the accompanying report.

**TABLE B2**  
**Flex item programs**

Program	Budget item	Source	Reason for exclusion
Administrator Training	144	CDE	
Adult Education	156	PAS	
Advanced Placement Test Fee Waiver	240	CDE	
After School Education and Safety (Proposition 49)		CDE	
Alternative Certification	6360-101		Data unavailable
American Indian Early Childhood Education	150	CDE	
American Indian Education Centers	151		Funds non-districts
Arts and Music Block Grant	265	CDE	
Bilingual Teacher Training	193		Funds non-districts
CAHSEE Intensive Instruction and Services	204	CDE	
California Association of Student Councils	242		Funds non-districts
CalSAFE	198	CDE	
Center for Civic Education	208		Funds non-districts
Certificated Staff Mentoring	267	CDE	
Charter School Categorical Block Grant	211		Funds non-districts
Class Size Reduction – Grade 9	232	CDE	
Class Size Reduction – Grades K–3	234	CDE	
County Office of Education <i>Williams</i> Monitoring	266		Funds non-districts
Community Day School Additional Funding	190	PAS	
Community-Based English Tutoring (CBET)	227	CDE	
Deferred Maintenance	188	OPSC	
Education Technology	181		Funds non-districts
Gifted and Talented Education (GATE)	124	PAS	
High Priority Schools Grant Program			Program not funded
Instructional Materials Block Grant	189	CDE	
International Baccalaureate	240	CDE	
Math and Reading Professional Development	137	CDE	
Middle and High School Counseling	108	CDE	
National Board Certification Incentive	195	CDE	
Oral Health Assessments	268	CDE	
Peer Assistance and Review	193	CDE	
Physical Education Teacher Incentives	260	CDE	
Professional Development Block Grant	245	CDE	
Pupil Retention Block Grant	243	CDE	
Pupil Transportation	111	CDE	
Reader Services for Legally Blind Teachers	193	CDE	
Regional Occupation Centers and Programs (ROCP)	105	PAS	
School and Library Improvement Block Grant	247	CDE	
School Safety Block Grant	228	CDE	
School Safety Competitive Grant	248	CDE	
Specialized Secondary Programs	122	CDE	
Supplemental Instruction (hourly programs)	104	PAS	
Targeted Instructional Improvement Block Grant (TIIBG)	246	CDE	
Teacher Credentialing Block Grant	244	CDE	
Teacher Dismissal Apportionments	209		Data unavailable

NOTES: All budget items are 6110-, unless specified. PAS is the P-2 Principal Apportionment Summary; CDE is funding result spreadsheets downloaded from CDE website, OPSC is a funding report downloaded from the Office of Public School Construction website. After School Education and Safety, K–3 Class Size Reduction, and Pupil Transportation were not granted flexibility in SBX3 4 (Chapter 12, Statutes of 2009), but are included in some sections of the accompanying report.

The majority of the flex item programs fund individual school districts. However, two flex item programs fund regional activities, with funding apportioned to an administrative unit: regional occupation programs and centers (ROCPs) and the teacher credentialing block grant.<sup>12</sup> Funding for regional programs is allocated only to the administrative unit and not to member districts. In the case of ROCPs, only districts that are part of a joint-powers agreement receive ROCP funding in the flex item variable used in the report. Districts that are part of a county-operated ROCP receive no funding. It is possible that in reality, county-operated ROCPs are sharing the now-flexible funding, but if so, this is not modeled in the report. Although many districts operate teacher induction or beginning teacher support and assessment (BTSA) programs, only 156 local education agencies, including four charter schools and 28 COEs, received funding in 2009–10 for those programs. Only district funding from the CDE apportionment files is included in the flex item.

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<sup>12</sup> See Weston, Sonstelie, and Rose (2009) or the CDE website for more information about ROCPs and the teacher credentialing block grant.

## Appendix C: Categorical Funding and Student Disadvantage

This appendix provides correlations between categorical programs and student disadvantage. Excluded are programs for which data were unavailable or where funding is allocated to entities other than school districts.

**TABLE C1**  
Categorical program correlations with the percent of Title I students

Program	Correlation	Weighted by student enrollment	Correlation by district type weighted by student enrollment		
			Elementary	High School	Unified
<b>Tier III</b>					
Administrator Training	0.14	0.02	0.14	0.20	-0.03
Adult Education	-0.05	0.31		0.24	0.46
Advanced Placement Test Fee Waiver	-0.00	0.29		0.08	0.43
American Indian Early Childhood Education	-0.01	0.02	-0.01		0.05
American Indian Education Centers					
Arts and Music Block Grant	0.28	0.11	0.12	0.19	0.12
Bilingual Teacher Training					
CAHSEE Intensive Instruction and Services	0.08	0.15	0.02	0.70	0.55
CalSAFE	0.03	-0.00		0.19	0.03
Certificated Staff Mentoring	0.11	0.36	0.11	0.34	0.44
Class Size Reduction – Grade 9	-0.15	-0.11		0.13	-0.13
Community Day School Additional Funding	0.16	0.07	0.16	0.18	0.05
Community-Based English Tutoring (CBET)	0.25	0.62	0.53	0.44	0.67
Deferred Maintenance	0.14	0.04	0.05	0.08	0.07
Gifted and Talented Education (GATE)	0.25	0.03	0.03	0.01	0.07
Instructional Materials Block Grant	0.23	0.46	0.25	0.35	0.62
International Baccalaureate	0.04	-0.00	-0.00	0.14	-0.00
Math and Reading Professional Development	0.29	0.34	0.23	0.17	0.52
Middle and High School Counseling	0.23	-0.09	0.01	0.24	-0.02
National Board Certification Incentive	-0.02	0.48	0.15	0.25	0.56
Oral Health Assessments	0.28	0.16	0.09	-0.01	0.37
Peer Assistance and Review	0.28	0.14	0.06	-0.09	0.25
Physical Education Teacher Incentives	0.16	-0.01	0.01	-0.01	-0.07
Professional Development Block Grant	0.24	0.15	0.01	-0.05	0.18
Pupil Retention Block Grant	0.09	0.08	0.21	0.11	0.09
Reader Services for Legally Blind Teachers	0.01	0.02	-0.02	0.02	0.11
Regional Occupation Centers and Programs (ROCP)	-0.04	0.08		0.14	0.17
School and Library Improvement Block Grant	0.36	0.31	0.27	-0.29	0.42
School Safety Block Grant	0.31	-0.07	0.08	0.26	-0.05
School Safety Competitive Grant	0.01	0.02	0.01	0.03	0.06
Specialized Secondary Programs	-0.02	-0.03		0.01	-0.03
Supplemental Instruction: CAHSEE	0.06	0.27	0.17	0.51	0.58
Supplemental Instruction: Core	0.01	-0.18	0.13	0.24	-0.33
Supplemental Instruction: Low Star	0.11	-0.08	0.18		-0.26
Supplemental Instruction: Retained	0.10	0.35	0.09	-0.10	0.40
Targeted Instructional Improvement Block Grant (TIIBG)	0.14	0.53	0.16	-0.01	0.59
Teacher Credentialing Block Grant	-0.05	0.19	0.02	-0.01	0.21
<b>Tiers I &amp; II</b>					
After School Education and Safety (Proposition 49)	0.15	0.55	0.41	-0.00	0.61
Class Size Reduction – Grades K–3	0.18	0.24	0.11		0.46
Economic Impact Aid	0.04	0.68	0.47	0.81	0.88
Pupil Transportation	0.40	0.33	0.23	0.23	0.35

NOTES: Column I is the correlation between \$/ADA for a particular program and the percentage of Title I students in a district, with each observation a district. Column II is the correlation between \$/ADA for a particular program and the percentage of Title I students in a district, with each observation a student. Columns III-V is the correlation between \$/ADA for a particular program and the percentage of Title I students in a district limited to districts of the same type; each observation is a student.



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