Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Carol Liu
Member, Robert Huff
Member, Roderick Wright

Thursday, May 12, 2011
Upon Adjournment of Budget and Fiscal Review Committee
Room 3191, State Capitol

AGENDA PART B

Item	Department	Page
6110	**Department of Education**	
Issue 1	LAO Supplemental Report: School District Consolidation	Page 2
Issue 2	LAO Supplemental Report: County Court School Funding	Page 8
	Public Comment	

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

ISSUE 1. LAO REPORT – SCHOOL DISTRICT CONSOLIDATION

DESCRIPTION: The Supplemental Report of the 2010-11 Budget Act directed the Legislative Analyst's Office (LAO) to examine school district and county office of education consolidations in order to achieve greater cost efficiencies. The LAO will present findings and recommendations from its resulting report to the Subcommittee.

SUPPLEMENTAL REPORT LANGUAGE:

The Supplemental Report of the 2010-11 Budget Package (October 2010) included the following language for the Department of Education budget act item (6110-001-0001):

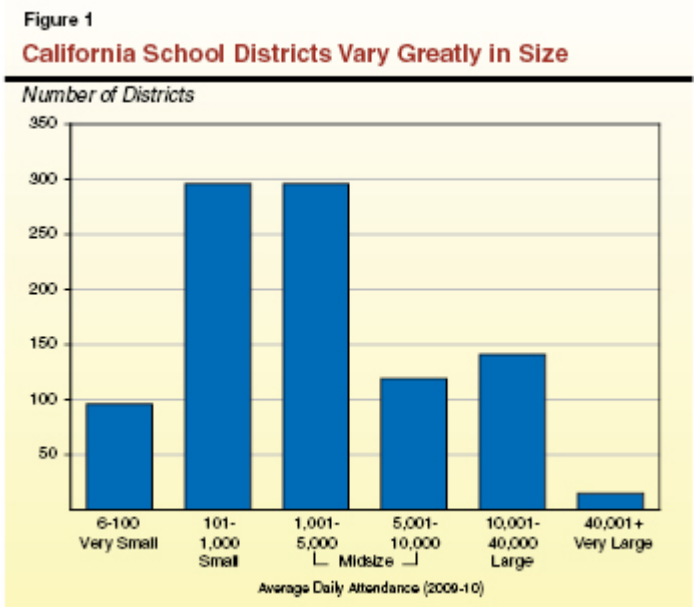
> ***School District and County Office Consolidation.*** *By April 1, 2011, the LAO shall provide an analysis to the fiscal committees of the Legislature regarding options for consolidating small school districts and consolidating county offices of education within statewide regions in order to achieve greater cost efficiencies.*

The LAO studied the issues raised by the Supplemental Report language and has developed specific findings and recommendations in its report entitled ***How Small is Too Small – An Analysis of School District Consolidation.*** The report was published on May 2, 2011.

SUMMARY OF LAO REPORT ON SCHOOL DISTRICT CONSOLIDATION.

Background.

- **Size of California School Districts Varies Dramatically.** The state has a very low threshold for minimum district size, which is set at an average daily attendance (ADA) of six for an elementary district and 11 for high school and unified districts. As a result, the state has an exceptional number of small districts.



.

The LAO breaks down school districts by size in Figure 1 above. Almost three-quarters of all California school districts have fewer than 5,000 ADA. However, together, these 688 districts contain just 15 percent of total ADA in the state.

Notably, 230 of the state's districts contain only a single school. At the other extreme, 15 "very large" districts with over 40,000 ADA educate about one-quarter of all students in the state, with one district—Los Angeles Unified—representing about 10 percent of total state ADA.

- **Historically, State Has Encouraged Districts to Consolidate, Reducing the Overall Number of Districts.** While California continues to have many small school districts, the total number of districts in the state has declined over time. The state has about half as many districts as it did 50 years ago (963 in 2009-10 compared to 2,091 in 1950-51).

  Throughout the 1950s and 1960s, the state provided a series of fiscal incentives for consolidation, including increasing the per-pupil funding rate for unified districts and paying for excess costs of student transportation associated with merging school districts.

  The pace of consolidation has slowed in recent decades since the state stopped providing explicit incentives for districts to unify.

- **Decision to Consolidate School Districts Resides Primarily at Local Level.** The state delegates most district configuration decisions to the local level. Local stakeholders must initiate the process of consolidating school districts and ultimately a majority of the local electorate must vote to approve the consolidation.

- **Some Other States Have Recently Adopted More Assertive Consolidation Policies.** In contrast to California's locally based approach to district configuration, the state of Maine passed legislation in 2007 requiring that all school districts enroll at least 2,500 students or face fiscal penalties. In the subsequent three years, the number of Maine school districts has dropped by one–third, from 290 to 179, although about half of the smaller districts in the state (representing about 10 percent of all students) have not yet conformed to the consolidation mandate. Several other states, including Arkansas and Vermont, have also recently passed legislation to encourage school district consolidation.

LAO Findings. To assess the potential benefits of district consolidation, the LAO analyzed operational costs and performance data for districts grouped by size. Overall, the LAO found some evidence indicating small school districts (those that serve 1,000 or fewer students) have higher per–student operational costs. The LAO also found that small districts and schools are more difficult to hold accountable for student outcomes. The LAO's specific findings are listed below.

LAO Findings

✓ **Small Districts Find Ways to Economize but Still Face Fiscal and Personnel Challenges.**

- Small Districts Create Economies of Scale Through COEs and Consortia.
- Despite Partnerships, Very Small Districts Spend Larger Proportion of Funding on Overhead.
- Small Districts Multi-Task, but Not Without Affecting Instructional Programs.

✓ **District Size Has Some Effect on Student Performance, but Very Small Districts Are Difficult to Monitor.**

- Student Performance Appears Slightly Better in Midsize Districts.
- Very Small Districts Much Harder to Hold Accountable for Overall Student Outcomes.
- Smaller Districts Also Not Accountable for Important Subgroups of Students.

✓ **Small Districts Have Substantial Funding Advantages.**

- Small Districts Receive Special Fiscal Allowances.
- Very Small Districts Receive Notably More Per Pupil Compared to Other Districts.
- Charter Schools Differ From Small Districts.

✓ **Disincentives Keep School Districts From Consolidating.**

- Consolidating Can Lead to Loss of Funding and Additional Costs.
- Non-Fiscal Disincentives Can Also Inhibit Consolidation Efforts.
- Local Communities Often Prefer Small Districts.

✓ **Very Small Schools Also Are Enabled by Extra Funding, Lack Accountability.**

- State Provides Additional Funding for Small Schools it Deems "Necessary".
- Some Necessary Schools Are of Questionable Necessity.
- Very Small Schools Also Hard to Hold Accountable for Student Outcomes.
- Very Small Schools Offer Limited Educational Programs.

LAO Recommendations. The LAO review does not convincingly substantiate most of the claims in support of district consolidation. Although the data suggest that midsize districts can allocate a

greater proportion of their funding for instruction and tend to have slightly better student achievement, the differences are not large. Moreover, neither the academic research nor LAO's own review offers persuasive evidence that consolidating small districts would necessarily result in substantial savings or notably better outcomes for students. (Indeed, per LAO, poorer student outcomes at exceptionally large districts raise cautions about the potential downside of too much district consolidation.) Thus, while it might be easier for the state to have fewer agencies to oversee, the data do not convincingly support a dramatic change to current state policy such that small districts—those serving between 100 and 1,000 ADA—be forced to consolidate. Likewise, dedicating scarce funding resources to provide new fiscal incentives to promote greater district consolidation do not appear justified to the LAO.

Likewise, the LAO's findings do not support the current system that implicitly *discourages* districts from opting to consolidate. Specifically, the LAO does not find evidence to justify the state's current practice of providing substantial fiscal advantages to districts that have opted to remain small, often as single-school districts, particularly since the LAO finds little proof that being small leads to better student outcomes.

Additionally, the LAO believes the data *do* justify changing state policy regarding very small districts. As such, the LAO recommends that the state remove some current disincentives for districts to consolidate, including unwarranted fiscal incentives to remain small, and make moderate changes to current minimum size thresholds. The LAO also recommends that the state apply some of these principles to very small schools.

The LAO's recommendations are listed below. According to the LAO these recommendations could result in some modest savings for the state – possibly in only the tens of millions of dollars. However, per the LAO, these changes would remove problematic fiscal incentives and contribute to a more rational and equitable school funding system. Furthermore, the LAO believes these recommendations would encourage small districts and schools to opt for greater efficiencies and accountability, while preserving the state's commitment to locally based decision–making.

LAO Recommendations

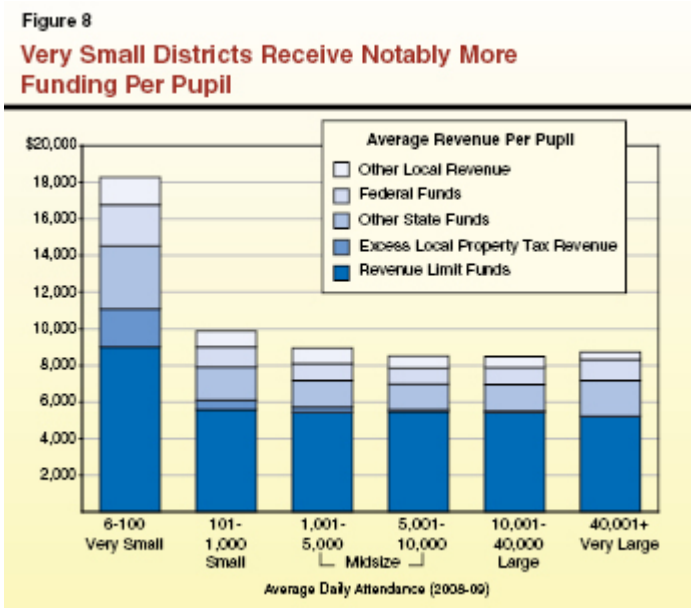
- ✓ **Increase Minimum Thresholds for District Size to at Least 100 Students**.
- ✓ **Eliminate Fiscal Incentives for Districts to Remain Small**.
- ✓ **Eliminate Some Additional Fiscal Disincentives for Districts to Consolidate.**
  - Clarify That Most Consolidations Can Waive CEQA Review Requirements.
  - Eliminate Statutory Two-Year Salary and Position Protections for Classified Staff.
- ✓ **Strengthen Eligibility Requirements to Ensure State Provides Extra Funding Only to Small Schools That Truly Are Necessary.**
- ✓ **Consider Instituting Minimum Threshold for School Size.**

- **Competing Claims.** According to the LAO, the report investigates the competing claims made in support and opposition of district consolidation:

  - ✓ **Proponents** of consolidation claim that small districts lack economies of scale, and, as a result, inherently face higher costs per pupil and are unable to offer the range of curricular opportunities available to students who attend larger districts. As such, some argue that combining smaller districts into larger, consolidated districts would lead to savings, more overall efficiency, and a better academic experience for students.

  - ✓ **Opponents** of consolidation suggest that small districts not only find ways to operate efficiently but also offer an enhanced and personalized educational experience for students. Moreover, because many small districts are located in rural areas, some argue they are important and necessary components of those local communities.

- **Fiscal Issues.** The higher rates of funding found by the LAO for small districts – particularly very small districts – are notable. Figure 8 of the LAO report clearly illustrates that very small districts receive double the level of funding as their mid- and large-size district counterparts.



- **County Office of Education Consolidation**. The Supplemental Report language also directed the LAO to examine county offices of education (county offices) consolidations, as well as school district consolidations in order to achieve greater cost efficiencies. However, the LAO does not recommend eliminating county offices because they play an intermediary role between our large and diverse state and local districts. While the LAO believes that regionalization of county offices has some advantages for certain initiatives, the LAO also believes that any changes in county office responsibilities should be a part of broader discussion on educational governance and service delivery in California.

SUGGESTED QUESTIONS:

1. Can the LAO review the state funding incentives for "very small" schools (defined as less than 100 ADA) identified by your report?

    a. Do you know when and why these incentives were added?

    b. How much total extra funding does the state provide to very small schools?

    c. If these incentives were removed, do you think it is likely that most or all very small districts would consolidate?

    d. Could the removal of Necessary Small School funding and categorical minimum grants for small schools be included as a part of long-term school finance reform that would address both revenue limit and categorical programs?

2. Can the LAO review the funding disincentives for district consolidation outlined in Figure 9 of its report?

3. What is the relationship between basic aid districts and small school districts, and how does this relationship influence local decisions about consolidation?

4. Beyond the specific activities of the several states mentioned in the report, does the LAO have a sense that many other states are considering school district consolidation as a way to achieve greater cost efficiencies in the current fiscal environment?

5. The Supplemental Report language also directed the LAO to examine county office consolidations, as well as school district consolidations. What did the LAO learn about this issue?

ISSUE 2. LAO REPORT – COUNTY COURT SCHOOL FUNDING

DESCRIPTION: The Supplemental Report of the 2010-11 Budget Act directed the Legislative Analyst's Office (LAO) to examine whether county court schools have access to an appropriate array of categorical funds and to compare court school funding with funding rates for other alternative programs. The LAO will present a white paper on these issues to the Subcommittee. The white paper was released on May 10, 2011.

BACKGROUND:

2010-11 Supplemental Report Language.

The Supplemental Report of the 2010-11 Budget Package (October 2010) included the following language for the Department of Education budget act item (6110-001-0001):

> ***County Court School Funding.*** *By April 1, 2011, the LAO shall (a) assess whether county court schools have access to an appropriate array of categorical funds, including access to Economic Impact Aid; and (b) compare court school funding with funding rates for other alternative programs.*

The LAO studied the issues raised by the Supplemental Report language and will share general findings and conclusions from its white paper entitled ***An Analysis of Court School Cost Pressures*** released on May 10, 2011.

SUMMARY OF LAO REPORT.

Conclusions: Despite some concerns raised by the Legislature last year, the LAO finds little evidence that suggests court schools are systematically denied access to state categorical funding. The LAO review did reveal two notable cost pressures that, when coupled with recent state budget reductions, could explain why some court schools are reporting budget shortfalls.

(1) First, the LAO found that county probation departments can require court schools to reduce class sizes for safety reasons without being required to bear any of the associated higher costs.

(2) Second, the LAO also found that special education rates reported in court schools can be two to three times higher than the statewide average special education rate. Despite these higher rates, court schools often have little leverage within their Special Education Local Planning Area (SELPA) to negotiate higher pass-throughs.

Per the LAO, exploring these two issues further could lead to solutions that relieve budget pressure for at least some of the state's court schools.

In addition, per the LAO, broader reforms to the alternative education finance system also could help provide budgetary relief for court schools and make the system more equitable across programs. Specifically, rethinking the community day school supplement and exploring ways to

spread those dollars across alternative education programs could help court schools moving forward.

Per the LAO, if the Legislature did not want to pursue any of the above policy changes in 2011-12, it could instead consider providing court schools with at least some budgetary relief by insulating them from further reductions or reducing them less than other areas of K-12 education.

STAFF COMMENTS:

The Supplemental Report language for court schools was approved following Subcommittee budget hearings on the issue of court school funding for the 2010-11 school year. [See Subcommittee #1 Agenda (Issue 2) for May 20, 2010.]

As a result of these hearings last year, two court school funding reforms were enacted in 2010-11. More specifically, the 2010-11 budget package: (1) made county courts schools eligible for Economic Impact Aid funding and added **$3.0 million** in ongoing funding for this purpose, and (2) approved statutory changes to assure that court school students receive required instructional time.

SUGGESTED QUESTIONS:

1. How many counties operate court schools? Do some counties jointly operate court school programs?

2. What are the trends in court school attendance -- as measured by average daily attendance (ADA) -- statewide?

3. In its survey and visits, did the LAO discover any problems with using an average daily attendance (ADA) based system for providing court school revenue limits?

4. Does the LAO have a sense about whether counties are providing four hours of daily instruction – as required by statute -- to youth placed in court schools? What assurances does the state have that youth placed in court schools are receiving required instructional time?

5. As a part of your review, did the LAO learn anything new about accountability for court school programs? Does the LAO have a sense about how student performance is monitored at court schools? How are court schools included in the state's accountability system?

6. Does the LAO recommend that court schools become eligible for the same supplemental funding available to Community Day Schools if they provide a fifth and sixth hour of instruction?

7. In identifying some “cost pressures” unique to court schools, can the LAO provide more detail about what is meant by county office “discretion” for allocating resources among schools and programs, including court schools? Are most cost pressures state or local?

8. While the LAO found general access to state and federal categorical funding streams, were there any exceptions, i.e., any state or federal categorical programs that are not available to county offices of courts schools?

9. Given LAO findings about serving higher proportions of students with disabilities, does the LAO have some specific options to consider, for example:

    a. Changing the basis of special education funding to reflect the higher incidence of youth with disabilities?
    b. Allowing county offices of education to benefit from special education base funding equalization?
    c. Addressing the loss of Local Educational Agency (LEA) Medicaid Reimbursements for special education related services (mental health services, etc.) when youth leave other schools and enter court schools?