

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 3, 2007
POSITION: Oppose

BILL NUMBER: SB 146
AUTHOR: J. Scott

BILL SUMMARY: Shift K-12 ADA Funding to Average Monthly Enrollment

This bill would initiate the groundwork for, and states Legislative intent to, shift the basis of funding for California public schools from average daily attendance (ADA) to average monthly enrollment (AME). Specifically, the bill requires the Superintendent of Public Instruction (SPI) to prepare specified calculations and conversion factors for each school district and prepare a report to the Department of Finance, the Legislative Analysts Office, the Secretary for Education, and the Legislature concerning the factors by November 15, 2009.

FISCAL SUMMARY

The shift to AME for apportionment funding purposes is intended to be cost neutral. However, Finance notes that a change in the fundamental way school apportionments are calculated could drive significant new General Fund costs should the change occur. We are concerned that provisions regarding the conversion factor are unclear, and therefore, this bill could result in increased revenue limit funding pressure. Finance notes that a five percent difference would result in ongoing Proposition 98 General Fund costs of nearly \$1.7 billion (assuming a base revenue limit of \$5,700 and an enrollment of 6,000,000).

SUMMARY OF CHANGES

Amendments to this bill since our analysis of the January 25, 2007 version include the following significant amendments which do not change our position:

- Deletes changes to Education Code Section 42238 that would make the section inoperative as of July 1, 2008 and would repeal the section as of January 1, 2009.
Deletes the requirement that the use of ADA to compute revenue limits would be replaced by AME as of July 1, 2008 and deletes the requirement that a one-time adjustment would be made to the revenue limit per unit of AME.
Adds a provision in Section 2 that requires the Superintendent to report the averages and factors, computed, pursuant to new Education Code Section 46305.5, to the Department of Finance, the Legislative Analyst Office, the Secretary for Education, and the Legislature by November 15, 2009.

COMMENTS

Finance opposes this bill for the following reasons:

- The Administration vetoed a similar bill (SB 1680, Perata) in 2006, stating that such a significant change in how the state funds schools could negatively impact student attendance and should be done only after careful research and review.
Finance notes that an ADA funding system creates a strong incentive for districts to ensure that the state's children actually attend school, while an AME funding system could exaggerate actual school attendance. For example, an independent study student completing only one day's worth of work in a given time period would appear to generate the same level of funding as a student attending classes on a full-time basis. Finance also notes that this bill would not adjust funding for enrolled pupils who are habitually truant.
This bill is premature and potentially duplicative. The Administration has indicated a commitment to review education funding issues through its Governor's Committee on Education Excellence. The Committee is looking at ways to reform education finance as a whole system. The changes set forth in this bill could either duplicate or preempt considerations already being discussed by the Committee and policy makers.

Analyst/Principal Date Program Budget Manager Date
(0342) T. Todd Jeannie Oropeza

Department Deputy Director Date

Governor's Office: By: Date: Position Approved
Position Disapproved

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J. Scott

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SB 146

- This bill expresses intent to reduce local administrative costs by streamlining the attendance system through the use of AME, however Finance questions whether or not districts would generate any savings as they would still need to collect daily attendance for the purpose of enforcing truancy laws.

**ANALYSIS**

**A. Programmatic Analysis**

This bill states its intent is to streamline attendance accounting and auditing in order to reduce administrative costs and redirect the funds to instruction and pupil services. Further this bill states intent that the state transition over a multiyear period from the use of ADA to AME.

The bill would require the Superintendent of Public Instruction (SPI) to compute average monthly enrollment for each elementary, high school, and unified school district for the 2007-08 and 2008-09 school years using the AME for those school districts. It would also require the Superintendent to compare the AME totals for each school district with the ADA totals for both school years and then calculate a ratio of ADA to AME for each school district. These calculations would then be used to create a factor for each school district to be used to convert ADA to AME. Finally, the bill would require the SPI to submit a report to the Department of Finance, the Legislative Analysts Office, the Secretary for Education, and the Legislature concerning the averages and factors calculated by the Superintendent by November 15, 2009.

Under existing law, ADA is the funding basis for general-purpose apportionments and some categorical programs, and is a key driver of the Proposition 98 minimum guarantee. ADA represents the number of days a pupil is actually present in class divided by the number of days in the school year. For example, a pupil in a district with a 180-day school year that attends 180 days would generate 1 ADA, while a pupil attending 175 days would generate 0.972 ADA for a particular program.

Current law (Education Code §46305) also requires districts to report "active enrollment" as of the third Wednesday of each school month. Active enrollment is defined as the count of pupils enrolled on the first day of the school year, plus all later enrollees, minus all withdrawals since that day. This bill would require the Superintendent of Public Instruction to compute an AME for every district for the 2007-08 and the 2008-09 school years using this reported active enrollment, and to compare that AME to the ADA for the purpose of creating an ADA to AME conversion factor for each school district. The bill would also require the Superintendent to report the averages and factors computed to the Department of Finance, the Legislative Analyst Office, the Secretary for Education, and the Legislature by November 15, 2009. Further legislation would be required to implement the actual change of using AME to calculate revenue limit funding for school districts.

**B. Fiscal Analysis**

The shift to AME for apportionment funding purposes is intended to be cost neutral. However, Finance notes that a change in the fundamental way school apportionments are calculated could drive significant new General Fund costs should the change occur. We are concerned that provisions regarding the conversion factor are unclear, and therefore, this bill could result in increased revenue limit funding pressure. Finance notes that a five percent difference would result in ongoing Proposition 98 General Fund costs of nearly \$1.7 billion (assuming a base revenue limit of \$5,700 and an enrollment of 6,000,000).

Finance estimates state operations costs for the State Department of Education to conduct the analysis and prepare the required report to be absorbable.

Code/Department Agency or Revenue Type	(Fiscal Impact by Fiscal Year)								
	SO LA	(Dollars in Thousands)							
	CO	PROP	2006-2007		2007-2008		2008-2009		Fund
	RV	98	FC	FC	FC	FC	FC	FC	Code
6110/Dept of Educ	LA	Yes	-----	See Fiscal Analysis	-----	-----	-----	-----	0001
6110/Dept of Educ	SO	No	-----	See Fiscal Analysis	-----	-----	-----	-----	0001