

REPORT BY THE AUDITOR GENERAL OF CALIFORNIA

THE DEPARTMENT OF EDUCATION OVERESTIMATED THE STATE SCHOOL FUND SHORTFALL

In analyzing the projected \$96.4 million shortfall in the fiscal year 1980-81 State School Fund, we found that the Department of Education has overestimated this shortfall by between \$46.3 million and \$87.2 million. Thus, the net shortfall will range from \$9.2 million to \$50.1 million. This reduction has resulted because the department:

- Did not consider the historical decline in school districts' claims for average daily attendance which will reduce the demand on the State School Fund by between \$27 million and \$67.9 million;
- Erred in computing districts' claims for a program that funds public education for foreign students, thereby reducing the shortfall by \$10.4 million;
- Overlooked \$8.9 million in additional revenue available to the State School Fund.

Further, while reviewing the projected shortfall in the State School Fund, we determined that the Department of Education has not funded adult education programs in accordance with existing legal requirements. As a result, some school districts may not be receiving appropriate apportionments for adult education programs.

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

009.1

THE DEPARTMENT OF EDUCATION
OVERESTIMATED THE
STATE SCHOOL FUND SHORTFALL

MAY 1981



California Legislature

Joint Legislative Audit Committee

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May 18, 1981

009.1

The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning the Department of Education's projection of a \$96.4 million shortfall in the fiscal year 1980-81 State School Fund. The report indicates that the shortfall will be reduced by between \$46.3 million and \$87.2 million, resulting in a net shortfall ranging from \$9.2 million to \$50.1 million.

Respectfully submitted,

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee

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SUMMARY

The Superintendent of Public Instruction certifies apportionments of state aid to school districts. State aid is allocated to school districts from Section A of the State School Fund, the primary funding source for basic education programs in California's kindergarten through grade 12 public school system. To determine the amount of state funding each school district will receive, the Department of Education calculates apportionments for school districts twice a year--at the first principal apportionment (February 20) and at the second principal apportionment (June 25).

In February 1981, the Superintendent of Public Instruction certified state aid for the first principal apportionment and the Department of Education subsequently announced an estimated shortfall in the State School Fund of \$96.4 million. However, we determined that this estimated shortfall was overstated by between \$46.3 million and \$87.2 million. Thus, the net shortfall will range from \$9.2 million to \$50.1 million.

Principally, three factors account for the reduction in the shortfall. First of all, the department did not consider the historical decline in students' average daily attendance when estimating the shortfall. School districts' student attendance generally decreases at the second principal apportionment. By not allowing for this decrease, the department overstated the demand on the State School Fund by between \$27 million and \$67.9 million. Second, the department made an error in computing adjustments to districts' claims for a program that funds public education for foreign students. As a result of this error, the department overstated the projected shortfall by \$10.4 million. And in estimating the shortfall, the department overlooked \$8.9 million in additional revenue available to the State School Fund.

Furthermore, while reviewing the projected shortfall in the State School Fund, we determined that the Department of Education has not funded adult education programs in accordance with existing legal requirements. As a result, some school districts may not be receiving appropriate apportionments for adult education programs.

We recommend that the Department of Education make the appropriate adjustments to school district apportionments and alter its method of estimating the condition of the State School Fund. We also recommend that the department calculate school district adult education apportionments using the formula stipulated in existing law.

INTRODUCTION

In February 1981, the Department of Education announced that school districts' state aid claims exceeded the amount available in the fiscal year 1980-81 State School Fund by an estimated \$96.4 million.* We analyzed the factors contributing to this projected shortfall and reviewed the department's progress in implementing the recommendations made in the Auditor General's report on last year's shortfall.** This review was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

School District Financing

Basic education programs in California's kindergarten through grade 12 public school system are primarily funded through the State School Fund. To determine the amount of funding each school district will receive, the Department of Education administers an apportionment process. In this process, the department gathers data from school districts and

* For purposes of this report, the term State School Fund refers to Section A of the State School Fund.

** Report P-009, entitled Analysis of the State School Fund Shortfall, was issued on May 14, 1980.

then computes the amount of revenue each district is entitled to receive based on a complex funding formula prescribed by the Education Code.

This funding formula, which governs the amount of revenue available to a school district, is based on units of average daily attendance (ADA). ADA is derived by dividing total pupil attendance days within a district by the total number of school days taught in a reporting period. The result represents the district's total ADA. When this figure is multiplied by the amount of funding available to districts for each unit of ADA, it yields the district's revenue limit. From the district's revenue limit is then subtracted the amount of local revenues.* The result of these computations is the amount of state aid to be apportioned to the district over the year. This funding amount for each district is certified by the State Superintendent of Public Instruction.

The Department of Education determines the amount of apportionments to school districts twice a year--at the first principal apportionment (February 20) and again at the second

* Local revenues include secured and unsecured property taxes, state subventions for homeowners and business inventory tax exemptions, timber taxes, and other miscellaneous taxes and income.

principal apportionment (June 25). The Controller receives a certified copy of both apportionments and funds the districts on an incremental schedule throughout the year.

Department of Education's
Implementation of Previous
Auditor General Recommendations

As previously noted, the Auditor General in May 1980 issued a report analyzing the projected shortfall in the State School Fund for fiscal year 1979-80. This report included four recommendations to the department, two of which the department has implemented pursuant to legislation passed in 1980. Table 1 on the following page summarizes these recommendations and the actions taken by the department in response.

TABLE 1

SUMMARY OF THE DEPARTMENT OF EDUCATION'S
IMPLEMENTATION OF RECOMMENDATIONS
MADE IN REPORT NO. 009

<u>Recommendation</u>	<u>Action Taken</u>
1. Use the estimated property taxes on the Report of Taxes and Tax Rates of School Districts (Form J-29B) in computing the first principal apportionment.	1. Implemented per Chapter 1354 (Assembly Bill 2196), Statutes of 1980.
2. Revise the fiscal year 1979-80 second principal apportionment report instructions to be consistent with Assembly Bill 8. The revision should require that 1978-79 block grant funds received in lieu of permissive override taxes not to exceed expenditures for child development, developmental centers for handicapped pupils, and meals for needy pupils be deducted from the 1978-79 recalculated revenue limit.	2. Corrected per Chapter 510 and Chapter 797 (Assembly Bill 2020 and Senate Bill 1870), Statutes of 1980.
3. Factor each district's first principal apportionment average daily attendance. This factor could be based upon the district's average reduction in ADA between the first and second principal apportionments in previous years.	3. No action taken. The department believes that statutory change would be required to implement this recommendation.
4. Consider all revenue sources when determining funds available to the State School Fund.	4. In making the first principal apportionment, the department has taken into consideration the oil and mineral revenue received to date. However, the department has not considered additional revenue available which will be received in the remainder of the fiscal year.

As illustrated in Table 1, the department has partially implemented the fourth recommendation and has not acted on the third. The department's estimate of the State School Fund shortfall would have been significantly less had it considered these recommendations.

Scope of Review

We reviewed the Department of Education's efforts to implement the recommendations of our previous report. We examined the department's projections of revenue and average daily attendance for fiscal year 1980-81. We also validated the Department of Education's implementation of funding changes resulting from significant school finance legislation enacted in the past year.

AUDIT RESULTS

THE DEPARTMENT OF EDUCATION OVERESTIMATED THE STATE SCHOOL FUND SHORTFALL BY BETWEEN \$46.3 AND \$87.2 MILLION

In February 1981, the Superintendent of Public Instruction certified state aid for the first principal apportionment and the Department of Education announced an estimated shortfall in the State School Fund of \$96.4 million. However, we determined that the department has overestimated this shortfall by between \$46.3 million and \$87.2 million. Thus, the net shortfall will range from \$9.2 million to \$50.1 million.

Three factors account for the department's overstatement of the shortfall. First, the department did not consider the historical decline in average daily attendance when estimating the shortfall. School districts' average daily attendance generally decreases at the second principal apportionment. By not allowing for this decrease, the department overstated the demand on the State School Fund by between \$27 million and \$67.9 million. Additionally, the department made an error in computing districts' adjustments to claims for a program that funds public education for foreign students. As a result of this error, the department overstated

the projected shortfall by \$10.4 million. And finally, in estimating the shortfall, the department overlooked an additional \$8.9 million in potential revenue sources available to the State School Fund.

The Department Did Not Consider
the Historical Drop
in Average Daily Attendance

Because it failed to consider the historical decline in average daily attendance, the department overstated its estimate of the shortfall in the State School Fund by between \$27 million and \$67.9 million. During recent years, the ADA reported by school districts has declined from the first to the second principal apportionment. This decline occurs due to various factors, such as students who graduate at mid-term or who drop out as the school year progresses. In making its estimate, the department did not consider this historical decline in ADA from the first to the second principal apportionment, and hence overestimated the demand on the State School Fund.

In Report No. 009, we recommended that the department account for this decline in average daily attendance by factoring each school district's ADA for the first principal apportionment based on the average reduction in ADA from

previous years. As projected in our report, the amount of ADA between apportionments in fiscal year 1979-80 decreased by approximately 19,400 units. Department officials stated that they did not adopt this recommendation because it would cause cash flow problems in school districts.

To project the amount of overestimated demand on the State School Fund, we used two methods to estimate the fiscal impact of the historical decline in ADA that occurs between the first and second principal apportionments. For the first method, we calculated the percentage of decline in ADA since fiscal year 1977-78. We then applied the lowest percentage figure to the ADA reported for the first principal apportionment to estimate the decreased demand on the State School Fund. In using the second method, we relied on school districts' estimates of second principal apportionment ADA to arrive at the estimated decrease.

We found that the average historical decline in ADA between the first and second principal apportionments was .65 percent over the past three fiscal years. Table 2 details the percentage decrease in ADA.

TABLE 2

COMPUTATION OF DECLINE IN AVERAGE DAILY ATTENDANCE
BETWEEN FIRST AND SECOND PRINCIPAL APPORTIONMENTS
FISCAL YEARS 1977-78 TO 1979-80^a

<u>Fiscal Years</u>	<u>First Apportionment in ADA</u>	<u>Second Apportionment in ADA</u>	<u>Reduction in ADA</u>	<u>Percentage Decrease in ADA</u>
1977-78	4,228,866	4,198,030	30,836	.73
1978-79	4,129,459	4,098,595	30,864	.75
1979-80	<u>4,041,822</u>	<u>4,022,421</u>	<u>19,401</u>	.48
Total	<u>12,400,147</u>	<u>12,319,046</u>	<u>81,101</u>	.65

^a This table is based upon average daily attendance used for apportionment purposes and does not include ADA for certain adult education, summer school, or county operated programs.

As shown, the lowest percentage decrease--.48 percent--occurred in fiscal year 1979-80.

To estimate the decreased demand on the State School Fund due to the decline in ADA, we multiplied the ADA reported by school districts for the first apportionment in fiscal year 1980-81 by the .48 percent factor discussed above. Table 3 presents this calculation.

TABLE 3

ESTIMATED DECREASED DEMAND ON STATE SCHOOL
FUND DUE TO REDUCTIONS IN AVERAGE DAILY ATTENDANCE
FISCAL YEAR 1980-81

ADA Reported by School Districts at First Principal Apportionment	4,003,358
<u>Multiplied by:</u> Percentage decrease in ADA for 1979-80	<u>.0048</u>
Estimated Reduction in ADA	19,216
<u>Multiplied by:</u> Average State Revenue Limit per ADA for 1980-81	<u>\$ 1,404</u>
Estimated Decreased Demand on 1980-81 State School Fund	<u>\$26,979,264</u>

Based upon this analysis, we estimate that the Department of Education overstated the demand on the State School Fund by at least \$27 million because it did not consider the historical decline in ADA between the first and second principal apportionments.

In further support of this conservative estimate, we also calculated the overstatement of demand on the State School Fund using school districts' estimates of their ADA for fiscal year 1980-81's second principal apportionment. School districts estimated that their ADA for this period would total 3,957,761--a decline of 45,597 from the 4,003,358 ADA reported for the first principal apportionment.

We requested that the Department of Education recalculate the revenue limit using the school districts' estimates of ADA for the second principal apportionment. This recalculation verified that the demand on the State School Fund was overstated by \$67.9 million. By constructing a range between these two figures, we concluded, that because it failed to consider the historical decline in ADA, the department has overstated the shortfall by between \$27 million and \$67.9 million.

The Department Made an Error
in Computing Adjustments to Claims
for Nonimmigrant Noncitizen Programs

The projected shortfall in the State School Fund will be reduced by an additional \$10.4 million because, as a result of a computational error, the department understated adjustments to state aid claims for nonimmigrant noncitizen programs in the first principal apportionment. These programs provide funding to school districts for the education of students who are pursuing a course of study in the California public schools while visiting the United States from a foreign country.

Sections 42237 and 42238 of the Education Code provide that school districts' revenue limit calculations be reduced to eliminate funding for nonimmigrant noncitizen programs. This adjustment takes place over a two-year period, during fiscal years 1979-80 and 1980-81. The law mandates that 50 percent of the amount included in the fiscal year 1978-79 revenue limit be eliminated from districts' revenue limits in fiscal year 1979-80 and that the remainder be excluded from districts' revenue limits in fiscal year 1980-81.

In calculating the first principal apportionment for fiscal year 1980-81, the department made an error in computing each district's adjustment for the nonimmigrant noncitizen program. After the Superintendent of Public Instruction certified the first principal apportionment, the department identified its computational error. Although the department reduced revenue limits by a total of \$1.3 million, the actual amount of the revenue limit reduction should have been \$11.7 million. Therefore, the estimated State School Fund shortfall was overstated by \$10.4 million.

The Department Did Not
Include Additional Revenue
Available to the Fund

Another reason the department overstated the estimate of the State School Fund shortfall is that it overlooked potential revenue sources in estimating revenue available to the fund in fiscal year 1980-81. Specifically, the department failed to consider an additional \$8.9 million in oil and mineral revenue from federal lands and various interest and investment income available to the State School Fund.

In its computations, the department included approximately \$6.4 million in oil and mineral revenue from federal lands. This represents only a portion of the oil and mineral revenue from federal lands and other revenue that will be available to the State School Fund in fiscal year 1980-81. Table 4 shows the estimated additional revenue the State School Fund is projected to receive for that fiscal year.

TABLE 4

ESTIMATED ADDITIONAL REVENUE
AVAILABLE TO THE STATE SCHOOL FUND
FISCAL YEAR 1980-81

Oil and Mineral Revenue from Federal Lands	\$13,830,550
Income From Surplus Money Investments	1,150,000
Other Interest Income	20,000
Interest on Loans to Local Agencies	95,000
Miscellaneous Income	<u>239,819</u>
Total Additional Revenue Available	15,335,369 ^a
Less Previously Identified Oil and Mineral Revenue Included in Shortfall Estimate	- <u>6,387,534</u>
Total Additional Revenue Available to State School Fund Not Included in Shortfall Estimate	<u>\$ 8,947,835</u>

^a Source of revenue data is the fiscal year 1981-82 Governor's Budget, except for the figure representing oil and mineral revenue from federal lands. This reflects a reduction from the \$16,300,000 in revenue estimated in fiscal year 1980-81 in accordance with a recent agreement between the Department of Education and the Board of Governors of Community Colleges.

As shown in Table 4, approximately \$8.9 million in additional revenue available to the State School Fund was not considered in the department's estimate of the shortfall.

CONCLUSION

The Department of Education has overstated its \$94.6 million estimate of the shortfall in the fiscal year 1980-81 State School Fund because (1) it did not consider the historical decline in average daily attendance between the first and second principal apportionments, (2) it made an error in computing reductions to districts' claims for nonimmigrant noncitizen programs, and (3) it overlooked potential revenue available to the fund. Had the department accurately estimated the shortfall, it would have totaled between \$9.2 million and \$50.1 million.

RECOMMENDATION

We recommend that, when estimating the condition of the State School Fund, the Department of Education consider the historical decline in average daily attendance as well as all available revenue.

We further recommend that the Department of Education correct the computational error in the nonimmigrant noncitizen programs and adjust school district apportionments accordingly.

THE DEPARTMENT OF EDUCATION IS
NOT FUNDING ADULT EDUCATION
PROGRAMS AS REQUIRED

The Department of Education made an administrative decision not to follow existing legal requirements for funding adult education programs when it calculated the 1980-81 first principal apportionment to school districts. That is, the department did not base its calculations for the adult education apportionment on the attendance data specified in the existing law. As a result, some school districts may not be receiving accurate apportionments for their adult education programs.

In making the 1980-81 first principal apportionment for adult education programs, the department based its calculations on either a school district's ADA for adult education at the 1979-80 second principal apportionment or a district's ADA at the 1980-81 first principal apportionment, whichever amount of ADA was less. Yet the law specifies that the units of adult ADA for fiscal year 1979-80 should be applied in the calculations. Had the department properly computed the adult education apportionment, the ADA would have been approximately 13,000 more than what the department used in making the apportionment.

Because of the department's method of calculating the funding of adult education programs, school districts could have received inappropriate amounts of funding. Some school districts may have been apportioned less while other districts may have been allowed more funding than they were entitled to under the existing law. If a school district's ADA for adult education at the end of fiscal year 1979-80 were greater than its ADA reported at the other apportionment periods, it would receive less funds than it should. But, if a district's ADA for adult education programs at the 1979-80 second principal apportionment or at the 1980-81 first principal apportionment were greater or equal to its ADA at the end of fiscal year 1979-80, the district would be given more funding than it was entitled to receive. Therefore, since the department has not applied the proper ADA totals for apportionment purposes, some school districts have been inappropriately funded.

Department officials indicated that they used ADA information from the second principal apportionment rather than annual adult ADA as required because the funding in the fiscal year 1980-81 adult education appropriation was based on second principal apportionment ADA. Since the annual ADA was significantly higher than that at the second principal apportionment, the department applied the smaller figure to avoid a shortfall.

Legislation is currently pending (Assembly Bill 1844) that would alter the requirements for funding adult education programs. The department indicates that it will base the adult education apportionment on the attendance data specified in existing law if new legislation is not enacted.

CONCLUSION

The Department of Education did not calculate the funding for adult education programs in accordance with existing law but instead chose to base the calculations on inappropriate apportionment data. As a result, some school districts may not be receiving appropriate apportionments for adult education programs.

RECOMMENDATION

We recommend that the department calculate school districts' adult education revenue limits as specified in the Education Code.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: May 11, 1981

Staff: Harold L. Turner, Audit Manager
Robert O'Neill
Karen Nelson
Stephen Lozano



STATE OF CALIFORNIA
DEPARTMENT OF EDUCATION
STATE EDUCATION BUILDING, 721 CAPITOL MALL, SACRAMENTO 95814

May 8, 1981

Mr. Thomas W. Hayes
Auditor General
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Hayes:

The State Department of Education has reviewed the draft report, "The Department of Education Overestimated the State School Fund Shortfall," dated May 1981. We appreciate this opportunity to respond to your findings and recommendations for the 1980-81 first principal apportionment.

Before addressing each specific recommendation we would like to comment generally on the scope of this review. Unlike last year's report (P-009) the primary focus is not on the Department's compliance with the P1 certification process specified by current law but rather a review of the Department's estimate of a deficit. The Department is required by statute to certify the first principal apportionment according to procedures delineated in state law. The Department is not required to estimate the year-end deficit at the time of the first principal apportionment. Although the P1 certification process can be viewed as an estimate by the state of the school fund at year end, we believe the Auditor General's suggestions for a more accurate estimate procedure would require either a change in the statutory P1 certification process or specific legislative direction for the Department to estimate a year-end deficit. We have stated below our objections to his recommendations; however, if legislatively directed to estimate a deficit adopting the Auditor General's estimation procedure, the Department will comply.*

Specifically, the Auditor General has recommended that the Department of Education:

- A. Alter its method of estimating the State School Fund to include:
- the historical decline in attendance from first principal to second principal
 - all projected mineral and oil revenues from federal lands

* See Auditor General's comments regarding this issue.

- the full nonimmigrant-noncitizen deduction

When the first principal was certified on February 20, 1981, the appropriation was insufficient by \$96.4 million. In the Department's analysis, at that time this represented the calculation of the year-end deficit should the reported P1 data remain constant through the year.

We recognize that, historically, attendance has declined from first principal to second principal; however, this trend may not continue. ADA is a particularly volatile variable given the recent growth due primarily to an increase in the birthrate and the influx of Southeast Asian refugees. Reliable attendance data is not available until second principal.

At first principal, the additional \$8.9 million in projected revenue from federal lands cannot legally be apportioned. We anticipate its inclusion in the second principal apportionment. The oil and mineral revenue is only a small part of the total local revenues. For estimation purposes, the Department does not have the expertise to make a reliable estimate of total local revenue which, for a variety of reasons, may increase or decrease at second principal. Because of the nature of both attendance and property tax revenue and questionable relevance of recent trends; until the receipt of second principal data, the Department uses the first principal figures for its certification and any "best estimates" of a year-end deficit are not technically part of this certification. "Best estimates" are normally a part of State Government's May Revise process. *

We agree with the Auditor General that any recalculation of the deficit should be adjusted to reflect the \$10.4 million computational error for the nonimmigrant noncitizen deduction. This will be done at second principal. When the Department discovered this error, legislative staff and county and district superintendents were notified.

B. Make the appropriate adjustments to school district apportionments.

1. To reduce district apportionments to eliminate the full amount of the nonimmigrant-noncitizen revenue limit add-on.

The Department has already corrected the programming error and notified districts of the unintentional failure to fully delete funding for nonimmigrant-noncitizen students. This adjustment will be made to the second principal apportionment.

2. Factor each district's first principal ADA to reflect the historical decline at second principal, and reduce district first principal apportionments.

Although such a process would save the State School Fund from making advance apportionments which may be recovered in the second principal; in our opinion, the Department is not authorized by law to factor the first principal attendance in any manner. Section 41332 of the Education Code requires the Superintendent of Public Instruction to make a first

* See Auditor General's comments regarding this issue.

principal apportionment by February 20 of each year and Section 41601 details the procedure, specifying first principal average daily attendance.

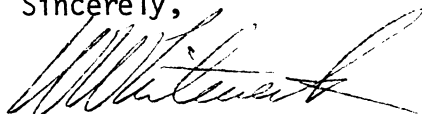
Even if statutory authorization existed to reduce actual first principal attendance, for apportionment purposes, the use of a factor based on the historical decline at second principal could be extremely unreliable. Enrollments had been declining from year to year. However, we are now in a transition phase from decline to growth and historical decline trends may no longer be appropriate. In 1980, ADA began increasing due to an increase in births and an influx of Southeast Asian refugees. Without clear trends, factoring first principal ADA could result in unrealistic apportionments which would have to be increased at second principal, potentially forcing some districts to borrow money to meet expenditures. As we indicated in our response to last year's Auditor General report (P-009), an underfunded advance apportionment already forces many districts to borrow until first principal. A reduced first principal apportionment could require districts to borrow for an additional 5 months until the second principal apportionment. This is not an unlikely scenario. If as recommended, the 1979-80 first principal ADA had been reduced by the prior year's decline factor the first principal apportionment would have been \$16.2 million lower than districts were entitled to at second principal apportionment, and \$48.5 million lower than statutorily authorized at first principal.*

3. Recalculate district's adult education apportionments to comply with current law.

Assembly Bill 2196 of 1980 authorized the use of 1979-80 annual audit ADA as the base for ADA growth in 1980-81. Since the adult appropriation was not increased, the Department administered legislative intent so that no additional costs would be associated with this provision.

However, at first principal an additional \$5.4 million was required to fund growth based on annual rather than second principal ADA. The Department notified the Legislature of the situation, and in order to keep adult payments within the appropriation limit, and allow the Legislature time to clearly express their intent; the Department administratively decided to use the 1979-80 second principal as the base for adult ADA growth, and AB 1344 was introduced to clarify the situation. Unless otherwise directed, at 1980-81 second principal it is the Department's intention to follow existing law and fund adult education programs on the basis of growth from 1979-80 annual attendance.

Sincerely,



William D. Whiteneck
Deputy Superintendent for Administration
(916) 445-8950

WDW:ds

* See Auditor General's comments regarding this issue.

AUDITOR GENERAL'S COMMENTS CONCERNING
DEPARTMENT OF EDUCATION'S RESPONSE

We normally do not comment on agency responses to our audit reports. However, in this instance, we find it necessary to comment on the Department of Education's response to provide perspective and clarity.

The Department of Education indicates in its response to our report that it is required by statute to certify the first principal apportionment and is not required to estimate the year-end condition of the State School Fund at the time of the first principal apportionment. The department goes on to state that it will make such an estimate in the future if directed to do so by the Legislature.

Yet, after certifying the first principal apportionment, the department did announce an estimated deficit in the State School Fund of \$96.4 million. And, in its estimation, the department ignored the fact that the historical decline in attendance and the additional revenue available to the State School Fund would significantly reduce this estimated deficit at the time of the second principal apportionment. We believe that the department should consider these, as well as any other relevant factors, when communicating the estimated condition of the State School Fund to the Legislature, to school districts, and to the public.

Further, in its response, the Department of Education implies that school districts would have received significantly less funding than they were entitled to had the department adopted our previous recommendation and factored school districts' first principal apportionment ADA. Our analysis shows, however, that the adoption of our recommendation would have reduced ADA funding at the first principal apportionment by \$34.5 million. This figure closely parallels the \$32.3 million reduction in school district ADA funding that occurred when the actual 1979-80 ADA counts were reported at the second principal apportionment.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps