

**AGENDA**  
**ASSEMBLY BUDGET SUBCOMMITTEE NO. 2**  
**ON EDUCATION FINANCE**

**ASSEMBLYMEMBER SARAH REYES, CHAIR**

**TUESDAY, APRIL 27, 1999**  
**STATE CAPITOL, ROOM 447**  
**4:00 P.M.**

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## 6110 DEPARTMENT OF EDUCATION (K-12)

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### ISSUE 1: WORKFORCE INVESTMENT ACT – INFORMATION ONLY

The issues for the subcommittee to consider are the potential effects of new federal legislation on K-12 and adult education programs administered by SDE. SDE will present a summary of these effects at today's hearing.

#### BACKGROUND:

**Overview:** The Workforce Investment Act is new federal legislation that attempts to coordinate existing federal workforce training and literacy programs and funding streams. It affects federal programs and funds currently administered by SDE, the Employment Development Department, the Department of Social Services and other state agencies. In a January, 1999 policy brief on issues and recommendations related to implementing WIA, SDE points out the following highlights:

- Establishment of a state-level Workforce Investment Board to develop a state plan to coordinate the various segments of the employment and training system.
- Creation of a single youth program, ending the JTPA Summer Youth Employment Training Program.
- Designation of One-Stop Career Centers as the primary delivery system for adult services. WIA requires adult education programs to be included as One-Stop Career Centers.
- The distribution of some federal job training money in the form of vouchers to choose the training provider of their choice. (While WIA does not require federal adult education funding to be provided in this manner, adult education programs and regional occupational centers and programs will be eligible to compete to serve those with vouchers).
- Prohibition of any WIA dollars to be spend on school-to-career activities.
- A reduction in the amount of funding that can be used for administration of statewide leadership activities.
- Required performance evaluations using specified measures and changes in data collection and reporting requirements.

**Effect on programs administered by SDE:** Two main programs historically administered by SDE that will be affected by WIA are the 1) National Literacy Act, which provides funding for adult education programs and is currently funded at approximately \$40 million and 2) a eight percent set-aside from Job Training Partnership Act funds for youth-related job training activities, currently amounting to approximately \$19 million. WIA's effects on federal adult education funding include 1) an increased emphasis on student performance measures, 2) a change in the data collection requirements, which will necessitate a change in the system currently in place to meet state data requirements, 3) expansion of family literacy programs and 4) a reduction in funds available for state leadership and administration. WIA deletes the JTPA eight percent set-aside, which is currently spent on school-to-career and welfare-to-work programs.

**State plan submitted for implementation of Title II:** Pursuant to the requirements of WIA, the state recently submitted a five-year plan for implementing Title II of WIA, the "Adult Education and Family Literacy Act." This plan establishes the following funding priorities for federal adult education funds:

- 1) Literacy for those with below-basic literacy skills who enroll in adult basic education courses or English as a second language courses (including ESL-citizenship courses).
- 2) Workplace literacy for those with below-basic literacy skills who enroll in adult basic education or ESL courses provided in a workplace context.
- 3) School-based literacy for those with basic literacy skills who enroll in adult basic education or ESL courses.
- 4) Family literacy for those with below-basic and basic literacy skills. Family literacy program focus on the education of adults but provide interactive parent-child activities that are based on the research premise that children's achievement level is linked to parents' education level.
- 5) Adult secondary education for those with intermediate basic literacy skills. Courses that fall into this category are GSE courses, or courses leading to a high school diploma.

The plan establishes that 80 percent of federal local assistance dollars will be spent on priorities one - three and 20 percent will be spent on priorities four and five.

**ISSUE 2: ADULT EDUCATION**

The issues for the subcommittee to consider are: 1) the proposed funding level for this program, 2) a differential COLA funding issue from last year's Budget Act, 3) federal funding for this program and how it is affected by the Workforce Investment Act and 4) a DOF letter requesting a \$2.4 million augmentation to the federal grant for adult education.

**BACKGROUND:**

**Proposed budget:** The Governor's budget proposes \$544.6 million in General Fund and \$39.9 million in federal funds for adult education programs run by school districts. This includes a \$25 million set aside in ongoing funds for CalWORKS participants. This is the same level of funding provided in last year's budget for this purpose, although last year's \$25 million included one-time carryover from a prior year. This year's budget proposes that this funding be ongoing.

School districts provide daytime and evening adult education programs in the following main areas: 1) English as a Second Language (ESL), 2) citizenship, 3) Adult Basic Education and 4) vocational education. Districts claim funding for the services they provide based on the number of hours served. Programs are typically run on an open-entry, open-exit basis, whereby courses theoretically are set up to allow participants to enter at any point during the course, so that adults receive the services they need on demand without having to wait for the beginning of a course. Adult education programs serve a broad spectrum of clients, from older adults to high school students (under certain restrictions). Of the different categories of classes offered by adult education programs, ESL classes account for the largest proportion of hours claimed.

For the past several years, the Legislature has earmarked a portion of federal funds for adult education citizenship and naturalization classes provided by school districts, community colleges and community-based organizations. The proposed budget continues this set-aside at the same level proposed last year, at \$12.6 million.

**Workforce Investment Act:** As noted above, the federal Workforce Investment Act consolidates existing federal programs that serve the workforce training needs of adults. One of the programs affected by WIA is the federal National Literacy Act, which used to provide funding for adult education programs. WIA requires states to submit implementation plans by the year 2000 for most of the programs affected by WIA, with the exception of federal adult education funding, for which the state was required to submit an implementation plan by April of this year. SDE will report at today's hearing on the contents of the state's plan, how it plans to implement WIA and the potential effects the state implementation plan will have on existing adult education programs and other providers.

**State implementation plan:** SDE's plan for implementing Title II of WIA (which includes adult education and literacy activities) targets 80 percent of all federal local assistance funds to services for those with National Adult Literacy Survey levels 1 and 2 literacy skills (basic and slightly higher) who enroll in adult basic education and English as a Second Language courses (including ESL-citizenship). It targets 20 percent of federal local assistance funds to family literacy activities and adult secondary education for those with intermediate skills.

**DOF letter:** A letter from DOF to the Chairs of the Budget Committees requests a \$2.4 million increase in federal funds for adult education. This increase reflects an increase to the state grant, which the state distributes to providers to support state-funded programs.

<b>COMMENTS:</b>
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**Differential COLA provided to adult education in last year's budget:** Last year's budget provided a dual COLA for programs in the K-12 budget. While most programs received a 3.95 percent COLA, the budget provided only a 2.18 percent COLA for adult education, ROC/P's and childcare. Some argue that underfunded COLA's erode programs over time because the purchasing power of the amount the Legislature appropriates for the program shrinks. The estimated cost of bringing the COLA for adult education programs from the 2.18 percent level provided by last year's budget to the 3.95 percent COLA rate provided to other K-12 programs in the current year is estimated at \$9.64 million.

**ISSUE 3: ADULTS IN CORRECTIONAL FACILITIES EDUCATION PROGRAM**

The issues for the Subcommittee to consider are 1) the proposed funding level for this program and 2) LAO's proposal to change the current funding practice for this program.

**BACKGROUND:**

The Governor's budget proposes a funding level of \$16.3 million in Proposition 98 funds for the Adults in Correctional Facilities program, which provides basic education and workforce training programs to individuals in county incarceration programs. This is a slight increase over the current year's funding level of \$15.6 million. This program is funded on a reimbursement basis and budgeted on a prior-year basis, meaning that the amount distributed in any one fiscal year is for claims from the prior year. Therefore, the \$16.3 million proposed in the budget for this program will pay for 1998-99 program costs. Similarly, the \$15.6 million provided in the 1998-99 fiscal year paid for 1997-98 program costs.

**COMMENTS:**

**LAO recommendation:** The LAO recommends that the Subcommittee adopt trailer and budget bill language to change the funding for this program so that it is on a current-year basis, like most other education programs. It also recommends that the Subcommittee approve \$15 million in one-time funds to make the program "catch up" to a current-year funding basis, and that it redesignate the proposed \$16.3 million for 1999-2000 program costs.

The LAO points out that the prior-year funding model for this program led the state to adopt rules to "cap" growth in program spending, so that the state would not be faced with open-ended reimbursement claims. It notes that program rules cap the total ADA that a program can claim at its lowest historical ADA. Thus, if a program experiences a one-year drop in participation due to an anomalous occurrence, the program is now locked into a cap that is based on this lower ADA. The LAO cites an example in which Los Angeles County moved its female inmates into a new facility. The move resulted in a temporary decrease in program ADA, but the county fully intended to restore its program to the prior level of participation. However, program rules prevent the county from ever recovering funding for the ADA lost due to the move.

The caps lead to a situation where providers spend more on the program than they get reimbursed for, and a portion of the money that is appropriated every year for the program goes unspent. The LAO states that this unspent portion has been growing. In 1997-98 the unspent amount was \$447,000 and in 1998-99 the unspent amount was \$1.4 million out of \$15.6 million appropriated for the program.

Assemblymember Wildman has introduced a bill, AB 798 (Wildman), that attempts to address the problem highlighted by the LAO regarding the program's funding caps. AB 798 would allow programs to claim ADA up to the highest ADA claimed in the previous five years, adjusted upwards by 2.5 percent, unless the Legislature were to approve a greater increase for that fiscal year in the Budget Act.

**ISSUE 4: SPECIAL EDUCATION**

The issues for the subcommittee to consider are 1) the proposed spending level for this program, including funds set aside for equalization and a low-incidence disability adjustment, 2) the potential need for clarification to the formula for calculating special education growth and COLA, 3) a SDE proposal to reform its special education compliance system and 4) a DOF letter requesting augmentations to the January 10 budget in federal special education expenditures.

**BACKGROUND:**

**Budget proposals:** The Governor's budget proposes a total spending level of \$2.7 billion in state and federal funds for special education in the budget year, including \$34.5 million for special education equalization and \$14.4 million to pay for a low-incidence disability adjustment. The budget also proposes \$52.2 million in one-time funds from the Proposition 98 Reversion Account to increase the current year special education COLA to the same percentage (3.95 percent) received by other K-12 education segments, including district revenue limits, in the current year.

The proposed \$34.5 million for equalization would go to SELPA's (special education local planning areas) that have funding levels below the state average. Last year's budget proposed \$51 million in ongoing funds for this purpose. Pursuant to legislation approved two years ago, AB 602 (Davis), special education funding has been vastly simplified and is now based on a per-ADA funding model. In the first phase of the funding reform, historical levels of funding were consolidated into new basic funding rates. AB 602 dedicated new federal funds to efforts to equalize those SELPA's with funding rates below the state average. At the time of the legislation, it was estimated that full equalization would cost approximately \$125 million.

The special education reform legislation also required a study of geographical differences in the incidence of certain disabilities that tend to be expensive to serve (labeled low-incidence disabilities). The evaluation led to the introduction of a cost adjustment for those areas that were determined to have high incidences of the specified types of high-cost disabilities. The \$14.4 million proposed by the budget goes towards the cost adjustment for these areas. The legislation that established the low-incidence disability adjustment keeps the individual adjustment factors in place for five years, after which time a new study will be required.

**Need for COLA and growth clarification?** As noted above, clean-up legislation to the original reform bill established the low-incidence disability adjustment to reflect the higher costs of serving children with certain disabilities in areas where these disabilities are more prevalent. There is now discussion regarding the intent of this clean-up legislation and whether the formula that the legislation established for calculating special education COLA and growth was intended by the legislation.

The COLA formula contained in current law excludes the low-incidence disability adjustment from the COLA calculation. Consequently, COLA's are calculated at the statewide average funding level for all SELPA's, but SELPA's with low-incidence disability adjustment factors do not receive extra COLA funds that reflect their higher costs. While some argue that the exclusion of the adjustment factor from the COLA calculation is due to a technical drafting error in the legislation, others argue that the COLA formula was never intended to include the adjustment factor. The LAO estimates that the statewide cost of changing the COLA formula so that it includes the adjustment factor is \$5.4 million for the current year.

Similarly, current law calculates special education growth based on the statewide average funding rate plus the amount the state has paid on the low-incidence disability adjustment factor (the Legislature has not fully paid the cost of the adjustment factor). While some argue that this formula was intended by the legislation, others argue that the intent was for the growth formula to be based on the statewide average funding rate plus the full adjustment factor (not just the amount the state has paid on it to date), and that the legislation contained a technical drafting error that resulted in the current formula. The LAO estimates that the statewide cost of changing the growth formula so that it considers the full adjustment factor and not just the amount of the factor paid off by the state is \$3.24 million.

***SDE proposal to improve special education compliance:*** SDE is in the process of developing a new pilot project to improve local compliance with state and federal special education requirements. School districts and county offices of education that provide services to special education students are required to comply with federal and state law regarding these students. Currently, SDE monitors local compliance through a variety of means, including the coordinated compliance review (CCR) process, in which the state conducts a review of a district's compliance with federal and state requirements that pertain to the federal and state funding that a district receives.

Special education compliance is a long-standing problem in California. The Office of Special Education Programs of the U.S. Department of Education documented compliance problems in monitoring reports it submitted to the state in 1988, 1992 and 1996. SDE has initiated a new program, which it calls the Quality Assurance Process, to replace the current process of ensuring compliance through the coordinated compliance review. While SDE has tried various strategies to improve compliance monitoring through the CCR over the past few years, the subsequent increase in complaints and litigation (which serve as an indicator of noncompliance) raises questions about the ability of the CCR process to bring about compliant and effective programs for students with disabilities.



The goal of the new Quality Assurance Process proposed by SDE is to improve student performance for individuals with disabilities while ensuring compliance with state and federal laws and regulations. SDE proposes that the new system focus on students results (such as test scores) for up to two years after students leave school, as a significant departure from the existing system which focuses on program components and inputs. The proposed pilot project involves focused monitoring by local teams and SDE. SDE would select the districts for the pilot based on high or low performance against statewide performance indicators and prior compliance problems. SDE states that the proposed pilot is based on New York's special education system.

In February, SDE submitted a letter to DOF requesting \$1 million in new and carryover funds to begin implementing the pilot program in 1999-2000.

**DOF letter regarding federal special education funds:** A letter from DOF to the Chairs of the Budget Committees requests the following augmentations to federal special education expenditures in the budget year: 1) A \$200,000 increase in one-time funds to a program to address parent dissatisfaction and disagreement regarding special education services and placement through alternative dispute resolution training. This increase would bring the total funding level for the program to \$300,000 in the budget year. 2) An increase in \$234,000 from 1997-98 carryover funds to augment preschool funding. 3) An increase of \$1.8 million as a result of the new Special Education State Improvement Grant.

<b>COMMENTS:</b>
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**Federal letter regarding proposed Quality Assurance Process:** Staff notes that a cover letter from the Office of Special Education Programs of the U.S. Department of Education addressed to SDE and attached to a follow-up monitoring report from June of 1998 indicates potential support for SDE's proposed Quality Assurance Process. The letter indicates, "It appears from the preliminary plans for the "Quality Assurance Process" that you have shared with us that the proposed changes could greatly improve the effectiveness of the California Department of Education's ability to identify noncompliance if adequate numbers of appropriated trained and supervised staff are available for its implementation."

**ISSUE 5: CHARTER SCHOOLS**

The issues for the subcommittee to consider are 1) a new charter school funding model developed pursuant to new legislation and its potential fiscal effects, 2) proposed trailer bill language to address declining enrollment in districts due to charter schools and 3) federal charter school funding.

**BACKGROUND:**

Legislation approved by the Legislature in 1992 created charter schools in California. Charter schools are public schools initiated by petition and are exempt from most sections of state law governing public schools. Petitions to initiate charter schools must be signed by a specified percentage of those affected, including parents and teachers. Until recently, charter schools secured funding via individual negotiations with school districts and there was a permanent statewide limit on the number of charter schools that could operate.

***Charter school reform bill:*** Last year, the Legislature adopted AB 544 (Lempert), Chapter 34, Statutes of 1998, which instituted a number of changes to state law governing charter schools. Among the changes AB 544 made are the following:

- Increased the number of charter schools allowable under law.
- Provides that a charter school may elect to operate as a nonprofit public benefit corporation.
- Changes the requirements for submission of a petition to establish a charter school.
- Authorizes the State Board of Education to grant charters and to revoke charters if it makes certain findings regarding financial mismanagement, misuse of funds, or substantial departure from successful practice.
- Requires funding for charter schools to be equal to funding that would be available to a similar school district serving a similar population. Requires SDE to propose and SBE to adopt implementing regulations.

Perhaps as a result of this legislation, charter school enrollment in the current year is significantly greater than last year. Last year's total ADA in charter schools was 50,000 ADA, while fall enrollment counts for the current year estimate ADA for this year to be 73,000. It is unclear how quickly charter school ADA will grow in future years in response to the expansion allowed by AB 544.

**Emergency regulations contain new funding model:** Pursuant to the requirements of AB 544, SDE developed and SBE approved emergency regulations that lay out a funding model that uses a block grant entitlement approach for funding charter schools. The block grant formula provides three funding components to each charter: 1) general purpose funding based on the statewide average revenue limit for type of district (elementary, unified, high school), 2) funding for educationally disadvantaged students, which is based on a charter's number of educationally disadvantaged students multiplied by the statewide average of Economic Impact Aid per economically disadvantaged student and 3) other categorical aid, which is based on the statewide average per-ADA amount of money received by school districts per grade group in 1998-99 for specified categorical programs, multiplied by a charter's ADA. The emergency regulations specify that the model is optional for three years and that charter schools must notify SDE by May 1 of the year prior to the fiscal year in which they intent to participate in the model. The emergency regulations have now gone to the Office of Administrative Law for its review and approval.

**Model's additional costs:** SDE estimates that the new model will result in \$29.2 million in additional costs in the budget year and \$22 million in additional costs in out years. The additional costs reflect the difference between what charters currently receive under existing agreements with individual districts and what they would receive under the new formula. The drop in the cost in out years stems from the fact that some categorical programs are funded based on prior-year ADA. In a letter dated March 31, 1999, SBE alerts the Chairs of the Budget Committees of the additional costs associated with the new model and cites state law that authorizes SBE to adopt regulations to create the new model.

The LAO notes that the model's additional costs stem in part from its inclusion of categorical programs that are not currently funded on a per-ADA basis, as the model proposes to fund them for charter schools. It cites the example of school transportation, which is currently allocated to school districts based on historical costs and equalization factors, not on the number of students in the district. Under the proposed model, districts would continue to receive the same amount of transportation funding they currently receive (based on factors other than ADA), and charter schools would receive it as well, but on a per-ADA basis.

**Declining enrollment: proposed trailer bill language:** Current law calculates districts' apportionment funding based on the higher of current- or prior-year ADA. This formula holds districts harmless for one year from a loss in funding loss due to declining enrollment. The Governor's budget proposes trailer bill language that specifies that charter school average daily attendance is to be included in a school district's regular average daily attendance for purposes of determining eligibility for the declining enrollment adjustment.

**Federal charter school funding:** The Federal Public Charter Schools grant program provides funds to states to provide financial support to charter developers and new charter schools to facilitate the creation and improvement of charter schools. The proposed budget contains a substantial increase in federal charter school funding, due to a new three-year grant the state received last year. The new grant provides a total funding level of \$7.6 million in the current year, of which SDE estimates it will only be able to allocate \$5.4 million. For the budget year, the amount available in federal funding will be \$14.8 million, which includes the \$12.6 million for the second year of the federal grant and the \$2.2 million in carryover that is estimated will be available from the current year. The federal funds available in the budget year represent a tripling of the current year's estimated spending level for these funds.

<b>COMMENTS:</b>
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**Options for implementing new model:** According to SDE, the Legislature must take affirmative action in order for the new funding model to take effect. SDE cites the following options for the Legislature in addressing additional costs from the new model.

- 1) Adopt trailer bill language deeming the charter school block grant (or part of it) to be "revenue limits" for purposes of the continuous statutory appropriation. (Apportionments to school districts are funded this way.)
- 2) Appropriate a specific amount to pay for the net General Fund cost of the new model (\$29.2 million in the budget year), or appropriate the entire amount needed for the model. (The net fiscal impact to the budget would be the same for both approaches; in the latter approach, the entire appropriation would be offset by savings in the budget for a net cost of \$29.2 million.)
- 3) Adopt budget or trailer bill language providing that the additional costs will be funded by applying a uniform deficit factor to the categorical mega-item and the "other categorical aid" component of the block grant.
- 4) Do nothing, in which case the model will not take effect and charter schools will continue to be funded on a case-by-case basis subject to individual negotiation with school districts, which is the current practice.

There are arguments in favor and against these approaches. Proponents of the first approach argue that a continuous statutory appropriation would provide guaranteed funding to charter schools and would protect charter schools from the authority of the Legislature and the Governor to make cuts to their funding. Opponents of the first approach favor the second because it gives the Legislature more control over costs that are still undetermined. DOF argues that the new model was intended to be cost-neutral; the third options would allow any cost of the model to be shared by charter and non-charter schools.

The LAO recommends that SDE report to the budget subcommittees on the proposed model and its fiscal effects and that it also present options for the Legislature to minimize additional state costs, including reasonable changes to existing law or budgeting formulas.

***SBE letter in support of fully funding model:*** In a letter dated April 20 and addressed to the respective Chairs of the subcommittees on Education Finance, SBE expresses its "vigorous support for fully funding charter schools pursuant to the funding model adopted by the Board...."

***Proposed trailer bill language differs from regulations:*** Like the proposed trailer bill language cited above, the new regulations adopted by SBE for the new charter school funding model also propose language that affects the declining enrollment adjustment for calculating district apportionments. The regulations specify that for purposes of determining eligibility for the declining enrollment adjustment, charter school ADA is to be excluded from regular ADA and so is the ADA of pupils who attended a non-charter school in the district in the prior year and attended a charter school in the district in the current year. This language is different from the trailer bill language, which specifies that charter school ADA is to be included in a school district's regular ADA for purposes of determining eligibility for the declining enrollment adjustment.

The different sets of proposed language differ in their implications. The regulations would preclude a district from benefiting from the declining enrollment adjustment when the declining enrollment is due to the conversion of a non-charter school ADA in the prior year to charter school ADA in the current year. The effects of the proposed trailer bill language appear to be much broader. The trailer bill language would have the same effect as the regulations for one scenario: a situation in which a district experiences declining enrollment among its non-charter schools due to a loss of students to a charter school within the district (or a conversion). However, the trailer bill language would also preclude a district from benefiting from the declining enrollment adjustment when a loss in ADA in non-charter schools in the district is offset by a similar increase in ADA in charter schools in the district, but the increase in charter school ADA comes from students outside the district. In this case, the district is experiencing a real decline in ADA among its non-charter schools (not a transfer or conversion to charter schools in the district) yet cannot benefit from the declining enrollment adjustment.

***LAO recommends seeking increase in implementation grant amounts:*** The LAO recommends that SDE petition the federal government to increase the size of the grants that SDE can provide with the federal money. Current grant levels are \$50,000 per planning grant and \$150,000 per implementation grant. The LAO cites research done by the Institute for Education Reform and California State University, which estimated start-up costs for a typical elementary charter school to be more than \$250,000. In addition, it cites a U.S. Department of Education evaluation that suggests that a lack of start-up funds is the most common barrier to starting new charter schools. Given the apparent need for a larger grant amount for implementation and the

significant increase in funding available for this program, the LAO recommends that the subcommittee adopt the following budget bill language to direct SDE to petition the federal government for an increase in the maximum grant amount:

Item: 6110-112-890

The State Department of Education shall file an amendment to California's Public Charter School grant application with the federal Department of Education to change the maximum amount that a charter school can receive for an implementation grant from \$150,000 to \$250,000.

**ISSUE 6: OPEN ISSUES -- DEFICIT REDUCTION**

The subcommittee considered this issue on March 23 and held it open, pending information regarding the distribution of the proposed \$200 million on an equalization basis.

**BACKGROUND:**

The Governor's budget proposes \$200 million to reduce the revenue limit deficit for school districts and county offices. This money serves as unrestricted funds for districts to use as their local priorities dictate. The \$200 million proposed in the budget would reduce the deficit factor from the existing level of 8.8 percent to 8.001 percent.

**COMMENTS:**

Staff notes that on March 16, the subcommittee approved the deficit factor proposed in the trailer bill of 8.001 percent. This deficit factor assumes adoption of the \$200 million. If the subcommittee should decide not to adopt the Governor's proposal of \$200 million for deficit reduction it will need to take a conforming action to adjust accordingly the deficit factor in the trailer bill.

**LAO equalization report:** Pursuant to a requirement in legislation approved by the Legislature last year, AB 2460 (Leach), the LAO recently completed a report regarding options for the Legislature in approaching equalization. The legislation required the LAO to submit a report regarding options in using the COLA to equalize revenue limits. The LAO recently completed the report, highlights of which are presented below:

- SB 727 increased variation in revenue limits and changed who is above and who is below the average. About 20 percent of districts changed positions relative to the average, and the LAO notes that none of the position changes can be explained by differences in school districts' wealth, size or type.
- Achieving 100 percent equalization is prohibitively expensive. The LAO recommends that the Legislature pick an equalization "target" of between 90 percent and 100 percent of ADA.
- The current COLA formula maintains revenue limit differences and does nothing to narrow the gap in revenue limits. The LAO continues with the recommendation in made in its Analysis of the 1998-99 Budget, that the Legislature adopt a sliding scale COLA formula to use the COLA to equalize revenue limits. The report contains three different sliding-scale COLA equalization options.

**ISSUE 7: EDUCATION TECHNOLOGY**

The issues for the subcommittee to consider are 1) the proposed expenditure level for the Digital High Schools program and 2) the profile of schools that have yet to be funded under this program and whether their characteristics constitute a need for increased technical assistance.

**BACKGROUND:**

The Governor's budget proposes a total of \$151 million in funding for the Digital High School program, including \$107 million in ongoing funds and \$44.2 million in one-time funding. This is a grant program established in 1997 that provides one-time installation grants and ongoing technical support and staff training grants to school districts and county offices of education for technology in high schools. Participating districts and county offices must provide a local match of at least the value of the grant received.

The Governor's budget summary states that the proposed funding level will provide 391 school with implementation grant funding and ongoing maintenance funds for the initial cohort of 268 schools funded in 1997-98.

The state provides grants under this program by dividing all districts serving grades 9 through 12 into six groups, one of which is composed of schools of less than 200 students and another which is composed of county office schools serving grades 9 through 12. Districts are then required to submit ranked lists of eligible high schools to the SPI. The SPI then selects high schools for funding by random drawing until the available funding is almost gone.

**COMMENTS:**

***Schools left to be funded are smaller than those already funded.*** According to information provided by SDE, there are approximately 1050 schools left to be funded in years three and four of the Digital High School program (1999-2000 and 2000-01). On average these schools are smaller than the schools selected in the first two years of the program. SDE estimates that about half of the schools left to be funded have an enrollment of 200 or under. Due to an unanticipated need for more planning time on the part of schools applying for the program, SDE plans to do more technical assistance to schools in helping them prepare their applications and plan for the program.