Senate Budget and Fiscal Review

Subcommittee No. 1 2005 Agendas

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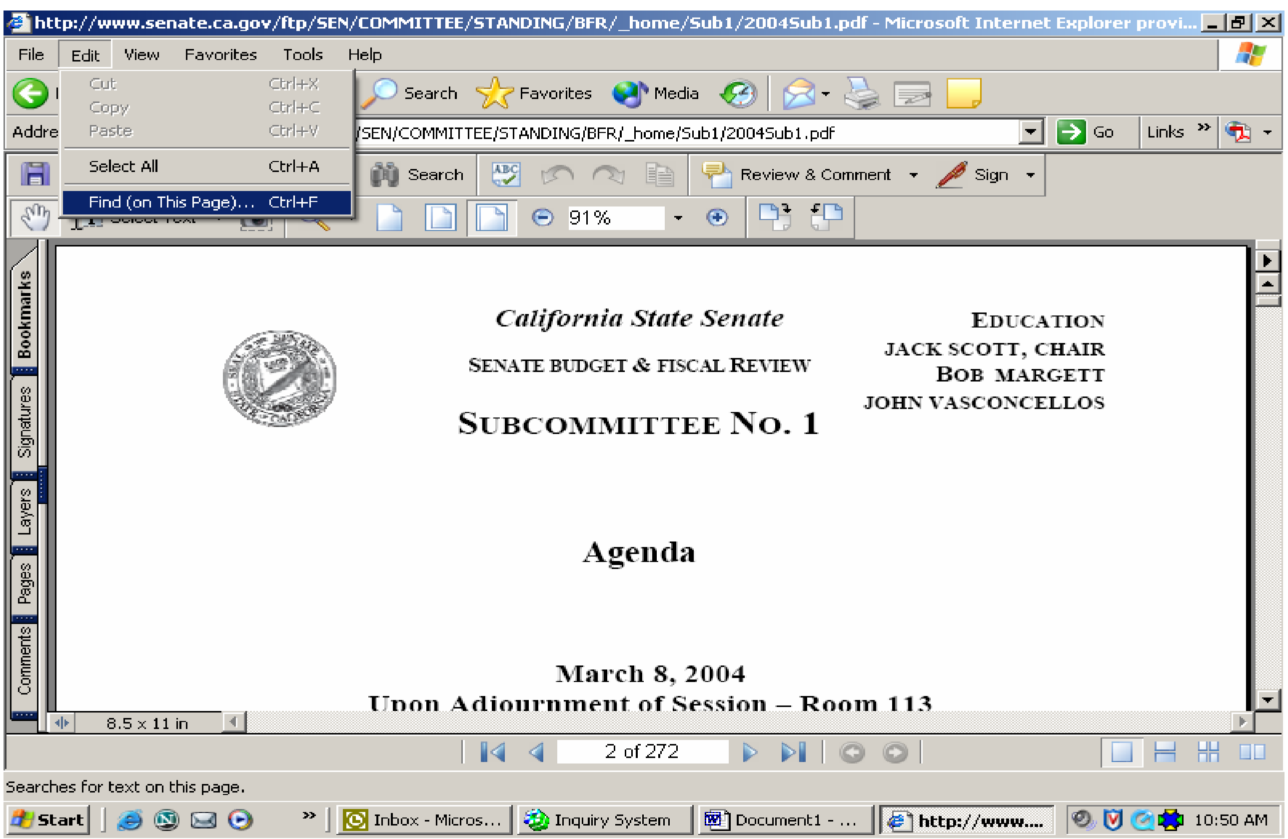

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, March 7, 2005
Upon Adjournment of Senate Session
Room 113, State Capitol

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Proposition 98 – Overall Funding in 2004-05 & 2005-06

DESCRIPTION: The Governor proposes to maintain Proposition 98 funding for K-14 education (K-12 schools and community colleges) at $47.1 billion, roughly the level appropriated by the 2004-05 Budget Act.[1] The Governor proposes $50.0 billion for K-14 education in 2005-06, an increase of $2.9 billion (6.1 percent) over 2004-05.

BACKGROUND:

K-14 Proposition 98: 2004-05

The 2004-05 budget appropriated $47 billion for K-14 education, which was approximately $2.0 billion below the minimum guarantee at the time of enactment. Chapter 213, Statutes of 2004 (SB 1101/Committee on Budget and Fiscal Review) suspends the minimum funding provisions of Proposition 98 in 2004-05.

The Governor's budget assumes that state revenues will grow by $2.2 billion beyond the level originally budgeted in 2004-05. Due to the larger than estimated state revenues and student enrollments, the minimum guarantee has grown an additional $1.1 billion since then. The Governor does not propose to fund this overall increase, estimated to save $2.3 billion over two years.

The LAO estimates that state revenues will grow by an additional $1.4 billion in 2004-05 beyond the level assumed in the Governor's budget. According to the LAO's estimates, this would increase the minimum guarantee an additional $1.9 billion above the budgted level in 2004-05.

K-14 Proposition 98: 2005-06

The Governor proposes $50.0 billion for K-14 education in 2005-06, an increase of $2.9 billion (6.1 percent) over 2004-05. (See table on next page.) As proposed, the Governor indicates that the budget meets the Proposition 98 minimum funding guarantee in 2005-06. The Governor calculates the minimum guarantee for the 2005-06 budget using *Test 2* factors applied to the 2004-05 base, as currently budgeted. The Governor's Budget does not propose suspension of Proposition 98 in 2005-06.

1/ The Governor's budget accounts for an increase of $122.6 million in General Fund revenue limit apportionments to reflect a number of different factors in 2004-05. Specifically, the budget provides $114.3 million for higher than estimated student enrollments and $29.5 million to compensate for a loss in estimated property tax revenues. In addition, the budget recognizes $24.5 million in savings from a reduction in unemployment insurance costs.

K-14 Proposition 98 Summary (dollars in thousands)	2003-04	2004-05	2005-06 Proposed	$ Change	% Change
Distribution of Prop 98 Funds					
K-12 Education	$41,800,043	$42,178,345	$44,705,043	2,526,698	6.0
Community Colleges	4,370,516	4,803,936	5,162,922	358,986	7.5
State Special Schools	40,302	41,504	41,708	204	.5
Dept. of Youth Authority	36,781	35,859	34,510	-1,349	-3.8
Dept. of Developmental Services	10,863	10,672	10,349	-323	-3.0
Dept. of Mental Health	13,400	8,400	8,400	0	-
Am. Indian Education Centers	3,778	4,476	4,688	212	4.7
Total	$46,275,683	$47,083,192	$49,967,620	$2,884,428	6.1
Prop 98 Fund Source					
State General Fund	$30,521,723	$34,123,805	$36,532,334	2,408,529	7.1
Local Property Taxes	$15,753,960	$12,959,387	$13,435,286	475,899	3.7
Total	$46,275,683	$47,083,192	$49,967,620	$2,884,428	6.1
K-12 Enrollment-ADA*	5,958,000	6,015,984	6,063,491	47,507	.8
K-12 Funding per ADA*	$7,017	$7,012	$7,374	$362	5.2

***** Average Daily Attendance

K-12 Proposition 98: 2005-06

The Governor proposes a total of $44.7 billion in Proposition 98 funding for K-12 schools in 2005-06, an increase of $2.5 billion (6.0 percent) above the 2004-05 budget. As proposed, the budget provides $7,374 per-pupil in Proposition 98 funding in 2005-06, an increase of $362 (5.2 percent) per-pupil above the 2004-05 budget.

If these figures are adjusted to compensate for $469 million in additional costs to LEAs under the Governor's CalSTRS proposal, Proposition 98 funding for K-12 education would increase by 5.0 percent, rather than 6.0 percent between 2004-05 and 2005-06. Similarly, per pupil funding would increase by 4.1 percent, instead of 5.2 percent.

Proposition 98 --Community Colleges: 2005-06

The Subcommittee will review Proposition 98 funding for community colleges at the April 11th hearing.

COMMENTS: The LAO will provide testimony and handouts explaining overall Proposition 98 levels in 2004-05 and 2005-06.

The LAO emphasizes that the level of funding that is ultimately approved for 2004-05 is the central issue facing the Legislature. If the Legislature were to fund additional increases in the Proposition 98 guarantee beyond the level budgeted, it would require the state to appropriate between $2.3 billion and $4.0 billion in additional General Fund revenues over the two year period.

As currently proposed, the Governor's proposed 2005-06 budget proposes a $2.9 billion increase for K-14 education. For K-12 schools, this translates into an increase of $2.5 billion. As indicated below, the Governor proposes to expend additional funds primarily for enrollment growth and cost of living adjustments (COLAs), as well as deficit factor reduction. This will provide nearly $2.4 billion in general purpose funding for K-12 education in 2005-06. The Governor's proposal to shift $469 million in state CalSTRS contribution costs to LEAs would count against this increase.

Dollars in Millions	**Revenue Limits**	**Categorical Programs**	**Totals**
Cost of Living Adjusments	$1,222.1	$427.6	**$1,649.7**
Enrollment Growth	234.7	160.0	**394.7**
Deficit Factor Reduction	329.3	0	**329.3**
Restoration of Categorical Programs*		146.5	**146.5**
Other Program Adjustments			**6.5**
Totals	**$1,786.1**	**$740.6**	**$2,526.7**

**Several categorical programs were funded with one-time funds available in 2004-05. The budget proposes to restore ongoing funds for these programs.*

OUTCOME:

ITEM 6300 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CalSTRS)

ISSUE 2: State Contribution to the Defined Benefit Program

DESCRIPTION: The Governor proposes to shift state responsibility for making contributions to the California State Teachers' Retirement System (CalSTRS) basic retirement program to local employers. Specifically, the Governor's proposal eliminates the state's contribution to the Defined Benefit (DB) program, for an assumed General Fund (Non-98) savings of $469 million in 2005-06. The proposal increases contributions for CalSTRS employers -- school districts, county offices of education and community colleges -- but does not provide additional funding to cover higher local contributions to the DB program. Additional costs are estimated at $500 million in 2005-06. The Governor's proposal allows local employers to share costs with CalSTRS employees through collective bargaining.

BACKGROUND: CalSTRS is a state pension program that provides retirement benefits to teachers and other educators employed by K-12 local education agencies (school districts and county offices of education) and community colleges. Currently, CalSTRS provides benefits to approximately 754,000 members and beneficiaries. Unlike public employees covered under the California Public Employees' Retirement System (CalPERS), CalSTRS members do not participate in the social security system.

The Governor's CalSTRS proposal primarily involves changes in the state General Fund contribution to the basic retirement program known as the Defined Benefit (DB) program. The DB program provides a monthly benefit to members when they retire, or become disabled, and also provides benefits to survivors of members who die. Under the DB program the state's contribution equals 2.017 percent of payroll (creditable compensation), which would equate to $469 million in General Funds (non-98) in 2005-06, absent the Governor's proposal.

The state also contributes 2.5 percent of payroll for purchasing power benefits estimated to total $581 million General Fund (non-98) in 2005-06. This program is <u>not</u> affected by the Governor's proposal.

Under the DB program, benefits are funded from three sources. Contributions, as a percent of payroll, for each of these sources are fixed in statute as follows:

- Employee Contributions: 8.0 %
- Employer Contributions: 8.25 %
- State Contributions: 2.017 %

Under the Governor's proposal, as contained in trailer bill language, the state DB program contribution of 2.017 percent would be eliminated and school district contributions would increase by 2.0 percent – from 8.25 to 10.25 percent. As noted in the LAO analysis, the state's contribution of 2.017 percent is pegged to payroll two years ago and would equate to a district payment of 2.0 percent of payroll, or $500 million, based upon current payroll.

The Governor's proposal also permits school districts to pass through all or some their increased contribution costs to employees through renegotiation of their collective bargaining agreements. If all costs were passed through, the employee contribution could grow from 8 to 10 percent.

In addition, the Governor proposes to give teachers the option of eliminating their 2 percent contribution currently credited to a Defined Benefit Supplement (DBS) program. This option would allow employees to increase their take home pay by reducing contributions from 8 to 6 percent, but also reduce DBS benefits. Under current law, the DBS program ends in 2010. According to the Administration, this proposal is not specifically linked to any subsequent renegotiation of contribution rates for employees.

While not yet reflected in budget trailer bill language, the Administration has signaled that they are also proposing to eliminate a statutory surcharge that is activated when there is unfunded liability to cover 1990-level benefits. This surcharge was triggered for three-quarters of the year in 2004-05 at a rate of 0.524 percent and resulted in a General Fund (non-98) cost of $92 million. Until new valuation information is available this spring, it is not known if the surcharge will be activated again in 2005-06. The LAO estimates that the full year costs of funding the surcharge is between $120 and $170 million in General Funds.

COMMENTS: The CalSTRS Board is opposed to the Governor's DB contribution shift proposal because it (1) potentially worsens the funding condition of the DB program; (2) potentially impairs contractual rights of existing members; and (3) poses a severe administrative burden on local employers and CalSTRS to administer the benefit program.

The LAO does not support the Governor's proposal because it does not achieve the intended savings of $469 million. The LAO believes that because the proposal shifts costs to LEAs and community colleges it may require rebenching of Proposition 98. If this were the case, the state would have to appropriate $469 million to LEAs and community colleges.

Taking into account $469 million in additional costs for LEAs and community colleges under the Governor's proposal, the LAO calculates that the overall Proposition 98 increases falls from 6.1 percent to 5.1 percent from 2004-05 to 2005-06.

The Administration does not believe the proposal would require rebenching as it does not meet the standards for rebenching stated in Education Code Section 41204. The Administration believes that because retirement benefits are viewed as an *existing functional responsibility* of school districts and community colleges, they would not be deemed a *new responsibility* that would require rebenching.

On a much broader level, the LAO believes the Governor's proposal does not fundamentally reform the CalSTRS program to reflect a system that has more local control, responsibility or flexibility. In particular, the LAO is concerned that the state would remain the funder of last resort for any financial shortfalls in the DB program.

The CalSTRS item will be heard by Senate Budget and Fiscal Review Subcommittee #4 on April 20, 2005.

[Trailer Bill Language – See Attachment.]

SUGGESTED QUESTIONS:

1. ***What is the practical effect of this proposal? How will school districts need to respond?***

2. ***Can a school/community college district choose NOT to pay this cost, citing local budgetary constraints?***

3. ***Why does the LAO believe that implementing this proposal would result in a "rebenching" of Proposition 98? (See DOF's position on rebenching above)***

OUTCOMES:

ISSUE 3: Major Adjustments – Enrollment Growth

DESCRIPTION: The Governor's Budget estimates enrollment growth of 0.79 percent in 2005-06 and proposes $394.7 million to fully fund enrollment growth for revenue limits and categorical programs subject to statutory growth adjustments.

BACKGROUND: The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 47,000 in 2005-06, an increase of 0.79 percent over the revised current-year level. This attendance increase will bring total K-12 (ADA) to 6,063,000 students.

Enrollment growth rates for the last five years are summarized below. Categorical programs receive enrollment growth at budgeted rates, whereas revenue limit enrollment growth is adjusted to reflect actual rates.

Enrollment Growth Rates	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Proposed)
Budgeted	1.45	1.40	1.37	1.34	.95	.79
Adjusted	1.53	2.06	1.66	.88	.97	

Statewide, year-to-year K-12 enrollment growth rates have been falling since the mid-1990's when annual enrollment growth was budgeted at more than 2.5 percent. According to the Department of Finance, K-12 enrollment growth is predicted to decline to nearly zero in 2008-09, and after that is expected to start climbing again. The decline in enrollment growth rates reflects the loss of children born to "baby-boomers" who are aging out of the K-12 schools and a steady decline in birth rates during the 1990s.

Enrollment growth patterns play out quite differently for elementary schools and high schools than reflected by statewide trends overall. In particular, elementary schools are experiencing a continued decline in enrollments, while high school enrollments are on the rise statewide.

Enrollment trends also differ greatly among school districts. According to the LAO, 412 school districts (42 percent) are experiencing declining enrollments, as a result of the drop in elementary school enrollments and other factors. The issue of declining enrollment districts will be discussed further at the Subcommittee's April 4th hearing.

The Governor's 2005-06 budget proposes $395 million for enrollment growth assuming a growth rate of 0.79 percent. Of this amount, $246 million is provided for revenue limits and $149 million for categorical programs. Additional breakdowns are provided below:

Dollars in Millions	**Estimated Growth Rate**	**Revenue Limit**	**Special Education**	**Child Care**	**Other Categorical Programs**	**TOTAL Growth**
Governor's Budget	**0.79%**	$245.9	$31.4	$29.7	$87.7	**$394.7**

COMMENTS: The Department of Finance will update enrollment growth estimates as part of the Governor's "May Revise" to reflect population updates.

OUTCOME:

ISSUE 4: Major Adjustments – Cost-of-Living Adjustments (COLAs)

DESCRIPTION: The budget provides $1.65 billion to fully fund statutory COLAs for K-12 revenue limit and categorical programs. This provides a 3.93 percent COLA for revenue limits and categorical programs.

BACKGROUND: K-12 education programs typically receive annual COLAs for all revenue limit programs and most categorical programs. Budgeted COLAs for the last five years are summarized below. During this period, there was only one year -- 2003-04 – that the budget did not fund COLAs for revenue limits and categorical programs. The budget estimated COLA at 1.8 percent that year. In contrast, the 2002-03 budget provided a 2.0 percent COLA, which was higher than the estimated rate of 1.66 percent.

COLAs	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06 (Proposed)**
Budgeted	3.17	3.87	2.0	0	2.41	3.93
Estimated	3.17	3.87	1.66	1.86	2.41	3.93

The Governor's budget estimates COLA at 3.93 percent in 2005-06, up somewhat from the 2.41 COLA budgeted in 2004-05. According to the Governor's estimates, COLAs for revenue limits total $1.65 billion, including $1.2 billion for revenue limits and $428 million for categorical programs. The table below provides a breakdown of these costs, with additional detail for some categorical programs.

Dollars in Millions	**Estimated COLA Rate**	**COLA $: Revenue Limit**	**COLA $: Special Education**	**COLA $: Child Care**	**COLA $: Other Categorical Programs**	**COLA $: TOTAL**
Governor's Budget	**3.93%**	$1,222.1	$156.6	$50.8	$220.4	**$1,650.0**

COMMENTS: The Department of Finance will update COLA estimates as part of the Governor's "May Revise" to reflect inflation updates. According to the LAO estimates, the COLA will be 4.10 percent, slightly higher than the 3.93 percent estimated by the Governor, and will increase COLA costs by $71.2 million for K-12 schools.

OUTCOME:

ISSUE 5: Major Adjustments – Revenue Limit Deficit Factor

DESCRIPTION: The Governor's Budget proposes $329 million to reduce the outstanding revenue limit deficit factor. Under this proposal, the state would reduce the deficit factor to 1.1 percent, or approximately $317 million, in 2005-06. The deficit factor resulted from the elimination of revenue limit COLAs and revenue limit reductions in the 2003-04 budget.

BACKGROUND: The Legislature has approved deficit factors for revenue limits in years when the statutory COLA has not been fully provided, or more recently due to revenue limit reductions. Deficit factors reduce base revenue limits by a percentage tied to the level of the reduction or foregone COLA, compared to the other amount otherwise required by statute. During the early 1990's when the statutory COLA for revenue limits was not fully funded, deficit factors were as high as 11 percent. It took nearly 10 years for the state to eliminate these deficit factors and restore base revenue limits. (Buy-out was completed in the 2000-01 budget.)

As indicated below, the 2003-04 budget suspended the 1.8 percent COLA for revenue limit programs and reduced revenue limit funding by 1.2 percent, which resulted in approximately $900 million in savings. Budget trailer bill language contained in AB 1754 (Chapter 227; Statutes of 2003) created a 3.0 percent deficit factor for these revenue limits reductions and foregone COLA's that would be restored to revenue limit calculations in subsequent years.

	2003-04	**2004-05**	**2005-06**
Deficit for Revenue Limit Reduction	1.2 %	.3%	0
Deficit for Foregone Revenue Limit COLA	1.8%	1.8%	1.1%
Total Outstanding Revenue Limit Deficit	**3.0%**	**2.1%**	**1.1%**

The 2004-05 budget provided $270 million to reduce the deficit factor for revenue limits from 3.0 percent to 2.1 percent. The Governor's 2005-06 budget proposes an additional $329 million for deficit factor reduction. This proposal would lower the deficit factor for revenue limits from 2.1 percent to 1.1 percent.

COMMENTS: The LAO recommends that the Legislature delete $329 million for revenue limit deficit reduction and $51 million for community college growth. The LAO believes that these proposed increases are not needed to maintain existing programs. Instead, the LAO recommends that the Legislature appropriate $315 million of these savings to pay for ongoing K-14 mandates in 2005-06. (See following issue on Education Mandate Payments.)

[Budget Trailer Bill Language – See attachment]

OUTCOME:

ISSUE 6: Education Mandate Payments

DESCRIPTION: The budget proposes to defer or suspend all funding for 41 ongoing education mandates in 2005-06. This is consistent with budget actions in recent years to achieve budget savings without reducing programs. According to the Legislative Analyst, mandated costs for K-12 schools are estimated at approximately $300 million a year and cumulative, unpaid mandated costs claims are now estimated at $1.4 billion. Under the Governor's proposal, the state would owe more than $1.7 billion in unpaid, K-12 education mandate costs at the end of 2005-06.

BACKGROUND: After 2001-02, funding for education mandates costs basically stopped, and payments were deferred to future years or suspended. This action was taken to reduce expenditures given the fiscal circumstances that year and in subsequent years.

The Governor proposes to continue deferral or suspension of payments for education mandates in 2005-06. Technically, the budget appropriates $1,000 for 36 separate mandates the Governor proposes to defer and zero funding for five mandates the Governor proposes to suspend in the budget year. The Governor's proposal is consistent with budget actions in recent years that have utilized mandate cost deferral – inside and outside of education – as a temporary budget solution.

By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. According to the LAO, the state has paid $48.6 million in interest on the unpaid mandates through 2002-03.

Mandate costs can be reduced through elimination or suspension of specific mandates. Chapter 895, Statutes of 2004 (Laird) eliminated eight K-12 mandates. The Governor proposes to continue suspension of five mandates in 2005-06, including: School Crimes Reporting II; School Bus Safety II; Law Enforcement Sexual Harassment Training; County Treasury Oversight Committee; and Investment Reports.

Chapter 216, Statutes of 2004 (SB 1108/Committee on Budget and Fiscal Review), the 2004-05 education budget trailer bill, appropriates $58.4 million in one-time funds to pay for the oldest mandate claims no longer subject to audit. This statute also appropriates $150 million a year beginning in 2006-07 for Proposition 98 settle-up repayment and specifies that any such funds must first be applied in satisfaction of mandate claims.

Chapter 216 directs the Commission on State Mandates to reconsider its decision on the STAR program mandate in light of federal statutes enacted and state court decisions rendered since several state statutes were enacted.

COMMENTS: As indicated in the previous item, the LAO recommends that the Legislature appropriate $315 million to pay for ongoing K-14 mandates in 2005-06 instead of appropriating funds proposed by the Governor for revenue limit deficit factor reduction and community college growth. The LAO considers accumulated mandate cost deferrals to be the largest item on the state's education credit card. Under the Governor's proposal, the state will owe approximately $1.7 billion for education mandates by the end of 2005-06. For this reason, the LAO recommends that the Legislature give priority in the 2005-06 budget to funding ongoing mandate costs ($315 million -- ongoing funds), and as additional funds are available, paying down existing unfunded mandates ($1.4 billion -- one-time funds).

The LAO recommends that the Legislature recognize in the budget eight new education mandates that have been approved by the Commission on State Mandates in 2005-06. [The LAO was given responsibility for reviewing and commenting on newly identified mandates pursuant to Chapter 1124, Statutes of 2004 (AB 3000/Committee on Budget)]. The eight new mandates include: Comprehensive School Safety Plans; Immunization Records: Hepatitis B; Pupil Promotion and Retention; Standards Based Accountability; Charter Schools II; Criminal Background Check II; School District Reorganization; and Attendance Accounting. The Commission on State Mandates estimates costs for these mandates total $76.9 million through 2004-05. Ongoing costs for these mandates are estimated to total $11.3 million in 2005-06.

The Governor's budget recognizes one of these eight new mandates – Comprehensive School Safety Plans. The Department of Finance indicates that the Administration may update the list of included mandates at "May Revise" when additional information is available from the Commission on State Mandates.

OUTCOME:

ISSUE 7: Program Payment Deferrals

DESCRIPTION: The Governor's proposes to continue $1.1 billion in various K-12 program payments that have been deferred from one year to the next in order to achieve budget savings without reducing services.

BACKGROUND: The Governor's 2005-06 Budget proposes to continue $1.1 billion in various revenue limits and categorical programs initially deferred from the 2002-03 fiscal year to the 2003-04 fiscal year. These deferrals were enacted in 2002-03 as a part of a package of mid-year budget reduction proposals to avoid program reductions. Specifically, the deferrals involve a shift in second principal apportionment payments, referred to as P-2 payments, from June to July 2003.

COMMENTS: The LAO considers deferrals as borrowing on the education "credit card" and recommends that if the Legislature chooses to provide a higher level of funding in the budget they begin paying off credit card expenses, including deferrals. The LAO further recommends that the Legislature make it a priority to repay deferrals before funding new expenditures or programs.

[Budget Trailer Bill Language – See attachment.]

OUTCOME:

Subcommittee No. 1 on
Education

Senator Jack Scott, Chair

Subcommittee Hearing Hand Outs

Monday, March 7, 2005

Admin Issue #1
Eliminate the State's Contribution to STRS Defined Benefit Program

An act to amend Sections 22901, 22901.5, and 22955 of, and to add Sections 22950.1 and 22950.2 to, the Education Code, relating to state teachers' retirement.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 22901 of the Education Code is amended to read:

22901. ~~Each~~ (a) Except as provided in subdivision (b), each member of the Defined Benefit Program shall contribute to the retirement fund an amount equivalent to 8 percent of the member's creditable compensation.

(b) (1) A member who elects to withdraw from the Defined Benefit Supplement Program, pursuant to Section 22901.5, shall contribute to the retirement fund an amount equivalent to 6 percent of the member's creditable compensation.

(2) This subdivision shall remain operative only until January 1, 2011.

SEC. 2. Section 22901.5 of the Education Code is amended to read:

22901.5. (a) Notwithstanding Section 22905, 25 percent of the amount contributed by a member pursuant to Section 22901 (2 percent of creditable compensation) shall be credited to the member's Defined Benefit Supplement account pursuant to Section 25004.

(b) Any member contributions for service performed during the 2000–01 school year with a service period ending after December 31, 2000, shall be subject to subdivision (a).

(c) This section shall remain in effect only until January 1, 2011, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2011, deletes or extends that date.

(d) The member may elect, at any time, to withdraw from the Defined Benefit Supplement Program and terminate the 2 percent contribution to his or her individual account and reduce his or her contribution to the retirement fund pursuant to Section 22901 by an equivalent amount.

SEC. 3. Section 22950.1 is added to the Education Code, to read:

22950.1. (a) In addition to any other contributions required by this part, employers shall contribute monthly to the State Teachers' Retirement Fund 2 percent of the creditable compensation upon which members' contributions under this part are based.

(b) This section shall remain in effect only until January 1, 2011, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2011, deletes or extends that date.

SEC. 4. Section 22950.2 is added to the Education Code, to read:

22950.2. (a) Notwithstanding Section 22950.1, each member of the Defined Benefit Program may assume payment of the additional contributions required to be paid by the employer pursuant to Section 22950.1, provided that an agreement to do so is reached through the collective bargaining process.

(b) This section shall remain in effect only until January 1, 2011, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2011, deletes or extends that date.

SEC. 5. Section 22955 of the Education Code, as added by Section 37 of Chapter 1021 of the Statutes of 2000, is amended to read:

22955. (a) ~~Notwithstanding Section 13340 of the Government Code, commencing July 1, 2003, a continuous appropriation is hereby annually made from the General Fund to the Controller, pursuant to this section, for transfer to the~~

~~Teachers' Retirement Fund. The total amount of the appropriation for each year shall be equal to 2.017 percent of the total of the creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based, to be calculated annually on October 1, and shall be divided into four equal quarterly payments.~~

~~(b)~~ Notwithstanding Section 13340 of the Government Code, commencing October 1, 2003, a continuous appropriation~~, in addition to the appropriation made by subdivision (a),~~ is hereby annually made from the General Fund to the Controller for transfer to the Teachers' Retirement Fund. The total amount of the appropriation for each year shall be equal to 0.524 percent of the total of the creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based, to be calculated annually on October 1, and shall be divided into four equal quarterly payments. The percentage shall be adjusted to reflect the contribution required to fund the normal cost deficit or the unfunded obligation as determined by the board based upon a recommendation from its actuary. If a rate increase is required, the adjustment may be for no more than 0.25 percent per year and in no case may the transfer made pursuant to this subdivision exceed 1.505 percent of the total of the creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based. At any time when there is neither an unfunded obligation nor a normal cost deficit, the percentage shall be reduced to zero. The funds transferred pursuant to this subdivision shall first be applied to eliminating on or before June 30, 2027, the unfunded actuarial liability of the fund identified in the actuarial valuation as of June 30, 1997.

~~(c)~~

(b) For the purposes of this section, the term "normal cost deficit" means the difference between the normal cost rate as determined in the actuarial valuation required by Section 22311 and the total of the member contribution rate required under Section 22901 and the employer contribution rate required under Section 22950, and shall exclude (1) the portion for unused sick leave service credit granted pursuant to Section 22717, and (2) the cost of benefit increases that occur after July 1, 1990. The contribution rates prescribed in Section 22901 and Section 22950 on July 1, 1990, shall be utilized to make the calculations. The normal cost deficit shall then be multiplied by the total of the creditable compensation upon which member contributions under this part are based to determine the dollar amount of the normal cost deficit for the year.

~~(d)~~

(c) Pursuant to Section 22001 and case law, members are entitled to a financially sound retirement system. It is the intent of the Legislature that this section shall provide the retirement fund stable and full funding over the long term.

~~(e)~~

(d) This section continues in effect but in a somewhat different form, fully performs, and does not in any way unreasonably impair, the contractual obligations determined by the court in California Teachers' Association v. Cory, 155 Cal.App.3d 494.

~~(f)~~

(e) Subdivision (b) shall not be construed to be applicable to any unfunded liability resulting from any benefit increase or change in contribution rate under this part that occurs after July 1, 1990.

~~(g)~~

(f) The provisions of this section shall be construed and implemented to be in conformity with the judicial intent expressed by the court in California Teachers' Association v. Cory, 155 Cal.App.3d 494.

~~(h) This section shall become operative on July 1, 2003, if the revenue limit cost-of-living adjustment computed by the Superintendent of Public Instruction for the 2001–02 fiscal year is equal to or greater than 3.5 percent. Otherwise this section shall become operative on July 1, 2004.~~

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An act to amend Sections 2558.46, 37252.8, 37253, 41203.1, 44227, 42238.146, 52055.600, 52055.605, 52055.610, 52055.650, and 87482.6 of, and to repeal Section 32228.6 of, the Education Code, to amend Section 1529.2 of the Health and Safety Code, to amend Section 270 of the Public Utilities Code, and to amend Section 903.7 of the Welfare and Institutions Code, relating to education finance, making an appropriation therefore, and declaring the urgency thereof, to take effect immediately.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 2558.46 of the Education Code is amended to read:

2558.46. (a) (1) For the 2003–04 fiscal year, the revenue limit for each county superintendent of schools determined pursuant to this article shall be reduced by a 1.195 percent deficit factor.

(2) For the 2004–05 ~~and 2005–06~~ fiscal ~~years~~ year, the revenue limit for each county superintendent of schools determined pursuant to this article shall be reduced by a 0.323 percent deficit factor.

(3) For the 2003–04~~,~~ and 2004–05~~, and 2005–06~~ fiscal years, the revenue limit for each county superintendent of schools determined pursuant to this article shall be further reduced by a 1.826 percent deficit factor.

(4) For the 2005-06 and 2006-07 fiscal years, the revenue limit for each county superintendent of schools determined pursuant to this article shall be further reduced by a 1.126 percent deficit factor.

(b) In computing the revenue limit for each county superintendent of schools for the ~~2006–07~~ 2007-08 fiscal year pursuant to this article, the revenue limit shall be determined as if the revenue limit for that county superintendent of schools had been determined for the 2003–04, 2004–05~~, and~~ 2005–06, and 2006-07 fiscal years without being reduced by the deficit factors specified in this section.

SEC. 2. Section 32228.6 of the Education Code is repealed.

~~32228.6. This article shall become inoperative on July 1, 2005, and, as of January 1, 2006, is repealed, unless a later enacted statute that is enacted before~~

(2) After the maximum amount authorized in any fiscal year has been transferred to the Chancellor of the California Community Colleges and the Superintendent ~~of Public Instruction~~, the Controller shall transfer any remaining funds to the General Fund for expenditure for any public purpose.

(f) This section shall be operative until June 30, 2005, and thereafter is operative only if specified in the annual Budget Act or in another statute.

SEC. 17. The Superintendent of Public Instruction shall reduce funding for basic aid districts from the categorical education funds appropriated in Section 2.00 of the Budget Act of 2005 by a total of one million four hundred six thousand dollars ($1,406,000). The reduction shall be calculated as follows:

(a) The Superintendent shall calculate a reduction for each district that was a basic aid district in the 2004-05 fiscal year that is proportionate to its revenue limit as determined at the second principal apportionment of the 2005-06 fiscal year that will achieve the amount of savings specified in this section.

(b) (1) On or before October 26, 2005, the Superintendent shall notify each district of the reduction amount calculated for that district pursuant to subdivision (a).

(2) On or before February 1, 2006, each district shall notify the Superintendent of the specific categorical education programs in which the reductions for that district shall be applied and the amount of the reduction for each program, provided that no reduction may be made to a program identified as requiring a maintenance of effort. The Superintendent shall withhold or recover the identified amount of funds as necessary.

(3) This section does not obligate the state to refund or repay reductions made pursuant to this section. A decision by a school district to reduce funding pursuant to this section for a state-mandated local program shall constitute a waiver of the subvention of funds that the school district is otherwise entitled to pursuant to Section 6 of Article XIII B of the California Constitution in the amount so reduced, and that decision shall be made only after the school district first considers reductions to voluntary categorical education programs.

(c) If a district does not receive property tax revenue sufficient to fully fund its revenue limit during the 2005-06 fiscal year, any reductions to that district's categorical education funding by this section shall be restored.

(d) No later than June 1, 2006, the Superintendent shall report to the Controller and the Director of Finance the amount to be reduced from each categorical education program and identify the corresponding item of appropriation in the Budget Act of 2005 to be reduced. The reductions shall equal the total amount to be reduced pursuant to this section. On June 15, 2006, the amounts appropriated by the Budget Act of 2005 in the items identified by the Superintendent are hereby reduced by the amounts reported by the Superintendent. The amounts so reduced shall revert to the General Fund. The reductions pursuant to this subdivision shall be reductions in the amount appropriated for purposes of Section 8 of Article XVI of the California Constitution for the 2005-06 fiscal year.

(e) For purposes of this section, "basic aid school district" means a school district that does not receive from the state, for any fiscal year in which the section is applied, an apportionment of state funds pursuant to subdivision (h) of Section 42238 of the Education Code.

SEC. 18. Notwithstanding Sections 42238.1 and 42238.15 of the Education Code or any other law, the cost-of-living adjustment for Items 6110-104-0001, 6110-105-0001, 6110-156-0001, 6110-158-0001, 6110-161-0001, 6110-189-0001, 6110-190-0001, 6110-196-0001, 6110-232-0001, 6110-234-0001, 6110-244-0001, and 6110-246-0001 of Section 2.00 of the Budget Act of 2005, and those items identified in subdivision (b) of Section 12.40 of the Budget Act of 2005, shall be 3.93 percent. All funds appropriated in the items identified in this section are in lieu of the amounts that would otherwise be appropriated pursuant to any other law.

SEC. 19. Notwithstanding any other law, the funds appropriated pursuant to Items 6110-103-0001, 6110-104-0001, 6110-105-0001, 6110-156-0001, 6110-161-0001, 6110-190-0001, and 6110-211-0001 of Section 2.00 of the Budget Act of 2004 (Ch. 208, Stats. 2004) shall be available for expenditure through July 31, 2007, and after that date, all remaining unexpended funds in those items shall revert to the Proposition 98 Reversion Account

SEC. 20. Notwithstanding any other law, the funds appropriated pursuant to Items 6110-103-0001, 6110-104-0001, 6110-105-0001, 6110-156-0001, 6110-161-0001, 6110-190-0001, 6110-211-0001, and 6110-243-0001 of Section 2.00 of the Budget Act of 2005 (Ch. __, Stats. 2005) shall be available for expenditure through July 31, 2008, and after that date, all remaining unexpended funds in those items shall revert to the Proposition 98 Reversion Account.

SEC. 21. (a) The sum of five hundred eighty-seven million four hundred seventy thousand dollars ($587,470,000) is hereby appropriated from the General Fund in accordance with the following schedule:

(1) The following amounts are appropriated for expenditure during the 2006-07 fiscal year:

(A) The sum of six million two hundred fifteen thousand dollars ($6,215,000) to the State Department of Education for apprenticeship programs to be expended consistent with the requirements specified in Item 6110-103-0001 of Section 2.00 of the Budget Act of 2005.

(B) The sum of sixty-three million two hundred seventy-one thousand dollars ($63,271,000) to the State Department of Education for supplemental instruction to be expended consistent with the requirements specified in Item 6110-104-0001 of Section 2.00 of the Budget Act of 2005. Of the amount appropriated by this subparagraph, fifty million nine hundred sixty-four thousand dollars ($50,964,000) shall be expended consistent with Schedule (1) of Item 6110-104-0001 of Section 2.00 of the Budget Act of 2005, and twelve million three hundred seven thousand dollars ($12,307,000) shall be expended consistent with Schedule (2) of that item.

(C) The sum of thirty-nine million five hundred sixteen thousand dollars ($39,516,000) to the State Department of Education for regional occupational centers and programs to be expended consistent with the requirements specified in Schedule (1) of Item 6110-105-0001 of Section 2.00 of the Budget Act of 2005.

(D) The sum of fifty-two million four hundred eight-four thousand dollars ($52,484,000) to the State Department of Education for home-to-school transportation to be expended consistent with the requirements specified in Schedule (1) of Item 6110-111-0001 of Section 2.00 of the Budget Act of 2005.

(E) The sum of four million two hundred eighty-six thousand dollars ($4,286,000) to the State Department of Education for the Gifted and Talented Pupil Program to be expended consistent with the requirements specified in Item 6110-124-0001 of Section 2.00 of the Budget Act of 2005.

(F) The sum of forty-five million seven hundred sixty-three thousand dollars ($45,763,000) to the State Department of Education for adult education to be expended consistent with the requirements specified in Schedule (1) of Item 6110-156-0001 of Section 2.00 of the Budget Act of 2005.

(G) The sum of four million seven hundred thirty-seven thousand dollars ($4,737,000) to the State Department of Education for community day schools to be expended consistent with the requirements specified in Item 6110-190-0001 of Section 2.00 of the Budget Act of 2005.

(H) The sum of five million nine hundred forty-seven thousand dollars ($5,947,000) to the State Department of Education for categorical block grants for charter schools to be expended consistent with the requirements specified in Item 6110-211-0001 of Section 2.00 of the Budget Act of 2005.

(I) The sum of thirty-eight million six hundred forty-six thousand dollars ($38,646,000) to the State Department of Education for the School Safety Block Grant to be expended consistent with the requirements specified in Schedule (1) of Item 6110-228-0001 of Section 2.00 of the Budget Act of 2005.

(J) The sum of twenty-six million six hundred seventy-five thousand dollars ($26,675,000) to the State Department of Education for the Pupil Retention Block Grant to be expended consistent with the requirements specified in Item 6110-243-0001 of Section 2.00 of the Budget Act of 2005.

(K) The sum of ninety-nine million nine hundred thirty thousand dollars ($99,930,000) to the State Department of Education for Targeted Instructional Improvement Grant Program to be expended consistent with the requirements specified in Item 6110-246-0001 of Section 2.00 of the Budget Act of 2005.

(L) The sum of two hundred million dollars ($200,000,000) to the Board of Governors of the California Community Colleges for apportionments, to be expended in accordance with the requirements specified for Schedule (1) of Item 6870-101-0001 of Section 2.00 of the Budget Act of 2005.

(b) For the purposes of making the computations required by Section 8 of Article XVI of the California Constitution, the appropriations made by subparagraphs (A) to (K), inclusive, of paragraph (1) of subdivision (a) shall be deemed to be "General Fund revenues appropriated for school districts," as defined in subdivision (c) of Section 41202 of the Education Code, for the 2006-07 fiscal year, and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B," as defined in subdivision (e) of Section 41202 of the Education Code for the 2006-07 fiscal year.

(c) For the purposes of making the computations required by Section 8 of Article XVI of the California Constitution, the appropriation made by subparagraph (L) of paragraph (1) of subdivision (a) shall be deemed to be "General Fund revenues appropriated for community college districts," as defined in subdivision (d) of Section 41202 of the Education Code, for the 2006–07 fiscal year, and included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B," as defined in subdivision (e) of Section 41202 of the Education Code, for the 2006-07 fiscal year.

SEC. 22. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.

SEC. 23. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to make the necessary statutory changes to implement the Budget Act of 2004 at the earliest time possible, it is necessary that this act take effect immediately.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, March 7, 2005
Upon Adjournment of Senate Session
Room 113, State Capitol
OUTCOMES

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Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Proposition 98 – Overall Funding in 2004-05 & 2005-06

DESCRIPTION: The Governor proposes to maintain Proposition 98 funding for K-14 education (K-12 schools and community colleges) at $47.1 billion, roughly the level appropriated by the 2004-05 Budget Act.[1] The Governor proposes $50.0 billion for K-14 education in 2005-06, an increase of $2.9 billion (6.1 percent) over 2004-05.

BACKGROUND:

K-14 Proposition 98: 2004-05

The 2004-05 budget appropriated $47 billion for K-14 education, which was approximately $2.0 billion below the minimum guarantee at the time of enactment. Chapter 213, Statutes of 2004 (SB 1101/Committee on Budget and Fiscal Review) suspends the minimum funding provisions of Proposition 98 in 2004-05.

The Governor's budget assumes that state revenues will grow by $2.2 billion beyond the level originally budgeted in 2004-05. Due to the larger than estimated state revenues and student enrollments, the minimum guarantee has grown an additional $1.1 billion since then. The Governor does not propose to fund this overall increase, estimated to save $2.3 billion over two years.

The LAO estimates that state revenues will grow by an additional $1.4 billion in 2004-05 beyond the level assumed in the Governor's budget. According to the LAO's estimates, this would increase the minimum guarantee an additional $1.9 billion above the budgted level in 2004-05.

K-14 Proposition 98: 2005-06

The Governor proposes $50.0 billion for K-14 education in 2005-06, an increase of $2.9 billion (6.1 percent) over 2004-05. (See table on next page.) As proposed, the Governor indicates that the budget meets the Proposition 98 minimum funding guarantee in 2005-06. The Governor calculates the minimum guarantee for the 2005-06 budget using *Test 2* factors applied to the 2004-05 base, as currently budgeted. The Governor's Budget does not propose suspension of Proposition 98 in 2005-06.

1/ The Governor's budget accounts for an increase of $122.6 million in General Fund revenue limit apportionments to reflect a number of different factors in 2004-05. Specifically, the budget provides $114.3 million for higher than estimated student enrollments and $29.5 million to compensate for a loss in estimated property tax revenues. In addition, the budget recognizes $24.5 million in savings from a reduction in unemployment insurance costs.

K-14 Proposition 98 Summary (dollars in thousands)	2003-04	2004-05	2005-06 Proposed	$ Change	% Change
Distribution of Prop 98 Funds					
K-12 Education	$41,800,043	$42,178,345	$44,705,043	2,526,698	6.0
Community Colleges	4,370,516	4,803,936	5,162,922	358,986	7.5
State Special Schools	40,302	41,504	41,708	204	.5
Dept. of Youth Authority	36,781	35,859	34,510	-1,349	-3.8
Dept. of Developmental Services	10,863	10,672	10,349	-323	-3.0
Dept. of Mental Health	13,400	8,400	8,400	0	-
Am. Indian Education Centers	3,778	4,476	4,688	212	4.7
Total	$46,275,683	$47,083,192	$49,967,620	$2,884,428	6.1
Prop 98 Fund Source					
State General Fund	$30,521,723	$34,123,805	$36,532,334	2,408,529	7.1
Local Property Taxes	$15,753,960	$12,959,387	$13,435,286	475,899	3.7
Total	$46,275,683	$47,083,192	$49,967,620	$2,884,428	6.1
K-12 Enrollment-ADA*	5,958,000	6,015,984	6,063,491	47,507	.8
K-12 Funding per ADA*	$7,017	$7,012	$7,374	$362	5.2

***** Average Daily Attendance

K-12 Proposition 98: 2005-06

The Governor proposes a total of $44.7 billion in Proposition 98 funding for K-12 schools in 2005-06, an increase of $2.5 billion (6.0 percent) above the 2004-05 budget. As proposed, the budget provides $7,374 per-pupil in Proposition 98 funding in 2005-06, an increase of $362 (5.2 percent) per-pupil above the 2004-05 budget.

If these figures are adjusted to compensate for $469 million in additional costs to LEAs under the Governor's CalSTRS proposal, Proposition 98 funding for K-12 education would increase by 5.0 percent, rather than 6.0 percent between 2004-05 and 2005-06. Similarly, per pupil funding would increase by 4.1 percent, instead of 5.2 percent.

Proposition 98 --Community Colleges: 2005-06

The Subcommittee will review Proposition 98 funding for community colleges at the April 11th hearing.

COMMENTS: The LAO will provide testimony and handouts explaining overall Proposition 98 levels in 2004-05 and 2005-06.

The LAO emphasizes that the level of funding that is ultimately approved for 2004-05 is the central issue facing the Legislature. If the Legislature were to fund additional increases in the Proposition 98 guarantee beyond the level budgeted, it would require the state to appropriate between $2.3 billion and $4.0 billion in additional General Fund revenues over the two year period.

As currently proposed, the Governor's proposed 2005-06 budget proposes a $2.9 billion increase for K-14 education. For K-12 schools, this translates into an increase of $2.5 billion. As indicated below, the Governor proposes to expend additional funds primarily for enrollment growth and cost of living adjustments (COLAs), as well as deficit factor reduction. This will provide nearly $2.4 billion in general purpose funding for K-12 education in 2005-06. The Governor's proposal to shift $469 million in state CalSTRS contribution costs to LEAs would count against this increase.

Dollars in Millions	**Revenue Limits**	**Categorical Programs**	**Totals**
Cost of Living Adjusments	$1,222.1	$427.6	**$1,649.7**
Enrollment Growth	234.7	160.0	**394.7**
Deficit Factor Reduction	329.3	0	**329.3**
Restoration of Categorical Programs*		146.5	**146.5**
Other Program Adjustments			**6.5**
Totals	**$1,786.1**	**$740.6**	**$2,526.7**

**Several categorical programs were funded with one-time funds available in 2004-05. The budget proposes to restore ongoing funds for these programs.*

OUTCOME: No action.

ITEM 6300 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (CalSTRS)

ISSUE 2: State Contribution to the Defined Benefit Program

DESCRIPTION: The Governor proposes to shift state responsibility for making contributions to the California State Teachers' Retirement System (CalSTRS) basic retirement program to local employers. Specifically, the Governor's proposal eliminates the state's contribution to the Defined Benefit (DB) program, for an assumed General Fund (Non-98) savings of $469 million in 2005-06. The proposal increases contributions for CalSTRS employers -- school districts, county offices of education and community colleges -- but does not provide additional funding to cover higher local contributions to the DB program. Additional costs are estimated at $500 million in 2005-06. The Governor's proposal allows local employers to share costs with CalSTRS employees through collective bargaining.

BACKGROUND: CalSTRS is a state pension program that provides retirement benefits to teachers and other educators employed by K-12 local education agencies (school districts and county offices of education) and community colleges. Currently, CalSTRS provides benefits to approximately 754,000 members and beneficiaries. Unlike public employees covered under the California Public Employees' Retirement System (CalPERS), CalSTRS members do not participate in the social security system.

The Governor's CalSTRS proposal primarily involves changes in the state General Fund contribution to the basic retirement program known as the Defined Benefit (DB) program. The DB program provides a monthly benefit to members when they retire, or become disabled, and also provides benefits to survivors of members who die. Under the DB program the state's contribution equals 2.017 percent of payroll (creditable compensation), which would equate to $469 million in General Funds (non-98) in 2005-06, absent the Governor's proposal.

The state also contributes 2.5 percent of payroll for purchasing power benefits estimated to total $581 million General Fund (non-98) in 2005-06. This program is <u>not</u> affected by the Governor's proposal.

Under the DB program, benefits are funded from three sources. Contributions, as a percent of payroll, for each of these sources are fixed in statute as follows:

- Employee Contributions: 8.0 %
- Employer Contributions: 8.25 %
- State Contributions: 2.017 %

Under the Governor's proposal, as contained in trailer bill language, the state DB program contribution of 2.017 percent would be eliminated and school district contributions would increase by 2.0 percent – from 8.25 to 10.25 percent. As noted in the LAO analysis, the state's contribution of 2.017 percent is pegged to payroll two years ago and would equate to a district payment of 2.0 percent of payroll, or $500 million, based upon current payroll.

The Governor's proposal also permits school districts to pass through all or some their increased contribution costs to employees through renegotiation of their collective bargaining agreements. If all costs were passed through, the employee contribution could grow from 8 to 10 percent.

In addition, the Governor proposes to give teachers the option of eliminating their 2 percent contribution currently credited to a Defined Benefit Supplement (DBS) program. This option would allow employees to increase their take home pay by reducing contributions from 8 to 6 percent, but also reduce DBS benefits. Under current law, the DBS program ends in 2010. According to the Administration, this proposal is not specifically linked to any subsequent renegotiation of contribution rates for employees.

While not yet reflected in budget trailer bill language, the Administration has signaled that they are also proposing to eliminate a statutory surcharge that is activated when there is unfunded liability to cover 1990-level benefits. This surcharge was triggered for three-quarters of the year in 2004-05 at a rate of 0.524 percent and resulted in a General Fund (non-98) cost of $92 million. Until new valuation information is available this spring, it is not known if the surcharge will be activated again in 2005-06. The LAO estimates that the full year costs of funding the surcharge is between $120 and $170 million in General Funds.

COMMENTS: The CalSTRS Board is opposed to the Governor's DB contribution shift proposal because it (1) potentially worsens the funding condition of the DB program; (2) potentially impairs contractual rights of existing members; and (3) poses a severe administrative burden on local employers and CalSTRS to administer the benefit program.

The LAO does not support the Governor's proposal because it does not achieve the intended savings of $469 million. The LAO believes that because the proposal shifts costs to LEAs and community colleges it may require rebenching of Proposition 98. If this were the case, the state would have to appropriate $469 million to LEAs and community colleges.

Taking into account $469 million in additional costs for LEAs and community colleges under the Governor's proposal, the LAO calculates that the overall Proposition 98 increases falls from 6.1 percent to 5.1 percent from 2004-05 to 2005-06.

The Administration does not believe the proposal would require rebenching as it does not meet the standards for rebenching stated in Education Code Section 41204. The Administration believes that because retirement benefits are viewed as an *existing functional responsibility* of school districts and community colleges, they would not be deemed a *new responsibility* that would require rebenching.

On a much broader level, the LAO believes the Governor's proposal does not fundamentally reform the CalSTRS program to reflect a system that has more local control, responsibility or flexibility. In particular, the LAO is concerned that the state would remain the funder of last resort for any financial shortfalls in the DB program.

The CalSTRS item will be heard by Senate Budget and Fiscal Review Subcommittee #4 on April 20, 2005.

[Trailer Bill Language – See Attachment.]

SUGGESTED QUESTIONS:

1. ***What is the practical effect of this proposal? How will school districts need to respond?***

2. ***Can a school/community college district choose NOT to pay this cost, citing local budgetary constraints?***

3. ***Why does the LAO believe that implementing this proposal would result in a "rebenching" of Proposition 98? (See DOF's position on rebenching above)***

OUTCOMES: **No action.**

ISSUE 3: Major Adjustments – Enrollment Growth

DESCRIPTION: The Governor's Budget estimates enrollment growth of 0.79 percent in 2005-06 and proposes $394.7 million to fully fund enrollment growth for revenue limits and categorical programs subject to statutory growth adjustments.

BACKGROUND: The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 47,000 in 2005-06, an increase of 0.79 percent over the revised current-year level. This attendance increase will bring total K-12 (ADA) to 6,063,000 students.

Enrollment growth rates for the last five years are summarized below. Categorical programs receive enrollment growth at budgeted rates, whereas revenue limit enrollment growth is adjusted to reflect actual rates.

Enrollment Growth Rates	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Proposed)
Budgeted	1.45	1.40	1.37	1.34	.95	.79
Adjusted	1.53	2.06	1.66	.88	.97	

Statewide, year-to-year K-12 enrollment growth rates have been falling since the mid-1990's when annual enrollment growth was budgeted at more than 2.5 percent. According to the Department of Finance, K-12 enrollment growth is predicted to decline to nearly zero in 2008-09, and after that is expected to start climbing again. The decline in enrollment growth rates reflects the loss of children born to "baby-boomers" who are aging out of the K-12 schools and a steady decline in birth rates during the 1990s.

Enrollment growth patterns play out quite differently for elementary schools and high schools than reflected by statewide trends overall. In particular, elementary schools are experiencing a continued decline in enrollments, while high school enrollments are on the rise statewide.

Enrollment trends also differ greatly among school districts. According to the LAO, 412 school districts (42 percent) are experiencing declining enrollments, as a result of the drop in elementary school enrollments and other factors. The issue of declining enrollment districts will be discussed further at the Subcommittee's April 4th hearing.

The Governor's 2005-06 budget proposes $395 million for enrollment growth assuming a growth rate of 0.79 percent. Of this amount, $246 million is provided for revenue limits and $149 million for categorical programs. Additional breakdowns are provided below:

Dollars in Millions	**Estimated Growth Rate**	**Revenue Limit**	**Special Education**	**Child Care**	**Other Categorical Programs**	**TOTAL Growth**
Governor's Budget	**0.79%**	$245.9	$31.4	$29.7	$87.7	**$394.7**

COMMENTS: The Department of Finance will update enrollment growth estimates as part of the Governor's "May Revise" to reflect population updates.

OUTCOME: No action.

ISSUE 4: Major Adjustments – Cost-of-Living Adjustments (COLAs)

DESCRIPTION: The budget provides $1.65 billion to fully fund statutory COLAs for K-12 revenue limit and categorical programs. This provides a 3.93 percent COLA for revenue limits and categorical programs.

BACKGROUND: K-12 education programs typically receive annual COLAs for all revenue limit programs and most categorical programs. Budgeted COLAs for the last five years are summarized below. During this period, there was only one year -- 2003-04 – that the budget did not fund COLAs for revenue limits and categorical programs. The budget estimated COLA at 1.8 percent that year. In contrast, the 2002-03 budget provided a 2.0 percent COLA, which was higher than the estimated rate of 1.66 percent.

COLAs	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06 (Proposed)**
Budgeted	3.17	3.87	2.0	0	2.41	3.93
Estimated	3.17	3.87	1.66	1.86	2.41	3.93

The Governor's budget estimates COLA at 3.93 percent in 2005-06, up somewhat from the 2.41 COLA budgeted in 2004-05. According to the Governor's estimates, COLAs for revenue limits total $1.65 billion, including $1.2 billion for revenue limits and $428 million for categorical programs. The table below provides a breakdown of these costs, with additional detail for some categorical programs.

Dollars in Millions	**Estimated COLA Rate**	**COLA $: Revenue Limit**	**COLA $: Special Education**	**COLA $: Child Care**	**COLA $: Other Categorical Programs**	**COLA $: TOTAL**
Governor's Budget	**3.93%**	$1,222.1	$156.6	$50.8	$220.4	**$1,650.0**

COMMENTS: The Department of Finance will update COLA estimates as part of the Governor's "May Revise" to reflect inflation updates. According to the LAO estimates, the COLA will be 4.10 percent, slightly higher than the 3.93 percent estimated by the Governor, and will increase COLA costs by $71.2 million for K-12 schools.

OUTCOME: No action.

ISSUE 5: Major Adjustments – Revenue Limit Deficit Factor

DESCRIPTION: The Governor's Budget proposes $329 million to reduce the outstanding revenue limit deficit factor. Under this proposal, the state would reduce the deficit factor to 1.1 percent, or approximately $317 million, in 2005-06. The deficit factor resulted from the elimination of revenue limit COLAs and revenue limit reductions in the 2003-04 budget.

BACKGROUND: The Legislature has approved deficit factors for revenue limits in years when the statutory COLA has not been fully provided, or more recently due to revenue limit reductions. Deficit factors reduce base revenue limits by a percentage tied to the level of the reduction or foregone COLA, compared to the other amount otherwise required by statute. During the early 1990's when the statutory COLA for revenue limits was not fully funded, deficit factors were as high as 11 percent. It took nearly 10 years for the state to eliminate these deficit factors and restore base revenue limits. (Buy-out was completed in the 2000-01 budget.)

As indicated below, the 2003-04 budget suspended the 1.8 percent COLA for revenue limit programs and reduced revenue limit funding by 1.2 percent, which resulted in approximately $900 million in savings. Budget trailer bill language contained in AB 1754 (Chapter 227; Statutes of 2003) created a 3.0 percent deficit factor for these revenue limits reductions and foregone COLA's that would be restored to revenue limit calculations in subsequent years.

	2003-04	**2004-05**	**2005-06**
Deficit for Revenue Limit Reduction	1.2 %	.3%	0
Deficit for Foregone Revenue Limit COLA	1.8%	1.8%	1.1%
Total Outstanding Revenue Limit Deficit	**3.0%**	**2.1%**	**1.1%**

The 2004-05 budget provided $270 million to reduce the deficit factor for revenue limits from 3.0 percent to 2.1 percent. The Governor's 2005-06 budget proposes an additional $329 million for deficit factor reduction. This proposal would lower the deficit factor for revenue limits from 2.1 percent to 1.1 percent.

COMMENTS: The LAO recommends that the Legislature delete $329 million for revenue limit deficit reduction and $51 million for community college growth. The LAO believes that these proposed increases are not needed to maintain existing programs. Instead, the LAO recommends that the Legislature appropriate $315 million of these savings to pay for ongoing K-14 mandates in 2005-06. (See following issue on Education Mandate Payments.)

[Budget Trailer Bill Language – See attachment]

OUTCOME: **No action.**

ISSUE 6: Education Mandate Payments

DESCRIPTION: The budget proposes to defer or suspend all funding for 41 ongoing education mandates in 2005-06. This is consistent with budget actions in recent years to achieve budget savings without reducing programs. According to the Legislative Analyst, mandated costs for K-12 schools are estimated at approximately $300 million a year and cumulative, unpaid mandated costs claims are now estimated at $1.4 billion. Under the Governor's proposal, the state would owe more than $1.7 billion in unpaid, K-12 education mandate costs at the end of 2005-06.

BACKGROUND: After 2001-02, funding for education mandates costs basically stopped, and payments were deferred to future years or suspended. This action was taken to reduce expenditures given the fiscal circumstances that year and in subsequent years.

The Governor proposes to continue deferral or suspension of payments for education mandates in 2005-06. Technically, the budget appropriates $1,000 for 36 separate mandates the Governor proposes to defer and zero funding for five mandates the Governor proposes to suspend in the budget year. The Governor's proposal is consistent with budget actions in recent years that have utilized mandate cost deferral – inside and outside of education – as a temporary budget solution.

By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. According to the LAO, the state has paid $48.6 million in interest on the unpaid mandates through 2002-03.

Mandate costs can be reduced through elimination or suspension of specific mandates. Chapter 895, Statutes of 2004 (Laird) eliminated eight K-12 mandates. The Governor proposes to continue suspension of five mandates in 2005-06, including: School Crimes Reporting II; School Bus Safety II; Law Enforcement Sexual Harassment Training; County Treasury Oversight Committee; and Investment Reports.

Chapter 216, Statutes of 2004 (SB 1108/Committee on Budget and Fiscal Review), the 2004-05 education budget trailer bill, appropriates $58.4 million in one-time funds to pay for the oldest mandate claims no longer subject to audit. This statute also appropriates $150 million a year beginning in 2006-07 for Proposition 98 settle-up repayment and specifies that any such funds must first be applied in satisfaction of mandate claims.

Chapter 216 directs the Commission on State Mandates to reconsider its decision on the STAR program mandate in light of federal statutes enacted and state court decisions rendered since several state statutes were enacted.

COMMENTS: As indicated in the previous item, the LAO recommends that the Legislature appropriate $315 million to pay for ongoing K-14 mandates in 2005-06 instead of appropriating funds proposed by the Governor for revenue limit deficit factor reduction and community college growth. The LAO considers accumulated mandate cost deferrals to be the largest item on the state's education credit card. Under the Governor's proposal, the state will owe approximately $1.7 billion for education mandates by the end of 2005-06. For this reason, the LAO recommends that the Legislature give priority in the 2005-06 budget to funding ongoing mandate costs ($315 million -- ongoing funds), and as additional funds are available, paying down existing unfunded mandates ($1.4 billion -- one-time funds).

The LAO recommends that the Legislature recognize in the budget eight new education mandates that have been approved by the Commission on State Mandates in 2005-06. [The LAO was given responsibility for reviewing and commenting on newly identified mandates pursuant to Chapter 1124, Statutes of 2004 (AB 3000/Committee on Budget)]. The eight new mandates include: Comprehensive School Safety Plans; Immunization Records: Hepatitis B; Pupil Promotion and Retention; Standards Based Accountability; Charter Schools II; Criminal Background Check II; School District Reorganization; and Attendance Accounting. The Commission on State Mandates estimates costs for these mandates total $76.9 million through 2004-05. Ongoing costs for these mandates are estimated to total $11.3 million in 2005-06.

The Governor's budget recognizes one of these eight new mandates – Comprehensive School Safety Plans. The Department of Finance indicates that the Administration may update the list of included mandates at "May Revise" when additional information is available from the Commission on State Mandates.

OUTCOME: No action.

ISSUE 7: **Program Payment Deferrals**

DESCRIPTION: The Governor's proposes to continue $1.1 billion in various K-12 program payments that have been deferred from one year to the next in order to achieve budget savings without reducing services.

BACKGROUND: The Governor's 2005-06 Budget proposes to continue $1.1 billion in various revenue limits and categorical programs initially deferred from the 2002-03 fiscal year to the 2003-04 fiscal year. These deferrals were enacted in 2002-03 as a part of a package of mid-year budget reduction proposals to avoid program reductions. Specifically, the deferrals involve a shift in second principal apportionment payments, referred to as P-2 payments, from June to July 2003.

COMMENTS: The LAO considers deferrals as borrowing on the education "credit card" and recommends that if the Legislature chooses to provide a higher level of funding in the budget they begin paying off credit card expenses, including deferrals. The LAO further recommends that the Legislature make it a priority to repay deferrals before funding new expenditures or programs.

[Budget Trailer Bill Language – See attachment.]

OUTCOME: **No action.**

Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Agenda
March 14, 2005
2:30 p.m. – Room 113

University of California (6440)
California State University (6610)

I. Overview of UC and CSU Budgets (Office of the Legislative Analyst)

II. Student Enrollments

III. Increased Medical Student Enrollments (UC Irvine's *PRIME-LC Program*)

IV. Calculation of Per Student Marginal Cost of Instruction

V. Cost-of Living (COLA) increases for UC and CSU

VI. Student Fees
   1) Proposed fee levels
   2) Use of fee revenue by UC and CSU
   3) Update on set-aside for institutional financial aid
   4) Update on “excess unit fee” policy

VII. Update on budget for Student Academic Preparation

VIII. Update on UC Merced

IX. Update on Institute for Labor Studies

I. Overview of Higher Education (UC and CSU) Budgets

Figure 1
Governor's 2005-06 UC/CSU Budget Proposal

(Dollars in Millions)

			Change	
	2004-05	**2005-06**	**Amount**	**Percent**
UC				
General Fund	$2,708.8	$2,806.3	$97.5	3.6%
Fee revenue	1,800.0	1,949.9	149.9	8.3
Subtotals	*($4,508.8)*	*($4,756.2)*	*($247.4)*	*(5.5%)*
All other funds	$14,162.5	$14,637.3	$474.9	3.4%
Totals	**$18,671.3**	**$19,393.5**	**$722.2**	**3.9%**
CSU				
General Fund	$2,496.7	$2,607.2	$110.5	4.4%
Fee revenue	1,111.3	1,212.5	101.2	9.1
Subtotals	*($3,608.0)*	*($3,819.7)*	*($211.7)*	*(5.9%)*
All other funds	$2,222.1	$2,197.5	-$24.5	-1.1%
Totals	**$5,830.1**	**$6,017.3**	**$187.2**	**3.2%**

(A) Governor's *Compact* with Higher Education. In the spring of 2004, the Governor developed a *compact* with the University of California (UC) and California State University (CSU) which calls for the Governor to provide the UC and CSU with a specified level of General Fund support as part of his annual budget proposal. In exchange for this "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. This compact mirrors past funding agreements ("compacts" or "partnerships") between former Governors Wilson and Davis and the university systems. The Governor's 2004-05 Budget provides funding for UC and CSU pursuant to this agreement.

Staff notes that this compact, like the *compacts* before it, is an agreement between Governor Schwarzenegger and the UC and CSU systems. The Legislature is not part of this funding agreement nor was it consulted when the agreement was being developed. The Office of the Legislative Analyst (LAO) expresses concerns that simply "rubberstamping" the compact would continue an unnerving trend of putting the state budget on "autopilot". Further, the LAO believes that various provisions of the compact as arbitrary, seemingly without connection, to the *Master Plan for Higher Education*.

As such, both staff and the LAO recommend that the subcommittee examine the provisions of the Governor's budget proposal with the same level of scrutiny applied to all aspects of the budget, regardless of whether or not the proposals constitute a *compact* between various parties.

<u>Specifically, the *compact* contains the following provisions:</u>

1. *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's compliance is not part of the agreement.

2. *Time Period.* Compact is applicable to fiscal years 2005-06 through 2010-11.

3. *General Support*. Beginning in fiscal year 2005-06 and 2006-07, Governor will provide 3 percent annual General Fund increases to cover cost-of-living-adjustments (COLA), salary, and other price increases. Thereafter (from 2007-08 to 2010-11); the Governor will provide increases of 4 percent annually.

4. *Enrollment Growth.* Governor will provide funding for 2.5 percent enrollment growth annually for the duration of the compact. This equates to approximately 5,000 full-time equivalent students (FTES) at UC and 8,000 FTES at CSU.

5. *Long-Term Funding Needs*. Beginning in 2008-09 through the end of the compact (2010-11), UC and CSU will also receive an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.

6. <u>*Student Fees*</u>.

   a) <u>Undergraduate Fees</u>. In an effort to better stabilize fees after the sharp increases of the past of couple years, UC and CSU retain the authority to increase student fees – but will limit undergraduate fee increases to 8 percent in 2005-06 and 2006-07. Thereafter, UC and CSU will increase fees at rate of change in per capita personal income, with a maximum increase of 10 percent.

   b) <u>Teacher Credentialing Fees</u>. Fees will increase by no more than 10 percent annually; an 8 percent increase in fees is proposed by both UC and CSU in 2005-06.

   c) <u>Academic Graduate Student Fees</u>. Academic graduate student fees will increase by 10 percent for both 2005-06 and 2006-07; thereafter the UC and CSU will strive to achieve a fee level that is 50 percent higher than undergraduate fees in order to better reflect the higher cost of instruction. Fees will be adjusted annually (beginning in 2007-08) based on a variety of factors including the average cost of instruction; costs at comparable public institutions; market factors; state labor needs; and financial aid needs of graduate students.

   d) <u>UC Professional School Fees</u>. UC will develop a student fee plan that adjusts fees annually based on such factors as: cost of attendance at comparable institutions; total cost of attendance; market factors; state labor needs; and financial aid needs. For the 2005-06 academic year, fees will be increased approximately 3 percent. (This small increase is intended to provide some respite after last year's hefty professional school fee hikes.)

e) Student Fee Revenues. UC and CSU will retain revenues derived from student fee increases (as opposed to offsetting the increase with corresponding General Fund reductions as the state has done in recent "bad" budget years).

7. *Accountability Measures*. In exchange for the Governor's funding commitment, the UC and CSU agree to the following:

   a) Student Eligibility. Maintain enrollment levels consistent with the *1960 Master Plan for Education*, whereby UC accepts students who are among the top 12.5 percent of public high school graduates (statewide) and CSU accepts students who are among the top 33 percent of public high school graduates.

   b) Community College Transfer Students. Both UC and CSU will continue to accept all qualified community college transfer students.

   c) Community College Course Transfer. Both UC and CSU will increase the number of course articulation agreements as they relate to academic "majors" with community colleges. In 2005, UC agrees to achieve major preparation agreements between all 10 UC campuses and all 108 community colleges, while CSU will establish major preparation agreements for each high-demand major with all 108 community colleges by June of 2006.

   d) Summer Term/Off-Campus Enrollment Levels. By 2010-11, both UC and CSU will expand summer session and off-campus offerings and student enrollments by reaching FTES levels equivalent to 40 percent of regular-term enrollments.

   e) Academic Outreach Efforts. UC and CSU will remain committed to providing academic outreach to K-12 and community college students and institutions. UC agrees to provide at least $12 million and CSU agrees to provide at least $45 million to continue the most effective academic outreach programs.

   f) A through G Course Offerings. Both UC and CSU will continue to review and approve courses that integrate academic and career/technical course content.

   g) Public Service. UC and CSU agree to strengthen student community service programs.

   h) Time to Degree. Both UC and CSU will maintain and improve, where possible, students' persistence rates, graduate rates, and time-to-degree.

   i) Teacher Candidates. Both systems will place an increased emphasis on recruiting math and science students into the teaching profession.

II. Student Enrollment Growth. Pursuant to the compact, the Governor's Budget proposes to fund enrollment growth equivalent to 2.5 percent. For CSU, enrollments are proposed to increase by approximately 8,000 FTES and $50.8 million. At UC, this 2.5 percent increase equates to approximately 5,000 FTES and $37.9 million. Of this amount, $300,000 and 20 FTES are attributable to increased medical school enrollments at UC Irvine and $7.5 million and 1,000 FTES are for the new students attending UC Merced. (Both the increase in medical school enrollments and UC Merced are discussed below.)

<u>Enrollment Growth Projections</u>:

As part of its *Analysis of the 2005-06 Budget Bill*, the LAO conducted its own analysis of enrollment growth projections and trends and determined that providing funding for enrollment growth of 2.5 percent was excessive. Instead, the LAO is recommending that the state only fund enrollment growth of 2.0 percent or 4,000 FTES at UC and 6,400 students at CSU. This equates to 2,600 FTES less than proposed by the Governor.

UC, CSU, and the Department of Finance contend that 2.5 percent enrollment growth is needed in order to continue admitting all eligible students (both first-time freshman and transfer students) and get the systems "back on track" after several years of managing enrollments downward.

The California Postsecondary Education Commission (CPEC), in its demographic projections, substantiates the Administration's proposed enrollment growth levels for UC at 2.5 percent, but finds that CSU could absorb additional enrollment growth up approximately 3.36 percent annually .

<u>Staff recommends</u> that, given the current fiscal condition of the state, the proposed $88.7 million in funding for enrollment growth be placed on the "checklist" pending the Governor's May Revision.

In addition, the LAO cites a disconnect between the number of students funded and the actual level of enrollments. This confusion appears due, in part, to the budget reductions in recent years which led the systems to alter the number of students served in order to keep campus budgets balanced. Further, the budgeted levels of funding approved by the legislature for enrollment growth are estimates of the number of eligible students that will chose to enroll at either the UC or CSU. In any given year, students make choices which impact our estimates, resulting in a discrepancy between the "budgeted" and "actual" enrollment levels.

In order to help rectify the confusion over how many students the UC and CSU are funded to enroll, <u>staff recommends</u> that -- when the committee takes action on this issue -- it also adopt Budget Bill Language specifying the minimum number of full-time equivalent students (FTES) to be served by the UC and CSU in 2005-06.

OUTCOME:

III. Increased Medical Student Enrollments (PRIME-LC Program). The Governor's Budget provides an additional $300,000 to increase enrollments in medical school programs. The *PRogram In Medical Education – for the Latino Community* (PRIME-LC) at the UC Irvine College of Medicine, focuses on Latino health needs including those of the migrant worker population. This initiative is the first of several that UC is developing to train physicians specifically to serve in underrepresented communities, whether they be geographic or demographic. Within the next seven or eight years, the UC hopes to continue growing their medical school enrollments to meet this goal.

With a 2004 grant from the California Endowment, the UC expanded -- by 8 FTES -- its class of medical students for the first time in more than 25 years. Until that point, the first year medical school class was limited to 622 FTES annually (spread across UC's 5 schools of medicine). UC is now requesting (and the Governor is proposing to provide) an additional $300,000 in continue supporting these 8 new students and add an additional 12 students (for a total of 20 FTES). The funds would support the instruction of those 20 students.

Medical schools have a higher marginal cost rate because of the historically smaller student-to-faculty ratio (3.5-to-1). UC indicates that the marginal cost rate of instruction for its medical students hovers around $50,000 per student, per year. Of that amount, student fees cover a little over half of the cost, leaving approximately $22,500 per FTES to be paid for by the state. Since the standard marginal cost rate covers $7,500, the Governor proposes to provide additional General Fund of $15,000 per FTES to cover the full cost of instruction.

<u>Staff recommends</u> that the committee approve enrollment growth funding ($300,000) associated with the PRIME-LC program.

OUTCOME:

IV. Calculation Marginal Cost of Instruction. Current practice has been to fund each additional FTES at a "marginal cost of instruction". This marginal cost rate is less than the "average" cost of instruction because it is designed to take into account the economies of scale of large university campuses. These rates are determined by a formula that has been in place since 1995, and are intended to encompass the cost of educating each additional student (additional faculty, teaching assistants, academic support, etc.). There is a separate funding rate for both UC and CSU students.

The current methodology was designed to provide a single amount per FTES to each of the segments sufficient to cover the range of instructional costs. For example, while it may cost more to educate a biology student and less to educate a literature student, the marginal cost rate is designed to coalesce costs across the disciplines into a single marginal cost calculation per segment. The methodology to determine the marginal cost rate was developed at the request of the Legislature in 1995 and has been in use since.

Future Review of Methodology. Until recently, the marginal cost formula has provided campuses with an amount reasonably comparable to their actual costs. But both the segments and the LAO are beginning to question whether or not the current methodology continues to meet the needs of the state and/or the universities. Specifically, the LAO contends that the marginal cost formula should include only those program costs that are directly related to increased enrollment and should be based on actual costs (particularly as it related to faculty and teaching assistant salaries). Further, staff notes that the Legislature has expressed its concerned about the availability of "high cost programs" such as nursing, engineering, and other applied sciences. While the 1995 methodology was originally intended to cover the range of academic programs, the last 10 years have brought changes in technology as well as changes to employer's expectations of graduates, especially in applied fields. As such, these changes may not be accounted for in the current marginal cost rate.

Staff recommends that the subcommittee adopt the following Supplemental Report Language directing the impacted parties to re-examine the methodology and report back to the Legislature.

> *"The Legislative Analyst's Office (LAO) shall convene the University of California, the California State University, and the Department of Finance to review the components of the per full-time equivalent students (FTES) marginal cost calculation. The LAO, in consultation with the working group members, shall report on the working group's findings and recommend any proposed modifications to the marginal cost calculation in its Analysis of the 2006-07 Budget Bill."*

OUTCOME:

V. General Support Increases. Consistent with the Governor's compact, his budget provides additional General Fund support of $147.2 million ($76.1 million for UC and $71.1 million for CSU) to support a three percent general support increase. It is the intent of both UC and CSU to use these funds to cover cost-of-living adjustments (COLA's), salary increases, and general price increases on goods and services.

The LAO has expressed concern over these increases because the augmentations are not tied to any inflationary index that tracks actual purchasing power.

Unlike K-14 education, which is slated to receive a statutorily-mandated COLA (which is funded in the Governor's Budget at 3.93 percent for 2005-06), the state is not legally obligated to fund a COLA for UC and CSU. As a result, the Governor and the Legislature have tended to appropriate a dollar figure that equates more to what the state treasury can afford in any given year and less to a specific index.

In its *Analysis of the 2005-06 Budget Bill,* the LAO finds that the level of the K-14 statutory COLA may actually end up closer to 4.10 percent than the 3.93 percent budgeted by the Governor. Staff notes that if the state provided General Fund increases for UC and CSU at the statutory COLA level of 4.10 percent, they would receive an additional $104 million and $97.2 million, respectively ($54 million more than proposed by the Governor).

Staff recommends that funding for this issue be placed on the "checklist" and revisited pending the May Revision.

OUTCOME:

VI. Student Fees

(1) Proposed Fee Levels. In 2004-05, the Governor proposed his own long-term student fee policy which was aimed at making fee increases regular, predictable, and modest. Rather than codifying his proposal or otherwise obtaining Legislative "buy-in", the Governor instead chose to integrate these student fee “principles” into his compact with UC and CSU.

Pursuant to the compact, UC and CSU are increasing 2005-06 undergraduate student fees by 8 percent; academic graduate students will see fee increases of 10 percent; while UC professional school student fees will increase approximately 3 percent.

In the future, the Governor's compact calls for undergraduate student fees to begin increasing at the same rate as per capita personal income starting with the 2007-08 fiscal year and are not exceed 10 percent in any given year. Also beginning in 2007-08, graduate student fees are proposed to increase to a level equivalent to 150 percent of undergraduate fees.

Figure 2

Summary of Governor's Undergraduate and Graduate Fee Proposals

(Systemwide Charges for Full-Time Students[a])

	2004-05 Actual	2005-06 Proposed	Change	
			Amount	Percent
University of California				
Resident Charge				
Undergraduates	$5,684	$6,141	$457	8%
Graduates	6,269	6,897	628	10
Nonresident Charge				
Undergraduates	$22,640	$23,961	$1,321	6%
Graduates	21,208	21,858	650	3
California State University				
Resident Charge				
Undergraduates	$2,334	$2,520	$186	8%
Teacher education students	2,706	2,922	216	8
Graduates	2,820	3,102	282	10
Nonresident Charge				
Undergraduates	$12,504	$12,690	$186	1%
Graduates	12,990	13,272	282	2

[a] Reflects only systemwide charges. Does not include campus-based fees.

Staff notes that, there is no definition of what constitutes "moderate", "gradual" or "predictable". After substantial fee increases during the past several years (ranging from 40 percent in 2002-03 to 15 percent in the current year) the committee will need to determine if the proposed increase of approximately 8 percent for undergraduates and 10 percent for graduate students meet the litmus test of being "moderate", "gradual" and "predictable".

Further, staff notes that *if* the Legislature is interested in making adjustments to the proposed fee levels, a fee increase of only 5 percent for undergraduates (3 percent less than proposed in the Governor's Budget) would cost the state - roughly - an additional $45 million. These funds would be used to "buy out" the difference in the fee increase and reimburse the university systems the lost revenue. In contrast, a fee increase of 10 percent for undergraduate students (which is comparable to the increase proposed for graduate students) would produce an additional $36 million in fee revenue. After reducing the revenue assumption for a 20 percent return to financial aid, the state could "offset" the UC and CSU General Fund appropriation and save roughly $29 million.

Following is a recent history of fee levels at the UC and CSU:

	University of California Student Fees				California State University Student Fees			
	Undergraduate		Graduate		Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident	Resident	Nonresident
1994-95	$4,111	$11,810	$4,585	$12,284	$1,584	$8,964	$1,584	$8,964
1995-96	4,139	11,838	4,635	12,334	1,584	8,964	1,584	8,964
1996-97	4,166	12,560	4,667	13,061	1,584	8,964	1,584	8,964
1997-98	4,212	13,196	4,722	13,706	1,584	8,964	1,584	8,964
1998-99	4,037	13,611	4,638	14,022	1,506	8,886	1,584	8,964
1999-00	3,903	14,077	4,578	14,442	1,428	8,808	1,506	8,886
2000-01	3,964	14,578	4,747	15,181	1,428	8,808	1,506	8,886
2001-02	3,859	14,933	4,914	15,808	1,428	8,808	1,506	8,886
2002-03	3,859	15,361	4,914	16,236	1,428	9,888	1,506	9,966
2002-03 *(fees increased mid-year)*	4,017	16,396	5,017	16,393	1,573	10,033	1,734	10,194
2003-04	5,530	19,740	6,843	19,332	2,572	11,032	2,782	11,242
2004-05	6,312	23,268	7,928	22,867	2,916	13,086	3,402	13,572
2005-06	*6,769*	*2,589*	*8,556*	*23,517*	*3,102*	*13,272*	*3,684*	*13,854*

(2) Use of Student Fee Revenues. In keeping with his compact, the Governor does not propose “recapturing” the increased student fee revenue for the general benefit of the state by offsetting the General Fund appropriations of the UC and CSU to account for the additional funds derived by the fee increases.

The LAO raises concerns that segment's intended use of student fee revenues is not transparent to the legislature or the general public. Staff recommends that the committee ask the UC and CSU to report, at this hearing, on how the new student fee revenue (which is estimated to total approximately $150 million for UC and $101 million for CSU) will be expended. While the Governor's Budget does not explicitly account for the additional revenue derived from fee increases, both the UC Regents and the CSU Trustees have expenditure plans which illustrate how student fees, in combination with state General Fund, will be spent.

As an additional note, the Budget Bill appropriates student fee revenue to the CSU, since those revenues reside in the state treasury. However, UC retains student fee revenues locally on the individual campuses.

(3) Set-Aside for Institutional Financial Aid. Campus-based financial aid programs are established systemwide and administered by the individual UC and CSU campuses. Until recently (current year), the UC and CSU each had a policy to return one-third of the new revenue derived from student fee increases to campus-based financial aid in an effort to mitigate the impact of the fee increase on financially-needy students. As part of 2004-05 Budget, the Governor proposed and the Legislature approved, a reduction in the amount of funding returned to students for financial aid, from one-third to one-fifth (20 percent).

Staff recommends that the committee request UC and CSU to report to the subcommittee (at this hearing) on the expenditure of institutional aid funds and update the committee on how institutional aid programs have changed since the set-aside was reduced from 33.3 percent to 20 percent.

(4) Excess Unit Fee. As part of the Governor's 2004-05 Budget, the Administration proposed to establish a per-unit surcharge for undergraduate students at UC and CSU who enroll in considerably more courses than are required to obtain a baccalaureate degree. Specifically, the Administration proposed charging students the full cost of instruction for each credit unit they take beyond 110 percent of the units required to obtain a baccalaureate degree. For most programs, the LAO cites that the unit cap would need to be set at 198 quarter units and 132 semester units. The 2004-05 Governor’s Budget initially assumed that the implementation of this policy will result in General Fund savings of $9.3 million at UC and $24.4 million at CSU. These savings were later revised to $1.1 million at UC while the revenue estimates for CSU remained the same.

In spite of the objections raised by UC and CSU related to the implementation of this proposal, the Legislature reduced UC's budget by $1.1 million and CSU's budget by $24.4 million in the current year under the auspices of developing an "excess unit policy". However, staff notes that the Legislature never actually adopted statutory, Budget Bill, or supplemental reporting language either requiring the UC and CSU to establish an excess unit policy or stating the intent of the Legislature that such a policy be developed. In spite of clear guidance from the Legislature on this issue, both the UC and CSU are committed to implementing such a policy. Specifically, the UC Regents will be hearing a policy proposal at either their Spring or Summer Regent's meeting and the CSU is working within their Increased Graduation Initiative to improve student's time-to-degree and deter students from enrolling in excess units.

In its *Analysis of the 2005-06 Budget Bill*, the LAO suggests that the Legislature capture an additional $25.5 million in General Fund from the UC and CSU (to account for additional student fee revenue derived from the continued implementation of the excess unit fee policy).

The UC and CSU remain concerned that the projected $25.5 million in additional fee revenue will never materialize and staff shares their concern. Staff notes that if both UC and CSU were to develop an effective excess unit fee policy, then most students WILL NOT pay the higher fee. Instead they will graduate or drop out rather than enrolling in excess classes and paying the higher amount. As a result, when the revenues assumed from this policy fail to materialize, UC or CSU would instead have an unallocated reduction and an open “slot” which would be filled with another student. Given that the goal of an excess unit policy is to alter student behavior, it’s unclear why *any* General Fund savings would be associated with this policy.

Staff notes that this issue requires no action by the subcommittee; however, if the subcommittee wishes to impose an unallocated reduction on the UC or CSU, it should consider do so directly rather than under the auspices of an "excess unit fee" policy.

OUTCOME:

VII. Student Academic Preparation Programs. Under the Governor's Budget, UC would be required to reduce funding by $17.3 million for *either* student academic outreach programs or student enrollment growth. Instead of characterizing the proposed reduction as "unallocated" in nature and allowing the UC to determine how best to implement the cut, the Administration instead chose to target programs that directly serve students. Absent any intervention by the Legislature, the present assumption is that UC intends to reduce funding for Student Academic Preparation Programs, since they are obligated under the *Master Plan for Higher Education* to provide a space for all eligible students.

For CSU, the Governor proposes to reduce its budget by $7 million. Unlike the UC budget, which specifies the programs and services to be reduced, the Administration does not allocate the $7 million reduction, leaving that decision to the CSU Board of Trustees. CSU has noted that it *does not* intend to reduce funding for student academic preparation programs and will instead implement an unallocated reduction across all campuses.

While not explicitly raised as an issue in its *Analysis of the 2005-06 Budget Bill*, the current funding level for student academic preparation programs was generally supported by the LAO. In lieu of going into detail on the status of Academic Preparation Programs, the LAO crafts an alternative budget proposal for both UC and CSU (which is based on 2% enrollment growth at a lower marginal cost rate, as discussed above). In both the UC and CSU version of the alternative budget, the LAO restores funding for Student Academic Preparation Programs ($17.3 million for UC and $7 million for CSU) to retain funding levels consistent with current year expenditures.

<u>Staff recommends</u> that the UC and CSU provide a brief oral update on the status of these programs and that funding to *backfill* the reductions contained in the Governor's Budget be placed on the "checklist" pending the May Revision.

OUTCOME:

VIII. UC Merced. The Governor's Budget continues to support opening the new UC Merced campus to students in the Fall of 2005. To meet this end, the Governor proposes an additional $14 million (one-time) for start-up costs associated with the Merced campus, bringing the 2005-06 operational costs to $24 million. These funds are used primarily to support a core staff of administrators and faculty, develop curriculum, and recruit new faculty; however, in 2005-06 (the first year of campus operations with students) over half of the $24 million appropriated will be used to support direct instruction to students.

The Merced campus intends to open this coming fall with 1,000 FTES (or 1,036 "headcount" students). This number includes 600 freshman, 300 transfer students, and 100 graduate students. The Governor provides funding for these students at the standard "marginal cost rate", and includes these Merced-directed FTES under his proposal for 2.5 percent enrollment growth (5,000 total FTES systemwide). Additional funding for instruction --

assuming the campus will not be able to achieve any "economies of scale" in the foreseeable future -- is provided through the $24 million in start-up costs appropriated to the UC specifically for Merced.

When the campus opens, it will offer six to eight undergraduate majors and five areas of graduate-level study. At present, the campus has a core staff of approximately 150 employees, including academicians, librarians, maintenance staff, and post-doctoral and graduate students. In addition, the construction of the student residence hall is expected to be completed later this spring and will house approximately 600 individuals.

Staff recommends that the committee "approve" funding, as budgeted, for support costs at UC Merced.

OUTCOME:

IX. Institute for Labor Studies (Update). For the third year in a row, the Governor's Budget deletes all funding ($3.8 million) for the University's Institute of Labor Studies. As part of the final budget negotiations each year, the Legislature has successfully negotiated the restoration of funding for the Institute's operations.

Staff notes particular concern with the Administration's proposal to eliminate the Labor Studies Institute. This Institute is only one of many organized research units within the UC. Based on the Governor's Budget, other state-supported research activities would be held harmless, after several years of reductions. As such, it is unclear why the Labor Studies Institute has been singled out for elimination while the funding level for the others is proposed – without regard to the subject of their research – to remain constant.

Staff recommends that funding to restore the operations of the Institute for Labor Studies be placed on the "checklist", pending the May Revision.

OUTCOME:

Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

6440-001-0007. Support, University of California. Breast Cancer Research $12,776,000

6440-001-0046. Support, University of California. Institute of Transportation Studies $980,000

6440-001-0234. Support, University of California. Cigarette and Tobacco Products Surtax Fund, Research Account $14,253,000

6440-001-0308. Support, University of California. Earthquake Risk Reduction Fund $1,500,000

6440-001-0321. Support, University of California. Oil Spill Response Trust Fund $1,300,000

6440-001-0890. Support, University of California. Federal GEAR UP Program $5,000,000

6440-001-0945. Support, University of California. California Breast Cancer Research $473,000

6440-001-3054. Support, University of California. Chapter 795, Statutes of 2002 $1,752,000

6440-002-0001. Support, University of California Ongoing deferral of expenditures from June 30th to July 1st ($55,000,000)

6440-005-0001. Support, University of California. Institutes for Science & Innovation $4,750,000

6440-011-0042. Transfer by Controller from State Hwy. Acct., Earthquake Risk Reduction Fund of 1996 ($1,000,000)

6440-490. Reappropriation, University of California.

6600-001-0001. Support, Hastings College of Law. $8,363,000

6610-001-0890. Support, California State University. Federal Trust Fund $39,789,000

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, April 4, 2005
1:30 pm
Room 113, State Capitol

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.

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Financial Status of School Districts – Information Only

DESCRIPTION: Presentation by Tom Henry, Chief Executive Officer and Joel Montero, Deputy Executive Officer, Fiscal Crisis & Management Assistance Team (FCMAT) on the financial status of school districts.

BACKGROUND:

Interim Financial Status Reports. Current law requires school districts and county offices of education (LEAs) to file two interim reports annually on their financial status with the California Department of Education. First interim reports are due to the state by January 15; second interim reports are due by April 15.

As a part of these reports, LEAs must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative. A positive certification indicates that a LEA will meet its financial obligations for the current and two subsequent fiscal years; whereas a qualified certification indicates a LEA may not meet its financial obligations during this period. Under a negative certification, LEAs are unable to meet their financial obligations in the current year or in the subsequent fiscal year.

According to the First Interim Report for 2004-05 – the most recent report available – there are currently ten school districts with negative certifications and 50 school districts with qualified certifications. [See Appendix A for a complete list.] The ten school districts with negative certifications listed below will not be able to meet their financial obligations for 2004-2005 or 2005-2006.

District	County	Budget
Auburn Union Elementary	San Bernardino	$17 million
East Side Union High	Santa Clara	$204 million
Fresno Unified	Fresno	$603 million
Hayward Unified	Alameda	$175 million
Los Molinos Unified	Tehama	$5 million
Oakland Unified	Alameda	$425 million
Oro Grande Elementary	San Bernardino	$1 million
Salinas City Elementary	Monterey	$63 million
West Fresno Elementary	Fresno	$8 million
Vallejo City Unified	Solano	$146 million

Six districts have joined the latest negative status list – Auburn Union Elementary, East Side Union Elementary, Fresno Unified, Los Molinos Unified, Oro Grande Elementary, and Salinas City Elementary. Three other districts – Berkeley Unified, Corning Union Elementary, Livermore Valley Joint Unified – moved from the negative list to the qualified list.

Three school districts on the negative certification list – Oakland Unified, West Fresno Elementary and Vallejo Unified – have received emergency loans from the state. Two other school districts – West Contra Costa Unified and Emery Unified -- have emergency loans with the state, but are not on either the negative or qualified certification lists.

The numbers of school districts with negative and qualified certifications will reportedly increase when the Second Interim Report for 2004-05 is released by CDE later this spring.

Financial Pressures Facing School Districts. The LAO has identified four major financial pressures facing school districts that they will discuss at the subcommittee hearing today. These pressures include:

(1) Lower revenues due to declining enrollment;
(2) Restoration of state required reserves;
(3) Restoration of operating balances; and
(4) Higher costs for wage increases and health premiums/benefits.

The LAO will present proposals for addressing declining enrollment and health costs later in the subcommittee agenda.

Budget Flexibility Budget trailer bill language contained in AB 1754 (Chapter 227; Statutes of 2003) provided K-12 local education agencies (LEAs) with limited-term flexibility in accessing education reserves and balances of restricted funds in order to mitigate revenue limit reductions in the 2003-04 budget. Flexibility was provided in three general areas:

- Reduce minimum reserves for economic uncertainty to a range of .5 to 2.5 percent of budget (half the statutory level) in 2003-04 and 2004-05.
- Reduce school district maintenance reserves from 3 to 2 percent in 2003-04.
- Permit LEAs to access the 2002-03 ending balances for most categorical programs.

As indicated by LAO, restoration of statutory reserves and operating balances has created financial pressures for LEAs.

Control Section 12.40 of the budget gives LEAs additional budget flexibility allowing them to shift limited amounts of funding among categorical programs. This control section was added to the 1999-2000 budget to retain some of the transfer authority among categorical programs included in a budget "mega-item" that was eliminated that year. The original control section allowed transfer of up to 20 percent of funding out of any program and to transfer up to 25 percent into a program in the control section. The authority was lowered to 10 percent "out" and 15 percent "in" beginning in 2003-04 given the significant, limited-term budget flexibility provided to LEAs that year. The Governor's 2005-06 budget continues this same level of flexibility for twelve categorical programs. (See Appendix B for list.)

QUESTIONS:

1. *Do you agree with the LAO's list of financial pressures facing school districts? What other factors are at play?*
2. *Chapter 52, Statutes of 2004 (AB 2756/Daucher) strengthens fiscal oversight of school districts, in particular county review and authority over school district budgets. Are county offices utilizing this new authority?*
3. *Are there additional reforms – beyond those contained in Chapter 52 – that the Legislature should consider to improve fiscal oversight of LEAs?*
4. *AB 1754 requires LEAs to report ending balance transfers – programs and amounts to the Superintendent of Public Instruction and the Joint Legislative Budget Committee in a timely manner. What do these reports tell us about the usefulness of ending balances in helping LEAs meet their budgets?*
5. *LEAs are required to report annually to the Department of Education on any amounts shifted between categorical programs pursuant to Control Section 12.40 of the budget. How would you assess the categorical funding transfers provided by Control Section 12.40?*

ISSUE 2: Declining Enrollment

DESCRIPTION: The LAO recommends that the Legislature address the financial pressures faced by many districts as a result of declining enrollment. An estimated 412 (42 percent) of school districts statewide are currently experiencing enrollment declines. Since school age population growth is predicted to decline further in the next five years, the number of declining enrollment districts is expected to climb. Current law allows districts to *delay* revenue limit reductions associated with enrollment declines for one year. The LAO proposes an *additional* option for districts. This option would *permanently increase* revenue limit funding for *most* declining enrollment districts whose revenue limits are below the statewide equalization target. Annual increases would be capped at five percent a year. Declining enrollment districts at the statewide target would continue to have the ***one year*** hold harmless provisions allowed under current law. The LAO also recommends consolidation of most revenue limit add-on programs within base revenue limits programs prior to any equalization.

BACKGROUND: The LAO's revenue limit proposal blends features that address both revenue limit equalization and declining enrollment, as well as, consolidation of revenue limit programs.

Declining Enrollment:

Data from the California Department of Education indicate that 412 school districts (42 percent) experienced declining enrollment in 2003-04. According to the LAO, additional data suggests that most of these districts also experienced declining enrollment.

According to the latest population estimates, the LAO predicts that statewide K-12 attendance growth will continue to fall over the next several years and by 2008-09 there will be no enrollment growth. For this reason, the LAO estimates that a large number of districts will continue to face declining enrollment. In addition, some of the 589 districts that are currently growing will start to decline.

The LAO reports most declining enrollment districts are small – reflecting the composition of districts statewide. However, 35 districts have more than 10,000 students (and of these 12 have more than 25,000 or 50,000 students). Approximately 27 percent of the state's students attend declining enrollment districts. The average enrollment loss to school districts is 1.7 percent; but one-quarter of districts reported declines of more than 5 percent.

On face, declining enrollments translate into declining costs to school districts (i.e. fewer students, fewer teachers, etc.). However, districts don't save as much in costs as they lose in revenues. At the most basic level, when districts reduce their teaching force, they reduce their less experienced, lower paid teachers.

Equalization:

The LAO estimates that most declining enrollment districts have revenue limits that are below the state equalization target set at the 90th percentile of districts of different size (small and large) and types (elementary, high, unified). Reportedly, most districts are within 10 percent of this target. The LAO estimates the cost of bringing all declining enrollment districts to the 90th percentile at approximately $130 million, and the cost of bringing school district revenue limits in the state to the 90th percentile is estimated at around $450 million.

Consolidation:

In addition to base revenue limits, there are nine adjustments or revenue limit add-on programs. Base revenue limits account for 95 percent of revenue limit funding; revenue limit add-on programs – totaling nearly $1.6 billion annually account for the remaining 5 percent. Revenue limit add-on programs include: teacher salary incentive program; the Unemployment Insurance program; PERS offset; longer school days and year incentives; Meals for Needy Pupils, etc. Since revenue limit add-on programs are allocated very unevenly among districts, they contribute to revenue limit funding inequities among school districts. However, they are not included in revenue limit equalization calculations. For this reason, the LAO recommends that five revenue limit add-on programs be consolidated into base revenue limits to more accurately equalize general purpose funding among school districts.

Governor's Budget: The Governor's Budget does not address the issue of declining enrollment directly, but does propose $329 million in revenue limit deficit factor payments in 2005-06. The 2004-05 budget package appropriates $110 million for K-12 revenue limit equalization funding for school districts (not county offices), setting the target at the 90th percentile of districts within each size and type. The Governor does not propose additional funding for equalization in 2005-06.

Costs of LAO Proposal: There are no budget year costs with the LAO's proposal. However, there would be additional costs of approximately $25 to $60 million per year in 2006-07 for equalization payments to eligible declining enrollment districts. This cost would increase over time as districts take advantage of this option each year. Annual costs will depend upon the number of districts that opt for the proposed adjustment instead of the one year hold harmless provision allowed under current law. The estimated cost of equalizing revenue limits for *all* school districts in the state in approximately $450 million.

Legislation: Several bills that address equalization and declining enrollment have been introduced this session, including:

- **SB 958 (Simitian) –** Allows declining enrollment districts to calculate revenue limit funding using the average ADA over a two period, if they have been in decline for two years, or over a three year period if they have been in decline for three years or more.
- **AB 1503 (Mullin)** - Allows declining enrollment districts to claim 60 percent of the difference between ADA in the year prior to the first year of decline and ADA in subsequent years of decline.
- **AB 60 (Nunez)** - Revises computation factors of revenue limit equalization adjustment to be based on: a) enrollment instead of ADA; b) elementary, high school, and unified districts without respect to size; c) all unrestricted funding, not just base revenue limits.

COMMENTS/RECOMMENDATIONS: Staff believes that the LAO's proposal has merit, but has significant out year costs at a time when schools face other significant, outstanding funding obligations. However, the Subcommittee may wish to study the LAO's proposal further as a possible option for using additional funding beyond growth and COLA in future years. Funding for this purpose would have to be weighed against other funding priorities the Subcommittee has already discussed including revenue limit deficit factor and education mandate payments, with the caveat that decisions would affect costs in the 2006-07 fiscal year.

QUESTIONS:

1. *While the LAO has recommended that the Legislature make progress in equalizing revenue limits in recent years, last year the LAO recommended against any funding for revenue limit equalization until a year when Proposition 98 "credit card obligations" – revenue limit deficits, unfunded state mandates, and payment deferrals -- could be paid off? How does the LAO's current proposal stack up to these other competing priorities?*
2. *Without supplemental funding for equalization, how long would it take to equalize funding for school districts to the 90th percentile target?*
3. *What is the effect of declining enrollment on different types of school districts and does the LAO's proposal recognize these differences?*

OUTCOME:

ISSUE 3: District Health Benefit Liabilities

DESCRIPTION: The LAO raises concerns about large *and growing* retiree health benefit liabilities that are creating significant fiscal pressures for some school districts in the state. In response, the LAO recommends enactment of legislation to: require districts to report their retiree benefit liabilities to county offices of education (COEs) and develop plans for addressing these liabilities; require COE's to include the review of long-term health benefit liabilities as a part of their district fiscal oversight responsibilities; and require CDE to report to the Legislature on the size of retiree health liabilities for 150 school districts with the most extensive benefits.

BACKGROUND:

School districts provide retirement pension, health and other benefits to their employees. According to the LAO, while school districts pre-fund retirement pensions for their employees through annual contributions, they do not reportedly pre-fund health insurance benefits. Instead, they pay for benefits directly through their operating budgets once the benefits are claimed by retirees. This situation creates future liabilities for school districts when these retirement costs come due. Until recently, the significant size of these liabilities in some districts was not known statewide.

In the past, the state has mandated that school districts conduct an actuarial study of their retiree benefits. The LAO reports that new Government Accounting Standards Board (GASB) policies require school districts to account and report its long-term retirement liabilities in their annual financial statements. These new requirements have brought new attention and concern to the issue of large and growing district health insurance retirement liabilities.

Per the LAO, Fresno Unified has an unfunded liability for retiree health benefits of $1.1 billion, which equates to more than twice its general purpose operating budget. Fresno Unified currently has a negative fiscal certification on the state's fiscal status list. Los Angeles Unified has an unfunded health benefit liability of $5 billion, which equates to 80 percent of its operating budget. The LAO notes that using other reasonable assumptions, Los Angeles Unified's liability climbs to $11 billion.

The LAO indicates that new GASB policies encourage, but do not require, school districts to pre-fund all their retirement benefits. According to the LAO, Los Angeles is currently spending $170 million a year for retiree health benefits. It would cost Los Angeles an additional $500 million (8 percent of its budget) in 2005-06 to pre-fund benefits for existing employees and cover its unfunded liabilities.

LAO Recommendation:

The LAO is concerned about the significant size of retiree health benefit liabilities for school districts. Without immediate action, the LAO is concerned that these liabilities will translate into fiscal crisis in some districts that will require state bail out. The LAO is further concerned that school districts may lack incentives for addressing or curbing these costs without outside intervention. For this reason, the LAO recommends the Legislature enact legislation to:

- Require districts to provide COEs, by October 1, 2005, with a copy of any actuarial study of its retiree benefits liability.
- Require districts to provide COEs, by June 30, 2006, with a plan for addressing retiree benefits liabilities.
- Modify AB 1200 to require COEs to review whether districts' funding of long-term liabilities adequately cover likely costs.
- Require CDE to report to the fiscal committees of the Legislature by December 15, 2005 on the size of retiree health liabilities in the 150 districts that provide the most extensive benefits.

RECOMMENDATION: Subcommittee members became aware of the fiscal pressures of rising health insurance costs for school districts as a result of testimony provided at their three regional town hall meetings held in February 2005. These town hall meetings were held in Fresno, Salinas, and San Diego.

Given large and growing liabilities reported in Fresno Unified and other districts highlighted by the LAO, *staff recommends* that the Subcommittee adopt the LAO's recommendations. It appears that the size and scope of retiree health benefit liabilities have been somewhat hidden until recently. The LAO's recommendations to formalize reporting and review of these expenditures at the state and local level are very reasonable steps for developing a better understanding of this issue and for controlling these costs through improved fiscal oversight by COEs.

Staff notes that there may be additional costs associated with placing new responsibilities on districts, COEs and CDE as recommended by the LAO. On the other hand, these responsibilities might fall within the realm of the existing review responsibilities for COEs. *Staff recommends* that the Subcommittee clarify these costs at the hearing.

OUTCOME:

ISSUE 4: Federal Funds Overview – Information Only

DESCRIPTION: The Governor's Budget estimates that California will receive $7.5 billion in federal funds for K-12 education in 2005-06, which represents a decrease of $51 million (0.7 percent) in the budget year. The Department of Finance will update its federal fund estimates at May Revise to reflect the latest figures from the federal government. According to the Department of Education, the Governor's Budget underestimates federal funds appropriated through the California Department of Education by $125 million in 2005-06, and as a result federal funding overall should actually increase by $75 million in 2005-06.

BACKGROUND: Of the $7.5 billion in federal funds proposed in the Governor's Budget, $6.9 billion is appropriated through the California State Department of Education (CDE). Approximately $600 million in additional federal grant funds are appropriated directly to local school districts or schools.

The $6.9 billion in federal funds for CDE in the Governor's Budget is appropriated from three major federal agencies – the U.S. Department of Education, U.S. Department of Health and Human Services, and the U.S. Department of Agriculture. Four specific federal programs – child nutrition (school meals); Title I (compensatory education); child development (child care); and special education – provide the most federal funding to K-12 schools in California. These four programs are among the largest federal programs -- of any type -- to our state.

The table below reflects federal funds for these and other programs included in the Governor's Budget for 2005-06. Figures are based upon appropriations for federal fiscal year (FFY) 2005.

Federal Funds -- Agency/Program	**FFY 2005**
US Dept. of Education:	
Title I and Other Programs Authorized Under NCLB	$3,001,295,000
Special Education – IDEA	1,153,212,000
Vocational & Adult Education, Tech. Prep. Education – Perkins & WIA	218,366,000
Subtotal, USDE Funds	***$4,372,873,000***
US Dept of Agriculture:	
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	$1,616,804,000
Subtotal, USDA Funds	***$1,616,804,000***
US Dept of Health & Human Services:	
Child Care – TANF & Child Care and Development Block Grant	$934,042,000
Subtotal, USHHS Funds	***$934,042,000***
Total, Federal K-12 Education Grants to California	***$6,923,709,000***

The Department of Finance plans to update these figures at May Revise to levels contained in Labor/HHS/Education appropriations bill signed by the President in December 2004 as a part of the FFY 2005 omnibus budget package. It is anticipated that federal funding levels will increase by another $125 million translating into an overall increase of $75 million (1.0 percent), rather than a decrease of $51 million (0.7 percent) estimated in the Governor's January 10 budget.

The one percent increase in federal funds to California is significantly lower than federal increases in the last several years. Between FFY 2001 and FFY 2004, federal funding to California for elementary and secondary education programs grew between 8 and 12 percent. (See Appendix C for latest federal estimates of USDE formula grants to California for FFY 2005.)

The FFY 2005 budget includes a 0.80 percent across-the-board reduction for agencies and programs, which provides some explanation for lower federal funds. In addition to somewhat flat funding for most programs, federal appropriations for FFY 2005 include *reductions* to several specific programs. For federal programs that flow through CDE, some reductions include Education Technology State Grants ($27.8 m) and school improvement funding from for State Grants for Innovative Programs ($12.1 m). In contrast, two of the largest federal programs received *some* increases – Title I Basic Grants for Disadvantaged Students ($16.9 m) and Special Education ($59.9 m). Year-to-year changes in federal grants to California that flow through CDE are listed below.

Federal Grants to California That Flow Through CDE *

Budget Item 6110-	Program	FFY 2004	FFY 2005	Change
102-0890	Learn and Serve America	2,339,000	2,690,544	351,544
103-0890	Byrd Honors Scholarship	5,166,000	5,139,000	-27,000
112-0890	Charter Schools	37,822,000	25,107,664	12,774,336
113-0890	State Assessments	32,267,812	33,527,053	1,259,241
119-0890	Title I (Part D) - Neglected and Delinquent	3,249,282	3,240,296	-8,986
123-0890	Title I- Comprehensive School Reform	31,344,563	27,680,353	-3,664,210
	Title V – Innovative Programs	36,429,854	24,372,684	-12,057,170
125-0890	Title III - Migrant Education	127,573,296	126,526,065	-1,047,231
	Title III – Language Acquisition Grants	161,549,115	155,390,437	-6,158,678
126-0890	Title I (Part B) - Reading First Grants	146,145,963	146,981,710	-835,747
136-0890	Title I (Part A) – Basic Grants	1,694,916,121	1,711,604,862	16,688,741
136-0890	Title I - School Support Set Aside	70,621,505	71,316,869	695,364
136-0890	Even Start	31,451,159	27,810,338	-3,640,821
136-0890	Homeless Education	8,500,225	8,644,457	144,232
137-0890	Rural/Low-Income School Program	1,425,730	1,449,457	23,727
156-0890	Adult Education	82,338,152	81,473,634	-864,518
161-0890	Special Education-Entitlement Grants	1,072,636,899	1,132,572,659	59,935,760
	Special Education-Preschool	39,550,707	39,160,720	-389,987
166-0890	Vocational Education	140,027,486	140,277,947	461
180-0890	Education Technology	93,318,376	65,555,871	-27,762,505
183-0890	Safe and Drug Free Schools	53,257,421	52,742,911	-514,510
193-0890	Title II (Part A) Math & Science Partnerships	20,616,756	24,513,072	3,896,316
195-0890	Title II (Part A) – Teacher Quality Grants	341,331,785	339,015,227	-2,316,558
197-0890	21st Century Community Learning	136,981,161	137,174,714	193,553

**Please note: These figures are actual and estimated figures from USDE and will not exactly match budgeted amounts due to carryover funds and funds scheduled in state operations items.*

COMMENTS: *Staff notes* that new federal funds in recent years have been critical to underwriting important programs of interest to the Legislature, for example accountability programs to assist low-performing schools, state assessment programs, after-school programs, early reading programs, programs to support English learners, and special education. While the state has a strong interest in maximizing these funds, several programs – 21st Century Learning Centers, Migrant Education, Title I – Set Aside, Title VI –Assessment, and Reading First have been troubled by large and growing carryover balances. Federal funds remain available for 27 months after appropriation. However, it has been difficult for some of these programs to expend funds within this time period. If not addressed, the state could lose these valuable federal funds. The Subcommittee will consider these issues for specific programs at the hearing today and future hearings.

QUESTION:

1. *How can the Legislature better spend federal funding to avoid large carryover balances?*
2. *What are the challenges of appropriating and expending carryover balances?*
3. *What information does CDE have about future federal funding for California?*

ISSUE 5: Special Education – Allocation of Federal Funds

DESCRIPTION: The Governor's Budget and LAO have developed different proposals for allocating approximately $62 million in additional federal special education funds in 2005-06. The Governor's plan gives priority to increasing grants to LEAs and expanding funds for the new LCI formula. The LAO's plan gives priority to funding mental health related services. Current state law requires that federal funding be used to offset to state growth and COLA expenditures. New federal law now prohibits this practice in states.

BACKGROUND: The Governor's Budget proposes $4.3 billion in special education funding in 2005-06. Of this amount, the budget includes **$1.1 billion** in federal special education funds for students ages 3-21 years in 2005-06. This reflects an increase of $64.7 million in the budget year. Federal funds account for approximately 25.5 percent of the funds in the state special education budget; when accounting for all special education funding, including local funds, the federal share is less. Federal funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The Governor's Budget also proposes **$2.9 billion** in General Fund support (Proposition 98) and **$347.9 million** in property taxes for special education in 2005-06. The table below displays special education funding for 2004-05 and 2005-06.

Dollars in Millions	**2004-05**	**2005-06**	**Dollar Change**	**Percent Change**
General Fund	$2,756.7	$2,891.3	$134.6	4.9 %
Property Taxes	332.6	347.9	15.3	4.6 %
Federal Funds	1,046.2	1,110.9	64.7	6.2 %
TOTALS	**$4,135.5**	**$4,350.1**	**$214.6**	**5.1 %**

Funding Changes Pursuant to 2004 IDEA Reauthorization:

As signed into law in December 2004, the newly reauthorized IDEA includes changes affecting special education funding to states. Most importantly to California, the new federal law prohibits states from using federal funds to offset state mandated funding obligations, including program growth and cost-of-living adjustments (COLAs).

Under current law, the state uses federal funds to offset state growth and COLA payments. While this is not the practice for most other states, California has utilized this practice for more than 25 years, except for a few years following implementation of the AB 602 funding formula in 1997-98. During these years, the offset was placed on hold in order to provide additional resources to equalize special education funding among SELPAs to the statewide target. In the current year, the state used $124 million to offset special education growth and COLA.

The new federal law continues to "authorize", not entitle or guarantee, federal special education funding up to 40 percent of the average state expenditures for special education. States currently receive approximately 20 percent or half of the funding authorized. Federal funding to

California would roughly double if states received funding at the 40 percent ("fully authorized") level.

The new federal law does include a schedule for increasing IDEA funding to the 40 percent level. However, while the IDEA authorizes funding it does not appropriate funds. The President's education budget for FFY 2006 currently proposes funding below the levels scheduled in the reauthorized IDEA.

Allocation of Federal Funding Increase:

The Governor's budget appropriates approximately $62.2 million in new federal funds for special education local assistance in 2005-06. The Governor proposes to expend these funds as follows: $38.1 million to increase the federal contribution of federally mandated special education services pursuant to AB 602, including $20.2 million to increase funding for the new Out-of-Home-Care funding formula and $17.2 million for other baseline increases; as well as $24.8 million as a pass-through for special education formula grant increases to LEAs.

The LAO recommends an alternative expenditure plan for the new federal funds. The LAO proposes to use the $62.2 million in federal funds as follows: $42.8 million to support mental health related services for special education students; $2.2 million as a technical adjustment to add a small number of resident counts (budget year) to the new LCI (Licensed Children's Institution) formula; and $17.9 million for other purposes.

In addition, the LAO has identified another $26.6 million in one-time, special education savings in a prior year that must be used for special education purposes. The LAO proposes to use $2.2 million to add resident counts (current year) to the LCI formula and use the remaining funds as a one-time block grant to LEAs.

The Governor's Budget utilizes $38.1 million to offset federal funds; however, the Administration reports they do not offset General Fund growth and COLA expenditures in a manner that might be prohibited by the federal law. The LAO recommends that the Legislature separate state and federal funding for budgeting purposes and use federal funds to pay for growth and COLA for federal programs. According to the LAO, this would comply with the supplanting provisions of the new federal law.

RECOMMENATIONS/COMMENTS: *Staff recommends* that the Subcommittee delay action on special education items until after May Revise. The LAO has presented several options for the Legislature to consider during this time. It is also very likely that the Administration will update their proposal at that time. It is important to point out that the reauthorized IDEA was not signed into law until December 2004, so there was not much time for the Administration to interpret and integrate new funding requirements in the budget.

The three following agenda items provide additional detail on several of the individual program proposals summarized in this item.

ISSUE 6: Mental Health Related Services

DESCRIPTION: The Governor's Budget recommends suspending AB 3632 mandates on counties and shifting responsibility for mental health related services to education. This would require legislation that would be worked out in various policy committees. The LAO also recommends shifting responsibility for mental health services to schools, but on a permanent basis. The LAO also recommends providing $42.8 million in additional funds to LEAs to provide these needed services.

BACKGROUND: The Governor's Budget recommends suspending two mandates that require counties to provide mental health related services to special education students. State legislation passed in the mid-1980s – AB 3632 -- shifted responsibility for mental health related services from the schools to counties, and created a reimbursable state mandate as a result.

While AB 3632 shifted responsibility to counties, mental health related services for students with disabilities are specifically mandated under federal special education law. State and local education agencies are ultimately responsible for assuring the provision of these services to students with disabilities under federal law.

The Governor's 2005-06 budget proposes to continue current year funding of $100 million for mental health related services for students with disabilities in the K-12 budget. This amount includes $69 million in federal funds to reimburse counties for AB 3632 services and $31 million in General Funds for mental health pre-referral services provided by SELPAs (Special Education Local Planning Areas).

The Governor does not propose any county funding for mental health related services. In addition, the Governor's proposed suspension would appear to eliminate any requirement on counties for providing these services under the provisions of Proposition 1A, which was passed by voters last November. Under this scenario, counties could not claim reimbursements for AB 3632 services.

LAO Proposal: The LAO recommends permanently assigning responsibility for mental health related services to SELPAs. According to the LAO, shifting responsibility to schools would result in a more effective and efficient delivery of services. Under the current mandate reimbursement system, counties have an incentive to inflate costs. In addition, since SELPAs can refer students to counties they have no incentives for providing early intervention services that could reduce the need for more costly and intensive services.

Under the LAO's model, SELPAs could provide services either directly or indirectly through counties. SELPAs currently contract out for many special education services, most notably with non-public schools and agencies. SELPAs could continue to collaborate with county mental health agencies in the delivery of services in order to meet student needs in the most effective and efficient manner.

According to the LAO, the annual cost of providing mental health related services under AB 3632 totals $143 million. The LAO has identified $143 million in special education funds within the K-12 budget to cover these costs in 2005-06. Specifically, the LAO utilizes the $100 million in existing education funds continued by the Governor and recommends the addition of $43 million from new funds available for special education in 2005-06.

The LAO further recommends all of the $100 million in existing special education funds be rolled into the base to give SELPAs more flexibility for providing services. Currently, the $69 million is allocated to county offices of education to transfer to county mental health, which does not provide options for school districts to provide services directly if they choose. The remaining $31 million is available for early mental health services intended to prevent the need for more intensive and costly services.

SB 1895 Report: As enacted, SB 1895 (Burton) requires the Superintendent of Public Instruction to submit a report to the Legislature by April 1, 2005, that includes specific information and recommendations relating to the provision and monitoring of mental health related services. The report was not available in time for this agenda; however, CDE will provide the report to the Subcommittee at the April 4th hearing and summarize their findings and recommendations.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay any action on mental health related services until after May Revise. The Administration's proposal has opened up discussion about how to fund and provide mental health related services to students with disabilities.

Staff notes that the LAO has identified some additional education funds available in 2005-06 that the Subcommittee could provide for these services. *Staff also notes*, that if responsibility was assigned to schools, the SELPAs would need additional flexibility in utilizing funds for service delivery, as recommended by the LAO. In this way, SELPAs could choose to provide services or continue to contract with county mental health agencies for services. *Staff further notes* that in order to assure the continuation of high quality services for students with disabilities, the Subcommittee could consider establishing independent monitoring of services and augmenting statewide training for the transition period, at least. Training should reflect research and best practice and could also reflect model programs that involve effective collaboration between schools and county mental health agencies.

ISSUE 7: Special Education – Licensed Children's Institutions (LCI) Formula Adjustments

DESCRIPTION: The Governor's Budget proposes to increase funding for the LCI formula by $20.2 million. The LAO favors other expenditure options at this time, but recommends technical adjustments to the LCI formula to recognize residents of community care facilities. Adding counts for these residents would increase ongoing funding by $2.2 million. The Subcommittee may wish to consider options for changing the base year for the LCI formula from 2002-03 to 2003-04 to reflect more up-to-date expenditures for SELPAs. The base year has importance for determining the hold harmless levels for SELPAs under the formula.

BACKGROUND:

Governor's Proposal to Increase LCI Formula Funding: The Governor's Budget proposes an augmentation of $20.2 million to increase funding for the new LCI funding formula. This augmentation would provide a second installment of funds, bringing total funding to $187.9 million in 2005-06. The 2004-05 budget provided an initial augmentation of $34.8 million. Full funding of the program, under the model established by the AIR study, would cost over $205 million.

LAO Proposal to Make Technical Adjustment to LCI Counts: The LAO recommends that the Legislature adopt trailer bill language to change the statute establishing the new Licensed Children's Institutions (LCI) funding formula in order to recognize residents of community care facilities. These residents were unintentionally left out of the LCI counts utilized by the new formula. This proposal would increase costs by $4.4 million -- $2.2 million in the current year and $2.2 million in the budget year. The LAO recommends using one-time special education funds to pay for the current year adjustment and using federal funds to pay for the ongoing costs of adjustment.

Changes to the Base Year: The new LCI formula, as contained in statutory provisions contained in the budget trailer bill last year (SB 1108), contain hold harmless provisions for SELPAs. Under these provisions, SELPAs that are predicted to lose funding under the new formula, would be held harmless for two years for reductions below their 2002-03 reimbursement funding level. After two years, SELPA funding ratchets down to the new formula levels over a five year period.

Due to concerns about irregular and possibly inflated reimbursement claims from SELPAs in 2003-04, there was consensus for using 2002-03 as the base year for establishing hold harmless levels. According to CDE, irregularities in the 2003-04 data have now been corrected. For this reason, there is interest among SELPAs for changing the base year from 2002-03 to 2003-04. The purpose of these requests is to increase the level of hold harmless funding for SELPAs.

It is not yet known what a change in the base year would mean for all SELPAs. CDE has recently certified reimbursements for both 2002-03 and 2003-04. Reimbursements to SELPAs increase by more than $10 million during this time. However, claims did not uniformly increase for all SELPAs. It is also not known how these changes affect new estimates of winners and losers that will be developed by CDE during the month of April.

If the base year is changed, it would increase the amount of funding going to hold harmless SELPAs and decrease new funding for SELPAs that are winners under the new formula, unless new funding is provided.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee request that the LAO and CDE (1) review certified reimbursement claims for 2002-03 and 2003-04, together with the April formula counts for 2004-05, and (2) develop options for updating the base year formula. *Staff recommends* that LAO and CDE provide options to the Subcommittee at May Revise.

Staff recommends **that the Subcommittee delay action on all other issues in this item until after May Revise when the Subcommittee takes actions on other special education items.** *At that time, staff recommends* that the Subcommittee approve of the LAO recommendation to adopt budget trailer bill language to add community care facility counts for youth to the LCI formula. At that time, *staff also recommends* that if such funds are not needed for maintaining mental health related services, the Subcommittee give high priority to providing additional funding for the LCI formula, as recommended by the Governor.

OUTCOME:

ISSUE 8: Special Education – Special Disability Adjustment

DESCRIPTION: The LAO recommends that CDE report to the Subcommittee on the costs and feasibility of having the department assume responsibility for annual recalculation of the special incidence adjustment.

BACKGROUND: The incidence adjustment is a calculation that is included as a part of the AB 602 funding formula in order to account for students with high cost, low incidence disabilities. When AB 602 funding reforms were enacted in the late 1990s, the funding model changed from a model based upon the number of special education students to a model based upon the general school population. At that time, there was concern that the new model would not recognize the high costs for some special education students. To address that issue, AB 602 required a study to recommend a low incidence, high cost disability adjustment.

The resulting study, published by the American Institutes of Research (AIR) in 1998, recommended the creation of the incidence factor that was added to the AB 602 funding formula. That same study recommended that the formula be updated every five years. As a result, the Legislature funded another study, published by AIR in 2003.

The latest AIR study is intended to update the adjustments now in place. The recommendations would make substantial changes to definitions, costs, and allocations for the incidence adjustments now in place among SELPAs. In addition, the recommended revisions to the incidence adjustment interact with the recommended LCI formula in ways that are not well understood.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee have CDE report at this hearing on the feasibility of conducting a recalculation of the special incidence formula. *Staff further recommends* that the Subcommittee request that LAO and CDE assess the impact of implementing the AIR recommendation for SELPAs and develop implementation alternatives for the Subcommittee to consider at its May 2nd hearing.

Staff notes that because the existing incidence adjustment expires at the end of the fiscal year, budget bill language is needed to continue the existing formula in the budget year.

OUTCOME:

ISSUE 9: Assessment

DESCRIPTION: The Governor's Budget proposes to continue state General Fund and federal funds for state assessment with small changes in 2005-06.

BACKGROUND:

Governor's Budget. The Governor's Budget proposes expenditures of $117.1 million for development and administration of student assessments statewide in 2005-06. Of this amount, the budget proposes expenditure of $85.7 million in General Funds and $31.3 million in federal Title VI funds. The following table summarizes assessment expenditures proposed by the Governor in 2005-06.

Governor's Budget – Student Assessment	General Fund	Federal Funds – Title VI	Total
STAR Program	$63,946,000	$2,180,000	$66,126,000
STAR Test Development	1,407,000	535,000	1,942,000
CELDT Assessment	11,437,000		11,437,000
CELDT Assessment		10,156,000	10,156,000
CELDT Vertical Scaling Project		300,000	300,000
High School Exit Exam	6,761,000	8,121,000	14,882
High School Exit Exam Workbooks		2,500,000	2,500,000
High School Exit Exam: Evaluation of Instruction		261,000	261,000
Primary Language Test Development		3,000,000	3,000,000
California Alternate Performance Assessment		2,200,000	2,200,000
Alternative Schools Accountability Model		775,000	775,000
Assessment Reporting and Review	2,313,000	600,000	2,913,000
NCLB AYP Reporting		650,000	650,000
California High School Proficiency Exam	1,020,000		1,020,000
Reimbursements	-1,020,000		-1,020,000
	$85,864,000	**$31,278,000**	**$117,142,000**

The Governor proposes two small changes to assessments in 2005-06. The Governor proposes a General Fund increase of $5.6 million for assessment programs to replace one-time federal funding available in 2004-05. In addition, the Governor proposes $4.5 million in additional funding as a baseline adjustment to reflect workload factors.

Federal Title VI Funds. Federal Title VI funds for State Assessments provide states with funds to help cover the costs of meeting the assessment and data requirements of NCLB, including developing or improving assessments, developing curriculum and performance standards, expanding testing accommodations for English learners and students with disabilities, developing student data systems to track achievement and other indicators – *such as graduation rates* – required by No Child Left Behind (NCLB), and increasing local capacity for improving student achievement.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee approve this item after May Revise when Governor revises estimates for federal Title VI funds. *Staff further recommends* that the Subcommittee consider budget bill language directing the balance of any unused Title VI funds available in 2005-06 (and any carryover funds from previous years) to expedite development of student graduation rates required by NCLB.

OUTCOME:

ISSUE 10: Accountability

DESCRIPTION: The Governor's 2005-06 budget proposes to continue funding for several federal accountability grant programs reflecting allocation levels and patterns in the current year budget, absent one-time carryover funds. However, new requirements under the No Child Left Behind Act (NCLB) facing California may require the Legislature to revisit the allocation of federal accountability funds in the budget year. Most notably, the recent identification of 150 new school districts in our state requiring program improvement may require additional funding or at the very least a reallocation of funding as currently proposed. In addition, there have been problems with expending federal accountability funds in a timely fashion. This has resulted in the accumulation of excess carryover funds for some federal programs, specifically Title I – Set Aside funds for school improvement.

BACKGROUND:

Governor's Budget: The Governors Budget proposes to expend $339.7 million for accountability programs for underperforming schools in 2005-06. Of this amount, $93.5 million (36 percent) is federal funding and $246.2 (64 percent) is state General Fund. Most of this funding is utilized to provide limited-term, school improvement grants to low-performing schools and districts. Funding for specific state- and federally-funded accountability programs, as proposed by the Governor's 2005-06 budget, is summarized in the table below.

Item: 6610-	Program	Federal Funds	State General Fund	Total , All Funds
123	School Grants -- II/USP Program ($200/pupil)	0	$7,519,000	**$7,519,000**
123	School Grants – High Priority (HP) Schools Program ($400/pupil)	0	238,689,000	**238,689,000**
123	School Grants - Program Improvement and other Schools ($200/pupil)	40,078,000 (Title I- School Reform)	0	**40,078,000**
136	State System of School Support Team for Program Improvement Schools/Districts	$10,000,000 (Title I- Set Aside)	0	**10,000,000**
136	School Assistance & Intervention Teams (for II/USP and HP Schools	8,600,000 (Title I- Set Aside)	0	**8,600,000**
136	District/School Grants: Assessment funds for Program Improvement or At-Risk Districts ($10,000/school; $50,000/district)	34,809,000 (Title I- Set Aside)	0	**34,809,000**
136	School Grants – Funding for Implementation of Corrective Actions ($150/pupil)	13,600,000 (Title I- Set Aside)	0	**13,600,000**
	Total, All Programs	**$93,487,000**	**$246,208,000**	**$339,695,000**

California maintains two different, but related accountability systems – one state and one federal -- that provide assistance and define sanctions for low-performing schools and districts.

State General Funds are utilized exclusively for state programs. Most funding is provided for the state's High Priority (HP) Schools program, which provides intervention grants to schools in Deciles 1 and 2 of the Academic Performance Index (API). There are currently 659 schools participating in the HP program. State funding for the Intermediate Intervention/ Underperforming Schools (II/USP) program, targeted to schools in Deciles 1 -5 of the API is minimal. In 2005-06, the state will make a final deferral payment for activities conducted in the current year for the third and final cohort of the II/USP program. Greater priority has been given to the HP program, which focuses resources on the state's lowest performing schools.

Federal funds are utilized for a variety of different improvement grants for both schools and districts that have been identified as needing program improvement under the No Child Left Behind Act (NCLB). Federal funds are also used for sanctions for schools and districts in the state and federal programs that have failed to make improvements. There are currently 1,626 schools and 150 districts that have been deemed as needing program improvement.

Federal funds are also utilized for both state and federal program sanctions. To date, sanctions have involved the assignment of independent intervention teams to schools that are not making progress. State System of School Support Teams are utilized for Program Improvement (PI) schools and districts under NCLB, whereas, School Assistance and Intervention Teams are utilized for HP and II/USP schools.

There are two sources of federal accountability funding that are available to states for improvement of low-performing schools including: Title I – Part A Set-Aside Funds and Title I – Comprehensive School Reform Grants.

Allocation of Title I –Set Aside Funds

Federal law requires that states set-aside four percent of their Title I -Part A grant funds for school improvement purposes. Prior to 2004-05, states were required to set-aside two percent of their Title I grants. These funds are to be used to assist schools and districts identified for program improvement.

On March 8, 2005 Superintendent of Public Instruction announced an agreement with the US Department of Education on changing the criteria for identifying program improvement (PI) districts. USDE had earlier challenged California's criteria for failing to comply with NCLB. As a result of this agreement, CDE has designated 150 PI districts. The CDE and DOF are currently discussing whether to provide funding for these districts in the current year. This development may also require a fundamental rethinking of the Governor's 2005-06 budget as it relates to the allocation of federal Title I – Set- Aside funding for program improvement in particular. The Governor's Budget proposes $38.4 million in Title I – Set-Aside funds for districts in program improvement.

In total, the Governor's Budget provides $67.0 million in federal Title I –Set Aside funds in 2005-06. This figure is likely to increase to approximately $71 million at May Revise to reflect more recent federal Title I estimates for FFY 2005. Depending upon how CDE and DOF resolve the current year funding for districts in program improvement, there may be carryover from the current year.

Last year, there was concern that the state had not expended enough of its Title I Set-Aside funds in the previous two years, and that the state had accumulated large carryover balances that would need to be spent in 2004-05 and 2005-06 in order to avoid reversion. The 2004-05 budget contained more than $31 million in Title I- Set Aside carryover funds from previous years. Federal funds are available for 27 months after appropriation. If funds remain unexpended after this time period, they must revert to the federal government.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee direct LAO to work with CDE and DOF to develop options for dealing with the additional program improvement districts in the current year and establish priorities for limited funding given different district needs (e.g. some districts were identified PI on the basis of participation rates only).

QUESTIONS:

1. *What are the program requirements and costs associated with identification of 150 new program improvement districts?*
2. *Does the Legislature need to reassess the provisions of AB 2066 (Steinberg/2004) as it relates to programs and expenditures for districts in program improvement?*
3. *What assurances can CDE provide that the state will not lose any unspent federal Title I –Set Aside funds in the 2005-06?*
4. *What is the Governor's plan for spending Title I Set-Aside funds in the budget year, particularly as it relates to utilizing one-time carryover funds?*

OUTCOME:

ISSUE 11: Williams Settlement Funding

DESCRIPTION: The Governor's budget proposes two augmentations in 2005-06 for low performing schools pursuant to the 2004 Williams lawsuit settlement, as reflected in legislation passed in 2004 to reflect that settlement. Specifically, the budget provides a $45 million General Fund augmentation to fund a new cohort of the High Priority Schools program. In addition, the Governor appropriates $100 million from the Proposition 98 Reversion Account for emergency facility repairs to schools in Deciles 1 to 3 on the Academic Performance Index (API).

BACKGROUND: The *Elizier Williams v. State of California* (Williams) lawsuit was a class action suit filed in Superior Court in 2000 on behalf of nearly 100 San Francisco student plaintiffs. The plaintiffs alleged that the State of California and state education agencies failed to provide public school students with access to qualified teachers, instructional materials and clean and safe school facilities. Agreements were reached by parties during August 2004. The notice of settlement was approved by the San Francisco Superior Court in December 2004.

Funding Required for Williams Settlement: The 2004-05 budget package included $188 million in one-time funding specifically for the Williams settlement agreement, which was still underway in the final days of the budget. For this reason, agreements were further specified in a number of bills enacted at the 2004 session. Funds appropriated in 2004-05 for the Williams settlement include:

- $138 million in one-time funding for instructional materials for students in Deciles 1 & 2 of the API.

- $50 million in one-time funds that were "set-aside" (not appropriated) in the budget package for "other" Williams settlement costs. This $50 million was later appropriated by SB 550. Funds were provided for the following purposes, as specified in both SB 550 and SB 6:

  - $15 million for County Office of Education oversight of schools in Deciles 1, 2, and 3 of the API to assure for teacher misassignment, condition of school facilities, and adequacy of instructional materials.

  - $5 million to the CDE for the purchase of textbooks. These funds are an advance as they will be repaid by districts.

  - $ 5 million for Emergency School Repairs.

  - $25 million for the School Facilities Needs Assessment Program.

In addition to funding included in the 2004-05 budget package, SB 6 and SB 550 contained two significant future funding requirements:

- SB 550 requires that new schools be added to the High Priority (HP) Schools program when current schools are phased out and that overall funding for the program is maintained at $200 million annually.

- SB 6 requires that commencing with the 2005-06 Budget Act, and every year thereafter, the state transfer **$100 million** or 50 percent of the funds appropriated from the Proposition 98 Reversion Account, *whichever is greater*, to the School Facilities Emergency Repair Account (SFERA). This program provides grants to school districts in Deciles 1-3 of the 2003 API. SB 6 requires that funds shall be transferred into the account until a total of $800 million has been disbursed from the SFERA. SB 6 authorizes the Legislature to transfer other one-time funds to the SFERA.

The Governor's 2005-06 budget proposes two appropriations that are consistent with the Williams funding requirements contained in SB 6 and SB 550. These appropriations include:

- **$45 million** in General Funds to fund a new cohort of the High Priority Schools Grant Program in 2005-06. This would bring total funding for the program to $238.7 million in 2005-06. Department of Finance estimates that $45 million will provide funding to 180 additional Decile 1 schools (assuming 400 students per school).

- **$100 million** in funding from the Proposition 98 Reversion Account to fund emergency facility repairs in Decile 1-3 schools. Funds will be provided to the School Facilities Emergency Repair Account and allocated by the State Allocation Board. Current law requires $100 million, or 50 percent of Proposition 98 reversion funds, whichever is greater. For this reason, this appropriation will increase at May Revise if Proposition 98 Reversion Account funds increase.

The Governor does not propose to continue any of the $188 million in one-time funding appropriated for Williams settlement purposes in 2004-05. However, the Governor does propose to continue augmentations – even small increases -- for the Instructional Materials Block Grant and the Deferred Maintenance programs in 2004-05. These current year augmentations were *related* to the Williams settlement. These two programs are presented later in the agenda.

For the HP new cohort, the LAO suggests that the Legislature should not create a new HP cohort until it(1) reassesses the state's intervention strategy in low performing schools and districts, and (2) determines the funding mechanism and source of funds for HP schools that failed to make significant progress over the last three years.

RECOMMENDATION: *Staff recommends* approval, but notes that the appropriation for the School Facilities Emergency Repair Account could increase above $100 million at May Revise if Proposition 98 reversion funds exceed budgeted levels.

OUTCOME:

ISSUE 12: Instructional Materials

DESCRIPTION: The Governor proposes $380.3 million in 2005-06 for the Instructional Materials Block Grant. This proposal continues funding at 2004-05 levels, adjusted for growth and COLA. The one-time set-aside of $30 million for supplemental materials for English learners established in 2004-05 is eliminated, but funding is retained for ongoing instructional materials programs.

BACKGROUND: The Instructional Materials Block Grant program provides funding to school districts for the purchase of standards-aligned instructional materials for students in grades K-12. Funding is allocated to districts on the basis of enrolled students in grades K-12.

The 2004-05 budget includes $363 million in ongoing funds for the Instructional Materials Block Grant, which represents an increase of $188 million from the 2003-04 budget. This augmentation was related to the Williams lawsuit settlement. Of the $188 million in additional funds, $30 million was set-aside on a one-time basis for supplemental materials for English Learners.

The LAO does not take issue with the Governor's proposal.

RECOMMENDATION: *Staff recommends* approval as budgeted**.**

OUTCOME:

ISSUE 13: Deferred Maintenance

DESCRIPTION: The Governor's 2005-06 budget proposes $267.4 million in ongoing funding for the Deferred Maintenance program, an augmentation of $29.6 million in ongoing funding above 2004-05 levels. The Governor proposes this augmentation to fully fund the program at the level required in statute.

BACKGROUND: The state Deferred Maintenance program provides state and local funding for major repair or replacement of school facilities. The State Allocation Board allocates funds to applicant local school districts, which are required to fully match state dollars in order to participate in the program.

Deferred maintenance, which is different from routine maintenance, is defined as the repair or replacement work performed on a school facility that is not performed on an annual, ongoing basis, but is planned for the future and part of each district's five year plan. Typical projects include major maintenance and infrastructure projects such as exterior painting, roof replacement, and long-term repairs to electrical, heating, and plumbing systems.

Education Code 17584 requires the state to provide funding equal to 0.05 percent of district revenue limits and other funds for the Deferred Maintenance program. The Deferred Maintenance program is not subject to statutory growth and COLA adjustments.

The 2004-05 budget package included $250 million in ongoing funding for Deferred Maintenance, which represented an increase of $173 million over 2003-04 funding. This augmentation was related to the Williams lawsuit settlement. Of the $250 million provided in 2004-05, approximately $12 million was one-time funding and $238 million was one-time funding.

The LAO recommends approval of the Governor's proposal.

RECOMMENDATION: *Staff recommends* approval as budgeted.

OUTCOME:

Appendix A.

First Interim Status Report, 2004-05

www.cde.ca.gov/fg/gi/ir/first04.05.asp

Appendix B.

Budget Control Section 12.40: Categorical Programs and Transfer Authority

Budget Act Sec. 12.40 Categorical Flexibility

$ in thousands

			Proposed Limits	
	2005-06		**10% out**	**15% in**
6110-111-0001	$515,196	home to school transportation	$51,520	$77,279
6110-119-0001	$9,477	educational services for foster youth	$948	$1,422
6110-122-0001	$5,562	specialized secondary programs	$556	$834
6110-124-0001	$46,110	gifted & talented pupil program	$4,611	$6,917
6110-128-0001	$585,176	economic impact aid	$58,518	$87,776
6110-151-0001	$4,688	American Indian education	$469	$703
6110-167-0001	$4,698	vocational education	$470	$705
6110-181-0001	$16,038	education technology programs	$1,604	$2,406
6110-193-0001	$29,580	staff development	$2,958	$4,437
6110-203-0001	$85,018	child nutrition	$8,502	$12,753
6110-209-0001	$43	teacher dismissal apportionments	$4	$6
6110-224-0001	$88,145	year-round school grant program	$8,815	$13,222
	$1,389,731			

Appendix C.

Funds for State Formula – Allocated and Selected Student Aid Programs
U.S. Department of Education
California

http://www.ed.gov/about/overview/budget/statetables/06stbystate.pdf

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, April 4, 2005
1:30 pm
Room 113, State Capitol
OUTCOMES

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.

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Financial Status of School Districts – Information Only

DESCRIPTION: Presentation by Tom Henry, Chief Executive Officer and Joel Montero, Deputy Executive Officer, Fiscal Crisis & Management Assistance Team (FCMAT) on the financial status of school districts.

BACKGROUND:

Interim Financial Status Reports. Current law requires school districts and county offices of education (LEAs) to file two interim reports annually on their financial status with the California Department of Education. First interim reports are due to the state by January 15; second interim reports are due by April 15.

As a part of these reports, LEAs must certify whether they are able to meet their financial obligations. The certifications are classified as positive, qualified, or negative. A positive certification indicates that a LEA will meet its financial obligations for the current and two subsequent fiscal years; whereas a qualified certification indicates a LEA may not meet its financial obligations during this period. Under a negative certification, LEAs are unable to meet their financial obligations in the current year or in the subsequent fiscal year.

According to the First Interim Report for 2004-05 – the most recent report available – there are currently ten school districts with negative certifications and 50 school districts with qualified certifications. [See Appendix A for a complete list.] The ten school districts with negative certifications listed below will not be able to meet their financial obligations for 2004-2005 or 2005-2006.

District	County	Budget
Auburn Union Elementary	San Bernardino	$17 million
East Side Union High	Santa Clara	$204 million
Fresno Unified	Fresno	$603 million
Hayward Unified	Alameda	$175 million
Los Molinos Unified	Tehama	$5 million
Oakland Unified	Alameda	$425 million
Oro Grande Elementary	San Bernardino	$1 million
Salinas City Elementary	Monterey	$63 million
West Fresno Elementary	Fresno	$8 million
Vallejo City Unified	Solano	$146 million

Six districts have joined the latest negative status list – Auburn Union Elementary, East Side Union Elementary, Fresno Unified, Los Molinos Unified, Oro Grande Elementary, and Salinas City Elementary. Three other districts – Berkeley Unified, Corning Union Elementary, Livermore Valley Joint Unified – moved from the negative list to the qualified list.

Three school districts on the negative certification list – Oakland Unified, West Fresno Elementary and Vallejo Unified – have received emergency loans from the state. Two other school districts – West Contra Costa Unified and Emery Unified -- have emergency loans with the state, but are not on either the negative or qualified certification lists.

The numbers of school districts with negative and qualified certifications will reportedly increase when the Second Interim Report for 2004-05 is released by CDE later this spring.

Financial Pressures Facing School Districts. The LAO has identified four major financial pressures facing school districts that they will discuss at the subcommittee hearing today. These pressures include:

(1) Lower revenues due to declining enrollment;
(2) Restoration of state required reserves;
(3) Restoration of operating balances; and
(4) Higher costs for wage increases and health premiums/benefits.

The LAO will present proposals for addressing declining enrollment and health costs later in the subcommittee agenda.

Budget Flexibility Budget trailer bill language contained in AB 1754 (Chapter 227; Statutes of 2003) provided K-12 local education agencies (LEAs) with limited-term flexibility in accessing education reserves and balances of restricted funds in order to mitigate revenue limit reductions in the 2003-04 budget. Flexibility was provided in three general areas:

- Reduce minimum reserves for economic uncertainty to a range of .5 to 2.5 percent of budget (half the statutory level) in 2003-04 and 2004-05.
- Reduce school district maintenance reserves from 3 to 2 percent in 2003-04.
- Permit LEAs to access the 2002-03 ending balances for most categorical programs.

As indicated by LAO, restoration of statutory reserves and operating balances has created financial pressures for LEAs.

Control Section 12.40 of the budget gives LEAs additional budget flexibility allowing them to shift limited amounts of funding among categorical programs. This control section was added to the 1999-2000 budget to retain some of the transfer authority among categorical programs included in a budget “mega-item” that was eliminated that year. The original control section allowed transfer of up to 20 percent of funding out of any program and to transfer up to 25 percent into a program in the control section. The authority was lowered to 10 percent “out” and 15 percent “in” beginning in 2003-04 given the significant, limited-term budget flexibility provided to LEAs that year. The Governor’s 2005-06 budget continues this same level of flexibility for twelve categorical programs. (See Appendix B for list.)

QUESTIONS:

1. *Do you agree with the LAO's list of financial pressures facing school districts? What other factors are at play?*
2. *Chapter 52, Statutes of 2004 (AB 2756/Daucher) strengthens fiscal oversight of school districts, in particular county review and authority over school district budgets. Are county offices utilizing this new authority?*
3. *Are there additional reforms – beyond those contained in Chapter 52 – that the Legislature should consider to improve fiscal oversight of LEAs?*
4. *AB 1754 requires LEAs to report ending balance transfers – programs and amounts to the Superintendent of Public Instruction and the Joint Legislative Budget Committee in a timely manner. What do these reports tell us about the usefulness of ending balances in helping LEAs meet their budgets?*
5. *LEAs are required to report annually to the Department of Education on any amounts shifted between categorical programs pursuant to Control Section 12.40 of the budget. How would you assess the categorical funding transfers provided by Control Section 12.40?*

ISSUE 2: Declining Enrollment

DESCRIPTION: The LAO recommends that the Legislature address the financial pressures faced by many districts as a result of declining enrollment. An estimated 412 (42 percent) of school districts statewide are currently experiencing enrollment declines. Since school age population growth is predicted to decline further in the next five years, the number of declining enrollment districts is expected to climb. Current law allows districts to *delay* revenue limit reductions associated with enrollment declines for one year. The LAO proposes an *additional* option for districts. This option would *permanently increase* revenue limit funding for *most* declining enrollment districts whose revenue limits are below the statewide equalization target. Annual increases would be capped at five percent a year. Declining enrollment districts at the statewide target would continue to have the ***one year*** hold harmless provisions allowed under current law. The LAO also recommends consolidation of most revenue limit add-on programs within base revenue limits programs prior to any equalization.

BACKGROUND: The LAO's revenue limit proposal blends features that address both revenue limit equalization and declining enrollment, as well as, consolidation of revenue limit programs.

Declining Enrollment:

Data from the California Department of Education indicate that 412 school districts (42 percent) experienced declining enrollment in 2003-04. According to the LAO, additional data suggests that most of these districts also experienced declining enrollment.

According to the latest population estimates, the LAO predicts that statewide K-12 attendance growth will continue to fall over the next several years and by 2008-09 there will be no enrollment growth. For this reason, the LAO estimates that a large number of districts will continue to face declining enrollment. In addition, some of the 589 districts that are currently growing will start to decline.

The LAO reports most declining enrollment districts are small – reflecting the composition of districts statewide. However, 35 districts have more than 10,000 students (and of these 12 have more than 25,000 or 50,000 students). Approximately 27 percent of the state's students attend declining enrollment districts. The average enrollment loss to school districts is 1.7 percent; but one-quarter of districts reported declines of more than 5 percent.

On face, declining enrollments translate into declining costs to school districts (i.e. fewer students, fewer teachers, etc.). However, districts don't save as much in costs as they lose in revenues. At the most basic level, when districts reduce their teaching force, they reduce their less experienced, lower paid teachers.

Equalization:

The LAO estimates that most declining enrollment districts have revenue limits that are below the state equalization target set at the 90th percentile of districts of different size (small and large) and types (elementary, high, unified). Reportedly, most districts are within 10 percent of this target. The LAO estimates the cost of bringing all declining enrollment districts to the 90th percentile at approximately $130 million, and the cost of bringing school district revenue limits in the state to the 90th percentile is estimated at around $450 million.

Consolidation:

In addition to base revenue limits, there are nine adjustments or revenue limit add-on programs. Base revenue limits account for 95 percent of revenue limit funding; revenue limit add-on programs – totaling nearly $1.6 billion annually account for the remaining 5 percent. Revenue limit add-on programs include: teacher salary incentive program; the Unemployment Insurance program; PERS offset; longer school days and year incentives; Meals for Needy Pupils, etc. Since revenue limit add-on programs are allocated very unevenly among districts, they contribute to revenue limit funding inequities among school districts. However, they are not included in revenue limit equalization calculations. For this reason, the LAO recommends that five revenue limit add-on programs be consolidated into base revenue limits to more accurately equalize general purpose funding among school districts.

Governor's Budget: The Governor's Budget does not address the issue of declining enrollment directly, but does propose $329 million in revenue limit deficit factor payments in 2005-06. The 2004-05 budget package appropriates $110 million for K-12 revenue limit equalization funding for school districts (not county offices), setting the target at the 90th percentile of districts within each size and type. The Governor does not propose additional funding for equalization in 2005-06.

Costs of LAO Proposal: There are no budget year costs with the LAO's proposal. However, there would be additional costs of approximately $25 to $60 million per year in 2006-07 for equalization payments to eligible declining enrollment districts. This cost would increase over time as districts take advantage of this option each year. Annual costs will depend upon the number of districts that opt for the proposed adjustment instead of the one year hold harmless provision allowed under current law. The estimated cost of equalizing revenue limits for *all* school districts in the state in approximately $450 million.

Legislation: Several bills that address equalization and declining enrollment have been introduced this session, including:

- **SB 958 (Simitian) –** Allows declining enrollment districts to calculate revenue limit funding using the average ADA over a two period, if they have been in decline for two years, or over a three year period if they have been in decline for three years or more.
- **AB 1503 (Mullin)** - Allows declining enrollment districts to claim 60 percent of the difference between ADA in the year prior to the first year of decline and ADA in subsequent years of decline.
- **AB 60 (Nunez)** - Revises computation factors of revenue limit equalization adjustment to be based on: a) enrollment instead of ADA; b) elementary, high school, and unified districts without respect to size; c) all unrestricted funding, not just base revenue limits.

COMMENTS/RECOMMENDATIONS: Staff believes that the LAO's proposal has merit, but has significant out year costs at a time when schools face other significant, outstanding funding obligations. However, the Subcommittee may wish to study the LAO's proposal further as a possible option for using additional funding beyond growth and COLA in future years. Funding for this purpose would have to be weighed against other funding priorities the Subcommittee has already discussed including revenue limit deficit factor and education mandate payments, with the caveat that decisions would affect costs in the 2006-07 fiscal year.

QUESTIONS:

1. *While the LAO has recommended that the Legislature make progress in equalizing revenue limits in recent years, last year the LAO recommended against any funding for revenue limit equalization until a year when Proposition 98 "credit card obligations" – revenue limit deficits, unfunded state mandates, and payment deferrals -- could be paid off? How does the LAO's current proposal stack up to these other competing priorities?*
2. *Without supplemental funding for equalization, how long would it take to equalize funding for school districts to the 90th percentile target?*
3. *What is the effect of declining enrollment on different types of school districts and does the LAO's proposal recognize these differences?*

OUTCOME: No action.

ISSUE 3: District Health Benefit Liabilities

DESCRIPTION: The LAO raises concerns about large *and growing* retiree health benefit liabilities that are creating significant fiscal pressures for some school districts in the state. In response, the LAO recommends enactment of legislation to: require districts to report their retiree benefit liabilities to county offices of education (COEs) and develop plans for addressing these liabilities; require COE's to include the review of long-term health benefit liabilities as a part of their district fiscal oversight responsibilities; and require CDE to report to the Legislature on the size of retiree health liabilities for 150 school districts with the most extensive benefits.

BACKGROUND:

School districts provide retirement pension, health and other benefits to their employees. According to the LAO, while school districts pre-fund retirement pensions for their employees through annual contributions, they do not reportedly pre-fund health insurance benefits. Instead, they pay for benefits directly through their operating budgets once the benefits are claimed by retirees. This situation creates future liabilities for school districts when these retirement costs come due. Until recently, the significant size of these liabilities in some districts was not known statewide.

In the past, the state has mandated that school districts conduct an actuarial study of their retiree benefits. The LAO reports that new Government Accounting Standards Board (GASB) policies require school districts to account and report its long-term retirement liabilities in their annual financial statements. These new requirements have brought new attention and concern to the issue of large and growing district health insurance retirement liabilities.

Per the LAO, Fresno Unified has an unfunded liability for retiree health benefits of $1.1 billion, which equates to more than twice its general purpose operating budget. Fresno Unified currently has a negative fiscal certification on the state's fiscal status list. Los Angeles Unified has an unfunded health benefit liability of $5 billion, which equates to 80 percent of its operating budget. The LAO notes that using other reasonable assumptions, Los Angeles Unified's liability climbs to $11 billion.

The LAO indicates that new GASB policies encourage, but do not require, school districts to pre-fund all their retirement benefits. According to the LAO, Los Angeles is currently spending $170 million a year for retiree health benefits. It would cost Los Angeles an additional $500 million (8 percent of its budget) in 2005-06 to pre-fund benefits for existing employees and cover its unfunded liabilities.

LAO Recommendation:

The LAO is concerned about the significant size of retiree health benefit liabilities for school districts. Without immediate action, the LAO is concerned that these liabilities will translate into fiscal crisis in some districts that will require state bail out. The LAO is further concerned that school districts may lack incentives for addressing or curbing these costs without outside intervention. For this reason, the LAO recommends the Legislature enact legislation to:

- Require districts to provide COEs, by October 1, 2005, with a copy of any actuarial study of its retiree benefits liability.
- Require districts to provide COEs, by June 30, 2006, with a plan for addressing retiree benefits liabilities.
- Modify AB 1200 to require COEs to review whether districts' funding of long-term liabilities adequately cover likely costs.
- Require CDE to report to the fiscal committees of the Legislature by December 15, 2005 on the size of retiree health liabilities in the 150 districts that provide the most extensive benefits.

RECOMMENDATION: Subcommittee members became aware of the fiscal pressures of rising health insurance costs for school districts as a result of testimony provided at their three regional town hall meetings held in February 2005. These town hall meetings were held in Fresno, Salinas, and San Diego.

Given large and growing liabilities reported in Fresno Unified and other districts highlighted by the LAO, *staff recommends* that the Subcommittee adopt the LAO's recommendations. It appears that the size and scope of retiree health benefit liabilities have been somewhat hidden until recently. The LAO's recommendations to formalize reporting and review of these expenditures at the state and local level are very reasonable steps for developing a better understanding of this issue and for controlling these costs through improved fiscal oversight by COEs.

Staff notes that there may be additional costs associated with placing new responsibilities on districts, COEs and CDE as recommended by the LAO. On the other hand, these responsibilities might fall within the realm of the existing review responsibilities for COEs. *Staff recommends* that the Subcommittee clarify these costs at the hearing.

OUTCOME: No action. Subcommittee requested that the LAO look into the issue of Medicare coordination.

ISSUE 4: Federal Funds Overview – Information Only

DESCRIPTION: The Governor's Budget estimates that California will receive $7.5 billion in federal funds for K-12 education in 2005-06, which represents a decrease of $51 million (0.7 percent) in the budget year. The Department of Finance will update its federal fund estimates at May Revise to reflect the latest figures from the federal government. According to the Department of Education, the Governor's Budget underestimates federal funds appropriated through the California Department of Education by $125 million in 2005-06, and as a result federal funding overall should actually increase by $75 million in 2005-06.

BACKGROUND: Of the $7.5 billion in federal funds proposed in the Governor's Budget, $6.9 billion is appropriated through the California State Department of Education (CDE). Approximately $600 million in additional federal grant funds are appropriated directly to local school districts or schools.

The $6.9 billion in federal funds for CDE in the Governor's Budget is appropriated from three major federal agencies – the U.S. Department of Education, U.S. Department of Health and Human Services, and the U.S. Department of Agriculture. Four specific federal programs – child nutrition (school meals); Title I (compensatory education); child development (child care); and special education – provide the most federal funding to K-12 schools in California. These four programs are among the largest federal programs -- of any type -- to our state.

The table below reflects federal funds for these and other programs included in the Governor's Budget for 2005-06. Figures are based upon appropriations for federal fiscal year (FFY) 2005.

Federal Funds -- Agency/Program	**FFY 2005**
US Dept. of Education:	
Title I and Other Programs Authorized Under NCLB	$3,001,295,000
Special Education – IDEA	1,153,212,000
Vocational & Adult Education, Tech. Prep. Education – Perkins & WIA	218,366,000
Subtotal, USDE Funds	***$4,372,873,000***
US Dept of Agriculture:	
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	$1,616,804,000
Subtotal, USDA Funds	***$1,616,804,000***
US Dept of Health & Human Services:	
Child Care – TANF & Child Care and Development Block Grant	$934,042,000
Subtotal, USHHS Funds	***$934,042,000***
Total, Federal K-12 Education Grants to California	***$6,923,709,000***

The Department of Finance plans to update these figures at May Revise to levels contained in Labor/HHS/Education appropriations bill signed by the President in December 2004 as a part of the FFY 2005 omnibus budget package. It is anticipated that federal funding levels will increase by another $125 million translating into an overall increase of $75 million (1.0 percent), rather than a decrease of $51 million (0.7 percent) estimated in the Governor's January 10 budget.

The one percent increase in federal funds to California is significantly lower than federal increases in the last several years. Between FFY 2001 and FFY 2004, federal funding to California for elementary and secondary education programs grew between 8 and 12 percent. (See Appendix C for latest federal estimates of USDE formula grants to California for FFY 2005.)

The FFY 2005 budget includes a 0.80 percent across-the-board reduction for agencies and programs, which provides some explanation for lower federal funds. In addition to somewhat flat funding for most programs, federal appropriations for FFY 2005 include *reductions* to several specific programs. For federal programs that flow through CDE, some reductions include Education Technology State Grants ($27.8 m) and school improvement funding from for State Grants for Innovative Programs ($12.1 m). In contrast, two of the largest federal programs received *some* increases – Title I Basic Grants for Disadvantaged Students ($16.9 m) and Special Education ($59.9 m). Year-to-year changes in federal grants to California that flow through CDE are listed below.

Federal Grants to California That Flow Through CDE *

Budget Item 6110-	Program	FFY 2004	FFY 2005	Change
102-0890	Learn and Serve America	2,339,000	2,690,544	351,544
103-0890	Byrd Honors Scholarship	5,166,000	5,139,000	-27,000
112-0890	Charter Schools	37,822,000	25,107,664	12,774,336
113-0890	State Assessments	32,267,812	33,527,053	1,259,241
119-0890	Title I (Part D) - Neglected and Delinquent	3,249,282	3,240,296	-8,986
123-0890	Title I- Comprehensive School Reform	31,344,563	27,680,353	-3,664,210
	Title V – Innovative Programs	36,429,854	24,372,684	-12,057,170
125-0890	Title III - Migrant Education	127,573,296	126,526,065	-1,047,231
	Title III – Language Acquisition Grants	161,549,115	155,390,437	-6,158,678
126-0890	Title I (Part B) - Reading First Grants	146,145,963	146,981,710	-835,747
136-0890	Title I (Part A) – Basic Grants	1,694,916,121	1,711,604,862	16,688,741
136-0890	Title I - School Support Set Aside	70,621,505	71,316,869	695,364
136-0890	Even Start	31,451,159	27,810,338	-3,640,821
136-0890	Homeless Education	8,500,225	8,644,457	144,232
137-0890	Rural/Low-Income School Program	1,425,730	1,449,457	23,727
156-0890	Adult Education	82,338,152	81,473,634	-864,518
161-0890	Special Education-Entitlement Grants	1,072,636,899	1,132,572,659	59,935,760
	Special Education-Preschool	39,550,707	39,160,720	-389,987
166-0890	Vocational Education	140,027,486	140,277,947	461
180-0890	Education Technology	93,318,376	65,555,871	-27,762,505
183-0890	Safe and Drug Free Schools	53,257,421	52,742,911	-514,510
193-0890	Title II (Part A) Math & Science Partnerships	20,616,756	24,513,072	3,896,316
195-0890	Title II (Part A) – Teacher Quality Grants	341,331,785	339,015,227	-2,316,558
197-0890	21st Century Community Learning	136,981,161	137,174,714	193,553

**Please note: These figures are actual and estimated figures from USDE and will not exactly match budgeted amounts due to carryover funds and funds scheduled in state operations items.*

COMMENTS: *Staff notes* that new federal funds in recent years have been critical to underwriting important programs of interest to the Legislature, for example accountability programs to assist low-performing schools, state assessment programs, after-school programs, early reading programs, programs to support English learners, and special education. While the state has a strong interest in maximizing these funds, several programs – 21st Century Learning Centers, Migrant Education, Title I – Set Aside, Title VI –Assessment, and Reading First have been troubled by large and growing carryover balances. Federal funds remain available for 27 months after appropriation. However, it has been difficult for some of these programs to expend funds within this time period. If not addressed, the state could lose these valuable federal funds. The Subcommittee will consider these issues for specific programs at the hearing today and future hearings.

QUESTION:

1. *How can the Legislature better spend federal funding to avoid large carryover balances?*
2. *What are the challenges of appropriating and expending carryover balances?*
3. *What information does CDE have about future federal funding for California?*

ISSUE 5: Special Education – Allocation of Federal Funds

DESCRIPTION: The Governor's Budget and LAO have developed different proposals for allocating approximately $62 million in additional federal special education funds in 2005-06. The Governor's plan gives priority to increasing grants to LEAs and expanding funds for the new LCI formula. The LAO's plan gives priority to funding mental health related services. Current state law requires that federal funding be used to offset to state growth and COLA expenditures. New federal law now prohibits this practice in states.

BACKGROUND: The Governor's Budget proposes $4.3 billion in special education funding in 2005-06. Of this amount, the budget includes **$1.1 billion** in federal special education funds for students ages 3-21 years in 2005-06. This reflects an increase of $64.7 million in the budget year. Federal funds account for approximately 25.5 percent of the funds in the state special education budget; when accounting for all special education funding, including local funds, the federal share is less. Federal funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The Governor's Budget also proposes **$2.9 billion** in General Fund support (Proposition 98) and **$347.9 million** in property taxes for special education in 2005-06. The table below displays special education funding for 2004-05 and 2005-06.

Dollars in Millions	**2004-05**	**2005-06**	**Dollar Change**	**Percent Change**
General Fund	$2,756.7	$2,891.3	$134.6	4.9 %
Property Taxes	332.6	347.9	15.3	4.6 %
Federal Funds	1,046.2	1,110.9	64.7	6.2 %
TOTALS	**$4,135.5**	**$4,350.1**	**$214.6**	**5.1 %**

Funding Changes Pursuant to 2004 IDEA Reauthorization:

As signed into law in December 2004, the newly reauthorized IDEA includes changes affecting special education funding to states. Most importantly to California, the new federal law prohibits states from using federal funds to offset state mandated funding obligations, including program growth and cost-of-living adjustments (COLAs).

Under current law, the state uses federal funds to offset state growth and COLA payments. While this is not the practice for most other states, California has utilized this practice for more than 25 years, except for a few years following implementation of the AB 602 funding formula in 1997-98. During these years, the offset was placed on hold in order to provide additional resources to equalize special education funding among SELPAs to the statewide target. In the current year, the state used $124 million to offset special education growth and COLA.

The new federal law continues to "authorize", not entitle or guarantee, federal special education funding up to 40 percent of the average state expenditures for special education. States currently receive approximately 20 percent or half of the funding authorized. Federal funding to

California would roughly double if states received funding at the 40 percent ("fully authorized") level.

The new federal law does include a schedule for increasing IDEA funding to the 40 percent level. However, while the IDEA authorizes funding it does not appropriate funds. The President's education budget for FFY 2006 currently proposes funding below the levels scheduled in the reauthorized IDEA.

Allocation of Federal Funding Increase:

The Governor's budget appropriates approximately $62.2 million in new federal funds for special education local assistance in 2005-06. The Governor proposes to expend these funds as follows: $38.1 million to increase the federal contribution of federally mandated special education services pursuant to AB 602, including $20.2 million to increase funding for the new Out-of-Home-Care funding formula and $17.2 million for other baseline increases; as well as $24.8 million as a pass-through for special education formula grant increases to LEAs.

The LAO recommends an alternative expenditure plan for the new federal funds. The LAO proposes to use the $62.2 million in federal funds as follows: $42.8 million to support mental health related services for special education students; $2.2 million as a technical adjustment to add a small number of resident counts (budget year) to the new LCI (Licensed Children's Institution) formula; and $17.9 million for other purposes.

In addition, the LAO has identified another $26.6 million in one-time, special education savings in a prior year that must be used for special education purposes. The LAO proposes to use $2.2 million to add resident counts (current year) to the LCI formula and use the remaining funds as a one-time block grant to LEAs.

The Governor's Budget utilizes $38.1 million to offset federal funds; however, the Administration reports they do not offset General Fund growth and COLA expenditures in a manner that might be prohibited by the federal law. The LAO recommends that the Legislature separate state and federal funding for budgeting purposes and use federal funds to pay for growth and COLA for federal programs. According to the LAO, this would comply with the supplanting provisions of the new federal law.

RECOMMENATIONS/COMMENTS: *Staff recommends* that the Subcommittee delay action on special education items until after May Revise. The LAO has presented several options for the Legislature to consider during this time. It is also very likely that the Administration will update their proposal at that time. It is important to point out that the reauthorized IDEA was not signed into law until December 2004, so there was not much time for the Administration to interpret and integrate new funding requirements in the budget.

The three following agenda items provide additional detail on several of the individual program proposals summarized in this item.
OUTCOME: **No action**.

ISSUE 6: Mental Health Related Services

DESCRIPTION: The Governor's Budget recommends suspending AB 3632 mandates on counties and shifting responsibility for mental health related services to education. This would require legislation that would be worked out in various policy committees. The LAO also recommends shifting responsibility for mental health services to schools, but on a permanent basis. The LAO also recommends providing $42.8 million in additional funds to LEAs to provide these needed services.

BACKGROUND: The Governor's Budget recommends suspending two mandates that require counties to provide mental health related services to special education students. State legislation passed in the mid-1980s – AB 3632 -- shifted responsibility for mental health related services from the schools to counties, and created a reimbursable state mandate as a result.

While AB 3632 shifted responsibility to counties, mental health related services for students with disabilities are specifically mandated under federal special education law. State and local education agencies are ultimately responsible for assuring the provision of these services to students with disabilities under federal law.

The Governor's 2005-06 budget proposes to continue current year funding of $100 million for mental health related services for students with disabilities in the K-12 budget. This amount includes $69 million in federal funds to reimburse counties for AB 3632 services and $31 million in General Funds for mental health pre-referral services provided by SELPAs (Special Education Local Planning Areas).

The Governor does not propose any county funding for mental health related services. In addition, the Governor's proposed suspension would appear to eliminate any requirement on counties for providing these services under the provisions of Proposition 1A, which was passed by voters last November. Under this scenario, counties could not claim reimbursements for AB 3632 services.

LAO Proposal: The LAO recommends permanently assigning responsibility for mental health related services to SELPAs. According to the LAO, shifting responsibility to schools would result in a more effective and efficient delivery of services. Under the current mandate reimbursement system, counties have an incentive to inflate costs. In addition, since SELPAs can refer students to counties they have no incentives for providing early intervention services that could reduce the need for more costly and intensive services.

Under the LAO's model, SELPAs could provide services either directly or indirectly through counties. SELPAs currently contract out for many special education services, most notably with non-public schools and agencies. SELPAs could continue to collaborate with county mental health agencies in the delivery of services in order to meet student needs in the most effective and efficient manner.

According to the LAO, the annual cost of providing mental health related services under AB 3632 totals $143 million. The LAO has identified $143 million in special education funds within the K-12 budget to cover these costs in 2005-06. Specifically, the LAO utilizes the $100 million in existing education funds continued by the Governor and recommends the addition of $43 million from new funds available for special education in 2005-06.

The LAO further recommends all of the $100 million in existing special education funds be rolled into the base to give SELPAs more flexibility for providing services. Currently, the $69 million is allocated to county offices of education to transfer to county mental health, which does not provide options for school districts to provide services directly if they choose. The remaining $31 million is available for early mental health services intended to prevent the need for more intensive and costly services.

SB 1895 Report: As enacted, SB 1895 (Burton) requires the Superintendent of Public Instruction to submit a report to the Legislature by April 1, 2005, that includes specific information and recommendations relating to the provision and monitoring of mental health related services. The report was not available in time for this agenda; however, CDE will provide the report to the Subcommittee at the April 4th hearing and summarize their findings and recommendations.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay any action on mental health related services until after May Revise. The Administration's proposal has opened up discussion about how to fund and provide mental health related services to students with disabilities.

Staff notes that the LAO has identified some additional education funds available in 2005-06 that the Subcommittee could provide for these services. *Staff also notes*, that if responsibility was assigned to schools, the SELPAs would need additional flexibility in utilizing funds for service delivery, as recommended by the LAO. In this way, SELPAs could choose to provide services or continue to contract with county mental health agencies for services. *Staff further notes* that in order to assure the continuation of high quality services for students with disabilities, the Subcommittee could consider establishing independent monitoring of services and augmenting statewide training for the transition period, at least. Training should reflect research and best practice and could also reflect model programs that involve effective collaboration between schools and county mental health agencies.

OUTCOME: No action.

ISSUE 7: Special Education – Licensed Children's Institutions (LCI) Formula Adjustments

DESCRIPTION: The Governor's Budget proposes to increase funding for the LCI formula by $20.2 million. The LAO favors other expenditure options at this time, but recommends technical adjustments to the LCI formula to recognize residents of community care facilities. Adding counts for these residents would increase ongoing funding by $2.2 million. The Subcommittee may wish to consider options for changing the base year for the LCI formula from 2002-03 to 2003-04 to reflect more up-to-date expenditures for SELPAs. The base year has importance for determining the hold harmless levels for SELPAs under the formula.

BACKGROUND:

Governor's Proposal to Increase LCI Formula Funding: The Governor's Budget proposes an augmentation of $20.2 million to increase funding for the new LCI funding formula. This augmentation would provide a second installment of funds, bringing total funding to $187.9 million in 2005-06. The 2004-05 budget provided an initial augmentation of $34.8 million. Full funding of the program, under the model established by the AIR study, would cost over $205 million.

LAO Proposal to Make Technical Adjustment to LCI Counts: The LAO recommends that the Legislature adopt trailer bill language to change the statute establishing the new Licensed Children's Institutions (LCI) funding formula in order to recognize residents of community care facilities. These residents were unintentionally left out of the LCI counts utilized by the new formula. This proposal would increase costs by $4.4 million -- $2.2 million in the current year and $2.2 million in the budget year. The LAO recommends using one-time special education funds to pay for the current year adjustment and using federal funds to pay for the ongoing costs of adjustment.

Changes to the Base Year: The new LCI formula, as contained in statutory provisions contained in the budget trailer bill last year (SB 1108), contain hold harmless provisions for SELPAs. Under these provisions, SELPAs that are predicted to lose funding under the new formula, would be held harmless for two years for reductions below their 2002-03 reimbursement funding level. After two years, SELPA funding ratchets down to the new formula levels over a five year period.

Due to concerns about irregular and possibly inflated reimbursement claims from SELPAs in 2003-04, there was consensus for using 2002-03 as the base year for establishing hold harmless levels. According to CDE, irregularities in the 2003-04 data have now been corrected. For this reason, there is interest among SELPAs for changing the base year from 2002-03 to 2003-04. The purpose of these requests is to increase the level of hold harmless funding for SELPAs.

It is not yet known what a change in the base year would mean for all SELPAs. CDE has recently certified reimbursements for both 2002-03 and 2003-04. Reimbursements to SELPAs increase by more than $10 million during this time. However, claims did not uniformly increase for all SELPAs. It is also not known how these changes affect new estimates of winners and losers that will be developed by CDE during the month of April.

If the base year is changed, it would increase the amount of funding going to hold harmless SELPAs and decrease new funding for SELPAs that are winners under the new formula, unless new funding is provided.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee request that the LAO and CDE (1) review certified reimbursement claims for 2002-03 and 2003-04, together with the April formula counts for 2004-05, and (2) develop options for updating the base year formula. *Staff recommends* that LAO and CDE provide options to the Subcommittee at May Revise.

***Staff recommends* that the Subcommittee delay action on all other issues in this item until after May Revise when the Subcommittee takes actions on other special education items.** *At that time, staff recommends* that the Subcommittee approve of the LAO recommendation to adopt budget trailer bill language to add community care facility counts for youth to the LCI formula. At that time, *staff also recommends* that if such funds are not needed for maintaining mental health related services, the Subcommittee give high priority to providing additional funding for the LCI formula, as recommended by the Governor.

OUTCOME: No action. Subcommittee requested LAO and CDE to develop data and options for changing the LCI base year formula that would be available at May Revise.

ISSUE 8: Special Education – Special Disability Adjustment

DESCRIPTION: The LAO recommends that CDE report to the Subcommittee on the costs and feasibility of having the department assume responsibility for annual recalculation of the special incidence adjustment.

BACKGROUND: The incidence adjustment is a calculation that is included as a part of the AB 602 funding formula in order to account for students with high cost, low incidence disabilities. When AB 602 funding reforms were enacted in the late 1990s, the funding model changed from a model based upon the number of special education students to a model based upon the general school population. At that time, there was concern that the new model would not recognize the high costs for some special education students. To address that issue, AB 602 required a study to recommend a low incidence, high cost disability adjustment.

The resulting study, published by the American Institutes of Research (AIR) in 1998, recommended the creation of the incidence factor that was added to the AB 602 funding formula. That same study recommended that the formula be updated every five years. As a result, the Legislature funded another study, published by AIR in 2003.

The latest AIR study is intended to update the adjustments now in place. The recommendations would make substantial changes to definitions, costs, and allocations for the incidence adjustments now in place among SELPAs. In addition, the recommended revisions to the incidence adjustment interact with the recommended LCI formula in ways that are not well understood.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee have CDE report at this hearing on the feasibility of conducting a recalculation of the special incidence formula. *Staff further recommends* that the Subcommittee request that LAO and CDE assess the impact of implementing the AIR recommendation for SELPAs and develop implementation alternatives for the Subcommittee to consider at its May 2nd hearing.

Staff notes that because the existing incidence adjustment expires at the end of the fiscal year, budget bill language is needed to continue the existing formula in the budget year.

OUTCOME: No action. Subcommittee requested LAO and CDE to assess the impact of implementing the AIR recommendations and developing implementation alternatives for consideration at the May 2nd hearing.

ISSUE 9: Assessment

DESCRIPTION: The Governor's Budget proposes to continue state General Fund and federal funds for state assessment with small changes in 2005-06.

BACKGROUND:

Governor's Budget. The Governor's Budget proposes expenditures of $117.1 million for development and administration of student assessments statewide in 2005-06. Of this amount, the budget proposes expenditure of $85.7 million in General Funds and $31.3 million in federal Title VI funds. The following table summarizes assessment expenditures proposed by the Governor in 2005-06.

Governor's Budget – Student Assessment	General Fund	Federal Funds – Title VI	Total
STAR Program	$63,946,000	$2,180,000	$66,126,000
STAR Test Development	1,407,000	535,000	1,942,000
CELDT Assessment	11,437,000		11,437,000
CELDT Assessment		10,156,000	10,156,000
CELDT Vertical Scaling Project		300,000	300,000
High School Exit Exam	6,761,000	8,121,000	14,882
High School Exit Exam Workbooks		2,500,000	2,500,000
High School Exit Exam: Evaluation of Instruction		261,000	261,000
Primary Language Test Development		3,000,000	3,000,000
California Alternate Performance Assessment		2,200,000	2,200,000
Alternative Schools Accountability Model		775,000	775,000
Assessment Reporting and Review	2,313,000	600,000	2,913,000
NCLB AYP Reporting		650,000	650,000
California High School Proficiency Exam	1,020,000		1,020,000
Reimbursements	-1,020,000		-1,020,000
	$85,864,000	**$31,278,000**	**$117,142,000**

The Governor proposes two small changes to assessments in 2005-06. The Governor proposes a General Fund increase of $5.6 million for assessment programs to replace one-time federal funding available in 2004-05. In addition, the Governor proposes $4.5 million in additional funding as a baseline adjustment to reflect workload factors.

Federal Title VI Funds. Federal Title VI funds for State Assessments provide states with funds to help cover the costs of meeting the assessment and data requirements of NCLB, including developing or improving assessments, developing curriculum and performance standards, expanding testing accommodations for English learners and students with disabilities, developing student data systems to track achievement and other indicators – *such as graduation rates* – required by No Child Left Behind (NCLB), and increasing local capacity for improving student achievement.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee approve this item after May Revise when Governor revises estimates for federal Title VI funds. *Staff further recommends* that the Subcommittee consider budget bill language directing the balance of any unused Title VI funds available in 2005-06 (and any carryover funds from previous years) to expedite development of student graduation rates required by NCLB.

OUTCOME: No action.

ISSUE 10: Accountability

DESCRIPTION: The Governor's 2005-06 budget proposes to continue funding for several federal accountability grant programs reflecting allocation levels and patterns in the current year budget, absent one-time carryover funds. However, new requirements under the No Child Left Behind Act (NCLB) facing California may require the Legislature to revisit the allocation of federal accountability funds in the budget year. Most notably, the recent identification of 150 new school districts in our state requiring program improvement may require additional funding or at the very least a reallocation of funding as currently proposed. In addition, there have been problems with expending federal accountability funds in a timely fashion. This has resulted in the accumulation of excess carryover funds for some federal programs, specifically Title I – Set Aside funds for school improvement.

BACKGROUND:

Governor's Budget: The Governors Budget proposes to expend $339.7 million for accountability programs for underperforming schools in 2005-06. Of this amount, $93.5 million (36 percent) is federal funding and $246.2 (64 percent) is state General Fund. Most of this funding is utilized to provide limited-term, school improvement grants to low-performing schools and districts. Funding for specific state- and federally-funded accountability programs, as proposed by the Governor's 2005-06 budget, is summarized in the table below.

Item: 6610-	Program	Federal Funds	State General Fund	Total , All Funds
123	School Grants -- II/USP Program ($200/pupil)	0	$7,519,000	**$7,519,000**
123	School Grants – High Priority (HP) Schools Program ($400/pupil)	0	238,689,000	**238,689,000**
123	School Grants - Program Improvement and other Schools ($200/pupil)	40,078,000 (Title I- School Reform)	0	**40,078,000**
136	State System of School Support Team for Program Improvement Schools/Districts	$10,000,000 (Title I- Set Aside)	0	**10,000,000**
136	School Assistance & Intervention Teams (for II/USP and HP Schools	8,600,000 (Title I- Set Aside)	0	**8,600,000**
136	District/School Grants: Assessment funds for Program Improvement or At-Risk Districts ($10,000/school; $50,000/district)	34,809,000 (Title I- Set Aside)	0	**34,809,000**
136	School Grants – Funding for Implementation of Corrective Actions ($150/pupil)	13,600,000 (Title I- Set Aside)	0	**13,600,000**
	Total, All Programs	**$93,487,000**	**$246,208,000**	**$339,695,000**

California maintains two different, but related accountability systems – one state and one federal -- that provide assistance and define sanctions for low-performing schools and districts.

State General Funds are utilized exclusively for state programs. Most funding is provided for the state's High Priority (HP) Schools program, which provides intervention grants to schools in Deciles 1 and 2 of the Academic Performance Index (API). There are currently 659 schools participating in the HP program. State funding for the Intermediate Intervention/ Underperforming Schools (II/USP) program, targeted to schools in Deciles 1 -5 of the API is minimal. In 2005-06, the state will make a final deferral payment for activities conducted in the current year for the third and final cohort of the II/USP program. Greater priority has been given to the HP program, which focuses resources on the state's lowest performing schools.

Federal funds are utilized for a variety of different improvement grants for both schools and districts that have been identified as needing program improvement under the No Child Left Behind Act (NCLB). Federal funds are also used for sanctions for schools and districts in the state and federal programs that have failed to make improvements. There are currently 1,626 schools and 150 districts that have been deemed as needing program improvement.

Federal funds are also utilized for both state and federal program sanctions. To date, sanctions have involved the assignment of independent intervention teams to schools that are not making progress. State System of School Support Teams are utilized for Program Improvement (PI) schools and districts under NCLB, whereas, School Assistance and Intervention Teams are utilized for HP and II/USP schools.

There are two sources of federal accountability funding that are available to states for improvement of low-performing schools including: Title I – Part A Set-Aside Funds and Title I – Comprehensive School Reform Grants.

Allocation of Title I –Set Aside Funds

Federal law requires that states set-aside four percent of their Title I -Part A grant funds for school improvement purposes. Prior to 2004-05, states were required to set-aside two percent of their Title I grants. These funds are to be used to assist schools and districts identified for program improvement.

On March 8, 2005 Superintendent of Public Instruction announced an agreement with the US Department of Education on changing the criteria for identifying program improvement (PI) districts. USDE had earlier challenged California's criteria for failing to comply with NCLB. As a result of this agreement, CDE has designated 150 PI districts. The CDE and DOF are currently discussing whether to provide funding for these districts in the current year. This development may also require a fundamental rethinking of the Governor's 2005-06 budget as it relates to the allocation of federal Title I – Set- Aside funding for program improvement in particular. The Governor's Budget proposes $38.4 million in Title I – Set-Aside funds for districts in program improvement.

In total, the Governor's Budget provides $67.0 million in federal Title I –Set Aside funds in 2005-06. This figure is likely to increase to approximately $71 million at May Revise to reflect more recent federal Title I estimates for FFY 2005. Depending upon how CDE and DOF resolve the current year funding for districts in program improvement, there may be carryover from the current year.

Last year, there was concern that the state had not expended enough of its Title I Set-Aside funds in the previous two years, and that the state had accumulated large carryover balances that would need to be spent in 2004-05 and 2005-06 in order to avoid reversion. The 2004-05 budget contained more than $31 million in Title I- Set Aside carryover funds from previous years. Federal funds are available for 27 months after appropriation. If funds remain unexpended after this time period, they must revert to the federal government.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee direct LAO to work with CDE and DOF to develop options for dealing with the additional program improvement districts in the current year and establish priorities for limited funding given different district needs (e.g. some districts were identified PI on the basis of participation rates only).

QUESTIONS:

1. *What are the program requirements and costs associated with identification of 150 new program improvement districts?*
2. *Does the Legislature need to reassess the provisions of AB 2066 (Steinberg/2004) as it relates to programs and expenditures for districts in program improvement?*
3. *What assurances can CDE provide that the state will not lose any unspent federal Title I –Set Aside funds in the 2005-06?*
4. *What is the Governor's plan for spending Title I Set-Aside funds in the budget year, particularly as it relates to utilizing one-time carryover funds?*

OUTCOME: No action.

ISSUE 11: Williams Settlement Funding

DESCRIPTION: The Governor's budget proposes two augmentations in 2005-06 for low performing schools pursuant to the 2004 Williams lawsuit settlement, as reflected in legislation passed in 2004 to reflect that settlement. Specifically, the budget provides a $45 million General Fund augmentation to fund a new cohort of the High Priority Schools program. In addition, the Governor appropriates $100 million from the Proposition 98 Reversion Account for emergency facility repairs to schools in Deciles 1 to 3 on the Academic Performance Index (API).

BACKGROUND: The *Elizier Williams v. State of California* (Williams) lawsuit was a class action suit filed in Superior Court in 2000 on behalf of nearly 100 San Francisco student plaintiffs. The plaintiffs alleged that the State of California and state education agencies failed to provide public school students with access to qualified teachers, instructional materials and clean and safe school facilities. Agreements were reached by parties during August 2004. The notice of settlement was approved by the San Francisco Superior Court in December 2004.

Funding Required for Williams Settlement: The 2004-05 budget package included $188 million in one-time funding specifically for the Williams settlement agreement, which was still underway in the final days of the budget. For this reason, agreements were further specified in a number of bills enacted at the 2004 session. Funds appropriated in 2004-05 for the Williams settlement include:

- $138 million in one-time funding for instructional materials for students in Deciles 1 & 2 of the API.

- $50 million in one-time funds that were "set-aside" (not appropriated) in the budget package for "other" Williams settlement costs. This $50 million was later appropriated by SB 550. Funds were provided for the following purposes, as specified in both SB 550 and SB 6:

  - $15 million for County Office of Education oversight of schools in Deciles 1, 2, and 3 of the API to assure for teacher misassignment, condition of school facilities, and adequacy of instructional materials.

  - $5 million to the CDE for the purchase of textbooks. These funds are an advance as they will be repaid by districts.

  - $ 5 million for Emergency School Repairs.

  - $25 million for the School Facilities Needs Assessment Program.

In addition to funding included in the 2004-05 budget package, SB 6 and SB 550 contained two significant future funding requirements:

- SB 550 requires that new schools be added to the High Priority (HP) Schools program when current schools are phased out and that overall funding for the program is maintained at $200 million annually.

- SB 6 requires that commencing with the 2005-06 Budget Act, and every year thereafter, the state transfer **$100 million** or 50 percent of the funds appropriated from the Proposition 98 Reversion Account, *whichever is greater*, to the School Facilities Emergency Repair Account (SFERA). This program provides grants to school districts in Deciles 1-3 of the 2003 API. SB 6 requires that funds shall be transferred into the account until a total of $800 million has been disbursed from the SFERA. SB 6 authorizes the Legislature to transfer other one-time funds to the SFERA.

The Governor's 2005-06 budget proposes two appropriations that are consistent with the Williams funding requirements contained in SB 6 and SB 550. These appropriations include:

- **$45 million** in General Funds to fund a new cohort of the High Priority Schools Grant Program in 2005-06. This would bring total funding for the program to $238.7 million in 2005-06. Department of Finance estimates that $45 million will provide funding to 180 additional Decile 1 schools (assuming 400 students per school).

- **$100 million** in funding from the Proposition 98 Reversion Account to fund emergency facility repairs in Decile 1-3 schools. Funds will be provided to the School Facilities Emergency Repair Account and allocated by the State Allocation Board. Current law requires $100 million, or 50 percent of Proposition 98 reversion funds, whichever is greater. For this reason, this appropriation will increase at May Revise if Proposition 98 Reversion Account funds increase.

The Governor does not propose to continue any of the $188 million in one-time funding appropriated for Williams settlement purposes in 2004-05. However, the Governor does propose to continue augmentations – even small increases -- for the Instructional Materials Block Grant and the Deferred Maintenance programs in 2004-05. These current year augmentations were *related* to the Williams settlement. These two programs are presented later in the agenda.

For the HP new cohort, the LAO suggests that the Legislature should not create a new HP cohort until it(1) reassesses the state's intervention strategy in low performing schools and districts, and (2) determines the funding mechanism and source of funds for HP schools that failed to make significant progress over the last three years.

RECOMMENDATION: *Staff recommends* approval, but notes that the appropriation for the School Facilities Emergency Repair Account could increase above $100 million at May Revise if Proposition 98 reversion funds exceed budgeted levels.

OUTCOME: No action.

ISSUE 12: Instructional Materials

DESCRIPTION: The Governor proposes $380.3 million in 2005-06 for the Instructional Materials Block Grant. This proposal continues funding at 2004-05 levels, adjusted for growth and COLA. The one-time set-aside of $30 million for supplemental materials for English learners established in 2004-05 is eliminated, but funding is retained for ongoing instructional materials programs.

BACKGROUND: The Instructional Materials Block Grant program provides funding to school districts for the purchase of standards-aligned instructional materials for students in grades K-12. Funding is allocated to districts on the basis of enrolled students in grades K-12.

The 2004-05 budget includes $363 million in ongoing funds for the Instructional Materials Block Grant, which represents an increase of $188 million from the 2003-04 budget. This augmentation was related to the Williams lawsuit settlement. Of the $188 million in additional funds, $30 million was set-aside on a one-time basis for supplemental materials for English Learners.

The LAO does not take issue with the Governor's proposal.

RECOMMENDATION: *Staff recommends* approval as budgeted**.**

OUTCOME: Approved as budgeted. (3-0)

ISSUE 13: Deferred Maintenance

DESCRIPTION: The Governor's 2005-06 budget proposes $267.4 million in ongoing funding for the Deferred Maintenance program, an augmentation of $29.6 million in ongoing funding above 2004-05 levels. The Governor proposes this augmentation to fully fund the program at the level required in statute.

BACKGROUND: The state Deferred Maintenance program provides state and local funding for major repair or replacement of school facilities. The State Allocation Board allocates funds to applicant local school districts, which are required to fully match state dollars in order to participate in the program.

Deferred maintenance, which is different from routine maintenance, is defined as the repair or replacement work performed on a school facility that is not performed on an annual, ongoing basis, but is planned for the future and part of each district's five year plan. Typical projects include major maintenance and infrastructure projects such as exterior painting, roof replacement, and long-term repairs to electrical, heating, and plumbing systems.

Education Code 17584 requires the state to provide funding equal to 0.05 percent of district revenue limits and other funds for the Deferred Maintenance program. The Deferred Maintenance program is not subject to statutory growth and COLA adjustments.

The 2004-05 budget package included $250 million in ongoing funding for Deferred Maintenance, which represented an increase of $173 million over 2003-04 funding. This augmentation was related to the Williams lawsuit settlement. Of the $250 million provided in 2004-05, approximately $12 million was one-time funding and $238 million was one-time funding.

The LAO recommends approval of the Governor's proposal.

RECOMMENDATION: *Staff recommends* approval as budgeted.

OUTCOME: Approved as budgeted. (3-0)

Appendix A.

First Interim Status Report, 2004-05

www.cde.ca.gov/fg/gi/ir/first04.05.asp

Appendix B.

Budget Control Section 12.40: Categorical Programs and Transfer Authority

Budget Act Sec. 12.40 Categorical Flexibility

$ in thousands

			Proposed Limits	
	2005-06		**10% out**	**15% in**
6110-111-0001	$515,196	home to school transportation	$51,520	$77,279
6110-119-0001	$9,477	educational services for foster youth	$948	$1,422
6110-122-0001	$5,562	specialized secondary programs	$556	$834
6110-124-0001	$46,110	gifted & talented pupil program	$4,611	$6,917
6110-128-0001	$585,176	economic impact aid	$58,518	$87,776
6110-151-0001	$4,688	American Indian education	$469	$703
6110-167-0001	$4,698	vocational education	$470	$705
6110-181-0001	$16,038	education technology programs	$1,604	$2,406
6110-193-0001	$29,580	staff development	$2,958	$4,437
6110-203-0001	$85,018	child nutrition	$8,502	$12,753
6110-209-0001	$43	teacher dismissal apportionments	$4	$6
6110-224-0001	$88,145	year-round school grant program	$8,815	$13,222
	$1,389,731			

Appendix C.

Funds for State Formula – Allocated and Selected Student Aid Programs
U.S. Department of Education
California

http://www.ed.gov/about/overview/budget/statetables/06stbystate.pdf

Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Agenda
April 11, 2005
1:30pm or Upon Adjournment of Session. – Room 113

California Community Colleges (6870)

I. Overview of Proposed Community Colleges Budget (Office of the Legislative Analyst)

Figure 1

Community College Budget Summary

(Dollars in Millions)

	Actual 2003-04	Estimated 2004-05	Proposed 2005-06	Change From 2004-05 Amount	Change From 2004-05 Percent
Community College Proposition 98					
General Fund	$2,272.5	$3,036.3	$3,320.9	$284.6	9.4%
Local property tax	2,102.1	1,750.4	1,827.0	76.7	4.4
Subtotals, Proposition 98	($4,374.6)	($4,786.7)	($5,147.9)	($361.3)	(7.5%)
Other Funds					
General Fund	($132.4)	($247.7)	($259.9)	($12.2)	(4.9%)
Proposition 98 Reversion Account	0.1	5.4	20.0	14.6	271.5
State operations	8.6	8.9	8.8	-0.1	-1.2
Teachers' retirement	40.3	98.3	79.8	-18.5	-18.8
Bond payments	83.3	135.1	151.3	16.2	12.0
State lottery funds	120.8	143.3	139.9	-3.4	-2.4
Other state funds	8.6	8.8	9.1	0.3	2.9
Student fees	243.3	357.5	368.2	10.7	3.0
Federal funds	249.2	277.1	277.1	—	—
Other local funds	1,563.8	1,738.9	1,738.8	-0.1	—
Subtotals, other funds	($2,318.1)	($2,773.4)	($2,793.1)	($19.7)	(0.7%)
Grand Totals	**$6,692.7**	**$7,560.1**	**$7,941.0**	**$380.9**	**5.0%**

II. Community Colleges Capital Outlay.

The Governor's Budget includes $262.5 million to fund (or partially fund) 50 projects on community college campuses across the state. These projects are proposed to be supported by the proceeds of the 2004 statewide educational facilities bond measure.

It its *Analysis of the 2005-06 Budget Bill*, the Legislative Analyst raises concerns with the Administration's methodology for funding higher education capital outlay projects as the state nears the end of the General Obligation Bond (GO)cycle. Specifically, the LAO is concerned that the state will start funding projects (in the "preliminary planning" or "working drawings" phase of the project) without sufficient cash on hand to see the projects through to completion (including the "construction" and "equipment" financing phases). As an alternative, the LAO offers a recommendation which would prioritize capital outlay projects based on their "critical" nature and then fund only those projects which meet the highest priority – projects which address critical fire, life safety, and/or seismic deficiencies. Projects of lower priority could be approved using non-state resources.

On a project-by-project basis, the LAO raises no concerns with any of the proposed community college facilities and instead focuses on the process the Legislature should employ in the absence of a guaranteed funding source.

<u>Staff notes</u> that in the past, the Legislature has opted to partially fund facility projects in an attempt to get projects "in the pipeline" and ensure that when bond funding materializes (either in the form of a statewide GO bond, or state-funded lease-revenue bonds), projects are ready for construction. However, <u>staff notes</u> that if a statewide bond measure is put before the voters – as is proposed by Assembly Bill 58 (Nunez) – but fails passage, the state would be pressured to continue funding the projects using a more costly (lease-revenue bond) financing method. Given the fiscal condition of the state, the committee may wish to consider the degree of "risk" it is willing to assume with regard to funding higher education capital outlay projects.

Further, the Department of Finance has recently compiled information which indicates that that as much as $100 million in uncommitted GO bond funding is available for community college projects (above the amount provided in the Governor's Budget), which should serve to mitigate some of the LAO's concerns. Additional uncommitted GO bond funds are also available to the University of California and California State University.

If the committee opts to approve the community colleges capital outlay budget, as proposed, a complete listing of the projects is attached.

OUTCOME:

III. Student Enrollment Growth

Current law requires that the state provide a minimal level of funding to support student enrollment growth at the California Community Colleges. Specifically, statute calls for enrollment growth funding to be provided based on the percent change in the state adult population. For 2005-06, the change in the adult population is projected to be 1.89 percent; an increase of 1.89 percent in the enrollment levels of community colleges statewide would result in an additional 22,000 full-time equivalent students (FTES) at a cost of $91.3 million.

The Governor's Budget provides funding ($141.9 million) for 3.0 percent enrollment growth (approximately 34,000 FTES), an amount in excess of the statutorily-required level, but less than the 4.0 percent enrollment growth initially requested by the Community College system.

<u>Enrollment Growth Projections</u>:

As part of its *Analysis of the 2005-06 Budget Bill*, the Office of the Legislative Analyst (LAO) conducted its own review of enrollment growth projections and trends and determined that providing funding for enrollment growth of 3.0 percent would be excessive. Instead, the LAO is recommending that the Legislature only fund enrollment growth at the statutorily-required level of 1.89 percent, citing this as a level sufficient to meet the increased enrollment demand at the community colleges. Further, reducing the amount of funded enrollment growth pursuant to the LAO's recommendation would save $50.6 million and free up funds for another, perhaps higher priority, purpose.

As part of its system budget request, the Community Colleges contend that pent up student demand (due to recent budget cuts which limited the number of course offerings and increased student fees) could put growth estimates at closer to 4 percent. This projection is echoed by the California Postsecondary Education Commission (CPEC) which conducts its own demographic projections and estimates that the colleges could easily absorb enrollment growth of up to 4.0 percent, especially as the state comes out of its recent recession.

<u>Staff recommends that the proposed $141.9 million in funding for enrollment growth be placed on the "checklist" pending the Governor's May Revision.</u>

OUTCOME:

IV. Partnership For Excellence Program.

The Governor's Budget "sets aside" $31.4 million for the Partnership for Excellence Program to restore funding for the program to the level appropriated by the Legislature in the 2004-05 Budget Bill. In his signing message of the 2004 Budget Act, the Governor stated that he was vetoing $31.4 million from the total amount appropriated because the Legislature's version of the Budget Bill did not include district-level accountability measures as proposed by the Administration, and instead opted for outcomes assessed at the systemwide level.

In the same signing message, the Governor further committed to restore the $31.4 million as part of his 2005-06 budget proposal, provided that district-by-district level accountability is incorporated into the program. In the interim, the community colleges – through their consultation process – have been working on an accountability plan to meet the intent of the Governor's message. The plan should be imminently released, at which time the Department of Finance, Legislature, Office of the Legislative Analyst, and others will begin reviewing the proposal.

The Department of Finance anticipates that they will have a proposal (including the actual appropriation of the $31.4 million) as part of the May Revision.

Background. The Legislature and the Governor established the community colleges Partnership for Excellence Program (Chapter 330, Statutes of 1998) to provide the community college system with additional funding in exchange for increased college performance, as measured by various indicators. For the first several years, the additional funding provided for the Partnership for Excellence Program (PFE) was distributed to campuses on a simple per-student distribution while the community college system struggled to establish a funding mechanism that was contingent upon district/college performance (as called for in the statute). The struggle ended when the Community Colleges Board of Governor's abandoned its pursuit of developing a performance-contingent funding mechanism for the PFE dollars.

Historically, the original rationale behind the PFE program is somewhat murky. Some say the statute was initially designed to be a comprehensive accountability framework for community colleges while others contend that the PFE program was simply a mechanism to distribute additional resources quickly and efficiently to the community colleges, but did so under the auspices of increased accountability and performance. According to the LAO, the system made some modest gains under the PFE program, which seem to have been offset by declines as the program expired (December 2004).

Last year, as part of the budget process, the Legislature and the Administration "rolled" the PFE funding (approximately $225 million) into the base apportionments budget of community college districts, where the funds remain despite the expiration of the program.

OUTCOME:

V. Vocational and Technical Career Initiative.
The Governor's Budget provides the California Community Colleges with a $20 million one-time augmentation (Proposition 98 Reversion Account) to increase coordination between community colleges and high schools to fully articulate "industry-driven" career technical curricula. At the time of its release, the Governor's Budget failed to provide detail on the use of these funds, but cited the overall policy goals of (1) reducing high school dropout rates; (2) creating better alternatives for students than attending college; and (3) creating career alternatives with good pay. The Chancellor's Office, in consultation with the Department of Finance and others, recently issued a "concept paper" outlining their proposal for the expenditure of these funds.

Specifically, the Community Colleges propose to target $14 million for "quick start" projects which will focus on "2+2 curricula". These articulated curricula provide a clear career pathway linking high school courses with community colleges courses thereby allowing students to obtain the direct skills necessary to enter into high need, emerging sectors while avoiding course duplication and unnecessary redundancy. Targeted employment sectors include: Advanced Transportation Technologies; Applied Manufacturing; Biotechnology; Environmental Technology; Geographic Information Systems; Health; Multimedia and Entertainment.

The remaining $6 million is proposed for "Capacity Building" projects and is set aside for education providers where the 2+2 curricula are not readily available. These funds will be targeted at economically distressed areas and emerging industries. All funds are proposed be dispersed to local consortia via a Request for Proposals (RFP) process.

> **Trailer Bill Language.** The Governor further proposed *Trailer Bill Language* which would waive the 75/25 statutory requirement -- which requires colleges to insure that at least 75 percent of their hours of instruction are taught by full-time faculty -- for vocational and technical education courses.

At the time of its Analysis *of the 2005-06 Budget Bill*, the Legislative Analyst did not have complete information to analyze this proposal, but notes that the Governor's goals of improving vocational and technical career education are both noble and necessary. While the LAO has not yet developed a formal response to the recently issued "concept paper", they have expressed concern that this proposal may fail to address the longer-term core issue of course articulation between K-12 schools and community colleges.

<u>Staff recommends</u> that the committee hold this issue open (including the associated trailer bill language) pending the May Revision. Further, <u>staff recommends</u> that the committee direct the Legislative Analyst to convene the community colleges, the Department of Finance, and the appropriate K-12 parties to further examine the proposal in light of the committee's desire to make a longer-term impact on the articulation of courses between K-12 and community colleges, and report back to the committee as part of the May Revision.

VI. Student Fees.

The Governor's Budget proposes to hold student fees at the community college constant at the current level of $26 per unit. Unlike the University of California and California State University where the governing boards of those systems have authority to set fee levels, community college student fees are set in statute and require legislation to change.

Background.

For many years, fees at the community colleges were stable, hovering at between $11 and $13 per unit. In the Governor's 2003-04 Budget, the Administration proposed increasing fees to $24 per unit; this proposal was deemed extreme by the Legislature, which increased fees $7 per unit – for a total of $18 per unit. The primary reason that the Legislature approved the increase to $18 per unit was, at that level, financially-needy students would receive a "bump" in federal financial aid, thereby directly offsetting the cost for needy students. For the 2004-05 Budget, the Governor proposed, and the Legislature approved, increasing student fees from $18 to $26 per unit. The Governor's 2004-05 budget proposal also included the assessment of a $50 per unit "differential" fee which would have been imposed on students with an earned baccalaureate degree; that fee proposal was rejected by the Legislature.

Legislative Analyst Recommendation.

As part of its *Analysis of the 2005-06 Budget Bill*, the Legislative Analyst recommends raising the per unit fee to $33. Specifically, the LAO cites several direct financial aid and federal tax credit programs as the means by which the fee increase would be mitigated for low- and middle-class students and families, thus increasing General Fund revenue (by approximately $100 million) while holding needy students harmless.

At the local level, the Board of Governors (BOG) Fee Waiver Program waives student fees for financially needy students. For middle-income students and families, the federal government provides two tax credit programs: (1) The Hope Tax Credit and (2) the Lifetime Learning Tax Credit which seek to "reimburse", via a student's tax return, various costs associated with college. According to the LAO, California is one of the few states that does not have a fee policy which takes full advantage of these federal tax benefits (which are outlined in the chart on the next page).

Figure 8

Federal Tax Benefits Applied Toward Higher Education Fees

Hope Credit	Lifetime Learning Credit	Tuition and Fee Deduction
• Directly reduces tax bill.	• Directly reduces tax bill.	• Reduces taxable income.
• Covers 100 percent of first $1,000 in fee payments. Covers 50 percent of second $1,000 (for maximum tax credit of $1,500).	• Covers 20 percent of first $10,000 in fee payments.	• Deducts up to $2,000 in fee payments.
• Designed for middle-income students who are: —In first or second year of college. —Attend at least half time.	• Designed for any middle-income student beyond first two years of college.	• Designed for any upper middle-income student not qualifying for a tax credit.
• Phases out entirely at adjusted income of $52,000 for single filers and $105,000 for married filers.	• Phases out entirely at adjusted income of $52,000 for single filers and $105,000 for married filers.	• Capped at adjusted income of $65,000 for single filers and $160,000 for married filers.

Staff notes that the LAO is essentially proposing a "high student fee – high student aid" model for the community colleges, and suggests that the committee examine the pros and cons associated with such a model.

For example, high student fees have tended to result in "sticker shock" among various demographic groups, creating a barrier to higher education. In particular, students from lower socio-economic groups, first generation college students, and students with limited English proficiency, tend to be more deterred by the fee costs posted in college catalogs and are less able to navigate the administrative hurdles associated with either applying for financial aid or reaping the monetary benefits associated with federal tax credits/deductions. In addition, many students could have a "cash flow" problem whereby they pay fees at the beginning of each semester, but don't receive any money back from the various tax benefits until after they file their returns in February or March (at the earliest).

Unlike prior years, community college fees are now at a level where California students receive the full, maximum amount of the federal Pell Grant (as opposed to a lesser grant amount under the Pell Grant Tuition Sensitivity clause, whereby, for many years, federal law did not allow California's community college students to receive the full grant amount if a college's fees were below $26 per unit). Fees reached this level at the urging of the Legislative Analyst, which cited a loss in federal funds as a reason to increase student fees. The LAO continues along the same path by trying to maximize federal tax credits and deductions with fee increases.

As part of its recommendation, the Legislative Analyst, along with the California Postsecondary Education Commission (CPEC), recommends that the Legislature enact, via legislation, a long-term statutory student fee policy, in order to determine how fees should be adjusted annually. Staff notes that such legislation would be more appropriate to the policy committee process, rather than Budget, process. However, In the absence of such a policy, CPEC calls for community college fees to be held constant (pursuant to the Governor's proposal).

Staff recommends that the committee hold this issue open, pending the May Revision.

OUTCOME:

VII. Impact of CalSTRS Reform Proposal

This issue was previously heard by the committee on March 7, 2005. The Governor's proposal was presented by the Department of Finance with responses from the Office of the Legislative Analyst and representatives from the California State Teachers Retirement System (CalSTRS).

In order to avoid replicating the March 7th hearing, the purpose of this item today is to provide an opportunity for representatives from the various community college constituencies to testify on the impact of this proposal to local college districts and individuals.

No action necessary by this committee. This item will be heard by Senate Budget and Fiscal Review Subcommittee #4 on April 20, 2005.

OUTCOME:

VIII. Unfunded Community College Budget Proposals.

The Community Colleges Board of Governors requested additional funding, totaling over $260 million, for a variety of uses that were not approved by the Administration or included in the Governor's Budget. Following is a listing of the several items which were denied funding.

1. **Equalization** ($80 million).
   The Governor's Budget fails to provide additional funding to equalize the per student funding rate, which varies widely across the state. In 2004-05, the Governor provided, and the Legislature approved, an $80 million augmentation as a first step toward equalizing the per student funding rates and adopted legislation specifying how the funds were to be allocated. The Chancellor's Office estimates that at a cost of an additional $80 million per year (including the funds provided in the current year), it would take two more years to reach the state's goal of having at least 90 percent of the students in the system receiving the same dollar amount per FTES.

   In its *Analysis of the 2005-06 Budget Bill*, the Legislative Analyst recommends that the Legislature consider allocating additional Proposition 98 funding for equalization and that funds be allocated in a manner consistent with current law (Chapter 216, Statutes of 2004). The LAO further notes that while it is supportive of such budget increases as enrollment growth and Cost of Living Adjustments, the next highest priority for the Legislature should be to fund a second installment of $80 million for equalization.

   Staff recommends that $80 million for Equalization be place on the "checklist" pending the May Revision.

OUTCOME:

2. **CalPASS ($500,000 ongoing Prop. 98).**
   The California Partnership for Achieving Student Success (CalPASS) is a data sharing system among all segments of education, with the purpose of improving student's transition between high schools, community colleges, and universities. According to the LAO, these data are used by faculty consortia, institutions, and researchers to identify barriers to student transfer, monitor student progress, and propose solutions to better facilitate the movement of students. Participation in CalPASS is voluntary and was initially designed as a regional pilot program limited to schools and colleges in the San Diego region. To date, CalPASS has expanded statewide and includes more than 700 California educational institutions.

   The LAO recommends that this program be extended (funding for CalPASS is scheduled to expire at the end of 2005-06) and augmented, so that the program retains a base level of funding in the amount of $1.5 million. Of this amount, $500,000 will come from the existing funding; the LAO proposes that the remaining $1 million be redirected from the community college Partnership for Excellence Program.

   Staff recommends that $1 million be placed on the "checklist" pending the May Revision.

OUTCOME:

3. **Non-Credit Instruction ($30 million).**
   Non-credit instruction (also known as Adult Education within the K-12 system) includes such courses as Basic Skills; English as a Second Language (ESL); Citizenship; Parenting; short-term vocational education programs; and educational programs for older adults and persons with substantial disabilities. The current "rate" per non-credit full-time equivalent student (FTES) is $2,125, about 60 percent of the *credit* FTES rate (approximately $3,500). The Community Colleges Chancellor's Office notes that non-credit instruction tends to act as a "gateway" for both recent immigrants and long-term residents into higher education and/or the workforce.

   The $30 million augmentation request was designed by the Chancellor's Office to be the first step in a multi-year process to increase the rate of non-credit FTES to approximately 70 percent of credit FTES rate. $30 million in 2005-06 would increase the existing rate by about $300 per FTES.

   <u>Staff notes</u> that various community college constituencies are currently working on a revised funding formula for the community college system in order to replace the antiquated Program-Based Funding Model. It is possible that this new funding formula may be a better avenue to address the inequitable funding rates associated with non-credit instruction. The proposal will be carried in Senate Bill 361, authored by Senator Scott.

4. **Professional Development ($2.5 million ongoing; $2.5 million one-time).**
   The Governor's Budget provides no funding for Professional Development. The program was eliminated in 2002-03 as part of the various budget reductions to the community colleges. Prior to its elimination, this program was funded annually at $5.2 million.

5. **Restore Support for Matriculation Services ($23.3 million).**
   Community colleges requested that the state provide funding for matriculation services equivalent to the amount spent in 2001-02. At that point in time, the state spent what amounts to $72 per FTES ($72.3 million total). As adjusted for enrollment growth, the community colleges requested an augmentation of approximately $30 million, over a two year period, to provide $72 per student beginning in 2005-06. Specifically, they are requesting an augmentation of $23.3 million in 2005-06 and the remaining $6.7 million in 2006-07.

   Background. *Matriculation* includes a variety of services offered to students beginning when they first arrive on campus and continuing until they leave or graduate. Specifically, these activities include orientation, assessment, placement, and counseling. According to the Chancellor's Office, the availability and use of these services may spell the difference between educational success and a wasted educational experience to an inconclusive end.

   Funding for this program has varied in recent years, with a low of $54.3 million (for both the 2002-03 and 2003-04 fiscal years) and a high of $72.3 million in 2001-02. In his 2005-06 Budget Proposal, the Governor includes $66.2 million for matriculation.

IX. Proposed Consent

No issues have been raised with the following items, and staff recommends that they be Approved as Budgeted.

6870-001-0001. Support, California Community Colleges, Chancellor's Office $8,814,000

6870-001-0574. Support, California Community Colleges, Chancellor's Office. Payable from the 1998 Higher Education Capital Outlay Bond Fund $1,434,000

6870-001-0909. Support, California Community Colleges. Fund for Instructional Improvement $19,000

6870-001-0925. Support, California Community Colleges. California Business Resource and Assistance Innovation Network Fund $15,000

6870-101-0001. Add Provision 17.5 of Item 6870-101-0001 California Community Colleges, related to part-time faculty compensation, *per April 2005 Finance Letter*.

6870-101-0001. Revise Provision 13 of Item 6870-101-0001 California Community Colleges, related to remedial education services at state developmental centers, *per April 2005 Finance Letter*.

6870-101-0001. Revise Provision 16 of Item 6870-101-0001 California Community Colleges, related to Foster Care Education, *per April 2005 Finance Letter*.

Foster Parent Care Education Program. Proposed statutory (Trailer Bill) changes to Section 1529.2 of the Health and Safety Code and Section 903.7 of the Welfare and Institutions Code.

6870-101-0909. Local Assistance, California Community Colleges. Fund for Instructional Improvement $302,000

6870-101-0925. Local Assistance, California Community Colleges. California Business Resources and Assistance Innovation Network Fund $15,000

6870-102-0959. Transfer from Foster Parent Training Fund to General Fund ($3,000,000)

6870-103-0001. Local Assistance, California Community Colleges. Lease Revenue Bond Payments $1,512,000

6870-111-0001. Local Assistance, California Community Colleges. CalWORKS Services, Foster Parent Training, Vocational Education $0

6870-295-0001. Local Assistance, California Community Colleges Local Mandates $4,000

6870-301-6028. Add Item, California Community Colleges, *per April 2005 Finance Letter*. $2,374,000 from Higher Education Capital Outlay Bond of 2002, for Los Angeles Community College District, Los Angeles Trade Technical College: Building F Structural Repair.

6870-601-6041. Reduce Item, California Community Colleges, *per April 2005 Finance Letter*, by $28,142,000. Of this amount, $7,823,000 is from a delay in the Health /Physical Science Building Renovation project at Chaffey College and $20,319,000 is due to the need to redesign the High Technology Center at Santa Barbara City College.

6870-496. Reversion, California Community Colleges.

District	College	Project Name	BOG Category	Phase	2005-06 Amou
BUDGET ITEM-Item 6870-301-6041					
Barstow CCD	Barstow College	Student Services Modernization	C	PWC	1,520,000
Butte-Glenn CCD	Butte College	Library Renovation and Expansion	B	PWCE	8,402,000
Chaffey CCD	Chaffey College	Health and Physical Science Renovation	C	CE	7,823,000
Citrus CCD	Citrus College	Vocational Technology Building	C	PW	866,000
Desert CCD	College of the Desert	Walter and Sewer Infrastructure Replacement	A-4	PW	232,000
Contra Costa CCD	Los Medanos College	Core Building Remodel	C	PW	182,000
El Camino CCD	El Camino College	Learning Resource Center Addition	B	CE	8,151,000
Foothill-De Anza CCD	DeAnza College	Performing Arts Center	D	PWCE	4,428,000
Hartnell CCD	Hartnell East Campus	Ctr for Assessmt & Lifelong Learning	B	CE	10,303,000
Kern CCD	Porterville College	Science Modernization	C	PWC	2,605,000
Long Beach CCD	LB City College PCC	Library/Learning Resource Center	B	CE	5,757,000
Long Beach CCD	LB City College LAC	Library/LRC Renovation/Expansion	B	CE	13,715,000
Los Angeles CCD	Los Angeles City College	LRC (Health Safety)	A-2	E	1,298,000
Los Angeles CCD	Los Angeles Harbor College	Adaptive PE & PE Building Renovation	D	CE	6,280,000
Los Angeles CCD	Los Angeles Harbor College	Child Development Center	D	PWCE	3,296,000
Los Angeles CCD	Los Angeles Mission College	Health & Physical Education Building	D	PWCE	13,259,000
Los Angeles CCD	Los Angeles Pierce College	Physical Sciences Renovation	C	PWCE	3,785,000
Los Rios CCD	Consumnes River College	Police, Print and Office Building Modernization	F	PWC	1,991,000
Los Rios CCD	Sacramento City College	North Gym Building Modernization	C	PWC	3,004,000
Los Rios CCD	Folsom Lake College	Fine Arts Instructional Building	B	PWC	11,434,000
Merced CCD	Merced College	Lesher Building Remodel	F	PWCE	2,627,000
Mira Costa College	40.31.109	Horticulture Complex	D	CE	5,838,000
Monterey Peninsula CCD	Monterey Peninsula College	Child Development Center	D	CE	4,117,000
Monterey Peninsula CCD	Monterey Peninsula College	Library Building Renovation/Conversion	F	PWCE	2,715,000
Mt. San Jacinto CCD	Menifee Valley Center	Technology Center	B	CE	10,775,000
Palo Verde CCD	Palo Verde College	Fine and Performing Arts	D	PW	1,071,000
Rancho Santiago CCD	Santiago Canyon College	Learning Resource Center (Books)	A-2	E	709,000
Rancho Santiago CCD	Santiago Canyon College	Science Building	A-2	E	867,000

District	College	Project Name	BOG Category	Phase	2005-06 Amou
Rio Hondo CCD	Rio Hondo College	Applied Technology Build Reconstruction	C	PW	828,000
Rio Hondo CCD	Rio Hondo College	Learning Resource/High Tech. Center	B	CE	28,211,000
San Francisco CCD	Phelan Campus	Jt. Use Instructional Facility	B	W	1,036,000
San Francisco CCD	John Adams Center	John Adams Modernization	C	C	23,176,000
San Luis Obispo Co. CCD	Cuesta College	Reconstruct and Add Laboratories	C	CE	6,812,000
San Luis Obispo Co. CCD	North County Center	Technology & Trades Complex	B	CE	7,816,000
San Mateo Co. CCD	Canada College	Library/LRC/Student Services Center	A-2	E	3,360,000
San Mateo Co. CCD	College of San Mateo	Student Services Consolidation	A-2	E	263,000
San Mateo Co. CCD	Skyline College	Allied Health Vocational Training Center	C	PW	276,000
Santa Barbara CCD	Santa Barbara City College	High Technology Center	B	CE	20,319,000
Santa Barbara CCD	Santa Barbara City College	Drama Music Building Modernization	C	PW	786,000
Santa Clarita CCD	College of the Canyons	Physical Education Addition	D	PWCE	2,954,000
Sierra Jt. CCD	Sierra College	Construct New Classroom/Labs	A-2	E	2,564,000
Sonoma Co. CCD	Santa Rosa Jr. College	Plover Library Conversion	F	C	3,050,000
State Center CCD	Fresno City College	Student Services Bldg Remodel	F	C	3,514,000
State Center CCD	Willow International Center	Academic Facilities & Site Development Phase I	A-2	E	3,920,000
Ventura Co. CCD	Oxnard College	Warehouse	A-4	CE	1,822,000
Ventura Co. CCD	Ventura College	Building APP, S and DP Modernization	C	PWCE	4,075,000
Ventura Co. CCD	Ventura College	Communication Building Modernization	C	CE	1,375,000
Victor Valley CCD	Victor Valley College	Seismic Replacement, Auxiliary Gym	A-3	CE	3,326,000
West Kern CCD	Taft College	Science Modernization	C	PWCE	2,741,000
Yuba CCD	Yuba College	Liberal Arts Modernization	C	PWC	3,202,000
					262,476,000

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, April 18, 2005
1:30 pm
Room 113, State Capitol

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.

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Program Reductions and Eliminations – Arts Education, AVID, Charter Facilities Block Grant, EMHI, Healthy Start, Student Organizations

DESCRIPTION: The Governor Budget proposes to eliminate funding for three small categorical programs in 2005-06 – Healthy Start, Early Mental Health Initiative, and Charter Schools Facilities Grants. In addition, the Governor's Budget proposes to reduce funding for two other small education programs -- Student Organizations and Advancement Via Individual Determination (AVID. In addition, the Governor continues the elimination of the Local Arts Education Partnership Grant program in 2005-06.

BACKGROUND:

The Governor proposes to reduce or eliminate funding for a number of small education programs in 2005-06. As summarized in the table below, the Governor proposes to eliminate funding for the Healthy Start Program ($2 Million) and for the Charter Schools Facilities Grant program ($7.7 Million). The Governor proposes to reduce funding for the Early Mental Health Initiative program ($5 Million); the Advancement Via Individual Determination (AVID) program ($840,000); and for Student Organizations ($48,000). In addition, the Governor does not propose to restore $6 million in funding for the Local Education Arts Grants program vetoed from the 2004-05 budget.

Program/Item *(Dollars in Millions)*	**Program Description**	**Program Funding-Budgeted** **2004-05**	**Program Funding-Proposed** **2005-06**
Healthy Start (6110-200-0001) (Ed. Code 8800-8807)	Background: Provides competitive grants to support health, mental health, social, and other services located at or near school sites. Governor's Budget: The Governor proposes to eliminate $2.0 million in remaining funds for the Healthy Start program. The 2004-05 budget provided $2 million in *one-time* funding to support eight operational grants and four planning grants in school districts statewide.	$2.0 m	$0
Early Mental Health Initiative (EMHI) (4440-102-0001)	Background: The EMHI program provides three-year grants to schools to serve children in grades K-3 who are experiencing mild to moderate adjustment problems, but not eligible for special education services. EMHI is administered by the Dept of Mental Health Governor's Budget: The Governor proposes to reduce funding for EMHI by $5 million in 2005-06. The Governor proposes to continue funding for programs in the	$10.0 m	$5.0

Program/Item *(Dollars in Millions)*	**Program Description**	**Program Funding-Budgeted** **2004-05**	**Program Funding-Proposed** **2005-06**
	second year of funding, but not to fund any new grants. The 2004-05 budget provided $5m in ongoing funding and $5 million in *one-time* funding. Prior to 2003-04, EMHI funding totaled $15 million.		
CharterSchools Facilities Grant (6110-102-0001) . Ed. Code 47614.5	Background: The Charter School Facilities Grant program provides funding to charter schools serving low-income students or located in low-income areas to offset rental and leasing costs. Governor's Budget: The Governor proposes to eliminate funding for this program in 2005-06. Statute establishing the program expressed legislative intent to provide $10 million a year for a three years. Funding appropriated includes: $10m in 2002-03; $7.7m in 2003-04; and $7.7m in 2004-05.	$7.7 m	$0
Advancement Via Individual Determination (AVID) (6110-130-0001)	Background: The AVID program provides assistance to schools to prepare low income students for college. The program focuses on students whose parents have not attended college. Governor's Budget: The Governor vetoed $1.3 million for advanced placement teacher training and tutoring services in 2004-05. The Governor proposes to further reduce the AVID program by $840,000 in 2005-06. To mitigate this proposed reduction, the Governor proposes to allow school districts to shift funding from the Professional Development Block Grant for AVID.	$9.035 m [Non-98]	$8.195 m [Non-98]
Vocational Education Student Organizations (6110-117-0001)	Background: Student organizations, including student councils, receive state support from funds available from the Vocational Education Student Organizations program and from another budget item that provides direct funding to the California State Association of Student Councils. Governor's Budget: The Governor's Budget proposes to reduce funding for Vocational Education Student Organizations by $48,000 in General Funds (non-98) leaving a total of $464,000 for the program. The 2004-05 budget reduced funding in this item for student councils by $50,000. The Governor's Budget maintains $33,000 for	$.512 m [Non-98]	$.464 m [Non-98]

Program/Item *(Dollars in Millions)*	**Program Description**	**Program Funding-Budgeted** **2004-05**	**Program Funding-Proposed** **2005-06**
	the California Association of Student Councils in 2005-06.		
Local Arts Education Partnerships (6110-177-0001) (Ed. Code 8810-8820)	Background: Provides competitive grants to LEAs to start comprehensive visual and performing arts education programs. Governor's Budget: In 2004-05 the Legislature restored $6 million in one-time funding for Local Arts Education Partnerships grants. The Governor vetoed these funds, thereby eliminating all funding for the program. The Governor does not propose to restore funding for the program in 2005-06.	0 [Governor vetoed $6 m.]	0

RECOMMENDATIONS: Staff recommends that the Subcommittee consider restoring funding for those programs that have a proven record of effectiveness and that any restorations utilize other savings identified in the budget. Using this criteria, staff would recommend restoration of $864,000 in funding for the AVID program and $5 million in funding for the EMHI program. Staff also recommends that the Subcommittee consider additional, limited-term funding for the Charter School Facilities Grant in order to reach the $30 million target intended in statute. Unless the Legislature decides to make this an ongoing funding program for charter schools, staff recommends that no additional funding beyond this level be provided in the future.

OUTCOME:

ISSUE 2: K-12 High Speed Network (Internet 2)

DESCRIPTION: The Governor's Budget proposes $21 million for operation and maintenance of the K-12 high speed Internet network program in 2005-06, which continues funding at the level budgeted in 2004-05. The Legislature may wish to reconsider funding for this program in light of findings and recommendations from an independent audit and a program status report that were required by the 2004-05 Budget Act.

BACKGROUND:

Program History and Funding: The 2004-05 budget appropriated $21 million to the California Department of Education for a K-12 high speed network, previously known as Internet 2. This new program funds high speed Internet access and network connectivity for school districts and county offices of education.

The Internet 2 network was first developed as a university network used by the University of California, the California State University, as well as, independent universities in California. The Digital California Project (DCP), funded by the University of California, was created to extend this university network to the K-12 school system. A total of $92.6 million was appropriated to UC between 2000-01 and 2003-04 for this purpose. Through a contract with the Corporation for Education Network Initiatives in California (CENIC), the Digital California Project at UC extended Internet 2 access to 58 county offices of education and most school districts and schools in the state.

The Internet 2 network is now defined as two separate programs – the K-12 High Speed Network and the Cal-REN 2 network for higher education.

A number of concerns were raised during budget discussions about funding for the K-12 High Speed Network last year. These concerns focused on the following issues: absence of an information technology plan for this statewide project; lack of a governance structure for the network; uncertain utilization of the K-12 network by LEAs; and unknown cost and revenue data essential for determining the appropriate level of state funding.

As a result of these concerns, provisional language was added to the 2004-05 budget bill that requires CDE to contract with a county office of education to implement the K-12 network, thereby replacing CENIC as the lead agency for the network. (CDE selected Imperial County Office of Education through a competitive bid process.) The language also expressed intent that funding for the network in 2005-06 be accompanied by a governance structure that is specified in statute. In addition, budget bill language requires two reviews developed in consultation with the Department of Finance and the Legislative Analyst – an *independent financial audit* of the K-20 Internet system administered by CENIC and a *program status report* on the K-12 network prepared by the lead agency.

Independent Audit: MGT of America, Inc. was selected to prepare the independent audit of the K-20 network, which was required by the 2004-05 budget. The audit was required to provide a financial audit of CENIC and DCP since its inception; long-term projections of utilization, capacity and costs; cost estimates for alternative vendors; and other information. The audit was released on March 1, 2005. MGT will summarize their audit findings and recommendations for the Subcommittee at today's hearing.

There are several audit findings that relate to appropriate funding for the K-12 network, including:

- CENIC does not track project costs and compare those costs to the project budget. As a result, decision makers likely did not have all the financial information they needed to make decisions.

- LEAs are currently using about 5 percent of their capacity of the K-12 network;

- There is more than sufficient capacity for the majority of counties for many years. Even with 20 percent annual growth for the next seven years most counties will be using less than 15 percent of the capacity for which CENIC has contracted;

- While K-12 funding has comprised approximately 56 percent of the funding for CENIC between 2000-01 and 2003-04, the K-12 community is not represented on the CENIC Board of Directors. CENIC's 15-member board includes three members each from UC, CSU, CCC, as well as, representatives from four private universities.

- It is CENIC's position that it owns all fixed assets, including equipment, fibers, and leases related to the network, amounting to approximately $22 million of assets pertaining to DCP.

- CENIC has set-aside cash assets from state appropriations for future years including: $1.5 million in interest earnings; $13 million for equipment replacement; and $6 million to pre-pay operational support services. In addition, CENIC has $8.4 million in cash balances and approximately $6.6 million in E-Rate and California Teleconnect Fund balances.

In response, MGT makes specific budget recommendations to policymakers:
(1) Resolve questions of whether the funding provided to CENIC for the DCP was a traditional payment of payment for services of an appropriation, which has importance for governance, allowable uses of funding and control of assets; and
(2) Determine whether CENIC should repay the state for cash assets that have been set-aside for future purposes.

MGT makes other budget recommendations to the Imperial County Office of Education:
(1) Seek an independent review of CENIC cost allocation metrics and costs allocated; and
(2) Issue a request for proposal for a Virtual Private Network (VPN) to determine whether K-12 should continue with CENIC or pursue a VPN proposal.

Status Report Finding/Recommendations: The status report for the K-12 High Speed Network also required by the 2004-05 budget was prepared by Imperial County Office and three other agencies that are a part of its lead agency consortium. The status report was required to address project activities and accomplishments to date, annual revenues and expenditures, annual savings to local agencies from the project, proposed activities including a three-year budget plan assuming current service levels, and other information. The final report was released April 13, 2005.

The Imperial County Office of Education will summarize information about the status of the K-12 network for the Subcommittee, including an update on implementation of recommendations made by the MGT audit. In particular, ICOE recognizes several shortcoming with the current contract with CENIC pointed out by the MGT audit, including: absence of service level agreements to specify the quality and quantity of services; lack of data to monitor network usage; incomplete accounting of E-Rate and California Teleconnect Fund funding; and incomplete information on shared costs for network users. While addressing issues identified by MGT, ICOE will pursue an interim contract with CENIC after the current contract expires on June 30, 2005. ICOE will also contract for comprehensive analysis of utilization and network design by early next fiscal year, in preparation for commissioning a proposal for the Virtual Private Network, as recommended by MGT.

Governor's Budget: The Governor's 2005-06 budget proposes $21 million for the K-12 High Speed Internet Network program in 2005-06, which continues funding at the level budgeted in 2004-05. The Governor's budget specifies that the program shall be governed by legislation passed in 2005. The Administration is sponsoring legislation -- AB 1228 Daucher – to establish a governance structure for the program. This is currently a spot bill.

LAO Recommendation: Given concerns raised by the MGT audit, the LAO recommends that the Legislature suspend the K-12 High Speed Project pending the results of an audit and a design and use study. The fiscal effect of this action would be to free up $21.0 million in Proposition 98 funds. Specifically, the LAO recommend that the Legislature:

(1) Submit an audit request to Joint Legislative Audit Committee (JLAC) to determine: (1) funds that remain available and potentially could be reverted to the state and (2) the assets that were purchased with state funds and that could be claimed by the state.

(2) Depending upon the *JLAC audit* results, the Legislature could fund a network design and use study in 2006-07 (budget year plus one).

(3) Depending upon the *design and use study* results, the Legislature could fund a network project and competitively contract for a network/service vendor in 2007-08 (budget year plus two).

RECOMMENDATIONS: Staff notes that MGT was unable to secure cost and utilization data required by the 2004-05 budget language as this information was not available from CENIC. MGT has indicated two explanations for this lack of data. First, CENIC did not apparently collect all the utilization data for the K-12 network requested. Second, CENIC was unable to share other data it has collected. This data is critical to making budget decisions for 2005-06 and beyond. In addition, it is unclear if cash assets and balances held by CENIC can be utilized to offset future costs.

Staff recommends that the LAO develop options for funding the K-12 High Speed Network in 2005-06 based upon new information, findings, and recommendations provided by (1) the MGT audit released last month; (2) the status report released last week; (3) utilization data that is starting to be collected by ICOE; and (4) other sources.

SUGGESTED QUESTIONS:

1. *Do the recent audits and status reports justify $21 million in ongoing funding for the K-12 High Speed Network program? If not, how should the Legislature determine what level of state funding is needed for this program?*

2. *What is the timing of the study being proposed by the Imperial County Office of Education? Will it provide information to decide what network services are needed and what the state should pay for them?*

3. *Could cash assets held by CENIC be used to offset costs of the K-12 High Speed Network program in 2005-06?*

4. *Can other public sector users be added to the network to reduce costs to users?*

5. *What would happen if the state stopped funding the K-12 High Speed Network program in 2005-06? What services are LEAs now using that they would need to pay for with their own funds? How did LEAs pay for these services previously?*

6. *K-12 schools are participating in the high speed internet network with the state's public higher education systems. What are the cost sharing arrangements among these users. If the K-12 system were not funded, would it affect access and costs for the higher education systems?*

7. *The state has invested over $100 million in the high speed network for K-12 and higher education. Do recent reports shed light on who owns this system, in particular, the fixed assets of the system? MGT recommends that policymakers address this issue. What would the process be for determining asset ownership?*

8. *Does the K-12 network save money for LEAs compared to what they previously paid for internet services?*

ISSUE 3: Governor's Initiative – Charter Schools Categorical Block Grant Program

DESCRIPTION: The Governor's Budget proposes reforms to the Charter Schools Categorical Block Grant intended to clarify and simplify the block grant calculations in 2005-06 and beyond. The Governor's reforms "delink" block grant funding from a specific set of categorical programs, by creating a new funding base that would be adjusted for growth and COLA annually. The LAO recommends a different set of reforms to the charter school block grant calculation, building upon outcomes from a legislatively required working group they convened to study alternatives to the current funding model. The LAO's proposal would link funding to a specific list of categorical programs included in the block grant, create a process for updating this list annually through the budget, and strengthen funding for economically disadvantaged students.

BACKGROUND:

Existing Charter School Block Grant: Under statute established in 1999 (AB 1115/Strom-Martin), charter schools receive categorical block grant funds in lieu of some categorical funds typically available to schools. This funding is provided in addition to charter school revenue limits that provide base funding for charter schools. The intent of the categorical block grant was to provide charter schools with funding comparable to funding that non-charter schools would otherwise receive for categorical purposes. Current law provides two types of categorical block grants to charter schools – a categorical block grant and compensatory education block grant**.** Since charter schools are exempt from most state laws governing schools, they can use their block grant funds for general purposes.

The categorical block grant is calculated based on average daily attendance for charter schools and is intended to provide comparable levels of funding for categorical programs that non-charter schools typically receive. The compensatory education block grant is provided based on the number of economically disadvantaged students attending the charter. This block grant is intended to provide funding similar to what non-charter schools receive from the Economic Impact Aid program.

Charter schools may apply separately for other categorical programs that are not included in the categorical block grant, but they have to comply with the funding requirements for those programs in order to receive funds.

Problems with the Existing Categorical Block Grants: When first established in 1999, there were 33 different categorical programs that were included in the block grant. Some of these programs no longer exist and some of these programs have since been consolidated in block grants as a part of categorical reforms. In addition, new categorical programs have been created since this time. In order to update the calculation, the DOF must adjust the 1998-99 base funding level annually to reflect programs that are moved " in" or "out" of the block grant calculation. These changes have to conform to overall changes in categorical program funding for programs in the block grant.

According to the LAO, there are two basic problems with the current block grant formulas. First, there is no consensus between CDE, LAO, and DOF on the programs that are supposed to be considered in and out of the block grant. There is contention about several large categorical programs and there is ambiguity about the new block grants created by AB 825 reforms last year. Secondly, the formula is overly complex and uses 1998-99 as a base year for making year-to-year changes.

Reforms Required by the 2004-05 Budget. In order to resolve these ongoing problems, the 2004-05 budget contained language requiring the LAO and DOF to work together to develop a simpler and clearer method for calculating the charter school block grant. The LAO convened a working group that included a range of stakeholders and that met several times during the fall of 2004. While the group did not come to a consensus on a specific new formula, it reached agreement on the purpose of the formula and general principles including the need for a formula that is simple and transparent, easy to implement administratively, provides comparable funding rates for charter schools compared to public schools, and retains the flexibility for using block grants as general purpose funding.

Governor's Reform Proposal. The Governor's budget provides $68.1 million for the block grant, which represents a $2.9 million increase above the 2004-05 level after adjustments for growth and COLA. The Governor proposes to delink funding from specific categorical programs and simply use this funding level to establish a new per-pupil funding base. For future years, charter schools would receive a categorical block grant amount based on this per-pupil base level, adjusted for inflation, multiplied by each charter's average daily attendance. The Governor proposes to review the base funding level every three years to determine its growth compared to general K-12 funding.

LAO Reform Proposal. According to the LAO, the Governor's proposal represents a significant change in the charter school block grant by delinking it from any set of underlying categorical programs so that it no longer represents in-lieu funding for a set of specified categorical programs. Without this link, it is unclear what programs are covered under the block grant and what programs charters schools would have to apply for separately. This does not resolve current contentiousness and confusion surrounding the formula. It also raises concerns about double-dipping by charters if they can apply separately for all programs that might also be covered by the block grant. In addition, charters would lose flexibility by having to apply for all programs separately.

As an alternative to the administration's proposal, the LAO recommends identifying specific programs that charter schools would have to apply for separately and those programs for which charter schools are not eligible. For all other categorical programs, the LAO recommends that charters receive a share of funding equal to the share of K-12 students they serve. These provisions would be specified in statute, but implemented through a budget control section to allow annual updates for changes in categorical programs. In addition, the LAO recommends changes to the disadvantaged student block grant for charter schools. Specifically, the LAO recommends increasing per pupil rates under this formula in order to strengthen incentives for serving economically disadvantaged students.

The LAO alternative would provide charter schools with approximately $200 million of in-lieu categorical funding in 2005-06, which assumes charter schools serve three percent of all K-12 students. The LAO notes that it is difficult to compare this level of funding to existing charter school funding because it is not known what share of categorical funding charter schools actually receive.

Related Legislation:

AB 740 (Huff) – Contains provisions to change the charter school categorical block grant formula pursuant to the Governor's budget proposal.

COMMENTS/RECOMMENDATION:

Staff notes that Governor's categorical block grant proposal would cost an additional $2.9 million and the LAO's proposal has no additional cost. While the Governor's proposal provides $68.1 million for the block grant and the LAOs' proposal provides approximately $200 million for the block grant, these reflect differences in how existing state categorical programs are *allocated* among charter schools and public schools.

Staff also notes that despite differences in the proposals, there is strong consensus among the LAO, DOF and CDE on the need to reform the existing charter block grant formula.

Staff further notes that while the working group convened by LAO to address reforms to the charter school block could not agree on a specific funding model to replace the existing one, there was agreement that the purpose of the block grant was to provide charter schools with funding in lieu of categorical programs. By delinking the block grant from any set of categorical programs, the Governor's proposal violates this principle and at the same time removes an important rationale for establishing the level of funding.

Staff recommends that the Subcommittee direct the LAO to continue working with DOF and CDE on possible agreements. LAO is working on a new alternative that reflects the level of funding provided in the Governor's proposal, but that links funding to a specific set of categorical programs.

OUTCOME:

ISSUE 4: Governor's Initiative – English Learner Acquisition Program

DESCRIPTION: The Governor proposes new budget bill language to change the way that English Language Acquisition Program (ELAP) funds can be used. This program serves English learners in grades 4-8. The Governor proposes changes that would require that ELAP funds be expended to be consistent with the requirements for California's Reading First program.

BACKGROUND:

Governor's Proposal: The administration proposes new budget bill language for the English Language Acquisition Program that would require ELAP funds be expended in a manner consistent with statutory requirements for the state's Reading First program. This creates new requirements for ELAP programs. The Governor's budget does not propose changes to the level of funding for the program. The Governor's budget provides $57.6 million in 2005-06 for ELAP, which continues current year funding adjusted for growth and COLA.

ELAP Program Requirements: Under current law, the English Language Assistance Program provides up to $100 per English learner in grades 4-8, per school year. As a condition of receiving funding from this program, participating school districts and county offices of education must certify that they will do all of the following, and may use these funds to accomplish these goals:

- Conduct academic assessment of English learners to ensure appropriate placement.
- Provide a program of instruction to assist English learners in achieving existing English language development standards.
- Provide supplemental instructional support (summer school, before/after school) to provide students with continuing English language development.
- Coordinate existing services and funding for English learners.

Existing law also provides for a one-time $100 per-pupil allocation for each English learner that is reclassified as English proficient, but to date the budget has never contained funding to implement that provision.

Currently, there are approximately 532 LEAs that receive ELAP grants. These LEAs serve approximately 549,000 English learner students.

The state's Reading First program, which serves students in grades K-3, provides funding for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches, and reading assessments. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

COMMENTS/RECOMMENDATION*:* Staff notes that the Governor's proposal intends to extend features of the state's Reading First program for students in grades K-3 to English learner students in grades 4-8 who are served by the ELAP program. Staff also notes that because the current ELAP program allows funding to be used for a broader set of usages, most notably on English Language Development, and the Reading First program focuses primarily on reading, the Governor's proposal could limit some of the ways LEAs are currently using their ELAP funds. Under this scenario, LEAs might be required to discontinue some of their existing program activities.

OUTCOME:

ISSUE 5: Reading First

DESCRIPTION: The State Board of Education is requesting to provide a fourth year of funding for schools that currently receive Reading First grants. The 2004-05 budget requires legislative approval for this change.

BACKGROUND:

Governor's Budget. The Governor's budget proposes approximately $145 million in ongoing federal Reading First funds in 2005-06, which reflects a similar level of ongoing funding in the current year. An additional $29.6 million in one-time carryover funds was appropriated in 2004-05 to increase existing grants for the purpose of reducing students at risk of referral to special education.

Reading First Program: Federal Reading First funds are provided to states to improve the reading outcomes of students in grades K-3. California's Reading First state plan allows eligible school districts to receive three-year grants of up to $6,500 per K-3 teacher. Funding can be used for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches and reading assessments. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

The State Board of Education has awarded approximately 110 school districts with Reading First grants of up to $6,500 per K-3 teachers. This includes 13 first round districts; 60 second round districts; and 37 third round districts. According to CDE, 92 of these existing district grantees applied for the one-time money provided last year to prevent special education placements, which provided up to a total of $8,000 per teacher for one year.

State Board Proposal for Fourth Year Grants. The 2004-05 budget contained provisional language requiring the State Board of Education to seek legislative approval for any extension of the grant period beyond three years. Upon a recommendation by CDE, the State Board of Education recommends extending the grant awards for the first cohort of grantees by providing them with a fourth year of funding. According to CDE, the fourth year of funding would be provided to those grantees that have demonstrated sufficient progress toward state goals. At this time it is not clear how the State Board plans attain legislative approval of its proposal.

COMMENTS/RECOMMENDATIONS: Staff notes that the Reading First program may expire in future years. For this reason, it is important to extend funding to eligible districts that have not received funding. Given a history of carryover funds with this program, it is also important to build in assurances that federal funds are expended in a timely fashion. For this reason, the Subcommittee may wish to ask the following questions of CDE and the Board when it considers the request to provide a 4^{th} year of grant funding to the first round of grantees:

1. How many eligible districts have not received grants? Is there a demand for new grants?

2. Did the State Board consider proposals to provide funding for new grants to unserved districts? How much would be available for new grants in 2005-06? How could new grants be structured given the possibility that funding might expire in coming years?

3. If the state provides a 4th year of funding to first-round grantees, what implications will that have on the availability of funding for new grants? Does it intend for second and third round grantees to receive a fourth year of funding and how much will this cost?

4. Do CDE and the Board intend for the first round of grantees to later receive a 5th and 6th year of funding? If so, what implications does this have for the availability of funding for second and third round grantees to receive similar amounts of funding?

OUTCOME:

ISSUE 6. Governor's Initiative – School Business Officers

DESCRIPTION: The Governor's Budget proposes $1 million in one-time funding for a new program to train school business officers.

BACKGROUND:

Governor's Proposal. The Governor proposes a new three-year program to train all school business officers in the state. The 2005-06 budget provides $1 million in funding for the first year of the program. The program is intended to train 350 school district business officers a year and would provide approximately $3,000 per participant. Funding priority would be given to business officers from districts currently operating with a state-appointed administrator or trustee, or from districts that have received a qualified or negative certification on the state financial status list within the last 5 years.

The training would involve at least 100 hours, with at least half of these involving intensive individualized support and professional development in the following areas:

- School finance, including revenue projections, cash-flow management, budget development, financial reporting, monitoring controls and average daily attendance projections, and accounting.

- School operations, including matters relating to facilities, maintenance, transportation, food services, collective bargaining, risk management, and purchasing.

- Leadership, including organizational dynamics, communication, facilitation, and presentation.

In order to participate, school districts and county offices would be required to submit a program proposal, and the State Board of Education would be required to approve the proposal. Program participants must use a state-qualified training provider approved by the State Board of Education.

The Administrations is sponsoring legislation – SB 352 (Scott) -- to implement the School Business Officer's Training proposal. The program is modeled after the Principal Training Program.

COMMENTS/RECOMMENDATION: Staff recommends the Subcommittee consider funding this program given the program is low-cost and limited-term and because it would provide statewide training that focuses on improving the fiscal practices of school districts in order to avoid financial trouble.

ISSUE 7: Governor's Initiative – Supplemental Instruction

DESCRIPTION: The LAO recommends changes to the Pupil Retention Block Grant established by categorical reform legislation last year. Specifically, the LAO recommends adding two supplemental instruction programs to the block grant and specifying that these programs have first call on funds in the block grant.

BACKGROUND: AB 825, as enacted in 2004, consolidated 26 state categorical programs into six block grants that will take effect in 2005-06. LEAs are required to use funds for the purposes of programs included in the block grants. The new Pupil Retention Block Grant consolidates 11 programs largely directed to serving at-risk students who require supplemental instruction of other interventions. The Governor's Budget proposes $172.9 million in funding for the Pupil Retention Block Grant in 2005-06.

Problems with Hold-Back Provisions for Block Grant: The LAO has identified problems with provisions of AB 825 that require 25% of each district's apportionment for Pupil Retention Block Grant to be "held back" pending full funding of two supplemental instruction programs that are not in the block grant. These two programs are: (1) supplemental instruction for students in grades 2-9 retained or recommended for retention and (2) supplemental instruction for students in grades 7-12 who are at risk of failing to pass the High School Exit Exam. The Governor's Budget proposes $40 million for the grades 2-9 program and $165 million for the grades 7-12 program in 2005-06. State law entitles districts to reimbursements based upon specified hours of instruction provided for these programs. The intent of the holdback was to contain costs for these two supplemental programs.

New Mandate Costs. The LAO reports that the Commission on State Mandates recently approved the supplemental instruction program for students in grades 2-9 as a reimbursable mandate although the state already provides funding for this program. The LAO indicates that the commission's findings are likely to increase costs substantially for this supplemental instruction program because they give districts substantial latitude in determining the level of services (hours and length of instruction, type of instruction, etc.) to comply with the mandate. The LAO estimates costs to increase in the tens of millions in coming years.

LAO Recommendations. Despite good intent, the LAO believes that the holdback provisions do not contain costs because they exclude two costly supplemental instruction programs the state fully funds. In addition, the holdback creates budget uncertainties and inequities for districts in providing funding for programs in the block grant.

For these reasons, the LAO recommends the elimination of the hold-back provisions of the Pupil Retention Block Grant. Alternatively, the LAO recommends that two programs discussed above -- supplemental instruction for students in grades 2-9 and supplemental instruction for students in grades 7-12 – be added to the block grant and have first call on funding. According to the LAO, adding these programs eliminates the need for hold-back provisions and increases local incentives for cost containment.

OUTCOME:

ISSUE 8. Governor's Initiative – Professional Development Block Grant

DESCRIPTION: The Governor proposes to add three professional development programs to the professional development block grant created by AB 825, the categorical reform bill enacted in 2004. The LAO supports some of the Governor's proposals, but recommends some modifications and some additions.

BACKGROUND:

Recent Categorical Reforms: AB 825, as enacted last year, consolidated four professional development programs into a new Professional Development Block Grant. AB 825 allows school districts to transfer funds among the six block grants and into other categorical programs – up to 15% out of any block grant except for the Pupil Retention and Teacher Credentialing block grants.

Governor's Budget. The Governor's budget appears to build upon the categorical reforms initiated by AB 825. Specifically, the Governor proposes to add three programs to the new Professional Development (PD) Block Grant, including:

- Peer Assistance and Review ($27.3 million);
- Bilingual Teacher Training ($1.9 million); and
- Teacher Dismissal Apportionments ($43,000).

The Governor also proposes language to allow school districts to use funds from the Professional Development Block Grant to fund professional development (teacher and leadership training) for the Advancement Via Individual Determination (AVID) program. The Governor's Budget proposes to reduce funding teacher training and tutoring under the AVID program by $824,000 in 2005-06, bringing total funding for the program to $8.2 million. To mitigate this reduction, the Governor proposes to allow districts to access Professional Development Block Grant funds for AVID.

LAO Recommendations: The LAO supports the Governor's proposed additions to the Professional Development Block Grant with the three following modifications:

- Exclusion of the Teacher Dismissal Apportionments program ($43,000);
- Inclusion of the Math and Reading Professional Development program ($31.7 Million); and
- Addition of teacher data requirements for LEA as a condition to receiving block grant funding.

The LAO recommends that the Legislature establish an integrated teacher-student data system to assure meaningful state-level program evaluations and help hold districts accountable for using block grant funds effectively. The LAO believes that this data is required to assure accountability given the program flexibility provided by recent categorical reforms. The LAO has recommended the state adopt an integrated teacher data system for the last two years so that professional development programs can be better assessed and compared.

The LAO further recommends that the Legislature require school districts to provide specific teacher-level data as a condition of receiving either Professional Development of Teacher Credentialing block grant funds.

Related Legislation:

SB 1072 (Simitian) – Places eight additional programs into the Professional Development Block Grant established pursuant to AB 825.

AB 682 (Karnette) – Provides general clean-up to AB 825 including provisions to reinstate the School Safety Act and correct technical problems with both the Pupil Retention and Teacher Credentialing block grants.

COMMENTS/RECOMMENDATIONS:

Staff notes the need for a viable and effective statewide teacher information system has been well established. The No Child Left Behind (NCLB) requirements for assuring that all students have access to highly qualified teachers create new pressures for the state to integrate existing teacher data and develop new capacities. Beyond these reporting requirements, teacher data would be useful in judging the effectiveness of professional development programs.

Staff recommends that the Subcommittee consider appropriating $350,000 to the California Department of Education in 2005-06 to contract for a teacher data system design study, as recommended by the LAO. An advisory committee including DOF and LAO would guide the development of requests for proposal and the selection of a vendor.

Staff further recommends that the Subcommittee consider funding the study with one-time, federal Title II carryover funds. Federal Title II funds, as authorized under NCLB, are intended for professional development so this would be an appropriate source of funding.

OUTCOME:

ISSUE 9: Data Systems – CSIS & CALPADS

DESCRIPTION: The Governor proposes to maintain funding for California School Information System (CSIS) essentially at current-year levels. The Governor's budget does not propose funding for the California Longitudinal Pupil Achievement System (CALPADS) in 2005-06. However, DOF is currently reviewing a revised Feasibility Study Report (FSR) for CALPADS, which was just recently resubmitted by CDE. (The initial FSR was submitted to DOF in August 2004). DOF completed an initial review of the FSR in early January 2005, and requested changes from CDE. The revised FSR is currently being reviewed by the Office of Technology Review, Oversight, and Security (OTRAS) at the Department of Finance.

BACKGROUND:

California School Information System: CSIS is a multi-year project to develop, implement and manage a statewide student level database and information transfer network. The program is administered by the Fiscal Crisis and Management Assistance Team (FCMAT), which is part of the Kern County Office of Education. CSIS was authorized by AB 107, as enacted in 1997. Since enactment, the state has spent nearly $64.3 million on the CSIS system.

The Governor's budget proposes $8.1 million in funding for CSIS in 2005-06. This includes $1.3 million for maintenance of student identifiers. While separate from the CALPADS system, the CSIS project has funded issuance and maintenance of individual student identifiers as required by state law and needed for the state's longitudinal data base. By the end of 2004-05, all school districts statewide will have issued individual, non-personally identifiable student identification numbers for their students.

Feasibility Study for the Longitudinal Data Base: Current law, established by SB 1453 (2002) and SB 257 (2003), requires that CDE contract for the development of a statewide data system to collect, maintain, and report longitudinal student assessment and other data required to meet federal NCLB reporting requirements, to evaluate education programs, and to improve student achievement. This system is known as California Longitudinal Pupil Achievement System (CALPADS).

According to CDE, SB 1453 and SB 257 identify five basic goals for the state's longitudinal data system:

- To provide school districts and CDE access to data necessary to comply with federal NCLB reporting requirements;
- To provide a better means of evaluating education progress and investments over time;
- To provide local education agencies information that can be used to improve pupil achievement;
- To provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil level data; and
- To promote good data management practices with respect to pupil data systems and issues.

CDE submitted the CALPADS FSR to the Department of Finance on August 20, 2004. The Department of Finance provided comments from DOF on January 12, 2005. CDE submitted a revised FSR to DOF to address requested issues of concerns on April 6, 2005. According to CDE, concerns have included (1) whether CALPADS exceeds the requirements of SB 1453 and/or the federal NCLB; (2) operations services and systems alternatives; (3) the costs of the system to LEAs; and (4) oversight and quality assurance.

According to the FSR, implementation and ongoing costs for CALPADS are estimated at $8.1 million over the next four years (2005-06 to 2009-10). The Governor's Budget does not currently contain funding for CALPADS, given that DOF has not yet approved the FSR for the project.

CDE has requested $844,972 for CALPADS activities in 2005-06, should the FSR be approved. This includes $609,072 for project management, RFP development and an independent project oversight consultant; and $235,000 for two positions at CDE for CALPADS.

COMMENTS: Staff notes that the CALPADS project appears to be a high priority for both SPI and DOF, based upon correspondence that expresses their agencies' mutual support.

Staff recommends that the Subcommittee ask for a status report on the CALPADs project from both CDE and DOF. While DOF received the revised FSR from CDE approximately two weeks ago, DOF might be able to provide an update about its status. If the FSR is approved, additional funding will be needed to fund CALPADS in 2005-06. The Administration may not be able to comment on this prior to May Revise.

OUTCOME:

Appendix A:
Categorical Programs Consolidated by AB 825

Figure 1

Six New Block Grants

Pupil Retention Block Grant—$172.9 Million

- "Core" programs supplemental instruction.
- Continuation high schools.
- Drop Out Prevention and Recovery.
- Reading, writing, math supplemental instruction.
- Tenth Grade Counseling.
- High-Risk Youth Education and Public Safety.
- Opportunity Programs.
- Los Angeles Unified At-Risk Youth Program.
- Intensive reading supplemental instruction. [a]
- Algebra academies supplemental instruction. [a]
- Early Intervention for School Success.[a]

School Safety Consolidated Competitive Grant—$16.3 Million

- Safe school planning and partnership mini-grants.
- School community policing.
- Gang Risk Intervention Program.
- Safety plans for new schools.
- School community violence prevention.
- Conflict resolution.

Teacher Credentialing Block Grant—$83.9 Million

- Beginning Teacher Support and Assessment program.

Professional Development Block Grant—$248.6 Million

- Staff Development Buyout Days.
- Comprehensive Teacher Education Institutes.
- College Readiness Program.
- Teaching as a Priority Block Grant.[b]

Targeted Instructional Improvement Block Grant—$874.5 Million

- Targeted Instructional Improvement Grant Program.
- Supplemental Grants.

School and Library Improvement Block Grant—$421.6—Million

- School library materials.
- School Improvement Program.

a These programs were not funded in 2004-05, but school districts are allowed to use new block grant monies for their purposes.

b Program defunded as of 2003-04, but school districts are allowed to use new block grant monies for its purposes (teacher recruitment and retention).

Source: Legislative Analyst's Office, Analysis of the 2005-06 Budget, February 2005.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, April 18, 2005
1:30 pm
Room 113, State Capitol
OUTCOMES

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.

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Program Reductions and Eliminations – Arts Education, AVID, Charter Facilities Block Grant, EMHI, Healthy Start, Student Organizations

DESCRIPTION: The Governor Budget proposes to eliminate funding for three small categorical programs in 2005-06 – Healthy Start, Early Mental Health Initiative, and Charter Schools Facilities Grants. In addition, the Governor's Budget proposes to reduce funding for two other small education programs -- Student Organizations and Advancement Via Individual Determination (AVID. In addition, the Governor continues the elimination of the Local Arts Education Partnership Grant program in 2005-06.

BACKGROUND:

The Governor proposes to reduce or eliminate funding for a number of small education programs in 2005-06. As summarized in the table below, the Governor proposes to eliminate funding for the Healthy Start Program ($2 Million) and for the Charter Schools Facilities Grant program ($7.7 Million). The Governor proposes to reduce funding for the Early Mental Health Initiative program ($5 Million); the Advancement Via Individual Determination (AVID) program ($840,000); and for Student Organizations ($48,000). In addition, the Governor does not propose to restore $6 million in funding for the Local Education Arts Grants program vetoed from the 2004-05 budget.

Program/Item *(Dollars in Millions)*	**Program Description**	**Program Funding-Budgeted** **2004-05**	**Program Funding-Proposed** **2005-06**
Healthy Start (6110-200-0001) (Ed. Code 8800-8807)	Background: Provides competitive grants to support health, mental health, social, and other services located at or near school sites. Governor's Budget: The Governor proposes to eliminate $2.0 million in remaining funds for the Healthy Start program. The 2004-05 budget provided $2 million in *one-time* funding to support eight operational grants and four planning grants in school districts statewide.	$2.0 m	$0
Early Mental Health Initiative (EMHI) (4440-102-0001)	Background: The EMHI program provides three-year grants to schools to serve children in grades K-3 who are experiencing mild to moderate adjustment problems, but not eligible for special education services. EMHI is administered by the Dept of Mental Health Governor's Budget: The Governor proposes to reduce funding for EMHI by $5 million in 2005-06. The Governor proposes to continue funding for programs in the	$10.0 m	$5.0

Program/Item *(Dollars in Millions)*	**Program Description**	**Program Funding-Budgeted** **2004-05**	**Program Funding-Proposed** **2005-06**
	second year of funding, but not to fund any new grants. The 2004-05 budget provided $5m in ongoing funding and $5 million in *one-time* funding. Prior to 2003-04, EMHI funding totaled $15 million.		
CharterSchools Facilities Grant (6110-102-0001) Ed. Code 47614.5	Background: The Charter School Facilities Grant program provides funding to charter schools serving low-income students or located in low-income areas to offset rental and leasing costs. Governor's Budget: The Governor proposes to eliminate funding for this program in 2005-06. Statute establishing the program expressed legislative intent to provide $10 million a year for a three years. Funding appropriated includes: $10m in 2002-03; $7.7m in 2003-04; and $7.7m in 2004-05.	$7.7 m	$0
Advancement Via Individual Determination (AVID) (6110-130-0001)	Background: The AVID program provides assistance to schools to prepare low income students for college. The program focuses on students whose parents have not attended college. Governor's Budget: The Governor vetoed $1.3 million for advanced placement teacher training and tutoring services in 2004-05. The Governor proposes to further reduce the AVID program by $840,000 in 2005-06. To mitigate this proposed reduction, the Governor proposes to allow school districts to shift funding from the Professional Development Block Grant for AVID.	$9.035 m [Non-98]	$8.195 m [Non-98]
Vocational Education Student Organizations (6110-117-0001)	Background: Student organizations, including student councils, receive state support from funds available from the Vocational Education Student Organizations program and from another budget item that provides direct funding to the California State Association of Student Councils. Governor's Budget: The Governor's Budget proposes to reduce funding for Vocational Education Student Organizations by $48,000 in General Funds (non-98) leaving a total of $464,000 for the program. The 2004-05 budget reduced funding in this item for student councils by $50,000. The Governor's Budget maintains $33,000 for	$.512 m [Non-98]	$.464 m [Non-98]

Program/Item *(Dollars in Millions)*	Program Description	Program Funding-Budgeted 2004-05	Program Funding-Proposed 2005-06
	the California Association of Student Councils in 2005-06.		
Local Arts Education Partnerships (6110-177-0001) (Ed. Code 8810-8820)	Background: Provides competitive grants to LEAs to start comprehensive visual and performing arts education programs. Governor's Budget: In 2004-05 the Legislature restored $6 million in one-time funding for Local Arts Education Partnerships grants. The Governor vetoed these funds, thereby eliminating all funding for the program. The Governor does not propose to restore funding for the program in 2005-06.	0 [Governor vetoed $6 m.]	0

RECOMMENDATIONS: Staff recommends that the Subcommittee consider restoring funding for those programs that have a proven record of effectiveness and that any restorations utilize other savings identified in the budget. Using this criteria, staff would recommend restoration of $864,000 in funding for the AVID program and $5 million in funding for the EMHI program. Staff also recommends that the Subcommittee consider additional, limited-term funding for the Charter School Facilities Grant in order to reach the $30 million target intended in statute. Unless the Legislature decides to make this an ongoing funding program for charter schools, staff recommends that no additional funding beyond this level be provided in the future.

OUTCOME: No action.

ISSUE 2: K-12 High Speed Network (Internet 2)

DESCRIPTION: The Governor's Budget proposes $21 million for operation and maintenance of the K-12 high speed Internet network program in 2005-06, which continues funding at the level budgeted in 2004-05. The Legislature may wish to reconsider funding for this program in light of findings and recommendations from an independent audit and a program status report that were required by the 2004-05 Budget Act.

BACKGROUND:

Program History and Funding: The 2004-05 budget appropriated $21 million to the California Department of Education for a K-12 high speed network, previously known as Internet 2. This new program funds high speed Internet access and network connectivity for school districts and county offices of education.

The Internet 2 network was first developed as a university network used by the University of California, the California State University, as well as, independent universities in California. The Digital California Project (DCP), funded by the University of California, was created to extend this university network to the K-12 school system. A total of $92.6 million was appropriated to UC between 2000-01 and 2003-04 for this purpose. Through a contract with the Corporation for Education Network Initiatives in California (CENIC), the Digital California Project at UC extended Internet 2 access to 58 county offices of education and most school districts and schools in the state.

The Internet 2 network is now defined as two separate programs – the K-12 High Speed Network and the Cal-REN 2 network for higher education.

A number of concerns were raised during budget discussions about funding for the K-12 High Speed Network last year. These concerns focused on the following issues: absence of an information technology plan for this statewide project; lack of a governance structure for the network; uncertain utilization of the K-12 network by LEAs; and unknown cost and revenue data essential for determining the appropriate level of state funding.

As a result of these concerns, provisional language was added to the 2004-05 budget bill that requires CDE to contract with a county office of education to implement the K-12 network, thereby replacing CENIC as the lead agency for the network. (CDE selected Imperial County Office of Education through a competitive bid process.) The language also expressed intent that funding for the network in 2005-06 be accompanied by a governance structure that is specified in statute. In addition, budget bill language requires two reviews developed in consultation with the Department of Finance and the Legislative Analyst – an *independent financial audit* of the K-20 Internet system administered by CENIC and a *program status report* on the K-12 network prepared by the lead agency.

Independent Audit: MGT of America, Inc. was selected to prepare the independent audit of the K-20 network, which was required by the 2004-05 budget. The audit was required to provide a financial audit of CENIC and DCP since its inception; long-term projections of utilization, capacity and costs; cost estimates for alternative vendors; and other information. The audit was released on March 1, 2005. MGT will summarize their audit findings and recommendations for the Subcommittee at today's hearing.

There are several audit findings that relate to appropriate funding for the K-12 network, including:

- CENIC does not track project costs and compare those costs to the project budget. As a result, decision makers likely did not have all the financial information they needed to make decisions.

- LEAs are currently using about 5 percent of their capacity of the K-12 network;

- There is more than sufficient capacity for the majority of counties for many years. Even with 20 percent annual growth for the next seven years most counties will be using less than 15 percent of the capacity for which CENIC has contracted;

- While K-12 funding has comprised approximately 56 percent of the funding for CENIC between 2000-01 and 2003-04, the K-12 community is not represented on the CENIC Board of Directors. CENIC's 15-member board includes three members each from UC, CSU, CCC, as well as, representatives from four private universities.

- It is CENIC's position that it owns all fixed assets, including equipment, fibers, and leases related to the network, amounting to approximately $22 million of assets pertaining to DCP.

- CENIC has set-aside cash assets from state appropriations for future years including: $1.5 million in interest earnings; $13 million for equipment replacement; and $6 million to pre-pay operational support services. In addition, CENIC has $8.4 million in cash balances and approximately $6.6 million in E-Rate and California Teleconnect Fund balances.

In response, MGT makes specific budget recommendations to policymakers:
(1) Resolve questions of whether the funding provided to CENIC for the DCP was a traditional payment of payment for services of an appropriation, which has importance for governance, allowable uses of funding and control of assets; and
(2) Determine whether CENIC should repay the state for cash assets that have been set-aside for future purposes.

MGT makes other budget recommendations to the Imperial County Office of Education:
(1) Seek an independent review of CENIC cost allocation metrics and costs allocated; and
(2) Issue a request for proposal for a Virtual Private Network (VPN) to determine whether K-12 should continue with CENIC or pursue a VPN proposal.

Status Report Finding/Recommendations: The status report for the K-12 High Speed Network also required by the 2004-05 budget was prepared by Imperial County Office and three other agencies that are a part of its lead agency consortium. The status report was required to address project activities and accomplishments to date, annual revenues and expenditures, annual savings to local agencies from the project, proposed activities including a three-year budget plan assuming current service levels, and other information. The final report was released April 13, 2005.

The Imperial County Office of Education will summarize information about the status of the K-12 network for the Subcommittee, including an update on implementation of recommendations made by the MGT audit. In particular, ICOE recognizes several shortcoming with the current contract with CENIC pointed out by the MGT audit, including: absence of service level agreements to specify the quality and quantity of services; lack of data to monitor network usage; incomplete accounting of E-Rate and California Teleconnect Fund funding; and incomplete information on shared costs for network users. While addressing issues identified by MGT, ICOE will pursue an interim contract with CENIC after the current contract expires on June 30, 2005. ICOE will also contract for comprehensive analysis of utilization and network design by early next fiscal year, in preparation for commissioning a proposal for the Virtual Private Network, as recommended by MGT.

Governor's Budget: The Governor's 2005-06 budget proposes $21 million for the K-12 High Speed Internet Network program in 2005-06, which continues funding at the level budgeted in 2004-05. The Governor's budget specifies that the program shall be governed by legislation passed in 2005. The Administration is sponsoring legislation -- AB 1228 Daucher – to establish a governance structure for the program. This is currently a spot bill.

LAO Recommendation: Given concerns raised by the MGT audit, the LAO recommends that the Legislature suspend the K-12 High Speed Project pending the results of an audit and a design and use study. The fiscal effect of this action would be to free up $21.0 million in Proposition 98 funds. Specifically, the LAO recommend that the Legislature:

(1) Submit an audit request to Joint Legislative Audit Committee (JLAC) to determine: (1) funds that remain available and potentially could be reverted to the state and (2) the assets that were purchased with state funds and that could be claimed by the state.

(2) Depending upon the *JLAC audit* results, the Legislature could fund a network design and use study in 2006-07 (budget year plus one).

(3) Depending upon the *design and use study* results, the Legislature could fund a network project and competitively contract for a network/service vendor in 2007-08 (budget year plus two).

RECOMMENDATIONS: Staff notes that MGT was unable to secure cost and utilization data required by the 2004-05 budget language as this information was not available from CENIC. MGT has indicated two explanations for this lack of data. First, CENIC did not apparently collect all the utilization data for the K-12 network requested. Second, CENIC was unable to share other data it has collected. This data is critical to making budget decisions for 2005-06 and beyond. In addition, it is unclear if cash assets and balances held by CENIC can be utilized to offset future costs.

Staff recommends that the LAO develop options for funding the K-12 High Speed Network in 2005-06 based upon new information, findings, and recommendations provided by (1) the MGT audit released last month; (2) the status report released last week; (3) utilization data that is starting to be collected by ICOE; and (4) other sources.

SUGGESTED QUESTIONS:

1. *Do the recent audits and status reports justify $21 million in ongoing funding for the K-12 High Speed Network program? If not, how should the Legislature determine what level of state funding is needed for this program?*

2. *What is the timing of the study being proposed by the Imperial County Office of Education? Will it provide information to decide what network services are needed and what the state should pay for them?*

3. *Could cash assets held by CENIC be used to offset costs of the K-12 High Speed Network program in 2005-06?*

4. *Can other public sector users be added to the network to reduce costs to users?*

5. *What would happen if the state stopped funding the K-12 High Speed Network program in 2005-06? What services are LEAs now using that they would need to pay for with their own funds? How did LEAs pay for these services previously?*

6. *K-12 schools are participating in the high speed internet network with the state's public higher education systems. What are the cost sharing arrangements among these users. If the K-12 system were not funded, would it affect access and costs for the higher education systems?*

7. *The state has invested over $100 million in the high speed network for K-12 and higher education. Do recent reports shed light on who owns this system, in particular, the fixed assets of the system? MGT recommends that policymakers address this issue. What would the process be for determining asset ownership?*

8. *Does the K-12 network save money for LEAs compared to what they previously paid for internet services?*

OUTCOME: No action.

ISSUE 3: Governor's Initiative – Charter Schools Categorical Block Grant Program

DESCRIPTION: The Governor's Budget proposes reforms to the Charter Schools Categorical Block Grant intended to clarify and simplify the block grant calculations in 2005-06 and beyond. The Governor's reforms "delink" block grant funding from a specific set of categorical programs, by creating a new funding base that would be adjusted for growth and COLA annually. The LAO recommends a different set of reforms to the charter school block grant calculation, building upon outcomes from a legislatively required working group they convened to study alternatives to the current funding model. The LAO's proposal would link funding to a specific list of categorical programs included in the block grant, create a process for updating this list annually through the budget, and strengthen funding for economically disadvantaged students.

BACKGROUND:

Existing Charter School Block Grant: Under statute established in 1999 (AB 1115/Strom-Martin), charter schools receive categorical block grant funds in lieu of some categorical funds typically available to schools. This funding is provided in addition to charter school revenue limits that provide base funding for charter schools. The intent of the categorical block grant was to provide charter schools with funding comparable to funding that non-charter schools would otherwise receive for categorical purposes. Current law provides two types of categorical block grants to charter schools – a categorical block grant and compensatory education block grant**.** Since charter schools are exempt from most state laws governing schools, they can use their block grant funds for general purposes.

The categorical block grant is calculated based on average daily attendance for charter schools and is intended to provide comparable levels of funding for categorical programs that non-charter schools typically receive. The compensatory education block grant is provided based on the number of economically disadvantaged students attending the charter. This block grant is intended to provide funding similar to what non-charter schools receive from the Economic Impact Aid program.

Charter schools may apply separately for other categorical programs that are not included in the categorical block grant, but they have to comply with the funding requirements for those programs in order to receive funds.

Problems with the Existing Categorical Block Grants: When first established in 1999, there were 33 different categorical programs that were included in the block grant. Some of these programs no longer exist and some of these programs have since been consolidated in block grants as a part of categorical reforms. In addition, new categorical programs have been created since this time. In order to update the calculation, the DOF must adjust the 1998-99 base funding level annually to reflect programs that are moved " in" or "out" of the block grant calculation. These changes have to conform to overall changes in categorical program funding for programs in the block grant.

According to the LAO, there are two basic problems with the current block grant formulas. First, there is no consensus between CDE, LAO, and DOF on the programs that are supposed to be considered in and out of the block grant. There is contention about several large categorical programs and there is ambiguity about the new block grants created by AB 825 reforms last year. Secondly, the formula is overly complex and uses 1998-99 as a base year for making year-to-year changes.

Reforms Required by the 2004-05 Budget. In order to resolve these ongoing problems, the 2004-05 budget contained language requiring the LAO and DOF to work together to develop a simpler and clearer method for calculating the charter school block grant. The LAO convened a working group that included a range of stakeholders and that met several times during the fall of 2004. While the group did not come to a consensus on a specific new formula, it reached agreement on the purpose of the formula and general principles including the need for a formula that is simple and transparent, easy to implement administratively, provides comparable funding rates for charter schools compared to public schools, and retains the flexibility for using block grants as general purpose funding.

Governor's Reform Proposal. The Governor’s budget provides $68.1 million for the block grant, which represents a $2.9 million increase above the 2004-05 level after adjustments for growth and COLA. The Governor proposes to delink funding from specific categorical programs and simply use this funding level to establish a new per-pupil funding base. For future years, charter schools would receive a categorical block grant amount based on this per-pupil base level, adjusted for inflation, multiplied by each charter's average daily attendance. The Governor proposes to review the base funding level every three years to determine its growth compared to general K-12 funding.

LAO Reform Proposal. According to the LAO, the Governor’s proposal represents a significant change in the charter school block grant by delinking it from any set of underlying categorical programs so that it no longer represents in-lieu funding for a set of specified categorical programs. Without this link, it is unclear what programs are covered under the block grant and what programs charters schools would have to apply for separately. This does not resolve current contentiousness and confusion surrounding the formula. It also raises concerns about double-dipping by charters if they can apply separately for all programs that might also be covered by the block grant. In addition, charters would lose flexibility by having to apply for all programs separately.

As an alternative to the administration’s proposal, the LAO recommends identifying specific programs that charter schools would have to apply for separately and those programs for which charter schools are not eligible. For all other categorical programs, the LAO recommends that charters receive a share of funding equal to the share of K-12 students they serve. These provisions would be specified in statute, but implemented through a budget control section to allow annual updates for changes in categorical programs. In addition, the LAO recommends changes to the disadvantaged student block grant for charter schools. Specifically, the LAO recommends increasing per pupil rates under this formula in order to strengthen incentives for serving economically disadvantaged students.

The LAO alternative would provide charter schools with approximately $200 million of in-lieu categorical funding in 2005-06, which assumes charter schools serve three percent of all K-12 students. The LAO notes that it is difficult to compare this level of funding to existing charter school funding because it is not known what share of categorical funding charter schools actually receive.

Related Legislation:

AB 740 (Huff) – Contains provisions to change the charter school categorical block grant formula pursuant to the Governor's budget proposal.

COMMENTS/RECOMMENDATION:

Staff notes that Governor's categorical block grant proposal would cost an additional $2.9 million and the LAO's proposal has no additional cost. While the Governor's proposal provides $68.1 million for the block grant and the LAOs' proposal provides approximately $200 million for the block grant, these reflect differences in how existing state categorical programs are *allocated* among charter schools and public schools.

Staff also notes that despite differences in the proposals, there is strong consensus among the LAO, DOF and CDE on the need to reform the existing charter block grant formula.

Staff further notes that while the working group convened by LAO to address reforms to the charter school block could not agree on a specific funding model to replace the existing one, there was agreement that the purpose of the block grant was to provide charter schools with funding in lieu of categorical programs. By delinking the block grant from any set of categorical programs, the Governor's proposal violates this principle and at the same time removes an important rationale for establishing the level of funding.

Staff recommends that the Subcommittee direct the LAO to continue working with DOF and CDE on possible agreements. LAO is working on a new alternative that reflects the level of funding provided in the Governor's proposal, but that links funding to a specific set of categorical programs.

OUTCOME: No action.

ISSUE 4: Governor's Initiative – English Learner Acquisition Program

DESCRIPTION: The Governor proposes new budget bill language to change the way that English Language Acquisition Program (ELAP) funds can be used. This program serves English learners in grades 4-8. The Governor proposes changes that would require that ELAP funds be expended to be consistent with the requirements for California's Reading First program.

BACKGROUND:

Governor's Proposal: The administration proposes new budget bill language for the English Language Acquisition Program that would require ELAP funds be expended in a manner consistent with statutory requirements for the state's Reading First program. This creates new requirements for ELAP programs. The Governor's budget does not propose changes to the level of funding for the program. The Governor's budget provides $57.6 million in 2005-06 for ELAP, which continues current year funding adjusted for growth and COLA.

ELAP Program Requirements: Under current law, the English Language Assistance Program provides up to $100 per English learner in grades 4-8, per school year. As a condition of receiving funding from this program, participating school districts and county offices of education must certify that they will do all of the following, and may use these funds to accomplish these goals:

- Conduct academic assessment of English learners to ensure appropriate placement.
- Provide a program of instruction to assist English learners in achieving existing English language development standards.
- Provide supplemental instructional support (summer school, before/after school) to provide students with continuing English language development.
- Coordinate existing services and funding for English learners.

Existing law also provides for a one-time $100 per-pupil allocation for each English learner that is reclassified as English proficient, but to date the budget has never contained funding to implement that provision.

Currently, there are approximately 532 LEAs that receive ELAP grants. These LEAs serve approximately 549,000 English learner students.

The state's Reading First program, which serves students in grades K-3, provides funding for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches, and reading assessments. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

COMMENTS/RECOMMENDATION*:* Staff notes that the Governor's proposal intends to extend features of the state's Reading First program for students in grades K-3 to English learner students in grades 4-8 who are served by the ELAP program. Staff also notes that because the current ELAP program allows funding to be used for a broader set of usages, most notably on English Language Development, and the Reading First program focuses primarily on reading, the Governor's proposal could limit some of the ways LEAs are currently using their ELAP funds. Under this scenario, LEAs might be required to discontinue some of their existing program activities.

OUTCOME: No action.

ISSUE 5: Reading First

DESCRIPTION: The State Board of Education is requesting to provide a fourth year of funding for schools that currently receive Reading First grants. The 2004-05 budget requires legislative approval for this change.

BACKGROUND:

Governor's Budget. The Governor's budget proposes approximately $145 million in ongoing federal Reading First funds in 2005-06, which reflects a similar level of ongoing funding in the current year. An additional $29.6 million in one-time carryover funds was appropriated in 2004-05 to increase existing grants for the purpose of reducing students at risk of referral to special education.

Reading First Program: Federal Reading First funds are provided to states to improve the reading outcomes of students in grades K-3. California's Reading First state plan allows eligible school districts to receive three-year grants of up to $6,500 per K-3 teacher. Funding can be used for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches and reading assessments. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

The State Board of Education has awarded approximately 110 school districts with Reading First grants of up to $6,500 per K-3 teachers. This includes 13 first round districts; 60 second round districts; and 37 third round districts. According to CDE, 92 of these existing district grantees applied for the one-time money provided last year to prevent special education placements, which provided up to a total of $8,000 per teacher for one year.

State Board Proposal for Fourth Year Grants. The 2004-05 budget contained provisional language requiring the State Board of Education to seek legislative approval for any extension of the grant period beyond three years. Upon a recommendation by CDE, the State Board of Education recommends extending the grant awards for the first cohort of grantees by providing them with a fourth year of funding. According to CDE, the fourth year of funding would be provided to those grantees that have demonstrated sufficient progress toward state goals. At this time it is not clear how the State Board plans attain legislative approval of its proposal.

COMMENTS/RECOMMENDATIONS: Staff notes that the Reading First program may expire in future years. For this reason, it is important to extend funding to eligible districts that have not received funding. Given a history of carryover funds with this program, it is also important to build in assurances that federal funds are expended in a timely fashion. For this reason, the Subcommittee may wish to ask the following questions of CDE and the Board when it considers the request to provide a 4^{th} year of grant funding to the first round of grantees:

1. How many eligible districts have not received grants? Is there a demand for new grants?

2. Did the State Board consider proposals to provide funding for new grants to unserved districts? How much would be available for new grants in 2005-06? How could new grants be structured given the possibility that funding might expire in coming years?

3. If the state provides a 4^{th} year of funding to first-round grantees, what implications will that have on the availability of funding for new grants? Does it intend for second and third round grantees to receive a fourth year of funding and how much will this cost?

4. Do CDE and the Board intend for the first round of grantees to later receive a 5^{th} and 6^{th} year of funding? If so, what implications does this have for the availability of funding for second and third round grantees to receive similar amounts of funding?

OUTCOME: No action.

ISSUE 6. Governor's Initiative – School Business Officers

DESCRIPTION: The Governor's Budget proposes $1 million in one-time funding for a new program to train school business officers.

BACKGROUND:

Governor's Proposal. The Governor proposes a new three-year program to train all school business officers in the state. The 2005-06 budget provides $1 million in funding for the first year of the program. The program is intended to train 350 school district business officers a year and would provide approximately $3,000 per participant. Funding priority would be given to business officers from districts currently operating with a state-appointed administrator or trustee, or from districts that have received a qualified or negative certification on the state financial status list within the last 5 years.

The training would involve at least 100 hours, with at least half of these involving intensive individualized support and professional development in the following areas:

- School finance, including revenue projections, cash-flow management, budget development, financial reporting, monitoring controls and average daily attendance projections, and accounting.

- School operations, including matters relating to facilities, maintenance, transportation, food services, collective bargaining, risk management, and purchasing.

- Leadership, including organizational dynamics, communication, facilitation, and presentation.

In order to participate, school districts and county offices would be required to submit a program proposal, and the State Board of Education would be required to approve the proposal. Program participants must use a state-qualified training provider approved by the State Board of Education.

The Administrations is sponsoring legislation – SB 352 (Scott) -- to implement the School Business Officer's Training proposal. The program is modeled after the Principal Training Program.

COMMENTS/RECOMMENDATION: Staff recommends the Subcommittee consider funding this program given the program is low-cost and limited-term and because it would provide statewide training that focuses on improving the fiscal practices of school districts in order to avoid financial trouble.

OUTCOME: **No action.**

ISSUE 7: Governor's Initiative – Supplemental Instruction

DESCRIPTION: The LAO recommends changes to the Pupil Retention Block Grant established by categorical reform legislation last year. Specifically, the LAO recommends adding two supplemental instruction programs to the block grant and specifying that these programs have first call on funds in the block grant.

BACKGROUND: AB 825, as enacted in 2004, consolidated 26 state categorical programs into six block grants that will take effect in 2005-06. LEAs are required to use funds for the purposes of programs included in the block grants. The new Pupil Retention Block Grant consolidates 11 programs largely directed to serving at-risk students who require supplemental instruction of other interventions. The Governor's Budget proposes $172.9 million in funding for the Pupil Retention Block Grant in 2005-06.

Problems with Hold-Back Provisions for Block Grant: The LAO has identified problems with provisions of AB 825 that require 25% of each district's apportionment for Pupil Retention Block Grant to be "held back" pending full funding of two supplemental instruction programs that are not in the block grant. These two programs are: (1) supplemental instruction for students in grades 2-9 retained or recommended for retention and (2) supplemental instruction for students in grades 7-12 who are at risk of failing to pass the High School Exit Exam. The Governor's Budget proposes $40 million for the grades 2-9 program and $165 million for the grades 7-12 program in 2005-06. State law entitles districts to reimbursements based upon specified hours of instruction provided for these programs. The intent of the holdback was to contain costs for these two supplemental programs.

New Mandate Costs. The LAO reports that the Commission on State Mandates recently approved the supplemental instruction program for students in grades 2-9 as a reimbursable mandate although the state already provides funding for this program. The LAO indicates that the commission's findings are likely to increase costs substantially for this supplemental instruction program because they give districts substantial latitude in determining the level of services (hours and length of instruction, type of instruction, etc.) to comply with the mandate. The LAO estimates costs to increase in the tens of millions in coming years.

LAO Recommendations. Despite good intent, the LAO believes that the holdback provisions do not contain costs because they exclude two costly supplemental instruction programs the state fully funds. In addition, the holdback creates budget uncertainties and inequities for districts in providing funding for programs in the block grant.

For these reasons, the LAO recommends the elimination of the hold-back provisions of the Pupil Retention Block Grant. Alternatively, the LAO recommends that two programs discussed above -- supplemental instruction for students in grades 2-9 and supplemental instruction for students in grades 7-12 – be added to the block grant and have first call on funding. According to the LAO, adding these programs eliminates the need for hold-back provisions and increases local incentives for cost containment.

OUTCOME: No action.

ISSUE 8. Governor's Initiative – Professional Development Block Grant

DESCRIPTION: The Governor proposes to add three professional development programs to the professional development block grant created by AB 825, the categorical reform bill enacted in 2004. The LAO supports some of the Governor's proposals, but recommends some modifications and some additions.

BACKGROUND:

Recent Categorical Reforms: AB 825, as enacted last year, consolidated four professional development programs into a new Professional Development Block Grant. AB 825 allows school districts to transfer funds among the six block grants and into other categorical programs – up to 15% out of any block grant except for the Pupil Retention and Teacher Credentialing block grants.

Governor's Budget. The Governor's budget appears to build upon the categorical reforms initiated by AB 825. Specifically, the Governor proposes to add three programs to the new Professional Development (PD) Block Grant, including:

- Peer Assistance and Review ($27.3 million);
- Bilingual Teacher Training ($1.9 million); and
- Teacher Dismissal Apportionments ($43,000).

The Governor also proposes language to allow school districts to use funds from the Professional Development Block Grant to fund professional development (teacher and leadership training) for the Advancement Via Individual Determination (AVID) program. The Governor's Budget proposes to reduce funding teacher training and tutoring under the AVID program by $824,000 in 2005-06, bringing total funding for the program to $8.2 million. To mitigate this reduction, the Governor proposes to allow districts to access Professional Development Block Grant funds for AVID.

LAO Recommendations: The LAO supports the Governor's proposed additions to the Professional Development Block Grant with the three following modifications:

- Exclusion of the Teacher Dismissal Apportionments program ($43,000);
- Inclusion of the Math and Reading Professional Development program ($31.7 Million); and
- Addition of teacher data requirements for LEA as a condition to receiving block grant funding.

The LAO recommends that the Legislature establish an integrated teacher-student data system to assure meaningful state-level program evaluations and help hold districts accountable for using block grant funds effectively. The LAO believes that this data is required to assure accountability given the program flexibility provided by recent categorical reforms. The LAO has recommended the state adopt an integrated teacher data system for the last two years so that professional development programs can be better assessed and compared.

The LAO further recommends that the Legislature require school districts to provide specific teacher-level data as a condition of receiving either Professional Development of Teacher Credentialing block grant funds.

Related Legislation:

SB 1072 (Simitian) – Places eight additional programs into the Professional Development Block Grant established pursuant to AB 825.

AB 682 (Karnette) – Provides general clean-up to AB 825 including provisions to reinstate the School Safety Act and correct technical problems with both the Pupil Retention and Teacher Credentialing block grants.

COMMENTS/RECOMMENDATIONS:

Staff notes the need for a viable and effective statewide teacher information system has been well established. The No Child Left Behind (NCLB) requirements for assuring that all students have access to highly qualified teachers create new pressures for the state to integrate existing teacher data and develop new capacities. Beyond these reporting requirements, teacher data would be useful in judging the effectiveness of professional development programs.

Staff recommends that the Subcommittee consider appropriating $350,000 to the California Department of Education in 2005-06 to contract for a teacher data system design study, as recommended by the LAO. An advisory committee including DOF and LAO would guide the development of requests for proposal and the selection of a vendor.

Staff further recommends that the Subcommittee consider funding the study with one-time, federal Title II carryover funds. Federal Title II funds, as authorized under NCLB, are intended for professional development so this would be an appropriate source of funding.

OUTCOME: No action.

ISSUE 9: Data Systems – CSIS & CALPADS

DESCRIPTION: The Governor proposes to maintain funding for California School Information System (CSIS) essentially at current-year levels. The Governor's budget does not propose funding for the California Longitudinal Pupil Achievement System (CALPADS) in 2005-06. However, DOF is currently reviewing a revised Feasibility Study Report (FSR) for CALPADS, which was just recently resubmitted by CDE. (The initial FSR was submitted to DOF in August 2004). DOF completed an initial review of the FSR in early January 2005, and requested changes from CDE. The revised FSR is currently being reviewed by the Office of Technology Review, Oversight, and Security (OTRAS) at the Department of Finance.

BACKGROUND:

California School Information System: CSIS is a multi-year project to develop, implement and manage a statewide student level database and information transfer network. The program is administered by the Fiscal Crisis and Management Assistance Team (FCMAT), which is part of the Kern County Office of Education. CSIS was authorized by AB 107, as enacted in 1997. Since enactment, the state has spent nearly $64.3 million on the CSIS system.

The Governor's budget proposes $8.1 million in funding for CSIS in 2005-06. This includes $1.3 million for maintenance of student identifiers. While separate from the CALPADS system, the CSIS project has funded issuance and maintenance of individual student identifiers as required by state law and needed for the state's longitudinal data base. By the end of 2004-05, all school districts statewide will have issued individual, non-personally identifiable student identification numbers for their students.

Feasibility Study for the Longitudinal Data Base: Current law, established by SB 1453 (2002) and SB 257 (2003), requires that CDE contract for the development of a statewide data system to collect, maintain, and report longitudinal student assessment and other data required to meet federal NCLB reporting requirements, to evaluate education programs, and to improve student achievement. This system is known as California Longitudinal Pupil Achievement System (CALPADS).

According to CDE, SB 1453 and SB 257 identify five basic goals for the state's longitudinal data system:

- To provide school districts and CDE access to data necessary to comply with federal NCLB reporting requirements;
- To provide a better means of evaluating education progress and investments over time;
- To provide local education agencies information that can be used to improve pupil achievement;
- To provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil level data; and
- To promote good data management practices with respect to pupil data systems and issues.

CDE submitted the CALPADS FSR to the Department of Finance on August 20, 2004. The Department of Finance provided comments from DOF on January 12, 2005. CDE submitted a revised FSR to DOF to address requested issues of concerns on April 6, 2005. According to CDE, concerns have included (1) whether CALPADS exceeds the requirements of SB 1453 and/or the federal NCLB; (2) operations services and systems alternatives; (3) the costs of the system to LEAs; and (4) oversight and quality assurance.

According to the FSR, implementation and ongoing costs for CALPADS are estimated at $8.1 million over the next four years (2005-06 to 2009-10). The Governor's Budget does not currently contain funding for CALPADS, given that DOF has not yet approved the FSR for the project.

CDE has requested $844,972 for CALPADS activities in 2005-06, should the FSR be approved. This includes $609,072 for project management, RFP development and an independent project oversight consultant; and $235,000 for two positions at CDE for CALPADS.

COMMENTS: Staff notes that the CALPADS project appears to be a high priority for both SPI and DOF, based upon correspondence that expresses their agencies' mutual support.

Staff recommends that the Subcommittee ask for a status report on the CALPADs project from both CDE and DOF. While DOF received the revised FSR from CDE approximately two weeks ago, DOF might be able to provide an update about its status. If the FSR is approved, additional funding will be needed to fund CALPADS in 2005-06. The Administration may not be able to comment on this prior to May Revise.

OUTCOME: No action.

Appendix A:
Categorical Programs Consolidated by AB 825

Figure 1

Six New Block Grants

Pupil Retention Block Grant—$172.9 Million

- "Core" programs supplemental instruction.
- Continuation high schools.
- Drop Out Prevention and Recovery.
- Reading, writing, math supplemental instruction.
- Tenth Grade Counseling.
- High-Risk Youth Education and Public Safety.
- Opportunity Programs.
- Los Angeles Unified At-Risk Youth Program.
- Intensive reading supplemental instruction. [a]
- Algebra academies supplemental instruction. [a]
- Early Intervention for School Success.[a]

School Safety Consolidated Competitive Grant—$16.3 Million

- Safe school planning and partnership mini-grants.
- School community policing.
- Gang Risk Intervention Program.
- Safety plans for new schools.
- School community violence prevention.
- Conflict resolution.

Teacher Credentialing Block Grant—$83.9 Million

- Beginning Teacher Support and Assessment program.

Professional Development Block Grant—$248.6 Million

- Staff Development Buyout Days.
- Comprehensive Teacher Education Institutes.
- College Readiness Program.
- Teaching as a Priority Block Grant.[b]

Targeted Instructional Improvement Block Grant—$874.5 Million

- Targeted Instructional Improvement Grant Program.
- Supplemental Grants.

School and Library Improvement Block Grant—$421.6—Million

- School library materials.
- School Improvement Program.

a These programs were not funded in 2004-05, but school districts are allowed to use new block grant monies for their purposes.

b Program defunded as of 2003-04, but school districts are allowed to use new block grant monies for its purposes (teacher recruitment and retention).

Source: Legislative Analyst's Office, Analysis of the 2005-06 Budget, February 2005.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Agenda
April 25, 2005
1:30 pm or Upon Adjournment of Session – Room 113

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.

I. California State Library

The Governor's Budget proposes a total of $71.6 million for the California State Library's operations and the various local assistance programs. Of that amount, $45.4 million is from the General Fund, the remainder comes from other sources including state special funds, federal funds, and bond funds.

Background**.** The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs, develops technological systems to improve resource sharing and enhance access to information, and administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

California State Library
General Fund Budget Proposals
(Dollars in Thousands)

	Revised 2004-05	Proposed 2005-06	Change Amount	Percent
State Operations				
Support/operating budget	$10,223	$10,593	370	3.6%
Lease-revenue bonds	2,447	2,447	0	0%
Repairs for Sutro Library	267	17	(250)	-93.6%
Subtotals	*$12,937*	*$13,057*		*0.93%*
Local Assistance				
California Civil Liberties Public Education Prog.	$500	$500	0	0%
California Newspaper Project	240	240	0	0%
California Library Services Act	15,170	14,342	(828)	-5.5%
California English Acquisition & Literacy Prog.	5,340	5,064	(276)	-5.2%
Public Library Foundation	14,360	12,152	(2,208)	-15.4%
Subtotals	*35,610*	*32,298*	*(3,312)*	*-9.3%*
Totals	**$48,547**	**$45,355**	**(3,192)**	**-6.6%**

A. Public Library Foundation

The Governor's Budget proposes to decrease (by over 15 percent) the amount of funding available for the Public Library Foundation (PLF), from $14.4 million to $12.2 million. This program provides core operational assistance to local libraries and is used to support library staffing, maintain hours of operation, develop and expand library-based programs such as after-school reading programs and homework assistance centers, and purchase books and materials.

This 15 percent reduction comes after four years of severe budget reductions. In 2000-01, the state appropriated $56.9 million to the Public Library Foundation, since then, local libraries have seen a rapid decline in support for the program which equates to about a 78.6 percent reduction over five years.

Staff recommends that the committee consider placing an augmentation for the Public Library Foundation on the "checklist" pending the May Revision.

II. Child Care

The Governor's Budget provides $2.6 billion ($1.3 billion General Fund) to support approximately 488,700 children in the state's subsidized child care system. The proposed amount represents an increase of $33 million from current-level expenditures. Of the amount proposed, 46 percent of the funding will be spent on current and former CalWORKS recipients. Also included in the Governor's Budget is $29.7 million to a fund 2.41 percent increase in caseload and $50.8 million to provide a 3.93 percent Cost-of-Living-Adjustment (COLA). Staff notes that the amount of the statutory COLA is expected to grow to over 4.0 percent – an adjustment that will likely be reflected in the Governor's May Revision.

Issue
In its quest to reform child care and achieve fiscal savings, the Administration proposes a variety of programmatic reforms, via the state Budget, aimed at limiting child care services and hence reducing state costs associated with the programs. The monetary savings generated by the Governor's proposals will be used to help close the state's severe budget gap. These proposals were guided not only by the need to cut costs but by the Administration's desire to facilitate equitable access and establish a system that both acknowledges and promotes high quality child care.

In most cases, the Administration is proposing both Budget Bill and Trailer Bill Language to implement the programmatic changes.

Background
Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness; (2) families transitioning off public assistance programs; and (3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the "stage" of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education.

Families receiving Stage 2 child care services are either receiving a cash public assistance payment (and are deemed "stabilized") or are in a two-year transitional period after leaving cash assistance; child care for this population is an entitlement under current law. Under current law, the State allows counties flexibility in determining whether a CalWORKS family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 entitlement or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two categories: (1) General Child Care – which is available on a limited basis for families with exceptional financial need; and (2) the Stage 3 Set-Aside – which makes child care slots available specifically for former CalWORKs recipients. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate, with priority being granted to the former CalWORKs recipients.

Child Care is provided through either licensed child care centers or the Alternative Payment Program.

- *Child Care Centers* receive funding from the state which pays for a fixed number of child care "slots". Centers provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children served. Centers also provide nutrition education, parent education, staff development, and referrals for health and social services programs. In many areas in the State, there are no available "slots" in licensed Child Care Centers or Family Day Care Centers and families are forced to use licensed-exempt care.

- *Alternative Payment Program* provides child care through means-tested vouchers, which provide funding for a specific child to obtain care in either licensed child care centers, licensed family day care, or licensed-exempt care. With a voucher, the family has the choice of which type of care to utilize.

<u>History of Administration Reform Proposals</u>
Beginning in 2000, the Administration has annually presented various proposals to reform the state's subsidized child care system. Since then, the Administration has commissioned studies and proposed the reduction and/or elimination of child care services for various populations of children and/or families. As part of the 2003-04 Governor's Budget, the Administration proposed "realigning" child care services, thereby shifting responsibility for the programs from the State to local governments. That proposal was later rescinded by the Administration. For 2004-05, the Administration proposed (1) implementing a tiered eligibility system based on the cost of child care by county and the relationship of family income to those costs; (2) limiting Stage 3 child care services for former CalWORKS recipients to one year; (3) limiting -- to 2 years -- child care eligibility for parents in vocational and/or educational programs; (4) creating a six-level tiered reimbursement system for providers; and (5) lowering the income threshold at which families begin paying fees.

In the last several years, the Legislature has approved various pieces of Administration proposals designed to essentially "ration" the limited amount of state subsidized child care services by (1) eliminating subsidized child care services for 13-year old children; (2) eliminating subsidized child care services for families whose income exceeded 75 percent of the State Median Income (maximum income level under law) and who were originally "grandfathered" into law; (3) reducing the maximum rate paid to Alternative Payment providers for administration and support services -- from 20 to 19 percent; and (4) reducing the reimbursement rate for providers from 93 percent of the Regional Market Rate to 85 percent; and most recently (5) limiting the availability of child care services to 11- and 12-year olds by stating that the preferred placement for children in this age group is Before and After School Programs.

<u>Please Note</u>: Following is a summary of the proposed programmatic changes that would have a direct budgetary impact in 2005-06. Many of the Administration's proposals, including those that would impact licensed provider rates and impose time limitations on Stage 3 services, are being addressed through the policy committee process.

<u>Staff recommends</u> that all of the following proposals be held open pending the May Revision.

Issue	***Current Law***	***Governor's Proposal***	***Savings***	***Comments***
A. Income Eligibility (Use of the Federal Poverty Level index)	Establishes income eligibility for subsidized child care participants by setting an income threshold equivalent to 75 percent of the State Median Income (SMI) for a family of four. While statute calls for income eligibility to be set at 75% of SMI, for the last several years, the state has "frozen" eligibility at the 2000 levels ($39,000 per year for a family of four).	"Base" income eligibility would be established using the income thresholds currently in effect for the program: $39,000 annually for a family of four. The $39,000 figure would be "shifted" to the equivalent Federal Poverty Level (FPL), which the Administration proposes at 202 percent of the 2005 FPL (which equates to $39,084 annually). Those families currently receiving services whose income may fall above the FPL indicator will be "grandfathered" into the program and thus will continue receiving child care services. Thereafter, income levels would be adjusted annually based on the change in FPL, rather than SMI.	No monetary savings.	The state has failed to update its SMI calculation since 2000 and has frozen income eligibility at the 2000 levels. As a result, the current eligibility does not actually reflect 75% of the **current** SMI. CDE staff estimates that the current income threshold equates to 59 percent of the level it would be, had SMI been adjusted. Governor's proposal sets this "artificially low" income rate in statute, then adjusts annually. However, given that SMI hasn't been adjusted since 2000, FPL will be updated annually and income thresholds for program participation **will** increase over time. But, staff notes that FPL tends to inflate at a slower rate than SMI, which has sharp spikes depending on stock market returns and in some cases may actually decrease.

Issue	***Current Law***	***Governor's Proposal***	***Savings***	***Comments***
B. Age Eligibility (Care for 11- and 12-year olds)	Children up to age 13 are eligible for subsidized child care services. Current law specifies that the "preferred placement" for children ages 11 and 12 years is within a Before/After School Program. Current law requires that families certify in writing that Before/After School Programs <u>better meet</u> the needs of their child/family before a child is removed from subsidized child care services.	Shifts the burden by requiring parents to certify (in writing) why an After School Program <u>DOES NOT</u> meet the child care needs of the family. 11- and 12-year old children would still be able to stay in subsidized child care if they have "exceptional needs". Requires CDE to make reductions to child care contracts, reducing the contracts (on a contract-by-contract basis) to account for 11- and 12- year olds shifting to After School Programs.	$23.8 million in savings. Department of Finance (DOF) savings estimates are based on the assumption that 50 percent of the families of 11- and 12-year olds work "traditional" hours. Of these families, DOF assumes that half will move their children to After School Programs.	In order to reap the approximately $24 million in savings, this proposal requires that the provider reduce the number of children served and that CDE decrease the provider's contract rather than allowing the "freed up" child care slots to be filled by eligible, un-served families on waiting lists. Further, the proposal assumes children would enroll in after-school programs and relies on the future implementation of Proposition 49 (which will likely be "triggered" sometime between 2005-06 and 2007-08) to accommodate the additional children. After School programs may offer more age-appropriate activities (home work assistance) than other care options.

Issue	***Current Law***	***Governor's Proposal***	***Savings***	***Comments***
C. Shift of Stage 3 Child Care Recipients to AP Program. **Imposition of Time Restrictions on former CalWORKS recipients.**	Former CalWORKS recipients are eligible for subsidized child care services as long as the family continues to meet income requirements and the child(ren) continue to meet age requirements and be in need of care.	Governor proposes to limit the amount of time future Stage 3 child care recipients receive guaranteed child care services without otherwise being on a waiting list. Specifically, the Governor proposes to limit the "guarantee" of child care services for former CalWORKS recipients to three years after leaving cash aid. Families currently in Stage 1 or 2 child care would receive two years in Stage 3. Families currently in Stage 3 would be shifted to the non-CalWORKS AP program, where they would continue to receive care without any specified time limits. Proposal further allows CalWORKS families to place their name on the newly established centralized eligibility/waiting lists as soon as they have earned income, with the hope that by the time their child care "guarantee" runs out, they will have obtained a slot in the general child care program.	No monetary savings.	Proposal to impose time limits on participation in Stage 3 is contained in legislation which is currently making its way through the policy committee process. In order to shift these families to General Child Care services as quickly as possible, the Administration proposes allowing families to place their name on consolidated eligibility/waiting lists as soon as they have earned income. Given that families may have had earned income from prior years, the LAO proposes "sprinkling" CalWORKS recipients throughout the eligibility lists to ensure that all former CalWORKS recipients are not pooled at the bottom of the list.

Issue	***Current Law***	***Governor's Proposal***	***Cost***	***Comments***
D. Centralized Eligibility/Waiting Lists	Given that there are more families eligible for state-subsidized child care services than there are slots available, child care providers maintain eligibility lists to determine which family will be "tapped" for the next open slot. Waiting lists are established and maintained on a provider-by-provider basis and many families have their names on more than one waiting list at a time, hoping for an opening.	Provides $7.9 million, with accompanying statutory language, requiring one Alternative Payment Provider (APs) per county to establish, consolidate, and maintain county-wide eligibility (waiting) lists. The consolidated list would be split into two parts based on the income level at which family fees are assessed ($26,016 annually for a family of four). Families whose income falls below that level would be served first (Tier 1); families whose income falls above that level would be served after the child care needs of the Tier 1 families have been met. Statute would further require all state-subsidized child care providers/contractors to participate and use the centralized eligibility lists.	$7.9 million General Fund cost.	State policymakers and administrators lack information on the degree to which California children and families remain un-served. The centralization of eligibility lists will provide much-needed data on the unduplicated number of families waiting for services; the income levels of these families; and the length of the waiting time. Since the list is divided into two "tiers" based on income, it is possible that former CalWORKS recipients may be at the bottom of the list if their income exceeds that of non-CalWORKS families. As a result, serving them may be a lower priority. The LAO notes concerns with the "sequencing" of the Governor's proposals, and recommends that the state establish the centralized waiting lists first before implementing other components of the Governor's proposals (including the shifting of all Stage 3 families to the Alternative Payment Program, as previously discussed).

Issue	***Current Law***	***Governor's Proposal***	***Savings***	***Comments***
E. Tiered Reimbursement Rates	*Licensed-Exempt* providers are relatives or friends who are not licensed child care professions but are receiving reimbursement for providing a child (or children) with care. *Licensed providers and licensed child care centers* are reimbursed up to a maximum rate equivalent to the 85th percentile of Regional Market Rate (RMR). *Licensed-exempt* providers are reimbursed at only a slightly lesser amount: 90 percent of the *maximum* rate provided to licensed providers. This means that licensed-exempt providers may make *more* than licensed providers.	Creates a tiered reimbursement rate structure for both licensed-exempt and licensed providers. Reimbursement rates would depend on the licensure and training level of the provider. Governor's intent is to pay providers progressively more if they are trained, licensed, and/or accredited. Licensed Exempt Providers: Governor's Budget attributes $140 million in savings to a reduction in reimbursement rates for licensed-exempt providers. This rate reduction would become effective immediately after the enactment of the 2005-06 Budget Act, and rates for licensed-exempt providers would be reduced to 60 percent of the maximum amount paid to licensed care givers. If, within 180 days, licensed exempt providers receive basic health and safety training or other early childhood education, their rates would stay at the 60 percent level. If providers DO NOT avail themselves of the additional training, their reimbursement rates would fall to 55 percent of the maximum amount paid to licensed providers.	$140.1 million in savings.	This proposal is the Administration's attempt to pay more for "quality" child care. Specifically, the proposal attempts to remedy a disparity whereby licensed-exempt providers can receive a rate equivalent or higher than that of licensed child care centers, even though licensed-exempt providers may have no education, experience, early-childhood education or health and safety training. Staff notes that it's difficult to develop a tiered reimbursement rate system during bad budget times, which requires rates to be tiered downward. To truly reward *quality*, it makes more sense to tier rates upward, paying more than the current rate to providers who receive additional training and education. Staff notes that the committee may wish to examine a licensed-exempt rate structure which tiers rates based on "quality" but is less severe than the Administration's proposal.

Issue	*Current Law*	*Governor's Proposal*	*Savings*	*Comments*
Reimbursement Rates (continued)	Current law provides reimbursement rates for Title V (California Code of Regulations) regulated Child Care Centers at a "flat" rate, regardless of the region within which the center is located.	Licensed Providers: Governor also proposes to change the reimbursement rate structure for licensed providers, but doesn't implement the changes until 2007-08, thus there are no direct monetary savings associated with this proposal in the Budget Year. Staff notes that this proposal is currently making its way through the policy committee process. Administration proposes several "pathways" for both licensed-exempt and licensed providers to receive the additional training that would be necessary to maintain a higher reimbursement rate.		Under the Administration's proposal, rate reductions for licensed exempt providers are dramatic and may result in the unintended consequence of limiting the number of child care providers statewide. Specifically, rates may be so low that providers choose to exit the profession, leaving many families without care, especially during "off hours" such as nights and weekends when licensed providers typically don't operate. Given that approximately 60 percent of the care provided to children in Stage 1 occurs through *licensed-exempt* providers, the available "supply" of licensed-exempt care is critical to keeping CalWORKS recipients in the workforce. The Administration originally proposed a 90-day window for providers to obtain the additional training necessary to maintain the higher rate. This proposal was recently revised to lengthen the window to 180 days. However, it remains unclear if health and safety trainers would be able to accommodate the dramatic influx of child care providers into their local training programs.

Issue	***Current Law***	***Governor's Proposal***	***Savings***	***Comments***
F. Alternative Rate Setting for Providers Serving Only Subsidized Children	Current law specifies that providers may not charge the state more than they charge private pay families per child. Without any private paying families, a provider is automatically reimbursed at the maximum Regional Market Rate (RMR). Statute directed CDE to develop an alternative rate-setting method for providers serving only subsidized children. To that end, CDE initiated regulations (known as "pick 5") which would base the rate on five randomly selected, like-providers with private pay clients (in the same or comparable zip codes). Legislation enacted during each of the last two years suspended the implementation of these regulations.	Proposes to implement CDE's "pick 5" regulations, thereby disallowing providers with no private-pay clients to automatically be reimbursed at the maximum rate.	$8.2 million in savings.	Being reimbursed at the maximum RMR, in the absence of any private-pay clients, creates a perverse incentive for providers to avoid enrolling private-pay clients. It is difficult in some communities to find private paying clients, which may cause the "pick 5" regulations to scan a wider geographic region to find providers to base rates on. If this occurs, one could argue that the five providers do not meet the definition of "like" providers. In prior years, the Legislature suspended the proposed regulations because, if implemented, many providers would see a dramatic reduction in their reimbursement rates. Staff notes that, any reform which lowers rates for providers may have the unintended consequence of forcing providers out of the market because rates aren't keeping pace with the actual costs of providing care. LAO notes that the "pick 5" regulations are not perfect, but they do provide a reasonable estimate of local market rates and would serve to stop overpayment of certain providers.

Issue	***Current Law***	***Governor's Proposal***	***Savings***	***Comments***
G. Regional Market Rate (RMR) Survey	Requires CDE to contract, every two years, for a survey of the various market rates for child care services on a region-by-region basis. The results of this survey are used to determine the maximum rate levels at which the state reimburses providers for child care services.	None.	Unknown.	The Legislative Analyst requested that the committee ask CDE to provide an update on the status of the current survey and new methodology.

III. State-Supported Before and After School Program

Proposition 49, the *After School Education and Safety Program Act of 2002*, requires that sometime between 2005-06 and 2007-08, the state will automatically begin increasing General Fund support for After School programs. The LAO estimates that this "autopilot" increase will bring the level of funding from approximately $122 million in the current year to $550 million: An increase of over $400 million. Funding for the program is proposed to remain constant in 2005-06 in light of the pending automatic increase.

Under Proposition 49, state funding for After School programs is now continuously appropriated and no longer requires approval as part of the Annual Budget Act. Further, the additional funding appropriated for After School programs will be "on top" of the minimum funding level provided under Proposition 98, thus over-appropriating the minimum Proposition 98 funding guarantee.

As part of its *Analysis of the 2005-06 Budget Bill*, the Legislative Analyst expressed concern over the implementation of Proposition 49 and encourages the Legislature to take action and place a measure repealing Proposition 49 on the statewide ballot.

Staff notes that this issue requires no action on behalf of the committee.

IV. Federal 21st Century Learning Center Program

The Governor's Budget appropriates approximately $135.9 million for the federal 21st Century Community Learning Centers Program.

Background. The 21st Century program is a federally-funded after school program that provides disadvantaged K-12 students with academic enrichment opportunities and supportive services to help students meet core academic content standards. The federal grant amount appropriated to California for this program has increased steadily since 2002-03: from $41.3 million to $135.9 million in the Budget Year.

Since the federal government converted the program to its existing format, the state has consistently underutilized the federal funds, rolling over large sums (in excess of $30 million) annually. While CDE had a slow start in dispersing the grant program dollars, program administrators, grant recipients, the LAO, and Department of Finance have identified a series of statutory changes to the program that would make it easier for after school programs to fully utilize the funds and ultimately serve more students.

CDE is proposing to change state statute governing the 21st Century program to: (1) increase the daily reimbursement rate to $7.50 per day, a rate equal to the amount received (from all sources) in the state-funded Before and After School Program; (2) change the per school grant limit to allow schools with unmet need to serve more students; (3) allow grantees to receive a fixed portion of their administrative allowance up-front, regardless of the number of pupils the program enrolls; and (4) reauthorize the expenditure of one-time carry-over funds to support a new "cohort" of grantees.

Proposed changes are being integrated into Senate Bill 854 (Ashburn) which will be making its way through the policy committee process and staff recommends that approval of the Budget Act appropriation remain "open" pending the May Revision.

IV. PROPOSED CONSENT

Staff recommends that the following items be Approved as Budgeted.

6120-011-0001 State Operations, California State Library. $10,593,000

6120-011-0001 Reduce Item, California State Library, *per April 2005 Finance Letter*. -$5,000

6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. $551,000

6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. $6,545,000

6120-011-6000 Support, California State Library. Payable from California Public Library Construction and Renovation Fund. $2,680,000

6120-011-6029 Support, California State Library, California Cultural and Historical Endowment. $1,644,000

6120-011-6029 Increase Item, California State Library, *per April 2005 Finance Letter*. $5,000

6120-012-0001 Support, California State Library, Debt Service. $2,447,000

6120-013-0001 Support, California State Library, Sutro Library Special Repairs. $17,000

6120-150-0001 Local Assistance, California State Library, California Civil Liberties Public Education Program. $500,000

6120-151-0483 Local Assistance, California State Library, Telephonic Services. Payable from the California Deaf and Disabled Telecommunications Program, Administrative Committee Fund. $441,000

6120-160-0001 Local Assistance, California State Library, California Newspaper Project. $240,000

6120-211-0001 Local Assistance, California State Library, Library Development Services. $14,342,000

6120-211-0890 Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. $12,518,000

6120-213-0001 Local Assistance, California State Library, California English Acquisition and Literacy Program. $5,064,000

6120-495 Add Item, California State Library, *per April 2005 Finance Letter*. Reversion – California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund.

6420-001-0001 Support, California Postsecondary Education Commission. $2,059,000

6420-001-0890 Support, California Postsecondary Education Commission, payable from the Federal Trust Fund. $438,000

6420-101-0890 Local Assistance, California Postsecondary Education Commission, payable from the Federal Trust Fund. $8,579,000

Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, May 2, 2005
1:30 pm
Room 113, State Capitol

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ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 1: April Finance Letter – Technical Adjustment (Consent Item)

Staff recommends approval of the following revision to the Governor's January 10 Budget, as proposed by the April 1, 2005 budget letters from the Department of Finance. This is a purely technical correction to the budget. No issues have been raised for this item.

1. Amendment to Item 6360-001-0407, Support, Commission on Teacher Credentialing (CTC). It is requested that Item 6360-001-0407 be amended as follows to reflect a technical change to the Administration and Distributed Administration amounts. This adjustment will correctly reflect the Administration and Distributed Administration costs associated with employee compensation and retirement adjustments included in the Governor's Budget. It is requested that Schedule 2 be increased by $63,000 and Schedule 3 be reduced by $63,000.

OUTCOME:

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 2: Bureau of State Audit Report – Information Only

DESCRIPTION: The Bureau of State Audits will present findings and recommendations from an audit of CTC's credentialing responsibilities published in October 2004. The Subcommittee may want to explore recommendations that could result in cost savings without jeopardizing program and service quality.

BACKGROUND:

The Bureau of State Audits published its audit report of CTC -- *California Commission on Teacher Credentialing: It Could Better Manage Its Credentialing Responsibilities* – in October 2004. The audit was requested by the Joint Legislative Audit Committee. (See BSA Report Summary, Appendix A.)

According to the BSA's summary report, the CTC audit revealed the following overall findings:

- The commission could better evaluate the effectiveness of the programs it oversees and better measure the performance of the teacher credentialing process.
- The commission could take additional steps to improve its processing of credential applications, including focusing its customer service activities.
- Several areas of the commission's process for developing program standards lack structure and could be improved.
- The commission suspended its continuing accreditation reviews in December 2002 and is evaluating its accreditation policy, and it does not expect to present a revised policy to its governing body until August 2005.

In order to address these findings, the BSA report made nearly 18 separate recommendations for improving the commission's teacher credentialing functions. The BSA summarizes these recommendations as follows:

- To determine their success, the commission should establish performance measures for each of its teacher development programs.
- To better plan and evaluate its efforts, the commission should regularly update its strategic plan and when appropriate quantify performance measures for tasks, in terms of the results it aims to achieve.
- The commission should continue to consider ways to streamline the teacher credentialing process.
- The commission should improve application processing by better focusing its customer service efforts, analyzing application-processing data, requiring institutional customers to submit applications electronically to the extent that it is economically feasible, and encouraging more educators to renew their credentials online.
- To improve the process by which it develops program standards for college and university teacher preparation programs, the commission should develop an overall plan to guide its efforts to fully implement the act's requirements. This plan should describe

the commission's process for developing standards and should provide more structure for that process. Further, to ensure that colleges and universities meet these program standards, the commission should promptly resume its continuing accreditation reviews.

COMMENTS: According to the BSA, the commission agrees with many of the recommendations, with some qualifications, and disagrees with other findings for technical and other reasons. The Commission may wish to provide an update on implementation of recommendations since the audit. The Subcommittee might be interested in recommendations that could result in additional cost savings that can be applied to meeting the CTC's projected budget shortfall, as discussed in the following item.

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 3. CTC Budget Overview – Information Only

Background: The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues several different types of professional documents, authorizing the service of teachers, administrators and other school personnel in California's public schools. These documents include various credentials, emergency permits, credential waivers, and certificates.

The CTC currently receives more than 223,000 applications for credentials, emergency permits and credential waivers. As indicated below, the number of applications has grown in recent years. However, due to the economy and budget hardships facing schools, the CTC is experiencing a continuing drop in credential applications in the current year.

	2000-01	2001-02	2002-03	2003-04	2004-05
Credential Applications Received[a]	215,954	239,501	250,701	235,327	221,000
Waiver Applications Received	7,865	7,918	5,144	2,827	2,000
Total	223,819	247,419	255,845	238,154	223,000

[a]*Includes emergency permits.*

Governor's Budget: As indicated by the summary table below, the Governor's Budget proposes $57.0 million for the CTC's budget in 2005-06. Of this total, $31.8 million (56 percent) is funded from the General Fund (Proposition 98) in the budget year. This funding is tied to the administration of three local assistance education programs – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. The Administration proposes to eliminate remaining funding for the Pre-Intern Program in 2005-06, as this program is being phased-out since it does not meet NCLB requirements for Highly Qualified Teachers.

3-YR EXPENDITURES AND POSITIONS (Summary of Program Requirements)
(Dollars in Thousands)

	Positions			Expenditures		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
Certification, Assignment and Waivers	71.4	65.6	59.9	$ 9,002	$ 8,099	$ 8,115
Professional Services	33.7	31.6	31.6	50,776	47,044	43,641
Professional Practices	27.9	27.6	27.6	4,534	5,054	5,254
Administration	37.2	33.3	33.3	6,642	4,793	4,692
Distributed Administration	-	-	-	-6,642	-4,793	-4-692
TOTALS, POSITIONS AND EXPENDITURES (All Programs)	**170.2**	**158.1**	**152.4**	**$64,312**	**$60,197**	**$57,010**

3-YR EXPENDITURES AND POSITIONS (Summary of Program Requirements) *(Dollars in Thousands)*						
	Positions			Expenditures		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
Funding						
General Fund				$ -	$ 3,500	$ -
General Fund, Proposition 98				37,640	31,814	31,814
Teacher Credentials Fund				15,355	14,763	15,049
Test Development and Administration Account, Teacher Credentials Fund				10,869	9,734	10,147
Federal Trust Fund				448	147	-
Reimbursements				-	239	-
TOTALS, EXPENDITURES, ALL FUNDS				**$64,312**	**$60,197**	**$57,010**

Another $25.2 million (44.2 percent) of the CTC budget is funded by two special funds that support the CTC's state operations budget. In the budget year, the Governor's Budget appropriates $15.0 million from the Teacher Credentials Fund and $10.1 million from the Test Development and Administration Account.

The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. For example, the CTC currently charges $55 for a new or renewed teaching credential. The Test Development and Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST), California Subject Examination for Teachers (CSET), and the Reading Instruction Competence Assessment (RICA).

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 4. Special Fund Deficiencies and Options for Assuring CTC Solvency

DESCRIPTION: The Governor's January budget for the Commission on Teacher Credentialing estimates essentially no funding balances for the two major special funds that support the commission – the Test Development and Administration Account and the Teacher Credential Fund in 2005-06. New information, available since January, indicates that both funds are facing structural imbalances in 2005-06. According to CTC, the Test Development Account will have an imbalance of $975,000 and the Teacher Credential Fund will actually have a deficit of $2.6 million. Absent actions to address these imbalances, the CTC budget overall will be facing a budget shortfall of approximately $3.6 million. In response, the Administration and LAO have called upon CTC to develop options for improving the commission's solvency.

Special Fund Deficits and Agency Shortfall.

The Governor's Budget proposes a budget of $57.0 million for the CTC in 2005-06. Most of the revenues for the CTC's operations are derived from two special funds -- the Test Development and Administration Account and the Teacher Credential Fund. In recent years, there has been a great deal of fluctuation in revenues from these two funds; however, fund balances and programs have been maintained through loans between the two funds due to available reserves.

In a major change of events, the Governor's January budget predicted no reserves for either the Test Development Account or the Teacher Credential Fund in 2005-06, based upon November 2004 fund condition statements. New fund condition information from CTC now projects actual shortfalls in both funds. CTC estimates a $975,000 imbalance for the Test Development Account and $2.6 million deficit for the Teacher Credential Fund. Agency wide, this predicts a $3.6 million shortfall for the CTC budget in 2005-06.

Several major reasons for the change of events include:

1. **Changes in Estimates for Test Development Account Reserves.** Fund condition statements for the Test Development and Administration Account did not reflect all testing expenditures against revenues. The $9.3 million fund balance estimated in January 2004 – and utilized for the 2004-05 budget – dropped to $2.3 million in November 2004. This change has prompted a great deal of concern and changes in the way CTC will account for revenue and expenditures as a part of its fund condition statement in the future. The bottom line is that predicted reserves for the Test Development Account were substantially lower than believed when the 2004-05 budget was enacted.

2. **Drop in Fees Due to Reductions in Credential and Testing Volume.** Credential volume and testing volume has been falling in recent years to reflect dynamics of the teacher workforce. This reduces revenues for both the Test Development Account and the Teacher Credential Fund. In particular, emergency permits, which are renewed annually

with fees, have dropped significantly in the last two years. While a welcomed policy change, this has lowered credential fee revenues.

3. **Reserves Have Masked Ongoing Structural Budget Deficit.** Since the later 1990s, the CTC has been operating within a revenue structure whereby annual expenditures exceeded annual revenues for the two special funds. However, because of account reserves, the CTC did not have to address these structural problems.

4. **Reduction in Teacher Credential Fees.** Statute authorizes credential fees of $70; however, due to growing reserves in the Teacher Credential Fund in the late 1990s, the Legislature dropped fees – first to $60 and later to $55. This has substantially reduced revenues for the commission over the last five years.

5. **Exam Fees Lagging.** Under statute, CTC can set its exam fees for new tests. According to CTC, exam fees have not been raised in three years.

Governor's Budget Options. The Governor's January budget contained two initial proposals for the CTC budget. Due to new information on the special fund balances for CTC in both the current and budget year, it is likely that the Administration will have additional proposals at May Revise.

- ***Teacher Credentialing Service Improvement Project (TCSIP) Savings from University Application Automation and Online Renewal.*** The Administration proposes that all public and private colleges and universities that have teacher preparation programs that have been accredited by the Commission on Teacher Credentialing be responsible for approving and electronically submitting all credentialing applications for their students. The Administration also proposes that CTC increase its online credential renewals. Once implemented, these changes are estimated to result in a substantial workload reduction for the CTC and will better ensure that applications for new teachers are processed in a timely manner. In anticipation of these savings, the Administration proposes to reduce $600,000 and 6.0 positions for the Teacher Credentialing Service Improvement Project (TCSIP) in 2005-06. This includes $228,000 in savings for the 6.0 positions and $350,000 in unallocated reductions associated with a 50 percent increase in online renewals. These reductions would decrease expenditures from the Teacher Credentials Fund in 2005-06.

- ***Loan from Test Development Fund to the Teacher Credential Fund.*** The Governor's budget proposes a $1.9 million loan from the Test Development Account to the Teachers Credentials Fund. Given that the Test Development Account is now predicted to have a $975,000 shortfall in the budget year, the Administration will most likely revise this proposal at May Revise. The Governor's Budget assumes a $300,000 loan from the Test Development Account to the Teacher Credentials Fund in the current year. According to the Department of Finance, this loan will need to be increased to $652,000.

<u>LAO Options</u>: The LAO initially recommended that the Legislature consider three options for maintaining the solvency of the fund. Given new information on the CTC special fund balance, the LAO may update the following recommendation at the Subcommittee hearing.

- ***Increase the Credential Application Fee.*** According to the LAO, a $5 increase in the application fee would raise revenues by $1.1 million. The Legislature may want to consider more than a $5 increase in 2005-06 or 2006-07 in order to establish prudent fund reserves.
- ***Automate or Devolve Credentialing Authority.*** The LAO suggests consideration of the Governor's budget proposal to allow accredited, university-run teacher preparation programs to pre-approve credential applications so that CTC could grant the credential without further review. CTC currently evaluates more than 50,000 applications from universities, so the LAO estimates considerable savings from this proposal. The LAO also suggests consideration of a similar pre-approval process for district-run teacher preparation programs and community college child development programs. CTC currently reviews approximately 10,000 child development permits alone, so this change could also generate additional savings.
- ***Pursue Additional Efficiencies.*** The LAO suggests that the Legislature consider options identified by CTC that hold promise for achieving efficiencies and savings. For example, the 2004-05 Budget Act required CTC to submit a report to the Legislature and DOF that identified "feasible options" for reducing credential processing time in 2005-06. The CTC identified the five options, which are intended to reflect recommendations in the BSA report.

<u>CTC Options</u>: While the Administration and LAO have developed initial budget options to reflect information and assumptions available for the Governor's January 10 budget, these options are considered preliminary in light of new information that predicts a serious budget shortfall in the CTC budget in 2005-06. As a result, both agencies have called upon CTC to develop proposals for addressing these budget problems.

In response, CTC staff has developed nearly 30 budget options for consideration by the commission. These options include both savings and revenue proposals. The commission approved 23 of these options at their meeting last month. Another six proposals were considered at the April meeting, but not approved. (See Appendix A for summary prepared by CTC.)

All together, options adopted by the approved by the commission would produce an estimated $1.7 million in savings and $2.5 million in new revenues. If all are adopted, these options could eventually provide $4.2 million toward a budget solution for CTC. Not all of these options would produce savings in 2005-06 and several of the proposals that produce the largest savings or revenues are the most controversial.

The options approved by the commission are listed below. Subcommittee staff has grouped options according to the level of controversy for stakeholders – as expressed by stakeholders at the commission meeting when these proposals were considered and approved.

	Proposal	Savings	Revenues	Comments
	Non-Controversial			
1	Eliminate printing of the Application for Character and Identification Clearance	$11,000		
2	Eliminate printing of the Professional Growth Manuals	$9,000		
3	Eliminate printing of Certificates of Clearance	$8,000		
4	Eliminate Public Counter Services and redirect staff to credentialing	Re-Direct 720 Hours		
5	Reduce Data Research and redirect staff to credentialing	Re-Direct 1,000 Hours		
6	Eliminate program review position following the adoption of new Credential Program Standards	$115,000		
7	Eliminate production of Annual Report, Newsletter	$20,000		
8	Postpone adoption of a Mild/Moderate Special Education Exam	0		Cost avoidance.
9	Eliminate full Administrative Hearing Process for lower levels of discipline			Est. savings per case: $20,000 - $100,000
10	Eliminate all certified mailing requirements	$11,000		
11	Eliminate paper copies of the All Points Bulletin	$20,000 - $25,000		
12	Streamline investigative process for first time applicants	$14,804		
13	Charge for probation monitoring		$30,000	
14	Eliminate reimbursement to Ex-Officio Members	$14,000		
15	Consolidate two CEA positions into single position	$113,000		Implemented
16	Authority reduction for the Facility Lease Payment reduction	$180,000		Implemented
17	Eliminate Technical Project Management Support position and redirect functions to other divisions.	$95,000		
	Somewhat Controversial			
18	Charge fees for the School Leaders License Assessment (SLLA) and the Teaching Foundations Exam (TFE)		$90,000	
19	Reduce number of Commission meetings	$8,000 - $16,000		
	Controversial			
20	Eliminate the liaison services to COEs and IHEs and redirect staff hours to credentialing	Re-Direct 2,600 Hours		
21	Charge IHEs for program review and accreditation		$413,000	Shifts costs to IHEs. Governor proposed in 04/05; rejected by Legislature.
22	Request exception to requirement for Attorney General representation at CTC Administrative Hearings and add five legal positions to provide services in-house.	$927,000 (2006-07 forward)		Other state agencies have statutory exceptions.
23	Establish separate discipline fees		$2,009,750	Currently costs spread among all credential holders.
	TOTAL	$1,658,000	$2,542,750	

Fee Proposals Not Considered by the Commission.

The Commission has not considered proposals to raise either credential fees or testing fees for applicants and teachers. While the commission has the authority to raise fees, it reportedly is waiting for signals from the Administration and Legislature about the expenditure reduction and revenue enhancement proposals it approved last month.

COMMENTS: The size of the CTC budget shortfall is estimated at $3.6 million in 2005-06. If all of the budget reduction and revenue enhancements adopted by the commission were implemented, the CTC could essentially achieve a balanced budget in 2005-06. Options approved by the commission to date would reduce CTC's costs by $1.7 million and raise revenues by $2.5 million. However, not all savings would be realized in 2005-06. In addition, these proposals assume some loss in services, cost shifts, and new fees for applicants and teachers that are controversial for some stakeholders.

Alternatively, the Legislature could consider increasing exam fees, since the fees have not been raised for three years. The realm of fee increases the commission would likely consider could produce funding to meet the Test Development Account imbalance of $975,000.

In addition, the Legislature could increase the credentialing fee by at least $10 – from the current $55 to $65, which is still below the $70 as authorized in statute. According to CTC, this would raise $2.2 million ($1.1 million for every $5 increase). A slightly higher increase would be needed to cover the $2.6 million deficit predicted for the Credential Fund.

Lastly, the Legislature may want to consider a combination of CTC approved expenditure and fee increases, as well as, increases in exam fees and teacher credential fees.

RECOMMENDATION: Staff recommends that the Subcommittee request that the LAO identify, prior to May Revise, a range of options that address the CTC budget shortfall in 2005-06, utilizing the most up-to-date fund condition statements for the Testing Development Account and Teacher Credential Fund.

OUTCOME:

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 5: April Finance Letter – Federal Funds Update (Consent List)

Staff recommends approval of the following revisions to the Governor's January 10 Budget, as proposed by the April 1, 2005, budget letters from the Department of Finance. No issues have been raised by any of these items. Federal funds adjustments are intended to update budget appropriation levels so they match the latest federal estimates and utilize funds consistent with current policy.

Federal Funds Adjustments

1. **6110-102-0890, Local Assistance, Learn and Serve America Funding (Issue 801).** It is requested that this item be reduced by $283,000. This reduction will align expenditure authority with available federal grant funding.

2. **6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 322).** It is requested that this item be reduced by $109,000 to align the appropriation authority with the anticipated federal grant award amount.

3. **6110-123-0890, Local Assistance, Title V Innovative Programs (Issue 163).** It is requested that this item be decreased by $10,226,000 to make the amount consistent with the federal Title V Innovative Programs grant estimated for 2005-06. These grant funds are provided to districts to develop and implement innovative education programs intended to improve school, student, and teacher performance, including professional development activities.

4. **6110-125-0890, Local Assistance, Migrant Education and Education of Limited English Proficient (LEP) Programs (Issues 323 and 325).** It is requested that Schedule (1) of this item be reduced by $217,000 and Schedule (2) of this item be reduced by $6,583,000 to align appropriation authority with the anticipated federal grant award amount.

5. **6110-126-0890, Local Assistance, Reading First Program (Issue 641).** It is requested that this item be increased by $778,000 in order to align appropriation authority with the anticipated federal grant award amount.

6. **6110-136-0890, Local Assistance, Title I Basic and McKinney-Vento Homeless Children Education Programs (Issues 329, 334, 725, and 726).** It is requested that Schedule (1) of this item be increased by $20,616,000. This adjustment includes an anticipated increase in the Federal Title I Basic Grant federal grant award amount of $17,574,000 and transfer of $500,000 from state operations to local assistance to be allocated on a formula basis to local education agencies for the academic improvement of disadvantaged students. This increase also includes a reduction in the Even Start Program of $3,520,000 in order to align appropriation authority with the anticipated

federal grant award amount and an increase in the Even Start Program of $6,062,000 to provide carryover authority for unspent prior year funds to be allocated as follows: $266,000 from the technical assistance grant portion for professional development at the local level; $2,900,000 for a ten percent increase to existing projects to enhance Early Childhood Education components and to provide training for teachers in meeting the No Child Left Behind Act (NCLB) requirements; $2,800,000 to offset the reduction in the 2005-06 federal grant allocation to the Even Start program. It is further requested that Schedule (2) of this item be increased by $123,000 for the McKinney-Vento Homeless Children Education program. These funds will be allocated on a competitive basis to provide grants for homeless child education. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.

7. **6110-137-0890, Local Assistance, Rural/Low-Income School Program (Issue 331)**. It is requested that this item be reduced by $1,333,000 to align the appropriation authority with the anticipated federal grant award amount.

8. **6110-180-0890, Local Assistance, Education Technology Program (Issue 643).** It is requested that this item be decreased by $26,565,000 to reflect a decrease in federal funding for the Education Technology Program. The federal budget proposes to eliminate state grants for Education Technology by 2006-07. It is further requested that Provisions 1 and 2 of this item be amended to conform to these changes.

9. **6110-183-0890, Local Assistance, Safe and Drug Free Schools and Communities Program (Issue 481).** It is requested that this item be decreased by $10,335,000. Specifically, the proposed budget adjustment is the result of: (1) a base decrease of $10,835,000 in the federal grant for Safe and Drug Free Schools and (2) a one-time carryover of $500,000 from unused funds. This grant program provides funds to local education agencies for drug and violence prevention and intervention services.

10. **6110-193-0890, Local Assistance, Mathematics and Science Partnership Grant Program (Issue 644).** It is requested that this item be increased by $3,896,000 in order to align appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide additional competitive grant awards to institutes of higher education and low-performing schools to provide staff development and curriculum support for mathematics and science teachers.

11. **6110-195-0890, Local Assistance, Improving Teacher Quality Local Grant Program (Issue 645).** It is requested that Schedule (1) of this item be reduced by $1,488,000 in order to align appropriation authority with the anticipated federal grant award amount.

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 6: April Finance Letter – Other Adjustments

DESCRIPTION: The April Finance Budget Letter proposes four assorted changes to state operations and local assistance budget items for the Department of Education.

BACKGROUND: The Governor proposes the following five budget changes in the April Budget Letter that involve adjustment to address: (1) technical adjustments to align appropriations with program needs and funds available and (2) fund legal claims.

1. **6110-001-0890, State Operations -- Public Schools Accountability Act Evaluation (Issues 165).** It is requested that this item be reduced by $500,000 and that the requirement to conduct the biennial evaluation of the Public Schools Accountability Act be deleted since it would duplicate the existing evaluation of the High Priority Schools Grant Program. This action requires conforming statutory changes.

2. **State Operations -- Provisional Language for Principal Apportionment System Rewrite (Issue 081).** Proposes that provisional language be added to Item 6110-001-0001 to provide carryover authority for the principal apportionment system rewrite (PASR). At the beginning of 2004-05, a total of $143,000 remained unexpended. CDE has encumbered a contract for staff training and maintenance of the new system with these funds, which otherwise will revert June 30, 2005. Provisional budget language is also requested to allow unexpended funds appropriated for PASR in prior years to remain available in 2005-06 and 2006-07 for expenditure for a contract for staff training and maintenance of the new apportionment system.

3. **State Operations -- Donated Food Revolving Fund (Issue 651).** Proposes an increase of $300,000 due to the authorization of a shipping fee increase by the United States Department of Agriculture (USDA). This additional revenue will be used to pay for shipping fees and to provide other food distribution services.

4. **Local Assistance -- Reduce Reimbursement Authority for the Child Nutrition Program (Issue 652). Proposes a reduction in reimbursement authority of** $2,652,000 for the Child Nutrition program. CDE did not receive $2.0 million in anticipated funding from the Vitamin Case Consumer Settlement Fund. An additional $652,000 originally authorized for the Linking Education Activity and Food pilot program is eliminated since the program has been completed.

5. **Local Assistance -- Reappropriation (Proposition 98) Sunnyvale Desegregation Claim (Issue 321).** Proposes increased funding of $1,455,000 above the January budget -- for a total reappropriation of $6,385,000 -- in order to properly account for the principle and compounded interest accrued for desegregation costs to Sunnyvale School District for fiscal years 1983-84 through 1991-92. The Victims Compensation and Government Claims Board found in favor of the claimant for $6,385,000 for repayment of claims and

for compounded interest. Proposed budget language would require that funds be reverted if an appropriation is also included in a Victims Compensation and Government Claims Board Claims Bill.

LAO Position:

RECOMMENDATION: Staff recommends approval of these five budget revisions proposed by the April DOF budget letter.

ITEM 6110 California Department of Education

ISSUE 7: State Operations – Various Positions

DESCRIPTION: The Governor proposes a number of staffing adjustments – increases and decreases – that are included in the Governor's January 10 budget and the April 1st DOF budget letter. Specifically, the Governor proposes to increase staffing at the Department of Education by a net total of 15.6 permanent positions. Some of these increases reflect the conversion of limited-term positions to permanent positions. The Governor also proposes other adjustments to several limited-term positions.

BACKGROUND:

The Governor proposes the following staffing adjustments for the Department of Education**:**

1. Ongoing Funding for Williams Settlement Legislation ($200,000 Increase/1.9 Positions). Proposes $200,000 in General Funds to continue funding to support 1.9 positions for implementation of state level activities pursuant to the requirements of the Williams settlement lawsuit. SB 550, as enacted in 2004, created new responsibilities for the Department of Education that were funded in 2004-05. (January Budget)

2. Various Limited Term Positions ($433,000 Reduction/4.7 Limited-Term Positions). Proposes to remove $433,000 in federal funding for 4.7 limited-term positions and expiring programs. (January Budget)

3. Federal Career-Technical Education Accountability System ($170,000 Increase/Two Limited-Term Positions). Proposes $102,000 in General Fund and $68,000 in federal funding to extend two federal career-technical education positions. These positions are proposed as one-year limited-term positions for the collection and management of data necessary to meet federal reporting requirements for career-technical education. (January Budget & April Letter Issue 806)

4. Special Education - Non-Public Schools Monitoring ($832,000 Increase/5.7 Positions). Proposes an increase of $232,000 in federal special education funds and $600,000 in fees to improve state monitoring of non-public schools serving students with disabilities. AB 1858, as enacted in 2004, doubled reimbursement fees charged to non-public schools and included reforms to improve the quality and frequency of state monitoring reviews of non-public schools. (January Budget)

5. Charter School Staff ($242,000 Increase/Three Positions). Proposes $242,000 in federal charter school funds to convert three limited-term staff positions into permanent positions within the Charter Schools Division. (January Budget)

6. Fiscal Accountability ($68,000 Increase/One Position). Proposes $68,000 in federal funds to provide an additional staff position to support local education agency financial reporting. (January Budget)

7. California English Language Development Test ($100,000 Increase/One Position). Proposes $100,000 in federal funding for one Education Research and Evaluation Consultant to support additional workload for the California English Language Development Test (CELDT). This position will coordinate and provide psychometric and statistical assistance to district staff implementing the CELDT, and also ensure program compliance with federal NCLB - Title III requirements. (April Letter Issue 168)

8. Adequate Yearly Progress Determinations. ($200,000 Increase/Two Positions). Proposes $200,000 in federal funding for two Education Research and Evaluation Consultant positions to process and monitor statewide assessment data for determining school and district Adequate Yearly Progress and Program Improvement status. (April Letter Issue)

9. School Facilities Program ($50,000 Increase/One Position). Proposes fee-based funding for one limited-term Field Representative-Specialist position set to expire December 31, 2005 and proposes that this position be converted to permanent to provide ongoing state operations support for the School Facilities Program. This position is funded through fees charged to school districts for approval of new school sites and review of building plans. (April Letter Issue 564).

COMMENTS: The April DOF Finance Letter for the Department of Mental Health proposes to appropriate $633,000 in Proposition 63 (Mental Health Services Act) funding to the Department of Education. These funds are to be used for three limited-term positions and associated operating expenses and equipment costs related to the collaboration with DMH to implement the purposes of Proposition 63. Of this amount, $250,000 is one-time funding for a contract to deliver mental health training to county and district school staff. The LAO recommends that the new positions be limited to two rather than three years, consistent with Government Code Section 19080.3 governing limited-term positions. SBFR Subcommittee #3 will take action on this item.

RECOMMENDATION: Staff recommends approval of the staffing adjustments listed above.

OUTCOME:

ITEM 6110 California Department of Education

ISSUE 8: State Operations and Capital Outlay – State Special Schools

DESCRIPTION: The Governor's Budget proposes new funding for capital outlay projects and transportation services for the State Special Schools, which serve visually and hearing-impaired students.

BACKGROUND: The State Special Schools include the California Schools for the Deaf in Fremont and Riverside and the California School for the Blind in Fremont. Students attending State Special Schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to more than 1,000 deaf students and the California School for the Blind provides instructional programs for approximately 130 blind, visually-impaired, and deaf-blind students.

Governor's Budget – Transportation Services. The Governor proposes an augmentation of $963,000 in federal special education funds in 2005-06 to cover home-to-school transportation costs for students attending State Special Schools. Transportation is a related service under federal special education law and must be provided if it is necessary for the student to benefit from her or his education. Students who attend residential programs at the Schools come from all over the state and often travel long distances to attend residential programs. Transportation is expensive and has been increasing due to increases in gasoline and insurance prices.

Governor's Budget – Capital Outlay Projects. The Governor proposes two capital outlay projects for the State Schools in 2005-06. Specifically, the Governor proposes an augmentation of $470,000 in General Funds to construct bus shelters at the California School for the Deaf and Blind in Fremont. The Governor also proposes $16.5 million in lease-revenue bond funding to construct a new career and technical education complex at the California School for the Deaf in Riverside.

Special School Deficiencies. CDE has identified two significant, ongoing deficiencies facing the State Special Schools and has given top priority to these state operations expenditures in 2005-06. The first deficiency involves transportation costs and is addressed by the Governor's Budget proposal outlined above. The second deficiency involves unfunded salary increases – estimated at over $1 million -- negotiated two years ago by the state bargaining unit that represents teachers at the State Special Schools, California Youth Authority, Department of Corrections, and State Hospitals and Developmental Centers. While the Administration provided budget increases to cover these salary increases in other state departments, these increases were not provided to the Special Schools. As a result, the Special Schools must provide the salary increases by reducing other programs and services at its campuses.

LAO Position: The LAO has no problems with the Governor's capital outlay proposals.

COMMENTS: In the past, transportation costs for the State Special Schools have been funded with Non-Proposition 98, state General Funds. The Governor's Budget proposes $1.4 million in Non-98, General Funds for transportation services at the Special Schools in 2005-06, in addition to the $963,000 in additional federal funds proposed for transportation services.

RECOMMENDATION: Staff recommends approval of the two capital outlay projects proposed by the Governor.

Staff recommends approval of additional funding for transportation services at the level proposed by the Governor, but suggests that the Subcommittee delay action on this item until May Revise so that other funding sources can be considered.

OUTCOME:

ATTACHMENT A.

California State Auditor/Bureau of State Audits
Summary of Report 2004-108 - November 2004

California Commission on Teacher Credentialing: It Could Better Manage Its Credentialing Responsibilities

AUDIT HIGHLIGHTS

Our review of the credentialing process administered by the California Commission on Teacher Credentialing (commission) revealed the following:

- The commission could better evaluate the effectiveness of the programs it oversees and better measure the performance of the teacher credentialing process.
- The commission could take additional steps to improve its processing of credential applications, including focusing its customer service activities.
- Several areas of the commission's process for developing program standards lack structure and could be improved.
- The commission suspended its continuing accreditation reviews in December 2002 and is evaluating its accreditation policy, and it does not expect to present a revised policy to its governing body until August 2005.

RESULTS IN BRIEF

The California Commission on Teacher Credentialing (commission) was created in 1970 with the responsibility of ensuring excellence in education by establishing high standards for the preparation and licensing of public school educators. The commission also issues licenses and permits for school administrators and educators working in specialized teaching areas. In fiscal year 2003-04 the commission granted approximately 239,000 teacher and administrator licenses and renewals. In addition to its licensing responsibility, the commission develops program standards to address the quality of the programs that accredited colleges and universities provide to prospective teachers. The commission's other duties include adopting credential exams, accrediting colleges and universities that meet program standards, operating teacher development programs designed to help prospective teachers complete the requirements needed for a credential, and reviewing allegations of misconduct against credential holders or applicants. Our review found that the commission could make improvements to better evaluate the programs it oversees and its internal operations, more effectively manage its application processing, and refine how it updates program standards. In addition, the commission should resume its continuing accreditation reviews of colleges and universities.

The commission could increase its ability to measure the effectiveness of its teacher development programs, the efficiency of the teacher-credentialing process (process), and the performance of its internal operations. By doing so, the commission would be able to streamline and improve its efforts. For example, its teacher development programs provide funding for individuals who do not yet meet the requirements for a teaching credential, yet the commission has not sufficiently evaluated and accurately reported on two of its three teacher development programs. As part of its oversight of the process in California, the commission has some measures of the overall health of the process. However, it could improve its analysis of those measures and could develop further measures to better track the performance of the process and of individual teacher preparation programs.

Despite the importance of strategic planning, the commission has lacked specific performance measures to guide and evaluate its efforts. Further, the commission's February 2001 strategic plan is outdated and lacks performance measures. In addition, the commission does not annually track its progress in completing the tasks it described in the strategic plan. Subsequent to our fieldwork, the commission updated the tasks in its strategic plan.

The commission has implemented some reforms of the process and is contemplating others. It has also worked to reduce the barriers to becoming a California teacher. In addition to these efforts, the commission is considering whether to consolidate the examinations that it requires prospective teachers to pass.

By focusing its customer service, better managing its workload, and taking full advantage of a new automated application-processing system, the commission could improve its processing of applications. Facing a significant volume of contacts, the commission has not taken sufficient steps to focus its customer service activities. Proper management of customer service is necessary because the large volume of telephone calls and e-mails that the commission receives takes staff away from the task of processing credential applications.

Although the commission typically processes applications for credentials in less than its regulatory processing time of 75 business days, applications go unprocessed for a significant amount of this time because staff members are busy with other duties. The commission has taken some steps to improve its process, including automating certain functions as part of its Teacher Credentialing Service Improvement Project (TCSIP), which is a new automated application processing system that the commission plans to implement in late October 2004. However, the commission has not performed sufficient data analysis to make informed staffing decisions. TCSIP offers tangible time-saving benefits, such as allowing colleges and universities to submit applications electronically and automating the commission's review of online renewals, but the commission does not plan to use either function to its full potential in the foreseeable future.

Although online renewals offer the benefit of faster and more efficient processing, the commission has not sufficiently publicized this benefit. The commission could do more to inform teachers about the benefits of online renewal by performing the data analysis necessary to determine where the commission needs to do additional outreach and by better highlighting online renewal's availability and faster processing time.

The commission is in the midst of a 10-year process of developing program standards that comply with the requirements of Senate Bill 2042, Chapter 548, Statutes of 1998 (act). The commission does not have an overall plan to guide its efforts to finish implementing program standards or its ongoing standard-setting activities. Further, the commission's recent experiences developing program standards to meet the act's requirements offer an opportunity to evaluate how to better manage its future efforts. Our review of five sets of recently developed program standards identified areas in the commission's process for developing program standards that lack structure and could be improved. Among other issues, the commission does not use a methodical approach to form advisory panels of education professionals that assist it in developing program standards; neither does it always put in perspective the results of its field-review surveys to the commission's governing body (commissioners) when recommending standards for adoption.

Finally, the commission suspended its continuing accreditation reviews of colleges and universities in December 2002. Continuing accreditation reviews are an important component of the commission's accreditation system and help ensure that colleges and universities operate teacher preparation programs that meet the commission's standards. The commission indicated that it suspended continuing accreditation reviews to allow colleges and universities time to implement the commission's new standards and for it to evaluate its accreditation policy. Although the commission has been working with representatives from colleges and universities to evaluate its accreditation policy, it does not plan to propose a revision to the commissioners until August 2005.

RECOMMENDATIONS

To determine their success, the commission should establish performance measures for each of its teacher development programs.

To better plan and evaluate its efforts, the commission should regularly update its strategic plan and when appropriate quantify performance measures for tasks, in terms of the results it aims to achieve.

The commission should continue to consider ways to streamline the process.

The commission should improve application processing by better focusing its customer service efforts, analyzing application-processing data, requiring institutional customers to submit applications electronically to the extent that it is economically feasible, and encouraging more educators to renew their credentials online.

o improve the process by which it develops program standards for college and university teacher preparation programs, the commission should develop an overall plan to guide its efforts to fully implement the act's requirements. This plan should describe

the commission's process for developing standards and should provide more structure for that process. Further, to ensure that colleges and universities meet these program standards, the commission should promptly resume its continuing accreditation reviews.

AGENCY COMMENTS

The commission concurs with many of our recommendations, but believes that it will need changes in its statutory authority or additional funding and staffing to implement them. Moreover, the commission believes the report has significant omissions, errors, and misinterpretations. We carefully analyzed the commission's response and, although we made some minor modifications to the report text, we stand by our audit conclusions and recommendations.

ATTACHMENT B.

**Commission on Teacher Credentialing:
Budget Reduction Proposals Adopted and Considered by Commission**

	OPTION NUMBER	OPTION TITLE	COSTS	STATUTE CHANGE	POSITIONS	COMMENTS
OPTIONS ADOPTED BY THE COMMISSION						
1	CAW OPTION - 2	Eliminate Printing Of The Application For Character And Identification Clearance (41-CIC), Include Questions On Credential Application	$11,000	N	--	* Eliminate additional printing costs associated with the additional form and maximize state resources.
2	CAW OPTION - 3	Eliminate The Printing Of The Professional Growth Manuals	$9,000	N	--	* A printed copy of the Professional Growth Manual is provided to candidates at the time the initial professional clear credential is issued. * This manual outlines the requirements to renew the professional clear credential. * An electronic version of the manual is available on the Commission's web site. * Candidates could be directed to the Commission's web site to download the manual.
3	CAW OPTION - 4	Eliminate The Printing Certificates Of Clearance	$8,000	N	--	* The information contained on these certificates is available on the Commission's web site. * The certificate does not authorize any service, it only verifies that the holder has met the professional conduct requirements of the Commission.
4	CAW OPTION - 5	Eliminate Front Office Public Counter Services	Re-Direct 720 Hours	N	--	* Staff time would be re-directed to evaluating credentials. * Many other state agencies have eliminated public counter services.
5	CAW OPTION - 6	Eliminate Data Research	Re-Direct 1000 Hours Of Staff Time	N	--	* The position is devoted to the following tasks: * Compiling the data for the Annual Teacher Supply Report (Assembly Bill 471, Scott, Chapter 381, Statutes of 1999) * Working with the California State University Chancellor's Office on the Governor's Teacher Fellowship program. * Responding to data requests from colleges, universities, research companies and other stakeholders. * Approximately 1,000 hours could be redirected to processing/evaluating credentials.
6	CAW OPTION - 7	Eliminate The Liaison Service To County Offices Of Education And Institutions Of Higher Education	Re-Direct 2600 Hours Of Staff Time	N	--	* Currently, five (5) staff devote approximately two (2) hours a day to resolving problems and providing information to the 87 colleges and universities that offer Commission-approved programs (IHE's) and 58 County Offices of Education (COE's). * This was a service that was started in 2000 to help stakeholders have direct access to one (1) individual who could resolve issues quickly. * If this service were to no longer be offered, the COE's and IHE's would contact the Commission through the e-mail service or via the phone during the regular call center hours.
7	PSD OPTION - 1	Eliminate Program Review Following The Adoption Of New Credential Program Standards	$115,000	N	-1.0	*Historically, when adopting new standards it was required that institutions operating programs under the former standards to submit a response to the new standards. * The Commission could achieve efficiencies by eliminating the initial program review following the adoption of new standards. * Following the adoption of new standards, the Commission would notify the field that institutions are expected to transition to the new program standards by a specific date. * Programs would be reviewed against the new standards at the subsequent accreditation review. All institutions would be reviewed against the new standards within 1-7 years following the adoption of new standards.
8	PSD OPTION - 6	Eliminate Production Of Annual Report, Newsletter	$20,000	N	--	* Annually organizes the production of the Commission's Annual Report and Quarterly Newsletter. * Provides Management with electronic copies of various articles pertaining to teacher credentialing and education.
9	PSD OPTION - 7	Postpone Adoption Of A Mild/Moderate Special Education Exam Required By *AB 2286 (Mountjoy, Chapter 658, Statutes of 2004)*	---	N	--	* There are eight "off the shelf" Special Education exams that measure knowledge, skills and abilities related to mild/moderate special education pedagogy. * Further analysis is needed to determine whether any of these exams, or others, meets the standards and the requirements of the Mountjoy bill.
10	PSD OPTION - 8 *(Revenue Enhancement)*	Charge Fees For The School Leaders Licensure Assessment (SLLA) And The Teaching Foundations Exam (TFE)	$90,000	N	--	* The SLLA exam is for potential Administration Credential seekers as one route to obtaining a credential. (Approx. 1,000 candidates) * The Commission offers the TFE in five content areas: MS, SS, SSELA, SS Math, SS Social Studies and SS Science. (Approx. 300 Candidates) * Currently, the Commission does not collect an exam fee to oversee these programs. * Candidates currently pay a fee of $425 for the SLLA exam and $155 for the TFE exam. * An administrative fee of $45 could be assessed for each exam registration.

	OPTION NUMBER	OPTION TITLE	COSTS	STATUTE CHANGE	POSITIONS	COMMENTS
11	PSD OPTION - 10 *(Revenue Enhancement)*	Charge Institutions For Program Review And Accreditation	$413,000	Y	--	* The Commission could be authorized to charge institutions for the cost of program review and accreditation reviews. * One model that could be used would be to charge institutions an annual fee based on size (as measured by enrollment or credential candidates recommended), plus additional fees for each approved credential program.1/ Additional costs would apply to reviewing requests for initial accreditation, or the review of new program proposals. * Fees based on size could generate revenues of approximately $98,000 annually. Additional revenues for each credential program such as PPS, School Nurse, Education Specialist, Administrative Services, Library Media and Reading Specialist (approximately 700 preparation programs at $450 per program) would generate an additional $315,000 annually. * This is a cost shift to another agency/department.
12	DPP OPTION - 1	Eliminate Full Administrative Hearing Process For Lower Levels Of Discipline (Private Admonitions And Public Reproval)	$20,000 - $100,000 per case	N	--	* Current statutes do not require a hearing pursuant to the Administrative Procedure Act for low level adverse action. * Commission practice and regulations have been to provide full due process to all levels of appeal. * Adoption of a regulation delineating a separate in-house appeals process in lieu of a formal hearing could provide savings by eliminating administrative appeal costs.
13	DPP OPTION - 2	Request Exception To The Requirement That The Office Of Attorney General Represent The Commission At Administrative Hearings	$927,000	Y	5.0	* The Commission is required to utilize the Attorney General for all representation at administrative and judicial proceedings. * A remedy to the fiscal uncertainty of the Attorney General billings would be to have in house counsel represent the Commission at administrative hearings. * Duplication of effort that results from the transfer of the case to the Attorney General's Office would be eliminated and the Commission would potentially benefit from more effective representation by specialists. Please note: the full savings would not occur until 2006-07, because of the need to transition cases back from the AG's office. According to our estimates the AG costs during the 2005-06 transition year would be approximately $1,426,000
14	DPP OPTION - 3	Eliminate All Certified Mailing Requirements	$11,000	Y	--	* The Commission recently adopted regulations that eliminated all but the statutorily required certified mailing requirements. The statute could be amended to eliminate all certified mail requirements.
15	DPP OPTION - 4	Eliminate Paper Copies of the All Points Bulletin	$20,000 - $25,000	N	--	* Following each Commission Meeting, as required by statute, the Commission must notify all public and private school employers and other educational employers of adverse action taken against credential holders and documents. * To accomplish this requirement the Commission prints and mails both paper and electronic copies of the All Points Bulletin (APB) to school districts and education employers throughout the state. * The Commission's statutory responsibility could be met by the electronic transmission, as well as, development of a secure website for use by the employers. In addition, the Commission public website maintains information regarding credential status.
16	DPP OPTION - 5 *(Revenue Enhancement)*	Establish Separate Discipline Fees	$2,009,750	Y	--	* Currently, the cost of discipline is spread throughout all credential holders. * A model used by other licensing agencies is one which charges fees to those persons who are subject to review. In addition, a processing fee is charged when an appeal is filed. * The Commission could seek statutory authority to cite and fine lower levels of discipline and to institute a charge over and above the application fee for processing Petitions for Reinstatement. Stage 1 - All applicants (1,519) and holders (1,981) requiring review (~3,500/yr.) $1.750 million Stage 2 - Credential holders proceeding to final review (~1,981/yr.) $990,500 Stage 3 - Administrative hearing requests (~1,500/yr.) $150,000 Stage 4 - Citation/fine (~346/yr.) $109,750
17	DPP OPTION - 6	Streamline Investigative Process For First Time Applicants	$14,804	Y	--	* Existing statutes and regulations provide applicants with a two-tiered review and a right to appear personally before the Committee of Credentials, the same process is available to credential holders. * If first time applicants were limited to one paper review, the result would be a faster processing of applicants and cost savings by eliminating one review and personal appearances. * Currently, the Committee of Credentials reviews approximately 4,400 applications a year at an average cost of $800 per application. Not all of the upfront costs can be eliminated with this proposal, but some savings could be realized. The majority of the savings would be in workload which would allow staff to be redirected to address the discipline backlog.

	OPTION NUMBER	OPTION TITLE	COSTS	STATUTE CHANGE	POSITIONS	COMMENTS
18	DPP OPTION - 7 *(Revenue Enhancement)*	Charge For Probation Monitoring	$30,000	Y	--	* The Commission currently monitors ninety-seven (97) credential holders on probation. * This program has allowed certificated personnel to remain in the classroom while still ensuring the safety of California's public school children. * Credential holders benefit because they are allowed to continue employment while on probation. * A review of other licensing agencies in the state indicates that some charge a monthly fee (usually $25 a month) to recover some of the costs of probation or diversion monitoring. In addition, the criminal courts charge a sliding fee to recover the costs of probation.
19	ADMIN OPTION - 1	Reduction In Number Of Commission Meetings Per Year	$8,000 - $16,000	Y	--	* Education Code Section 44219 requires that the Commission meet at least once each month in no fewer than ten months each year. Change the Number of Meetings To: • Four (4) two-day meetings = Reduction in cost of $18,000, or • Five (5) two-day meetings = Reduction in cost of $8,000, or • Six (6) one-day meetings = Reduction in cost of $16,000 * The reduction to four (4) or five (5) meetings raises the possibility that staff would not be provided with the frequency of direction needed at various times in the year from the Commission to effectively meet its obligations or deadlines. The six (6) one-day meetings proposed alleviates that concern to some degree.
20	ADMIN OPTION - 2	Eliminate Reimbursement To Ex-Officio Members	$14,000	N	--	* Historically, the Commission covered the travel and reimbursement costs for all members of the Commission. * The Education Code does not require that the Commission reimburse the costs for the ex-officio members. * This proposal would save the department approximately $1,476 for each one-day meeting and $2,096 for each two-day meeting. * This is a cost shift to another state agency/department.
21	ADMIN OPTION - 3	Consolidate Two Career Executive Assignment Positions	$113,000	N	-1.0	* Currently, there is a Division Director position over the Office of Governmental Relations and the Information Technology and Support Management Division. Recently, both positions were vacated by the incumbent, and, as a result, in order to better meet the needs of the Department it was determined that the two functions should be combined.
22	ADMIN OPTION - 4	Authority Reduction for the Facility Lease Payment Reduction	$180,000	N	--	* The Commission moved to the current location in 1999. During lease negotiations the Commission wrote into the agreement the amortization of certain alterations and improvements. As of mid – Current Year 2004-05, payment for the alterations and improvements is complete. The reduction in authority will align the appropriation in the Administration Divisions Budget with the actual expenditure.
23	ADMIN OPTION - 5	No Longer Offer Technical Project Management Support And Mandatory Documentation For Government Agencies	$95,000	N	-1.0	* One (1) full-time position is devoted to completing the following tasks: * Preparing ad-hoc reports and all yearly reports that are mandatory for government agencies and Commission management. * Providing project management support for the Enterprise Technology projects. * Providing administrative technical support to all units as needed. * If this service were no longer completed by this individual the workload would be distributed to other staff. The Commission could choose to redirect this position to other core mission functions.
		Total Expenditure Savings [1/]	**$1,658,804**	--	**2.0**	
		Total Expenditures that are Dependant on a Statutory Change	***$968,804***			
		Total Revenue Enhancements	**$2,542,750**	--	--	
		Total Revenues that are Dependant on a Statutory Change	***$2,452,750***			
	[1/] The totals reflect the maximum savings in the range when reflected for a particular option.					

	OPTION NUMBER	OPTION TITLE	COSTS	STATUTE CHANGE	POSITIONS	COMMENTS
OTHER OPTIONS FOR CONSIDERATION, HOWEVER *NOT* ADOPTED BY THE COMMISSION						
24	CAW OPTION - 1	Eliminate Toll-Free Telephone Line	$36,000	N	--	* The Commission offers a toll-free line to both in-state and out-of-state stakeholders, to ask questions and obtain information about the licensing process. * If this function was eliminated, the caller would pay the long-distance phone charges.
25	PSD OPTION - 2	Shift Federal Title II Reporting To The California Postsecondary Education Commission	$60,000	N	-0.6	* The Commission collects information from institutions in compliance with reporting requirements mandated by Title II of the Higher Education Act. * Efficiencies could be achieved if the function could be shifted to another department such as the California Postsecondary Education Commission. However, this would be an increase to the General Fund. * Eliminating this function altogether would put all California institutions of higher education at risk of losing federal student financial aid. * At this time, it is unclear if the California Postsecondary Education Commission has the capacity to absorb this workload given its current resources. * This is a cost shift to another state agency/department.
26	PSD OPTION - 3	Move Administration Of State-Funded Teacher Development Programs To The CDE	$300,000	Y	-3.0	* The Commission administers two (2) local assistance grant programs 1) Alternative Certification Program and 2) Paraprofessional Teacher Training Program. * These programs serve approximately 12,000 individuals who are working toward a preliminary teaching credential. It is unclear how shifting program funds would affect current participants. * Staffing was not provided to administer these programs, however the Commission devotes considerable amount of staff resources to the development of documents, monitoring of programs, technical assistance, and the administration of funds. * Program quality and consistency could be compromised. * This is a cost shift to another state agency/department.
27	PSD OPTION - 4	Discontinue The Co-Administration Of Beginning Teacher Support Assessment (BTSA) With The CDE	$110,000	Y	-1.0	* The Commission currently has responsibility to set standards for induction programs for new teachers and for the approval of induction programs against those standards. * The Commission has taken an active role in the administration of the state-funded BTSA induction programs, including co-administration of the program with the CDE, the collection of data that provides a basis for funding and provides accountability information, technical assistance to regional directors, and leadership in ten statewide meetings each year. * This is a cost shift to another state agency/department.
28	PSD OPTION - 5	Discontinue Subject Matter Program Review	$250,000	Y	-2.0	* The impact of eliminating oversight of subject matter programs would be that the State would not be able to ensure that standards for the content knowledge acquired in an undergraduate program are aligned with the State adopted K-12 content standards for public schools. * Education Code Sections 44310 and 44259 allow single subject credential candidates to meet the subject matter competency requirement either by passage of a subject matter exam or by completion of a subject matter program, approved by the Commission. * Education Code Section 44311 requires the Commission to evaluate subject matter programs that are offered as a means for satisfying the subject matter requirement and requires that the evaluation be based on standards of program quality and effectiveness. Education Code Section 44259 requires the Commission to ensure that the subject matter standards and examinations are aligned with the state's "content and performance standards adopted for pupils." * The three higher education segments have indicated a desire to maintain the review process.
29	PSD OPTION - 9 *(Revenue Enhancement)*	Charge A Fee For The California Teaching Performance Assessment (CA TPA)	$630,000	N	--	* Currently, the Commission requires programs that lead to a preliminary teaching credential to assess candidates on specific performance expectations outlined in the Commission's *Standards of Quality and Effectiveness for Teacher Preparation Programs for Preliminary Multiple and Single Subject Teaching Credential.* * The Commission could collect an exam fee to support the oversight and on-going development of a consistent, reliable and valid assessment process. * By requiring a uniform CA TPA to measure candidate teaching competency, this option would increase exam costs for each MS and SS credential candidate by an unknown amount. * The anticipated demand for this assessment would be 14,000 to 16,000 teacher candidates each fiscal year. * An administrative fee of $45 dollars could be assessed per each assessment.
		Total Expenditure Savings [1/]	**$756,000**	--	**-6.6**	
		Total Revenue Enhancements	**$630,000**	--	--	

Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Monday, May 2, 2005
1:30 pm
Room 113, State Capitol
OUTCOMES

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.*

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 1: April Finance Letter – Technical Adjustment (Consent Item)

Staff recommends approval of the following revision to the Governor's January 10 Budget, as proposed by the April 1, 2005 budget letters from the Department of Finance. This is a purely technical correction to the budget. No issues have been raised for this item.

1. Amendment to Item 6360-001-0407, Support, Commission on Teacher Credentialing (CTC). It is requested that Item 6360-001-0407 be amended as follows to reflect a technical change to the Administration and Distributed Administration amounts. This adjustment will correctly reflect the Administration and Distributed Administration costs associated with employee compensation and retirement adjustments included in the Governor's Budget. It is requested that Schedule 2 be increased by $63,000 and Schedule 3 be reduced by $63,000.

OUTCOME: Approved. (2-0)

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 2: Bureau of State Audit Report – Information Only

DESCRIPTION: The Bureau of State Audits will present findings and recommendations from an audit of CTC's credentialing responsibilities published in October 2004. The Subcommittee may want to explore recommendations that could result in cost savings without jeopardizing program and service quality.

BACKGROUND:

The Bureau of State Audits published its audit report of CTC -- *California Commission on Teacher Credentialing: It Could Better Manage Its Credentialing Responsibilities* – in October 2004. The audit was requested by the Joint Legislative Audit Committee. (See BSA Report Summary, Appendix A.)

According to the BSA's summary report, the CTC audit revealed the following overall findings:

- The commission could better evaluate the effectiveness of the programs it oversees and better measure the performance of the teacher credentialing process.
- The commission could take additional steps to improve its processing of credential applications, including focusing its customer service activities.
- Several areas of the commission's process for developing program standards lack structure and could be improved.
- The commission suspended its continuing accreditation reviews in December 2002 and is evaluating its accreditation policy, and it does not expect to present a revised policy to its governing body until August 2005.

In order to address these findings, the BSA report made nearly 18 separate recommendations for improving the commission's teacher credentialing functions. The BSA summarizes these recommendations as follows:

- To determine their success, the commission should establish performance measures for each of its teacher development programs.
- To better plan and evaluate its efforts, the commission should regularly update its strategic plan and when appropriate quantify performance measures for tasks, in terms of the results it aims to achieve.
- The commission should continue to consider ways to streamline the teacher credentialing process.
- The commission should improve application processing by better focusing its customer service efforts, analyzing application-processing data, requiring institutional customers to submit applications electronically to the extent that it is economically feasible, and encouraging more educators to renew their credentials online.
- To improve the process by which it develops program standards for college and university teacher preparation programs, the commission should develop an overall plan to guide its efforts to fully implement the act's requirements. This plan should describe

the commission's process for developing standards and should provide more structure for that process. Further, to ensure that colleges and universities meet these program standards, the commission should promptly resume its continuing accreditation reviews.

COMMENTS: According to the BSA, the commission agrees with many of the recommendations, with some qualifications, and disagrees with other findings for technical and other reasons. The Commission may wish to provide an update on implementation of recommendations since the audit. The Subcommittee might be interested in recommendations that could result in additional cost savings that can be applied to meeting the CTC's projected budget shortfall, as discussed in the following item.

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 3. CTC Budget Overview – Information Only

Background: The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues several different types of professional documents, authorizing the service of teachers, administrators and other school personnel in California's public schools. These documents include various credentials, emergency permits, credential waivers, and certificates.

The CTC currently receives more than 223,000 applications for credentials, emergency permits and credential waivers. As indicated below, the number of applications has grown in recent years. However, due to the economy and budget hardships facing schools, the CTC is experiencing a continuing drop in credential applications in the current year.

	2000-01	2001-02	2002-03	2003-04	2004-05
Credential Applications Received[a]	215,954	239,501	250,701	235,327	221,000
Waiver Applications Received	7,865	7,918	5,144	2,827	2,000
Total	223,819	247,419	255,845	238,154	223,000

[a]*Includes emergency permits.*

Governor's Budget: As indicated by the summary table below, the Governor's Budget proposes $57.0 million for the CTC's budget in 2005-06. Of this total, $31.8 million (56 percent) is funded from the General Fund (Proposition 98) in the budget year. This funding is tied to the administration of three local assistance education programs – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program. The Administration proposes to eliminate remaining funding for the Pre-Intern Program in 2005-06, as this program is being phased-out since it does not meet NCLB requirements for Highly Qualified Teachers.

3-YR EXPENDITURES AND POSITIONS (Summary of Program Requirements)

(Dollars in Thousands)

	Positions			Expenditures		
	2003-04	**2004-05**	**2005-06**	**2003-04**	**2004-05**	**2005-06**
Certification, Assignment and Waivers	71.4	65.6	59.9	$ 9,002	$ 8,099	$ 8,115
Professional Services	33.7	31.6	31.6	50,776	47,044	43,641
Professional Practices	27.9	27.6	27.6	4,534	5,054	5,254
Administration	37.2	33.3	33.3	6,642	4,793	4,692
Distributed Administration	-	-	-	-6,642	-4,793	-4-692
TOTALS, POSITIONS AND EXPENDITURES (All Programs)	**170.2**	**158.1**	**152.4**	**$64,312**	**$60,197**	**$57,010**

3-YR EXPENDITURES AND POSITIONS (Summary of Program Requirements) *(Dollars in Thousands)*	Positions			Expenditures		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
Funding						
General Fund				$ -	$ 3,500	$ -
General Fund, Proposition 98				37,640	31,814	31,814
Teacher Credentials Fund				15,355	14,763	15,049
Test Development and Administration Account, Teacher Credentials Fund				10,869	9,734	10,147
Federal Trust Fund				448	147	-
Reimbursements				-	239	-
TOTALS, EXPENDITURES, ALL FUNDS				**$64,312**	**$60,197**	**$57,010**

Another $25.2 million (44.2 percent) of the CTC budget is funded by two special funds that support the CTC's state operations budget. In the budget year, the Governor's Budget appropriates $15.0 million from the Teacher Credentials Fund and $10.1 million from the Test Development and Administration Account.

The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. For example, the CTC currently charges $55 for a new or renewed teaching credential. The Test Development and Administration Account is generated by various fees for exams administered by the CTC such as the California Basic Educational Skills Test (CBEST), California Subject Examination for Teachers (CSET), and the Reading Instruction Competence Assessment (RICA).

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 4. Special Fund Deficiencies and Options for Assuring CTC Solvency

DESCRIPTION: The Governor's January budget for the Commission on Teacher Credentialing estimates essentially no funding balances for the two major special funds that support the commission – the Test Development and Administration Account and the Teacher Credential Fund in 2005-06. New information, available since January, indicates that both funds are facing structural imbalances in 2005-06. According to CTC, the Test Development Account will have an imbalance of $975,000 and the Teacher Credential Fund will actually have a deficit of $2.6 million. Absent actions to address these imbalances, the CTC budget overall will be facing a budget shortfall of approximately $3.6 million. In response, the Administration and LAO have called upon CTC to develop options for improving the commission's solvency.

Special Fund Deficits and Agency Shortfall.

The Governor's Budget proposes a budget of $57.0 million for the CTC in 2005-06. Most of the revenues for the CTC's operations are derived from two special funds -- the Test Development and Administration Account and the Teacher Credential Fund. In recent years, there has been a great deal of fluctuation in revenues from these two funds; however, fund balances and programs have been maintained through loans between the two funds due to available reserves.

In a major change of events, the Governor's January budget predicted no reserves for either the Test Development Account or the Teacher Credential Fund in 2005-06, based upon November 2004 fund condition statements. New fund condition information from CTC now projects actual shortfalls in both funds. CTC estimates a $975,000 imbalance for the Test Development Account and $2.6 million deficit for the Teacher Credential Fund. Agency wide, this predicts a $3.6 million shortfall for the CTC budget in 2005-06.

Several major reasons for the change of events include:

1. **Changes in Estimates for Test Development Account Reserves.** Fund condition statements for the Test Development and Administration Account did not reflect all testing expenditures against revenues. The $9.3 million fund balance estimated in January 2004 – and utilized for the 2004-05 budget – dropped to $2.3 million in November 2004. This change has prompted a great deal of concern and changes in the way CTC will account for revenue and expenditures as a part of its fund condition statement in the future. The bottom line is that predicted reserves for the Test Development Account were substantially lower than believed when the 2004-05 budget was enacted.

2. **Drop in Fees Due to Reductions in Credential and Testing Volume.** Credential volume and testing volume has been falling in recent years to reflect dynamics of the teacher workforce. This reduces revenues for both the Test Development Account and the Teacher Credential Fund. In particular, emergency permits, which are renewed annually

with fees, have dropped significantly in the last two years. While a welcomed policy change, this has lowered credential fee revenues.

3. **Reserves Have Masked Ongoing Structural Budget Deficit.** Since the later 1990s, the CTC has been operating within a revenue structure whereby annual expenditures exceeded annual revenues for the two special funds. However, because of account reserves, the CTC did not have to address these structural problems.

4. **Reduction in Teacher Credential Fees.** Statute authorizes credential fees of $70; however, due to growing reserves in the Teacher Credential Fund in the late 1990s, the Legislature dropped fees – first to $60 and later to $55. This has substantially reduced revenues for the commission over the last five years.

5. **Exam Fees Lagging.** Under statute, CTC can set its exam fees for new tests. According to CTC, exam fees have not been raised in three years.

Governor's Budget Options. The Governor's January budget contained two initial proposals for the CTC budget. Due to new information on the special fund balances for CTC in both the current and budget year, it is likely that the Administration will have additional proposals at May Revise.

- ***Teacher Credentialing Service Improvement Project (TCSIP) Savings from University Application Automation and Online Renewal.*** The Administration proposes that all public and private colleges and universities that have teacher preparation programs that have been accredited by the Commission on Teacher Credentialing be responsible for approving and electronically submitting all credentialing applications for their students. The Administration also proposes that CTC increase its online credential renewals. Once implemented, these changes are estimated to result in a substantial workload reduction for the CTC and will better ensure that applications for new teachers are processed in a timely manner. In anticipation of these savings, the Administration proposes to reduce $600,000 and 6.0 positions for the Teacher Credentialing Service Improvement Project (TCSIP) in 2005-06. This includes $228,000 in savings for the 6.0 positions and $350,000 in unallocated reductions associated with a 50 percent increase in online renewals. These reductions would decrease expenditures from the Teacher Credentials Fund in 2005-06.

- ***Loan from Test Development Fund to the Teacher Credential Fund.*** The Governor's budget proposes a $1.9 million loan from the Test Development Account to the Teachers Credentials Fund. Given that the Test Development Account is now predicted to have a $975,000 shortfall in the budget year, the Administration will most likely revise this proposal at May Revise. The Governor's Budget assumes a $300,000 loan from the Test Development Account to the Teacher Credentials Fund in the current year. According to the Department of Finance, this loan will need to be increased to $652,000.

<u>LAO Options</u>: The LAO initially recommended that the Legislature consider three options for maintaining the solvency of the fund. Given new information on the CTC special fund balance, the LAO may update the following recommendation at the Subcommittee hearing.

- ***Increase the Credential Application Fee.*** According to the LAO, a $5 increase in the application fee would raise revenues by $1.1 million. The Legislature may want to consider more than a $5 increase in 2005-06 or 2006-07 in order to establish prudent fund reserves.
- ***Automate or Devolve Credentialing Authority.*** The LAO suggests consideration of the Governor's budget proposal to allow accredited, university-run teacher preparation programs to pre-approve credential applications so that CTC could grant the credential without further review. CTC currently evaluates more than 50,000 applications from universities, so the LAO estimates considerable savings from this proposal. The LAO also suggests consideration of a similar pre-approval process for district-run teacher preparation programs and community college child development programs. CTC currently reviews approximately 10,000 child development permits alone, so this change could also generate additional savings.
- ***Pursue Additional Efficiencies.*** The LAO suggests that the Legislature consider options identified by CTC that hold promise for achieving efficiencies and savings. For example, the 2004-05 Budget Act required CTC to submit a report to the Legislature and DOF that identified "feasible options" for reducing credential processing time in 2005-06. The CTC identified the five options, which are intended to reflect recommendations in the BSA report.

<u>CTC Options</u>: While the Administration and LAO have developed initial budget options to reflect information and assumptions available for the Governor's January 10 budget, these options are considered preliminary in light of new information that predicts a serious budget shortfall in the CTC budget in 2005-06. As a result, both agencies have called upon CTC to develop proposals for addressing these budget problems.

In response, CTC staff has developed nearly 30 budget options for consideration by the commission. These options include both savings and revenue proposals. The commission approved 23 of these options at their meeting last month. Another six proposals were considered at the April meeting, but not approved. (See Appendix A for summary prepared by CTC.)

All together, options adopted by the approved by the commission would produce an estimated $1.7 million in savings and $2.5 million in new revenues. If all are adopted, these options could eventually provide $4.2 million toward a budget solution for CTC. Not all of these options would produce savings in 2005-06 and several of the proposals that produce the largest savings or revenues are the most controversial.

The options approved by the commission are listed below. Subcommittee staff has grouped options according to the level of controversy for stakeholders – as expressed by stakeholders at the commission meeting when these proposals were considered and approved.

	Proposal	Savings	Revenues	Comments
	Non-Controversial			
1	Eliminate printing of the Application for Character and Identification Clearance	$11,000		
2	Eliminate printing of the Professional Growth Manuals	$9,000		
3	Eliminate printing of Certificates of Clearance	$8,000		
4	Eliminate Public Counter Services and redirect staff to credentialing	Re-Direct 720 Hours		
5	Reduce Data Research and redirect staff to credentialing	Re-Direct 1,000 Hours		
6	Eliminate program review position following the adoption of new Credential Program Standards	$115,000		
7	Eliminate production of Annual Report, Newsletter	$20,000		
8	Postpone adoption of a Mild/Moderate Special Education Exam	0		Cost avoidance.
9	Eliminate full Administrative Hearing Process for lower levels of discipline			Est. savings per case: $20,000 - $100,000
10	Eliminate all certified mailing requirements	$11,000		
11	Eliminate paper copies of the All Points Bulletin	$20,000 - $25,000		
12	Streamline investigative process for first time applicants	$14,804		
13	Charge for probation monitoring		$30,000	
14	Eliminate reimbursement to Ex-Officio Members	$14,000		
15	Consolidate two CEA positions into single position	$113,000		Implemented
16	Authority reduction for the Facility Lease Payment reduction	$180,000		Implemented
17	Eliminate Technical Project Management Support position and redirect functions to other divisions.	$95,000		
	Somewhat Controversial			
18	Charge fees for the School Leaders License Assessment (SLLA) and the Teaching Foundations Exam (TFE)		$90,000	
19	Reduce number of Commission meetings	$8,000 - $16,000		
	Controversial			
20	Eliminate the liaison services to COEs and IHEs and redirect staff hours to credentialing	Re-Direct 2,600 Hours		
21	Charge IHEs for program review and accreditation		$413,000	Shifts costs to IHEs. Governor proposed in 04/05; rejected by Legislature.
22	Request exception to requirement for Attorney General representation at CTC Administrative Hearings and add five legal positions to provide services in-house.	$927,000 (2006-07 forward)		Other state agencies have statutory exceptions.
23	Establish separate discipline fees		$2,009,750	Currently costs spread among all credential holders.
	TOTAL	$1,658,000	$2,542,750	

Fee Proposals Not Considered by the Commission.

The Commission has not considered proposals to raise either credential fees or testing fees for applicants and teachers. While the commission has the authority to raise fees, it reportedly is waiting for signals from the Administration and Legislature about the expenditure reduction and revenue enhancement proposals it approved last month.

COMMENTS: The size of the CTC budget shortfall is estimated at $3.6 million in 2005-06. If all of the budget reduction and revenue enhancements adopted by the commission were implemented, the CTC could essentially achieve a balanced budget in 2005-06. Options approved by the commission to date would reduce CTC's costs by $1.7 million and raise revenues by $2.5 million. However, not all savings would be realized in 2005-06. In addition, these proposals assume some loss in services, cost shifts, and new fees for applicants and teachers that are controversial for some stakeholders.

Alternatively, the Legislature could consider increasing exam fees, since the fees have not been raised for three years. The realm of fee increases the commission would likely consider could produce funding to meet the Test Development Account imbalance of $975,000.

In addition, the Legislature could increase the credentialing fee by at least $10 – from the current $55 to $65, which is still below the $70 as authorized in statute. According to CTC, this would raise $2.2 million ($1.1 million for every $5 increase). A slightly higher increase would be needed to cover the $2.6 million deficit predicted for the Credential Fund.

Lastly, the Legislature may want to consider a combination of CTC approved expenditure and fee increases, as well as, increases in exam fees and teacher credential fees.

RECOMMENDATION: Staff recommends that the Subcommittee request that the LAO identify, prior to May Revise, a range of options that address the CTC budget shortfall in 2005-06, utilizing the most up-to-date fund condition statements for the Testing Development Account and Teacher Credential Fund.

OUTCOME: No action. Subcommittee requested that the LAO develop options to reflect funding alternatives within next couple of weeks.

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 5: April Finance Letter – Federal Funds Update (Consent List)

Staff recommends approval of the following revisions to the Governor's January 10 Budget, as proposed by the April 1, 2005, budget letters from the Department of Finance. No issues have been raised by any of these items. Federal funds adjustments are intended to update budget appropriation levels so they match the latest federal estimates and utilize funds consistent with current policy.

Federal Funds Adjustments

1. **6110-102-0890, Local Assistance, Learn and Serve America Funding (Issue 801).** It is requested that this item be reduced by $283,000. This reduction will align expenditure authority with available federal grant funding.

2. **6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 322).** It is requested that this item be reduced by $109,000 to align the appropriation authority with the anticipated federal grant award amount.

3. **6110-123-0890, Local Assistance, Title V Innovative Programs (Issue 163).** It is requested that this item be decreased by $10,226,000 to make the amount consistent with the federal Title V Innovative Programs grant estimated for 2005-06. These grant funds are provided to districts to develop and implement innovative education programs intended to improve school, student, and teacher performance, including professional development activities.

4. **6110-125-0890, Local Assistance, Migrant Education and Education of Limited English Proficient (LEP) Programs (Issues 323 and 325).** It is requested that Schedule (1) of this item be reduced by $217,000 and Schedule (2) of this item be reduced by $6,583,000 to align appropriation authority with the anticipated federal grant award amount.

5. **6110-126-0890, Local Assistance, Reading First Program (Issue 641).** It is requested that this item be increased by $778,000 in order to align appropriation authority with the anticipated federal grant award amount.

6. **6110-136-0890, Local Assistance, Title I Basic and McKinney-Vento Homeless Children Education Programs (Issues 329, 334, 725, and 726).** It is requested that Schedule (1) of this item be increased by $20,616,000. This adjustment includes an anticipated increase in the Federal Title I Basic Grant federal grant award amount of $17,574,000 and transfer of $500,000 from state operations to local assistance to be allocated on a formula basis to local education agencies for the academic improvement of disadvantaged students. This increase also includes a reduction in the Even Start Program of $3,520,000 in order to align appropriation authority with the anticipated

federal grant award amount and an increase in the Even Start Program of $6,062,000 to provide carryover authority for unspent prior year funds to be allocated as follows: $266,000 from the technical assistance grant portion for professional development at the local level; $2,900,000 for a ten percent increase to existing projects to enhance Early Childhood Education components and to provide training for teachers in meeting the No Child Left Behind Act (NCLB) requirements; $2,800,000 to offset the reduction in the 2005-06 federal grant allocation to the Even Start program. It is further requested that Schedule (2) of this item be increased by $123,000 for the McKinney-Vento Homeless Children Education program. These funds will be allocated on a competitive basis to provide grants for homeless child education. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.

7. **6110-137-0890, Local Assistance, Rural/Low-Income School Program (Issue 331)**. It is requested that this item be reduced by $1,333,000 to align the appropriation authority with the anticipated federal grant award amount.

8. **6110-180-0890, Local Assistance, Education Technology Program (Issue 643).** It is requested that this item be decreased by $26,565,000 to reflect a decrease in federal funding for the Education Technology Program. The federal budget proposes to eliminate state grants for Education Technology by 2006-07. It is further requested that Provisions 1 and 2 of this item be amended to conform to these changes.

9. **6110-183-0890, Local Assistance, Safe and Drug Free Schools and Communities Program (Issue 481).** It is requested that this item be decreased by $10,335,000. Specifically, the proposed budget adjustment is the result of: (1) a base decrease of $10,835,000 in the federal grant for Safe and Drug Free Schools and (2) a one-time carryover of $500,000 from unused funds. This grant program provides funds to local education agencies for drug and violence prevention and intervention services.

10. **6110-193-0890, Local Assistance, Mathematics and Science Partnership Grant Program (Issue 644).** It is requested that this item be increased by $3,896,000 in order to align appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide additional competitive grant awards to institutes of higher education and low-performing schools to provide staff development and curriculum support for mathematics and science teachers.

11. **6110-195-0890, Local Assistance, Improving Teacher Quality Local Grant Program (Issue 645).** It is requested that Schedule (1) of this item be reduced by $1,488,000 in order to align appropriation authority with the anticipated federal grant award amount.

OUTCOMES: Approved list, excluding Issues 6 and 8. (2-0)

ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 6: April Finance Letter – Other Adjustments

DESCRIPTION: The April Finance Budget Letter proposes four assorted changes to state operations and local assistance budget items for the Department of Education.

BACKGROUND: The Governor proposes the following five budget changes in the April Budget Letter that involve adjustment to address: (1) technical adjustments to align appropriations with program needs and funds available and (2) fund legal claims.

1. **6110-001-0890, State Operations -- Public Schools Accountability Act Evaluation (Issues 165).** It is requested that this item be reduced by $500,000 and that the requirement to conduct the biennial evaluation of the Public Schools Accountability Act be deleted since it would duplicate the existing evaluation of the High Priority Schools Grant Program. This action requires conforming statutory changes.

2. **State Operations -- Provisional Language for Principal Apportionment System Rewrite (Issue 081).** Proposes that provisional language be added to Item 6110-001-0001 to provide carryover authority for the principal apportionment system rewrite (PASR). At the beginning of 2004-05, a total of $143,000 remained unexpended. CDE has encumbered a contract for staff training and maintenance of the new system with these funds, which otherwise will revert June 30, 2005. Provisional budget language is also requested to allow unexpended funds appropriated for PASR in prior years to remain available in 2005-06 and 2006-07 for expenditure for a contract for staff training and maintenance of the new apportionment system.

3. **State Operations -- Donated Food Revolving Fund (Issue 651).** Proposes an increase of $300,000 due to the authorization of a shipping fee increase by the United States Department of Agriculture (USDA). This additional revenue will be used to pay for shipping fees and to provide other food distribution services.

4. **Local Assistance -- Reduce Reimbursement Authority for the Child Nutrition Program (Issue 652). Proposes a reduction in reimbursement authority of** $2,652,000 for the Child Nutrition program. CDE did not receive $2.0 million in anticipated funding from the Vitamin Case Consumer Settlement Fund. An additional $652,000 originally authorized for the Linking Education Activity and Food pilot program is eliminated since the program has been completed.

5. **Local Assistance -- Reappropriation (Proposition 98) Sunnyvale Desegregation Claim (Issue 321).** Proposes increased funding of $1,455,000 above the January budget -- for a total reappropriation of $6,385,000 -- in order to properly account for the principle and compounded interest accrued for desegregation costs to Sunnyvale School District for fiscal years 1983-84 through 1991-92. The Victims Compensation and Government Claims Board found in favor of the claimant for $6,385,000 for repayment of claims and

for compounded interest. Proposed budget language would require that funds be reverted if an appropriation is also included in a Victims Compensation and Government Claims Board Claims Bill.

LAO Position:

RECOMMENDATION: Staff recommends approval of these five budget revisions proposed by the April DOF budget letter.

OUTCOME: Approved. (2-0)

ITEM 6110 California Department of Education

ISSUE 7: State Operations – Various Positions

DESCRIPTION: The Governor proposes a number of staffing adjustments – increases and decreases – that are included in the Governor's January 10 budget and the April 1st DOF budget letter. Specifically, the Governor proposes to increase staffing at the Department of Education by a net total of 15.6 permanent positions. Some of these increases reflect the conversion of limited-term positions to permanent positions. The Governor also proposes other adjustments to several limited-term positions.

BACKGROUND:

The Governor proposes the following staffing adjustments for the Department of Education**:**

1. Ongoing Funding for Williams Settlement Legislation ($200,000 Increase/1.9 Positions). Proposes $200,000 in General Funds to continue funding to support 1.9 positions for implementation of state level activities pursuant to the requirements of the Williams settlement lawsuit. SB 550, as enacted in 2004, created new responsibilities for the Department of Education that were funded in 2004-05. (January Budget)

2. Various Limited Term Positions ($433,000 Reduction/4.7 Limited-Term Positions). Proposes to remove $433,000 in federal funding for 4.7 limited-term positions and expiring programs. (January Budget)

3. Federal Career-Technical Education Accountability System ($170,000 Increase/Two Limited-Term Positions). Proposes $102,000 in General Fund and $68,000 in federal funding to extend two federal career-technical education positions. These positions are proposed as one-year limited-term positions for the collection and management of data necessary to meet federal reporting requirements for career-technical education. (January Budget & April Letter Issue 806)

4. Special Education - Non-Public Schools Monitoring ($832,000 Increase/5.7 Positions). Proposes an increase of $232,000 in federal special education funds and $600,000 in fees to improve state monitoring of non-public schools serving students with disabilities. AB 1858, as enacted in 2004, doubled reimbursement fees charged to non-public schools and included reforms to improve the quality and frequency of state monitoring reviews of non-public schools. (January Budget)

5. Charter School Staff ($242,000 Increase/Three Positions). Proposes $242,000 in federal charter school funds to convert three limited-term staff positions into permanent positions within the Charter Schools Division. (January Budget)

6. Fiscal Accountability ($68,000 Increase/One Position). Proposes $68,000 in federal funds to provide an additional staff position to support local education agency financial reporting. (January Budget)

7. California English Language Development Test ($100,000 Increase/One Position). Proposes $100,000 in federal funding for one Education Research and Evaluation Consultant to support additional workload for the California English Language Development Test (CELDT). This position will coordinate and provide psychometric and statistical assistance to district staff implementing the CELDT, and also ensure program compliance with federal NCLB - Title III requirements. (April Letter Issue 168)

8. Adequate Yearly Progress Determinations. ($200,000 Increase/Two Positions). Proposes $200,000 in federal funding for two Education Research and Evaluation Consultant positions to process and monitor statewide assessment data for determining school and district Adequate Yearly Progress and Program Improvement status. (April Letter Issue)

9. School Facilities Program ($50,000 Increase/One Position). Proposes fee-based funding for one limited-term Field Representative-Specialist position set to expire December 31, 2005 and proposes that this position be converted to permanent to provide ongoing state operations support for the School Facilities Program. This position is funded through fees charged to school districts for approval of new school sites and review of building plans. (April Letter Issue 564).

COMMENTS: The April DOF Finance Letter for the Department of Mental Health proposes to appropriate $633,000 in Proposition 63 (Mental Health Services Act) funding to the Department of Education. These funds are to be used for three limited-term positions and associated operating expenses and equipment costs related to the collaboration with DMH to implement the purposes of Proposition 63. Of this amount, $250,000 is one-time funding for a contract to deliver mental health training to county and district school staff. The LAO recommends that the new positions be limited to two rather than three years, consistent with Government Code Section 19080.3 governing limited-term positions. SBFR Subcommittee #3 will take action on this item.

RECOMMENDATION: Staff recommends approval of the staffing adjustments listed above.

OUTCOME: Approved. (2-0)

ITEM 6110 California Department of Education

ISSUE 8: State Operations and Capital Outlay – State Special Schools

DESCRIPTION: The Governor's Budget proposes new funding for capital outlay projects and transportation services for the State Special Schools, which serve visually and hearing-impaired students.

BACKGROUND: The State Special Schools include the California Schools for the Deaf in Fremont and Riverside and the California School for the Blind in Fremont. Students attending State Special Schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to more than 1,000 deaf students and the California School for the Blind provides instructional programs for approximately 130 blind, visually-impaired, and deaf-blind students.

Governor's Budget – Transportation Services. The Governor proposes an augmentation of $963,000 in federal special education funds in 2005-06 to cover home-to-school transportation costs for students attending State Special Schools. Transportation is a related service under federal special education law and must be provided if it is necessary for the student to benefit from her or his education. Students who attend residential programs at the Schools come from all over the state and often travel long distances to attend residential programs. Transportation is expensive and has been increasing due to increases in gasoline and insurance prices.

Governor's Budget – Capital Outlay Projects. The Governor proposes two capital outlay projects for the State Schools in 2005-06. Specifically, the Governor proposes an augmentation of $470,000 in General Funds to construct bus shelters at the California School for the Deaf and Blind in Fremont. The Governor also proposes $16.5 million in lease-revenue bond funding to construct a new career and technical education complex at the California School for the Deaf in Riverside.

Special School Deficiencies. CDE has identified two significant, ongoing deficiencies facing the State Special Schools and has given top priority to these state operations expenditures in 2005-06. The first deficiency involves transportation costs and is addressed by the Governor's Budget proposal outlined above. The second deficiency involves unfunded salary increases – estimated at over $1 million -- negotiated two years ago by the state bargaining unit that represents teachers at the State Special Schools, California Youth Authority, Department of Corrections, and State Hospitals and Developmental Centers. While the Administration provided budget increases to cover these salary increases in other state departments, these increases were not provided to the Special Schools. As a result, the Special Schools must provide the salary increases by reducing other programs and services at its campuses.

LAO Position: The LAO has no problems with the Governor's capital outlay proposals.

COMMENTS: In the past, transportation costs for the State Special Schools have been funded with Non-Proposition 98, state General Funds. The Governor's Budget proposes $1.4 million in Non-98, General Funds for transportation services at the Special Schools in 2005-06, in addition to the $963,000 in additional federal funds proposed for transportation services.

RECOMMENDATION: Staff recommends approval of the two capital outlay projects proposed by the Governor.

Staff recommends approval of additional funding for transportation services at the level proposed by the Governor, but suggests that the Subcommittee delay action on this item until May Revise so that other funding sources can be considered.

OUTCOME: Approved two capital outlay projects. (2-0)

ATTACHMENT A.

California State Auditor/Bureau of State Audits
Summary of Report 2004-108 - November 2004

California Commission on Teacher Credentialing: It Could Better Manage Its Credentialing Responsibilities

AUDIT HIGHLIGHTS

Our review of the credentialing process administered by the California Commission on Teacher Credentialing (commission) revealed the following:

- The commission could better evaluate the effectiveness of the programs it oversees and better measure the performance of the teacher credentialing process.
- The commission could take additional steps to improve its processing of credential applications, including focusing its customer service activities.
- Several areas of the commission's process for developing program standards lack structure and could be improved.
- The commission suspended its continuing accreditation reviews in December 2002 and is evaluating its accreditation policy, and it does not expect to present a revised policy to its governing body until August 2005.

RESULTS IN BRIEF

The California Commission on Teacher Credentialing (commission) was created in 1970 with the responsibility of ensuring excellence in education by establishing high standards for the preparation and licensing of public school educators. The commission also issues licenses and permits for school administrators and educators working in specialized teaching areas. In fiscal year 2003-04 the commission granted approximately 239,000 teacher and administrator licenses and renewals. In addition to its licensing responsibility, the commission develops program standards to address the quality of the programs that accredited colleges and universities provide to prospective teachers. The commission's other duties include adopting credential exams, accrediting colleges and universities that meet program standards, operating teacher development programs designed to help prospective teachers complete the requirements needed for a credential, and reviewing allegations of misconduct against credential holders or applicants. Our review found that the commission could make improvements to better evaluate the programs it oversees and its internal operations, more effectively manage its application processing, and refine how it updates program standards. In addition, the commission should resume its continuing accreditation reviews of colleges and universities.

The commission could increase its ability to measure the effectiveness of its teacher development programs, the efficiency of the teacher-credentialing process (process), and the performance of its internal operations. By doing so, the commission would be able to streamline and improve its efforts. For example, its teacher development programs provide funding for individuals who do not yet meet the requirements for a teaching credential, yet the commission has not sufficiently evaluated and accurately reported on two of its three teacher development programs. As part of its oversight of the process in California, the commission has some measures of the overall health of the process. However, it could improve its analysis of those measures and could develop further measures to better track the performance of the process and of individual teacher preparation programs.

Despite the importance of strategic planning, the commission has lacked specific performance measures to guide and evaluate its efforts. Further, the commission's February 2001 strategic plan is outdated and lacks performance measures. In addition, the commission does not annually track its progress in completing the tasks it described in the strategic plan. Subsequent to our fieldwork, the commission updated the tasks in its strategic plan.

The commission has implemented some reforms of the process and is contemplating others. It has also worked to reduce the barriers to becoming a California teacher. In addition to these efforts, the commission is considering whether to consolidate the examinations that it requires prospective teachers to pass.

By focusing its customer service, better managing its workload, and taking full advantage of a new automated application-processing system, the commission could improve its processing of applications. Facing a significant volume of contacts, the commission has not taken sufficient steps to focus its customer service activities. Proper management of customer service is necessary because the large volume of telephone calls and e-mails that the commission receives takes staff away from the task of processing credential applications.

Although the commission typically processes applications for credentials in less than its regulatory processing time of 75 business days, applications go unprocessed for a significant amount of this time because staff members are busy with other duties. The commission has taken some steps to improve its process, including automating certain functions as part of its Teacher Credentialing Service Improvement Project (TCSIP), which is a new automated application processing system that the commission plans to implement in late October 2004. However, the commission has not performed sufficient data analysis to make informed staffing decisions. TCSIP offers tangible time-saving benefits, such as allowing colleges and universities to submit applications electronically and automating the commission's review of online renewals, but the commission does not plan to use either function to its full potential in the foreseeable future.

Although online renewals offer the benefit of faster and more efficient processing, the commission has not sufficiently publicized this benefit. The commission could do more to inform teachers about the benefits of online renewal by performing the data analysis necessary to determine where the commission needs to do additional outreach and by better highlighting online renewal's availability and faster processing time.

The commission is in the midst of a 10-year process of developing program standards that comply with the requirements of Senate Bill 2042, Chapter 548, Statutes of 1998 (act). The commission does not have an overall plan to guide its efforts to finish implementing program standards or its ongoing standard-setting activities. Further, the commission's recent experiences developing program standards to meet the act's requirements offer an opportunity to evaluate how to better manage its future efforts. Our review of five sets of recently developed program standards identified areas in the commission's process for developing program standards that lack structure and could be improved. Among other issues, the commission does not use a methodical approach to form advisory panels of education professionals that assist it in developing program standards; neither does it always put in perspective the results of its field-review surveys to the commission's governing body (commissioners) when recommending standards for adoption.

Finally, the commission suspended its continuing accreditation reviews of colleges and universities in December 2002. Continuing accreditation reviews are an important component of the commission's accreditation system and help ensure that colleges and universities operate teacher preparation programs that meet the commission's standards. The commission indicated that it suspended continuing accreditation reviews to allow colleges and universities time to implement the commission's new standards and for it to evaluate its accreditation policy. Although the commission has been working with representatives from colleges and universities to evaluate its accreditation policy, it does not plan to propose a revision to the commissioners until August 2005.

RECOMMENDATIONS

To determine their success, the commission should establish performance measures for each of its teacher development programs.

To better plan and evaluate its efforts, the commission should regularly update its strategic plan and when appropriate quantify performance measures for tasks, in terms of the results it aims to achieve.

The commission should continue to consider ways to streamline the process.

The commission should improve application processing by better focusing its customer service efforts, analyzing application-processing data, requiring institutional customers to submit applications electronically to the extent that it is economically feasible, and encouraging more educators to renew their credentials online.

o improve the process by which it develops program standards for college and university teacher preparation programs, the commission should develop an overall plan to guide its efforts to fully implement the act's requirements. This plan should describe

the commission's process for developing standards and should provide more structure for that process. Further, to ensure that colleges and universities meet these program standards, the commission should promptly resume its continuing accreditation reviews.

AGENCY COMMENTS

The commission concurs with many of our recommendations, but believes that it will need changes in its statutory authority or additional funding and staffing to implement them. Moreover, the commission believes the report has significant omissions, errors, and misinterpretations. We carefully analyzed the commission's response and, although we made some minor modifications to the report text, we stand by our audit conclusions and recommendations.

ATTACHMENT B.

Commission on Teacher Credentialing:
Budget Reduction Proposals Adopted and Considered by Commission

Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Agenda

May 9, 2005
1:30 pm or Upon Adjournment of Session – Room 113

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.

I. Legislative, Executive, and Judicial Fellows Programs

Background. The Center for California Studies at California State University, Sacramento administers the four Capital Fellows programs in partnership with the legislature, the executive branch, and the courts. Funding for this program is appropriated annually in a distinct Budget Act line item within the California State University's budget.

2005-06 funding for the Capital Fellows Programs is proposed to remain constant at the current year level of $2.73 million; this amount has fluctuated slightly over the years between a high of $2.9 million in 2002-03 and a low of $2.6 million the following year (2003-04.)

Funding Request. The Center for California Studies staff contends that the funding appropriated has not been sufficient to cover the additional costs associated with health benefits or the student fee increases charged to the fellows programs for the academic component of their fellowship. As such, Center staff are requesting an augmentation of $297,000 to cover these increased costs ($22,000 for fee increases and $275,000 for increased benefits costs).

In addition, Center staff are requesting $73,000 to increase the stipend level of all 64 fellows in order to continue meeting the federal definition of "exempt" employees and thus avoiding the requirement that fellows program participants be paid overtime or be required to maintain time cards.
Total augmentation request: $370,000.

Staff notes that the $275,000 of funding requested for benefits increases covers a multi-year timeframe and includes monies for costs that have already been paid but for which the Center received no additional compensation. The actual year-over-year (2004-05 to 2005-06) benefit cost increase for both the fellows and the Center staff is $214,000. The bulk of this increase is attributable to the host campus (CSU, Sacramento) withdrawing its direct financial support of benefits for Center staff.

Both the Department of Finance (DOF) and the Legislative Analyst (LAO) note that, in the computation of the three percent General Fund increase for CSU (pursuant to the Governors' "compact" with higher education), DOF included the appropriation for the Center for California Studies in its calculation. As a result, the CSU system is being provided with an additional $81,750 in 2005-06 that should be "passed through" to the Center for California Studies.

As such, staff recommends that the committee shift $81,750 from the CSU main budget item (6610-001-0001) to the Center for California Studies Item (6610-002-0001) and appropriate an additional $227,250 General Fund, for a total augmentation of $309,000 (which should be sufficient to cover (1) the year-to-year benefit costs; (2) the fee increases for fellows; and (3) stipend increase).

II. California Student Aid Commission

The Governor's 2005-06 Budget proposes a total of $1.4 billion in expenditures ($746 million General Fund) for the California Student Aid Commission, which reflects a $44.6 million or a six percent increase above estimated current-year expenditures.

Figure 1

Student Aid Commission Budget Summary[a]

(Dollars in Millions)

	2004-05 Revised	2005-06 Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant programs				
Entitlement	$551.0	$608.9	$57.9	11%
Competitive	116.2	124.9	8.7	7
Pre-Entitlement	37.2	7.4	-29.8	-80
Cal Grant C	9.7	10.3	0.6	6
Subtotals—Cal Grant[b]	($714.1)	($751.4)	($37.3)	(5%)
APLE[c]	$34.0	$40.9	$6.9	20%
Graduate APLE	0.2	0.4	0.2	75
National Guard APLE	—	0.2	0.2	—
Law enforcement scholarships	0.1	0.1	—	1
Totals	**$748.5**	**$793.1**	**$44.6**	**6%**
Funding Sources				
General Fund	$589.4	$745.5	$156.1	26%
Student Loan Operating Fund[d]	146.5	35.0	-111.5	-76
Federal Trust Fund[d]	12.6	12.6	—	—
Totals	**$748.5**	**$793.1**	**$44.6**	**6%**

a In addition to the programs listed, the commission administers the Byrd Scholarship and Child Development Teacher and Supervisor programs—both of which are supported entirely with federal funds. It also administers the Student Opportunity and Access program, an outreach program supported entirely with Student Loan Operating Fund monies.

b Includes $46,000 for the Cal Grant T program in 2004-05. The program has been phased out as of 2005-06.

c Assumption Program of Loans for Education.

d These monies pay for Cal Grant costs as well as support and administrative costs.

Specifically, the Governor's Budget proposes an increase of $37.3 million (five percent) over the current year expenditures for the Cal Grant Program. Following are the adjustments to the Cal Grant Program as proposed by the Governor: (1) Augment the Cal Grant A and B programs to cover the eight percent student fee increases at the University of California and California State University ($23.2 million); (2) increase the total number of Cal Grants available (by 3,345 for a total of 259,570 new and renewal grants) based on new estimates of eligible high school graduates, transfer students and renewal applicants ($21.6 million); and (3) decrease the maximum Cal Grant award level for students attending private institutions ($7.5 million).

Other adjustments to the Student Aid Commission's budget include a $6.9 million increase in the funding available for the Assumption Program of Loans for Education Program (APLE). This funding adjustment is needed to cover the loan-forgiveness costs associated with previously-issued warrants. The Governor proposes to issue 7,700 APLE warrants in 2005-06, the same number as authorized in the current year.

In addition, the Administration's budget proposal implements the National Guard APLE program which offers loan forgiveness to individuals who enlist or re-enlist in the National Guard, State Military Reserve and/or Naval Militia by authorizing 100 new warrants and $200,000 in funding.

A. Cal Grant Program (Update)

As discussed above, the Administration proposes a variety of "baseline" adjustments to the Cal Grant program, including augmentations to increase the number of awards (pursuant to the programs' statutory guidelines) and cover costs associated with fee increases at the UC and CSU.

In addition, the Administration has reduced funding appropriated for the Cal Grant program in the current year (via Control Section 4.10, Budget Act of 2004) by approximately $50 million due to a decrease in the number of grants actually issued to students and the corresponding monetary value of those grants. Staff notes that, for the past several years, the Student Aid Commission has consistently reverted between $30 and $50 million to the General Fund from the Cal Grant program. As such, staff recommends that the committee seek assurances from the Student Aid Commission and the Department of Finance that the Cal Grant projections we employ for the coming fiscal year will be more "on the mark" than in past years.

B. Proposed Decrease to Maximum Cal Grant Award for Private College Students

The Governor proposes to reduce the grant level for students attending private and independent colleges by 10.5 percent. This would result in the maximum grant level being decreased from the current amount of $8,332 to $7,449. The Governor's proposal would only impact new Cal Grant recipients; students currently receiving awards would retain their higher valued grant. The Administration estimates that this reduction will reap $7.5 million in General Fund savings.

Between 2003-04 and 2004-05, the maximum Cal Grant award level for students attending private colleges and universities has decreased by $1,376 (14 percent), from an annual award level of $9,708 to the current level of $8,332. Coupled with the 2005-06 proposal, the buying power of the grant will have decreased over 23 percent, not accounting for inflation.

In response to the Governor's proposal, the LAO recommends that the Legislature adopt a statutory policy to link the award level for a private university Cal Grant to the amount of the General Fund subsidy the state provides to financially-needy students attending the University of California (UC) and California State University (CSU). At present, Assembly Bill 358 (Liu) is making its way through the policy committee process and seeks to encompass many of the changes recommended by the LAO. Staff notes that prior to the implementation of the current Cal Grant entitlement program (Chapter 403, Statutes of 2000), state law provided for annual adjustments to the private college grant amount based on the state support provided per student to the UC and CSU.

If the LAO's policy were enacted for the coming fiscal year, it would raise the maximum grant amount to $10,568, costing the state a total of $26.6 million over the amount provided in the Governor's Budget. To restore the grant to its current year level of $8,332 will cost the state $7.5 million more than the amount provided in the Governor's Budget.

Staff notes that, as in prior years, the Governor's proposal appears to contradict the original public policy rationale for paying a higher award level to private college students: Allowing students to make a real choice among the higher education options, and as a result, purposely redirecting a portion of the eligible postsecondary students to nonpublic institutions. The goal of the policy was to: (1) assist the state in avoiding additional costs associated with providing postsecondary education for ALL eligible students; and (2) help to manage the surging student enrollments under the Tidal Wave II population boom.

Further, staff recommends that the Legislature consider the LAO's recommendation to develop a statutory policy to guide the level of the maximum Cal Grant award for private institutions. However, staff notes that this type of programmatic statutory change would best be dealt with via the policy committee process. In conclusion, staff recommends that $7.5 million General Fund be placed on the "checklist" to backfill the Governor's proposed reduction, pending the May Revision.

C. Shift of EdFUND Student Loan Operating Fund dollars to Cal Grants

Background. Operating under California statute, EdFUND is a nonprofit "auxiliary" organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students don't "pay" for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities which offer student loan programs have a choice between a variety of FFELP "guarantors" (EdFund is only one of several guarantee agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission's request to statutorily establish EdFund, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guarantee marketplace.

Since then, EdFund has been remarkably successful. So much so, that it has generated a sizable operating surplus, due to the loyalty of EdFund customers and its continued success in avoiding student loan defaults. The Student Loan Operating Fund (SLOF) surplus is relatively new and is expected to be short-term in nature. In recent years, the Legislature and the Governor shifted ongoing operational funding for the Student Aid Commission *from* the General Fund *to* the SLOF in order to preserve General Fund resources. In addition, $146.5 million worth of state Cal Grant expenditures are being paid by the SLOF in the current year, thereby freeing up a like-amount of General Fund for other priorities.

Issue. The Administration once again proposes using SLOF monies, on a one-time basis, to offset a portion of the General Fund expenditures in the Cal Grant program. Specifically, the Governor proposes using $35 million of the SLOF surplus to fund Cal Grants in 2005-06. This sum is in addition to the $13.2 million in ongoing SLOF dollars proposed to support the operating costs of the California Student Aid Commission.

As part of its Analysis of the 2005-06 Budget Bill, the LAO identified additional SLOF surplus funds that could be used to supplant even more General Fund in the Cal Grant Program. Specifically, the LAO suggests using approximately $26.6 million more of SLOF monies to support Cal Grants, thereby offsetting and saving $61.6 million in General Fund resources.

Staff notes that it remains unclear if the additional $26.6 million in SLOF would actually be available for this purpose or if those dollars should be retained by EdFUND in order to further its business diversification efforts (as authorized pursuant to Chapters 216 and 657, Statutes of 2004). Further, the balance of the SLOF is deeply dependent on a variety of revenue streams including funds derived from a "bonus" plan from the federal government which seeks to compensate state student loan guaranty agencies for low student loan default rates. It is unclear whether these various funding streams will continue, much less at the current level.

As such, staff recommends that the committee approve the Administration's proposal to use $35 million in SLOF monies for the Cal Grant Program, but hold open the LAO's proposal to use an additional $26 million in SLOF funds, pending the May Revision and further discussion of the EdFUND organizational issues noted below.

D. EdFUND: Informational item.

In recent years, the state has "tapped" EdFUND and its Student Loan Operating Fund (SLOF) to support a variety of state financial aid activities that, until fiscal year 2003-04, had been paid for by the General Fund. Specifically, beginning in 2003-04, the SLOF began paying the approximately $12.5 million in ongoing operational costs of the Student Aid Commission; in 2004-05 the SLOF contributed over $146 million to the Cal Grant Program; and in 2005-06 the LAO recommends shifting over $60 million in SLOF funds to Cal Grants.

As the state begins to rely on SLOF monies to offset General Fund expenses, it seems prudent for the legislature to re-examine the relationship between EdFUND and the state, and determine if the current organizational structure will continue to meet our needs, both in the delivery of high quality loan services to our students and by providing a revenue source to help the state manage the increasing costs of providing financial aid.

Specifically, the Legislature may wish to consider the following:

- *What interest (if any) does the state have in directly administering a federal student loan program?*
- *Is it important for a state entity (or quasi-state entity) to administer the FFELP program?*
- *If the state determines that it has a valid public policy reason for maintaining administration of the FFELP program, are there other structural options that exist which may better serve our state needs for the administration of the program and ensuring an ongoing revenue stream to the state?*

Similar questions have arisen within the broader financial aid community since the April 15, 2005 Student Aid Commission board meeting. At that board meeting, the Student Aid Commissioners voted to "reconstitute" the EdFUND Board of Directors, thereby removing six of the 13 EdFUND board members (the only remaining members are those who also serve on the Student Aid Commission as well as the student member, EdFUND employee and EdFUND executive director).

The action of the Student Aid Commission (to remove the six members) is effective May 31, 2005. In the meantime, the Commission intends to review the roles and responsibilities of EdFUND, including reviewing EdFUND's bylaws and making recommendations for change. While Student Aid Commission representatives downplay the significance of the Commission's recent vote, staff remains concerned that any major changes at EdFUND may impact the stability of the organization and jeopardize the ability of the state to continue utilizing excess revenues derived from EdFUND's operations.

While the underlying policy issues are likely best addressed in the legislative process, staff notes that the state will need to make some critical decisions regarding EdFUND in the near future. Further, staff cautions the subcommittee to take these underlying issues into account when determining the appropriate sum of SLOF to use to displace General Fund in the Cal Grant program.

E. National Guard Assumption Program of Loans for Education (APLE)

The National Guard APLE program was established in statute in 2003 (Chapters 345, Statutes of 2003), but to-date the Student Aid Commission has not been provided with either the authority to issue warrants or the funds to administer the program. The Governor's Budget seeks to fund this new program by proposing that 100 new loan forgiveness warrants be authorized in 2005-06 and appropriating $200,000 in loan forgiveness repayments for the program.

In addition, as part of its April Finance Letter, which revises the January budget proposal, the Administration is proposing 1.0 limited term position and $65,000 (from the Student Loan Operating Fund, which is used to support all of the Student Aid Commission's operational costs).

The issue for the subcommittee to consider is: *During difficult fiscal times, is it the priority of the legislature to provide monetary support for a loan forgiveness program that seeks to encourage students to enroll in the National Guard, State Military Reserve or the Navel Militia?*

IF the committee wishes to provide support for this program it needs to make two adjustments. First, the LAO notes that since no National Guard APLE warrants have yet to be issued, then there should be no repayment costs associated with this program in 2005-06. As such, the committee should reduce funding for this program by $200,000 and alter Provision 1 of Item 7980-101-0001 to reflect this action. Second, the committee should approve the April Finance Letter approving 1.0 limited term position and $65,000.

III. PROPOSED CONSENT

Staff recommends that the following items be Approved as Budgeted.

6440-301-6041 Capital Outlay, University of California, all projects, per attached.

6440-302-6041 Capital Outlay, University of California, all projects, per attached.

6440-401 Capital Outlay, University of California.

6440-491 Reappropriation, University of California, *add item per May 1, 2005 Finance Letter* to reappropriate funding for following projects: (1) San Diego Campus, music building; (2) Davis Campus, Mondavi Institute for Wine and Food Science; (3) Davis Campus, Seismic Correction, Phase 4; (4) Merced Campus, Logistical Support/Service Facilities.

6440-495 Reversion, University of California.

6610-301-6041 Capital Outlay, California State University, all projects, per attached and *as amended by May 1, 2005 Finance Letter* for technical correction regarding streamlining of projects.

6610-302-6041 Capital Outlay, California State University, all projects, per attached.

6610-401 Capital Outlay, California State University.

6610-493 Capital Outlay, Reappropriation, California State University, *add item per May 1, 2005 Finance Letter* to reappropriate funds for Humboldt Behavioral and Social Sciences Building.

6610-494 Capital Outlay, Extension of Liquidation Period, California State University, *add item per May 1, 2005 Finance Letter* to extend liquidation period of construction funds by one year for San Francisco State University Hensill Hall Seismic Project and the Los Angeles Telecommunications Infrastructure Project.

6870-301-6028 Capital Outlay California Community Colleges, Santa Barbara City College Physical Science Renovation – Construction, *as amended by April 2005 Finance Letter*, $3,398,000.

6870-490 Capital Outlay, Reappropriation, California Community Colleges, *amend item per May 1, 2005 Finance Letter* to reappropriate funds for 34 projects in 20 community college districts.

6870-496 Capital Outlay, Reversion, California Community Colleges, *revert funds per May 1, 2005 Finance Letter* for a total of three projects on the Miracosta, Santa Barbara and Compton Community College campuses.

7980-101-0890 Local Assistance, California Student Aid Commission, $12,583,000.

7980-495 Reversion, California Student Aid Commission.

UNIVERSITY OF CALIFORNIA 2005-06 CAPITAL BUDGET

Campus	Project Name	Phase	Funds Requested
Berkeley	Seismic Safety Corrections, Giannini Hall	P	$1,055,000
Berkeley	Doe Library Seismic and Program Improvements, Step 4	C	30,810,000
Davis	Electrical Improvements, Phase 3	W/C	10,166,000
Davis	Physical Sciences Expansion	W/C	46,280,000
Davis	Steam Expansion, Phase 1	W/C	10,483,000
Irvine	Engineering Unit 3	C	47,347,000
Irvine	Social and Behavioral Sciences Building	P/W	2,850,000
Irvine	Computer Science Unit 3	E	3,025,000
Los Angeles **	Life Sciences Replacement Building, *as amended per April 2005 Finance Letter with accompanying provision language.*	W/C	52,042,000
Riverside	Environmental Health and Safety Expansion	P/W	1,000,000
Riverside	Student Academic Support Services Building	P/W	1,650,000
Riverside	Materials Science and Engineering Building	C	50,549,000
San Diego	Biomedical Library Renovation and Addition	E	695,000
San Diego	Student Academic Services Facility	E	504,000
San Diego	Mayer Hall Addition and Renovation	E	445,000
San Diego	Music Building	C	36,125,000
San Francisco	Medical Sciences Building Improvements, Phase 2	C	15,319,000
Santa Barbara	Snidecor Hall Office Wing Seismic Replacement	E	405,000
Santa Cruz	Humanities and Social Sciences Facility	E	1,075,000
Santa Cruz	McHenry Project	C	33,782,000
Santa Cruz	Alterations for Engineering, Phase 3	C	4,161,000
Santa Cruz	Digital Arts Facility	W	888,000
Santa Cruz	Infrastructure Improvements, Phase 1	P	777,000
Ag & Natural Resources	Lindcove Research and Extension Center Laboratory Facility	P/W/C	1,030,000
	TOTAL:		**$352,463,000**

CALIFORNIA STATE UNIVERSITY FY 05/06 Capital Outlay	
Item:	**Amount**

6610-301-6041 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2004

Systemwide: Minor Capital Outlay Program, Preliminary plans, working drawings and construction	16,000,000
~~Hayward: Seismic Upgrade, Warren Hall, Working drawings,~~ *as amended by May 1, 2005 Finance Letter*	~~963,000~~
Hayward: Rescope/Fund Student Services Replacement Bldg, *as amended by May 1, 2005 Finance Letter*	1,651,000
Long Beach: Seismic Upgrade, Liberal Arts 2, 3 and 4, Preliminary plans, working drawings and construction	1,253,000
Dominguez Hills: Educational Resource Center Addition, Construction, *as amended by May 1, 2005 Finance Letter*	34,876,000
Long Beach: Peterson Hall 3 Replacement Building, Working drawings, *as amended by May 1, 2005 Finance Letter*	2,048,000
Pomona: Library Addition & Renovation, Phase I, *as amended by May 1, 2005 Finance Letter*	55,222,000
Subtotal	**112,013,000**

6610-302-6041 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2004

Chico: Student Services Center, Equipment	2,201,000
Fresno: Library Addition and Renovation, Working drawings and construction	86,419,000
Humboldt: Forbes PE Complex Renovation, Working drawings and construction	41,488,000
Humboldt: Mai Kai Land Acquisition, Acquisition	6,000,000
Long Beach: Library Addition and Renovation, Working drawings and construction	31,326,000
Los Angeles: Science Replacement Building, Wing A, Equipment	4,635,000
Northridge: Perfroming Arts Center, Preliminary plans	1,210,000
San Diego: Social Sciences/Art Gallery/Parking Structure 8, Equipment	3,324,000
San Jose: Joint Library, Secondary Effects, Equipment	2,171,000
San Luis Obispo: Engineering/Architecture Renovation and Replacement, Phase II, Equipment	5,573,000
San Marcos: Craven Hall Renovation, Equipment	527,000
Sonoma: Darwin Hall, Equipment	2,221,000
Sonoma: Music/Faculty Office Building, Construction	16,247,000
Stanislaus: Science II (Seismic), Equipment	3,025,000
Subtotal	**206,367,000**
Total Consent List	**318,380,000**

Jack Scott, Chair
Bob Margett
Joe Simitian

May 16, 2005
10:00 a.m. – Room 113

II. HIGHER EDUCATION

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
6120-211-0001 California State Library	*January Budget:* Public Library Foundation	Provide additional $2.2 million to backfill proposed reduction to the Public Library Foundation.	**Deny January Proposal**	2,200	Previously discussed by committee on April 25, 2005.
6440-001-0001University of California	*New Issue:* University of California: Welfare Policy Research Project	Amend provisional language specifying that the research project is located on the Berkeley campus.	**Approve Request**		New Issue. Brought to committee at request of Welfare Policy Research Project.
6610-002-0001 California State University	*New Issue:* Center for California Studies	Provide an additional $309,000 to support the Center and the Legislative, Executive, and Judicial Fellows programs, as follows: $22,000 for increase in student fees; $73,000 increase in stipend; and $214,000 for increase in benefits.	**Approve Augmentation Request**	309	Previously discussed by committee on May 9, 2005.
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Rescinds January proposal to reduce Cal Grant award for students attending private institutions (Issue 009)	May Revision reverses Gov's proposal to reduce maximum Cal Grant award for private college students by providing an augmentation of $7.5 million. Award will remain at current level of $8,332.	**Approve May Revision**		Previously discussed by committee on May 9, 2005.
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Reduces amount of funding needed to implement the National Guard APLE program (Issue 006)	Reduces, by $200,000, the amount of funding needed to implement the National Guard APLE program.	**Deny Governor's January proposal**		Deny Gov's proposal, including all monetary support and authority to issue loan assumption warrants.
7980-001-0784 California Student Aid Commission	*May Revision Finance Letter*: Provide staff support to implement the National Guard APLE program (Issue 001)	Provides $65,000 and one limited term (two-year) position to administer the National Guard APLE program	**Deny Governor's May Revision Proposal**		Conforming to above issue.

III. K-12 & Community Colleges -- CalSTRS Defined Benefit Program

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
6300-603-0001 Non-Budget Act Item	Governor's Budget: State Operations, General Fund	The Governor proposes to shif t State responsibility for making contributions to CalSTRS basic retirement program to local employers. Specifically, the Governor's proposal eliminates the State's 2.017 percent contribution to the Defined Benefit (DB) program, for an assumed General Fund (Non-98) savings of $469 million in 2005-06.	Deny the Governor's Budget proposal to eliminate the state contribution to the CalSTRS Defined Benefit Program. This action conforms to action taken by SBFR Sub #4 on May 11th.	469,047	

IV. CONSENT

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
4220-001-0001 CA. Child Development Policy Advisory Cmt. (CDPAC)	*May Revision Finance Letter*: Trailer Bill Language to eliminate CDPAC from statute	CDPAC was de-funded and eliminated by the Legislature in 2003-04. This request deletes the remaining sections of the Education Code related to the program.	**Approve May Revision**		Proposal is "clean-up" to prior budget-related action.
6120-151-0483 California State Library	*May Revision Finance Letter*: Increase telephonic reading program for the blind by $111,000 to cover costs of maintaining toll-free number (Issue 010)	Provides funding to maintain toll-free phone number for telephonic reading program for the blind, in the event that federal funding is not available for this program. Adds budget bill language to ensure that federal funds, provided they materialize, are utilized first.	**Approve May Revision**		
6120-151-0483 California State Library	*January Budget:* Trailer Bill Language related to Telephonic Reading for the Blind (transfer authority)	Technical change to allow telecommunications funds to be used for telephonic reading programs for the blind.	**Approve January Proposal**		Technical Change

CONSENT (continued)

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
6120-012-0001 California State Library	*May Revision Finance Letter*: Technical change to decrease reimbursements by $5,000 and increase item by $3,000 (Issues 010, 101, and 102)	Technical change related to rental of space, insurance, and lease revenue debt service.	**Approve May Revision**		Technical Change
6440-003-0001 University of California	*May Revision Finance Letter*: Technical change to appropriate funding for Lease-Revenue debt service payments (Issues 101 and 102)	Provide an additional $18.9 million (above current-year) to cover increased costs of debt service on lease-revenue bond financed projects.	**Approve May Revision**		Technical Change
6610-003-0001 California State University	*May Revision Finance Letter*: Technical change to appropriate funding for Lease-Revenue debt service payments (Issues 101 and 102)	Provide an additional $131,000 (above current-year) to cover increased costs of debt service on lease-revenue bond financed projects.	**Approve May Revision**		Technical Change
6870-101-0001 California Community Colleges	*January Budget:* Trailer Bill Language related to $200 million deferral	Trailer Bill Language approving ongoing deferral of $200 million in apportionments payments from June 2006 to July 2006.	**Approve January Proposal**		Deferral needs to be approved annually.
6870-490 California Community Colleges	*Technical Adjustment:* Compton Community College District Performing Arts and Recreation Complex	Amend Item 6870-490 to reappropriate funds ($12.771 million) for the working drawings, construction, and equipment phases of the project.	**Approve Revision to prior committee action**		This action revises prior action taken by the committee on May 9th will ensure that funds are reappropriated NOT reverted
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Increase baseline funding for Cal Grants (Issue 005)	Provides an increase of $15.7 million to reflect revised Cal Grant entitlement award estimates.	**Approve May Revision**		Technical Adjustment
7980-001-0784 7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Increase reimbursement authority for Chafee Foster Youth Program (Issues 003, 010 and 011)	Funding for program to be provided by federal funds adminstered through the Department of Social Services (and expended for the program via an MOU with the Student Aid Commission).	**Approve May Revision**		New federal funds recently appropriated for Program.

CONSENT (continued)

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
7980-001-0784 California Student Aid Commission	May Revision Finance Letter: Increase Customer Service Call Center Staffing (Issue 003)	Provides $150,000 (from the Student Loan Operating Fund) for two-year, limited-term, temporary help positions to staff the Cal Grant customer service call center.	**Approve May Revision**		Workload Adjustment
6110-001-0890 California Department of Education	May Revision Finance Letter: Reduce state operations funding for federal Education Technology Program (Issue 663)	Reduces funding by $354,000 to reflect a decrease in federal funding for the Education Technology Program. It is also requested that the 3.0 expiring limited term positions proposed for permanent extension in the Governor's Budget be modified to continue for a 2-year limited term only to conform to the reduction in funding.	**Approve May Revision**		
6110-123-0890 California Department of Education	May Revision Finance Letter: Decrease local assistance funding for the federal Comprehensive School Reform Program (Issue 162)	Decreases funding $10,051,000 to make it consistent with available federal Comprehensive School Reform grant funds for 2005-06. These funds are used by schools to implement research-based strategies to increase pupil achievement.	**Approve May Revision**		
6110-136-0890 California Department of Education	May Revision Finance Letter: Increase local assistance funding for the federal McKinney-Vento Homeless Children Education Program (Issue 330)	Increases funding by $500,000 to reflect one-time carryover funds from previous years. Carryover was the result of grantees who did not expend their full allocations. SDE will use the one-time carryover funds on a competitive basis to supplement LEAs that need additional funds for Homeless Children Education programs. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.	**Approve May Revision**		

CONSENT (continued)

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
6110-180-0890 California Department of Education	May Revision Finance Letter: Local Assistance, Education Technology Program (Issue 664)	Decreases funding by an additional $823,000 from the amount requested in the April Finance letter to reflect a decrease in federal funding for the Education Technology Program. The federal budget proposes to eliminate state grants for Education Technology by 2006-07.	**Approve May Revision**		
6110-195-0890 California Department of Education	May Revision Finance Letter: Local Assistance, Title II–Improving Teacher Quality Local Grant Program (Issue 646)	Increases funding in schedule (1) by $80,000 to provide carryover authority for unspent prior year funds. Funds will be used to provide additional funding to local educational agencies for use in a manner consistent with the approved usage.	**Approve May Revision**		
6110-002-0001 California Department of Education	May Revision Finance Letter: State Operations, State Special Schools (Issue 101)	Decreases funding of $91,000 that was set aside for the purpose of making Lease Revenue Bond debt service adjustments via Control Section 4.30.	**Approve May Revision**		
6110-006-0001 California Department of Education	May Revision Finance Letter: Reimbursements, State Operations, State Special Schools (Issue 059)	Decreases reimbursement authority by $245,000 as there is no longer a need to lease certain facilities due to a transfer of property.	**Approve May Revision**		
6110-629-0001 and 6110-497 California Department of Education	May Revision Finance Letter: Local Assistance, Emery Unified School District Emergency Loan (Issue 083)	Reduces Non-Budget Act Item by $1.0 million and adds languagre to Budget Item 6110-497 to revert the unexpended balance of the emergency loan made to Emery Unified School District. Of the $2,300,000 million emergency loan authorized by Chapter 135, Statutes of 2001, Emery Unified used only $1.3 million. The authority for the remaining $1,000,000 expired as of July 31, 2004.	**Approve May Revision**		

Jack Scott, Chair
Bob Margett
Joe Simitian

May 16, 2005
10:00 a.m. – Room 113

OUTCOMES

II. HIGHER EDUCATION

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
NEW ISSUE: PROPOSITION 98	New Issue: Proposition 98 augmentation	committee voted to restore $2 billion in proposition 98 funds to K-14 education	**None. $2 billion augmentation approved (2-1)**		Funds are presently unallocated to be scored in newly created item which will contain the lump-sum
6120-211-0001 California State Library	*January Budget:* Public Library Foundation	Provide additional $2.2 million to backfill proposed reduction to the Public Library Foundation.	**Deny January Proposal (3-0)**	2,200	Previously discussed by committee on April 25, 2005.
6440-001-0001University of California	*New Issue:* University of California: Welfare Policy Research Project	Amend provisional language specifying that the research project is located on the Berkeley campus.	**Approve Request (3-1)**		New Issue. Brought to committee at request of Welfare Policy Research Project.
6610-002-0001 California State University	*New Issue:* Center for California Studies	Provide an additional $309,000 to support the Center and the Legislative, Executive, and Judicial Fellows programs, as follows: $22,000 for increase in student fees; $73,000 increase in stipend; and $214,000 for increase in benefits.	**Approve Augmentation Request (2-1)**	309	Previously discussed by committee on May 9, 2005.
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Rescinds January proposal to reduce Cal Grant award for students attending private institutions (Issue 009)	May Revision reverses Gov's proposal to reduce maximum Cal Grant award for private college students by providing an augmentation of $7.5 million. Award will remain at current level of $8,332.	**Approve May Revision (3-0)**		Previously discussed by committee on May 9, 2005.
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Reduces amount of funding needed to implement the National Guard APLE program (Issue 006)	Reduces, by $200,000, the amount of funding needed to implement the National Guard APLE program.	**Deny Governor's January proposal. (Held Over)**		Deny Gov's proposal, including all monetary support and authority to issue loan assumption warrants.
7980-001-0784 California Student Aid Commission	*May Revision Finance Letter*: Provide staff support to implement the National Guard APLE program (Issue 001)	Provides $65,000 and one limited term (two-year) position to administer the National Guard APLE program	**Deny Governor's May Revision Proposal (Held Over)**		Conforming to above issue.

III. K-12 & Community Colleges -- CalSTRS Defined Benefit Program

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
6300-603-0001 Non-Budget Act Item	Governor's Budget: State Operations, General Fund	The Governor proposes to shif t State responsibility for making contributions to CalSTRS basic retirement program to local employers. Specifically, the Governor's proposal eliminates the State's 2.017 percent contribution to the Defined Benefit (DB) program, for an assumed General Fund (Non-98) savings of $469 million in 2005-06.	Deny the Governor's Budget proposal to eliminate the state contribution to the CalSTRS Defined Benefit Program. This action conforms to action taken by SBFR Sub #4 on May 11th. **(2-1)**	469,047	

IV. CONSENT (All items approved 3-0)

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
4220-001-0001 CA. Child Development Policy Advisory Cmt. (CDPAC)	*May Revision Finance Letter*: Trailer Bill Language to eliminate CDPAC from statute	CDPAC was de-funded and eliminated by the Legislature in 2003-04. This request deletes the remaining sections of the Education Code related to the program.	**Approve May Revision (3-0)**		Proposal is "clean-up" to prior budget-related action.
6120-151-0483 California State Library	*May Revision Finance Letter*: Increase telephonic reading program for the blind by $111,000 to cover costs of maintaining toll-free number (Issue 010)	Provides funding to maintain toll-free phone number for telephonic reading program for the blind, in the event that federal funding is not available for this program. Adds budget bill language to ensure that federal funds, provided they materialize, are utilized first.	**Approve May Revision (3-0)**		

6120-151-0483 California State Library	*January Budget:* Trailer Bill Language related to Telephonic Reading for the Blind (transfer authority)	Technical change to allow telecommunications funds to be used for telephonic reading programs for the blind.	**Approve January Proposal (3-0)**		Technical Change

CONSENT (continued)

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
6120-012-0001 California State Library	*May Revision Finance Letter*: Technical change to decrease reimbursements by $5,000 and increase item by $3,000 (Issues 010, 101, and 102)	Technical change related to rental of space, insurance, and lease revenue debt service.	**Approve May Revision (3-0)**		Technical Change
6440-003-0001 University of California	*May Revision Finance Letter*: Technical change to appropriate funding for Lease-Revenue debt service payments (Issues 101 and 102)	Provide an additional $18.9 million (above current-year) to cover increased costs of debt service on lease-revenue bond financed projects.	**Approve May Revision (3-0)**		Technical Change
6610-003-0001 California State University	*May Revision Finance Letter*: Technical change to appropriate funding for Lease-Revenue debt service payments (Issues 101 and 102)	Provide an additional $131,000 (above current-year) to cover increased costs of debt service on lease-revenue bond financed projects.	**Approve May Revision (3-0)**		Technical Change
6870-101-0001 California Community Colleges	*January Budget:* Trailer Bill Language related to $200 million deferral	Trailer Bill Language approving ongoing deferral of $200 million in apportionments payments from June 2006 to July 2006.	**Approve January Proposal (3-0)**		Deferral needs to be approved annually.
6870-490 California Community Colleges	*Technical Adjustment:* Compton Community College District Performing Arts and Recreation Complex	Amend Item 6870-490 to reappropriate funds ($12.771 million) for the working drawings, construction, and equipment phases of the project.	**Approve Revision to prior committee action (3-0)**		This action revises prior action taken by the committee on May 9th will ensure that funds are reappropriated NOT reverted
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Increase baseline funding for Cal Grants (Issue 005)	Provides an increase of $15.7 million to reflect revised Cal Grant entitlement award estimates.	**Approve May Revision (3-0)**		Technical Adjustment

7980-001-0784 7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: Increase reimbursement authority for Chafee Foster Youth Program (Issues 003, 010 and 011)	Funding for program to be provided by federal funds adminstered through the Department of Social Services (and expended for the program via an MOU with the Student Aid Commission).	**Approve May Revision (3-0)**		New federal funds recently appropriated for Program.

CONSENT (continued)

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
7980-001-0784 California Student Aid Commission	May Revision Finance Letter: Increase Customer Service Call Center Staffing (Issue 003)	Provides $150,000 (from the Student Loan Operating Fund) for two-year, limited-term, temporary help positions to staff the Cal Grant customer service call center.	**Approve May Revision (3-0)**		Workload Adjustment
6110-001-0890 California Department of Education	May Revision Finance Letter: Reduce state operations funding for federal Education Technology Program (Issue 663)	Reduces funding by $354,000 to reflect a decrease in federal funding for the Education Technology Program. It is also requested that the 3.0 expiring limited term positions proposed for permanent extension in the Governor's Budget be modified to continue for a 2-year limited term only to conform to the reduction in funding.	**Approve May Revision (3-0)**		
6110-123-0890 California Department of Education	May Revision Finance Letter: Decrease local assistance funding for the federal Comprehensive School Reform Program (Issue 162)	Decreases funding $10,051,000 to make it consistent with available federal Comprehensive School Reform grant funds for 2005-06. These funds are used by schools to implement research-based strategies to increase pupil achievement.	**Approve May Revision (3-0)**		

6110-136-0890 California Department of Education	May Revision Finance Letter: Increase local assistance funding for the federal McKinney-Vento Homeless Children Education Program (Issue 330)	Increases funding by $500,000 to reflect one-time carryover funds from previous years. Carryover was the result of grantees who did not expend their full allocations. SDE will use the one-time carryover funds on a competitive basis to supplement LEAs that need additional funds for Homeless Children Education programs. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.	**Approve May Revision (3-0)**		

CONSENT (continued)

Item	Issue	Description	Staff Recommendation	Compare to May Revision (000's)	Comments
6110-180-0890 California Department of Education	May Revision Finance Letter: Local Assistance, Education Technology Program (Issue 664)	Decreases funding by an additional $823,000 from the amount requested in the April Finance letter to reflect a decrease in federal funding for the Education Technology Program. The federal budget proposes to eliminate state grants for Education Technology by 2006-07.	**Approve May Revision (3-0)**		
6110-195-0890 California Department of Education	May Revision Finance Letter: Local Assistance, Title II–Improving Teacher Quality Local Grant Program (Issue 646)	Increases funding in schedule (1) by $80,000 to provide carryover authority for unspent prior year funds. Funds will be used to provide additional funding to local educational agencies for use in a manner consistent with the approved usage.	**Approve May Revision (3-0)**		
6110-002-0001 California Department of Education	May Revision Finance Letter: State Operations, State Special Schools (Issue 101)	Decreases funding of $91,000 that was set aside for the purpose of making Lease Revenue Bond debt service adjustments via Control Section 4.30.	**Approve May Revision (3-0)**		

6110-006-0001 California Department of Education	May Revision Finance Letter: Reimbursements, State Operations, State Special Schools (Issue 059)		Decreases reimbursement authority by $245,000 as there is no longer a need to lease certain facilities due to a transfer of property.	**Approve May Revision (3-0)**		
6110-629-0001 and 6110-497 California Department of Education	May Revision Finance Letter: Local Assistance, Emery Unified School District Emergency Loan (Issue 083)		Reduces Non-Budget Act Item by $1.0 million and adds languagre to Budget Item 6110-497 to revert the unexpended balance of the emergency loan made to Emery Unified School District. Of the $2,300,000 million emergency loan authorized by Chapter 135, Statutes of 2001, Emery Unified used only $1.3 million. The authority for the remaining $1,000,000 expired as of July 31, 2004.	**Approve May Revision (3-0)**		

Jack Scott, Chair
Bob Margett
Joe Simitian

May 16, 2005
10:00 a.m. – Room 113

OUTCOMES

Jack Scott, Chair
Bob Margett
Joe Simitian

AGENDA

May 18, 2005
10:00 a.m. – Room 113

III. CONSENT (OUTCOMES)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6440-001-0001 University of California	*January Budget:* **Enrollment Growth Funding at 2.5 percent**	Governor's "compact" with higher education provides enrollment growth funding ($37.9 million) sufficient to fund an additional 5,000 FTES.	**Approve January Proposal; adopt Budget Bill Language specifying number of students to be served. If specified number of students not served, dollars to revert to General Fund.** (Approved 3-0)	BBL (per attached #1)		Provisional language similar to language adopted by committee last year (and contained in the current year Budget Act).
6440-001-0001	*January Budget:* **General Support Increase of 3 percent**	Governor's "compact" with higher education provides for a General Fund increase equivalent to 3 percent ($76.1 million).	**Approve January Budget Proposal** (Approved 3-0)	No		
6440-001-0001 University of California 6610-001-0001 California State University	*January Budget:* **Adopt Supplemental Reporting Language related to the Marginal Cost of Instruction methodology**	LAO, in its Analysis of the Budget Bill, calls for a reassessment of the current UC/CSU marginal cost of instruction methodology. Last review was in early 1990's. Recent concerns have arisen over ability of per student rate to cover "high cost" programs and the hiring of faculty at mid-range on the salary scale.	**Approve Supplemental Reporting Language** (Approved 3-0)	SRL, per attached #7		Language represents staff compromise

6610-001-6041 California State University	*May Revision Finance Letter*: **General Obligation Bond Funds for Capital Renewal (Issue 004)**	Provides $26 million in GO bond funding to CSU for a variety of smaller "capital renewal" projects. Funds will be used to replace critical building infrastructure (such as HVAC systems) to extend the useful life of the buildings.	**Approve May Revision** (Approved 3-0)	No		

III. CONSENT - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6610-001-0001 California State University	*January Budget:* **Enrollment Growth Funding at 2.5 percent**	Governor's "compact" with higher education provides enrollment growth funding ($50.8 million) sufficient to fund an additional 8,000 FTES.	**Approve January Proposal; adopt Budget Bill Language specifying number of students to be served. If enrollments do not meet specified number, unused dollars revert to General Fund** (Approved 3-0)	BBL (per attached #2)		Provisional language similar to language adopted by committee last year (and contained in the current year Budget Act).
6870-101-0001 California Community Colleges	*May Revision Finance Letter*: **Board Financial Aid Program Adjustments (Issue 810)**	Shifts, within the Budget Bill, the schedule from which funds are provided to community college districts to reimburse them for costs associated with providing Board of Governors (BOG) fee waivers; provides additional funds for program to account for new student fee and BOG waiver estimates.	**Approve May Revision** (Approved 3-0)	BBL, per Finance Letter		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Student Fee Revenue Adjustment (Issue 828)**	Technical adjustment decreasing the amount of revenue derived from student fees by $12.9 million and increasing the amount of revenue from the General Fund (P-98) by a like-amount.	**Approve May Revision** (Approved 3-0)	No		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Student Fee Revenue Adjustment (Issue 836)**	Technical adjustment decreasing the amount of revenue derived from property taxes ($54.3 million) and increasing the amount of revenue from the General Fund (P-98) by a like amount.	**Approve May Revision** (Approved 3-0)	No		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Increased COLA for Community Colleges (Issues 837 and 839)**	Increase amount appropriated for COLA, by $14.9 million, to reflect current rate of 4.23 percent.	**Approve May Revision** (Approved 3-0)	BBL, per Finance Letter		Technical adjustment.

III. CONSENT - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6870-101-0001	*May Revision Finance Letter*: **Growth Adjustment for Community Colleges (Issues 838)**	Decrease amount appropriated for select categorical program growth by $359,000 to reflect revised statutory growth rate of 1.76 percent.	**Approve May Revision** (Approved 3-0)	BBL, per Finance Letter		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Lease-Revenue Bond Repayments (Issues 102)**	Decrease, by $1.5 million, the amount appropriated to pay debt service on lease-revenue bond funded projects.	**Approve May Revision** (Approved 3-0)	No		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Increase Federal Reimbursement Authority (Issue 812)**	Increase, by $4.5 million, community colleges reimbursement authority to reflect new one-time federal funds to expand and align technical preparation courses with K-12.	**Approve May Revision** (Approved 3-0)	BBL, per Finance Letter		Authority to spend federal carryover funds
6870-101-0001	*May Revision Finance Letter*: **Increase Reimbursement Authority for Energy Efficiency (Issue 829)**	Increase, by $123,000, community colleges reimbursement authority to participate in an Energy Resources Conservation pilot project.	**Approve May Revision** (Approved 3-0)	BBL, per Finance Letter		Authority to spend funds from energy conservation pilot program
6870-495	*May Revision Finance Letter*: **Add Reversion Item (Issue 847)**	Add reversion item to revert funds, totaling $450,000, from prior-year appropriations for Hazardous Substance Abatement and other appropriations.	**Approve May Revision** (Approved 3-0)	New Item, per Finance Letter		Revert unspent funds to General Fund.

I. HIGHER EDUCATION

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6440-001-0001 University of California	*January Budget:* **Support for Student Academic Preparation (outreach) programs**	Governor's Budget calls for a $17.3 million reduction targeted at either academic preparation programs or enrollment growth.	**Augment, by $17.3 million, and adopt Budget Bill Language specifying (1) amount to be expended on programs and (2) requiring the UC to report detailed information on the outcomes of the programs (language attached).**	BBL, per attached #3	17,300	Legislative Staff, Administration representatives, and the UC have been working to develop an accountability framework for student academic outreach programs in order to remedy Administration and Legislative concerns regarding the effectiveness and efficiency of the programs. In accordance with this new accountability "framework" staff recommends that the committee adopt the proposed augmentation and accompanying provisional language.
6440-001-0001	*January Budget:* **Research on Labor Studies**	Governor's Budget eliminates funding for research related to labor studies ($3.8 million).	**Augment by $3.8 million.**	No	3,800	Reduction represents a cut by the Administration based solely on ideology of research.

6440-001-0001	*January Budget:* **Increased Enrollments in Medical Schools (PRIME-LC)**	Governor's Budget provides $300,000 to increase enrollments in medical school programs. Specifically, funding is provided for the Program in Medical Education - for the Latino Community (PRIME-LC) at UC Irvine. Funding covers additional marginal cost of instruction rate for medical education.	**Approve as Budgeted, with addition of provisional language specifying dollars and use of funds.**	BBL, per attached #4		Issue heard by committee on March 14, 2005

I. HIGHER EDUCATION - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6610-001-0001	*January Budget:* **Backfill of Unallocated Reduction**	Governor's Budget calls for a $7 million unallocated reduction to CSU's operational budget.	**Approve $7.0 million augmentation to backfill proposed reduction (with BBL) .**	BBL, per attached #5	7,000	Reduction to CSU was "unallocated", and while CSU chose to reduce programs other than academic preparation, staff believes that any augmentation to UC to backfill its reduction should also be applied to the CSU.
6610-001-0001 California State University	*January Budget:* **General Support Increase of 3 percent**	Governor's "compact" with higher education provides for a General Fund increase equivalent to 3 percent ($71.662 million).	**Amend Governor's original proposal by reducing amount appropriated by $81,750. Total appropriated amount: $71.574 million.**	No	-081	DOF included the appropriation for the Center for California Studies in its calculation of the 3 percent General Fund increase. This action will remove the Center's budget from that calculation.

I. HIGHER EDUCATION - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6610-001-0001	*New Issue:* **Reversion of unspent current-year enrollment growth funding**	Current Budget Act specifies that if CSU does not meet specified student enrollment target of 324,120 FTES that funds unused for enrollment growth will revert to the General Fund.	**Add new reversion item (6610-495) and specify that $15,519,542 will revert to the General Fund as of June 30, 2005.**	BBL, per attached #6	-15,520	CSU recently reported its current year FTES enrollments, which fell short of the targeted level specified in the current year budget bill; this reduction is due primarily to a decline in teacher credentialing students. Provisional language adopted in the current year specifies that funds allocated for enrollment growth would revert to the General Fund if enrollments failed to meet the specified level. DOF did not include the reversion of the unspent dollars as part of its May Revision.
6440-001-0001 University of California 6610-001-0001 California State University	*May Revision Finance Letter*: **Add $1 million in funding for Math and Science Initiative (Issue 003)**	May Revision adds $1 million ($750,000 UC; $250,000 CSU) to improve the supply and quantity of math and science teachers in CA. At UC, funds are proposed to be spent to develop six Resource Centers aimed at providing students with advising and placement services, monitoring student progress, and assessing the efficacy of the program. CSU dollars will be used to work with UC and develop a four-year "blended credential" for math and science majors.	**No Recommendation**	BBL, per Finance Letter		Staff notes that the need for this program is unclear, especially given that UC and CSU should already be taking steps to increase the number of teacher credentialing candidates, especially in high need areas such as math and science. Further, LAO notes concerns with out-year costs and overall cost-effectiveness of initiative.

I. HIGHER EDUCATION - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6440-001-0001 University of California 6610-001-0001 California State University	*January Budget:* **Adopt Supplemental Reporting Language related to Institutional-based financial aid**	Pursuant to discussions earlier in the committee process, staff recommends that the committee adopt Supplemental Reporting Language related to institutional financial aid. Language is aimed at developing a process whereby the Segments, LAO, and the Legislature would share information related to campus-based financial aid, including data on how aid is "packaged" for students.	**Approve Supplemental Reporting Language (as attached)**	SRL, per attached #8		Language seeks to remedy a long-standing conflict between the Segments and the LAO regarding LAO's access to campus-based financial aid information, including an assessment of whether 33% or 20% is the correct amount of fee revenue to "set-aside" for campus-based financial aid.
7980-001-0784	*May Revision Finance Letter*: **Enhancement of Cal Grant Delivery System (Issue 002)**	May Revision appropriates $1.6 million from the Student Loan Operating Fund for an information technology contract and two positions aimed at providing "real-time" communication with schools regarding Cal Grants.	**Deny May Revision. Ask DOF and Student Aid to resubmit proposal in January. Work with LAO to determine if new system will contain "highest priority" enhancements such as GPA verification and identification of aggregate levels of financial need.**			Staff is unclear why this is a May Revision proposal and believes issue should be dealt with in January. Unclear if the components of the enhanced delivery system are the best use of our resources. Unclear if there are other "enhancements" that would better serve both students and the state.

I. HIGHER EDUCATION - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: **Establishment of New SMART-APLE program (008)**	May Revision seeks to establish a new loan forgiveness program specifically aimed at students becoming math and science teachers. Proposal does not appropriate any funding for loan assumption warrants, but Budget Bill language would provide Student Aid Commission with ability to authorize up to 350 loan assumption warrants for the new SMART-APLE program.	**Deny May Revision request; instead authorize the issuance of up to 500 additional warrants for the existing APLE program.**	BBL specifying number of APLE warrants authorized		Staff unclear why existing APLE program could not be used (or expanded) to meet the Administration's needs. Development of new program (with almost identical requirements to existing APLE program) will only create confusion for students and administrators. Further, establishment of new loan forgiveness program is a policy issue and should be contained in separate legislation.
7980-101-0001 California Student Aid Commission	*May Revision Finance Letter*: **Reduces amount of funding needed to implement the National Guard APLE program (Issue 006)**	Reduces, by $200,000, the amount of funding needed to implement the National Guard APLE program.	**Deny Governor's January proposal in its entirety.**	BBL -- Delete Provision (1)(b)		Deny Gov's proposal, including all monetary support and authority to issue loan assumption warrants.
7980-001-0784	*April Revision Finance Letter*: Pr**ovide staff support to implement the National Guard APLE program (Issue 001)**	Provides $65,000 and one limited-term (two-year) position to administer the National Guard APLE program	**Deny Governor's May Revision Proposal.**	No		Conforming to above issue.

I. HIGHER EDUCATION - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6440-006-0001 (new item) Membership in Western Interstate Commission on Higher Education	*New Issue:* **Western Interstate Commission on Higher Education. Back Dues**	California, which is one of 15 member states in WICHE, has not paid its dues since 2003 and is two years in arrears and will owe another year of payment July 2005. To become "current" on our dues, California would owe $367,000 ($51,000 from 2003; $103,000 from 2004; $105,000 for 2005 and $108,000 for 2006)	**Approve augmentation of $108,000 to pay dues for coming year.**	BBL stating that dollars will be used to pay California's back-dues to WICHE. UC will act as fiscal agent, (per attached #9)		California is $259,000 in arrears due to prior year nonpayments. If dues are not paid by June 2007, WICHE will completely terminate its services to CA. Until then, WICHE will reduce its services to CA unless back dues are paid. Other interstate associations are also due past payments, the payment of which has traditionally been a low priority for the state in bad budget times.

II. Department of Education / Secretary for Education

A. Enrollment Growth

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
Various Items	May Revision Finance Letter: **Adjustments for Enrollment Growth Funding for K-12 Education Programs** (Various Issues) (GF-Local Assistance)	Provides $83.8 million for student enrollment growth for revenue limit and categorical programs. This amount reflects a decrease in total K-12 growth of $311.0 million as a result of less than anticipated growth in average daily attendance at a rate of 0.69 percent which is down from 0.79 percent for most programs estimated in January. Total average daily attendance (ADA) is estimated to be 6,031,000 in 2005-06.	**Approve May Revision.**		

B. Cost-of-Living Increases (COLAs)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
Various Items	May Revision Finance Letter: **Cost-of-Living Adjustments for K-12 Education Programs** (Various Issues) (GF-Local Assistance)	The May Revision provides $1.8 billion in total funding K-12 Cost-of-Living-Adjustment (COLA) for revenue limit and categorical programs. This amount reflects an increase of $113.1 million over the Governor's January Budget as a result of an increase in the COLA rate from 3.93 percent to 4.23 percent.	**Approve May Revision**		
6110-232-0001	May Revision Finance Letter: **High School Class Size Cost-of-Living Adjustment** (Issue 903) (GF -- Local Assistance)	Makes technical changes to implement a 4.23 percent COLA, but does not provide additional funding due to low program participation.	**Aprrove May Revision**		
611-107-0001	May Revision Finance Letter: **Cost-of-Living Adjustments for FCMAT** (Issue 100 & 101) (GF - Local Assistance)	Technical Only. Revises provisional language to reflect increased funding for total growth and cost-of-living adjustments.	**Approve May Revision**		

C. Deferred Maintenance

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-188-0001	May Revision Finance Letter: **Fully Fund State School Deferred Maintenance Program** (Issue 603) (GF -- Local Assistance)	Provides a $522,000 increase to compensate for growth and COLA adjustments for the State's share of the State School Deferred Maintenance Program. This program does not receive traditional growth and COLA adjustments, so this increase is sought as a way of fully funding the State program. This adjustment brings total funding for the program to $268 million in 2005-06.	**Approve May Revision**		

D. Governor's New or Expanded Programs - One-Time Funds

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-234-0001, 6110-636-0001	May Revision Finance Letter: **One-Time Settle-Up and Ongoing Funds for Expansion of Class Size Reduction Beyond Grade K-3** (Issue 001) (GF - Local Assistance)	Increases funding by $175.4 million in order to reduce class sizes beyond grades 3 through 3. New funds include $123.0 million in ongoing Proposition 98 funding and $52.4 million in settle-up funds. Funds would be available for schools in deciles 1, 2, and 3, based on the 2004 Academic Performance Index scores. It is intended that some of the settle-up funding will be available to address facilities needs for participating schools. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other purposes.**	TB	$52,361 (one-time) $123,009 (ongoing)

D. Governor's New or Expanded Programs - One-Time Funds (continued)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-637-0001	**May Revision Finance Letter: One-Time Settle-Up Funds for Teacher Credentialing Block Grant Expension** (Issue 001) (GF - Local Assistance)	It is requested that $30.0 million be appropriated, on a one-time basis from Proposition 98 prior year settle-up funds, to expand the Beginning Teacher Support and Assistance Program (BTSA), to provide additional services for teachers beyond the first and second years of teaching. BTSA, is now contained in the new Teacher Credentialing Block Grant established by AB 825. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$30,000

D. Governor's New or Expanded Programs - One-Time Funds (continued)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-638-0001	May Revision Finance Letter: **One-Time Settle-Up Funds for Career-Technical Education Exploration Courses** (Issue 801) (GF - Local Assistance)	It is requested that $30.0 million be appropriated, on a one-time basis from Proposition 98 prior year settle-up funds, to establish a pilot program for career exploration coursework in the 7^{th} and 8^{th} grades. This program would allocate grant funding to schools operating 7^{th} and 8^{th} grades for the purpose of introducing students to a variety of careers and professions. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$30,000

D. Governor's New or Expanded Programs - One-Time Funds (continued)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-639-0001	May Revision Finance Letter: **One-Time Settle-Up Funds for Fruits and Vegetables for Breakfast** (Issue 001) (GF - Local Assistance)	It is requested that $18.2 million be appropriated, on a one-time basis from Proposition 98 prior year settle-up funds, of which $17.2 million is available to provide 10 cents per pupil per day to the existing school breakfast program to allow additional fruits and vegetables to be served in the program. In addition, $1.0 million is set aside to provide breakfast start-up grants for schools that currently do n ot have breakfast programs. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$18,200

D. Governor's New or Expanded Programs - One-Time Funds (continued)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-640-0001	May Revision Finance Letter: **One-Time Settle-Up Funds for Recruitment, Retention and Recognition Pay Block Grant** (Issue 001) (GF - Local Assistance)	It is requested $49.5 million be appropriated, on a one-time basis from Proposition 98 prior year settle-up funds, for a block grant to allow schools to provide teachers and principals with recognition pay in order to attract and retain them in schools performing within the bottom three deciles, based on 2004 API results. Funds from this item would also be used to provide funding for the purpose of recruiting teachers in hard to staff schools. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$49,500

D. Governor's New or Expanded Programs - One-Time Funds (continued)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-641-0001	May Revision Finance Letter: **One-Time Settle-Up Funds for Performance-Enhancing Substances Awareness Training for Coaches** (Issue 001) (GF - Local Assistance)	It is requested that $500,000 be appropriated, on a one-time basis from Proposition 98 prior year settle-up funds, to provide training for coaches. The training will raise coaches' awareness and address the use of performance-enhancing substances by student athletes. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$500
6110-700-0001	May Revision Finance Letter: **One-Time Settle-Up Funds for Smaller Learning Environment Grant Program** (Issue 184) (GF - Local Assistance)	It is requested that $1.6 million be appropriated, on a one time basis from Proposition 98 prior year settle-up funds, for the new Smaller Learning Environment Grant Program pending legislation to be enacted before January 1, 2006. This program is intended to provide incentives for districts to create smaller learning environments, or schools-within-schools. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$1,600

D. Governor's New or Expanded Programs - One-Time Funds (continued)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-701-0001	May Revision Finance Letter: **One-Time Settle-Up Funds for Supplemental Instruction -- High School Exit Exam** (Issue 350) (GF - Local Assistance)	It is requested that $57.5 million be appropriated, on a one-time basis from Proposition 98 prior year settle-up funds, in order to provide additional supplemental instruction to pupils who have failed or are at risk of failing the High School Exit Exam. It is intended that these funds supplement and do not supplant the existing Supplemental Instruction Program funds. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$57,500

6110-791-001	May Revision Finance Letter: **One-Time Settle-Up Funds for Physical Fitness Testing and Reporting for 3rd Graders** (Issue 001) (GF - Local Assistance)	It is requested that $2.2 million be appropriated, on a one-time basis from Proposition 98 prior year settle-up funds, to provide funding for expanded physical fitness testing for third graders and to notify parents or guardians of pupil physical fitness testing results for grades three, five, seven, and nine. The Administration proposes to evaluate program implementation to determine ongoing funding in subsequent budgets. Funding is contingent on the enactment of legislation.	**Deny May Revision proposal. Redirect savings to other one-time purposes.**	TB	$2,150

E. Accountability

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-136-0890	May Revision Finance Letter: **Increase Title I School Improvement Funds and Reallocate for Assistance to II/USP Schools** (Issues 164 and 182) (Federal Funds -- Local Assistance)	Increases federal Title I School Improvement Program funds by $2.2 million to make it consistent with available federal funds. Reallocates funds via provisional language to accommodate a projected increase in the number of II/USP state-monitored Title I schools.	**Approve May Revision**		
6110-135-0890	May Revision Finance Letter: **Consolidate Carryover Funds for NCLB Programs and Allocate for Program Improvement Schools/Districts** (Issue 186) (Federal Funds -- Local Assistance)	Provides $154.5 million in federal NCLB Act carryover funds to assist schools and districts who have been identified as Program Improvement to provide activities and services that will bring students in these schools and districts --specifically those identified as Limited English Proficient, migrant, low-performing, or low income -- to a proficient level. Funds appropriated in this item include: $73 m--Title IV - 21st Century Community Learning Centers; $24.3 m -- Title I- Basic Program; $19.2 m -- Migrant Education; $17.3 m --Title I School Improvement; $13.9 m -- Comprehensive School Reform Program; $6.5 m -- Reading First Program; and $.5 m -- Education of Limited English Pupils Program. Budget bill language requires an expenditure plan developed by CDE, SBE, Legislature, Administration, and approved by the federal government.	**Approve pursuant to Legislation. Remove 21st Century Learning Center funding from the proposal.**	BBL	

E. Accountability (continued)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: **Increased Staff for District Accountability and Program Improvement** (Issue 170) (Federal Funds - State Operations)	Increases funding by $500,000 in federal Title I School Improvement funds for increased workload due to the revised district accountability program and the number of additional schools identified as Program Improvement pursuant to the federal No Child Left Behind Act. These funds will support five new positions for SDE's School Improvement Division and one new position for the State Board of Education.	**Approve May Revision**		
6110-123-0001	May Revision Finance Letter: **Increased Funding for High Priority Schools Grant Program** (Issue 183) (General Fund - Local Assistance)	Provides up to $60 million for a second cohort of schools to participate in the High Priority Schools Grant Program, contingent upon legislation being enacted authorizing that cohort and clarifying exit criteria. This reflects an increase of $15 million from the Governor's January budget. In addition, the May Revise provides approximately $10 million for schools sanctioned pursuant to the High Priority Schools Grant Program contingent on legislation defining those sanctions and authorizing the allocation of funding for that purpose.	**Approve May Revision**		

F. Assessment

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: **Independent Study of the State's Assessments** (Issue 166) (Federal Funds - State Operations)	Provides an increase of $2.0 million in Title I carryover funds for the State Board of Education to contract for an independent evaluation to determine whether California has met the assessment requirements of the federal No Child Left Behind Act. This evaluation is required to comply with federal student monitoring requirements. The expenditure of these funds shall be contingent on approval of an expenditure plan and request for proposal by the Department of Finance.	**Approve May Revision.**		
6110-113-0890,	May Revision Finance Letter: **Decreased Funds for Adequate Yearly Progress Reporting** (Issue 180) (Federal Funds - Local Assistance)	Decreases funding by $650,000 in federal Title VI funds that were originally included for reporting Adequate Yearly Progress pursuant to the No Child Left Behind Act. These funds are currently used to conduct an alignment study for the California High School Exit Exam, and the SDE has indicated these funds will not be necessary in the budget year for this purpose.	**Approve May Revision**		

F. Assessment - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001, 6110-001-0890, 6110-113-0890	May Revision Finance Letter: **Funding for California English Language Development Test** (Issue 188) (Federal Funds - State Operations)	Provides $1.4 million in federal Title III funds for the development of reading and writing assessments for English language learners in Kindergarten and Grade 1 to comply with the federal No Child Left Behind (NCLB) Act, which requires assessments of English proficiency to include an assessment of progress in attaining English reading and writing skills.	**Approve May Revision. Require development pursuant to Legislation.**	BBL	

6110-001-0890	May Revision Finance Letter: **Funding for Alternate Assessment for Moderately Disabled Students** (Issue 181) (Federal Funds - State Operations)	Provides an increase of $100,000 in federal Title VI funds for one consultant position to support new workload for the Standardized Testing and Reporting Program (STAR) generated by new flexibility provisions from the U.S. Department of Education. This flexibility is expected to allow states to develop an alternate assessment for students who have been unable to reach grade level because of disabilities such as moderate mental retardation or severe emotional disturbance. This assessment would be an alternative to the current California Alternate Performance Assessment for students with significant cognitive disabilities.	**Approve May Revision**		

G. Data Systems

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0001, 6110-001-0890, and 6110-195-0890	May Revision Finance Letter: **Fund Study of the Development of a Teacher Database** (Issue 676) (Federal Funds - State Operations)	Shift $350,000 in federal funding authorized by Title II - Improving Teacher Quality from local assistance to state operations to contract for a Feasibility Study Report for the development of a teacher database that connects existing departments and agencies that already collect data elements on teachers to allow for the efficient exchange of information. In developing the associated request for proposals and selecting the vendor, the department shall convene a working group that includes the Department of Finance, the Legislative Analyst's Office, and other interested parties. The study shall be submitted to the Governor and Legislature by March 31, 2006.	**Approve May Revision.**	BBL	
6110-101-0349	May Revision Finance Letter: **Increased Funding for California School Information Services Program (CSIS)** (Issue 656) (Special Fund - Local Assistance)	Provides an additional $1.0 million for the first year costs of a new cohort of CSIS districts to facilitate reporting of student information from local education agencies to the State Department of Education. Funds may be combined with any funding remaining from the funds appropriated for the second year costs of the existing cohort.	**Approve May Revision**		

G. Data Systems - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: **Increased Funding for California Longitudinal Pupil Achievement Data System** (Issue 658) (Federal Funds - State Operations)	Provides an increase of $156,000 in federal funds to support state operations related to the development of a longitudinal database for the requirements of the No Child Left Behind Act. This brings total funding for CALPADS to $844,000, including $366,122 in funds for the development of a Request for Proposal, contingent upon approval of a Feasibility Study Report by the Department of Finance.	**Approve May Revision**		

H. Governor's Proposed Program Reductions

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-130-0001	May Revision Finance Letter: **Restore Funding for Advancement Via Individual Determination (AVID)** (Issue 677) (General Fund - Local Assistance)	Increases Non-98, General Funds by $840,000 to provide funds for advanced placement teacher training, tutoring services, district grants, and the AVID center training and technical assistance to prepare students for college. This restores funding to the current-year level.	**Approve May Revision**		
4440-102-0001	Governor's January Budget: **Reduce Funding for Early Mental Health Initiative (EMHI)** (General Fund - Local Assistance)	The EMHI program provides three-year grants to schools to serve children in grades K-3 who are experiencing mild to moderate adjustment problems, but not eligible for special education services. EMHI is administered by the Dept of Mental Health Governor's Budget: The Governor proposes to reduce funding for EMHI by $5 million in 2005-06. The Governor proposes to continue the second year of funding, but not to fund any new grants. The 2004-05 budget provided $5m in ongoing funding and $5 million in one-time funding. Prior to 2003-04, EMHI funding totaled $15 million.	**Deny Governor's Budget. Restore $5 million for EMHI.**		$5,000

H. Governor's Proposed Program Reductions - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-117-0001	Governor's January Budget: **Reduce Funding for Vocational Education Student Orgranizations** (General Fund - Local Assistance)	Reduces funding for Vocational Education Student Organizations by $48,000 in General Funds (non-98) leaving a total of $464,000 for the program. The 2004-05 budget reduced funding in this item for student councils by $50,000. The Governor's Budget maintains $33,000 for the California Association of Student Councils in 2005-06. Student organizations, including student councils, receive state support from funds available from the Vocational Education Student Organizations program and from another budget item that provides direct funding to the California State Association of Student Councils.	**Approve Governor's Budget. Restore $50,000 for California Association of Student Councils.**		$50

6110-177-0001	**Restore Funding for Local Arts Education Partnerships** (General Fund - Local Assistance)	Restore $6 million in one-time funding for Local Arts Education Partnerships grants. The Governor vetoed these funds in 2004-05, thereby eliminating all funding for the program. The Governor does propose to restore these funds. This program provides competitive grants to LEAs to start comprehensive visual and performing arts education programs.	**Restore $6 million for Local Arts Education Partnerships grants.**		$6,000

H. Governor's Proposed Program Reductions - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-200-0001	Governor's January Budget: **Eliminate Healthy Start Program** (General Fund - Local Assistance)	Eliminates $2.0 million in remaining funds for the Healthy Start program. The 2004-05 budget provided $2 million in *one-time* funding to support eight operational grants and four planning grants in school districts statewide.	**Deny Governor's Budget. Restore $2 million**		$2,000

I. Charter Schools Block Grant

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-211-0001	Governor's January Budget: **Charter Schools Categorical Block Grant Program** (General Fund - Local Assistance)	Reforms Charter Schools Categorical Block Grant to clarify and simplify the block grant calculations in 2005-06 and beyond. The Governor's reforms "delink" block grant funding from a specific set of categorical programs, by creating a new funding base that would be adjusted for growth and COLA annually. The LAO recommends different reforms, building upon outcomes from a legislatively required working group they convened to study alternatives to the current funding model. The LAO proposal would link funding to a specific list of categorical programs included in the block grant, create a process for updating this list annually through the budget, and strengthen funding for economically disadvantaged students.	**Deny Governor's Budget. Adopt Second LAO Alternative.**		

J. New or Expanded Programs -- Proposition 98 Reversion Appropriations

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-113-0001	May Revision Finance Letter: **Start-up Funding for CELDT Contract** (Issue 001)	Provides $2.2 million on a one-time basis to the State Department of Education to cover start-up costs associated with the new California English Language Development Test contract.	**Approve May Revision**		
6110-102-0001	May Revision Finance Letter: **Restore Funding for Charter Schools Facility Grant Program** (Issue 002)	Provides $9 million on a one-time basis for the Charter School Facility Grant Program, restoring funds the Governor originally proposed to eliminate in January. Funds shall be used to provide grants to charter schools that operate in low-income attendance areas for facilities-related expenses pursuant to Chapter 892, Statutes of 2001. These funds shall only be available if new matching federal grant funds are appropriated to the California School Finance Authority and are made available to fund facility costs incurred by charter schools in the 2004-5 and 2005-6 fiscal years as proposed in the May Revision in Item 0985-101-0890.	**Approve May Revision**	BBL	

J. New or Expanded Programs -- Proposition 98 Reversion Appropriations - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-485	May Revision Finance Letter: **Funding for New Accountability Pilot Program** (Issue 167 & 090) (General Fund - Local Assistance & State Operations)	Provides $5.6 million to the State Department of Education, on a one-time basis, for the California Local Education Accountability Reform (CLEAR) Program. The program would be a voluntary pilot project providing flexibility for participating districts to plan and implement program to increase pupil academic decision-making and accountability to the school site level. The State Board of Education would implement the program and approve local plans. Funding would be allocated pursuant to conforming legislation. Provides $1.2 to the State Board of Education for three limited-term positions to implement and oversee the CLEAR Program. This amount includes $882,000 to contract for technical assistance and staff development services for the participating districts.	**Approve $5.6 million for a pilot project allowing school districts to direct funds to schools with greater flexibility to improve pupil learning.**	TB	
6110-655- 0001	Governor's January Budget: Fu**nding for Standardized Testing & Reporting Program Deficiency**	Provides $2,285,000 to cover a deficiency in the Standardized Testing and Reporting (STAR) program.	**Approve as Budgeted**		

J. New or Expanded Programs -- Proposition 98 Reversion Appropriations - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-203-0001	Governor's January Budget: **Funding for Child Nutrition Deficiency Requests**	Provides $349, 000 for deficiences in the Child Nutrition program in 1999-00, 2000-01 and 2003-04.	**Approve as Budgeted**		
6110-605-0001	Governor's January Budget: **Funding for School Business Officer Training**	Proposes $1.0 million for a new, three-year program to train all school business officers in the state. The program is intended to train 350 school district business officers a year and would provide approximately $3,000 per participant. Funding priority would be given to business officers from districts currently operating with a state-appointed administrator or trustee, or from districts that have received a qualified or negative certification on the state financial status list within the last 5 years.	**Approve as Budgeted**		TB

K. Governor's Initiative to Turn Around Low Performing Schools

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-112-0890	May Revision Finance Letter: **Increase Federal Charter School Carryover Funds** (Issue 082) (Federal Funds - Local Assistance)	Increases the federal Charter School funds by $5.8 million to reflect one-time carryover funds available for grants to charter schools. The carryover funds are available due to the return of unexpended grant funds by charter school grantees. These funds are for one-time start-up costs associated with opening a new school, or costs related to sharing best practices. CDE will reallocate the funds in 2005-06 to support the conversion of failing schools to charter schools.	**Approve May Revision**		
6110-001-0890	May Revision Finance Letter: **Increase Federal Charter School Carryover Funds** (Issue 082) (Federal Funds-Local Assistance)	Provides an increase of $200,000 in one-time carryover funds for one consultant position in the Charter Schools Division and additional operations funding to support increased workload associated with the conversion of failing schools to charter schools. It is intended that the Department of Education will fund this position with oversight fees collected from newly converted charter schools in future years.	**Approve May Revision**		

L. Office of the Secretary for Education

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
0558-001-000, 0650-011-0001	April Finance Letter: **Foundation Funding for Two Support Positions** (Issue 001)	Increases the reimbursement authority by $135,000 on a one-time basis to expend grant funds received from the Broad, Gates and Walton Family Foundations. These funds will be used to continue funding for two positions related to implementation of the Governor's Initiative to Turnaround Failing Schools. This request is for the second and final year of funding for these positions. Current year funding is being requested through a Section 28 letter.	**Approve April Letter**		
0558-001-0001, 0650-011-0001	April Finance Letter: **Technical Ajustment for Employee Compensation** (Issue 002)	Technical Only. Shifts $29,000 between two budget items for OSE to correctly align the allocation of employee compsensation funds between the Office of the Secretary and the Office of Planning and Research.	**Approve April Letter**		

L. Office of the Secretary for Education - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
0558-001-0001, 0650-011-0001	May Revision Finance Letter: **Foundation Funding for Support of Governor's Advisory Committee on Education Excellence** (Issue 003)	Increases the reimbursement authority by $300,000 to expend grant funds received from private foundations to support the Governor's Advisory Committee on Educational Excellence. The Govvernor has convened this committee to focus on four issues: the distribution of adequacy funding; the functioning and effectiveness fo governance structures; teacher recruitment and training; and preparation of retention of school administrators.	**Approve May Revision**		
0558-001-0001, 0650-011-0001	May Revision Finance Letter: **Increased Funding for Secretary's Compensation** (Issue 187)	Provides a General Fund increase of $181,000 to cover the compensation costs for the Secretary of Education. The former Secretary was not compensated and existing compensation funds were redirected within the agency.	**Approve May Revision**		

III. CONSENT

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6440-001-0001 University of California	*January Budget:* **Enrollment Growth Funding at 2.5 percent**	Governor's "compact" with higher education provides enrollment growth funding ($37.9 million) sufficient to fund an additional 5,000 FTES.	**Approve January Proposal; adopt Budget Bill Language specifying number of students to be served. If specified number of students not served, dollars to revert to General Fund**	BBL (per attached #1)		Provisional language similar to language adopted by committee last year (and contained in the current year Budget Act).
6440-001-0001	*January Budget:* **General Support Increase of 3 percent**	Governor's "compact" with higher education provides for a General Fund increase equivalent to 3 percent ($76.1 million).	**Approve January Budget Proposal**	No		
6440-001-0001 University of California 6610-001-0001 California State University	*January Budget:* **Adopt Supplemental Reporting Language related to the Marginal Cost of Instruction methodology**	LAO, in its Analysis of the Budget Bill, calls for a reassessment of the current UC/CSU marginal cost of instruction methodology. Last review was in early 1990's. Recent concerns have arisen over ability of per student rate to cover "high cost" programs and the hiring of faculty at mid-range on the salary scale.	**Approve Supplemental Reporting Language (as attached)**	SRL, per attached #7		Language represents staff compromise
6610-001-6041 California State University	*May Revision Finance Letter*: **General Obligation Bond Funds for Capital Renewal (Issue 004)**	Provides $26 million in GO bond funding to CSU for a variety of smaller "capital renewal" projects. Funds will be used to replace critical building infrastructure (such as HVAC systems) to extend the useful life of the buildings.	**Approve May Revision**	No		

III. CONSENT - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6610-001-0001 California State University	*January Budget:* **Enrollment Growth Funding at 2.5 percent**	Governor's "compact" with higher education provides enrollment growth funding ($50.8 million) sufficient to fund an additional 8,000 FTES.	**Approve January Proposal; adopt Budget Bill Language specifying number of students to be served. If enrollments do not meet specified number, unused dollars revert to General Fund**	BBL (per attached #2)		Provisional language similar to language adopted by committee last year (and contained in the current year Budget Act).
6870-101-0001 California Community Colleges	*May Revision Finance Letter*: **Board Financial Aid Program Adjustments (Issue 810)**	Shifts, within the Budget Bill, the schedule from which funds are provided to community college districts to reimburse them for costs associated with providing Board of Governors (BOG) fee waivers; provides additional funds for program to account for new student fee and BOG waiver estimates.	**Approve May Revision**	BBL, per Finance Letter		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Student Fee Revenue Adjustment (Issue 828)**	Technical adjustment decreasing the amount of revenue derived from student fees by $12.9 million and increasing the amount of revenue from the General Fund (P-98) by a like-amount.	**Approve May Revision**	No		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Student Fee Revenue Adjustment (Issue 836)**	Technical adjustment decreasing the amount of revenue derived from property taxes ($54.3 million) and increasing the amount of revenue from the General Fund (P-98) by a like amount.	**Approve May Revision**	No		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Increased COLA for Community Colleges (Issues 837 and 839)**	Increase amount appropriated for COLA, by $14.9 million, to reflect current rate of 4.23 percent.	**Approve May Revision**	BBL, per Finance Letter		Technical adjustment.

III. CONSENT - continued

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6870-101-0001	*May Revision Finance Letter*: **Growth Adjustment for Community Colleges (Issues 838)**	Decrease amount appropriated for select categorical program growth by $359,000 to reflect revised statutory growth rate of 1.76 percent.	**Approve May Revision**	BBL, per Finance Letter		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Lease-Revenue Bond Repayments (Issues 102)**	Decrease, by $1.5 million, the amount appropriated to pay debt service on lease-revenue bond funded projects.	**Approve May Revision**	No		Technical adjustment.
6870-101-0001	*May Revision Finance Letter*: **Increase Federal Reimbursement Authority (Issue 812)**	Increase, by $4.5 million, community colleges reimbursement authority to reflect new one-time federal funds to expand and align technical preparation courses with K-12.	**Approve May Revision**	BBL, per Finance Letter		Authority to spend federal carryover funds
6870-101-0001	*May Revision Finance Letter*: **Increase Reimbursement Authority for Energy Efficiency (Issue 829)**	Increase, by $123,000, community colleges reimbursement authority to participate in an Energy Resources Conservation pilot project.	**Approve May Revision**	BBL, per Finance Letter		Authority to spend funds from energy conservation pilot program
6870-495	*May Revision Finance Letter*: **Add Reversion Item (Issue 847)**	Add reversion item to revert funds, totaling $450,000, from prior-year appropriations for Hazardous Substance Abatement and other appropriations.	**Approve May Revision**	New Item, per Finance Letter		Revert unspent funds to General Fund.

ATTACHMENT #1

UC ENROLLMENT GROWTH (2.5%)

Add Provision X to Item 6440-001-0001:

The amount appropriated in Schedule (1) includes funding for the University of California to enroll 205,976 full-time equivalent (FTE) students (excluding students in non-state supported summer instruction programs). The Legislature expects the university to enroll this number of FTE students during the 2005-06 academic year. The university shall report to the Legislature by March 15, 2006, on whether it has met the 2005-06 enrollment goal. This report shall exclude FTE students in non-state supported summer instruction programs. If the university does not meet its enrollment goal, the Director of the Department of Finance shall revert to the General Fund by April 1, 2006, the total amount of enrollment funding associated with the share of the enrollment goal that was not met.

ATTACHMENT #2

CSU ENROLLMENT GROWTH (2.5%)

Add Provision X to Item 6610-001-0001:

The amount appropriated in Schedule (1) includes funding for the California State University to enroll 332,223 full-time equivalent (FTE) students (excluding students in non-state supported summer instruction programs). The Legislature expects the university to enroll this number of FTE students during the 2005-06 academic year. The university shall provide a preliminary report to the Legislature by March 15, 2006 and a final report by May 1, 2006, on whether it has met the 2005-06 enrollment goal. These reports shall exclude FTE students in non-state supported summer instruction programs. If the university does not meet its enrollment goal, the Director of the Department of Finance shall revert to the General Fund by May 15, 2006, the total amount of enrollment funding associated with the share of the enrollment goal that was not met.

ATTACHMENT #3

STUDENT ACADEMIC PREPARATION (UC)

Item 6440-001-0001, Provision 19 and 20.

19. Of the amount appropriated in Schedule (1), $17,300,000 is appropriated for student academic preparation and education programs (SAPEP) matched with $12 million from existing university resources for a total of $29.3 million for these programs. The university will provide a plan to the Department of Finance and the fiscal committees of the Legislature for expenditure of both state and university funds for SAPEP by September 1, 2005. It is the intent of the Legislature that the university report on the use of state and university funds provided for these programs, including detailed information on the outcomes and effectiveness of academic preparation programs consistent with the accountability framework developed by the university in April, 2005. The report should be submitted to the fiscal committee of each house of the Legislature by no later than April 1, 2006.

20. [Strike out provision 20, and augment the support item by $17.3 million]

Item 6440-001-0001, Provision 12.

12. Of the amount appropriated in Schedule (1), $1,609,000 is for the California State Summer School for Math and Science. **It is the intent of the Legislature that the University report by April 1, 2006 on the outcomes and effectiveness of COSMOS, consistent with the accountability framework developed by the university for student academic preparation and education programs in April, 2005**.

ATTACHMENT #4

MEDICAL SCHOOL ENROLLMENTS (PRIME-LC)

Add Provision X to Item 6440-001-0001:

Of the amount appropriated in Schedule (1), $300,000 shall be used to support 20 full-time equivalent students in the Program in Medical Education for the Latino Community (PRIME-LC). The primary purpose of this program is to train physicians specifically to serve in underrepresented communities. The university shall report to the Legislature by March 15, 2006 on (1) its progress in implementing the PRIME-LC program and (2) the use of the total funds provided for this program from both state and non-state resources.

ATTACHMENT #5

CSU ACADEMIC PREPARATION

Item 6610-001-0001. Provision 6.

6. Of the amount appropriated in Schedule (1), $52,000,000 is appropriated for student academic preparation and student support services programs. The university will support $45,000,000 and the state will provide $7,000,000 to support the Early Academic Assessment Program, Campus-Based Outreach Programs and the Educational Opportunity Program. It is the intent of the Legislature that the university report on the outcomes and effectiveness of the Early Academic Assessment Program to the fiscal committee of each house on March 15, 2006.

[Strike out provision 7, and augment the support item by $7 million]

ATTACHMENT #6

CSU ENROLLMENTS – CURRENT YEAR

Add new reversion Item as follows:

6610-495—Reversion, California State University. As of June 30, 2005, the sum of $15,520,000 from the appropriation provided in Schedule (1) of Item 6610-001-0001, Budget Act of 2004 (Ch. 208, Stats. of 2004), shall revert to the state General Fund, pursuant to Provision (8) of that item.

ATTACHMENT #7

MARGINAL COST OF INSTRUCTION – SUPPLEMENTAL REPORT LANGUAGE

The Department of Finance and the Legislative Analyst's Office shall convene a working group including the University of California and California State University to (1) review the current process of determining the marginal cost of each additional full-time equivalent student and (2) examine possible modifications to that methodology for the 2006-07 budget.

ATTACHMENT #8

INSTITUTIONAL-BASED FINANCIAL AID

6440-001-0001

Provision X. The Office of the Legislative Analyst shall convene a workgroup composed of the University of California, Department of Finance, the Legislative Analyst's Office, and other legislative staff during fall 2005 in order to define the support documentation - related to institutional financial aid - that will be expected to accompany future budget requests. The working group shall develop a list of specific data and supplemental information that shall accompany these requests, beginning with the development of the 2006-07 budget . At a minimum, these data and supplemental information shall allow for an assessment of: (1) who would be affected by the proposed change (number of students by income level, financial need, age, and grade point average) as well as (2) the extent to which they would be affected (change in minimum, median, and maximum grant award as well as work-to-loan expectations). For undergraduates, the support documentation also shall include, at a minimum, information on institutional aid-only recipients, Cal Grant recipients, and recipients of both types of awards.

6610-001-0001

Provision X. The Office of the Legislative Analyst shall convene a workgroup composed of the California State University, Department of Finance, the Legislative Analyst's Office, and other legislative staff during fall 2005 in order to define the support documentation - related to institutional financial aid - that will be expected to accompany future budget requests. The working group shall develop a list of specific data and supplemental information that shall accompany these requests, beginning with the development of the 2006-07 budget . At a minimum, these data and supplemental information shall allow for an assessment of: (1) who would be affected by the proposed change (number of students by income level, financial need, age, and grade point average) as well as (2) the extent to which they would be affected (change in minimum, median, and maximum grant award as well as work-to-loan expectations). For undergraduates, the support documentation also shall include, at a minimum, information on institutional aid-only recipients, Cal Grant recipients, and recipients of both types of awards.

ATTACHMENT #9

WESTERN INTERSTATE COMMISSION ON HIGHER EDUCATION

6440-006-0001, Support, University of California.	$108,000

Schedule:

(1) Membership Dues: Fiscal Year 2006	$108,000

Funds appropriated in this Item are to support California's membership in the Western Interstate Commission on Higher Education.