



Senate Budget and Fiscal Review

Subcommittee No. 1 2006 Agendas

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A screenshot of a Microsoft Internet Explorer browser window. The address bar shows the URL: http://www.senate.ca.gov/ftp/SEN/COMMITTEE/STANDING/BFR/_home/Sub1/2004Sub1.pdf. The browser's menu bar includes File, Edit, View, Favorites, Tools, and Help. The Edit menu is open, showing options like Cut, Copy, Paste, Select All, and Find (on This Page)... Ctrl+F. The main content area displays the title page of the agenda, featuring the California State Senate seal on the left. The text reads: "California State Senate", "SENATE BUDGET & FISCAL REVIEW", "SUBCOMMITTEE No. 1", "Agenda", "March 8, 2004", and "Upon Adjournment of Session – Room 113". On the right side, the names of the chairs are listed: "EDUCATION", "JACK SCOTT, CHAIR", "BOB MARGETT", and "JOHN VASCONCELLOS". The browser's status bar at the bottom shows "2 of 272" pages and the system clock "10:50 AM".

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

Agenda
March 13, 2006
Upon Adjournment of Senate Floor Session – Room 113

- I. Implementation of Proposition 49
 - A. Background Page 2
 - B. Implementation Issues Page 2
 - C. Policy Issues for Consideration Page 2
 - D. Governor's Proposal Page 3
 - E. Recommended Action Page 4

- II. California Department Of Education – State Operations (Prop. 49) Page 4

- III. Federal 21st Century After School Learning Program
 - A. Background Page 4
 - B. Governor's Proposal Page 5
 - C. Policy Issues for Consideration Page 5
 - D. Recommended Action Page 5

- IV. Child Care
 - A. Background Page 5
 - B. Governor's Proposal Page 7
 - C. Office of the Legislative Analyst Recommendations Page 9
 - 1. Title 5 Child Care Center Reimbursement Rates and Sliding Scale COLA Page 9
 - 2. Licensed-Exempt Reimbursement Rates Page 9
 - 3. Proposed Sibling Discount Page 10
 - 4. Pending implementation of Regional Market Rate (RMR) Survey
(Note: This issue will be heard by the committee at its May 8, 2006 hearing)

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I. Proposition 49 (Local Assistance) – After School Education and Safety Program Act of 2002

- A. Background. In 2002, the voters approved Proposition 49 which has the effect of requiring the state to quadruple the amount of funding it expends on state After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, there is no disagreement that, without further action by the voters, the provisions of Proposition 49 will go into effect in the 2006-07 fiscal year.

To meet this end, General Fund support for After School programs will increase by \$426 million, bringing total state support to approximately \$548 million. Under the provisions of Proposition 49, state funding for After School programs is now continuously appropriated and no longer requires approval by the Legislature as part of the annual Budget Act.

Barring any further action by the voters to repeal, delay, or otherwise amend the provisions of Proposition 49, \$548 million will be available for After School Programs beginning July 1, 2006.

In order to ensure that the additional After School funds are not shifted from elsewhere in the K-14 budget, the provisions of Proposition 49 require that the appropriation of \$426 million be over and above the minimum funding level guaranteed to K-14 education under Proposition 98. The result is to build the Proposition 98 "base" by \$426 million in future years. The Administration intends to count this "over-appropriation" as buying down the amount of Proposition 98 maintenance factor funds it "owes" schools and community colleges.

- B. Current Program Implementation Issues. The state has long-sought to provide After School learning and enrichment activities for children throughout K-12 education. Unfortunately, the implementation of the existing statutory program has not been without its faults. Under current statute, After School programs must "earn" their grant, meaning that programs assume a certain level of student enrollment, and then when they fail to exactly meet that target (generally erring on the side of caution and "under-enrolling" rather than "over-enrolling") the unused funds revert to the General Fund. Since 2000-01, state After School programs have reverted over \$119 million, averaging close to \$30 million annually in unused funds.

In addition to the previously-noted issues with "earning" their grant, programs have expressed concern that: (1) the reimbursement rates (currently at \$5 per day per child) are too low to run a quality program; (2) statutory "caps" on the maximum grant a school can receive have limited schools with un-served populations from expanding their programs; and (3) local matching funds requirements do not allow for donated facilities to be counted towards that match requirement.

C. Policy Issues for Consideration.

- Does the Legislature wish to place an initiative before the voters to alter, repeal, or delay Proposition 49 until the state's fiscal situation improves?
- What type of an After School program does the Legislature want to implement: (1) A universal "safety" program, whereby every school receives a small amount of money to

simply care for children during the after school hours; or (2) an "academic" program, whereby fewer schools receive larger amounts of money to provide direct assistance related to improving pupil performance on various state tests?

- What is the scope of the Legislature's legal authority to change the After School Education and Safety program statutes?

D. Governor's Proposal. In order to remedy the above-noted implementation issues, ensure that After School funds are utilized as effectively and efficiently as possible, and align the program with the policy priorities of the Administration, the Governor is proposing a variety of statutory changes to the program. Staff notes that, while the provisions of Proposition 49 allow the *"After School Education and Safety Program Act of 2002 [to] be amended to further the purpose of the statute,"* it remains unclear whether or not the Administration's proposals meet the definition of *"furthering the purpose of the statute,"* and as such, whether the Legislature is legally authorized to approve (or alter) the Administration's proposed statutory changes.

Specifically, the Administration, via legislation (Senate Bill 1302, Ashburn), which will be addressed in the policy committee process, proposes to alter the mechanics of the program to:

- Alter the granting process from an "earned" grant to a "block" grant which would be adjusted in out-years to account for changes in pupil enrollment;
- Increase the daily rate (upon which the total grant level is based) from \$5 per day to \$7.50;
- Increase the grant "caps" for individual schools;
- Reduce the matching funds requirement from a 50 percent match to a 33.3 percent match;
- Allow facilities to be counted towards meeting the matching funds requirement;
- Give existing After School Program grantees first priority to continue their grants under the new program.

In addition to the above-noted changes, the Administration also proposes a myriad of substantive programmatic changes (again, via Senate Bill 1302, Ashburn). Specifically, the Administration proposes to:

- Require programs to place highest priority on improving reading skills and attaining English language proficiency;
- Require that grantees track Standardized Testing and Reporting (STAR) Program test results of participating students;
- Require the California Department of Education to evaluate programs and base future funding levels on how STAR scores change over time (decreasing or eliminating grant funding when programs fail to improve test scores);

- Shift programs funded under the federal 21st Century Community Learning Centers program *from* federal support *to* the state (Proposition 49) program, and then grant priority for funding to these programs;
- Focus the "freed-up" federal 21st Century funds on high school After School programs, but link the future of the high school's grant to the success of students passing the high school exit exam.

E. Recommended Action. Staff notes that all of these proposed statutory changes will be addressed in the policy committee process and that no action is needed by this committee.

II. CDE State Operations (Proposition 49)

Currently, the State provides \$978,000 in General Fund to support the staff and operational costs of administering the existing After School Program. Under the Governor's proposal, this amount would increase to \$2.205 million (solely from Proposition 49 funding) and would be used to support an additional nine positions.

Originally, the California Department of Education requested 12 new positions to administer the newly expanded After School Education and Safety Program; of that amount, the Administration chose to grant authority for nine new positions.

Under the provisions of Proposition 49, 1 ½ percent of the total Proposition 49 appropriation (which equates to approximately \$8.2 million) is allowable for program evaluation and technical assistance. The state operations funding level proposed by the Governor falls well below this statutory cap.

Given that the provisions of Proposition 49 will require a four-fold increase in the amount of funding for After School programs, and will at least double the number of school sites participating in the program, staff believes that CDE is justifiably in need of the additional 3.0 positions which were denied by the Department of Finance.

As a result, staff recommends that the committee: (1) approve the 9.0 positions included in the Governor's proposal; (2) approve an additional 3.0 positions (one Educational Program Consultant and two Staff Services Analysts), with accompanying operational costs (totaling \$304,000); and (3) make the Budget Bill Language changes necessary to effectuate this change.

Staff notes that the additional positions will be within the dollars provided under Proposition 49 and do not require an additional appropriation by the committee. Funds for local after school programs will be reduced by a like amount in order to shift funding to CDE for state operations.

III. Federal 21st Century Community Learning Centers

- A. Background. The 21st Century Community Learning Centers program is a federally-funded After School program that provides disadvantaged K-12 students with academic enrichment opportunities and supportive services. The federal grant amount is appropriated to California for this program and 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 (approximately \$20 million annually.) While CDE had a slow start in dispersing the grant program dollars, last year, the LAO and Department of Finance 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. Those changes were enacted in the current year (via legislation) and it is the hope of all parties that these changes will increase the actual use of federal funds and decrease the amount of funding carried over on an annual basis.

- B. Governor's Proposal. The Governor's Budget proposes to expend \$163.9 million in federal funds on the 21st Century Program (\$135.9 million ongoing; \$28 million one-time), which unlike Proposition 49 funds, *are* appropriated annually in the Budget Bill.

As part of the Administration's proposal to implement Proposition 49, legislation discussed above (Senate Bill 1302, Ashburn) also includes a variety of changes to the federal 21st Century program as well. As noted previously, these issues will be addressed via the policy committee process, however, in brief, the changes include:

- shifting existing federal program grantees to the state (P-49) program, thereby freeing up federal 21st Century dollars to cover after school needs for high schools, that would otherwise remain "unmet" under Proposition 49;
- implementation of "accountability" provisions mirroring those proposed for the state program (outlined above);

- C. Policy Questions for Consideration. The Legislature will want to consider what, within the confines of the federal law, it wants the 21st Century Program to accomplish given the recent influx of money to the state's After School program.

- D. Recommended Action. Staff recommends that the committee hold this item open pending the May Revision.

III. Child Care

- A. 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 programs; (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. 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, while consolidated, still grant priority 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 of the State, there are no available “slots” in licensed Child Care Centers or Family Day Care Centers and families are limited to the 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 a licensed child care center, licensed family day care, or license-exempt care. With a voucher, the family has the choice of which type of care to utilize.

Staff notes that, in the recent years, the Legislature has approved a variety of Administration-driven proposals designed to “ration” the limited amount of state subsidized child care services, including: (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; (4) reducing the reimbursement rate for providers from 93 percent of the Regional Market Rate to 85 percent; (5) limiting the availability of child care services to 11- and 12-year olds by tacitly shifting this age group to After School Programs; and (6) establishing Centralized Eligibility Lists to consolidate the individual waiting lists formerly housed by providers into a central location.

B. Governor's Proposal. The Governor's Budget provides \$2.9 billion (\$1.5 billion General Fund) to support approximately 450,400 children in the state's subsidized child care and preschool systems. The proposed amount represents a decrease of approximately \$56 million from current-level expenditures. Of the amount proposed, 48 percent of the funding will be spent on current and former CalWORKS recipients.

Also included in the Governor's Budget is \$14.8 million to fund the 1.12 percent statutory growth rate and \$70.2 million to provide a 5.18 percent Cost-of-Living-Adjustment (COLA).

Unlike recent years, the Administration is not proposing any policy or programmatic changes to the state's child care system. However, the Administration's proposal contains two elements worth noting:

1. Budget Bill Language. The Governor proposes Budget Bill Language which continues to freeze the income eligibility levels for families participating in the state's child care programs, and calls for a working group to develop a methodology to link any future income changes to the development of a new family fee schedule. The language further calls for the working group to consider the use of alternative indexes for future income eligibility adjustments; consider the standard reimbursement rate; and review child care contracts to maximize expenditures.

Recommended Action. Staff recommends that the committee hold this item/issue open pending both the May Revision and further conversations with the Administration.

2. CalWORKS Caseload Assumptions. The Governor's proposal makes a variety of caseload assumptions in the CalWORKS program which directly impact the number of children expected to be eligible for Stages 1, 2, and 3 child care services. Specifically, the Administration assumes a gradual decline in the CalWORKS child care caseload due to the assumption that work participation rates for CalWORKS families will remain flat and that the number of families reaching their 60-month time limits will continue to increase.

The chart below illustrates how – as of January 10, 2006 – the Administration believes child care enrollments will shift.

Program	Governor's Budget Enrollment Assumptions	Proposed Change in Enrollment (from 2005-06 Budget Act)
<i>Department of Education Child Care/Development Programs:</i>		
State Preschool	103,500	2,400
General Child Care	90,900	2,500
Alternative Payment Program	34,000	-100
CalWORKS Stage II Child Care	79,400	-4,800
CalWORKS Stage III Child Care	53,700	-2,300
Other Child Care Programs	15,700	-300
CalSAFE Child Care	2,800	100
<i>Community Colleges Child Care Program</i>		
	3,000	0
<i>Dept. of Social Services Child Care Programs:</i>		
CalWORKS Stage I Child Care	59,900	-28,000
CalWORKS Reserve	7,500	-1,555
<i>Total Enrollments</i>	450,400	-32,055

However, staff notes that due to the Governor's January 10, 2006 budget release date, the Administration's proposal does not reflect the new work/participation requirements for CalWORKS recipients as passed by Congress on February 1, 2006 under the federal Deficit Reduction Act of 2005 (Act). Under the Act, beginning October 1, 2006, both the number of California CalWORKS families working, and the amount of time these families must spend working (or participating in work-related activities) will need to dramatically increase. Senate Budget Committee staff anticipates that California will need to double the number of CalWORKS families participating in 30 hours or more of work activities per week. As a result, the child care needs for this population are expected to increase significantly beginning in the 2006-07 fiscal year, and will likely remain at a much higher level in coming year.

Recommended Action. This item is presented *for information only*, as the issue of CalWORKS caseload is not within the jurisdiction of this committee. However, the Senate Budget Subcommittee No. 3 intends to discuss this issue at its hearing on May 4, 2006.

C. Issues Raised by the Office of the Legislative Analyst. In addition to the above-noted elements contained in the Governor's Budget, the Office of the Legislative Analyst (LAO) has raised several issues which were not addressed in the Governor's proposal. Specifically, the LAO offers recommendations on the following:

1. Increase reimbursement rate for Title 5 Child Care Centers and Implementation of a Sliding Scale COLA.

Background. For child care and preschool, the state contracts directly with the provider, who must adhere to both state licensing requirements and the requirements of Title 5 of the California Code of Regulations. As a result, these providers are frequently referred to as "Title 5 Centers." Title 5 Centers require a higher education level of teachers, onsite reviews, and annual outcome reporting. Unlike other child care providers (either licensed or license-exempt), where the reimbursement rate varies based on the regional child care market, Title 5 Centers are reimbursed at the Standard Reimbursement Rate of \$31.59 per full day of enrollment, regardless of the Center's location in the state.

Issue. Under the current reimbursement rate structure, in some counties, licensed-exempt providers are paid at a higher reimbursement rate than Title 5 Centers. As such, the LAO argues that Title 5 centers provide a high quality and stable source of care, both of which should be reflected in their reimbursement rate.

Recommendation. To meet this end, the LAO makes several recommendations: (1) redirecting funding provided in the Governor Budget for growth (\$14.8 million) towards increasing the Standard Reimbursement Rate for Title 5 Centers; and (2) redistribute the funds contained in the Governor's Budget for Title 5 Centers and State Preschool Program COLAs (approximately \$51.8 million of the total \$70.2 million) to provide a higher COLA rate to Centers in high cost counties; a lower rate to Centers in lower-cost counties; and essentially effectuate a rate increase.

Staff notes that while the rates of Title 5 Centers do appear to be artificially low, the child care caseload needs of the state may well exceed the growth funding provided in the Governor's Budget (4,500 new slots, which is then offset by a reduction in slots, for a net effect of 32,000 fewer slots), especially given the recent actions of the Federal government related to the CalWORKS program.

Recommended Action. Staff recommends that this issue remain open pending the May Revision.

2. Limit the licensed-exempt reimbursement rate.

As noted above, in some of the state's higher cost counties, license-exempt providers (who are only required to pass criminal background checks and self-certify to meeting basic health and safety standards) receive a higher reimbursement rate than Title 5 Centers.

In order to further remedy this inequity, the LAO recommends limiting the reimbursement rate for licensed-exempt providers to 90 percent of the Title 5 reimbursement rate.

Recommended Action. Staff recommends that this issue remain open pending the May Revision.

3. Proposed Sibling Discount.

According to the LAO, many, if not most, child care centers offer private-pay families a sibling discount if the family has more than one child in care. Under current practice, this "discount" is not extended to state-subsidized families, and as such, the state pays more for the second (third, or fourth) child than the private-pay families.

Recommended Action. Staff recommends that the Office of the Legislative Analyst work with the Departments of Education and Social Services to determine what degree of monetary savings could be achieved as a result of implementing this proposal and report back to the committee in early May.

4. Implementation of Regional Market Rate Survey.

Staff notes that discussion on this item will be deferred until the May 8, 2006 hearing, at which time the Department of Finance and the Department of Education are expected to have reached a conclusion regarding how to proceed on implementing the most recent Regional Market Rate (RMR) Survey.

SUBCOMMITTEE NO. 1 on Education



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

Monday, March 20, 2006
1:30 p.m.
Room 113, State Capitol

<u>Item</u>	<u>Department</u>	<u>Page</u>
	K-12 Budget Priorities -- Superintendent of Public Instruction, Jack O'Connell	
	Overview of Governor's Education Budget – Secretary of Education, Alan Bersin	
6110/6870	Department of Education & California Community Colleges	
Issue 1	Proposition 98 Education Overview – Office of the Legislative Analyst, Robert Manwaring	2
6110	Department of Education	
Issue 2	Major Adjustments – Enrollment Growth	7
Issue 3	Major Adjustments – Declining Enrollment.....	8
Issue 4	Major Adjustments – Cost-of-Living Adjustments (COLAs)	9
Issue 5	Major Adjustments – Revenue Limit Deficit Factor	10
Issue 6	Major Adjustments – Revenue Limit Equalization	11
Issue 7	Education Mandates – Annual Payments	13
Issue 8	Education Mandates – Prior-Year Payments.....	14
Issue 9	Education Mandates – New Mandates.....	15
Issue 10	Education Mandates -- STAR Mandates	16
Issue 11	Education Mandates – Truancy Mandates	17
Issue 12	Education Mandates – LAO Reforms to Mandates Process	18
Issue 13	Federal Funding Overview	19

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ITEM 6110 DEPARTMENT OF EDUCATION

ISSUE 1: Proposition 98 & K-12 Funding – Overview

DESCRIPTION: The LAO will summarize the Governor’s budget proposal for Proposition 98 and K-12 education in 2006-07 and present their overall recommendations.

BACKGROUND:

Proposition 98- K-14

The Governor proposes **\$54.3 billion** in Proposition 98 spending for K-14 education in 2006-07, which reflects a **\$4.3 billion** increase (8.7 percent) over the revised 2005-06 budget. The Governor’s K-14 proposal exceeds the Proposition 98 minimum funding guarantee by **\$2.1 billion** in 2006-07.

Table 2 K-14 Proposition 98 Summary (dollars in thousands)	2004-05	2005-06	2006-07 Proposed	\$ Change	% Change
Distribution of Prop 98 Funds					
K-12 Education	\$42,122,787	\$44,627,177	\$48,356,408	3,729,231	8.4
Community Colleges	4,792,007	5,242,136	5,848,062	605,926	11.6
State Special Schools	41,509	42,567	43,177	610	1.4
Dept. of Youth Authority	35,858	45,780	42,589	-3,191	-7.0
Dept. of Developmental Services	10,672	10,217	9,995	-222	-2.2
Dept. of Mental Health	8,400	13,400	13,400	0	0
Am. Indian Education Centers	4,476	4,698	4,322	-376	-8.0
Total	\$47,015,709	\$49,985,975	\$54,317,953	\$4,331,978	8.7
Prop 98 Fund Source					
State General Fund	\$33,994,860	\$36,310,868	\$40,455,466	\$4,144,598	11.4
Local Property Taxes	13,020,849	13,675,107	13,862,487	187,380	1.4
Total	\$47,015,709	\$49,985,975	\$54,317,953	\$4,331,978	8.7
K-12 Enrollment-ADA*	5,982,000	6,010,000	6,023,000		
K-12 Funding per ADA*	\$7,042	\$7,428	\$8,052	\$660	8.9
* Average Daily Attendance					

The Governor proposes **\$5.8 billion for community colleges** in 2006-07, which provides a **\$605.9 million** increase (11.6 percent) over the 2005-06 budget.

The Governor proposes **\$48.4 billion funding for K-12 schools** in 2006-07, an increase of **\$3.7 billion** (8.4 percent) above the 2005-06 budget. As proposed, the budget provides \$8,052 per-pupil in Proposition 98 funding in 2006-07, an increase of \$660 (8.9 percent) per-pupil above the 2005-06 budget.

Governor’s Proposition 98 K-12 Proposals

The \$3.7 billion the Governor proposes for K-12 education in 2006-07 includes the following major base adjustments and program increases:

Programs/Dollars in Millions	2006-07
After School Care -- Proposition 49	\$426.2
Discretionary Funds:	\$2,700.0
(K-12 Enrollment Growth and COLAs)	(\$2,300.0)
(K-12 Revenue Limit Deficit Factor)	(\$205))
(K-12 Revenue Limit Equalization)	(\$200)
Annual Education Mandate Payments	\$133
New/Expanded Categorical Programs	\$413
TOTAL	\$3,700.0

Proposition 98 Minimum Guarantee – Current Year and Budget Year:

At the time the 2005-06 budget was enacted, Proposition 98 K-14 spending was assumed to be \$741 million above the minimum guarantee. Due to additional, unanticipated revenues to the state in 2005-06, the minimum guarantee has now risen. According to the Governor’s revenue estimates, the 2005-06 budget is now assumed to be **\$265 million** above the minimum guarantee.

The Governor’s Proposition 98 budget for 2006-07, which provides a \$4.3 billion increase for K-14 education, is assumed to be **\$2.1 billion** over the minimum guarantee. This funding above the minimum includes: **\$426 million** that must be appropriated above the minimum guarantee in order to implement the after school programs required by Proposition 49 in 2006-07 and **\$1.7 billion** to restore additional funding that would have been needed to meet the “Chapter 213 target” for suspension of the Proposition 98 minimum guarantee in 2004-05.

Of the **\$1.7 billion** the Governor proposes to meet the Chapter 213 suspension target, **\$561 million** is proposed to fully fund growth and COLA in 2006-07. Total growth and COLA is estimated at **\$2.3 billion** in 2006-07, however, this base funding adjustment cannot be fully funded without exceeding the minimum funding guarantee by an estimated \$561 million according to the Governor’s budget.

Maintenance Factor:

Maintenance factor is created in years when Proposition 98 is operating under Test 3 or years when the minimum guarantee is suspended. Maintenance factor is essentially the difference between the Test 2 level of funding and the actual funding level in these years. When Proposition 98 was suspended in 2004-05 it created **\$3.7 billion** in maintenance factor obligation, reflecting additional funding that would have otherwise been provided under the proposition under Test 2 that year.

Maintenance factor does not repay K-14 education for foregone funding in the year it was lost, but over time builds restoration of these funds within the Proposition 98 base calculation as revenues improve. Any funding provided above the minimum guarantee would also restore maintenance factor.

The Governor’s budget restores **\$2.4 billion** in outstanding maintenance factor to the Proposition 98 base in 2006-07, including: **\$334 million** of required restoration under the Proposition 98 formula; **\$1.7 billion** from the over-appropriation of funding for various K-12 base adjustments and new programs; and **\$426 million** in required over-appropriation for after-school programs pursuant to Proposition 49.

According to the Governor’s budget proposals and revenue estimates, outstanding maintenance factor obligations would total **\$1.3 billion** at the end of 2006-07.

Proposition 98 Settle Up:

Chapter 216, Statutes of 2004 (SB 1108/Committee on Budget and Fiscal Review) appropriates **\$150 million** a year commencing in 2006-07 for Proposition 98 settle-up payments in several fiscal years over the period 1995-96 to 2003-04. The Governor proposes **\$133 million** in settle-up payments in 2006-07, since the 2005-06 budget provided a \$17 million pre-payment toward the budget year requirement.

Chapter 216 requires the Department of Finance and the Superintendent of Public Instruction to jointly determine the level of settle-up obligations for school districts and community colleges for the 1995-96 to 2003-04 period. As jointly determined, the Legislature was notified by DOF in January that Proposition 98 has been fully satisfied in all years during this period except 1995-96, 1996-97, 2002-03, and 2003-04. The estimated total outstanding Proposition 98 balance for these years is **\$1,400,590,000**.

Education Credit Card:

The Legislative Analyst has identified more than **\$2.9 billion** in K-14 education funding obligations it refers to as on the “education credit card” at the end of 2005-06. The Governor’s proposes to buy down some of this debt in 2006-07, bringing the credit card down to **\$2.6 billion** at the end of the budget year.

The LAO provides the following table in their Budget Analysis that summarizes the education credit card in recent years and reflects the Governor’s 2006-07 budget proposals. Under the Governor’s proposals, outstanding credit card debt would total \$2.6 in 2006-07, including: **\$1.2 billion** in unpaid, cumulative mandate claim payment for K-14 education that have been deferred in recent years to achieve budget savings; **\$100 million** in K-12 revenue limit deficit factor payments to restore foregone COLA in 2003-04; and **\$1.3 billion** in various K-12 and community college payment deferrals that commenced in 2002-03 and shifted expenditures from one fiscal year to the next as a method of scoring budget savings.

In Millions	2003-04	2004-05	2005-06	2006-07
Deferrals				
K-12	\$1,097	\$1,083	\$1,103	\$1,103
Community Colleges	200	200	200	200
Subtotal, Deferrals	\$1,297	\$1,283	\$1,303	\$1,303
Mandates				
K-12	\$946	\$1,096	\$1,234	\$1,110
Community Colleges	55	73	91	109
Subtotal, Mandates	\$1,001	\$1,169	\$1,3235	\$1,219
K-12 Revenue Limit Deficit Factor	883	646	300	100
TOTALS	\$3,181	\$3,098	\$2,928	\$2,622

LAO Recommendations:

The LAO recommends a different approach to determining overall Proposition 98 funding in the budget year in order to address the state’s structural budget gap and to protect schools and community colleges from cost pressures in the future. Specifically, the LAO recommends that the Legislature reject all proposals for new K-14 programs and essentially limit Proposition 98 funding to fully fund base

program costs in 2006-07. This recommendation would reduce Proposition 98 funding by **\$1 billion** below the level proposed by the Governor, while still providing a **\$3.3 billion** increase in Proposition 98 funding for K-14 programs in the budget year. The Governor’s proposal and the LAO recommendations are summarized below.

<i>(Dollars in Millions)</i>	Governor's Budget	LAO Alternative	Difference
Baseline Adjustments			
Cost of living adjustment	\$2,566.8	\$2,873.7	\$306.9
Attendance	310.0	323.0	13.0
Mandates	133.6	173.0	39.4
Other	-96.9	-96.9	-
Subtotals	\$2,910.7	\$3,270.0	\$359.3
New and Expanded Programs			
	\$994.1	\$20	-\$974.1
Subtotals	\$994.1	\$20	-\$974.1
After- School Programs (Proposition 49)			
	\$426.2	0	-\$426.2
Subtotals	\$426.2	0	-\$426.2
TOTAL	\$4,311.0	\$3,290.0	-\$1,041.0
Amount Above Prop 98 Minimum Guarantee	\$2,100.0	\$1,100.0	

While equating to a net decrease of \$1.0 billion, the LAO recommends an increase of \$359.3 million to fully fund COLAs, declining enrollment adjustments, and annual mandate payments, as well as, reductions of \$974.1 million for new and expanded programs and \$426.2 million for after-school programs required by Proposition 49. (The savings proposed by the LAO for after-school programs would require repeal of Proposition 49 by voters for approval.)

The LAO’s proposal would require an appropriation of **\$1.1 billion** above the Proposition 98 minimum funding guarantee compared to the Governor’s proposal, which requires an over-appropriation of **\$2.1 billion** in 2006-07.

Other LAO Options: If the Legislature chooses to provide funding that is closer to the overall level of funding provided in the Governor’s Budget for K-14 programs, the LAO has developed two additional funding options.

- **Option One: Use One -Time Funds to Address Settle-Up Obligations and Pay for Prior Year Mandates.** The LAO recommends the same level of funding as the Governor, but would replace **\$1 billion** in new, ongoing funding for new and expanded programs with \$1 billion in one-time funding to pay-down settle-up obligations and prior year mandate debts. Under this option the state could retire most of the **\$1.2 billion** in prior year mandate claims owed to K-14 education, and at the same time, reduce the **\$1.4 billion** in Proposition 98 settle-up obligations owed for prior years. Under current law, settle-up payments are scheduled at \$150 million a year for the next ten years to pay for prior year mandate claims. The LAO’s proposal would pay these obligations sooner and therefore improve the state’s long –term financial status by reducing future debt. In addition, a \$1 billion lump-sum payment would provide significant new, one-time resources to schools that could be used to address their most pressing fiscal issues.

- **Option Two: Target New Funds at Highest Local Needs.** Under this option, the LAO recommends eliminating **\$426 million** for after-school programs and returning the savings to the General Fund (this would require repeal of a ballot measure by voters). In addition, the LAO would redirect funding for new and expanded programs recommended by the Governor for the following alternative purposes that reflect more pressing needs of K-14 education: **\$388 million** for anticipated K-12 baseline growth and COLA increases (a component of all the LAO's recommendations); **\$412 million** for a Fiscal Solvency Block Grant for K-12 education to help districts and county offices address such pressures as declining enrollment and employee retirement and health costs; and **approximately \$130 million** for community college equalization.

SUGGESTED QUESTIONS: In assessing the Governor's overall Proposition 98 education package and the LAO's recommendations, the Subcommittee may want to consider the following issues and questions:

1. **Proposition 98 Funding Levels.** The Governor proposes a **\$4.3 billion** increase (8.7 percent) in Proposition 98 funds for K-12 school and community colleges in 2006-07. This assumes an over-appropriation of **\$2.1 billion** to fund all proposed expenditures.
 - *How did the Administration determine the level of overall funding for Proposition 98 funding in 2006-07?*
 - *How did the Administration determine what the state could afford to over-appropriate for K-14 education?*
 - *Could the over-appropriation proposed by the Governor lead to a situation where the state might need to suspend Proposition 98 in future years to close a structural budget gap?*
2. **Possible Changes in Proposition 98 Over-Appropriation Estimates.** The Administration estimates that Proposition 98 is over appropriated by **\$265 million** in the current year and **\$2.1 billion** in the budget year.
 - *How are the Administration's estimates of the Proposition 98 over-appropriation in the current and budget year likely to change in the coming months?*
3. **Maintenance Factor Payments.** The Governor proposes to pay off approximately **\$2.4 billion** of the estimated **\$3.8 billion** in outstanding Proposition 98 maintenance in 2006-07 (leaving \$1.3 billion remaining).
 - *The Administration includes the \$426 million in expenditures for After School programs required by Proposition 49 as maintenance factor payments in 2006-07. Can you explain the Administration's position on this decision?*
4. **Funding Existing Obligations Before Adding New Programs.** The Legislative Analyst's Office has identified approximately **\$2.3 billion** in outstanding obligations owed to K-12 schools, including prior year mandate claims and revenue limit deficits. The LAO refers to these debts as the education credit card. While the Governor proposes to pay down a small portion of this debt, the Governor is proposing more than **\$400 million** for new or expanded program initiatives and **\$200 million** for revenue limit equalization.
 - *What is the Administration's rationale for proposing to add funding for new, ongoing programs prior to paying off existing K-12 obligations?*

ISSUE 2: Major Adjustments – Enrollment Growth

DESCRIPTION: The Governor’s Budget estimates enrollment growth of 0.21 percent in 2006-07 and proposes **\$156.0 million** to fully fund enrollment growth for revenue limits and categorical programs.

BACKGROUND: The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to increase by 13,000 in 2006-07, an increase of 0.21 percent over the revised current-year level. This attendance increase will bring total K-12 (ADA) to 6,023,000.

Enrollment growth rates for the last five years are summarized below. Categorical programs receive enrollment growth at budgeted rates; 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	2006-07 Proposed
Budgeted	1.45	1.40	1.37	1.34	0.95	0.69	0.21
Adjusted	1.53	2.06	1.66	0.88	0.97	0.47	

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 Department of Finance (DOF) figures, overall 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 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 school enrollment rates have been declining in recent years, while high school enrollment rates have been rising. However, in 2005-06 growth rates for elementary schools started to climb again and rates for high schools started to decline.

Enrollment trends also differ greatly among school districts. The LAO estimates that 438 school districts statewide are experiencing declining enrollments as a result of the drop in elementary school enrollments and other factors. This issue will be discussed further in the following agenda item.

The Governor’s Budget provides **\$156.0 million** to fully fund statutory enrollment growth for apportionments and categorical programs. The budget estimates K-12 ADA growth of 0.21 percent. The budget provides \$67.4 million for revenue limit apportionment growth and \$88.6 million for categorical programs. Additional breakdowns are provided below:

<i>Dollars in Millions</i>	Estimated Growth Rate	Revenue Limit	Special Education	Child Care	Other Categorical Programs	TOTAL Growth
Governor’s Budget	0.21%	\$67.4	\$6.5	\$14.8	\$67.3	\$156.0

COMMENTS: The Department of Finance will update enrollment growth estimates as part of the Governor’s May Revise to provide more up-to-date population estimates.

OUTCOME:

ISSUE 3: Major Adjustments – Declining Enrollment

DESCRIPTION: The Governor’s Budget includes **\$268 million** for revenue limit enrollment adjustments for school districts experiencing declining enrollment in 2006-07. The LAO estimates that declining enrollment adjustments will cost **\$343 million** in 2006-07 and recommends that the Legislature score an additional **\$75 million** for these adjustments.

BACKGROUND: Revenue limit funding is calculated by multiplying revenue limit rates for school districts times student enrollment, which is calculated by average daily attendance (ADA). Current law allows school districts that are experiencing declining student enrollment to *delay* revenue limit reductions associated with enrollment declines for one year. Declining enrollment districts can choose to use prior year enrollment as the basis of their revenue limit funding to soften the impact of enrollment based funding losses.

The LAO reports that a total of 438 school districts experienced declining enrollment in 2004-05 – the latest actual data available. As indicated in the previous item, K-12 attendance growth overall will continue to fall to near flat funding levels over the next several years, although growth rates will begin to climb again in 2009-10. For this reason, the LAO estimates that a large number of districts will continue to face declining enrollment

As the number of declining enrollment districts have risen, so too have the costs of declining enrollment revenue limit adjustments. As a result, the DOF recently started including estimates of declining enrollment adjustments in their annual revenue limit adjustments. The LAO developed the following table summarizing increases in the declining enrollment adjustments in recent years.

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Statewide Growth Rate	2.1%	1.7%	0.9%	0.4%	0.5%	0.2%
Districts Receiving Declining Enrollment Adjustment	327	375	412	438	Not Known	Not Known
Difference Between Prior Year ADA & Actual ADA for Declining Enrollment Districts	16,000	20,000	29,000	49,000	49,000	49,000
Costs of Declining Enrollment	\$74 m	\$93 m	\$137 m	\$242 m	\$255 m	\$268 m

The Governor’s Budget includes **\$268 million** for declining enrollment adjustments in 2006-07. In estimating these annual costs, DOF utilizes past-year costs adjusted for COLAs. According to the LAO, this methodology underestimated costs in 2004-05 – the most recent year with actual data – by approximately \$115 million.

The LAO recommends another methodology for determining declining adjustments given the growing size of the issue. The LAO recommends a methodology using the most current district-level attendance data and DOF long-term enrollment projections. Using this methodology, the LAO estimates that declining enrollment adjustments will cost **\$343 million** in 2006-07 and recommends that the Legislature score an additional **\$75 million** for these adjustments.

COMMENTS: The Department of Finance will update estimates of declining enrollment at May Revise.

OUTCOME:

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

DESCRIPTION: The Governor’s Budget provides **\$2.3 billion** to fully fund statutory COLAs for K-12 revenue limits and categorical programs in 2006-07. This provides a 5.18 percent COLA for revenue limits and categorical programs. The LAO estimates that COLA will increase by 5.8 percent in 2006-07 using more current indicators of inflation than available when the budget was developed. The higher COLA rate would increase K-12 COLA expenditures by **\$273.3 million** above the Governor’s Budget.

BACKGROUND: K-12 education programs typically receive annual COLAs for all revenue limit programs and most categorical programs, as required by statute. 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 1.9 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 Rates	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 Proposed
Budgeted	3.17	3.87	2.0	0	2.41	4.2	5.18
Estimated	3.17	3.87	1.66	1.86	2.41		

The Governor’s Budget proposes **\$2.3 billion** to fully fund statutory COLAs for K-12 revenue limits and categorical programs. The Governor estimates a 5.18 percent COLA, which provides \$1.7 billion for revenue limits and \$594.2 million for categorical programs that either require a COLA pursuant to state statute or tradition. The table below provides additional breakdowns of COLA adjustments for revenue limits and some categorical programs.

<i>Dollars in Millions</i>	Estimated COLA Rate	COLA \$: Revenue Limit	COLA \$: Special Education	COLA \$: Child Care	COLA \$: Other Categorical Programs	COLA \$: TOTAL
Governor’s Budget	5.18%	\$1,689.3	\$161.6	\$70.2	\$364.4	\$2,283.5

COMMENTS: The Department of Finance will update COLA estimates as part of the Governor’s May Revise to reflect inflation updates. The LAO estimates that COLA rates will increase by 5.8 percent in 2006-07 -- higher than the 5.18 percent estimated by the Governor – and will therefore increase COLA expenditures by **\$273.3 million** above the Governor’s Budget level.

[Budget Trailer Bill Language]

OUTCOME:

ISSUE 5: Major Adjustments – Revenue Limit Deficit Factor

DESCRIPTION: The Governor’s Budget proposes **\$205 million** to restore roughly two-thirds of outstanding revenue limit deficit factor obligations in 2006-07, leaving approximately \$100 million in remaining obligations to K-12 schools. Of this amount, the Governor’s Budget proposes \$200 million for school districts and \$5 million for county offices of education. This augmentation reduces deficit factors to 0.3 percent for school districts and 0.1 percent to county offices of education.

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	2006-07
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%	0.3 % -- School Districts 0.1% -- County Offices of Ed.
Deficit Factor Balance	\$833 m	\$646 m	\$305 m	\$100 m

The 2004-05 budget provided \$270 million to reduce the deficit factor for revenue limits from 3.0 percent to 2.1 percent. The 2005-06 budget provided an additional \$406 million for deficit factor reduction, bringing the total deficit factor down to 1.1 percent.

In 2006-07, the Governor’s Budget proposes an additional **\$205 million** to restore approximately two-thirds of the outstanding deficit factor, currently estimated at \$305 million, leaving \$100 million in remaining deficit factor. Of this amount, the Governor proposes \$200 million for school districts and \$5 million for county offices of education. This augmentation translates differently for LEAs reducing deficit factor to 0.3 percent for school districts and 0.1 percent for county offices of education.

COMMENTS: The LAO recommends that the Legislature redirect the \$206 million for revenue limit deficit reduction to pay for the increased cost of a higher COLA in 2006-07. As noted in the previous agenda item, the LAO estimates \$273.3 million in COLA costs above the Governor’s Budget levels.

[Budget Trailer Bill Language]

OUTCOME:

ISSUE 6: Major Adjustments -- Revenue Limit Equalization

DESCRIPTION: The Governor proposes a **\$200 million** increase in funding to equalize school district revenue limits. The Administration estimates that the additional \$200 million would move the state half way toward fully meeting the state's equalization target. The Governor's proposal does not include revenue limit equalization for county offices of education. The 2004-05 budget appropriated \$110 million for revenue limit equalization, using similar calculations now being proposed by the Governor.

Background: Revenue limits are calculations intended to provide the same level of general purpose funding to school districts and county offices of education. However, some differences in revenue limit funding levels exist because of historical factors. The Administration proposes to continue the recent methodology to level up lower revenue limit districts until the state achieves equity for 90 percent of the state's ADA by size (large and small districts) and type (unified, high school, and elementary). Some extremely high revenue limit districts would continue to receive a higher revenue limit.

The 2004-05 budget package provided \$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 of district. The Governor did not propose additional funding for equalization in 2005-06.

The Governor proposes to add another \$200 million for revenue limit equalization in 2006-07, using a similar methodology utilized in 2004-05. The Governor's revenue limit equalization proposal is contained in two identical bills -- **SB 1358 (Simitian) and AB 2070 (Daucher)** – that continue the current statutory process for computing revenue limit equalization.

Two other bills that address equalization this session include:

- **SB 1689 (Perata)** – Replaces the average daily attendance with average monthly enrollment as the basis for computing revenue limits and school apportionments.
- **AB 60 (Nunez)** - Revises computation factors of revenue limit equalization adjustment to be based on the following: (1) enrollment instead of ADA and; (b) elementary, high school, and unified districts without respect to size; and (c) all unrestricted funding including revenue limit add-on programs, not just base revenue limits.

The LAO has supported revenue limit equalization in the past as a means of making base revenue limit funding more uniform among districts. However, given the difficult fiscal situation faced by many school districts in the state, including those that would not qualify to receive equalization funding, the LAO recommends that the Legislature delay equalizing revenue limits to future years. In addition, the LAO recommends that the Legislature redirect the proposed \$200 million for equalization to address fiscal solvency issues in school districts. (School district fiscal solvency issues will be discussed at the Subcommittee's April 24th hearing.)

Other Revenue Limit Adjustments and Add-On Programs: Revenue limit apportionment programs are made up of both base revenue limits, which account for approximately 95 percent of revenue limit funding; and revenue limit add-on programs and adjustment, which account for the remaining 5 percent. According to the LAO, these revenue limit add-on programs are allocated very unevenly among districts and contribute to revenue limit funding inequities among school districts. However, they are not included in revenue limit equalization calculations.

If the Legislature pursues revenue limit equalization in 2006-07, the LAO recommends changing the current methodology by including several revenue limit add-on programs and adjustments within the revenue limit base. Specifically, the LAO recommends that four revenue limit add-on programs -- Meals for Needy Pupils, SB 813 Incentive Grants, Unemployment Insurance, and PERS Reduction -- be consolidated into base revenue limits to more accurately equalize general purpose funding among school districts. In addition, the LAO recommends that several inter-district adjustments that provide general purpose funding to six school districts be added to the revenue limits prior to equalization.

OUTCOMES:

ISSUE 7: Education Mandates –Annual Payments (6110-295-0001)

DESCRIPTION: The budget proposes to restore annual funding for K-12 education mandates and to stop the recent practice of deferring or suspending all funding for education mandates. Specifically, the Governor proposes to provide **\$133.6 million** to cover the annual costs of state-mandated local education programs for K-12 school districts and county offices of education in 2006-07. The LAO recommends augmenting this amount by **\$28.2 million** to more fully fund the annual cost of K-12 education mandates in the budget year.

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. 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, as last estimated.

The Governor proposes to provide **\$133.6 million** to cover the annual costs of 39 mandated education programs for K-12 school districts and county offices of education and for community colleges in 2006-07. The Governor's proposal reverses the practice in recent years of deferring or suspending annual mandate payments to achieve short term budget savings. Total mandated costs for K-12 education are estimated by DOF at **\$161.8 million** in 2006-07. (This amount does not include \$4 million for PERS mandates for K-12 schools and community colleges.) Under the Governor's proposal, if \$133.6 million is insufficient to cover all eligible claims for the year, the amount allocated to districts will be prorated by the State Controller.

The Budget does not include funding for either the State Testing and Reporting (STAR) program or the School Accountability Report Card (SARC) based upon recent decisions by the Commission on State Mandates (CSM). Specifically, the CSM recently ruled to eliminate most STAR reimbursements and to eliminate all SARC reimbursements. The Governor also proposes to continue suspension of several mandate programs mandates in 2006-07, including: School Crimes Reporting II; School Bus Safety I & II; Law Enforcement Sexual Harassment Training; County Treasury Withdrawals, and Grand Jury Proceedings.

COMMENTS: The LAO supports the restoration of annual funding for education mandates as a part of the base budget, but recommends that funding be increased by **\$28.2 million** in 2006-07 to fully fund estimated costs. The LAO also recommends that the Legislature schedule funding for individual mandates in the budget bill – as was the previous budgeting practice -- so that it is clear which mandates are being funded annually.

STAR mandated reimbursements will be discussed in more detail later in the hearing agenda.

OUTCOME:

ISSUE 8: Education Mandates – Prior Year Payments

DESCRIPTION: The Governor proposes to provide **\$151.7 million** in one-time funds – **\$18.7 million** from the Proposition 98 reversion account and **\$133.2 million** in Proposition 98 settle-up funds – to pay for prior year education mandate claims. The state currently owes an estimated **\$1.2 billion** in unpaid, education mandate costs for K-12 education according to the LAO.

BACKGROUND:

The Legislative Analyst's Office estimates that the cumulative costs for unpaid, prior-year claims will total **\$1.2 billion** for K-12 schools and community colleges by the end of 2005-06. 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.

Chapter 216, Statutes of 2004 (SB 1108/Committee on Budget and Fiscal Review), the 2004-05 education budget trailer bill, requires the state to begin appropriating **\$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 unpaid mandate claims.

Chapter 216 requires the Department of Finance and the Superintendent of Public Instruction to jointly determine the level of settle-up obligations for school districts and community colleges for the 1995-96 to 2003-04 period. The estimated total outstanding Proposition 98 balance for these years is **\$1.4 billion**.

The Governor also proposes to provide **\$151.7 million** in one-time funds – \$18.7 million from the Proposition 98 reversion account and \$133.2 million in Proposition 98 settle-up funds – to pay for prior year education mandate claims. The \$133.2 million in settle-up funds would be allocated to K-12 school districts and county offices of education – not community colleges -- on the basis of payment for the oldest claims first. It is not clear how the \$18.7 million would be allocated for prior-year claims.

COMMENTS: The LAO considers accumulated mandate cost deferrals to be the largest item on the state's education credit card, and generally recommends that the Legislature pay off these debts before funding new programs. However, the LAO recommends major reforms to funding state-mandated local education mandates that would affect how the state pays for the estimated \$1.2 billion in unpaid, prior year claims for K-12 education. These reforms are discussed in an upcoming hearing agenda item.

[Budget Trailer Bill Language]

OUTCOME:

ISSUE 9: Education Mandates – New Mandates

DESCRIPTION: In fulfillment of their statutory responsibility, the LAO has reviewed four new education mandates included in the Commission of State Mandates annual report of new mandates. The LAO recommends approval of these four new mandates, which include: Pupil Promotion and Retention, Differential Pay and Reemployment, Teacher Incentive Program, and AIDS Prevention Instruction II.

BACKGROUND: The LAO was given responsibility for reviewing and commenting on newly identified mandates pursuant to Chapter 1124, Statutes of 2002 (AB 3000/Committee on Budget). Pursuant to this responsibility, the LAO recommends that the Legislature recognize four new education mandates in the budget that were by the Commission on State Mandates in their annual report of newly identified mandates.

These four new mandates, as summarized below, include: Pupil Promotion and Retention, Differential Pay and Reemployment, Teacher Incentive Program, and AIDS Prevention Instruction II. The Commission on State Mandates estimates costs for these mandates would total \$10.8 million through 2005-06. Annual costs for these mandates are estimated by the Department of Finance to total \$17.3 million beginning in 2006-07. These four mandates are included in the Governor’s 2006-07 annual mandate claims budget item.

New Mandates Approved by The Commission on State Mandates in 2005			
<i>(In Millions)</i>			
Mandate	Requirement	Accrued Costs Through 2005-06	Estimated Cost in 2006-07^a
Pupil Promotion and Retention	Provide academic instruction to students at risk of failure.	\$10.4	\$17.3
Differential Pay and Reemployment	Implement policies for employees who exhaust sick leave.	0.2	-- ^b
Teacher Incentive Program	Administer state awards for earning national teaching certification.	0.1	-- ^b
AIDS Prevention Instruction II	Plan and conduct in-service training for teachers.	0.1 ^b	-- ^b
Totals		\$10.8	\$17.3

^a Department of Finance estimate.
^b Less than \$50,000.

COMMENTS: The LAO recommends approval of these four new mandates identified by the Commission on State Mandates and included in the Governor’s 2006-07 budget. The LAO notes that ongoing costs could change since they are based on prior year claims data and participation rates, which could be different in the future.

OUTCOMES:

ISSUE 10: Education Mandates – STAR Mandates

DESCRIPTION: The LAO makes several recommendations regarding funding for the State Testing and Reporting (STAR) mandate in response to recent action by the Commission on State Mandates regarding this assessment program mandate. Specifically, the LAO recommends a new methodology for reimbursing STAR claims that would require an additional **\$11.2 million** in ongoing funds for STAR mandates and **\$104.5 million** in one-time funding to retire outstanding STAR mandate obligations.

BACKGROUND:

Chapter 216, Statutes of 2004 directs the Commission on State Mandates (CSM) to reconsider an earlier decision on the STAR program mandate in light of federal testing requirements for states that applied when the STAR program was enacted. As a result of their recent decision, the CSM defines a limited number of STAR activities that are allowable for purposes of claims reimbursement. Specifically, the CSM made the following findings:

- The norm-referenced assessment – which has been recently scaled back to include third grade and seventh grade tests – is the only reimbursable mandate because it is not required by federal law.
- The California Standards Test (CST) – which applies to most grades -- is not a reimbursable mandate because districts failed to submit a mandate test claim for this test.
- The Primary Language Test for English learner students is not a reimbursable mandate.

In response to these findings, the Governor’s Budget assumes there are no costs for the program and provides no ongoing funding for the STAR mandate in 2006-07.

The CSM limited its recent review to 2005-06 claims and did not review prior year claims totaling \$220 million. The CSM felt that review of prior year claims was not authorized by the Chapter 216 language. According to the LAO, this limited review, together with the commission’s findings, leave many unanswered questions for settling prior year claims and determining fair and reasonable ongoing costs for the STAR program.

For these reasons, the LAO recommends that the Legislature adopt a new methodology that would enable the state to settle prior year claims and cover current costs, while focusing on state-only STAR mandates. The LAO’s recommendations build upon authority in Government Code Section 17518.5 allowing the state to establish a “reasonable reimbursement methodology” that simplifies the claims process and addresses actual costs. The LAO recommends a specific methodology, based on the average per-pupil testing costs for prior year claims and the proportion of tests required only by state law. The LAO’s formula generates the following costs:

- **\$11.2 million** in ongoing STAR mandate funding for districts participating in settlement, although after several years funding would be folded into the STAR appropriation item.
- **\$104.5 million** in one-time funding for prior-year STAR mandate claims provided as a part of the \$151 million the Governor proposes for other prior- ear mandates in 2006-07.

OUTCOME:

ISSUE 11. Education Mandates – Truancy Mandates

DESCRIPTION: The LAO recommends eliminating two state-mandated local truancy programs and redirecting **\$16.9 million** in mandate funding for these programs in order to create a new categorical program aimed at reducing student truancy and dropout.

BACKGROUND: Under current law, students are defined as truant if they are absent from school or classes without permission three times during the school year. The Governor's budget includes **\$16.9 million** in the education mandates budget item for truancy programs that require schools to notify or meet with parents of students who are truant. Funding for these two state-mandated local programs, as specified below, is based upon DOF estimates for claims in 2006-07:

- **Truancy Notification Mandate (\$9.8 million).** This mandate requires schools to notify parents of truant students by mail or other reasonable method. Districts receive \$15.40 for every notification made pursuant to this mandate.
- **Habitual Truant Mandate (\$7.2 million).** This mandate requires schools to “make every effort” to meet with the parents of habitual truants -- defined as students who are absent from school – without permission -- five or more times a year.

The LAO conducted a review of these truancy mandate programs and identified several problems that are felt to undermine their effectiveness in addressing truancy and dropout prevention.

- **Mandates can create the wrong incentives.** Under the Truancy Notification mandate districts receive \$15.40 in reimbursement each time they notify parents of student truancy. This unit-cost reimbursement creates incentives for districts to simply maximize parent notifications rather than addressing truancy prevention.
- **Implementation is uneven.** Claiming for truancy mandates programs plays out very differently among participating school districts and does not appear to correspond to measures of the truancy problem in these districts.
- **Funds are not targeted to districts with the greatest problems.** In addition to uneven funding, the claiming process does not allocate funding to the districts based upon the severity of their truancy problems

As a result of these findings, the LAO recommends another approach to truancy and dropout prevention. Specifically, the LAO recommends that the Legislature eliminate the two existing truancy mandate programs and redirect \$16.9 million in funding from these programs to a single, new truancy categorical program aimed at truancy prevention. The new program would provide \$16.9 million in grants to school districts based upon the number of students who dropout annually. Districts could use funds for a number of purposes, including (1) identifying students who are at-risk of dropping out in high school or falling behind in class work; (2) contacting students' parents; and (3) developing individual student plans to address specific barriers to their progress in school.

OUTCOME:

ISSUE 12. Education Mandates – LAO Reforms to the Mandates Process

DESCRIPTION: The LAO has identified a number of problems with the state’s current method of funding state-mandated local programs in K-12 education. As a result, the LAO recommends major reforms to the state’s system. Specifically, the LAO recommends that the Legislature create an Educational Mandate Block Grant program to simplify the financing of K-12 mandate programs and improve the distribution of mandate reimbursements to districts.

BACKGROUND: The LAO believes that funding for state-mandated local programs may be one of the most contentious issues in K-12 education finance. According to the LAO, the lack of annual funding in recent years is only one part of the education mandates problem. The LAO identifies several major problems with the system:

- Mandates are often not the most effective financing mechanism.
- The process for identifying new mandates is a lengthy and legalistic.
- The claiming process requires significant state and local administrative effort.
- The audit process increases friction between the state and districts.

As a result of these findings, the LAO recommends a new approach to education mandates funding. The State Constitution requires the state to pay districts for the actual costs of complying with state mandates. In recognizing this obligation, the LAO’s proposal is framed as two basic options for funding 39 different K-12 mandates for schools districts:

Option One: Districts could continue to submit separate claims for all K-12 mandates; or

Option Two: Districts could accept block grant funding as adequate reimbursement to cover all K-12 mandates.

Features of the LAO’s proposed Education Mandate Block Grant include:

Per Pupil Funding: Districts would receive approximately \$27 per pupil in mandate reimbursements based upon the DOF estimate of full funding of 2006-07 mandate costs. If the Legislature adopts the LAO’s recommendation to redirect funding for two truancy mandates to a new categorical program, funding for the block grant would drop to \$24 per pupil. The LAO’s proposal would also maintain \$4 million outside the block grant to pay for two PERS mandates.

No Audits of Block Grant Claims. Districts would not be required to account for the individual costs of each of the 39 mandates if they received the block grant. While districts would be reviewed periodically to ensure they are providing mandated activities, they would not be subject to financial audits for costs covered by funds in the block grant.

New Mandates Incorporated into the Block Grant. The per pupil block grant amount would be adjusted annually through the budget process to reflect new mandates approved by the Commission on State Mandates.

OUTCOME:

ISSUE 13: Federal Funding Overview

DESCRIPTION: The Governor's Budget estimates that California will receive **\$7.1 billion** in federal funds for K-12 education in 2006-07, which represents a small increase of \$12.2 million (0.2 percent) in the budget year. However, the Department of Finance has not yet updated its federal fund estimates to reflect reductions in federal funding enacted in late December 2005 as a part of the federal budget package for federal fiscal year (FFY) 2006. **Initial estimates from the federal government indicate that federal education funds will decrease by approximately \$154 million (3.5 percent) overall in 2006-07.** This includes small reductions for most programs and significant reductions for five programs. While some of these reductions can be mitigated by available federal carryover balances, other reductions will result in program losses to California schools.

BACKGROUND: Of the **\$7.1 billion** in federal funds proposed in the Governor's Budget for the California Department of Education, **\$7.0 billion** is appropriated for local assistance programs and **\$152 million** is appropriated for state operations in 2006-07.

The \$7.0 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 local assistance funds for these and other programs included in the Governor's Budget for 2006-07. Figures are based upon appropriations for federal fiscal year (FFY) 2006.

Federal Funds -- Agency/Program	FFY 2006
<i>US Dept. of Education:</i>	
Title I and Other Programs Authorized Under NCLB	2,981,115,000
Special Education – IDEA	1,162,810,000
Vocational & Adult Education, Tech. Prep. Education – Perkins & WIA	205,672,000
Other –Various	31,591,000
Subtotal, USDE Funds	\$4,381,188,000
<i>US Dept of Agriculture:</i>	
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	\$1,638,079,000
Subtotal, USDA Funds	\$1,638,079,000
<i>US Dept of Health & Human Services:</i>	
Child Care – TANF & Child Care and Development Block Grant	\$935,707,000
Subtotal, USHHS Funds	\$935,707,000
Total, Federal K-12 Education Grants to California	\$6,954,974,000

The Department of Finance plans to update these figures at May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS) and Education appropriations bill (P.L. 109-149) and the government-wide rescissions bill (P.L. 109-148) for FFY 2006 that were both signed by the President on December 30, 2005. The rescissions bill enacted a one-percent, across-the-board reduction for federal discretionary programs.

In early February, the U.S. Department of Education released estimates of education grants to states reflecting new FFY 2006 appropriations. These new estimates, which are listed below, include funding

reductions for most federal programs in our state. Overall, grants to California will decrease by **\$154 million** or 3.5 percent in 2006-07 (FFY 2006). These reductions have not yet been included in the Governor's Budget and stand in sharp contrast to federal funding increases in recent years. While federal funding increased by only one percent overall in FFY 2005, between FFY 2001 and FFY 2004 federal education funding to California grew between 8 and 12 percent annually. (See Appendix A. for latest federal estimates of USDE formula grants to California for FFY 2001 to 2007.)

Federal Local Assistance Grants to California

Budget Item	Program	FFY 2005	FFY 2006	Change
6110-				
102-0890	Learn and Serve America	2,636,926	2,690,544	53,618
103-0890	Byrd Honors Scholarship	5,139,000	5,127,000	-12,000
112-0890	Charter Schools	25,107,664	25,125,104	17,440
113-0890	State Assessments	33,952,540	33,952,540	0
119-0890	Title I (Part D) - Neglected and Delinquent	2,867,245	2,804,318	-62,927
123-0890	Title I- Comprehensive School Reform	27,680,353	0	-27,680,353
123-0890	Title V – Innovative Programs	24,693,735	12,321,975	-12,371,760
125-0890	Title III - Migrant Education	126,874,549	125,572,326	-1,302,223
125-0890	Title III – Language Acquisition Grants	149,565,827	159,425,032	9,859,205
126-0890	Title I (Part B) - Reading First Grants	146,981,710	145,383,383	-1,598,327
136-0890	Title I (Part A) – Basic Grants & School Improvement Set Aside	1,776,542,957	1,727,346,107	-49,196,850
136-0890	Even Start	27,702,424	11,860,068	-15,842,356
136-0890	Homeless Education	8,606,995	8,309,649	-297,346
137-0890	Rural/Low-Income School Program	1,718,545	1,701,360	-17,185
156-0890	Adult Education	81,382,526	80,633,745	-748,781
161-0890	Special Education-Entitlement Grants & Program Improvement	1,132,572,659	1,130,940,237	-1,632,422
	Special Education-Preschool	39,160,720	38,677,085	-483,635
166-0890	Vocational Education & Tech. Prep.	140,318,604	138,898,803	-1,419,801
180-0890	Education Technology	65,556,713	35,076,910	-30,479,803
183-0890	Safe and Drug Free Schools	52,742,911	41,539,958	-11,202,953
193-0890	Title II (Part A) Math & Science Partnerships	24,513,072	25,055,985	542,913
195-0890	Title II (Part A) – Teacher Quality Grants & State Activities	339,448,010	335,691,360	-3,756,650
197-0890	21st Century Community Learning	137,174,714	131,320,892	-5,853,822
	Totals	4,372,940,399	4,219,454,381	-153,486,018

As indicated above, most programs will be reduced by at least 1.0 percent in 2006-07 – consistent with the government-wide rescissions bill for discretionary programs. There are some exceptions. Special Education decreases equate to 0.2 percent (\$1.6 million) because the one-percent reduction was applied to the proposed increase for the program. This reduction reverses significant federal increases for this program in recent years. Between FFY 2001 and 2005, federal Special Education funding grew between \$60 and \$152 million annually.

Several other federal programs will be reduced beyond 1.0 percent in 2006-07. Title I Basic Grant & School Improvement funding – one of the largest federal programs -- decreases by \$49.2 million or 2.8 percent. Five other programs are slated for significant proportional cuts: Education Technology State Grants decreased by \$30.5 million (46.5 percent); State Grants for Innovative Programs decreased by \$12.4 million (50.1 percent); Even Start decreased by \$15.8 million (57.2 percent); and Safe & Drug Free Schools decreased by \$11.2 million (21.2 percent). Funding for the Comprehensive School Reform program is eliminated, resulting in a loss of \$27.7 million.

Two federal programs will actually increase in 2006-07 -- Language Acquisition State Grants grow by 6.6 percent (\$9.9 million) and Math and Science Partnerships grow by 2.2 percent (\$542,913).

The U.S. Department of Health and Human Services has not provided updated state estimates for child care and development programs to states for FFY 2006. Funding changes are not expected for child nutrition (school meals) funding from the U.S. Department of Agriculture since this is an entitlement program and not subject to funding reductions in the federal FFY 2006 appropriations bills.

COMMENTS: Staff notes that funding decreases will play out differently for various federal programs in California in 2006-07. Several programs will be cut significantly below their 2005-06 levels. The Department of Education has identified available federal carryover funds that will mitigate funding reductions for some federal programs on a one-time basis and will be considered in budget adjustments at May Revise. In contrast, other programs -- Title I-- School Improvement, Reading First, Migrant Education and 21st Century Learning Centers -- will continue large carryover balances. While federal funds remain available for 27 months after appropriation, it has been difficult for some of these programs to expend funds within this time period. The Governor's Budget includes proposals that utilize these carryover funds. The Subcommittee will consider these proposals in future hearings.

QUESTIONS:

1. *How will the loss of approximately \$154 million in federal funds for K-12 education programs in California affect our schools?*
2. *How should the state respond to the loss of these federal funds?*
3. *How can federal carryover be maximized in the state budget to mitigate federal grant losses in 2006-07 and beyond?*
4. *What is the outlook for federal funds in FFY 2007?*

OUTCOME:

Appendix A.

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

<http://www.ed.gov/about/overview/budget/statetables/07stbystate.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

Agenda
March 27, 2006
1:30 p.m. – Room 113

Overview Presentations: Dr. Robert C. Dynes, President, University of California
Dr. Marshall Drummond, Chancellor, California Community Colleges

California Community Colleges (6870)

I. Overview of Governor's Budget Proposal for California Community Colleges (LAO)	Page 2
II. Retiree Health Benefits Reporting	Page 3
III. Mandates	Page 3
IV. Career Technical Education	Page 4
V. Nursing Education	Page 5
VI. CalPASS	Page 6
VII. Equalization	Page 6
VIII. Financial Aid Outreach Budget Bill Language	Page 8
IX. Enrollment Growth	Page 8
X. Unfunded Budget Change Proposals	Page 10
XI. Consent	Page 12

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

Figure 1					
Community College Budget Summary					
<i>(Dollars in Millions)</i>					
	Actual 2004-05	Estimated 2005-06	Proposed 2006-07	Change From 2005-06	
				Amount	Percent
Community College Proposition 98					
General Fund	\$3,036.3	\$3,412.4	\$3,948.7	\$536.3	15.7%
Local property tax	1,755.7	1,829.7	1,899.3	69.6	3.8
Subtotals, Proposition 98	(\$4,792.0)	(\$5,242.1)	(\$5,848.1)	(\$606.0)	(11.6%)
Other Funds					
General Fund	(241.2)	(265.8)	(255.9)	(\$10.0)	(-3.8%)
Proposition 98 Reversion Account	5.4	35.6	--	-35.6	-100.0
State operations	8.9	9.2	9.4	0.2	2.3
Teachers' retirement	98.3	82.2	83.2	1.0	1.2
Bond payments	128.6	138.9	163.3	24.4	17.6
State lottery funds	143.3	177.9	177.9	--	--
Other state funds	9.3	11.1	11.2	0.1	0.6
Student fees	334.7	347.9	358.4	10.4	3.0
Federal funds	244.1	268.5	268.5	--	--
Other local funds	1,536.2	1,691.9	1,691.9	--	--
Subtotals, other funds	(\$2,508.8)	(\$2,763.2)	(\$2,763.7)	(\$0.5)	--
Grand Totals	\$7,300.8	\$8,005.3	\$8,611.8	\$606.5	7.6%
Detail may not total due to rounding.					

II. Retiree Health Benefits (Information Only)

In its *Analysis of the 2006-07 Budget Bill*, the Legislative Analyst (LAO) raised broad concerns about the outstanding fiscal liability of retiree health benefits offered by both K-12 and community college districts.

Specifically, the LAO cites a new Governmental Accounting Standards Board accounting policy which now requires community college districts (as well as K-12 school districts and local governments) to identify and account for the unfunded liability of retiree health benefits in the same manner they account for pension costs.

This represents a significant change for community colleges and is estimated to reveal an approximate \$2.5 billion to \$3 billion unfunded liability. The LAO estimates that, at present, districts are only prepared to cover about 15 percent of this outstanding liability. While some districts have an incentive to address these costs (due primarily to the impact of a district's fiscal liabilities on local bond rating and academic accrediting standards), it is possible that the state may end up bearing at least part of the fiscal burden.

III. Mandates

Unlike K-12 education, the Governor's Budget fails to directly appropriate any funds to pay for prior year community college mandate claims. Language in the 2006-07 Budget Bill (specifically contained in the K-12 mandate item – Item 6110-295) does, however, allow for the \$133 million in ongoing support for education mandates to be pro-rated between K-12 and the community colleges.

One-time Proposition 98 "Settle-Up" Funds

In addition to the \$133 million in ongoing support for mandates (as noted above), the Governor is also proposing that K-12 Education receive \$151.7 million in one-time Proposition 98 funds to pay prior-year mandate claims; the community colleges are not slated to receive any of these funds. The Department of Finance (DOF) notes that the current-year budget contains \$10 million to pay off a portion of the community college mandate claims, and DOF contends that this appropriation is sufficient to address the bulk of the community colleges audited claims. The LAO estimates that there are approximately \$100 million in outstanding community college mandate claims that have yet to be paid.

Staff notes that current statute, which was adopted as part of the 2005 Education Budget Trailer Bill (Chapter 216/Statutes of 2006), calls for the community colleges to receive a proportionate share (based on student enrollment) of all prior-year Proposition 98 settle-up funds. Contrary to current law, the Governor's proposal allocates all of these funds for K-12 mandates, with no funds being appropriated to the community colleges.

Staff recommends that the committee request the LAO to calculate the community college "share" of both the ongoing dollars proposed for mandates as well as the Proposition 98 settle up funds contained in the Governor's 2006-07 proposed education trailer bill and report its findings back to the subcommittee prior to the May Revision.

IV. Career Technical Education

The Administration proposes to augment the community colleges' budget by a total of \$50 million to increase coordination between the colleges and K-12 schools for industry-driven vocational and technical-career curriculum. In the current year, the Budget provides \$20 million on a one-time basis to begin this work. The Governor's proposal makes this \$20 million permanent and augments that amount by an additional \$30 million. In addition, the Governor proposes to add one position, and \$143,000, to provide staff support necessary to implement this expanded career-technical education program.

Current Year

Of the \$20 million appropriated in the current year, the community colleges intend to spend \$11 million for "quick start" projects which will focus primarily on the "2+2 curricula". These articulated curricula provide a clear career pathway linking high school courses with community college 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 Chancellor's Office indicates that the remaining \$9 million will likely not get expended in the current year and will instead be combined with funds appropriated in 2006-07 for longer-term "capacity building" projects. These funds would be targeted at economically distressed areas and emerging industries.

Staff notes that all of the funds appropriated in the current year are being dispersed via a Request for Proposal (RFP) process. Given that the RFP deadline is not until April 20, 2006, it is unlikely that this committee will have a detailed expenditure of current-year funds prior to making a decision on the Governor's 2006-07 proposal.

Governor's Budget

It is the Administration's intent that the \$50 million proposed for 2006-07 be expended for the same purposes as the current year funds. Specifically, the Administration and the community colleges intend to spend approximately 20 percent of the funds (or \$10 million) to continue supporting "quick start" projects, while the bulk of the funds would be expended on longer-term "capacity building".

The LAO has expressed concern about the Governor's proposal, noting that the \$20 million in one-time funds provided in the current year has yet to be expended. Given that, the LAO is advising the Legislature to defer augmenting this program until such time as the community colleges have expended the current-year funds and evaluated the progress of its efforts, to date, to align career-technical education curriculum.

Staff recommends that this issue (including approval of the new position) be held open, pending both the May Revision and an update from the Community Colleges Chancellor's Office -- after April 20, 2006 -- as to how the current year funds are being expended.

V. Nursing Education

The Governor's Budget continues to provide \$10 million in ongoing, Proposition 98 funds to support increased nursing enrollments and unmet equipment needs. Funds would continue to be appropriated via a Request for Applications (RFA) process, whereby districts apply to the Community Colleges Chancellor's Office for the funds. The Chancellor's Office would be required to issue a report on the allocation of the funding by March 1st of each year. In addition to the \$10 million noted-above, the community colleges also have \$4 million in their base budget to support the differential cost of providing nursing programs.

Current Year

The Chancellor's Office has only recently received applications from campuses for the current-year \$10 million nursing program augmentation; they expect grant funding to be awarded by May 1, 2006. According to the Chancellor's Office, of the \$10 million appropriation, they expect to award \$6.3 million to 35 colleges (approximately \$180,000 each) to increase nursing enrollments. Eight of those colleges will also receive an additional "bump" of between \$200,000 and \$300,000 to further increase nursing enrollments (totaling \$2.2 million). Combined, these colleges intend to add approximately 900 new nursing students, increasing the number of "slots" by approximately 43 percent.

Three colleges will receive grants of \$500,000 each (\$1.5 million total) to convert Licensed Vocational Nursing (LVN) programs to Registered Nursing (RN) programs. Those funds will be used primarily to support student enrollments.

Further, of the \$10 million appropriated in the current year, grantees indicate that they intend to expend \$7.4 million on equipment and/or infrastructure costs, implying that \$2.6 million is being spent to the 900 additional students, plus the additional LVN students who may now be pursuing RN degrees.

Additional Fiscal Considerations

In addition to the base level of funding provided in the community colleges' budget for nursing instruction, the committee may also wish to consider augmenting the budget to provide for additional high-priority nursing-related needs:

Preventing Attrition (\$8 million). College nursing instructors have routinely expressed concern over the lack of resources available to provide assistance to students once they have enrolled in nursing programs. Specifically, the committee may wish to consider augmenting the community colleges' budget to provide for tutoring and mentoring assistance aimed at reducing student attrition and increasing the number of qualified nursing students who graduate and enter the workforce. In order to administer an increased attrition-prevention program, the Community Colleges Chancellor's Office would likely need additional staff support (approximately 2.0 positions and \$320,000).

Recruiting Nursing Faculty (\$3 million). Colleges continue to have difficulty recruiting and retaining trained nurses into the teaching profession. Given the salary levels of either RNs or practitioners with Master's of Science Degrees in Nursing (MSN), it is often difficult to lure these individuals to teach in college nursing programs, simply because the salaries are not

competitive. As such, the committee may wish to consider providing funding to the community colleges for recruitment and/or retention "bonuses" for nursing faculty.

Staff recommends that the committee: (1) approve the \$14 million of base budget funding for nursing; (2) consolidate those funds into a single schedule in the Budget Bill to make it easier to track state spending in this area; and (3) place additional funding (totaling \$11.3 million) for other nursing-related activities on the "checklist" pending the May Revision.

VI. CalPASS

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. Since then, CalPASS has expanded statewide and includes more than 1,000 California educational institutions (which represents an increase of approximately 300 schools in the past year).

Governor's Budget

The Community Colleges Chancellor's Office initially requested an augmentation of \$1 million (bringing the total funding level to \$2 million) for CalPASS. The Governor's Budget proposes to augment the amount of state funding for CalPASS by \$500,000, bringing the 2006-07 appropriation to \$1.5 million (on-going). These additional dollars will help CalPASS increase the number of participating schools, develop new faculty councils to better align curricula, and better assess student outcomes based on CalPASS data.

Staff recommends that the committee approve the \$500,000 augmentation contained in the Governor's proposal and place an additional \$500,000 on the "checklist" pending the May Revision.

VII. Equalization

Governor's Budget

The Governor's Budget provides \$130 million to "equalize" the per-student funding rate among community colleges. The \$130 million augmentation is expected to equalize funding levels to the 90th percentile, as called for by current law.

The funds proposed by the Governor constitute the third year of a three-year plan to remedy disparities in funding levels among the colleges. Originally, the Community Colleges Chancellor's Office estimated that it would need \$240 million to equalize funding rates to the 90th percentile. Over the past two years, the Legislature has made significant headway in achieving that goal – first providing \$80 million in the 2004-05 fiscal year, and then providing \$30 million in 2005-06. The \$130 million proposed by the Governor for 2006-07 constitutes the balance of the original \$240 million estimate.

Various Distribution Mechanisms

Current Statute. Under the Administration's proposal, the \$130 million would be appropriated based on the current statutory scheme. Current statute divides districts into three distinct size categories – small, medium, and large – and then provides for the targeted per student rates to be adjusted based on the size of the district, increasing the targeted amount by ten percent for small districts and three percent for medium-sized districts. While not explicit in current law, DOF indicates its intent to use 2005-06 as the "base year" upon which both the equalization target and the district funding levels would be based. However, using 2005-06 data -- which takes into account enrollment changes, the shift of Partnership for Excellence funding to the "base", as well as recent augmentations specifically for equalization -- DOF estimates that it will cost an additional \$28 million (above the \$130 million proposed in the Governor's Budget) to finish equalizing funding rates to the 90th percentile level.

Senate Bill 361 Proposal. The Community Colleges Chancellor's Office, while supportive of the Governor's Budget augmentation for equalization, has expressed a preference for the allocation mechanism contained in Senate Bill 361 (Scott), which is currently making its way through the Legislative process. Under the SB 361 methodology, districts would continue to be "equalized" to the 90th percentile, but all districts would be lumped together, rather than being divided into three size categories, and the calculations would be done after accounting for the fixed costs of campus operations. The intent is to address issues faced by small districts as well as districts operating multiple campuses and off-campus centers. Under this methodology, the community colleges estimate that it would cost an additional \$19 million (above the amount proposed in the Governor's budget) to reach the 90th percentile goal.

Potential "Blended" Proposal. Trying to harmonize a variety of competing priorities, the Community Colleges Chancellor's Office is constructing a "blended" alternative to the above proposals. Under this "blended" proposal, the \$130 million proposed by the Governor would be divided into two pots. The first pot would contain \$50 million and would be treated as a direct augmentation to the amount appropriated for equalization in the current year (\$30 million). As such, those dollars would be distributed in exactly the same manner as the current-year equalization funds: Allocated based on current statute and using 2003-04 as the "base year."

The second pot would contain the remainder of the funds (\$80 million) and would be allocated based on the Senate Bill 361 methodology, using 2005-06 as the base year. In order to equalize to the 90th percentile, using this blended approach, the Community Colleges Chancellor's Office estimates that it would cost an additional \$30 million above the amount proposed in the Governor's Budget (these additional funds would be allocated based on the SB 361 methodology).

Other Considerations

Even more critical than the allocation methodology is that, without significant changes to the community college Program-Based Funding System – which is predicated on the assumption that districts *should* receive different per-student rates to account for factors unique to that district – funding rates will, over time, disperse in a pre-equalization manner, thereby "undoing" the results of the equalization funding.

As such, staff recommends that any decisions the committee makes regarding the distribution of equalization funds in 2006-07 also be coupled with an overhaul of the current community colleges funding system. Furthermore, staff recommends that the committee adopt budget bill language specifying the intent of the Legislature that the funding provided in the 2006-07 Budget Act sufficiently equalizes the funding of all districts, and that the future community college funding allocation mechanism prevent the disequalization of base apportionment funding.

Immediate staff recommendation: Staff recommends that this issue be held open pending (1) the May Revision; (2) a resolution as to how funds should be allocated; and (2) the continued discussion of future changes to Program-Based Budgeting.

VIII. Financial Aid Outreach Budget Bill Language

Since 2003, when the state increased student fees at the community colleges (first from \$11 per unit to \$18 per unit, and then from \$18 per unit to \$26 per unit), the annual Budget Act has set aside \$34 million for financial aid outreach and direct assistance to students applying for financial aid. The dollars are allocated to each community college campus (based primarily on the number of full-time equivalent students (FTES), and weighted towards low-income campuses) to provide staff resources to increase the number of students who participate in financial aid programs. Specifically, funds are to be used to (1) provide students and families with direct and individually-tailored assistance in applying for financial aid and completing the financial aid applications, and (2) increase staff resources to process financial aid forms on campuses.

Governor's Budget

The Administration continues to appropriate funds for the above-noted purpose, but inserts a provision requiring that the *"funds provided in this section be used to verify Cal Grant eligibility for current and potential applicants."*

Staff notes that while the language appears innocuous at first glance, the ramifications are significant. First and foremost, verifying Cal Grant eligibility is a full-time job, one that would likely utilize all of the funds appropriated in the schedule, leaving nothing to conduct the activities the legislature originally targeted. Second, the role of campuses in verifying Cal Grant eligibility is currently being debated in the financial aid community and with the California Student Aid Commission. To insert this requirement -- which is really a policy issue -- via the Budget Bill, for the community colleges and no other colleges, is inappropriate.

Staff recommends that the committee delete this reference in the Budget Bill and restore the language to its long-standing and original form.

IX. Student Enrollment Growth

Current law requires that the state provide a minimal level of funding to support student enrollment growth at the community colleges. Specifically, statute calls for enrollment growth funding to be provided based on the percent change in the state adult population. For 2006-07, the change in the adult population is projected to grow by 1.74 percent; an increase of 1.74 percent in the enrollment levels of community colleges statewide would result in an additional 20,300 full-time equivalent students (FTES) at a cost of \$86.3 million.

Governor's Budget

Exceeding the statutorily-required level, the Governor's Budget provides \$148.8 million in funding to support a 3.0 percent growth in student enrollments (approximately 34,000 FTES). This amount is well in excess of the statutorily growth rate, but less than the 4.0 percent enrollment growth level initially requested by the Community College system.

Current Year Enrollment Decline

The current year budget provides \$141.9 million to support 3.0 percent enrollment growth in general apportionments and 1.76 percent growth in selected categorical programs.

Based on the most recent data available, the Community Colleges Chancellor's Office is estimating that approximately \$65 million -- roughly half of the amount appropriated for growth in apportionments -- will remain unused by the colleges, implying that community college enrollment growth has slowed substantially.

While some campuses continue to enjoy healthy enrollment growth, other campus enrollments are declining. Depending on the campus, there are a variety of factors that could be impacting current year enrollment levels, including: (1) a recent improvement in the state's economy, thereby luring many students away from campus and into the local workforce; (2) a substantial decrease in the number of "unfunded" student enrollments; (3) the impact of student fee increases; and (4) a decrease in the number of course offerings.

Current Year Action Needed

Barring any further action by the Legislature, unused growth money appropriated to the community colleges will revert to the Proposition 98 Reversion Account to be allocated out in future years for other K-14 purposes. However, under the *Elizier Williams v. State of California* (*Williams*) legal settlement, 50 percent of any funds reverted to the Proposition 98 reversion account must be reappropriated for emergency facility repairs in K-12 low-performing schools.

If the Legislature is interested in allowing the community colleges to retain those unused funds and redirect them for another community college-related purpose, it must pass legislation before June 30, 2006, amending the 2005-06 Budget Act, thus redirecting the funds in the current fiscal year for another purpose. At present, the Community Colleges Chancellor's Office is proposing that unused funds be redirected to fund several of the community colleges' highest priority, unfunded budget proposals, including: (1) fully-funding the state's share of the part-time faculty office hours and health insurance program (\$9 million); (2) increasing the rate at which noncredit instruction is funded (\$30 million); and (3) providing rural colleges with an augmentation to account for the additional costs associated with operating small colleges and the demographic challenges rural colleges face (\$5 million). If dollars remains after funding those three priorities, the community colleges recommend that the following three proposals be funded, in this order: (1) restore prior-year cuts to Matriculation and Counseling Services (up to \$24 million); (2) re-establish a Professional Development program for faculty and staff (up to \$5 million); and (3) increase the ratio of full-time faculty to part-time faculty (up to \$40 million).

2006-07 Enrollment Growth Projections

The slowing of enrollment growth in the current year calls into question the enrollment growth assumptions made by the community colleges and the Administration in constructing the

Governor's Budget. For 2006-07, the Governor proposes to fund three percent enrollment growth, a target that the colleges are failing to meet in the current year.

In response to the current-year enrollment trend, the community colleges continue are in the process of reevaluating the amount of enrollment growth necessary in 2006-07. As part of its Fall 2005 systemwide budget proposal, the Chancellor's Office requested enrollment growth totaling four percent (or \$210.0 million.)

In its *Analysis of the 2006-07 Budget Bill*, the 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 1.74 percent, citing this as a level more than sufficient to meet any increased enrollment demand at the community colleges. Further, reducing the amount of funded enrollment growth pursuant to the LAO's recommendation would free up \$62 million for another, perhaps higher priority purpose.

However, some 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 3.0 percent, especially as the state comes out of its recent recession.

Staff recommends that the committee hold open any action on the proposed augmentation of \$148.8 million for enrollment growth pending both the Governor's May Revision and better estimates of 2006-07 enrollment levels.

X. Unfunded Community College Budget Proposals (Information Only)

The community colleges requested additional funding for a variety of programs that were not approved by the Administration or included in the Governor's Budget. Following is a listing of the several higher priority items which were denied funding.

1. Part-Time Faculty Office Hours and Health Insurance (\$9 million)

Funding would be used to provide for the state's share of both the Part-Time Faculty Office Hours Program and the Part-Time Faculty Health Insurance Program. Each of these programs requires a 50 percent local match, thereby leveraging state funds and providing an incentive for local community college districts to pay part-time faculty for providing office hours as well as offering health insurance benefits to part-timers.

2. 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 \$2,164, or about 50 percent of the *credit* FTES rate (approximately \$4,220). 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 2006-07 would increase the existing rate by \$325 per FTES (15 percent).

Staff notes Senate Bill 361 (Scott) contains 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.

3. Rural Access Grants (\$5 million)

The current community college funding model does not adequately address the additional costs inherent in operating small colleges. Due to the geographic remoteness of the campuses, and the distance between campuses and the populations they serve, many campuses have additional costs, but no "economies of scale" to cover those costs. This request would provide a "block grant" of \$500,000 for nine rural, single college districts, plus Amador County (total of ten community college districts.)

4. Restore Support for Matriculation Services (\$24 million)

The community colleges are requesting that the state provide funding for matriculation services equivalent to the amount spent on the program in 2001-02. At that point in time, the state spent what amounts to \$82 per FTES (\$76 million total). As adjusted for enrollment growth, the community colleges are requesting an augmentation of approximately \$38 million, over a two year period, to continue achieving the \$82 per FTES rate. Their goal is to achieve an additional \$24 million in 2006-07, with the remaining \$14 million being appropriated in 2007-08.

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 2006-07 Budget Proposal, the Governor includes approximately \$71 million for matriculation.

5. Professional Development (\$5 million)

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.

6. Increase Ratio of Full-Time Faculty (\$40 million)

The Chancellor's Office is requesting that the state provide funds to help districts make progress towards achieving the current statutory goal that full-time instructors provide 75 percent of the district's instruction.

XI. Proposed Consent

6870-001-0001. Support, California Community Colleges. Chancellor's Office. \$9,254,000

6870-001-0909. Support, California Community Colleges. Fund for Instructional Improvement \$13,000

6870-001-0925. Support, California Community Colleges. California Business Resource and Assistance Innovation Network Fund \$12,000

6870-001-6028. Support, California Community Colleges. Facilities Planning, Payable from the 2002 Higher Education Capital Outlay Bond Fund \$1,441,000

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 \$18,000

6870-103-0001. Local Assistance, California Community Colleges. Lease Revenue Bond Payments \$63,960,000

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

6870-495. Reversion, California Community Colleges.

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

OUTCOMES

Agenda
March 27, 2006
Upon Adjournment of Senate Floor Session (or 1:30pm) – Room 113

Overview Presentations: Dr. Robert C. Dynes, President, University of California

~~Dr. Marshall Drummond, Chancellor, California Community Colleges~~

California Community Colleges (6870)

I. Overview of Governor's Budget Proposal for California Community Colleges (LAO)	Page
II. Retiree Health Benefits Reporting	Page
III. Mandates	Page
IV. Career Technical Education	Page
V. Nursing Education	Page
VI. CalPASS	Page
VII. Equalization	Page
VIII. Financial Aid Outreach Budget Bill Language	Page
IX. Enrollment Growth	Page
X. Unfunded Budget Change Proposals	Page
XI. Consent	Page

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. Augmentation of K-14 Education *Committee approved the appropriation of \$500 million Proposition 98 funds to K-14 Education in the current year and adopted a payment "schedule" of roughly \$270 million per year – for a total of ten years of payments totaling \$3.2 billion. Subcommittee to allocate out funds later in the budget subcommittee process. (Vote: 2-0)*

II. Retiree Health Benefits (Information Only) *No Action by Committee*

III. Mandates *Chair of the committee requested the LAO to calculate the community college "share" of both the ongoing dollars proposed for mandates as well as the Proposition 98 settle up funds contained in the Governor's 2006-07 proposed education trailer bill and report its findings back to the subcommittee prior to the May Revision.*

IV. Career Technical Education *This issue was held open (including approval of the new position), pending both the May Revision and an update from the Community Colleges Chancellor's Office -- after April 20, 2006 – as to how the current year funds are being expended.*

V. Nursing Education *Committee approved \$14 million of base budget funding, as budgeted, for nursing; (2) consolidated those funds into a single schedule in the Budget Bill to make it easier to track state spending in this area; and (3) placed additional funding (totaling \$11.3 million) for other nursing-related activities on the "checklist" pending the May Revision.*

VI. CalPASS *Committee approved the \$500,000 augmentation contained in the Governor's proposal, as budgeted, and placed an additional \$500,000 on the "checklist" pending the May Revision.*

VII. Equalization *Issue was held open pending (1) the May Revision; (2) a resolution as to how funds should be allocated; and (2) the continued discussion of future changes to Program-Based Budgeting.*

VIII. Financial Aid Outreach Budget Bill Language *The committee deleted the sentence the following clause: "funds provided in this section be used to verify Cal Grant eligibility for current and potential applicants" from Provision 12 (c)(2) of Item 6870-101-0001, of Senate Bill 1129 (Governor's Budget Proposal) and restored the language in that provision to its long-standing and original form.*

IX. Student Enrollment Growth *The committee held open the proposed augmentation of \$148.8 million for enrollment growth pending both the Governor's May Revision and better estimates of 2006-07 enrollment levels.*

X. Unfunded Community College Budget Proposals (Information Only)

No Action.

XI. Proposed Consent

The following items were approved, on consent (Vote 3-0):

6870-001-0001. Support, California Community Colleges. Chancellor's Office. \$9,254,000

6870-001-0909. Support, California Community Colleges. Fund for Instructional Improvement \$13,000

6870-001-0925. Support, California Community Colleges. California Business Resource and Assistance Innovation Network Fund \$12,000

6870-001-6028. Support, California Community Colleges. Facilities Planning, Payable from the 2002 Higher Education Capital Outlay Bond Fund \$1,441,000

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

6870-495. Reversion, California Community Colleges.

SUBCOMMITTEE NO. 1 on Education



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

Monday, April 3, 2006
1:30 pm
Room 113, State Capitol

<u>Item</u>	<u>Department</u>	<u>Page</u>
6110	Department of Education	
Issue 1	Governor's Initiative – California High School Exit Exam (CAHSEE) Block Grants	2
Issue 2	Governor's Initiative - School Enrichment Block Grants	5
Issue 3	Governor's Initiative - Beginning Teacher Support and Assessment (BTSA) Expansion Grants	8
Issue 4	Governor's Initiative – Fruits and Vegetables Grants.....	10
Issue 5	Governor's Initiative – Physical Education Grants	12
Issue 6	Governor's Initiatives – Music and Arts Grants	14
Issue 7	Governor's Initiatives – Digital Classroom Grants	16
Issue 8	K-12 High-Speed Network – Overview of BSA Audit Report.....	18
Issue 9	K-12 High-Speed Network – Budget Update	20
Issue 10	Statewide Data Systems – CALPADS	23
Issue 11	Statewide Data Systems – CSIS.....	25

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ITEM 6110 DEPARTMENT OF EDUCATION**ISSUE 1: California High School Exit Exam (CAHSEE) Student Assistance Grants
(6110-204-0001)**

DESCRIPTION: The Governor proposes **\$40 million** in 2006-07 – an increase of **\$20 million** above the current year amount – to provide intensive instruction and services to assist students in the graduating class of 2007 who have not yet passed the CAHSEE. The Governor also proposes to continue **\$52.8 million** in new special education funding in 2006-07 that *may be* utilized to assist students with disabilities pass the CAHSEE.

BACKGROUND:

The graduating class of 2006 will be the first group of students in California that must pass the California High School Exit Exam (CAHSEE) in order to graduate from high school. Students begin taking the exam in 10th grade. The exam includes two tests – English Language Arts and mathematics.

The latest figures from CDE, which reflect two administrations of CAHSEE in Fall 2006, indicate that approximately **11.1 percent** of high school seniors in the class of 2006 have not passed either the English language arts exam or the mathematics exam. The percentage of seniors who have not passed is higher for some groups of seniors, for example 30.9 percent of English learners and 18.4 percent of economically disadvantaged students have not passed either of these exams. [See Appendix A.]

Students with disabilities are not included in the latest report, according to CDE, because they are exempted from passage of CAHSEE for one year following passage of Chapter 3, Statutes of 2006 (SB 517/Romero). The most recent data indicates that 42 percent of students with disabilities had not passed either of the CAHSEE exams.

While passage rates are likely to increase with results from the final three administrations of CAHSEE in February, March and May 2006, there are currently **47,925 students** who have yet to pass both sections of the CAHSEE. This total does not include special education students, because they were removed from the analysis following passage of Chapter 3, Statutes of 2006.

Current Program: The 2005-06 budget provides **\$20 million** in ongoing, first-time funding to provide intensive instruction and services to assist students in the class of 2006 pass the CAHSEE. Chapter 234, Statutes of 2004 (AB 128/Committee on Budget) added these funds to the budget and defined intensive instruction and services that may include: hiring additional teachers, individualizing instruction, providing teacher training, and offering individual or small group instruction.

Under the current program, intensive instruction and services may be provided during the regular school day provided they do not supplant core curriculum or physical education. As a condition of funding, school districts must assure that each eligible pupil receives a diagnostic assessment and intensive instruction and services based upon that assessment. School districts are also

required to provide data on the number of students served, types of services provided and the passage rates for students.

The current program provides \$600 per student for 33,330 eligible pupils, defined as 12th graders in the graduating class of 2006 who have not passed one or both sections of the CAHSEE. These funds were intended to build upon the \$400 per student available from existing supplemental instruction programs. The current program also gives priority in funding to schools with the highest proportion of students who have not passed CAHSEE.

The 2005-06 budget also contains **\$52.8 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE. Students receiving these funds are not eligible for these services and are not considered eligible for the \$20 million in CAHSEE intervention funds.

Funding in the current year has been insufficient to provide funds for all eligible students. According to the most recent estimates from CDE, a total of 73,270 seniors were found to be eligible for funding in 2005-06, more than double the 33,330 seniors actually funded. In total, 625 schools districts, county offices of education and independent charters were eligible for funding and 347 were funded. While 1,747 schools applied for funding, only 742 schools were funded.

Governor's Budget: The Governor proposes **\$40 million** in ongoing funding – double the current year amount – to provide intensive intervention to students in the graduating class of 2007 who have not yet passed the CAHSEE. The Governor proposes \$631 per student, which reflects the current year rate adjusted for COLA, and funds a total of 63,391 eligible students in the graduating class of 2007.

The Governor's budget-year proposal establishes separate rankings for comprehensive high schools and all other high schools in determining funding priority, setting aside **\$35 million** for students in comprehensive high schools and **\$5 million** for students in continuation, juvenile court, county community day, adult education and alternative schools.

The Governor also proposes continuation of another **\$52.8 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE.

LAO Recommendations: The LAO recommends approval of the additional **\$20 million** in 2006-07 for remedial instruction for students who have not passed the CAHSEE in 2006-07. The LAO believes that, given the importance to students, additional resources are warranted to assist students who have failed the exam. This is the only new or expanded program the LAO recommends funding in 2006-07.

The LAO also recommends that the Legislature adopt trailer bill language that would allow up to ten school districts to test comprehensive approaches to assisting students pass the CAHSEE. The LAO points out that the **\$40 million** proposed for intensive instruction for 12th graders who have not yet passed CAHSEE, builds upon another **\$177 million** in ongoing funds already included in the budget for supplemental instruction for students in grades 7 through 12. These

supplemental instruction funds are also intended to help students pass the CAHSEE. Districts receive \$3.87 per student for supplemental instruction, which must be in addition to services provided in the regular school day – before or after school, summer school and Saturdays.

COMMENTS:

According to DOF, the Administration intends to fund all eligible students in 2006-07 at a rate of \$631 per student. However, CDE estimates that 73,270 students were eligible for funding in 2005-06. The Governor would need to provide a total of **\$46.2 million** in 2006-07 -- an additional **\$6.2 million** -- to provide funding for all eligible students who are not receiving special education services.

	Eligible Students	Estimated Cost (\$631/student)
Governor's Budget	63,391	\$40.0 m
Estimated Regular Education	73,270	\$46.2 m
Estimated Special Education	26,667	\$16.8 m
Estimated Total Eligible Students	99,937	\$63.1 m

The Governor would need to provide a total of **\$63.1 million** – an additional **\$23.1 million** – to provide funding for all eligible students, including students receiving special education services are included in totals.

The **\$52.8 million** in special education funds the Governor proposes to continue in 2006-07 to assist students with disabilities pass CAHSEE will be discussed further at the next Subcommittee hearing.

SUGGESTED QUESTIONS:

1. *For DOF: What level of funding is needed in the budget year to provide intensive assistance to all eligible students in 2007? Does DOF accept the latest CDE/HumRRO estimates of eligible pupils as the basis for funding in 2007?*
2. *Would students from the class of 2006 who have still not passed CAHSEE at the end of the current school year be eligible for CAHSEE assistance funding in 2006-07?*
3. *For DOF: What is the need for creating two separate funding sources for comprehensive high schools and for alternative schools if DOF intends to fund all eligible students?*
4. *For DOF: The \$40 million proposed by the Governor in 2006-07 is tied to students in the class of 2007 who have not yet passed the CAHSEE? Does the Administration also intend to provide funding for students in the class of 2006 who ultimately fail all administrations of CAHSEE in 2006?*
5. *For DOF and CDE: Is \$631 per student an appropriate level of funding for CAHSEE intervention, especially when considered together with the \$400 per student available for supplemental instruction.*
6. *For CDE: Has the \$70 million appropriated, in the current year, for CAHSEE assistance been well utilized by schools and is there evidence it has been effective in increasing passage rates?*

ISSUE 2: Governor's Initiative -- School Enrichment Block Grants (6110-262-0001)

DESCRIPTION: The Governor proposes **\$100 million** in ongoing funding for School Enrichment Block Grants to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API). The Governor proposes an additional **\$3 million** in one-time funds to continue a state level contract to assist these low performing schools in recruiting highly qualified teachers.

BACKGROUND:

Current Program: Chapter 491, Statutes of 2005 (SB 65/Budget Committee) provided up to \$49.5 million in one-time funds from the Proposition 98 Reversion Account, as a part of final 2005-06 budget agreements between the Legislature and the Administration. Of this amount, \$3 million was allocated to a county office of education to contract with an outside entity to recruit highly qualified teachers to schools in deciles 1-3 of the API.

According to CDE, funding agreements for the new Teacher Recruitment and Student Support Grants authorized by Chapter 491 were due on March 8, 2006. Upon receipt of all required documentation, funding should be underway to school districts and charter schools. Based upon current applications, CDE estimates that schools will receive approximately \$23.73 per student.

Governor's Budget: The Governor proposes to expand, and permanently continue, block grants funded with up to **\$49.5 million** one-time funding in the current year for the purpose of providing teacher and administrator training, support, recruitment and retention, as well as student support services. Specifically, the Governor proposes **\$100 million** in ongoing funds in 2006-07 to provide School Enrichment Block Grants to school districts and charter schools in order to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API).

Funding is proposed at the rate of \$50 per pupil with minimum school site grants of \$5,000. As indicated below, the Governor's proposed School Enrichment Block Grants would provide \$50 per school, which translates to between **\$26,750 and \$47,400** per school type.

Type of School	Amount Per School (\$50/student)
Elementary School (Average: 535 Students)	\$26,750
Middle School (Average: 871 Students)	\$43,550
High School (Average: 948 Students)	\$47,400

The Governor's proposed School Enrichment Block Grants can be expended for the general purposes of improving the school environment and culture, as detailed in budget bill language, and may include:

- Assuring a safe and clean environment;
- Forgiving student loans for teachers and administrators;

- Recruitment and retention activities, including differential compensation for highly qualified teachers and highly skilled principals;
- Payment of signing bonuses to teachers and principals;
- Recognition pay to teachers and principals;
- Housing and relocation assistance to teachers and principals;
- Recruitment and retention training for human resources professionals; and
- Professional development and leadership training for teachers and principals.

The DOF indicates that while this program was funded with one-time dollars in 2005-06, the Administration intended the program to be an ongoing program for schools in the lowest three deciles.

The Governor also proposes to continue **\$3 million** in one-time funds from the Proposition 98 Reversion Account in 2006-07 for a statewide contract to recruit highly qualified teachers to schools in the lowest three deciles of the API.

LAO Recommendation: The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

COMMENTS:

Need for Highly Qualified Teachers: According to the Superintendent of Public Instruction, California will need to hire an additional 100,000 teachers over the next ten years and this funding will provide "incentives to help recruit and retain experienced teachers at the schools that need them the most." Additionally, under the federal No Child Left Behind (NCLB) Act of 2001, all educators must become "highly qualified" by the end of the 2005-06 school year.

Additional LAO Comments: The LAO notes that without supplanting provisions for this proposal, new funds could simply be used to pay for existing programs and would not assure funding for new programs. The LAO also notes that the new program contains no requirements for expenditure or outcome data, or program evaluation.

Current Year Funding Available: Funding for the Teacher Recruitment and Student Support Program (TRSSP) grants, authorized by Chapter 39, Statutes of 2005, are just recently being allocated to school districts and charter schools. It is unclear how much of the **\$49.5 million** in the current year has been expended and whether an additional **\$100 million** in funding would be needed to continue the program in the budget year.

In addition, because the **\$3 million** for the statewide teacher recruitment and retention contract in the current year has not yet gone out, it is unlikely that another \$3 million is needed in the budget year for this purpose.

Changes in Permissible Uses in Funding: There are significant differences in the permissible uses of funding between the Teacher Recruitment and Student Support grants authorized in the 2005-06 budget and the Governor's proposed School Enrichment Block Grants for 2006-07. The proposed School Enrichment Block Grants exclude support services for students and teachers; small group instruction; and time for teacher planning and collaboration from the list of permissible uses of block grant funding. The proposed School Enrichment Block Grants adds other permissible uses, including: student loan forgiveness, signing bonuses, housing assistance and relocation costs, professional development and leadership training for teachers and principals, as well as training for human resource professionals in effective recruitment and retention.

[Budget Bill Language]

OUTCOME:

**ISSUE 3: Governor's Initiative - Beginning Teacher Support and Assessment (BTSA)
(6110-244-0001)**

DESCRIPTION: The Governor proposes **\$65 million** to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the Academic Performance Index (API).

BACKGROUND:

Existing Program: BTSA is a teacher induction program that currently serves approximately 25,000 first and second year teachers statewide. Funding for the BTSA is now contained in the Teacher Credentialing Block Grant as the result of categorical program consolidation and reforms enacted in recent years. BTSA is the only program included in the Teacher Credentialing Block Grant. Total funding for the Teacher Credentialing Block Grant in 2005-06 is **\$87.9 million**.

Governor's Budget: The Governor proposes to increase funding for the Teacher Credentialing Block Grant by **\$65 million** in 2006-07 to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the Academic Performance Index (API). As proposed, the additional year of induction support would emphasize diagnostic student assessments, differentiated instruction, classroom management, and parental involvement. The **\$65 million** in additional BTSA funding proposed by the Governor has two components:

- **New Teachers (\$24 million).** First priority for funding would be to provide a year of *mandatory* support for teachers in their third year of teaching. Funding for third year teachers would be provided at the full BTSA rate of \$3,865 per teacher. DOF estimates that all third year teachers in decile 1-3 schools would participate in the additional year of BTSA since it would be required.
- **More Experienced Teachers (\$41 million).** Second priority would be for some additional BTSA-type training for more experienced teachers (beyond their third year of teaching) who are new to decile 1-3 schools and who *volunteer* to participate in a year of BTSA training. These more experienced teachers would receive funding at half the full rate or \$1,933 per teacher. DOF estimates that approximately 25 percent of these teachers would choose this additional BTSA training.

LAO Recommendations: The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

COMMENTS:

The Governor's BTSA proposal establishes a new, ongoing program component with an existing program. While BTSA is considered an effective program, the program provides services to new, fully credentialed teachers. However, as the LAO points out, there are relatively high percentages of teachers at low-performing schools *without* full credentials, e.g. emergency permits or intern credentials. In this scenario, the new BTSA resources would not reach the teachers who need assistance the most.

[Budget Bill Language.]

OUTCOME:

ISSUE 4: Governor's Initiative – Fruits and Vegetables Grants (6110-217-0001)

DESCRIPTION: The Governor proposes **\$18.2 million** in ongoing funding in 2006-07 for the California Fresh Start Pilot Program in order to improve the supply of fruits and vegetables included in school meals served to K-12 students. In addition, the Governor proposes a General Fund increase of **\$174,000** to fund two support positions at CDE for the pilot program beginning in 2006-07.

BACKGROUND:

The 2005-06 budget provides \$18.2 million in one-time funds for the California Fresh Start Pilot Program established by Chapter 236, Statutes of 2005 (SB 281/Maldonado). This program supplies “nutritious” fruits and vegetables to K-12 schools by providing an additional 10 cents for school breakfast meals in order provide one or two servings of fruits and/or vegetables. If schools already provide two servings at breakfast, then funds can be used to purchase fruit and/or vegetable servings for other school meals or after-school snacks.

Nutritious fruits or vegetables are defined as including fresh and *canned* fruits and vegetables, but cannot include juice or deep-fried varieties.

Funding is available for schools in school districts and charter schools. Total funding for the program is tied to the number of school breakfast meals served by schools. Ninety percent of program funds must be spent on direct purchase of fruits and vegetables; ten percent is set-aside for program overhead.

Of the \$18.2 million provided in 2005-06, \$300,000 was set-aside for allocation to a county office of education to contract for an independent evaluation of the pilot program.

The Governor proposes **\$18.2 million** in 2006-07 in order to provide ongoing funding for the California Fresh Start Pilot Program. The Governor's proposal continues funding at the current year level assuming full participation by the 1,100 districts and charter schools that together serve approximately 180 million breakfast meals annually.

The Governor's January budget also proposes an increase of **\$300,000** in state operations for the Department of Education in 2006-07 to handle workload associated with administration of the California Fresh Start Pilot Program and implementation of school nutrition standards pursuant to Chapter 235, Statutes of 2005. Of this amount, the Governor proposes a **\$100,000** General Fund increase associated with two support positions at CDE for the Fresh Start Pilot Program. [The Governor's April Finance Letter requests an additional **\$74,000** in General Funds for these positions.] The remaining **\$200,000** requested in January provides increased reimbursements from food vendors that elect to have their products certified under the new state nutrition standards established by Chapter 234.

LAO Recommendation: The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and

declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

COMMENTS/RECOMMENDATIONS:

Availability of Current Year Funding to Continue Program: *Staff recommends* that CDE and DOF determine if it is possible to reappropriate unexpended, one-time funding from 2005-06 to implement the California Fresh Start Pilot Program in 2006-07. The CDE has only recently been able to allocate some of \$18.2 million in 2005-06 funding to school districts and charter schools, due to delays associated with the approval of emergency regulations for this new pilot program. Due to these delays, it is likely that less than one-quarter of the \$18.2 million will be expended by the end of the current year.

In addition, this program was established as a pilot program and funded with one-time dollars in 2005-06. Funds were set-aside for an evaluation of the pilot program. The State Board has adopted an evaluation proposal, but an evaluation has not been commenced. *Staff notes* it seems premature to establish ongoing funding for this program until the program has been fully implemented and the results of the pilot evaluation are known.

Alternative CDE School Meal Proposal: The CDE supports additional funding to increase the state meal program rate, which the department asserts has remained at virtually the same level over the last fifteen years. CDE maintains that school meal programs do not always receive a statutory COLA. In contrast, the DOF maintains that while school meal programs did not receive a COLA in the early 1990s, the meal program has benefited from the same COLA increases that statutory programs have received the last fifteen years.

The CDE recommends increasing the state meal program reimbursement from approximately 14 cents to 21 cents per meal in order to reflect the costs of foregone COLAs for school meals in prior years. This proposal would cost **\$39 million** and would improve the quality of school meals overall by providing adequate reimbursements for food costs, supplies, equipment, and labor associated with providing school meals.

The state meal program supplements the federal funds school districts receive for free and reduced price lunches. According to CDE, fresh fruits and vegetables generally cost more to provide than frozen or canned varieties. *Staff notes* that some increase to the school meal program might be a more effective and efficient way to augment funding for schools to improve the quality of school meals. These funds could be used to purchase more nutritious foods including fresh fruits and vegetables, for all meals, and pay for some of the food service infrastructure some schools may need to provide more nutritious meals for all students. In addition, these additional funds could be used to meet the new, more comprehensive nutrition standards currently being implemented by schools.

OUTCOME:

**ISSUE 5: Governor's Initiative – Physical Education Grants for K-8 Schools
(6110-260-001)**

DESCRIPTION: The Governor proposes **\$85 million** in ongoing funding for two new programs to improve physical education for students in elementary and middle schools commencing in 2006-07. The Governor's proposal does not include funding for high schools.

BACKGROUND:

The Governor proposes a total of **\$85 million** in 2006-07 to improve physical education and reduce childhood obesity for elementary and middle school students. The Governor's proposal includes two components:

Physical Education Block Grant. The Governor proposes **\$60 million** in physical education block grants to school districts and charter schools for the purpose of increasing physical activity and implementing standards-aligned physical education programs in elementary and middle schools. Funding may be used for hiring qualified staff, reducing class size, and providing standards-aligned professional development and curricula.

Funding will provide minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with 11 to 420 students. All remaining funds would be allocated, on a per student basis, to school sites with more than 420 students. DOF estimates funding at roughly \$12.40 per student, which would provide funding of approximately \$6,634 a year for the average size elementary school and \$10,888 for the average middle school.

Type of School	Amount Per School (\$12.40/student)
Elementary School (Average: 535 Students)	\$6,634
Middle School (Average: 871 Students)	\$10,800

Physical Education Teacher Incentive. The Governor proposes **\$25 million** to provide incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$25,000 per school site, which would be selected randomly with considerations for school type, size, and location. Physical education is typically provided by teachers with a Multiple Subjects Credential in elementary school. This incentive program is intended to increase the number of teachers with physical education credentials on elementary school and middle school campuses.

The Administration has drafted bill language for each of the Governor's two physical education proposals. To date, no author has been found for these bill proposals.

LAO Recommendation: The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

COMMENTS:

The LAO notes that the proposed PE Teacher Incentive program protects against supplanting, but the PE Block Grants do not contain supplanting provisions. Therefore, new funds could be used to pay for existing programs instead of program expansion. The LAO also notes that the new program contains no requirements for a local spending plan, expenditure or outcome data, or program evaluation.

The Governor's proposal presumes that there is a shortage of qualified physical education teachers. However, according to the LAO, there is no evidence of such a shortage. In addition, the proposal assumes a decline in the number of physical education course offerings in elementary and middle schools. However, according to the LAO, the number of physical education courses in middle schools has actually increased slightly since 2001-02.

The LAO also notes that the Governor's physical education proposals are not well integrated with the existing after-school programs, which emphasize physical activity and recreation.

[BBL and TBs]

OUTCOME:

**ISSUE 6: Governor's Initiative – Arts and Music Block Grant for K-8 Schools
(6110-265-0001)**

DESCRIPTION: The Governor proposes **\$100 million** in ongoing funding to establish a new statewide Arts and Music Block Grant program for elementary and middle schools beginning in 2006-07. The Governor's proposal does not provide funding for high schools.

BACKGROUND:

The Governor proposes **\$100 million** in 2006-07 to provide an Arts and Music Block Grant to K-8 schools in school districts, county offices of education and charter schools. The Governor's proposal does not include funding for high schools.

The new block grant would provide funding for standards-aligned fine arts instruction (art, dance, music, theater/drama) for students in elementary and middle schools. Funding may be used for a variety of purposes to further the state's Visual and Performing Arts standards, including:

- hiring additional staff;
- purchasing of new materials, books, supplies and equipment; and
- providing staff development.

The Governor's proposal would provide funding at a level of \$20 per pupil, with minimum grants of \$3,000 for schools with 10 or fewer students and \$5,000 for schools with more than 10 students. At \$20 per pupil, the average sized elementary school would receive \$10,700 and the average middle school would receive \$17,400 a year for this new program.

Type of School	Amount Per School (\$20/student)
Elementary School (Average: 535 Students)	\$10,700
Middle School (Average: 871 Students)	\$17,400

LAO Recommendation: The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

COMMENTS: There is currently no categorical program or other dedicated funding stream for supporting music and arts programs in K-12 schools. The purpose of the Governor's proposal is to restore arts and music programs to schools, which have reportedly declined due to fiscal pressures on schools. The Governor's proposal does not include funding for high schools, although the Administration has expressed intent to expand Arts and Music grants to all K-12 schools, including high schools, in the future. This has importance since a visual and performing arts class is included in the A-G requirements for entering California public universities.

The LAO notes that without supplanting provisions for this proposal, new funds could simply be used to pay for existing programs and would not assure funding for new programs. The LAO also notes that the new program contains no requirements for a local spending plan, expenditure or outcome data, or program evaluation.

The Governor's proposal presumes a reduction in music and arts offerings in elementary and middle schools that should be restored. However, the LAO indicates that the number of music and arts courses remained virtually constant since 2001-02.

[BBL only]

OUTCOME:

ISSUE 7: Governor's Initiative – Digital Classroom Grant Program (6110-264-0001)

DESCRIPTION: The Governor proposes **\$25 million** to establish a new program intended to eventually provide one-time Digital Classroom Block Grants to classrooms in all K-12 schools. These one-time block grants are intended to advance the effective use of education technology in order to improve classroom instruction and student achievement.

BACKGROUND:**Governor's Budget:**

The Governor proposes **\$25 million** in 2006-07 to provide one-time Digital Classroom Block Grants to school districts and charter schools for the purchase of education technology and technology related services. Funding would be provided on a one-time basis for individual schools; however, the Department of Finance anticipates that annual appropriations for the program would continue until all classrooms in the state have received funding.

Each school district or charter would receive **\$3,000** per eligible classroom. Funding can be used for one-time expenditures including computer hardware or software, staff development or other technology related expenditures that improve classroom instruction.

As a condition of funding, school districts and charter schools are required to develop a plan, which must be approved by their governing board, specifying how funds will be used in eligible schools. The Superintendent of Public Instruction will allocate statewide funds to locally prioritized schools in school districts of different sizes and types within each of the state's 11 California Technology Assistance Project regions.

The Governor is sponsoring **AB 1548 (Pavely)** to implement this new Digital Classroom Grant program.

LAO Recommendation: The LAO recommends rejecting all of the Governor's new program proposals, including this proposal, because they: (1) do not address the state's structural budget imbalance and serious fiscal pressures facing school districts, such as retiree health costs and declining enrollment; (2) take a step backwards for categorical reform; (3) have basic policy flaws; and (4) contain virtually no planning, reporting, evaluation, or accountability components.

COMMENTS:

The Governor's proposal would provide technology grants of \$3,000 to at least 292,059 public school classrooms; the number of charter school classrooms are not known. The total cost of funding these classrooms would total **\$877.7 million**. At the rate of \$25 million per year, it would take more than 35 years to fund all classrooms in California. By any analysis, this program would be an ongoing program.

In addition, the LAO believes that the kinds of one-time expenditures the Governor proposes for the Digital Block Grants could be funded through significant new funds that may soon be

available to schools in California from a Settlement Agreement between California consumers and the Microsoft Corporation. CDE estimates that these settlement funds will provide between **\$400 and \$600 million** to eligible schools in California. Eligible schools include schools where 40 percent or more of the students receive free or reduced price lunches. School districts with state-approved technology plans would be qualified to apply for vouchers on behalf of their schools. These settlement funds will be provided in the form of vouchers – half for general purposes and half for software purchases. Schools would have six years to redeem these vouchers. Settlement funds could be available to California schools as early as May 2006, unless appeals in the case are heard, which would delay final settlement another few years.

The LAO also notes that without supplanting provisions for this proposal, new funds could simply be used to pay for existing programs and would not assure funding for new programs. The LAO also notes that the new program contains no requirements for expenditure or outcome data, or program evaluation.

[BBL and AB 1548/Pavley]

SUGGESTED QUESTIONS:

- 1. To CDE: The Governor's technology grant proposal requires the development of district-wide education technology plans. Do school districts already have education technology plans?*
- 2. To DOF: How is the Governor's technology grant program integrated with the K-12 High-Speed Network?*
- 3. To CDE and DOF: It appears that Microsoft settlement funds, once provided to schools, will cover the same kinds of expenditures covered by the Governor's proposed technology grant. Is this correct?*

OUTCOME:

ISSUE 8: K-12 High-Speed Network – Overview of BSA Audit Report

Description: The Bureau of State Audits will present findings and recommendations from the K-12 High-Speed Network audit released in January 2006. This audit was required by the 2005-06 budget in response to numerous concerns about the network.

Background: The 2005-06 budget eliminated \$21 million in new funding for the K-12 High-Speed Network due to ongoing and growing concerns about the purpose, governance and funding of the network. In place of these funds, Chapter 491, Statutes of 2005 (SB 65/Committee on Budget and Fiscal Review) authorized \$21 million in funding from previously appropriated funds for the network. Chapter 491 also required an audit of the network by the Joint Legislative Audit Committee. The Bureau of State Audits released its audit of the K-12 High-Speed Network in January 2006.

In its review of the California K-12 High-Speed Network, the Bureau of State Audits (BSA) made a number of findings and recommendations that are outlined below. These findings and recommendations are taken verbatim from the BSA's K-12 High-Speed Network Summary. [See Appendix B for the full text of the Summary.]

BSA Audit Findings:

- The State most likely spent less on the building and operation of the High-Speed Network by expanding the existing infrastructure used by the University of California and other higher education institutions than it would have spent for a separate network with comparable services.
- A study conducted by our technical consultant in 2005 found that the High-Speed Network has adequate bandwidth for potential growth but is not overbuilt. Furthermore, our technical consultant found no compelling technical or financial reason to abandon the existing High-Speed Network.
- Because of the lack of specific performance measurements in state law and because the Imperial County Office of Education (ICOE), which currently administers the project is in the early stages of developing a suitable plan for measuring the success of the High-Speed Network, it is difficult to determine whether the network accomplishes the Legislature's goals.
- As of June 30, 2005, the Corporation for Education Network Initiatives in California (CENIC) the nonprofit that built and currently operates the network, held \$13.6 million in High-Speed Network Funds and it expects to receive an additional \$3.6 million related to telecommunication discounts in fiscal year 2005-06. These funds are being used to keep the network operating in fiscal year 2005-06 or are held for future equipment replacement.
- Opportunities exist for ICOE to strengthen its agreements with CENIC to better protect the State's interests. Specifically, its agreements lack detailed service-level agreements, do not ensure that it retains ownership of tangible nonshared assets, and do not ensure that interest earned on advance payments made to CENIC or funds held by CENIC on its behalf accrue to the benefit of the High-speed Network.

- Our legal consultant reviewed the expenditure of funds by CENIC for the High-Speed Network and found that CENIC did not develop or acquire any assets that would have been eligible for protection under patent, copyright, or trade secret law.

BSA Audit Recommendations:

- To ensure that the High-Speed Network meets its expectations, the Legislature should consider enacting legislation that prescribes the specific goals and outcomes it wants from the High-Speed Network project.
- To ensure that the High-Speed Network is appropriately managed, Education should ensure that ICOE includes the appropriate service-level agreements in its ongoing contracts with CENIC and other service providers for the High-Speed Network project.
- To ensure adequate protection of the State's interest in tangible, nonshared assets, Education should direct ICOE to transfer ownership of these types of assets to the State.
- To ensure that the interest earned on advance payments made to CENIC, or funds that CENIC holds on ICOE's behalf are used to benefit the High-Speed Network, Education should direct ICOE to amend its agreement with CENIC to stipulate the allowable use of the interest earned.
- Finally, Education should ensure that ICOE develops a method to measure the success of the High-Speed Network.

ISSUE 9: K-12 High-Speed Network – Budget Update (6110-182-0001)

DESCRIPTION: The LAO will present new fiscal information for the K-12 High-Speed Network revealed by recent audit of the K-12 High-Speed Network conducted by the Bureau of State Audits (BSA). The LAO will provide an update of the 2005-06 budget for the network and an outline of issues and preliminary options for the 2006-07 budget. The Governor does not provide funding for the K-12 High-Speed Internet Network in 2006-07, but the Administration will update its budget proposal at May Revise to reflect the findings and recommendations of the BSA audit.

BACKGROUND:

History: 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 (UC), 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.

2004-05 Budget: In 2004-05, the Legislature switched funding for the Internet 2 program from UC to K-12 education. As requested by the Governor, the Legislature appropriated \$21 million to the California Department of Education for the K-12 High-Speed Network, previously known as Internet 2.

A number of concerns were raised during budget discussions in 2004-05 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.

2005-06 Budget: The 2005-06 budget eliminated \$21 million in new funding that the Administration proposed for the K-12 High-Speed Network and instead authorized funding at the same level from unused funds previously appropriated for Internet connectivity and network

infrastructure for grades K-12 schools and county offices of education. Budget language requires an audit of the network by the Joint Legislative Audit Committee.

Governor's Budget: The Governor does not provide funding for the K-12 High-Speed Internet Network in 2006-07, but does maintain the program item in the budget. Provisional budget language for that item states that budget decisions for the program will be made pending the result of the audit by the Joint Legislative Audit Committee (JLAC). The Governor will update its budget proposal at May Revise to reflect the findings and recommendations of this audit, as recently released by the Bureau of State Audits.

The Administration has identified **AB 1837 (Daucher)** as the measure it is sponsoring to establish a governance structure for the K-12 High-Speed Network program. This bill has not yet been amended to include the Administration's proposed governance provisions.

LAO Findings & Recommendations: According to the LAO, the BSA audit addressed four major policy issues facing the Legislature in considering funding for the K-12 High-Speed Network: These issues include: purpose of the network; outcomes for the network; governance of the network; and cost effective ways to support the network.

Ongoing Concerns: The LAO has identified a number of remaining concerns identified by the audit that need to be addressed in continuing support for the network. These four issues involve existing contracts between the education segments and CENIC, including:

- **Prepayment for Services to CENIC.** In 2004-05 and 2005-06, ICAO continued the practice of paying CENIC before it provided services. This practice was also utilized between UC and CENIC before funding was switched to K-12.
- **Interest on Prepayments Accrued to CENIC.** Interest earned on prepayments were transferred to CENIC for their general operations rather than to the K-12 network.
- **Unspecified Service Agreements with CENIC.** The level and nature of services have not been specified in the agreements between CENIC and the education partners.
- **State Funded Assets Held by CENIC.** Assets purchased with state funds are held by CENIC, not the state.

Recommended Remedies: In response, the LAO recommends that any money used for the K-12 High-Speed Network be linked to the following specific conditions:

- A prohibition against prepayment for services;
- A requirement that any interest earned on state monies over the life of the project be used to benefit the projects directly;
- A contract that specifies certain levels of service be provided;
- A requirement that any assets purchased with state monies over the life of the projects be owned by the state; and

- A report that provides detail on all project expenditures.

2006-07 Budget: The BSA audit identified a total of \$14.8 million in expenditures for the K-12 High-Speed Network in 2005-06. Based upon these expenditures, the LAO has identified a base budget of **\$14.8 million** for 2006-07. The LAO has identified several possible sources of existing and other funds that could be utilized to pay for the network, including:

- Prior Year Funds (\$10.3 million)
- E-Rate & Teleconnect Fund Refunds (\$4.8 million)
- Educational Telecommunication Funds (\$8 million)
- Microsoft Settlement Funds (\$600 million over six years)

COMMENTS/RECOMMENDATIONS:

The BSA audit makes several positive findings about the K-12 High-Speed Network that provide support for continuation of the K-12 High-Speed Network. The BSA audit also identifies several areas of concern with governance and funding for the network and makes recommendations for addressing these concerns as the program continues. Additionally, the BSA audit provides new financial data that identifies available funds and existing expenditures.

CDE and DOF are committed to addressing problems raised in the BSA audit and making needed improvements. The Administration will update its budget proposal for the K-12 High-Speed Network at May Revise.

Staff recommends that the LAO continue to develop base budget funding for the operations and maintenance of the K-12 High-Speed Network in 2006-07 based upon new information, findings, and recommendations provided by the BSA audit released in January 2006. In developing options, *staff further recommends* that the LAO maximize both prior year funds, E-Rate and Teleconnect Fund refunds, Educational Telecommunication Fund, and Microsoft settlement monies for support of the K12 network in 2006-07.

SUGGESTED QUESTIONS:

1. *What does the BSA audit tell us about who owns the K-12 High-Speed Network?*
2. *When could the Microsoft Settlement agreement become available to schools?*
3. *How can E-Rate and Teleconnect Fund refunds be accessed to support the K-12 network at the state level?*
4. *Should the state be supporting any functions beyond basic operation and maintenance of the network, e.g., network applications or last mile connections to the network?*

OUTCOME:

ISSUE 10: Statewide Data Systems – California Longitudinal Pupil Achievement System (CALPADS)

DESCRIPTION: The California Department of Education (CDE) will provide an update on the development of CALPADS implementation. The Governor's budget proposes **\$940,000** for CALPADS implementation activities in 2006-07, following approval of the CALPADS Feasibility Study Report last fall.

BACKGROUND:

History: 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.

The Department of Education submitted a Feasibility Study Report for CALPADS to the Department of Finance on August 20, 2004. In spite of a number concerns and difficult delays spanning more than one year, the Department of Finance finally approved the FSR in October 2005.

Governor's Budget: According to the FSR, implementation and ongoing costs for CALPADS are estimated at \$8.1 million over the next four years. The Governor's Budget proposes an increase of \$940,000 for CALPADS activities in 2006-07 to begin the next phase of CALPADS. Most of this increase is proposed project management, RFP development and an independent project oversight consultant; and for one CDE support position.

CALPADS Implementation:

CDE reports that the following components of the CALPADS project have been completed:

- Feasibility study review completed – August 20, 2004
- Feasibility study conditionally approved by DOF – June 24, 2005

- Conditional report completed – October 21, 2005

In order to fully implement the CALAPS system by the December, 2008 target date, the following steps must be completed:

- CDE must complete RFP (target date: June 9, 2006).
- DGS must approve RFP (target date: August 16, 2006).
- CDE must convene an evaluation team (including CDE and other agencies, parties), send out RFP. The evaluation team must evaluate bids and select the vendor (target date: July 30, 2007).
- DOF must approve any special project report (amendment to the FSR), before contract awarded.
- CDE must oversee vendor in its development of the system (target completion date for system to be completed: December 22, 2008).

COMMENTS: *Staff notes* that the CALPADS project appears to be a high priority for both the Superintendent of Public Instruction (SPI) and DOF, based upon correspondence that expresses their agencies' mutual support.

SUGGESTED QUESTIONS:

1. *To CDE: Is the CALPADS system on track to be fully implemented by December 2008?*
2. *To CDE: Can you provide an updated summary of the estimated costs for completing CALPADS implementation in the next two and a half years?*
3. *To CDE: Now that all LEAs have established individual identifiers for their students, is there any chance that CDE will be able to develop more accurate dropout data before CALPADS is fully implemented? If so, when?*

OUTCOME:

ISSUE 11: Statewide Data Systems – California School Information Services (CSIS) Program

DESCRIPTION: CDE will present a proposal to provide an additional **\$30 million** to LEAs statewide in order to maintain individual student identifiers. The Governor's budget continues funding for maintenance of student identifiers for non-CSIS local educational agencies. The Governor's budget proposes a **\$2.8 million** increase to CSIS for new cohorts of districts participating in the program.

BACKGROUND:

CSIS is a multi-year project to develop, implement and manage a statewide student level database and information transfer network. CSIS was authorized by AB 107, as enacted in 1997. The three major goals for CSIS are: 1) to build local capacity to use student information systems to inform education decisions; 2) to enable districts to electronically transfer student records between each other and to higher education institutions; and 3) to assist districts in electronically transmitting state-required reports to CDE.

CSIS is administered by the Fiscal Crisis and Management Assistance Team (FCMAT), which is part of the Kern County Office of Education. Since enactment, the state has spent more than **\$63 million** on the CSIS system. School districts that volunteer to participate in the program receive state incentive funding and technical assistance. CSIS participating districts represent roughly half of the K-12 student population.

While separate from CALPADS, the CSIS project has funded issuance and maintenance of individual student identifiers as required by state law and needed for CALPADS. As of June 2005, all school districts statewide were issued individual, non-personally identifiable student identification numbers for their students.

Governor's Budget: The Governor's budget proposes a **\$2.8 million** increase to the California School Information Services Program (CSIS) for new cohorts of districts participating in the program in 2006-07. Specifically, the budget provides **\$1.2 million** for the first year of a new cohort of CSIS participants and **\$1.4 million** for the second year of an existing cohort. The Governor's budget also continues funding for maintenance of student identifiers for non-CSIS local educational agencies, which totals **\$828,000** in 2006-07. These funds provide funding at the rate of 25 cents per student. (CSIS cohort participants receive \$8.41 per student in one-time funds.)

CDE Proposal to Support District Data: CDE proposes a **\$30 million** increase in ongoing state funding to LEAs in order to support maintenance of student identifiers and to increase capacity to manage and maintain quality data. The CSIS budget currently provides LEAs, that are not participating in CSIS, with 25 cents per student to maintain their student identifiers. CDE believes this level of support is inadequate to support maintenance of these identifiers that are needed to ensure quality data for CALPADS once implemented. Instead, CDE proposes to

increase funding from 25 cents to **\$5.00 per student** for all LEAs, which would cost the state approximately \$30 million a year.

COMMENTS: The Governor's CSIS budget continues the approach of funding new CSIS cohorts for LEAs who volunteer to participate. The Governor also continues funding at 25 cents per student for non-CSIS LEAs to maintain student identifiers, which now totals less than **\$1 million** annually. CSIS LEAs receive no ongoing funding for maintaining identifiers.

While CDE proposes to increase state support for student identifiers to **\$5.00 per student**, or approximately **\$30 million** annually, the Administration is unconvinced of the need for additional funding. The Administration believes that there are enough incentives (savings and efficiencies) associated with the development of student identifiers.

Given the importance of supporting statewide data development, *staff recommends* that CDE provide additional justification to the Subcommittee to support their proposal. For example, the CALPADS FSR estimated LEA costs of reporting data to be approximately \$20.3 million or approximately \$3.30 per student. Another CSIS survey estimated LEA costs of \$3.00 per student, or \$18.0 million, to maintain student identifiers.

SUGGESTED QUESTIONS:

1. *To CDE and DOF: What is the appropriate level of LEA support for maintaining student level data in order to best prepare for CALPADS implementation?*
2. *To CDE: How will integration of CSIS and CALPADS proceed in the coming years? Will CSIS continue as CALPADS develops? Does CDE have a transition plan?*

Appendix A.

Excerpts from CDE News Release, March 28, 2006:

Estimated Number and Percentage of Students in the Class of 2006 Passing Both CAHSEE Sections through the November 2005 Administration

Group	Grade 10	Grade 11	Grade 12	Not Yet Passed	Revised Total	Grade 10	Grade 11	Grade 12	Cumulative Passing Rate	Not Yet Passed
All Students	295,226	67,810	19,933	47,925	430,894	68.5%	15.7%	4.6%	88.8%	11.1%
Females	150,818	32,268	9,475	23,074	215,635	69.9%	15.0%	4.4%	89.3%	10.7%
Males	144,356	35,430	10,401	24,954	215,141	67.1%	16.5%	4.8%	88.4%	11.6%
Asian	34,709	4,583	1,383	2,757	43,432	79.9%	10.6%	3.2%	93.7%	6.3%
Hispanic	92,362	33,249	10,292	30,277	166,180	55.6%	20.0%	6.2%	81.8%	18.2%
African American	16,891	6,893	2,236	6,609	32,629	51.8%	21.1%	6.9%	79.8%	20.3%
White, non-Hispanic	133,650	18,921	4,786	5,948	163,305	81.8%	11.6%	2.9%	96.3%	3.6%
Economically Disadvantaged	88,918	32,524	9,702	29,714	160,858	55.3%	20.2%	6.0%	81.5%	18.4%
English Learner	24,783	17,032	5,996	21,376	69,187	35.8%	24.6%	8.7%	69.1%	30.9%
Special Education	7,993	6,675	--	--	14,668	--	--	--	--	--

As part of its analyses, HumRRO reviewed 94,804 grade 12 answer documents from the fall (September and November) 2005 CAHSEE administrations. The estimated number of students tested during this time was 92,909, after information was combined across multiple documents for the same student. Previous CAHSEE results (from 2004-05) were identified and merged for 65,130 of these students (70%). The remaining 27,779 students could not be matched due to the lack of a unique student identifier.

Tables 2, 3, and 4 provide the passing rate estimates as of January 2006, by school year, for students in the class of 2006. To account for fluctuations in the tested population, several adjustments were made to previous estimates of passing rates, including:

Including 1,597 students from the fall 2005 administrations who were tested as sophomores in 2004, had not tested as juniors and had been dropped from the June 2005 counts.

Removing 22,327 students in special education programs who had not passed the CAHSEE by June 2005 and are now exempted from having to pass for one year by the passage of Senate Bill 517.

Adjusting counts by demographic group to reflect differences between students in the June 2005 file not found in the fall 2005 records and students in the fall 2005 file who were not matched to earlier records.

Except for differences related to the adjustments outlined above, the current estimates of CAHSEE passing rates are comparable to previous estimates provided by HumRRO. Please see HumRRO's *Year 6 Independent Evaluation Report (September 30, 2005)* for details about passing rates at the end of the 2004-05 school year.

Estimates of the number of students who have not yet passed both sections reflect the best available information about students who are still trying to pass the CAHSEE.

Source: California Department of Education; Analysis by Human Resources Research Organization (HumRRO), the independent evaluator for California High School Exit Exam (CAHSEE).

Appendix B.

California State Auditor/Bureau of State Audits
Summary of Report 2005-116 - January 2006

California K-12 High-Speed Network: The Network Architecture Is Sound, but Opportunities Exist to Increase Its Use

AUDIT HIGHLIGHTS

Our review of the California K-12 High-Speed Network (High-Speed Network) found that:

- *The State most likely spent less on the building and operation of the High-Speed Network by expanding the existing infrastructure used by the University of California and other higher education institutions than it would have spent for a separate network with comparable services.*
- *A study conducted by our technical consultant in 2005 found that the High-Speed Network has adequate bandwidth for potential growth but is not overbuilt. Furthermore, our technical consultant found no compelling technical or financial reason to abandon the existing High-Speed Network.*
- *Because of the lack of specific performance measurements in state law and because the Imperial County Office of Education (ICOE), which currently administers the project is in the early stages of developing a suitable plan for measuring the success of the High-Speed Network, it is difficult to determine whether the network accomplishes the Legislature's goals.*
- *As of June 30, 2005, the Corporation for Education Network Initiatives in California (CENIC) the nonprofit that built and currently operates the network, held \$13.6 million in High-Speed Network Funds and it expects to receive an additional \$3.6 million related to telecommunication discounts in fiscal year 2005-06. These funds are being used to keep the network operating in fiscal year 2005-06 or are held for future equipment replacement.*
- *Opportunities exist for ICOE to strengthen its agreements with CENIC to better protect the State's interests. Specifically, its agreements lack detailed service-level agreements, do not ensure that it retains ownership of tangible nonshared assets, and do not ensure that interest earned on advance payments made to CENIC or funds held by CENIC on its behalf accrue to the benefit of the High-speed Network.*
- *Our legal consultant reviewed the expenditure of funds by CENIC for the High-Speed Network and found that CENIC did not develop or acquire any assets that would have been eligible for protection under patent, copyright, or trade secret law.*

RESULTS IN BRIEF

This audit supports the basic conclusion that the State most likely spent less on the building and operation of the California K-12 High-Speed Network (High-Speed Network)¹ by expanding the existing infrastructure used by the University of California (UC) and other higher education institutions than it would have spent for a separate network with comparable services. It is also clear that, based on a study conducted by our technical consultant in 2005, the current High-Speed Network provides ample bandwidth to support current applications used by the K-12 education community, but it is not overbuilt. Furthermore, our technical consultant found no compelling technical or financial reason to abandon the existing High-Speed Network.

The High-Speed Network connects the vast majority of kindergarten through 12th grade (K-12) schools, school districts, and county offices of education statewide to each other, to California's universities and community colleges, and to the Internet. During fiscal years 2000-01 through 2003-04, the Legislature appropriated more than \$93 million to UC for the High-Speed Network. UC then contracted with the Corporation for Education Network Initiatives in California (CENIC), a nonprofit corporation that it helped create, to implement the project. In fiscal year 2004-05, the Legislature switched the funding over to the California Department of Education (Education), appropriating \$21 million in that year for the project. Education then selected the Imperial County Office of Education (ICOE) to act as lead agency for the High-Speed Network, and ICOE also contracted with CENIC. For fiscal year 2005-06 the Legislature did not appropriate any additional funding to the High-Speed Network.

The Legislature provided no specific goals to UC in spending the appropriations for the High-Speed Network project during fiscal years 2000-01 through 2003-04. Because both UC and CENIC stated that they intended to enter into an agreement that was a contract for services and not to acquire tangible equipment, UC did not include in its agreement with CENIC certain provisions. For example, the agreement between UC and CENIC did not contain provisions to address the ownership of tangible, nonshared assets, such as the equipment located at the county offices of education and school districts. Additionally, UC did not include a provision to limit the use of the interest earned on state appropriations for the High-Speed Network. Because CENIC views its agreement with UC as a contract for services, it considers the \$1.5 million in interest earned on these funds available to use for its other activities.

Although the Legislature shifted control of this project from UC to Education and ultimately to ICOE, it still has not enacted legislation that clearly prescribes the goals to be accomplished with these funds. Moreover, ICOE entered into agreements with CENIC under terms that were substantially similar to those contained in UC's agreement. Specifically, ICOE's agreements continue to lack detailed service-level agreements, which would state the specific level of service CENIC is required to provide. Additionally, its agreements do not ensure that ICOE retains ownership of tangible, nonshared assets, or that interest earned on advance payments that it makes to CENIC or funds that CENIC holds on ICOE's behalf accrue to the benefit of the High-Speed Network. As of June 30, 2005, the amount of funds available for the High-Speed Network, according to CENIC's accounting records, was \$13.6 million. In addition, in fiscal year 2005-06, CENIC expects to receive an additional \$3.6 million related to telecommunication discounts.

The variability in the level of state funding for the High-Speed Network project has negatively affected the efforts of the ICOE to expand network use in the K-12 education community. Specifically, ICOE has been unable to fund its Advancing Network Uses Grant Program. Finally, although it states that the 58 county offices of education, 887 school districts, and 7,039 schools are currently hooked up to the High-Speed Network, ICOE's and CENIC's success in promoting network use is impossible to measure because neither entity has set up a process to do so.

RECOMMENDATIONS

To ensure that the High-Speed Network meets its expectations, the Legislature should consider enacting legislation that prescribes the specific goals and outcomes it wants from the High-Speed Network project.

To ensure that the High-Speed Network is appropriately managed, Education should ensure that ICOE includes the appropriate service-level agreements in its ongoing contracts with CENIC and other service providers for the High-Speed Network project.

To ensure adequate protection of the State's interest in tangible, nonshared assets, Education should direct ICOE to transfer ownership of these types of assets to the State.

To ensure that the interest earned on advance payments made to CENIC, or funds that CENIC holds on ICOE's behalf are used to benefit the High-Speed Network, Education should direct ICOE to amend its agreement with CENIC to stipulate the allowable use of the interest earned.

Finally, Education should ensure that ICOE develops a method to measure the success of the High-Speed Network.

AGENCY COMMENTS

UC indicated that it is pleased with the overall conclusions of our report. Education and ICOE stated that they look forward to working with the other segment partners and CENIC to fully address the recommendations of the State Auditor. CENIC believes that the report provides useful information that highlights its value to the educational institutions it serves and that the report supports its belief that it can serve the unique needs of the education community more cost effectively than any other public or private organization.

The California K-12 High-Speed Network was originally named the Digital California Project: K-12 Statewide Network when it was started in fiscal year 2000-01. In fiscal year 2004-05, when stewardship of the network was given to the Imperial County Office of Education, the aspects of the network applicable to K-12 participants were then titled the K12HSN. We call it the High-Speed Network throughout this report.

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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

April 17, 2006
Upon Adjournment of Senate Floor Session (or 1:30pm) Room 113

University of California (6440)
Hastings College of Law (6600)
California State University (6610)

- I. Dr. Charles Reed, Chancellor, California State University
- II. Overview of Governor's Budget Page 2
(Steve Boilard, Office of the Legislative Analyst)
- III. Hastings College of the Law (Chancellor and Dean Mary Kay Kane) Page 5
- IV. University of California (UC) and California State University (CSU)
Student Enrollments Page 6
- V. UC and CSU Student Fees Page 9
- VI. Student Academic Preparation Page 11
- VII. Nursing Program Augmentations Page 12
- VIII. Governor's Math/Science Initiative Page 13
- IX. UC State-Funded Research Programs Page 14
- X. Capital Fellows Program Page 15
- XI. UC Employee Compensation – Update Page 15
- XII. Consent Page 16

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.

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

Governor's 2006-07 UC/CSU Budget Proposal				
<i>(Dollars in Millions)</i>				
	2005-06	2006-07	Change	
			Amount	Percent
UC				
General Fund	\$2,842.4	\$3,049.2	\$206.8	7.3%
Fee revenue	1,957.6	1,999.9	42.3	2.2
<i>Subtotals</i>	<i>(\$4,800.0)</i>	<i>(\$5,049.1)</i>	<i>(\$249.1)</i>	<i>(5.2%)</i>
All other funds	\$14,600.0	\$14,993.6	\$393.7	2.7%
Totals	\$19,400.0	\$20,042.7	\$642.7	3.3%
CSU				
General Fund	\$2,597.5	\$2,775.8	\$178.3	6.9%
Fee revenue	1,205.3	1,231.3	26.0	2.2
<i>Subtotals</i>	<i>(\$3,802.8)</i>	<i>(\$4,007.1)</i>	<i>(\$204.3)</i>	<i>(5.4%)</i>
All other funds	\$2,198.9	\$2,190.5	-\$8.4	-0.4%
Totals	\$6,001.7	\$6,197.6	\$196.0	3.3%

(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 between former Governors Wilson and Davis and the university systems. The Governor's 2006-07 proposed budget provided funding for the first year of this agreement.

Staff notes that this *Compact*, like the *compacts* that came 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* are 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.

Specifically, the compact contains the following provisions:

1. *Affected Parties.* Compact is between Governor Schwarzenegger and the UC and CSU; the Legislature's concurrence 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 three 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 four 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 5,149 full-time equivalent students (FTES) at UC and 8,490 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. Student Fees.
 - a) Undergraduate Fees. 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 eight percent in 2005-06 and 2006-07. Thereafter, UC and CSU will increase fees at the rate of change in per capita personal income, with a maximum increase of ten percent.
 - b) Teacher Credentialing Fees. Fees will increase by no more than ten percent annually; an eight percent increase in fees is proposed by both UC and CSU in 2006-07.
 - c) Academic Graduate Student Fees. Academic graduate student fees will increase by ten 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) UC Professional School Fees. 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 2006-07 academic year, fees will be increased approximately five 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 ten 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.

III. Hastings College of the Law

Governor's 2006-07 Hastings College of the Law Budget Proposal				
<i>(Dollars in Thousands)</i>				
	2005-06	2006-07	Change	
			Amount	Percent
Hastings				
General Fund				
(includes "buy out" of proposed student fee increase)	\$8,363	\$10,148	\$1,785	21.3%
Fees and Other Revenues				
(publications; continuing education; and grant overhead)	27,197	27,069	-128	-4.7
Extramural Funds				
(federal funds; private gifts; contracts; grants; endowment)	11,099	7,935	-3,164	-28.5
Lottery Funds				
	195	195	0	0
Totals	\$46,854	\$45,347	-\$1,507	-3.2%

Governor's Budget. Under the Governor's proposal, the General Fund budget for Hastings College of the Law will increase by: \$253,000 to account for a three percent General Fund increase (similar to the base budget increases being proposed under the *Compact* for UC and CSU) and by \$1.5 million to "buy out" the eight percent student fee increase that had been adopted by the Hastings College of the Law Board of Directors.

Other funds, as noted in the chart above, are not appropriated in the Budget Act and are subject solely to the control and discretion of the Hasting Board of Directors.

One-Time Moving and Temporary Rental Expenses. In the current year, Hastings is undertaking a significant capital improvement (code-compliance upgrade) project on its main administrative office building, which houses administrative and faculty offices as well as the college's law library. The project, which is being financed using state General Obligation Bond Funds, began in October of 2005 and is expected to be completed in the Spring of 2007.

In order to expedite the project, the college has needed to completely vacate the building and relocate all the offices and functions (including the law library) to other facilities. In the current year, Hastings is able to absorb those moving and relocation costs within its existing budget. However, in 2006-07, Hastings will need to provide for office and library moving costs, as well as costs associated with renting external office, library, and storage space. Hastings anticipates that these costs will be approximately \$1.2 million, of which, Hastings is able to absorb approximately \$375,000 – leaving a shortfall of approximately \$776,000.

While some colleges or campuses may be equipped to accommodate these additional costs, Hastings College of the Law is a small college without the economies of scale necessary to meet these one-time expenses.

Staff recommends that the committee approve, as budgeted, the Governor's proposal for Hastings College of the Law and augment that amount by \$776,000, one-time, to cover the additional costs associated with completing the campus code-compliance remodel project.

IV. Student Enrollment Growth.

A. Status of Current Year Enrollment Levels

Pursuant to language adopted as part of the Budget Act, both UC and CSU are required to meet specified enrollment targets; this language has been adopted by the Legislature in recent years to ensure that the dollars appropriated by the Legislature for enrollment growth are indeed used to enroll additional students. If funds are not used to enroll the additional students, and meet the specified targets, the Budget Bill requires that the unused funds be reverted to the General Fund.

In the current year, UC's enrollment target is 205,976 FTES and CSU's target is 332,223 FTES. For CSU, meeting this target has taken a concerted effort among all campuses, an effort which has been successful since CSU is enrolling 334,441 FTES in the current year.

At UC, enrollments are falling short of the goal established in the Budget Bill. UC is estimating that it will fall approximately 500 FTES short of meeting the 205,976 FTES goal. Absent any further action by the Legislature, this shortfall will trigger the reversion of approximately \$3.8 million dollars back to the General Fund to account for this "under-enrollment".

However, staff notes that the circumstances surrounding UC's enrollment decline appear to be unique. UC notes that the entire 500 FTES decline is attributable to a loss of non-resident students, a category of student which is not supported with state General Fund dollars. While the Budget Bill language excludes students in non-state supported summer sessions, it does not specifically exclude non-resident students, although doing so would meet with the Legislature's intent that state enrollment growth dollars be used to support state-funded students.

As such, staff recommends that the committee clarify its intent with regard to this section of the current-year Budget Bill and specify that the language was targeted at state-supported students. Further, staff recommends that the committee request the CSU to examine its enrollment levels in 2004-05 to determine what amount, if any, of its enrollment loss was attributable to non-resident students, and to forward the results of the inquiry to committee staff, the LAO, and the DOF.

B. Enrollment Growth Projections for 2006-07

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 8,490 FTES at a cost of \$57.7 million. At UC, this 2.5 percent increase equates to approximately 5,149 FTES and an augmentation of \$52.0 million. Of this amount, \$480,000 and 32 FTES are attributable to increased medical school enrollments (under the PRIME-LC program) at UC Irvine and 800 FTES are attributable to the second year of new students attending UC Merced.

As part of its *Analysis of the 2006-07 Budget Bill*, the LAO conducted a review 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 fund enrollment growth of 2.0 percent, a level which the LAO believes will easily accommodate population increases in the college-going age range as well as increases in historic college participation rates.

UC, CSU, and the Department of Finance contend that 2.5 percent enrollment growth is consistent with the growth targets outlined as part of the Administration's "*Compact*" with UC and CSU and are 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 and CSU at 2.5 percent.

Staff recommends that funding for enrollment growth at the proposed 2.5 percent level be placed on the "checklist" pending the Governor's May Revision.

C. Revised Budget Bill Language

Regardless of the enrollment growth level approved by the Legislature, staff recommends that the committee adopt Budget Bill Language outlining a target level of student enrollments for the segments to meet.

However, as discussed earlier, predicting student enrollments is not an exact science, and it has become apparent that it is impossible for the segments to meet a specific FTES target. As such, staff recommends that the committee adopt revised Budget Bill Language (for the 2006-07 Budget Bill) to allow campuses flexibility in meeting

their enrollment targets. Specifically, staff recommends the enrollment targets adopted by the committee include a margin of error to allow the university systems to grow, ensure that dollars appropriated for enrollment growth are indeed utilized for that purpose, but not penalize the institutions when they fail to meet the exact FTES target.

There are several options for establishing the enrollment target "range" recommended above. Regardless of the range, the Legislature would likely want to establish a "floor" below which enrollment dollars would revert to the General Fund.

For 2006-07, assuming that the committee funds enrollment growth at 2.5 percent, the targeted enrollments would be 211,255 FTES for UC (which is the result of an additional 5,149 FTES) and 348,262 for CSU (including an additional 8,490 FTES.)

1. The committee could opt for a one percent margin on the total FTES (this option is being advocated by the CSU). This would result in a "floor" of 209,143 FTES for UC and 344,779 FTES for CSU, thus providing a "hold harmless" provision for 2,113 FTES at UC and 3,483 FTES at CSU. Given the broadness of this range, UC and CSU would be expected to accommodate both state and non-state enrollments in meeting the targeted range.
2. Another option would be for the committee to establish a range based on the increment of enrollment growth being budgeted. This would limit the "floor" to only state-funded FTES. As an alternative to the above-noted option, CSU is proposing a 25 percent margin on the funded growth. For 2006-07, this would equate to the Legislature holding UC harmless for 1,287 FTES and CSU harmless for 2,123 FTES.
3. Other options include variations on the above-noted themes. For example, the Legislature could choose a smaller margin on either the total funded FTES, perhaps 0.5 percent, which would hold UC harmless for approximately 1,056 FTES and CSU would be held harmless for 1,741.

Further, the committee could chose a smaller margin on the funded growth, perhaps 10 percent, which would hold UC harmless for 515 FTES and CSU for 849 FTES.

Staff recommends the committee discuss and adopt a targeted range, as noted above.

D. Status of Year Round Enrollments (Information Only)

In recent years, the Legislature has taken steps to increase the number of UC and CSU student enrolling in courses over the summer session. One of the most sweeping reforms was to provide state support for summer session programs. Previously, all summer sessions were self-supporting, whereby the student bore the entire cost of education. In order to reduce the cost to students and make it more appealing to attend classes over the summer, the Legislature appropriated funds to subsidize

summer session programs (on a campus-by-campus basis). This effort has been met with mixed results.

1. California State University

As student enrollments declined statewide in recent years, student enrollment during the summer also declined. Nowhere was this more apparent than the CSU, which on some campuses ceased offering subsidized summer session programs due to a lack of student demand. Over a one-year period (from 2003 to 2004), summer enrollments at the CSU decreased (on an FTES basis) by approximately 50 percent. Since then, CSU has made an effort to restore those lost summer session students, and have increased enrollments to approximately 85 percent of their 2003 levels.

2. University of California

UC's conversion to a subsidized summer session has been met with more success. Since 2000, UC summer session enrollments have grown dramatically, increasing by over 17,000 FTES or 91 percent. All of the UC general campuses experienced significant summer session enrollment growth during this five-year period with three campuses growing by more than 3,000 FTES.

V. Student Fees. 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 approval, the Governor instead chose to integrate these student fee “principles” into his *Compact* with UC and CSU.

Contrary to his compact, which calls for UC and CSU to increase student fees in 2006-07 by eight percent for undergraduates and ten percent for graduate students, the Governor proposes to “buy out” those fee increases by providing \$54.4 million to CSU and \$75 million to UC in lieu of the revenue they *would* have received from a fee increase.

In the future, the Governor's *Compact* calls for undergraduate fees to increase at the same rate as per capita personal income, starting with the 2007-08 fiscal year, and not exceed ten 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.

According to CPEC, fees at the UC and CSU remain some of the lowest in the nation. At CSU, fees for undergraduate students are roughly half the level of their comparison institutions. For UC, undergraduate fees remain relatively low at \$6,802, compared to the average of \$7,821 at UC's comparison institutions.

The LAO is recommending that the committee reject the Governor's proposed fee “buyout”, adopt modest fee increases for students at the UC and CSU, and examine any remaining unfunded needs at the UC and CSU. Under the LAO's recommendation, which would retain the current share of educational costs borne by students, fees would

increase 3.5 percent (or \$215) at the UC and three percent (\$76) at the CSU, generating an additional \$60 million in revenue.

Staff notes that, since the Legislature was not part of the UC and CSU's "*Compact*" with the Administration, it may take virtually any action it wishes in relation to student fees. After substantial fee increases during the past several years (ranging from 40 percent for undergraduates in 2002-03 to eight percent in the current year) the committee will need to determine if "buying out" a proposed eight percent fee increase for undergraduate students and a proposed ten percent fee increase for graduate students is indeed the manner in which the Legislature would chose to expend approximately \$130 million General Fund.

Further, staff notes that *if* the Legislature is interested in saving General Fund and raising student fees, it could act to increase fees at a smaller percentage than originally proposed under the *Compact* (perhaps increasing fees at the levels proposed by the LAO) and then provide a General Fund "buy out" for the remaining amount (with the goal of meeting the original eight and ten percent fee increase goals). Alternatively, the Legislature could opt to "buy out" less than the eight percent increase proposed for undergraduates and ten percent for graduate students, not increase fees for students, and simply leave the UC and CSU with less revenue than they have assumed.

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
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	6,802	24,622	8,708	23,669	3,164	13,334	3,746	13,916
2006-07	6,802	25,486	8,708	23,669	3,164	13,334	3,746	13,916

Staff recommends that the committee hold this issue open pending the Governor's May Revision.

VI. Student Academic Preparation Programs. Under the Governor's Budget, state funding for both UC and CSU student academic preparation and retention programs would be eliminated (for a reduction of \$17.3 million at UC and \$7 million at CSU).

This action by the Administration appears to be consistent with its "*Compact*" with UC and CSU, which requires UC and CSU to provide at least \$12 million and \$45 million respectively to continue supporting the most effective academic preparation and retention programs, with the Administration failing to guarantee future General Fund support of the programs.

Last year, the UC adopted a new Accountability Framework for its Academic Preparation programs. Under this new Accountability Framework, programs are charged with meeting broad academic achievement goals over a three- to five-year period. The goals for students participating in these programs include: (1) completing the A-G college preparatory course pattern in high school; (2) being academically ready for a four-year college (not just UC); (3) completing high school (by graduating and passing the CAHSEE); and (4) being ready to transfer to a four-year institution as a community college student. In addition, programs have the goal of establishing and maintaining K-20 educational partnerships.

In its recent report to the Legislature on Student Academic Preparation and Educational Partnerships, the UC reports that its programs have made increased progress towards meeting the goals outlined above.

Staff notes that while the university systems, students, and the Legislature continue to tout the success of student academic preparation programs, retaining state funding to support these programs has turned into a perennial issue for the Legislature. Each year the Administration cuts funding for the programs and the Legislature fights to restore it. While funding for student academic preparation is clearly a high priority for the Legislature, the catalyst behind the Administration's reluctance to fund these programs remains unclear.

While not explicitly raised as an issue in its *Analysis of the 2006-07 Budget Bill*, student academic preparation programs are generally supported by the LAO. Consistent with prior analyses of the Budget Bill, the LAO recommends a new approach to funding academic preparation programs. Under the LAO's recommendation, the state would implement a new College Preparation Block Grant program, whereby the Legislature would shift the funding away from the university systems and instead target those funds K-12 school districts with low college participation rates.

Staff recommends that funding to *backfill* the reductions contained in the Governor's Budget (\$17.3 million for UC and \$7 million for CSU) be approved by the committee.

VII. Nursing Education.

Current Year

As part of a coordinated effort by the Legislature and the Administration to increase the state's supply of nurses, the current year budget contains \$560,000 for the CSU to develop entry-level master's degree (ELM) programs in Nursing. ELM programs allow students who earned a Baccalaureate degree in an unrelated subject to earn a master's degree in Nursing, while also obtaining the skills and qualifications to become a Registered Nurse (RN). An additional \$3.4 million, which was appropriated to UC and CSU in a budget trailer bill (Chapter 592, Statutes of 2005), was aimed at increasing the capacity of ELM programs by providing for infrastructure needs such as classroom and laboratory renovations, developing curriculum, recruiting faculty, and replacing instructional equipment. At UC, the funds were allocated to three campuses (Los Angeles, San Francisco, and Irvine) to plan for increased nursing enrollments in future years, including the development of a new Baccalaureate degree program in Nursing at UC Irvine.

2006-07 Proposal

As part of the Governor's Budget, the Administration is proposing to continue the commitment outlined in the 2005 budget trailer bill by appropriating \$1.720 million to both UC and CSU to specifically increase enrollments in nursing programs (thus providing General Fund to support the additional increment of cost in the programs.)

While the language in the 2005 budget trailer bill calls for UC and CSU to increase, by at least 130 FTES, the number of students in 2006-07 specifically enrolled in ELM nursing programs, the Governor's budget proposal takes a "looser" interpretation. The language proposed in the budget bill states only that the UC and CSU should "give priority" to increasing enrollments in ELM programs; thus, the dollars in the budget could be used to increase enrollments in Baccalaureate-degree nursing programs or traditional masters degree programs, which was not the original intent of the Legislature when it passed the implementing legislation.

Staff recommends that the committee approve the \$3.44 million proposed in the Governor's Budget for Nursing, but target the dollars specifically at students enrolled in Entry-Level Master's Degree Programs, as originally called for in legislation.

In addition to the funds noted above, the Administration is also proposing to continue appropriating \$560,000 to the CSU to "support the development of entry-level master's degree programs in nursing." In the current year, those funds were used for development and start-up costs, costs which should be one-time in nature. As such, it's unclear why additional start-up funds would be needed in 2006-07. In addition, the CSU has indicated that it intends to use these funds to support the educational costs of students enrolled in ELM programs. As such, staff recommends that the committee adopt revised Budget Bill Language, as follows, to clarify the use of these funds:

"Item 6110-001-0001, Provision 8:

Of the amount appropriated in Schedule (1), \$560,000 is to support ~~the~~ development of 280 full-time equivalent students in entry-level master's degree programs in nursing, pursuant to Article 8 (commencing with Section 89270) of Chapter 2 of Part 55 of Title 3 of the Education Code. This funding is intended as a supplement to marginal cost support provided in CSU's enrolment growth funding, in recognition of the higher costs associated with entry-level master's nursing programs."

Further, staff notes that there may indeed be a need to increase the number of students enrolled in Baccalaureate degree nursing programs as well. As such, staff recommends that the committee place additional funding to increase enrollments in Baccalaureate degree nursing programs on the "checklist" pending the May Revision.

VIII. Governor's Math/Science Initiative. As part of the current year Budget Act, the Legislature appropriated \$250,000 to the CSU and \$750,000 to the UC to increase the number of math and science teachers. In addition to this broad goal, CSU was charged with "coordinating the development of curriculum and services for four-year blended credential programs for math and science majors".

At the UC, funds were used to establish resource centers at each campus. Specifically, funds were used for start-up costs, including hiring staff, and establishing processes for tracking students, and helping students obtain teaching placements in K-12 schools. At the CSU, funds are being used to develop additional on-line programs targeted at "upgrading" single-subject credential holders to multi-subject credentials. Funds are also being used for outreach to students in community colleges to encourage them to become math and science teachers.

As part of his 2006-07 Budget, the Governor proposes to continue his commitment to the Math and Science Initiative by providing UC with \$1.1 million to fully-fund their campus-based resource centers and CSU with \$1.4 million. CSU intends to use the additional funds to (1) develop multiple math and science teaching credential pathways; (2) continue providing outreach and recruitment to community colleges students; (3) stage a PR campaign, including web site development and printed materials; and (4) administer the program, including hosting statewide conferences and meetings.

Staff recommends that funding for this project be placed on the "checklist" pending the Governor's May Revision.

IX. State-Funded Research at UC.

Budget Bill Language

In recent years, the Legislature has removed language from the Budget Bill which outlined the level of state support available for specific research priorities. The absence of Budget Bill language has -- in light of the budget reductions in recent years -- given UC the authority to shift dollars between various research programs; however, the absence of language has made it difficult for the Legislature to track General Fund spending in this area.

Of the amount proposed to be appropriated to UC for state supported research (\$260 million total), approximately \$22 million is specifically for research program initiated by, and of continued interest to, the state Legislature.

Staff recommends that the committee adopt Budget Bill language to specify the amount of state funding which will be used to support the following research programs:

(1) Center for Earthquake Engineering Research; (2) viticulture and enology research; (3) substance abuse research; (4) the Welfare Policy Research Project; (5) lupus research at UC San Francisco; (6) spinal cord injury research; and (7) the Medical Investigation of Neurodevelopment Disorders (MIND) Institute.

Labor Research

For the fourth year in a row, the Governor's Budget deletes all funding (\$3.8 million) for the labor-related research at the UC. As part of the current-year budget negotiations, the Legislature augmented the UC's budget to provide funding for these research activities, only to have the language vetoed by the Governor. While dollars were not provided in the current year for labor research, the UC has indicated that it intends to redirect approximately \$1.25 million, on a one-time basis, from within its budget to cover the labor research activities in the current year.

Restoration of funds for labor-related research is a perennial issue for the Legislature. Since this issue was first before the Legislature, the Institute for Labor Studies, whose activities were questioned by some, has been disbanded and replaced with research-only programs on the Berkeley and Los Angeles campuses.

Staff recommends that the Legislature place \$3.8 million for labor research (with accompanying provisional language) on the "checklist" pending the May Revision.

X. Capital Fellows Program. The Center for California Studies and the Capital Fellows Program, which is housed at the California State University, Sacramento, is requesting that the committee consider an augmentation of \$230,000. Specifically, the Center cites a budget that was reduced in recent years, coupled with increased costs per fellow (specifically tied to increased student fees and increased benefit costs).

As part of last year's budget process, the Legislature approved an augmentation of \$309,000 for the fellows program to help address these increased costs; the Governor vetoed all but \$82,000.

Staff recommends that the committee approve the requested augmentation of \$230,000 for the Center for California Studies and Capital Fellows Programs.

XI. UC Compensation Reporting. At a special meeting of the UC Board of Regents on Thursday, April 13, 2006, UC's Task Force on Compensation, Accountability, and Transparency -- which was appointed shortly after the public release of UC's controversial compensation practices and policies -- made a set of policy recommendations to the Regents aimed at increasing the level of accountability on UC's compensation practices.

This special meeting of the Regents is the first to examine recommendations from an external task force on the topic of compensation. The Regents are expected to convene another special session on Monday, April 24, 2006, to discuss an audit by Price Waterhouse Coopers of the compensation practices for UC's senior management. In early May, the Bureau of State Audits is expected to conclude its work on this topic as well.

Staff recommends that representatives from the UC task force present a truncated version of their recommendations to the committee.

As an additional note, two pieces of legislation (Senate Bills 1181 and 1571, Maldonado) are slated to be heard in the Senate Education Committee this week. Both bills, each of which takes a slightly different approach, would request that the UC report various aspects of its compensation policies and practices to either CPEC or to the General Public (via a web site posting).

While staff recommends that the Legislature adopt some form of reporting language related to compensation, it remains unclear whether the reporting requirement should be statutory, tied to the annual Budget Act, or part of the Legislature's Supplemental Reporting Language process. As such, staff recommends that the committee request staff, UC, and the LAO to develop language to present to the committee for action by the May Revision.

XII. 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 \$3,500,000
- 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 \$235,000
- 6440-002-0001 Support, University of California. Ongoing deferral of expenditures from June 30th to July 1st (\$55,000,000)
- 6440-003-0001 Support, University of California. Debt Service \$158,327,000
- 6440-004-0001 Support, University of California. Merced Campus \$24,000,000
- 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.
- 6610-001-0890 Support, California State University. Federal Trust Fund \$39,000,000
- 6610-003-0001 Support, California State University. Debt Service \$64,597,000
- 6610-490 Reappropriation, California State University.

SUBCOMMITTEE NO. 1 on Education



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

Monday, April 24, 2006
11 pm
Room 2040, State Capitol

<u>Item</u>	<u>Department</u>	<u>Page</u>
6110	Department of Education	
Issue 1	Proposition 98 Reversion Account – Proposed Reappropriations	1
Issue 2	School Facilities -- Emergency Repair Programs.....	3
Issue 3	School Facilities – Budget Control Section 24.30	5
Issue 4	Special Education – Funding of Federal COLA	6
Issue 5	Special Education – CAHSEE Assistance	8
Issue 6	Governor’s Federal Proposal – Reading First.....	10
Issue 7	Governor’s Federal Proposal – Program Improvement Schools/Districts	14
Issue 8	LAO Proposal – Migrant Education	16
Issue 9	LAO Proposal -- Economic Impact Aid.....	18
Issue 10	High Priority Schools Grant Program	20
Issue 11	Instructional Materials	22
Issue 12	April Finance Letters – Federal Funds (Consent)	24

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ITEM 6110 DEPARTMENT OF EDUCATION**ISSUE 1: Proposition 98 Reversion Account - Overview of Proposed Expenditures (Item 6110-485)**

DESCRIPTION: The Governor proposes appropriating **\$213.6 million** in one-time funds in 2006-07 from the Proposition 98 Reversion Account for a variety of programs. Of this amount, \$106.6 million – half of the funding proposed from this account – would be appropriated for the Emergency School Facilities Repair program required by the *Williams* settlement agreement. This issue will be discussed further in the next agenda item.

BACKGROUND: Proposition 98 Reversions funding provides significant one-time funding that can be reappropriated for other Proposition 98 purposes. The Governor proposes appropriating **\$213.6 million** in Proposition 98 reversions in 2006-07 for a variety of programs, which are listed below. Several of these proposals have been or will be discussed by the Subcommittee as separate issues.

- **\$106.6 million** for the Schools Facilities Emergency Repair program pursuant to the *Williams* settlement agreement as articulated by Chapter 899, Statutes of 2006.
- **\$63.7 million** for CalWorks Stage 3 child care adjustments.
- **\$18.7 million** for prior-year state obligations for K-12 mandate claims and interest.
- **\$9.6 million** for the Teacher Credentialing Block Grant to fund an additional 2,600 teachers in the Beginning Teacher Support and Assessment system in the current year.
- **\$9 million** for the Charter Schools Facility Grant program established by Chapter 892, Statutes of 2001. No charter school would be allowed to receive funds in excess of 75 percent of annual lease costs.
- **\$3 million** for a county office of education to contract with an outside agency to recruit highly qualified teachers to schools in the lowest three deciles of the 2004 Academic Performance Index. This funding is related to the School Enrichment Block Grant program funded in the 2005-06 budget.
- **\$1.1 million** for the purpose of funding the Chief Business Officer Training Program established pursuant to Chapter 356, Statutes of 2005.
- **\$1 million** for Principal Training Program, established by Chapter 697, Statutes of 2001. This program has been renamed the Administrator Training Program.
- **\$500,000** for high school coaches training pursuant to Chapter 673, Statutes of 2005. Funding shall be allocated on the basis of 2004-05 high school enrollment data with variable grant levels based upon school size.
- **\$39,000** to pay for reimbursable mandate claims costs relating to attendance accounting per Chapter 855, Statutes of 1997.

COMMENTS: The Subcommittee has heard many of the Governor's major Proposition 98 Reversion Account proposals at previous hearings. The Administration, in cooperation with the Department of Education, will update the level of Proposition 98 Reversion Account Funds available for reappropriation in 2006-07 as a part of the May Revision.

ISSUE 2: School Facilities – Emergency Repair Program (6110-485)

DESCRIPTION: The Governor proposes **\$106.6 million** for the school facilities Emergency Repair Program (ERP) pursuant to the *Williams v. California* lawsuit settlement in 2006-07. An additional **\$206 million** is available for this program in 2005-06; however, because very few districts have applied for funding, only \$250,000 has been expended by the program to date. The LAO makes recommendations for changing the structure of the program in order to increase the allocations of these funds to districts.

BACKGROUND: Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the *Williams* settlement agreement, requires that, commencing with the 2005-06 Budget Act, the state transfer at least \$100 million, or 50 percent of the unappropriated balance of the Proposition 98 Reversion Account – whichever is greater – to the ERP. This level of funding must continue in the budget every year until the state has provided a total of \$800 million for the program.

The ERP is administered by the State Allocation Board. Funds must be used for emergency repairs in low-performing schools, specifically schools in the lowest three deciles of the Academic Performance Index (API). Chapter 899 defines emergency repairs as repairs needed to mitigate conditions that pose a threat to the health and safety of pupils or staff.

The 2005-06 budget provided **\$206 million** for the first year of the ERP program. The Governor proposes an additional **\$106.6 million** for the program in 2006-07.

Chapter 899 provided \$25 million in the 2003-04 budget for the School Facilities Needs Assessment Program, which enabled school districts to assess the facility needs for their decile 1-3 schools. These needs assessments were completed by districts last December.

LAO Findings: The LAO reports that, of the \$206 million available for ERP in 2005-06, less than \$250,000 has been expended because very few districts have applied for funds. More specifically, while approximately \$7.3 million in proposals have been submitted to the SAB to date, only \$247,101 has actually been allocated to school districts in the current year.

According to informal district reports considered by the LAO, low participation for ERP does not reflect a lack of emergency facility needs, but other problems. The LAO specifies a number of reasons behind the lack of applications including fear that projects will not be approved; cash flow concerns; workload needed to prepare applications; and confusion about how the program operates and how projects qualify for funding.

LAO Recommendations: The LAO advises that the current structure of the ERP, which is based upon reimbursement of projects that have already been completed, makes it difficult for districts to access funds and creates incentives for districts to delay repairs until they are emergencies. In response, the LAO recommends the following changes to the ERP:

- **Provide Direct Grants to Districts:** The LAO recommends statutory changes to allow the ERP to provide direct grants to districts based upon average daily attendance (ADA)

of their decile 1-3 schools -- rather than reimbursements -- to fund projects identified by their facility needs assessments.

- **Set-Aside \$50 Million Repair Loans:** The LAO further recommends that \$50 million be maintained in a revolving account at the state level for interest-free loans to districts to address pressing emergency facility needs at decile 1-3 schools. Funds would be available up-front or as a reimbursement.

COMMENTS: *Staff notes* that there will be significant excess funding for this program in the current year, which raises serious questions about the level of funding required for the program, as currently structured, in the budget year. *Staff recommends* that the Subcommittee ask the Administration for specific details about their plan for allocating nearly \$312 million in funding for decile 1-3 schools that would be available for ERP in 2006-07 under the Governor's proposal. What is the Administration's proposal for better allocating ERP funding to school districts consistent with the intent of the *William's* settlement agreement?

OUTCOME:

ISSUE 3: State School Facility Programs – Budget Control Section 24.30

DESCRIPTION: The Governor proposes to continue budget control language to require the transfer of rental income from the State Relocatable Classroom Program and remaining funds for the Migrant Housing Program to the State General Fund, as determined by the Department of Finance. According to the State Allocation Board, they have full authority over funds from both these programs.

BACKGROUND: As proposed by the Governor, Control Section 24.30 contains the following two provisions relating to the transfer of school facility income to the General Fund, as determined by the Department of Finance:

- **Transfer of Rental Income from the State Relocatable Classroom Program to the State General Fund.** The Governor proposes to continue budget control language in the 2005-06 budget allowing the Department of Finance to transfer income from the State Relocatable Classroom Program to the General Fund. The 2004-05 budget assumes the transfer of \$24.1 million; the 2006-07 budget assumes transfer of \$14.3 million, leaving \$10.7 million to cover operating costs for the program. Since enactment of the 2005-06 budget, the State Allocation Board has determined it has full authority over Relocatable Classroom Program income and will be retaining all income to cover alternative State School Facility Programs, e.g. new construction, modernization, and other programs.
- **Transfer of Remaining Funds from the Migrant Housing Program to the State General Fund.** This proposal would transfer an estimated **\$3.4 million** in remaining funds designated from the Migrant Housing Program to the General Fund. The program was originally created, with state bond funds, to help districts impacted by seasonal agricultural employment acquire portable classrooms. The Migrant Housing Program has been inactive for nearly seven years, as the classroom needs of districts affected by seasonal agricultural employment have been addressed by the State Relocatable Classroom Program and the alternate programs within the School Facility Programs. The Administration is proposing **trailer bill language**, in addition to language contained in Control Section 24.30, to transfer Migrant Housing Program funds to the General Fund.

LAO Recommendation:

COMMENTS: *Staff recommends* that the Subcommittee consider elimination of Control Section 24.30 because it conflicts with the State Allocation Board's authority over rental income from the State Relocatable Classroom Program and diverts income for the School Facility Program to the General Fund. Consistent with their authority, the State Allocation Board can utilize an estimated **\$24 million** in annual income from the State Relocatable Classroom Program income to cover the costs of operating the program (estimated at \$10.7 million) and provide additional funding to the School Facility Program. The **\$3.4 million** in remaining income from the Migrant Housing Program could also be appropriately utilized for the School Facility Program, although enabling legislation might be required.

OUTCOME:

ISSUE 4: Special Education – Funding for Federal Program Growth and Cost-of-Living Increases (Item 6110-161-0001)

DESCRIPTION: The Governor’s budget provides a General Fund increase of **\$168.1 million** for special education statutory growth and COLA adjustments in 2006-07. There are no other major adjustments for special education programs in 2006-07. The LAO recommends that special education growth and COLA be calculated for the federal special education program, instead of just the state program. The LAO recommends that most of the **\$52.6 million** in funds continued in the Governor’s budget for one-time purposes – including CASEE assistance -- be redirected to pay for federal growth and COLA.

BACKGROUND: There are approximately 682,000 students with disabilities ages 3-21 who are enrolled in special education programs in California. Special education is administered through regional planning systems called Special Education Local Planning Areas (SELPAs). There are 116 SELPAs in California.

Overall Special Education Funding: The Governor’s Budget proposes **\$4.3 billion** in special education funding in 2006-07. Of this amount, the budget includes **\$984.2 billion** in federal special education funds in 2006-07. This reflects an increase of \$13.8 million, which will likely change to a net reduction to reflect federal program cutbacks that begin in 2006-07. Federal funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The Governor's Budget also proposes **\$3.0 billion** in General Fund support (Proposition 98) and **\$369.7 million** in property taxes for special education in 2006-07. The table below displays special education funding for 2005-06 and 2006-07.

<i>Dollars in Millions</i>	2005-06	2006-07	Dollar Change	Percent Change
General Fund	\$2,890.0	\$3,046.3	\$156.3	5.4 %
Property Taxes	351.8	369.2	17.4	4.9 %
Federal Funds	970.4	984.2	13.8	1.4 %
TOTALS	\$4,212.3	\$4,339.7	\$187.5	4.5 %

Funding Changes Pursuant to 2004 IDEA Reauthorization:

As signed into law in December 2004, the latest 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).

Until recently, the state used federal funds to offset state growth and COLA payments for the total special education program. While this was 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 special education funding reforms in 1997-98 implemented by Chapter 854 (AB 602). 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 2005-06, the state changed the special education COLA calculation so that it applied to the state special education program only and not the federal special education program. At the same time, the state changed the practice of using federal funds to offset state and federal COLA increases and required that new federal funds be passed through to schools.

The Governor continues **\$52.6 million** in funds provided in the 2005-06 budget for any one-time special education purposes, including assistance to students with disabilities to pass the High School Exit Exam and instructional materials. These funds are discussed further in the next item.

LAO Recommendation:

In 2005-06, the LAO recommended that the Legislature separate state and federal funding for budgeting purposes and use federal funds to pay for growth and COLA for federal programs. These changes were enacted into law. At this time, federal funds were increasing for special education at such a level they covered growth and COLA for federal programs.

In 2006-07, federal funding to California is now predicted to actually decline for the first time in recent history. This reduction reverses significant federal increases for this program in recent years. Over the last few years, federal Special Education funding grew between \$60 and \$152 million annually. As a result, the LAO now recommends that the Legislature fully fund the growth and COLA adjustments on the federal program. In so doing, the LAO recommends redirecting virtually all of the \$52.6 million in discretionary funding included in the special education budget for one-time purposes in 2006-07 to cover these adjustments.

COMMENTS: *Staff notes* that the state does not pay for growth and COLA adjustments on other federal programs, so if the state resumes state payment for these adjustments this could set a significant precedent for other federal programs, such as Title I Basic Grants. *Staff also notes* that COLA rates – now estimated at 5.2 percent in 2006-07 – will be adjusted at May Revise and may actually increase. As currently estimated, COLA rates will be higher than they have been in the past twenty years.

**ISSUE 5: Special Education – CAHSEE Assistance Funding
(Item 6110-161-0001)**

DESCRIPTION: The Governor proposes continuation of **\$52.6 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE in 2006-07. As discussed at the previous hearing, the Governor proposes another **\$40 million** – double the amount provided in the current year -- to provide intensive intervention to students in the graduating classes of 2007 who have not yet passed the CAHSEE.

BACKGROUND: The latest figures from CDE, which reflect two administrations of CAHSEE in Fall 2006, indicate that approximately **11.1 percent** of high school seniors in the class of 2006 have not passed either the English language arts exam or the mathematics exam. The percentage of seniors who have not passed is higher for some groups of seniors, for example 30.9 percent of English learners and 18.4 percent of economically disadvantaged students have not passed either of these exams.

Students with disabilities are not included in the latest report, according to CDE, because they are exempted from passage of CAHSEE for one year following passage of Chapter 3, Statutes of 2006 (SB 517/Romero). The most recent data indicates that **42 percent** of students with disabilities had not passed either of the CAHSEE exams.

According to the latest estimates from CDE, nearly **99,937 students** in the class of 2007 will be eligible for intensive intervention funding in 2006-07 because they have not passed the CAHSEE. This total includes **26,667 special education students** who will need to pass the CAHSEE in order to graduate in 2006-07.

Governor's Budget Proposal: The Governor proposes two separate programs for providing CAHSEE intervention funds to 12th grade students in 2006-07. Together, these programs would provide \$92.8 million for intensive CAHSEE interventions, as follows:

- **Item 6110-204-0001.** The Governor proposes **\$40 million** for intensive instruction and services to assist eligible 12th grade students pass the CAHSEE in 2006-07. Intensive instruction and services may include hiring additional teachers, individualizing instruction, providing teacher training, and offering individual or small group instruction. Funding is provided at the rate of \$631 per student. This program was discussed at the previous hearing. Provisions of this program are contained in Chapter 234, Statutes of 2004.
- **Item 6110-161-0001.** The Governor proposes continuation of another **\$52.6 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE. This program is described in budget bill language. These are ongoing funds that are scheduled for one-time discretionary purposes in the budget. First priority for funding is to cover a budget shortfall in special education.

LAO Recommendation: As indicated in the previous item, the LAO recommends redirecting most of the **\$52.6 million** in ongoing special education funding now available for CAHSEE intervention to cover growth and COLA for the federal special education program.

The LAO also recommends that the Legislature adopt trailer bill language that would allow up to ten school districts to test comprehensive approaches to assisting students to pass the CAHSEE. The LAO points out that the **\$40 million** proposed for intensive instruction for 12th graders who have not yet passed CAHSEE, builds upon another **\$177 million** in ongoing funds already included in the budget for supplemental instruction for students in grades 7 through 12. These supplemental instruction funds are also intended to help students pass the CAHSEE. Districts receive \$3.87 per student for supplemental instruction, which must be in addition to services provided in the regular school day – before or after school, summer school and Saturdays.

COMMENTS: It is likely that the Administration will clarify its CAHSEE intervention proposals at May Revise. There are many questions to answer in moving forward with funding for these programs, including determination of student eligibility, appropriate levels of per pupil funding, and whether CAHSEE funds are building upon other funding streams. Given the significance for students who will not be able to graduate from high school, *staff supports* the LAO's recommendation for a pilot program to test effective approaches to assisting students pass CAHSEE.

Suggested Questions:

1. *For DOF: How does the Administration plan to coordinate the \$92.6 million in CAHSEE assistance proposed in 2006-07 for all eligible students?*
2. *For DOF and CDE: What is the reason for maintaining two separate programs for special education students and non-special education students? Are districts delivering services separately or are they coordinating programs?*
3. *For DOF and CDE: What is the appropriate level of CAHSEE intervention funding for students with disabilities?*
4. *For DOF: Does the Administration intend to make the \$40 million available to all eligible students in the class of 2007, including students with disabilities?*
5. *For CDE: Are all special education students receiving \$400 per student in supplemental instruction funding; as well as special education CAHSEE funds?*
6. *For DOF and CDE: Under federal law, schools are obligated to serve special education students – the group with the highest proportion of students who have failed the CAHSEE – until students graduate or through 21 years of age. What is the plan for continuing education for students with disabilities? How much will this cost?*
7. *How has the \$72.6 million appropriated in the current year for CAHSEE assistance been utilized by schools and whether it has been effective in increasing passage rates?*

OUTCOME:

ISSUE 6: Governor's Federal Fund Proposal – Reading First (Item 6110-126-0890)

DESCRIPTION: The Governor's Budget proposes a total of **\$145.4 million** in federal funding to continue the Reading First program in 2006-07 for existing district grantees. The Governor's proposal does not provide funding for any new grantees and instead authorizes additional years of funding – up to five years -- for existing grantees. Funding proposed by the Governor is expected to increase by an estimated **\$11.2 million** at May Revision to reflect carryover funds for the program.

BACKGROUND: The federal Reading First Program, authorized under the No Child Left Act, provides grants to states to improve reading instruction and outcomes for students. California's Reading First Plan was approved by the State Board of Education and codified in state law in 2002 to provide reading instruction to K-3 students K-12 special education students.

School districts are eligible to apply for funding if 75 percent of their low performing schools provide assurances about participating in the program. Eligible low performing schools are defined as schools with 40 percent or more students performing below basic on the California Standards Test.

Under the state Reading First Plan, the state is authorized to provide base grants of \$6,500 for eligible K-3 classroom teachers in participating districts; however, with additional justification, grants of up to \$8,000 per K-3 teacher are allowed. Grants are allocated for K-3 bilingual classrooms, identified as "waivered classrooms" pursuant to Education Code Section 310. Grants are not allocated for K-12 special education classroom teachers.

In 2004-05, \$29.5 million in one-time carryover funds were provided to 92 school districts to provide up to \$8,000 per teacher for one year to reduce student referrals to special education.

Under California's plan, Reading First funds can be used by school districts for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches and reading assessments. Funding is not provided for direct instruction to students. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

To date, the State Department of Education allocated Reading First funds to three rounds of grantees and selection of a fourth round authorized in the 2005-06 budget is currently being selected. As indicated below, the Reading First program currently provides grants to nearly 20,000 classrooms in 110 school districts statewide, representing approximately half of the eligible schools and teachers statewide.

Current Reading First Participation

Existing Grantees:	Districts	Schools	Classrooms/ Teachers
Round 1 (Waivered Classrooms)	13	329	9,342 (412)
Round 2 (Waivered Classrooms)	60	360	7,566 (695)
Round 3 (Waivered Classrooms)	37	135	2,953 (627)
Subtotal, Existing Grantees (Subtotal, Waivered Classrooms)	110	824	19,861 (1,734)

Unfunded Classrooms:	Districts	Schools	Classrooms/ Teachers
Additional Eligible Classrooms in Funded Districts		274	6,600
Additional Eligible Classrooms in Unfunded Districts		496	9,673
Subtotals, Unfunded Classrooms		770	16,373

While the State Board originally envisioned Reading First as a three-year program for districts, the Administration has generally pursued additional rounds of funding for existing grantees the last two years, instead of expanding funding to unserved districts and schools. The 2005-06 budget provided a fourth year of funding for existing grantees that demonstrate “significant progress” in improving reading scores. The State Board has not yet adopted criteria for determining significant progress, even though fourth year grants have been released for Round 1 schools. The 2005-06 budget contained provisional language requiring the State Board of Education to seek legislative approval for any extension of the grant period beyond three years. Legislation was not passed for this purpose.

Governor’s Budget: The Governor’s Budget proposes a total of **\$145.4 million** in federal funding to continue the Reading First program in 2006-07 for existing district grantees. The Governor’s proposal does not provide funding for any new grantees and instead authorizes additional years of funding – up to five years -- for existing grantees. Funding proposed by the Governor is expected to increase by an estimated **\$11.2 million** at May Revision to reflect additional carryover funds for the program. The Governor’s Budget continues provisional language requiring legislation for extending the grant period for the fifth year. CDE is sponsoring **AB 2248 (Coto)** to authorize a fifth year of funding.

Definition of Sufficient Progress: The State Board is currently considering the definition of “sufficient progress” for 4th year funding. There is concern that the most recent definition of “significant progress” before the State Board would disproportionately deny waived

classrooms a fourth year of funding. Specifically, there is concern that the criteria would disadvantage waived classrooms in Round 1 who have had only two years of funding compared to classrooms with three years of funding. Additionally, the quality of assessments and professional development for waived classrooms is felt to be a problem that would disadvantage waived classrooms.

Advisory Group for Implementing Reading First in Waivered Classrooms: The 2005-06 budget established an advisory committee composed of waived classroom teachers; academic experts in second-language acquisition; and academic experts in Reading Language Arts and Spanish Language Arts. The advisory committee was directed to assist CDE in addressing assessments and professional development for reading teachers and coaches. While a report was due to the Legislature by March 1, 2006, the advisory committee was not convened until March 2006, and therefore has not been able to complete its work.

Reading First Evaluation: A three-year evaluation of California's Reading First program was completed in November 2005 by an external evaluator selected by CDE. While the evaluation concludes that the program is having a positive impact on student achievement, when it compared Reading First schools to demographically similar non-Reading First schools the results were more inconclusive. It should be noted that it is not possible to measure individual student progress because student based, longitudinal data is not yet available for schools.

Additional data provided by the Reading First California Technical Assistance Center also indicates some increases in the percentage of Reading First students identified as Basic and Proficient on the California Standards Test. While significant increases were noted, some sizable decreases and variable trends were found.

LAO Recommendation: The LAO does not believe that a fifth year of Reading First funding for existing grantees is warranted based upon available outcome data for the program. However, if the Legislature chooses to provide a fifth year of funding, the LAO recommends that budget bill or trailer bill language be adopted defining significant progress in a simple, straightforward, easily interpretable way, such as percent of second/third graders scoring basic and above in the fourth-year of the program compared to first-year or pre-first-year of the program.

If a fifth year were not funded, the LAO recommends that funds be used to establish a new round of grantees. Given the lack of notable, widespread success of the program, the LAO continues to recommend the program be more flexible and that districts be allowed to use at least a portion of their funding for direct student service.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee continue to set-aside funding for new districts and consider program modifications suggested by the LAO to encourage greater participation by districts. Given roughly half of the eligible schools and classrooms have never participated in Reading First, the Subcommittee could set-aside an anticipated **\$11.2 million** in Reading First carryover funds for new districts, schools and classrooms in 2006-07.

The 2005-06 budget provided **\$6.5 million** to fund unfunded school districts. According to CDE, nine districts of the unfunded districts applied for funding. What are the reasons for such low participation? Is the program felt to be too restrictive for districts and could it be made more flexible in ways that do not undermine the integrity of the program? In recent years, the LAO

has consistently recommended modifications in the structure of the program to allow for actual reading instruction to students instead of teacher training and coaching. The LAO will present some of these modifications for the Subcommittee to consider.

In considering the Governor's proposal, the Subcommittee may wish to ask the following questions of DOF and CDE:

- 1. To CDE: The Federal Reading First program will be reauthorized in 2007. Given recent and significant reductions in federal grants to states, what is the likelihood this program will be continued and fully funded?*
- 2. To DOF: Roughly half of the schools and classrooms eligible for Reading First are not participating in the program? Why does the Administration favor continued funding for existing grants after three years, rather than serving unfunded districts, schools and classrooms?*
- 3. If the state provides a 5th and 6th year of funding to first-round grantees, what implications will that have on the availability of funding for new grants?*
- 4. To DOF: How does the Administration plan to structure funding for the 5th and 6th year grants given the possibility that federal funding might decline in coming years?*

ISSUE 7: Governor’s Federal Fund Proposal – Program Improvement Schools/Districts (Item 6110-135-0890)

DESCRIPTION: The Governor proposes to appropriate **\$82 million** in federal carryover funds for low performing schools and districts identified as needing “Program Improvement” (PI) under the federal No Child Left Behind (NCLB) Act. The Administration is working with the California Department of Education on the development of a specific proposal that would utilize these one-time funds to increase student achievement in Program Improvement schools *and* districts. This proposal will likely be updated as a part of the May Revision. CDE will provide an update on NCLB.

BACKGROUND:

According to the Department of Education, there are currently 1,746 Title 1 funded schools and 115 districts in California designated as Program Improvement. While the state has been identifying Program Improvement schools for a number of years, Program Improvement districts were just identified in the last year.

Year	Program Improvement Schools	Program Improvement Districts
Year 1	400	155
Year 2	538	0
Year 3	407	0
Year 4	153	0
Year 5	248	0
TOTAL	1,746	155

Schools and districts must implement a range of services and/or interventions while they are identified as Program Improvement. If progress is not made, a range of sanctions apply. The soonest that program improvement districts could first face state sanctions is the fall of 2007.

Governor’s Budget: The Governor first proposed reappropriating federal carryover funds from several programs for Program Improvement schools and districts as a part of the 2005-06 budget. At that time, the level of carryover balances equaled \$74.5 million. The Legislature rejected the Governor’s proposal and appropriated these carryover funds back to their originating programs, because the Governor’s proposal had not been adequately developed. Subsequently, the Governor eliminated funds for these purposes and set the funds aside for a new program to assist low-performing schools and districts, to be determined through future legislation.

The Governor is making a similar request in 2006-07, although the details of the program are still being developed with the California Department of Education. In addition, the amount of funding for the program has now grown to **\$82 million** due to additional carryover funds anticipated in 2006-07 from the following programs:

- **\$24.3 million** for Title I-Basic Grants;
- **\$22.2 million** for Title I-Program Improvement;
- **\$19.2 million** for Title I–Migrant Education; and
- **\$16.1 million** for Title V-Comprehensive School Reform (CSR).

LAO Recommendations: The LAO recommends that the Legislature reject all of the Governor’s PI carryover proposals except for the Title I, Basic Program proposal. The LAO believes the transfer is reasonable, but that it would require a waiver from the U.S. Department of Education. For this reason, the LAO recommends that the Legislature ask CDE to seek such a waiver.

Specific comments and recommendations from the LAO, as well as the CDE, are included in the table below:

	Carryover Amount	LAO Recommendations	CDE Recommendations	Other
Title I Basic	\$24.3 m	<u>Support.</u> Would need a federal waiver to use Title I Basic funds for PI schools/districts.	<u>Support.</u> Would need a federal waiver to use Title I Basic funds for PI schools/districts.	
Title I Program Improvement (PI)	\$22.3 m	<u>Reject.</u> Funds are already used for school/district interventions.		
Comprehensive School Reform (CSR)	\$16.2 m	<u>Reject.</u> Use carryover funds to partially fund third and final year of CSR grants.	<u>Reject.</u> Use carryover funds to partially fund third and final year of CSR grants	
Migrant Education	\$19.2 m	<u>Reject:</u> Migrant students would not benefit. (PI schools serve only 30% of the state’s migrant students.) Use funds to Migrant Ed reforms per LAO proposal. (See next item.)	<u>Oppose.</u> Funds should be retained for migrant students. CDE supports alternative Migrant Education proposal. (See next item.)	

COMMENTS: *Staff notes* that, given the lack of any specifics for the Governor’s PI carryover proposal, it is likely that the Administration will be providing additional detail and possible changes to this proposal at May Revise.

OUTCOME:

ISSUE 8: LAO Proposal -- Migrant Education (6110-125-0890)

DESCRIPTION: The LAO will present recommendations for a comprehensive set of reforms designed to improve the federal Migrant Education Program. Generally, the LAO makes recommendations to address the program's: (1) funding and service model; (2) data system; and (3) carryover funding process.

BACKGROUND:

The Governor appropriates **\$125.3 million** in federal funds for the Migrant Education Program (MEP) in 2006-07. The Governor proposes to spend an additional **\$19.2 million** in federal MEP funds for Program Improvement schools and districts, as discussed in the previous agenda item.

The federal MEP provides grants to states to serve the special needs of highly mobile students whose family members are employed in seasonal agricultural work. MEP services are delivered to students in California through 14 regional service centers.

The LAO has identified four major concerns with the current MEP funding model, which are outlined below:

- Disconnect between funding and accountability.
- Lack of coordination between MEP services and other services.
- Funding formula does not reflect statutory program priorities.
- Funding formula does not encourage broad participation.

In response, the LAO makes the following specific recommendations to the Legislature:

- Revise the MEP funding model to send the majority of funds directly to school districts rather than regional centers. Maintain some funds at county offices of education for certain regional activities and some funds at CDE for certain statewide activities.
- Direct CDE to: (1) revise the per-pupil funding formula so that it emphasizes federal and state program priorities and (2) report back on revisions once it has completed its statewide needs assessment.
- Expand the state's migrant education data system to include more data elements. Provide district and school personnel access to the enhanced system. Use \$4 million in carryover funds for the data system.
- Use the remainder of carryover funds to help transition to a district-based system. Direct CDE to develop a transition plan and associated spending plan by October 31, 2006.
- Adopt budget bill language that would allow up to 5 percent of annual migrant education funding to carryover at the local level, with any additional carryover designated for specific legislative priorities.

COMMENTS: *Staff notes* that the Migrant Education program has not been able to expend available federal funding, resulting in relatively large and chronic carryover problems in recent years. The Governor's Budget identifies \$19 million in Migrant Education carryover funds. The

CDE recently identified another \$10 million, bringing total carryover funds to \$29 million in 2006-07.

The LAO recommends spending \$4 million to improve the migrant student database and the remainder to assist in the transition to a district-centered system. *Staff believes* that the LAO proposal has merit and should be considered by the Legislature as method of improving the current program for migrant students and efficiently allocating available carryover funds.

CDE also believes that the LAO proposal has some merit, but has developed its own carryover expenditure plans. These expenditure plans provide one-time funding for the following purposes:

Carryover Expenditure Plan (\$19.2 million)

- Extended day/week and summer/intersession academic instructional programs, with a focus on English language arts and mathematics.
- Extended day/week and summer/intersession academic instructional programs to help prepare middle and high school students for the CAHSEE.
- Mentoring and other support services.
- Parent involvement and parent education.
- Professional development.
- Instructional technology to support academic achievement.

Additional Carryover Expenditure Plan (\$10.2 million)

- Comprehensive needs assessment (\$75,000)
- Program evaluation (\$500,000)
- Regional and statewide identification and recruitment training (\$225,000)
- Preschool and out of school youth services (\$2,030,000)
- Summer and intersession academic enrichment programs (\$6,250,000)
- Migrant education program student information system (\$670,000)

OUTCOME:

ISSUE 9: LAO Proposal – Economic Impact Aid (6110-128-0001)

DESCRIPTION: The LAO recommends revisions to the Economic Impact Aid funding formula so that (1) district allocations are predictable and meet local needs for serving both economically disadvantaged and English learner student and (2) calculations are based upon reliable data. If the Legislature adopts the Governor’s overall budget level of funding, the LAO recommends redirecting some funding to ease district transition to a revised formula.

BACKGROUND: Economic Impact Aid (EIA) is the state’s major compensatory education program intended to address the educational needs of economically disadvantaged and English learner students. The Governor’s budget provides **\$648 million** for EIA in 2006-07, which provides a 10.4 percent increase reflecting student growth and COLA. The federal compensatory education program is known as the Title I Basic Grant program. The Governor’s budget provides \$ 1.7 billion in federal Title I grants to schools statewide.

The EIA formula is based upon counts for both poor and English learner students. Districts may use funds for a variety of purposes, including: assistance for low-performing students; supplemental instruction services to English learner students; training for teachers of English learner students; and supplementary materials. According to the LAO, districts report using most EIA funds for English learners.

Problems Facing EIA: The LAO has identified the following five problems with the EIA formula that make it outdated and problematic:

- **Formula does not reflect current school demographics.** The formula was written more than 25 years ago when the proportion of poor and English learner students was very different than it is today.
- **Heavy emphasis on poverty skews per-pupil payments.** Given shifts in the student populations, the formula produces very different levels of per pupil funding for school districts.
- **District allocations appear arbitrary and unpredictable.** The existing formula is very complex and results in funding amounts for districts that do not follow population changes and cannot be anticipated.
- **CalWORKS counts may no longer be a good measure of poverty.** Due to changes in the CalWORK program requirements, CalWORKS counts measure program participation not poverty. CalWORKS counts have declined significantly since 1996, whereas declines in other measures of poverty have declined much less.
- **Change in data availability makes current formula unworkable.** The Department of Social Services stopped providing CalWORKS data to CDE in December 2004, due to concerns about the security of child-specific data.

Options for Addressing EIA Problems: The LAO has identified a number of options for addressing these issues:

- **Options for Addressing CalWORKS Data Problems:**

1. Try to resolve confidentiality issues with the Department of Social Services (DSS) or direct DSS to provide the data via statute.
 2. Use a different measure of poverty such as federal, census-based poverty counts; free and reduced priced meal eligibility; and other measures.
 3. Remove poverty measures from the EIA formula and base the formula on English learner counts, which would transform EIA into a English learner program that would not even recognize poverty for English learners.
- **Options for Simplifying the Economic Impact Aid Formula:**
 1. Align EIA with other programs that serve economically disadvantaged and English learner students, such as federal Title I and Title III grants.
 2. Reconsider formula's data inputs and weights to update the appropriate weights for poverty and English learner students.
 3. Distribute funding through a combination of grant types, which currently includes per-pupil grants, concentration grants that provide additional funding for districts with higher proportions of poor and EL students; and minimum grants for small districts.
 4. Provide transitional funding to hold districts harmless for any losses in grants that might result with changes in the EIA formula.

COMMENTS: Poor students, and students who are English learners, face additional educational challenges that are reflected in low performance on state assessments, including CAHSEE, and other educational performance measures such as student graduation. However, in spite of the strong relationship between poverty and English learners and educational risk, funding for the EIA formula has been relatively flat since it was created more than 25 years ago.

In contrast, categorical program increases approved in recent years have tended to focus new funding on low performing schools and other specific programs such as supplemental instruction and CAHSEE intervention. For example, the Legislature and Governor have provided hundreds of millions of dollars for programs that are targeted to low performing *schools*, but that does not benefit *all* poor and English learner *students* in California.

Recent EIA Study Proposals: The Legislature passed two measures that would require formal study of the EIA program and the development of options for a new formula. SB 1645 (Escutia) in 2004-05 and budget bill language in the 2005-06 budget both required EIA study language. Both of these measure were vetoed by the Governor. The Governor's veto message called for the development of a working group made up of the Department of Finance, Office of the Secretary for Education, the Department of Education, and the LAO to develop options for restructuring the EIA formula. The LAO reports that some initial meetings have taken place, but no progress has been made in developing reforms.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee question the Office of the Secretary and Department of Finance about the progress and plans for the EIA working group. While the Governor vetoed Legislative requested EIA studies to restructure EIA, the Governor clearly supports these same efforts through a multi-agency working group.

OUTCOME:

ISSUE 10: High Priority Schools Grant Program (Item 6110-123-0001)

DESCRIPTION: The Governor's proposal to provide an additional **\$201 million** to establish a new cohort for the High Priority (HP) Schools Grants program in 2006-07. This augmentation brings total funding for the program to \$243 million. The Governor proposes to revert **\$60 million** in funding appropriated for a new cohort of HP schools in 2005-06 that has not yet been expended. The Department of Education proposes to use **\$10 million** of the 2005-06 funds to develop a pilot for assisting and intervening with alternative schools that are not eligible to participate in the HP program.

BACKGROUND: The High Priority Schools Grant Program provides grants of \$400 per pupil to low performing schools, with priority for schools in the lowest performing deciles of the Academic Performance Index.

Provisions of the *Williams* settlement agreement, as contained in Chapter 900, Statutes of 2004, declares legislative intent that new schools be added to the HP program when HP and II/USP schools are phased out and that overall funding for the program be maintained at no less than **\$200 million** annually.

Funding for the first HP cohort was appropriated in 2002-03. In the spirit of the *Williams* settlement agreement, the 2005-06 budget appropriated \$60 million in II/USP savings to fund a second cohort of the HP program. Expenditure of these funds was contingent upon passage of legislation to address exit criteria for the program. Such legislation -- **AB 1758 (Umberg)** -- was enacted on April 18, 2006. While an urgency statute, it is unclear whether the \$60 million can be expended for new HP grants in the last two months of the 2005-06 fiscal year. If unexpended, the administration proposes that these funds be reverted.

CDE Recommendation: *Staff notes* that many alternative schools (such as continuation high schools) do not have API's, and are therefore not eligible to participate in the HP program. At the same time, these schools are an important option for students who are not successful in traditional programs. Because these schools serve a disproportionate number of students behind grade level, these schools may be in need of assistance to improve their instruction. CDE is sponsoring **AB 2254 (Umberg)**, which would set aside \$10 million of the \$201 million for new HP grants for alternative schools to participate in the program. CDE notes that it would need two positions to carry out the program.

LAO Recommendation: The LAO recommends redirecting any new HP funding to support district-based interventions, not school-based interventions. The LAO cites findings from the II/USP evaluation conducted by AIR that found no significant impact for schools, but noted very positive or negative effects for districts. The LAO indicates that districts ultimately make decisions about assisting and resourcing their schools.

COMMENTS/RECOMMENDATIONS: Staff recommends that the Subcommittee ask CDE about the status of the \$60 million in funds appropriated for a new HP program in the current year. Now that the required legislation has been enacted, can funds be appropriated? What is

DOF's position on these funds in these in the budget? Does DOF plan to revert these funds at the end of the year? What level of HP funding does the Administration intend to provide and how does this relate to the Williams agreements?

OUTCOME:

ISSUE 11: Instructional Materials/Lottery Funding (Item 6110-189-0001)

DESCRIPTION: The Governor’s Budget proposes **\$402 million** in Proposition 98 funding for the Instructional Materials Block Grant in 2006-07, which provides a **\$40 million** (11 percent) increase over the 2005-06 level of funding. The Governor’s budget also includes an estimated **\$190 million** in State Lottery funds for K-12 schools in 2006-07, which reflects a **\$40 million** increase in lottery revenues beginning in 2005-06 that must be used for instructional materials. The LAO recommends that the Legislature reject the \$40 million Proposition 98 increase considering the \$40 million in new lottery revenues available to schools for instructional materials in 2006-07.

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 the number of enrolled students in grades K-12.

Proposition 20 of 2000, which was passed by voters in 2000, requires that 50 percent of lottery revenue growth be utilized for purchase of instructional materials by K-12 schools and community colleges.

Governor’s Budget: The Governor's proposes a total of **\$592 million** for instructional materials, which includes **\$402 million** in Proposition 98 funding and **\$190 million** in State Lottery Funds in 2006-07.

The Governor’s budget proposes a total funding level of **\$402 million** for the state Instructional Materials Block Grant, which provides funding to school districts to purchase standards-aligned materials. This is an increase of \$41 million over last year’s funding level of which approximately half is attributable to growth and COLA and half reflects an increase in the program base.

According to the LAO, total funding available for instructional materials has increased significantly in recent years, as indicated the following table from their analysis.

<i>(Dollars in Millions)</i>				
	2003-04	2004-05	2005-06	2006-07
Instructional Materials Block Grant	\$175	\$333	\$361	\$402
Lottery funds for Instructional materials	115	150	190 ^a	190a
Totals	\$290	\$483b	\$551	\$592
Year-to-year change	—	66%	14%	7%

a LAO estimates based on lottery revenue projections.
b In addition to the figure shown here, \$168 million in one-time funding was provided in this year.

English Learner Set-Aside:

The Governor's Budget does not continue a funding set-aside for the purchase of instructional materials that *supplement* the regular standards-aligned instructional materials schools purchase through the regular instructional materials program.

The 2004-05 budget provided a **\$30 million** set-aside that was available on a one-time basis over two years for the purchase of supplemental instructional materials to assist students in learning English. Supplemental materials purchased by schools had to be substantially correlated to both academic content standards and English Language Development standards.

The accompanying budget bill language for the 2004-05 set-aside specified that "the purpose of these materials will be to accelerate pupils as rapidly as possible towards grade level proficiency," and that the "funds shall be used to purchase supplemental materials that are designed to help English learners become proficient in reading, writing and speaking English."

The 2004-05 budget funded three limited-term positions to administer the \$30 million set-aside for English learner instructional materials. These positions expire at the end of 2005-06.

According to CDE, 650 school districts and county offices applied for and received the \$30 million in supplemental materials funding that resulted in providing approximately \$20 per English learner.

The Legislature provided another **\$20 million** in ongoing funding for purchase of supplemental materials for English learners in 2005-06; however, the Governor vetoed the funds for these purposes.

LAO Recommendation: The LAO recommends that the Legislature eliminate the **\$40 million** augmentation in Proposition 98 funds for instructional materials in 2006-07. This recommendation takes into account the **\$190 million** in instructional materials funding schools will receive from State Lottery funds in 2006-07.

The LAO recommends that the \$40 million in savings be scored as General Fund savings to address the state's budget deficit. If the Legislature chooses to retain these funds for schools, the LAO recommends redirecting the \$40 million toward implementation of reforms it suggests for the Economic Impact Aid program, which were discussed earlier in this agenda.

COMMENTS:

The State Board is currently working on updating the English/Language Arts curriculum framework, including the criteria for evaluating instructional materials submitted for adoption. These criteria guide the development of new instructional materials. A number of Senators have expressed strong concern to the Secretary for Education, Superintendent of Public Instruction and State Board of Education that the criteria recently approved by the State Board does not recognize instructional materials for English learners. This issue will be discussed further at the next Subcommittee hearing.

OUTCOME:

ISSUE 12: April Finance Letters – Federal Funds (Consent)

Staff recommends approval of the following revisions to the Governor’s January 10 Budget, as proposed by the March 30, 2006, 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. 6110-001-0890, Department of Education, State Operations (Issue 837).** It is requested that this item be decreased by \$1,715,000. The reduction, coupled with reductions to local assistance items, would align appropriation authority with anticipated federal grant amounts. This reduction reflects the following adjustments to specific programs:

Learn and Serve America (6110-102-0890):	-\$169,967
Neglected and Delinquent (6110-119-0890):	-\$4,360
Innovative Programs (6110-123-0890):	-\$1,000,000
Migrant Education (6110-125-0890):	-\$9,538
Even Start (6110-136-0890):	-\$239,254
Homeless Education (6110-136-0890):	-\$23,073
Safe and Drug Free (6110-183-0890):	-\$268,910

- 2. 6110-102-0890, Local Assistance, Federal Learn and Serve America Funding (Issues 579 and 580).** It is requested that this item be increased by \$563,000. This includes a reduction of \$257,000 to conform federal expenditure authority with available grant funding and an increase of \$820,000 to reflect one-time carryover funding to support additional local service learning activities.
- 3. 6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issue 885).** It is requested that this item be reduced by \$39,000 to align the appropriation authority with the anticipated federal grant. The Robert C. Byrd Honors Scholarship Program recognizes exceptional high school seniors who show promise of continued excellence in postsecondary education.
- 4. 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 831).** It is requested that this item be decreased by \$427,000 to align expenditure authority with available federal grant funding. These grants funds are used to address the education needs of neglected and delinquent children and to provide education continuity for children in state-run institutions for juveniles.
- 5. 6110-123-0890, Local Assistance, Title V Innovative Programs (Issue 247).** It is requested that this item be decreased by \$10,536,000 to make the amount consistent with the federal Title V Innovative Programs grant available for 2006-07. 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.

6. **6110-125-0890, Local Assistance, Migrant Education Program (Issue 832).** It is requested that Schedule (1) of this item be decreased by \$935,000 to align appropriation authority for the Migrant Education Program with the anticipated federal grant. These grants funds are used to address the educational needs of highly mobile children whose family members are employed doing seasonal agricultural work. The program provides supplemental services to support the core academic program children receive during the regular school day.
7. **6110-126-0890, Local Assistance, Reading First Program (Issue 512).** It is requested that this item be decreased by \$1,598,000 to align appropriation authority with the anticipated federal grant award amount. The Reading First Program provides grants to use scientifically based programs to improve reading in kindergarten through grade 3.
8. **6110-136-0890, Local Assistance, Even Start Program, Title I Basic Program, McKinney-Vento Homeless Children Education Program, and Title I School Improvement Program (Issues 248, 513, 830, 834, and 835).** It is requested that Schedule (1) of this item be decreased by \$65,182,000. This adjustment includes a decrease of \$68,682,000 to align federal Title I Basic expenditure authority with the anticipated federal grant and an increase for one-time carryover funds of \$3.5 million for the Even Start program. The federal government has made a significant reduction in funding for the Even Start program for 2006-07 fiscal year, therefore the carryover funds will be used for existing Even Start projects to offset the reduction in the federal grant allocation.

The Title I Grants assist local educational agencies and schools improve the teaching and learning of children failing, or most-at-risk of failing, to meet state academic standards. The Even Start programs provides funds to improve the educational opportunities of low-income families, by integrating early childhood education and parenting education into a unified family literacy program.

It is further requested that Provision 6 of this item be added as follows to conform to this action:

6. Of the funds appropriated in Schedule (1), \$3,500,000 is available as a one-time carryover from prior years for the Even Start program.

It is further requested that Schedule (2) of this item be increased by \$189,000. This adjustment reflects one-time carryover funds of \$500,000, which resulted from grantees not fully expending their allocations, and a decrease of \$311,000 in the McKinney-Vento Homeless Children Education federal grant. These funds will be allocated on a competitive basis to supplement homeless children education programs. These programs ensure that homeless students receive the same educational opportunities as other students.

It is further requested that Program 7 of this item be added as follows to conform to this action:

7. Of the funds appropriated in Schedule (2), \$500,000 is provided in one-time carryover funds to support the existing program.

It also is requested that Schedule (3) of this item be decreased by \$2,127,000 to align expenditure authority with federal Title I School Improvement funding. These grant funds assist districts with developing and implementing school reform efforts aimed at increasing student academic performance.

It is requested that Provision 5 of this item be amended as follows to conform to this action:

“5. Of the funds appropriated in Schedule (3), ~~\$29,240,000~~ \$27,113,000 shall be available pursuant to Article 3.1 (commencing with Section 52055.57) of Chapter 6.1 of Part 28 of the Education Code, for Title I district accountability.”

9. 6110-137-0890, Local Assistance, Rural/Low Income School Program (Issue 836).

It is requested that this item be increased by \$239,000 to align expenditure authority with the anticipated federal grant. These grant funds are used to address the needs of rural, low-income schools.

10. 6110-156-0890, Local Assistance, Federal Adult Education Funding (Issues 575

and 576). It is requested that this item be increased by \$3,281,000. This includes a reduction of \$761,000 to conform federal expenditure authority with available grant funding and an increase of \$4,042,000 to reflect one-time carryover funding to support additional adult education activities, including investments in data and software systems to comply with new federal adult education reporting requirements.

It is further requested that provisional language be added as follows to confirm to this action:

4. Of the funds appropriated in this item, \$4,042,000 is one-time carryover available for the support of additional adult education instructional activities, and may be used by local providers to upgrade data collection and other software systems to ensure compliance with federal adult education reporting requirements as specified in Public Law 109-077 [119 Stat. 2037].

11. 6110-180-0890, Local Assistance, Education Technology Program (Issue 644). It

is requested that this item be decreased by \$29,728,000 to reflect a decrease in funding for the federal Enhancing Education Through Technology Grant Program. The program provides funds to improve student academic achievement through the use of technology in schools. The federal budget proposes to eliminate this program by 2007-08.

It is further requested that Provisions 1, 2 and 3 of this item be amended as follows to conform to this action:

“1. Of the funds appropriated in this item, ~~\$31,140,000~~ \$16,662,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.

2. Of the funds appropriated in this item, ~~\$31,140,000~~ \$16,662,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program-including the eligibility criteria established in federal law to target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs.

3. Of the funds appropriated in this item, ~~\$1,473,000~~ \$701,000 is available for the California Technology Assistance Project (CTAP) to provide federally required technical assistance and to help districts apply for and take full advantage of the federal Enhancing Education Through Technology grants.”

12. 6110-183-0890, Local Assistance, Safe and Drug-Free Schools and Communities

Program (Issues 886 and 888). It is requested that this item be decreased by \$6,453,000. This adjustment includes one-time carryover funds of \$2,209,000 and an \$8,662,000 decrease to align expenditure authority with the anticipated federal grant. The Safe and Drug Free Schools and Communities Program support activities that prevent violence and illegal drug use on school campuses.

It is further requested that the following provisional language be added to conform to this action:

2. Of the funds appropriated in this item, \$2,209,000 is provided in one-time carryover funds to support the existing program.

13. 6110-193-0890, Local Assistance, Mathematics and Science Partnership Grant

Program (Issue 514). It is requested that this item be increased by \$543,000 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 partner to provide staff development and curriculum support for mathematics and science teachers.

SUBCOMMITTEE NO. 1 on Education



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

Monday, April 24, 2006
11 am
Room 2040, State Capitol
OUTCOMES

<u>Item</u>	<u>Department</u>	<u>Page</u>
6110	Department of Education	
Issue 1	Proposition 98 Reversion Account – Proposed Reappropriations	1
Issue 2	School Facilities -- Emergency Repair Programs.....	3
Issue 3	School Facilities – Budget Control Section 24.30	5
Issue 4	Special Education – Funding of Federal COLA	6
Issue 5	Special Education – CAHSEE Assistance	8
Issue 6	Governor’s Federal Proposal – Reading First.....	10
Issue 7	Governor’s Federal Proposal – Program Improvement Schools/Districts	14
Issue 8	LAO Proposal – Migrant Education	16
Issue 9	LAO Proposal -- Economic Impact Aid.....	18
Issue 10	High Priority Schools Grant Program (Postponed).....	20
Issue 11	Instructional Materials (Postponed).....	22
Issue 12	April Finance Letters – Federal Funds (Consent)	24

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ITEM 6110 DEPARTMENT OF EDUCATION**ISSUE 1: Proposition 98 Reversion Account - Overview of Proposed Expenditures (Item 6110-485)**

DESCRIPTION: The Governor proposes appropriating **\$213.6 million** in one-time funds in 2006-07 from the Proposition 98 Reversion Account for a variety of programs. Of this amount, \$106.6 million – half of the funding proposed from this account – would be appropriated for the Emergency School Facilities Repair program required by the *Williams* settlement agreement. This issue will be discussed further in the next agenda item.

BACKGROUND: Proposition 98 Reversions funding provides significant one-time funding that can be reappropriated for other Proposition 98 purposes. The Governor proposes appropriating **\$213.6 million** in Proposition 98 reversions in 2006-07 for a variety of programs, which are listed below. Several of these proposals have been or will be discussed by the Subcommittee as separate issues.

- **\$106.6 million** for the Schools Facilities Emergency Repair program pursuant to the *Williams* settlement agreement as articulated by Chapter 899, Statutes of 2006.
- **\$63.7 million** for CalWorks Stage 3 child care adjustments.
- **\$18.7 million** for prior-year state obligations for K-12 mandate claims and interest.
- **\$9.6 million** for the Teacher Credentialing Block Grant to fund an additional 2,600 teachers in the Beginning Teacher Support and Assessment system in the current year.
- **\$9 million** for the Charter Schools Facility Grant program established by Chapter 892, Statutes of 2001. No charter school would be allowed to receive funds in excess of 75 percent of annual lease costs.
- **\$3 million** for a county office of education to contract with an outside agency to recruit highly qualified teachers to schools in the lowest three deciles of the 2004 Academic Performance Index. This funding is related to the School Enrichment Block Grant program funded in the 2005-06 budget.
- **\$1.1 million** for the purpose of funding the Chief Business Officer Training Program established pursuant to Chapter 356, Statutes of 2005.
- **\$1 million** for Principal Training Program, established by Chapter 697, Statutes of 2001. This program has been renamed the Administrator Training Program.
- **\$500,000** for high school coaches training pursuant to Chapter 673, Statutes of 2005. Funding shall be allocated on the basis of 2004-05 high school enrollment data with variable grant levels based upon school size.
- **\$39,000** to pay for reimbursable mandate claims costs relating to attendance accounting per Chapter 855, Statutes of 1997.

COMMENTS: The Subcommittee has heard many of the Governor's major Proposition 98 Reversion Account proposals at previous hearings. The Administration, in cooperation with the Department of Education, will update the level of Proposition 98 Reversion Account Funds available for reappropriation in 2006-07 as a part of the May Revision.

OUTCOME: **Open.**

ISSUE 2: School Facilities – Emergency Repair Program (6110-485)

DESCRIPTION: The Governor proposes **\$106.6 million** for the school facilities Emergency Repair Program (ERP) pursuant to the *Williams v. California* lawsuit settlement in 2006-07. An additional **\$206 million** is available for this program in 2005-06; however, because very few districts have applied for funding, only \$250,000 has been expended by the program to date. The LAO makes recommendations for changing the structure of the program in order to increase the allocations of these funds to districts.

BACKGROUND: Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the *Williams* settlement agreement, requires that, commencing with the 2005-06 Budget Act, the state transfer at least \$100 million, or 50 percent of the unappropriated balance of the Proposition 98 Reversion Account – whichever is greater – to the ERP. This level of funding must continue in the budget every year until the state has provided a total of \$800 million for the program.

The ERP is administered by the State Allocation Board. Funds must be used for emergency repairs in low-performing schools, specifically schools in the lowest three deciles of the Academic Performance Index (API). Chapter 899 defines emergency repairs as repairs needed to mitigate conditions that pose a threat to the health and safety of pupils or staff.

The 2005-06 budget provided **\$206 million** for the first year of the ERP program. The Governor proposes an additional **\$106.6 million** for the program in 2006-07.

Chapter 899 provided \$25 million in the 2003-04 budget for the School Facilities Needs Assessment Program, which enabled school districts to assess the facility needs for their decile 1-3 schools. These needs assessments were completed by districts last December.

LAO Findings: The LAO reports that, of the \$206 million available for ERP in 2005-06, less than \$250,000 has been expended because very few districts have applied for funds. More specifically, while approximately \$7.3 million in proposals have been submitted to the SAB to date, only \$247,101 has actually been allocated to school districts in the current year.

According to informal district reports considered by the LAO, low participation for ERP does not reflect a lack of emergency facility needs, but other problems. The LAO specifies a number of reasons behind the lack of applications including fear that projects will not be approved; cash flow concerns; workload needed to prepare applications; and confusion about how the program operates and how projects qualify for funding.

LAO Recommendations: The LAO advises that the current structure of the ERP, which is based upon reimbursement of projects that have already been completed, makes it difficult for districts to access funds and creates incentives for districts to delay repairs until they are emergencies. In response, the LAO recommends the following changes to the ERP:

- **Provide Direct Grants to Districts:** The LAO recommends statutory changes to allow the ERP to provide direct grants to districts based upon average daily attendance (ADA)

of their decile 1-3 schools -- rather than reimbursements -- to fund projects identified by their facility needs assessments.

- **Set-Aside \$50 Million Repair Loans:** The LAO further recommends that \$50 million be maintained in a revolving account at the state level for interest-free loans to districts to address pressing emergency facility needs at decile 1-3 schools. Funds would be available up-front or as a reimbursement.

COMMENTS: *Staff notes* that there will be significant excess funding for this program in the current year, which raises serious questions about the level of funding required for the program, as currently structured, in the budget year. *Staff recommends* that the Subcommittee ask the Administration for specific details about their plan for allocating nearly \$312 million in funding for decile 1-3 schools that would be available for ERP in 2006-07 under the Governor's proposal. What is the Administration's proposal for better allocating ERP funding to school districts consistent with the intent of the *William's* settlement agreement?

OUTCOME: Open

ISSUE 3: State School Facility Programs – Budget Control Section 24.30

DESCRIPTION: The Governor proposes to continue budget control language to require the transfer of rental income from the State Relocatable Classroom Program and remaining funds for the Migrant Housing Program to the State General Fund, as determined by the Department of Finance. According to the State Allocation Board, they have full authority over funds from both these programs.

BACKGROUND: As proposed by the Governor, Control Section 24.30 contains the following two provisions relating to the transfer of school facility income to the General Fund, as determined by the Department of Finance:

- **Transfer of Rental Income from the State Relocatable Classroom Program to the State General Fund.** The Governor proposes to continue budget control language in the 2005-06 budget allowing the Department of Finance to transfer income from the State Relocatable Classroom Program to the General Fund. The 2004-05 budget assumes the transfer of \$24.1 million; the 2006-07 budget assumes transfer of \$14.3 million, leaving \$10.7 million to cover operating costs for the program. Since enactment of the 2005-06 budget, the State Allocation Board has determined it has full authority over Relocatable Classroom Program income and will be retaining all income to cover alternative State School Facility Programs, e.g. new construction, modernization, and other programs.
- **Transfer of Remaining Funds from the Migrant Housing Program to the State General Fund.** This proposal would transfer an estimated **\$3.4 million** in remaining funds designated from the Migrant Housing Program to the General Fund. The program was originally created, with state bond funds, to help districts impacted by seasonal agricultural employment acquire portable classrooms. The Migrant Housing Program has been inactive for nearly seven years, as the classroom needs of districts affected by seasonal agricultural employment have been addressed by the State Relocatable Classroom Program and the alternate programs within the School Facility Programs. The Administration is proposing **trailer bill language**, in addition to language contained in Control Section 24.30, to transfer Migrant Housing Program funds to the General Fund.

COMMENTS: *Staff recommends* that the Subcommittee consider elimination of Control Section 24.30 because it conflicts with the State Allocation Board's authority over rental income from the State Relocatable Classroom Program and diverts income for the School Facility Program to the General Fund. Consistent with their authority, the State Allocation Board can utilize an estimated **\$24 million** in annual income from the State Relocatable Classroom Program income to cover the costs of operating the program (estimated at \$10.7 million) and provide additional funding to the School Facility Program. The **\$3.4 million** in remaining income from the Migrant Housing Program could also be appropriately utilized for the School Facility Program, although enabling legislation might be required.

OUTCOME: **Eliminate Control Section 24.30 provisions for State Relocatable Classroom Program (Vote: 2-0). Take action on Control Section 24.30 for Migrant Housing Program at future hearing pending development of companion budget trailer bill language.**

ISSUE 4: Special Education – Funding for Federal Program Growth and Cost-of-Living Increases (Item 6110-161-0001)

DESCRIPTION: The Governor’s budget provides a General Fund increase of **\$168.1 million** for special education statutory growth and COLA adjustments in 2006-07. There are no other major adjustments for special education programs in 2006-07. The LAO recommends that special education growth and COLA be calculated for the federal special education program, instead of just the state program. The LAO recommends that most of the **\$52.6 million** in funds continued in the Governor’s budget for one-time purposes – including CASEE assistance -- be redirected to pay for federal growth and COLA.

BACKGROUND: There are approximately 682,000 students with disabilities ages 3-21 who are enrolled in special education programs in California. Special education is administered through regional planning systems called Special Education Local Planning Areas (SELPA). There are 116 SELPAs in California.

Overall Special Education Funding: The Governor’s Budget proposes **\$4.3 billion** in special education funding in 2006-07. Of this amount, the budget includes **\$984.2 billion** in federal special education funds in 2006-07. This reflects an increase of \$13.8 million, which will likely change to a net reduction to reflect federal program cutbacks that begin in 2006-07. Federal funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The Governor's Budget also proposes **\$3.0 billion** in General Fund support (Proposition 98) and **\$369.7 million** in property taxes for special education in 2006-07. The table below displays special education funding for 2005-06 and 2006-07.

<i>Dollars in Millions</i>	2005-06	2006-07	Dollar Change	Percent Change
General Fund	\$2,890.0	\$3,046.3	\$156.3	5.4 %
Property Taxes	351.8	369.2	17.4	4.9 %
Federal Funds	970.4	984.2	13.8	1.4 %
TOTALS	\$4,212.3	\$4,339.7	\$187.5	4.5 %

Funding Changes Pursuant to 2004 IDEA Reauthorization:

As signed into law in December 2004, the latest 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).

Until recently, the state used federal funds to offset state growth and COLA payments for the total special education program. While this was 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 special education funding reforms in 1997-98 implemented by Chapter 854 (AB 602). 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 2005-06, the state changed the special education COLA calculation so that it applied to the state special education program only and not the federal special education program. At the same time, the state changed the practice of using federal funds to offset state and federal COLA increases and required that new federal funds be passed through to schools.

The Governor continues **\$52.6 million** in funds provided in the 2005-06 budget for any one-time special education purposes, including assistance to students with disabilities to pass the High School Exit Exam and instructional materials. These funds are discussed further in the next item.

LAO Recommendation:

In 2005-06, the LAO recommended that the Legislature separate state and federal funding for budgeting purposes and use federal funds to pay for growth and COLA for federal programs. These changes were enacted into law. At this time, federal funds were increasing for special education at such a level they covered growth and COLA for federal programs.

In 2006-07, federal funding to California is now predicted to actually decline for the first time in recent history. This reduction reverses significant federal increases for this program in recent years. Over the last few years, federal Special Education funding grew between \$60 and \$152 million annually. As a result, the LAO now recommends that the Legislature fully fund the growth and COLA adjustments on the federal program. In so doing, the LAO recommends redirecting virtually all of the \$52.6 million in discretionary funding included in the special education budget for one-time purposes in 2006-07 to cover these adjustments.

COMMENTS: *Staff notes* that the state does not pay for growth and COLA adjustments on other federal programs, so if the state resumes state payment for these adjustments this could set a significant precedent for other federal programs, such as Title I Basic Grants. *Staff also notes* that COLA rates – now estimated at 5.2 percent in 2006-07 – will be adjusted at May Revise and may actually increase. As currently estimated, COLA rates will be higher than they have been in the past twenty years.

OUTCOMES: **Open.**

**ISSUE 5: Special Education – CAHSEE Assistance Funding
(Item 6110-161-0001)**

DESCRIPTION: The Governor proposes continuation of **\$52.6 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE in 2006-07. As discussed at the previous hearing, the Governor proposes another **\$40 million** – double the amount provided in the current year -- to provide intensive intervention to students in the graduating classes of 2007 who have not yet passed the CAHSEE.

BACKGROUND: The latest figures from CDE, which reflect two administrations of CAHSEE in Fall 2006, indicate that approximately **11.1 percent** of high school seniors in the class of 2006 have not passed either the English language arts exam or the mathematics exam. The percentage of seniors who have not passed is higher for some groups of seniors, for example 30.9 percent of English learners and 18.4 percent of economically disadvantaged students have not passed either of these exams.

Students with disabilities are not included in the latest report, according to CDE, because they are exempted from passage of CAHSEE for one year following passage of Chapter 3, Statutes of 2006 (SB 517/Romero). The most recent data indicates that **42 percent** of students with disabilities had not passed either of the CAHSEE exams.

According to the latest estimates from CDE, nearly **99,937 students** in the class of 2007 will be eligible for intensive intervention funding in 2006-07 because they have not passed the CAHSEE. This total includes **26,667 special education students** who will need to pass the CAHSEE in order to graduate in 2006-07.

Governor's Budget Proposal: The Governor proposes two separate programs for providing CAHSEE intervention funds to 12th grade students in 2006-07. Together, these programs would provide \$92.8 million for intensive CAHSEE interventions, as follows:

- **Item 6110-204-0001.** The Governor proposes **\$40 million** for intensive instruction and services to assist eligible 12th grade students pass the CAHSEE in 2006-07. Intensive instruction and services may include hiring additional teachers, individualizing instruction, providing teacher training, and offering individual or small group instruction. Funding is provided at the rate of \$631 per student. This program was discussed at the previous hearing. Provisions of this program are contained in Chapter 234, Statutes of 2004.
- **Item 6110-161-0001.** The Governor proposes continuation of another **\$52.6 million** in special education funds that *may be* utilized to assist students with disabilities pass the CAHSEE. This program is described in budget bill language. These are ongoing funds that are scheduled for one-time discretionary purposes in the budget. First priority for funding is to cover a budget shortfall in special education.

LAO Recommendation: As indicated in the previous item, the LAO recommends redirecting most of the **\$52.6 million** in ongoing special education funding now available for CAHSEE intervention to cover growth and COLA for the federal special education program.

The LAO also recommends that the Legislature adopt trailer bill language that would allow up to ten school districts to test comprehensive approaches to assisting students to pass the CAHSEE. The LAO points out that the **\$40 million** proposed for intensive instruction for 12th graders who have not yet passed CAHSEE, builds upon another **\$177 million** in ongoing funds already included in the budget for supplemental instruction for students in grades 7 through 12. These supplemental instruction funds are also intended to help students pass the CAHSEE. Districts receive \$3.87 per student for supplemental instruction, which must be in addition to services provided in the regular school day – before or after school, summer school and Saturdays.

COMMENTS: It is likely that the Administration will clarify its CAHSEE intervention proposals at May Revise. There are many questions to answer in moving forward with funding for these programs, including determination of student eligibility, appropriate levels of per pupil funding, and whether CAHSEE funds are building upon other funding streams. Given the significance for students who will not be able to graduate from high school, *staff supports* the LAO's recommendation for a pilot program to test effective approaches to assisting students pass CAHSEE.

Suggested Questions:

1. *For DOF: How does the Administration plan to coordinate the \$92.6 million in CAHSEE assistance proposed in 2006-07 for all eligible students?*
2. *For DOF and CDE: What is the reason for maintaining two separate programs for special education students and non-special education students? Are districts delivering services separately or are they coordinating programs?*
3. *For DOF and CDE: What is the appropriate level of CAHSEE intervention funding for students with disabilities?*
4. *For DOF: Does the Administration intend to make the \$40 million available to all eligible students in the class of 2007, including students with disabilities?*
5. *For CDE: Are all special education students receiving \$400 per student in supplemental instruction funding; as well as special education CAHSEE funds?*
6. *For DOF and CDE: Under federal law, schools are obligated to serve special education students – the group with the highest proportion of students who have failed the CAHSEE – until students graduate or through 21 years of age. What is the plan for continuing education for students with disabilities? How much will this cost?*
7. *How has the \$72.6 million appropriated in the current year for CAHSEE assistance been utilized by schools and whether it has been effective in increasing passage rates?*

OUTCOME: Open.

ISSUE 6: Governor's Federal Fund Proposal – Reading First (Item 6110-126-0890)

DESCRIPTION: The Governor's Budget proposes a total of **\$145.4 million** in federal funding to continue the Reading First program in 2006-07 for existing district grantees. The Governor's proposal does not provide funding for any new grantees and instead authorizes additional years of funding – up to five years -- for existing grantees. Funding proposed by the Governor is expected to increase by an estimated **\$11.2 million** at May Revision to reflect carryover funds for the program.

BACKGROUND: The federal Reading First Program, authorized under the No Child Left Act, provides grants to states to improve reading instruction and outcomes for students. California's Reading First Plan was approved by the State Board of Education and codified in state law in 2002 to provide reading instruction to K-3 students K-12 special education students.

School districts are eligible to apply for funding if 75 percent of their low performing schools provide assurances about participating in the program. Eligible low performing schools are defined as schools with 40 percent or more students performing below basic on the California Standards Test.

Under the state Reading First Plan, the state is authorized to provide base grants of \$6,500 for eligible K-3 classroom teachers in participating districts; however, with additional justification, grants of up to \$8,000 per K-3 teacher are allowed. Grants are allocated for K-3 bilingual classrooms, identified as "waivered classrooms" pursuant to Education Code Section 310. Grants are not allocated for K-12 special education classroom teachers.

In 2004-05, \$29.5 million in one-time carryover funds were provided to 92 school districts to provide up to \$8,000 per teacher for one year to reduce student referrals to special education.

Under California's plan, Reading First funds can be used by school districts for purchasing reading materials, participating in state-approved professional development in reading and language arts, hiring reading coaches and reading assessments. Funding is not provided for direct instruction to students. In order to receive funding, districts must purchase standards-aligned textbooks for English/ Language Arts and agree to participate in the state program.

To date, the State Department of Education allocated Reading First funds to three rounds of grantees and selection of a fourth round authorized in the 2005-06 budget is currently being selected. As indicated below, the Reading First program currently provides grants to nearly 20,000 classrooms in 110 school districts statewide, representing approximately half of the eligible schools and teachers statewide.

Current Reading First Participation

Existing Grantees:	Districts	Schools	Classrooms/ Teachers
Round 1 (Waivered Classrooms)	13	329	9,342 (412)
Round 2 (Waivered Classrooms)	60	360	7,566 (695)
Round 3 (Waivered Classrooms)	37	135	2,953 (627)
Subtotal, Existing Grantees (Subtotal, Waivered Classrooms)	110	824	19,861 (1,734)

Unfunded Classrooms:	Districts	Schools	Classrooms/ Teachers
Additional Eligible Classrooms in Funded Districts		274	6,600
Additional Eligible Classrooms in Unfunded Districts		496	9,673
Subtotals, Unfunded Classrooms		770	16,373

While the State Board originally envisioned Reading First as a three-year program for districts, the Administration has generally pursued additional rounds of funding for existing grantees the last two years, instead of expanding funding to unserved districts and schools. The 2005-06 budget provided a fourth year of funding for existing grantees that demonstrate “significant progress” in improving reading scores. The State Board has not yet adopted criteria for determining significant progress, even though fourth year grants have been released for Round 1 schools. The 2005-06 budget contained provisional language requiring the State Board of Education to seek legislative approval for any extension of the grant period beyond three years. Legislation was not passed for this purpose.

Governor’s Budget: The Governor’s Budget proposes a total of **\$145.4 million** in federal funding to continue the Reading First program in 2006-07 for existing district grantees. The Governor’s proposal does not provide funding for any new grantees and instead authorizes additional years of funding – up to five years -- for existing grantees. Funding proposed by the Governor is expected to increase by an estimated **\$11.2 million** at May Revision to reflect additional carryover funds for the program. The Governor’s Budget continues provisional language requiring legislation for extending the grant period for the fifth year. CDE is sponsoring **AB 2248 (Coto)** to authorize a fifth year of funding.

Definition of Sufficient Progress: The State Board is currently considering the definition of “sufficient progress” for 4th year funding. There is concern that the most recent definition of “significant progress” before the State Board would disproportionately deny waivered

classrooms a fourth year of funding. Specifically, there is concern that the criteria would disadvantage waived classrooms in Round 1 who have had only two years of funding compared to classrooms with three years of funding. Additionally, the quality of assessments and professional development for waived classrooms is felt to be a problem that would disadvantage waived classrooms.

Advisory Group for Implementing Reading First in Waivered Classrooms: The 2005-06 budget established an advisory committee composed of waived classroom teachers; academic experts in second-language acquisition; and academic experts in Reading Language Arts and Spanish Language Arts. The advisory committee was directed to assist CDE in addressing assessments and professional development for reading teachers and coaches. While a report was due to the Legislature by March 1, 2006, the advisory committee was not convened until March 2006, and therefore has not been able to complete its work.

Reading First Evaluation: A three-year evaluation of California's Reading First program was completed in November 2005 by an external evaluator selected by CDE. While the evaluation concludes that the program is having a positive impact on student achievement, when it compared Reading First schools to demographically similar non-Reading First schools the results were more inconclusive. It should be noted that it is not possible to measure individual student progress because student based, longitudinal data is not yet available for schools.

Additional data provided by the Reading First California Technical Assistance Center also indicates some increases in the percentage of Reading First students identified as Basic and Proficient on the California Standards Test. While significant increases were noted, some sizable decreases and variable trends were found.

LAO Recommendation: The LAO does not believe that a fifth year of Reading First funding for existing grantees is warranted based upon available outcome data for the program. However, if the Legislature chooses to provide a fifth year of funding, the LAO recommends that budget bill or trailer bill language be adopted defining significant progress in a simple, straightforward, easily interpretable way, such as percent of second/third graders scoring basic and above in the fourth-year of the program compared to first-year or pre-first-year of the program.

If a fifth year were not funded, the LAO recommends that funds be used to establish a new round of grantees. Given the lack of notable, widespread success of the program, the LAO continues to recommend the program be more flexible and that districts be allowed to use at least a portion of their funding for direct student service.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee continue to set-aside funding for new districts and consider program modifications suggested by the LAO to encourage greater participation by districts. Given roughly half of the eligible schools and classrooms have never participated in Reading First, the Subcommittee could set-aside an anticipated **\$11.2 million** in Reading First carryover funds for new districts, schools and classrooms in 2006-07.

The 2005-06 budget provided **\$6.5 million** to fund unfunded school districts. According to CDE, nine districts of the unfunded districts applied for funding. What are the reasons for such low participation? Is the program felt to be too restrictive for districts and could it be made more flexible in ways that do not undermine the integrity of the program? In recent years, the LAO

has consistently recommended modifications in the structure of the program to allow for actual reading instruction to students instead of teacher training and coaching. The LAO will present some of these modifications for the Subcommittee to consider.

In considering the Governor's proposal, the Subcommittee may wish to ask the following questions of DOF and CDE:

1. *To CDE: The Federal Reading First program will be reauthorized in 2007. Given recent and significant reductions in federal grants to states, what is the likelihood this program will be continued and fully funded?*
2. *To DOF: Roughly half of the schools and classrooms eligible for Reading First are not participating in the program? Why does the Administration favor continued funding for existing grants after three years, rather than serving unfunded districts, schools and classrooms?*
3. *If the state provides a 5th and 6th year of funding to first-round grantees, what implications will that have on the availability of funding for new grants?*
4. *To DOF: How does the Administration plan to structure funding for the 5th and 6th year grants given the possibility that federal funding might decline in coming years?*

OUTCOME: Open.

ISSUE 7: Governor’s Federal Fund Proposal – Program Improvement Schools/Districts (Item 6110-135-0890)

DESCRIPTION: The Governor proposes to appropriate **\$82 million** in federal carryover funds for low performing schools and districts identified as needing “Program Improvement” (PI) under the federal No Child Left Behind (NCLB) Act. The Administration is working with the California Department of Education on the development of a specific proposal that would utilize these one-time funds to increase student achievement in Program Improvement schools *and* districts. This proposal will likely be updated as a part of the May Revision. CDE will provide an update on NCLB.

BACKGROUND:

According to the Department of Education, there are currently 1,746 Title 1 funded schools and 115 districts in California designated as Program Improvement. While the state has been identifying Program Improvement schools for a number of years, Program Improvement districts were just identified in the last year.

Year	Program Improvement Schools	Program Improvement Districts
Year 1	400	155
Year 2	538	0
Year 3	407	0
Year 4	153	0
Year 5	248	0
TOTAL	1,746	155

Schools and districts must implement a range of services and/or interventions while they are identified as Program Improvement. If progress is not made, a range of sanctions apply. The soonest that program improvement districts could first face state sanctions is the fall of 2007.

Governor’s Budget: The Governor first proposed reappropriating federal carryover funds from several programs for Program Improvement schools and districts as a part of the 2005-06 budget. At that time, the level of carryover balances equaled \$74.5 million. The Legislature rejected the Governor’s proposal and appropriated these carryover funds back to their originating programs, because the Governor’s proposal had not been adequately developed. Subsequently, the Governor eliminated funds for these purposes and set the funds aside for a new program to assist low-performing schools and districts, to be determined through future legislation.

The Governor is making a similar request in 2006-07, although the details of the program are still being developed with the California Department of Education. In addition, the amount of funding for the program has now grown to **\$82 million** due to additional carryover funds anticipated in 2006-07 from the following programs:

- **\$24.3 million** for Title I-Basic Grants;
- **\$22.2 million** for Title I-Program Improvement;
- **\$19.2 million** for Title I–Migrant Education; and
- **\$16.1 million** for Title V-Comprehensive School Reform (CSR).

LAO Recommendations: The LAO recommends that the Legislature reject all of the Governor’s PI carryover proposals except for the Title I, Basic Program proposal. The LAO believes the transfer is reasonable, but that it would require a waiver from the U.S. Department of Education. For this reason, the LAO recommends that the Legislature ask CDE to seek such a waiver.

Specific comments and recommendations from the LAO, as well as the CDE, are included in the table below:

	Carryover Amount	LAO Recommendations	CDE Recommendations	Other
Title I Basic	\$24.3 m	<u>Support.</u> Would need a federal waiver to use Title I Basic funds for PI schools/districts.	<u>Support.</u> Would need a federal waiver to use Title I Basic funds for PI schools/districts.	
Title I Program Improvement (PI)	\$22.3 m	<u>Reject.</u> Funds are already used for school/district interventions.		
Comprehensive School Reform (CSR)	\$16.2 m	<u>Reject.</u> Use carryover funds to partially fund third and final year of CSR grants.	<u>Reject.</u> Use carryover funds to partially fund third and final year of CSR grants	
Migrant Education	\$19.2 m	<u>Reject:</u> Migrant students would not benefit. (PI schools serve only 30% of the state’s migrant students.) Use funds to Migrant Ed reforms per LAO proposal. (See next item.)	<u>Oppose.</u> Funds should be retained for migrant students. CDE supports alternative Migrant Education proposal. (See next item.)	

COMMENTS: *Staff notes* that, given the lack of any specifics for the Governor’s PI carryover proposal, it is likely that the Administration will be providing additional detail and possible changes to this proposal at May Revise.

OUTCOME: Open.

ISSUE 8: LAO Proposal -- Migrant Education (6110-125-0890)

DESCRIPTION: The LAO will present recommendations for a comprehensive set of reforms designed to improve the federal Migrant Education Program. Generally, the LAO makes recommendations to address the program's: (1) funding and service model; (2) data system; and (3) carryover funding process.

BACKGROUND:

The Governor appropriates **\$125.3 million** in federal funds for the Migrant Education Program (MEP) in 2006-07. The Governor proposes to spend an additional **\$19.2 million** in federal MEP funds for Program Improvement schools and districts, as discussed in the previous agenda item.

The federal MEP provides grants to states to serve the special needs of highly mobile students whose family members are employed in seasonal agricultural work. MEP services are delivered to students in California through 14 regional service centers.

The LAO has identified four major concerns with the current MEP funding model, which are outlined below:

- Disconnect between funding and accountability.
- Lack of coordination between MEP services and other services.
- Funding formula does not reflect statutory program priorities.
- Funding formula does not encourage broad participation.

In response, the LAO makes the following specific recommendations to the Legislature:

- Revise the MEP funding model to send the majority of funds directly to school districts rather than regional centers. Maintain some funds at county offices of education for certain regional activities and some funds at CDE for certain statewide activities.
- Direct CDE to: (1) revise the per-pupil funding formula so that it emphasizes federal and state program priorities and (2) report back on revisions once it has completed its statewide needs assessment.
- Expand the state's migrant education data system to include more data elements. Provide district and school personnel access to the enhanced system. Use \$4 million in carryover funds for the data system.
- Use the remainder of carryover funds to help transition to a district-based system. Direct CDE to develop a transition plan and associated spending plan by October 31, 2006.
- Adopt budget bill language that would allow up to 5 percent of annual migrant education funding to carryover at the local level, with any additional carryover designated for specific legislative priorities.

COMMENTS: *Staff notes* that the Migrant Education program has not been able to expend available federal funding, resulting in relatively large and chronic carryover problems in recent years. The Governor's Budget identifies \$19 million in Migrant Education carryover funds. The

CDE recently identified another \$10 million, bringing total carryover funds to \$29 million in 2006-07.

The LAO recommends spending \$4 million to improve the migrant student database and the remainder to assist in the transition to a district-centered system. *Staff believes* that the LAO proposal has merit and should be considered by the Legislature as method of improving the current program for migrant students and efficiently allocating available carryover funds.

CDE also believes that the LAO proposal has some merit, but has developed its own carryover expenditure plans. These expenditure plans provide one-time funding for the following purposes:

Carryover Expenditure Plan (\$19.2 million)

- Extended day/week and summer/intersession academic instructional programs, with a focus on English language arts and mathematics.
- Extended day/week and summer/intersession academic instructional programs to help prepare middle and high school students for the CAHSEE.
- Mentoring and other support services.
- Parent involvement and parent education.
- Professional development.
- Instructional technology to support academic achievement.

Additional Carryover Expenditure Plan (\$10.2 million)

- Comprehensive needs assessment (\$75,000)
- Program evaluation (\$500,000)
- Regional and statewide identification and recruitment training (\$225,000)
- Preschool and out of school youth services (\$2,030,000)
- Summer and intersession academic enrichment programs (\$6,250,000)
- Migrant education program student information system (\$670,000)

OUTCOME: Open.

ISSUE 9: LAO Proposal – Economic Impact Aid (6110-128-0001)

DESCRIPTION: The LAO recommends revisions to the Economic Impact Aid funding formula so that (1) district allocations are predictable and meet local needs for serving both economically disadvantaged and English learner student and (2) calculations are based upon reliable data. If the Legislature adopts the Governor’s overall budget level of funding, the LAO recommends redirecting some funding to ease district transition to a revised formula.

BACKGROUND: Economic Impact Aid (EIA) is the state’s major compensatory education program intended to address the educational needs of economically disadvantaged and English learner students. The Governor’s budget provides **\$648 million** for EIA in 2006-07, which provides a 10.4 percent increase reflecting student growth and COLA. The federal compensatory education program is known as the Title I Basic Grant program. The Governor’s budget provides \$ 1.7 billion in federal Title I grants to schools statewide.

The EIA formula is based upon counts for both poor and English learner students. Districts may use funds for a variety of purposes, including: assistance for low-performing students; supplemental instruction services to English learner students; training for teachers of English learner students; and supplementary materials. According to the LAO, districts report using most EIA funds for English learners.

Problems Facing EIA: The LAO has identified the following five problems with the EIA formula that make it outdated and problematic:

- **Formula does not reflect current school demographics.** The formula was written more than 25 years ago when the proportion of poor and English learner students was very different than it is today.
- **Heavy emphasis on poverty skews per-pupil payments.** Given shifts in the student populations, the formula produces very different levels of per pupil funding for school districts.
- **District allocations appear arbitrary and unpredictable.** The existing formula is very complex and results in funding amounts for districts that do not follow population changes and cannot be anticipated.
- **CalWORKS counts may no longer be a good measure of poverty.** Due to changes in the CalWORK program requirements, CalWORKS counts measure program participation not poverty. CalWORKS counts have declined significantly since 1996, whereas declines in other measures of poverty have declined much less.
- **Change in data availability makes current formula unworkable.** The Department of Social Services stopped providing CalWORKS data to CDE in December 2004, due to concerns about the security of child-specific data.

Options for Addressing EIA Problems: The LAO has identified a number of options for addressing these issues:

- **Options for Addressing CalWORKS Data Problems:**

1. Try to resolve confidentiality issues with the Department of Social Services (DSS) or direct DSS to provide the data via statute.
 2. Use a different measure of poverty such as federal, census-based poverty counts; free and reduced priced meal eligibility; and other measures.
 3. Remove poverty measures from the EIA formula and base the formula on English learner counts, which would transform EIA into a English learner program that would not even recognize poverty for English learners.
- **Options for Simplifying the Economic Impact Aid Formula:**
 1. Align EIA with other programs that serve economically disadvantaged and English learner students, such as federal Title I and Title III grants.
 2. Reconsider formula's data inputs and weights to update the appropriate weights for poverty and English learner students.
 3. Distribute funding through a combination of grant types, which currently includes per-pupil grants, concentration grants that provide additional funding for districts with higher proportions of poor and EL students; and minimum grants for small districts.
 4. Provide transitional funding to hold districts harmless for any losses in grants that might result with changes in the EIA formula.

COMMENTS: Poor students, and students who are English learners, face additional educational challenges that are reflected in low performance on state assessments, including CAHSEE, and other educational performance measures such as student graduation. However, in spite of the strong relationship between poverty and English learners and educational risk, funding for the EIA formula has been relatively flat since it was created more than 25 years ago.

In contrast, categorical program increases approved in recent years have tended to focus new funding on low performing schools and other specific programs such as supplemental instruction and CAHSEE intervention. For example, the Legislature and Governor have provided hundreds of millions of dollars for programs that are targeted to low performing *schools*, but that does not benefit *all* poor and English learner *students* in California.

Recent EIA Study Proposals: The Legislature passed two measures that would require formal study of the EIA program and the development of options for a new formula. SB 1645 (Escutia) in 2004-05 and budget bill language in the 2005-06 budget both required EIA study language. Both of these measure were vetoed by the Governor. The Governor's veto message called for the development of a working group made up of the Department of Finance, Office of the Secretary for Education, the Department of Education, and the LAO to develop options for restructuring the EIA formula. The LAO reports that some initial meetings have taken place, but no progress has been made in developing reforms.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee question the Office of the Secretary and Department of Finance about the progress and plans for the EIA working group. While the Governor vetoed Legislative requested EIA studies to restructure EIA, the Governor clearly supports these same efforts through a multi-agency working group.

OUTCOME: **Open.**

ISSUE 10: High Priority Schools Grant Program (Item 6110-123-0001)

DESCRIPTION: The Governor's proposal to provide an additional **\$201 million** to establish a new cohort for the High Priority (HP) Schools Grants program in 2006-07. This augmentation brings total funding for the program to \$243 million. The Governor proposes to revert **\$60 million** in funding appropriated for a new cohort of HP schools in 2005-06 that has not yet been expended. The Department of Education proposes to use **\$10 million** of the 2005-06 funds to develop a pilot for assisting and intervening with alternative schools that are not eligible to participate in the HP program.

BACKGROUND: The High Priority Schools Grant Program provides grants of \$400 per pupil to low performing schools, with priority for schools in the lowest performing deciles of the Academic Performance Index.

Provisions of the *Williams* settlement agreement, as contained in Chapter 900, Statutes of 2004, declares legislative intent that new schools be added to the HP program when HP and II/USP schools are phased out and that overall funding for the program be maintained at no less than **\$200 million** annually.

Funding for the first HP cohort was appropriated in 2002-03. In the spirit of the *Williams* settlement agreement, the 2005-06 budget appropriated \$60 million in II/USP savings to fund a second cohort of the HP program. Expenditure of these funds was contingent upon passage of legislation to address exit criteria for the program. Such legislation -- **AB 1758 (Umberg)** -- was enacted on April 18, 2006. While an urgency statute, it is unclear whether the \$60 million can be expended for new HP grants in the last two months of the 2005-06 fiscal year. If unexpended, the administration proposes that these funds be reverted.

CDE Recommendation: *Staff notes* that many alternative schools (such as continuation high schools) do not have API's, and are therefore not eligible to participate in the HP program. At the same time, these schools are an important option for students who are not successful in traditional programs. Because these schools serve a disproportionate number of students behind grade level, these schools may be in need of assistance to improve their instruction. CDE is sponsoring **AB 2254 (Umberg)**, which would set aside \$10 million of the \$201 million for new HP grants for alternative schools to participate in the program. CDE notes that it would need two positions to carry out the program.

LAO Recommendation: The LAO recommends redirecting any new HP funding to support district-based interventions, not school-based interventions. The LAO cites findings from the II/USP evaluation conducted by AIR that found no significant impact for schools, but noted very positive or negative effects for districts. The LAO indicates that districts ultimately make decisions about assisting and resourcing their schools.

COMMENTS/RECOMMENDATIONS: Staff recommends that the Subcommittee ask CDE about the status of the \$60 million in funds appropriated for a new HP program in the current year. Now that the required legislation has been enacted, can funds be appropriated? What is

DOF's position on these funds in these in the budget? Does DOF plan to revert these funds at the end of the year? What level of HP funding does the Administration intend to provide and how does this relate to the Williams agreements?

OUTCOME: Item postponed to future hearing.

ISSUE 11: Instructional Materials/Lottery Funding (Item 6110-189-0001)

DESCRIPTION: The Governor’s Budget proposes **\$402 million** in Proposition 98 funding for the Instructional Materials Block Grant in 2006-07, which provides a **\$40 million** (11 percent) increase over the 2005-06 level of funding. The Governor’s budget also includes an estimated **\$190 million** in State Lottery funds for K-12 schools in 2006-07, which reflects a **\$40 million** increase in lottery revenues beginning in 2005-06 that must be used for instructional materials. The LAO recommends that the Legislature reject the \$40 million Proposition 98 increase considering the \$40 million in new lottery revenues available to schools for instructional materials in 2006-07.

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 the number of enrolled students in grades K-12.

Proposition 20 of 2000, which was passed by voters in 2000, requires that 50 percent of lottery revenue growth be utilized for purchase of instructional materials by K-12 schools and community colleges.

Governor’s Budget: The Governor's proposes a total of **\$592 million** for instructional materials, which includes **\$402 million** in Proposition 98 funding and **\$190 million** in State Lottery Funds in 2006-07.

The Governor’s budget proposes a total funding level of **\$402 million** for the state Instructional Materials Block Grant, which provides funding to school districts to purchase standards-aligned materials. This is an increase of \$41 million over last year’s funding level of which approximately half is attributable to growth and COLA and half reflects an increase in the program base.

According to the LAO, total funding available for instructional materials has increased significantly in recent years, as indicated the following table from their analysis.

<i>(Dollars in Millions)</i>				
	2003-04	2004-05	2005-06	2006-07
Instructional Materials Block Grant	\$175	\$333	\$361	\$402
Lottery funds for Instructional materials	115	150	190 ^a	190a
Totals	\$290	\$483b	\$551	\$592
Year-to-year change	—	66%	14%	7%

a LAO estimates based on lottery revenue projections.
 b In addition to the figure shown here, \$168 million in one-time funding was provided in this year.

English Learner Set-Aside:

The Governor's Budget does not continue a funding set-aside for the purchase of instructional materials that *supplement* the regular standards-aligned instructional materials schools purchase through the regular instructional materials program.

The 2004-05 budget provided a **\$30 million** set-aside that was available on a one-time basis over two years for the purchase of supplemental instructional materials to assist students in learning English. Supplemental materials purchased by schools had to be substantially correlated to both academic content standards and English Language Development standards.

The accompanying budget bill language for the 2004-05 set-aside specified that "the purpose of these materials will be to accelerate pupils as rapidly as possible towards grade level proficiency," and that the "funds shall be used to purchase supplemental materials that are designed to help English learners become proficient in reading, writing and speaking English."

The 2004-05 budget funded three limited-term positions to administer the \$30 million set-aside for English learner instructional materials. These positions expire at the end of 2005-06.

According to CDE, 650 school districts and county offices applied for and received the \$30 million in supplemental materials funding that resulted in providing approximately \$20 per English learner.

The Legislature provided another **\$20 million** in ongoing funding for purchase of supplemental materials for English learners in 2005-06; however, the Governor vetoed the funds for these purposes.

LAO Recommendation: The LAO recommends that the Legislature eliminate the **\$40 million** augmentation in Proposition 98 funds for instructional materials in 2006-07. This recommendation takes into account the **\$190 million** in instructional materials funding schools will receive from State Lottery funds in 2006-07.

The LAO recommends that the \$40 million in savings be scored as General Fund savings to address the state's budget deficit. If the Legislature chooses to retain these funds for schools, the LAO recommends redirecting the \$40 million toward implementation of reforms it suggests for the Economic Impact Aid program, which were discussed earlier in this agenda.

COMMENTS:

The State Board is currently working on updating the English/Language Arts curriculum framework, including the criteria for evaluating instructional materials submitted for adoption. These criteria guide the development of new instructional materials. A number of Senators have expressed strong concern to the Secretary for Education, Superintendent of Public Instruction and State Board of Education that the criteria recently approved by the State Board does not recognize instructional materials for English learners. This issue will be discussed further at the next Subcommittee hearing.

OUTCOME: Full discussion of item postponed until May 1, 2006 hearing.

ISSUE 12: April Finance Letters – Federal Funds (Consent)

Staff recommends approval of the following revisions to the Governor’s January 10 Budget, as proposed by the March 30, 2006, 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. **OUTCOME: Approved Consent List (Vote: 2-0).**

Federal Funds Adjustments

- 1. 6110-001-0890, Department of Education, State Operations (Issue 837).** It is requested that this item be decreased by \$1,715,000. The reduction, coupled with reductions to local assistance items, would align appropriation authority with anticipated federal grant amounts. This reduction reflects the following adjustments to specific programs:

Learn and Serve America (6110-102-0890):	-\$169,967
Neglected and Delinquent (6110-119-0890):	-\$4,360
Innovative Programs (6110-123-0890):	-\$1,000,000
Migrant Education (6110-125-0890):	-\$9,538
Even Start (6110-136-0890):	-\$239,254
Homeless Education (6110-136-0890):	-\$23,073
Safe and Drug Free (6110-183-0890):	-\$268,910

- 2. 6110-102-0890, Local Assistance, Federal Learn and Serve America Funding (Issues 579 and 580).** It is requested that this item be increased by \$563,000. This includes a reduction of \$257,000 to conform federal expenditure authority with available grant funding and an increase of \$820,000 to reflect one-time carryover funding to support additional local service learning activities.
- 3. 6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issue 885).** It is requested that this item be reduced by \$39,000 to align the appropriation authority with the anticipated federal grant. The Robert C. Byrd Honors Scholarship Program recognizes exceptional high school seniors who show promise of continued excellence in postsecondary education.
- 4. 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 831).** It is requested that this item be decreased by \$427,000 to align expenditure authority with available federal grant funding. These grants funds are used to address the education needs of neglected and delinquent children and to provide education continuity for children in state-run institutions for juveniles.
- 5. 6110-123-0890, Local Assistance, Title V Innovative Programs (Issue 247).** It is requested that this item be decreased by \$10,536,000 to make the amount consistent with the federal Title V Innovative Programs grant available for 2006-07. 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.

6. **6110-125-0890, Local Assistance, Migrant Education Program (Issue 832).** It is requested that Schedule (1) of this item be decreased by \$935,000 to align appropriation authority for the Migrant Education Program with the anticipated federal grant. These grants funds are used to address the educational needs of highly mobile children whose family members are employed doing seasonal agricultural work. The program provides supplemental services to support the core academic program children receive during the regular school day.
7. **6110-126-0890, Local Assistance, Reading First Program (Issue 512).** It is requested that this item be decreased by \$1,598,000 to align appropriation authority with the anticipated federal grant award amount. The Reading First Program provides grants to use scientifically based programs to improve reading in kindergarten through grade 3.
8. **6110-136-0890, Local Assistance, Even Start Program, Title I Basic Program, McKinney-Vento Homeless Children Education Program, and Title I School Improvement Program (Issues 248, 513, 830, 834, and 835).** It is requested that Schedule (1) of this item be decreased by \$65,182,000. This adjustment includes a decrease of \$68,682,000 to align federal Title I Basic expenditure authority with the anticipated federal grant and an increase for one-time carryover funds of \$3.5 million for the Even Start program. The federal government has made a significant reduction in funding for the Even Start program for 2006-07 fiscal year, therefore the carryover funds will be used for existing Even Start projects to offset the reduction in the federal grant allocation.

The Title I Grants assist local educational agencies and schools improve the teaching and learning of children failing, or most-at-risk of failing, to meet state academic standards. The Even Start programs provides funds to improve the educational opportunities of low-income families, by integrating early childhood education and parenting education into a unified family literacy program.

It is further requested that Provision 6 of this item be added as follows to conform to this action:

6. Of the funds appropriated in Schedule (1), \$3,500,000 is available as a one-time carryover from prior years for the Even Start program.

It is further requested that Schedule (2) of this item be increased by \$189,000. This adjustment reflects one-time carryover funds of \$500,000, which resulted from grantees not fully expending their allocations, and a decrease of \$311,000 in the McKinney-Vento Homeless Children Education federal grant. These funds will be allocated on a competitive basis to supplement homeless children education programs. These programs ensure that homeless students receive the same educational opportunities as other students.

It is further requested that Program 7 of this item be added as follows to conform to this action:

7. Of the funds appropriated in Schedule (2), \$500,000 is provided in one-time carryover funds to support the existing program.

It also is requested that Schedule (3) of this item be decreased by \$2,127,000 to align expenditure authority with federal Title I School Improvement funding. These grant funds assist districts with developing and implementing school reform efforts aimed at increasing student academic performance.

It is requested that Provision 5 of this item be amended as follows to conform to this action:

- “5. Of the funds appropriated in Schedule (3), ~~\$29,240,000~~ \$27,113,000 shall be available pursuant to Article 3.1 (commencing with Section 52055.57) of Chapter 6.1 of Part 28 of the Education Code, for Title I district accountability.”

9. 6110-137-0890, Local Assistance, Rural/Low Income School Program (Issue 836).

It is requested that this item be increased by \$239,000 to align expenditure authority with the anticipated federal grant. These grant funds are used to address the needs of rural, low-income schools.

10. 6110-156-0890, Local Assistance, Federal Adult Education Funding (Issues 575

and 576). It is requested that this item be increased by \$3,281,000. This includes a reduction of \$761,000 to conform federal expenditure authority with available grant funding and an increase of \$4,042,000 to reflect one-time carryover funding to support additional adult education activities, including investments in data and software systems to comply with new federal adult education reporting requirements.

It is further requested that provisional language be added as follows to confirm to this action:

4. Of the funds appropriated in this item, \$4,042,000 is one-time carryover available for the support of additional adult education instructional activities, and may be used by local providers to upgrade data collection and other software systems to ensure compliance with federal adult education reporting requirements as specified in Public Law 109-077 [119 Stat. 2037].

11. 6110-180-0890, Local Assistance, Education Technology Program (Issue 644). It

is requested that this item be decreased by \$29,728,000 to reflect a decrease in funding for the federal Enhancing Education Through Technology Grant Program. The program provides funds to improve student academic achievement through the use of technology in schools. The federal budget proposes to eliminate this program by 2007-08.

It is further requested that Provisions 1, 2 and 3 of this item be amended as follows to conform to this action:

“1. Of the funds appropriated in this item, ~~\$31,140,000~~ \$16,662,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.

2. Of the funds appropriated in this item, ~~\$31,140,000~~ \$16,662,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program-including the eligibility criteria established in federal law to target local educational agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal school improvement or demonstrating substantial technology needs.

3. Of the funds appropriated in this item, ~~\$1,473,000~~ \$701,000 is available for the California Technology Assistance Project (CTAP) to provide federally required technical assistance and to help districts apply for and take full advantage of the federal Enhancing Education Through Technology grants.”

12. 6110-183-0890, Local Assistance, Safe and Drug-Free Schools and Communities

Program (Issues 886 and 888). It is requested that this item be decreased by \$6,453,000. This adjustment includes one-time carryover funds of \$2,209,000 and an \$8,662,000 decrease to align expenditure authority with the anticipated federal grant. The Safe and Drug Free Schools and Communities Program support activities that prevent violence and illegal drug use on school campuses.

It is further requested that the following provisional language be added to conform to this action:

2. Of the funds appropriated in this item, \$2,209,000 is provided in one-time carryover funds to support the existing program.

13. 6110-193-0890, Local Assistance, Mathematics and Science Partnership Grant

Program (Issue 514). It is requested that this item be increased by \$543,000 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 partner to provide staff development and curriculum support for mathematics and science teachers.

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

Agenda

May 1, 2006
1:30 pm – Room 4203

- I. California Department of Education (Item 6110)
 - A. Instructional Materials and State Board of Education Page 2

- II. California State Library (Item 6120) Page 5
 - A. Public Library Foundation Page 5
 - B. Transaction-Based Reimbursements Page 6

- III. Capital Outlay
 - A. University of California (Item 6440) Page 7
 - B. California State University (Item 6610) Page 7
 - C. California Community Colleges (Item 6870) Page 8
 - D. Overarching Cost of Construction Issue Page 8

- IV. California Student Aid Commission (Item 7980) Page 9
 - A. Cal Grant Award Level for Private College Students Page 10
 - B. Implementation of National Guard APLE Program Page 10
 - C. Assumption Program of Loans for Education (APLE) Page 11
 - D. State Nursing – Assumption Program of Loans for Education Page 12
 - E. Public Interest Attorney Loan Repayment Program Page 12
 - F. *EdFUND Organizational Issues:*
 - 1. LAO Report on Structural Options for Administering the FFELP Page 13
 - 2. Update on Bureau of State Audit's Findings Page 13
 - a) Status of Voluntary Flexible Agreements Page 14
 - b) Implementation of a one percent Default Fee on student loans Page 14

- V. Consent Page 15

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 Department of Education (Item 6110)

A. Instructional Materials and State Board of Education

The Governor’s Budget proposes **\$402 million** in Proposition 98 funding for the Instructional Materials Block Grant in 2006-07, which provides a **\$40 million** (11 percent) increase over the 2005-06 level of funding. The Governor’s budget also includes an estimated **\$190 million** in State Lottery funds for K-12 schools in 2006-07, which reflects a **\$40 million** increase in lottery revenues beginning in 2005-06 that must be used for instructional materials. The LAO recommends that the Legislature reject the \$40 million Proposition 98 increase considering the \$40 million in new lottery revenues available to schools for instructional materials in 2006-07.

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 the number of enrolled students in grades K-12.

Proposition 20, which was passed by voters in 2000, requires that 50 percent of lottery revenue growth be utilized for purchase of instructional materials by K-12 schools and community colleges. There is no requirement that instructional materials purchased with state lottery funds be aligned to state curriculum standards. Lottery funds are not appropriated through the budget, but continuously appropriated.

Governor’s Budget. The Governor proposes a total of **\$592 million** for instructional materials, which includes **\$402 million** in Proposition 98 funding and **\$190 million** in State Lottery Funds in 2006-07.

The Governor’s budget proposes a total funding level of **\$402 million** for the state Instructional Materials Block Grant, which provides funding to school districts to purchase standards-aligned materials. This is an increase of \$41 million over last year’s funding level of which approximately half is attributable to growth and COLA and half reflects an increase in the program base.

According to the LAO, total funding available for instructional materials has increased significantly in recent years, as indicated in the following table from their analysis.

<i>(Dollars in Millions)</i>				
	2003-04	2004-05	2005-06	2006-07
Instructional Materials Block Grant	\$175	\$333	\$361	\$402
Lottery funds for Instructional materials	115	150	190 ^a	190 ^a
Totals	\$290	\$483^b	\$551	\$592
Year-to-year change	—	66%	14%	7%

a LAO estimates based on lottery revenue projections.
b In addition to the figure shown here, \$168 million in one-time funding was provided in this year.

Williams Settlement. The *Elizier Williams v. State of California* (Williams) lawsuit settlement agreements, which were approved by the courts in 2004, address student access to qualified teachers, instructional materials and clean and safe school facilities. The 2004-05 budget package included \$188 million in one-time funding specifically for the Williams settlement agreements relating to instructional materials. These funds, as appropriated and further specified in Chapter 900, Statutes of 2004, include:

- \$138 million in one-time funding for instructional materials for students in Deciles 1 and 2 of the Academic Performance Index (API).
- \$15 million for county office of education oversight and monitoring of schools in Deciles 1 -3 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 were an advance to be repaid by districts.

The Governor's 2006-07 budget does not provide additional instructional materials funds for Decile 1-3 schools. However, the budget does propose to continue funding for support of county office oversight and monitoring of Decile 1-3 schools at a somewhat higher level. Specifically, the budget increases support from \$15 million available to county offices for the first two years of the program to **\$10 million** in ongoing, annual funding beginning in 2006-07.

English Learner Set-Aside. The Governor's Budget does not continue a funding set-aside for the purchase of instructional materials that *supplement* the regular standards-aligned instructional materials schools purchase through the regular instructional materials program.

The 2004-05 budget provided a **\$30 million** set-aside that was available on a one-time basis over two years for the purchase of supplemental instructional materials to assist students in learning English. Supplemental materials purchased by schools had to be substantially correlated to both academic content standards and English Language Development standards.

The accompanying budget bill language for the 2004-05 set-aside specified that "the purpose of these materials will be to accelerate pupils as rapidly as possible towards grade level proficiency," and that the "funds shall be used to purchase supplemental materials that are designed to help English learners become proficient in reading, writing and speaking English."

The 2004-05 budget funded three limited-term positions to administer the \$30 million set-aside for English learner instructional materials. These positions expire at the end of 2005-06.

According to CDE, 650 school districts and county offices applied for, and received, the \$30 million in supplemental materials funding that resulted in providing approximately \$20 per English learner.

The Legislature provided another **\$20 million** in ongoing funding for purchase of supplemental materials for English learners in 2005-06; however, the Governor vetoed the funds for these purposes.

LAO Recommendation. The LAO recommends that the Legislature eliminate the **\$40 million** augmentation in Proposition 98 funds for instructional materials in 2006-07. This recommendation takes into account the **\$190 million** in instructional materials funding schools will receive from State Lottery funds in 2006-07.

The LAO recommends that the \$40 million in savings be scored as General Fund savings to address the state's budget deficit. If the Legislature chooses to retain these funds for schools, the LAO recommends redirecting the \$40 million toward implementation of reforms it suggests for the Economic Impact Aid program, as discussed at the April 24th Subcommittee hearing.

Comments: The State Board is currently working on updating the English/Language Arts curriculum framework, including the criteria for evaluating instructional materials submitted for adoption. These criteria guide the development of new instructional materials. A number of Senators have expressed strong concern to the Secretary for Education, Superintendent of Public Instruction and State Board of Education that the criteria recently approved by the State Board does not fully recognize the instructional materials needs for students who are English learners.

II. California State Library (Item 6120)

The Governor's Budget proposes a total of \$74.7 million for the California State Library's operations and the various local assistance programs. Of that amount, \$48.1 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				
<u>General Fund Budget Proposals</u>				
<i>(Dollars in Thousands)</i>				
	Revised	Proposed	Change	
	2005-06	2006-07	Amount	Percent
State Operations				
Support/operating budget	\$10,522	\$11,100	578	5.5%
Lease-revenue bonds	2,450	2,454	4	0.2%
Repairs for Sutro Library	17	17	0	0%
<i>Subtotals</i>	<i>\$12,989</i>	<i>\$13,571</i>	<i>582</i>	<i>4.5%</i>
Local Assistance				
California Civil Liberties Public Education Prog.	\$500	\$500	0	0%
California Newspaper Project	240	240	0	0%
California Library Services Act	14,342	14,342	0	0%
California English Acquisition & Literacy Prog.	5,064	5,064	0	0%
Public Library Foundation	14,360	14,360	0	0%
<i>Subtotals</i>	<i>34,506</i>	<i>34,506</i>	<i>0</i>	<i>0%</i>
Totals	\$47,495	\$48,077	582	1.2%

A. Public Library Foundation

Unlike prior years, the Governor's Budget proposes to hold constant, at \$14.4 million, the amount of funding available for the Public Library Foundation (PLF). 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 financial respite 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, equating to an approximate 75 percent reduction over six years.

Staff recommends that the committee consider placing an augmentation for the Public Library Foundation on the "checklist" pending the May Revision.

B. Transaction-Based Reimbursement System

This program, which was designed to encourage libraries to cooperatively share their materials and resources with each other, uses state funds to reimburse local libraries for the costs associated with Direct and Indirect Loans.

Direct Loans. Currently, California residents may borrow books directly from any library in the state, regardless of where the individual resides. “Direct Loans” allow an individual to borrow materials from libraries outside the jurisdiction of their residence. As a local example, an individual may live in Auburn or Davis, but works in downtown Sacramento and, as a result, may find it easier to check out books from the Sacramento library. Over 28 million items are made available to borrowers annually through libraries where the borrowers do not reside.

Indirect Loans. Indirect loans allow individuals to borrow books from other libraries through an “interlibrary loan” program, where one’s hometown library requests a book on the borrower's behalf from another library anywhere in the state.

Direct loans (which lend materials to individuals) tend to be more prevalent in urban and suburban communities – communities where people work or attend school, while indirect loans tend to occur more predominately in rural communities where library holdings are more limited. Libraries are provided funding, via a reimbursement process, for the costs associated with these library loans. At present, this program is funded with \$12.5 million of General Fund – which represents approximately half the amount needed to fully compensate local libraries for their costs.

Staff recommends that the committee consider placing an augmentation for the Transaction Based Reimbursement System on the "checklist" pending the May Revision.

III. Capital Outlay

- A. **University of California (Item 6440).** The Governor's budget includes \$373.3 million in funding for 30 capital outlay projects spread across all ten UC campuses. With the exception of one project (discussed below), all projects are proposed to be funded with the proceeds of the 2006 General Obligation Bond Act, which is slated to go to the statewide ballot in November of 2006. These projects are included on the committee's consent agenda.

UC Santa Barbara: Education and Social Sciences Building. The Administration and UC are requesting that the committee authorize \$24.6 million in Lease-Revenue Bond funds for the construction phase of the Santa Barbara Education and Social Sciences Building. This proposal is contained in the Governor's *April 1, 2006 Finance Letter* to the Legislature.

Neither staff nor the Legislative Analyst has raised concerns with the project as a whole; however, both parties have expressed concern over the use of Lease-Revenue Bonds for this purpose. Given that the capital outlay portion of the budget proposal is predicated on the passage of a statewide General Obligation Bond measure, this project could be appropriated from that funding source. As a result, it may not be fiscally prudent for the committee to approve the financing of a \$24.6 million project at an interest rate traditionally higher than the rate of General Obligation Bonds.

Both UC and the DOF contend that, as part of the Legislature's negotiation of both the 2002 and 2004 Education Facilities Bond Acts, as contained in Assembly Bill 16 (Chapter 33, Statutes of 2002), the Legislature agreed to a funding "deal" whereby UC would provide an agreed-upon level of GO Bond support out of their allocation for Hastings College of Law, in exchange for a like-amount of additional Lease-Revenue Bonding authority for one of their projects. Given that this "deal" is neither documented nor readily recalled by Legislative staff, the committee may wish to simply consider if they are interested in using lease-revenue bonds as a funding mechanism for this project – regardless of whether there was an off-the-record agreement between various parties in 2002.

- B. **California State University (Item 6610).** The Governor's budget includes \$289.3 million in funding for 19 capital outlay projects spread across 14 CSU campuses. With the exception of one project (discussed below), the remaining projects are all included on the committee's consent agenda.

San Marcos: Social and Behavioral Sciences Building. The Governor's Budget includes \$1.1 million in funding from the proposed 2006 Education Facilities Bond to conduct preliminary plans for a new Social and Behavioral Sciences Building on the San Marcos campus. The project will provide 68,000 square feet of classroom, teaching laboratories, and 125 faculty offices. By approving \$1.1 million for preliminary plans, the Legislature will be approving the scope and future costs of the project, which are expected to total \$53.9 million.

The LAO has raised concerns with this project because it believes that the campus has excess capacity to accommodate an increase in student enrollments. Specifically, the LAO cites a

new Academic II building slated to come online in 2006-07 which is expected to accommodate a 50 percent increase in enrollment. Furthermore, the LAO cites a decline in summer sessions enrollment to further illustrate that the existing facilities are underutilized. Since the LAO's analysis was released, CSU has provided data indicating that the campus is indeed enrolling students in the summer, but that the number of students served has declined from 2003 to present by approximately 18 percent. At the time of publication, the LAO's Analysis assumed that NO students were enrolled in the summer.

- C. **California Community Colleges (Item 6870).** The Governor's budget includes \$585.7 million in funding for 70 capital outlay projects spread across 42 Community College districts. Neither Legislative Staff nor the LAO have raised direct concerns with any specific projects, all of which are proposed for consent. However, there is one significant issue to note: As part of the budget preparation process, the Community Colleges Chancellor's Office revised and updated their building cost guidelines which, until now, were last updated in 1993. These new cost guidelines were used to budget for capital projects proposed in the 2006-07 Budget and account for a significant increase in the budgeted cost of projects moving forward.

- D. **Overarching Issue (Information Only).** Throughout the 2006-07 capital outlay budgets of both the CSU and the Community Colleges, the LAO notes a series of price increases, which reflect a technical change in the way those institutions budget for construction costs. The change is due to a new set of cost guidelines issued by the Department of Finance and aimed at better budgeting and planning for the increased costs of construction. While this committee intends to approve capital outlay projects which are utilizing this new budgeting technique, it is staff's understanding that the overarching issue of how to better budget for rapidly changing capital outlay expenses, remains open, and will be discussed further by DOF and legislative staff and be resolved by future legislative action.

IV. California Student Aid Commission (Item 7980)

The Governor’s 2005-06 Budget proposes a total of \$1.6 billion in expenditures (\$861.6 million General Fund) for the California Student Aid Commission, which reflects a \$60.1 million or a 3.8 percent increase above estimated current-year expenditures.

Figure 1				
Student Aid Commission				
Budget Summary^a				
<i>(Dollars in Millions)</i>				
	2005-06 Revised	2006-07 Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant programs				
Entitlement	\$645.0	\$697.2	\$52.2	8.1%
Competitive	115.5	118.2	2.7	2.4%
Pre-Entitlement	4.9	0.9	-4.0	-81.6%
Cal Grant C	9.2	9.6	0.4	4.4%
<i>Subtotals—Cal Grant</i>	<i>\$774.6</i>	<i>\$825.9</i>	<i>\$51.3</i>	<i>6.6%</i>
APLE ^b	\$40.9	\$47.7	\$6.8	16.7%
Graduate APLE	0.4	0.4	—	—
Law enforcement scholarships	0.1	0.1	—	—
Totals	\$816.0	\$874.2	\$58.2	7.1%
Funding Sources				
General Fund	\$752.4	\$861.6	\$109.2	14.5%
Student Loan Operating Fund ^c	51.0	—	-51.0	-100%
Federal Trust Fund ^d	12.6	12.6	—	—
^a In addition to the programs listed, the commission administers the Byrd Scholarship and the 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 Assumption Program of Loans for Education. ^c These monies pay for Cal Grant costs as well as support and administrative costs.				

Specifically, the Governor’s Budget proposes an increase of \$51.3 million (6.6 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) increase the total number of Cal Grants entitlement awards available (by 4,300 for a total of 268,210 new and renewal grants) based on new estimates of eligible high school graduates, transfer students and renewal applicants (\$39.5 million); and (2) increase the maximum Cal Grant award level for students attending private institutions (\$11.9 million).

Other adjustments to the Student Aid Commission’s budget include a \$6.8 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. In addition, the Governor proposes to issue 8,000 new APLE warrants in 2006-07, the same number as authorized in the current year. Of the 8,000 new warrants, the Governor proposes to "set-aside" 600 warrants specifically for students participating in the UC and CSU Math and Science Teacher Initiative.

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 the issuance of 100 new warrants which would not require funding until a future year.

A. Proposed Increase to Maximum Cal Grant Award for Private College Students

The Governor proposes to augment the Cal Grant budget by \$11.9 million to increase the grant level for students attending private and independent colleges by 16.5 percent. This would result in the maximum grant level being increased from the current amount of \$8,322 to \$9,708. The Governor's proposal would only impact new Cal Grant recipients; students currently receiving awards would retain their current-valued grant.

Between 2003-04 and 2004-05, the maximum Cal Grant award level for students attending private colleges and universities decreased by \$1,376 (14 percent), from an annual award level of \$9,708 to the current level of \$8,332. This proposal by the Governor would take the Cal Grant back to its pre-2003 level.

LAO Recommendation. 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 legislative 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 was enacted for the coming fiscal year, it would raise the maximum grant amount to \$11,011, costing the state an additional \$11.1 million over the amount provided in the Governor's Budget.

Staff recommends that the committee approve this issue "as budgeted".

B. 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 nor 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 2006-07.

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 enlist in the National Guard, State Military Reserve or the Naval Militia?*

C. Assumption Program of Loans for Education (APLE)

The Governor's budget authorizes 8,000 new APLE loan assumption warrants (the same number as authorized in the current year); however, the Governor proposes directly allocating 600 of these warrants to the UC and CSU for those institutions to award to students participating in UC's and CSU's Math and Science Teacher Initiative.

As part of last year's May Revision, the Governor recommended a similar "set-aside" of APLE warrants for the UC/CSU Math and Science Teacher Initiative. The committee denied the Governor's proposal to establish a new APLE program for the Math and Science Teacher Initiative participants, and instead expressed that priority for 300 new APLE warrants be given to individuals training to become math, science, and special education teachers, regardless of the institution they are attending. The intent of the language was to recognize the special need for math and science teachers, but to meet this need within the confines of the existing APLE program, instead of developing either a new loan assumption program or fragmenting the existing APLE program. Further, the language sought to acknowledge that math and science teachers are produced from a variety of institutions, not just the UC and CSU.

The concerns raised by staff and the LAO a year ago, remain unchanged today. Specifically, there is no evidence to suggest that the existing APLE program (in its current format) cannot meet the needs of the state in recruiting and retaining new Math and Science teachers. Further, both staff and the LAO expressed concern that a set-aside of awards will only create confusion for students and administrators. In addition, the development of a new APLE program, or a set-aside within the existing program has traditionally been viewed as a policy issue that should be contained in separate legislation.

In response, the UC and CSU believe that having 600 loan assumption warrants at their disposal is critical to recruiting their students to become math and science teachers, and critical to the ultimate success of their Math and Science Teacher Initiative. They believe that students participating in their Initiative will likely have higher completion rates in both the teacher preparation programs and their math/science teaching commitment. Further, DOF notes that annually, the 8,000 new APLE warrants are underutilized. Specifically, DOF cites the underutilization of existing statutory APLE "set-asides", which are aimed at accommodating K-12 district interns and out-of-state teachers. However, according to the LAO, these unused warrants are eventually re-directed back to college campuses where they are ultimately used by students.

Staff recommends that the committee approve the proposed 8,000 APLE warrants; deny the Administration's request to set-aside 600 warrants for UC and CSU students; and adopt language giving students intending to become math and science teachers (regardless of the institution they attend) "priority" within the existing APLE program.

D. State Nursing - Assumption Program of Loans for Education (SNAPLE)

As part of the current year budget trailer bill, the Legislature established the State Nursing - Assumption Program of Loans for Education and authorized the issuance of 100 new loan assumption warrants, and \$100,000 and one position to administer the program.

The intent of SNAPLE is to encourage individuals to complete their graduate-level education in nursing and serve as nursing faculty at accredited California colleges and universities. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a SNAPLE participant teaches nursing. Under this program, the state will assume up to \$25,000 in outstanding student loans if the participant teaches nursing for three consecutive academic years.

The Governor's Budget includes language requiring the Student Aid Commission to issue a report, by April 1, 2007, on the SNAPLE program, but fails to provide authority for the Commission to issue new SNAPLE loan assumption warrants. DOF indicates that it believed the program to be one-time in nature. However, staff notes that was not the intent of the Legislature (as evidenced by the (1) the program's inclusion in statute -- as opposed to budget bill language; (2) the Legislature's addition of one position, on an ongoing basis, to administer the program; and (3) specific language in statute expressing the intent of the Legislature that funding be provided for the program within the annual budget act.) Further, staff notes that DOF, in its final "scoring" of the Legislature's budget actions (through the Change Book system), did not identify this program as one-time in nature.

According to the Student Aid Commission, the SNAPLE program has had a slow start. The Commission is currently in the process of promulgating regulations through the Office of Administrative Law, and will likely not issue any of the 100 authorized warrants in the current year. Given that those warrants were authorized for the 2005-06 fiscal year, the authority will simply expire as of June 30, 2006.

Staff recommends that the Legislature continue the program into 2006-07 by authorizing the issuance of 100 new SNAPLE loan assumption warrants in the Budget Act.

E. Public Interest Attorney Loan Repayment Program

Current statute establishes the Public Interest Attorney Loan Repayment Program to encourage licensed attorneys to practice in public interest areas of law, which includes, but is not limited to, legal services organizations, prosecuting attorney's offices, child support agency offices, and criminal public defender's offices. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a Public Interest Attorney practices law in specified arenas. Under this program, the state will assume up to \$11,000 in outstanding student loans if the participant practices public interest law for four years. While this program has been "on the books" since established by the Legislature in 2001, it has yet to become operational due to an absence of state funding and authority for the Student Aid Commission to issue loan assumption warrants.

Since 2001, the cost of receiving a legal education has increased dramatically, as student fees and educational costs have risen. As an example, in 2001 a resident student attending Hastings College of Law paid \$11,232 annually in student fees, compared with \$22,297 in the current year.

Faced with increasing debt burdens, many law school graduates are financially unable to choose public interest law due to the lower-paying salaries inherent in those positions.

Staff recommends that the committee *consider* providing start-up costs for the program, including one position and \$100,000 to promulgate regulations and begin implementing the Public Interest Attorney Loan Repayment Program.

F. EdFUND Organizational Issues (Information Only)

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.

1. Structural Options for Administering the FFELP.

As part of its 2005-06 Budget deliberations, this committee requested the LAO to identify a range of structural options available to the Legislature for providing the state with access to federally-guaranteed student loan services.

The LAO issued the requested report in January, citing five basic structural options for administering – or coordinating the administration of – the federal student loan programs. As part of its *Analysis of the 2006-07 Budget Bill*, the LAO continued its work in this area by recommending that the Legislature enact legislation to restructure the state’s administration of financial aid programs into a single, nonprofit, public benefit corporation, that would be subject to strong state accountability requirements.

2. Bureau of State Audits: Changes in the Federal Family Education Loan Program.

Last Spring, the Joint Legislative Audit Committee requested that Bureau of State Audits conduct an audit of the California Student Aid Commission’s (CSAC) administration of the Federal Family Education Loan Program (FFELP).

In summary, the Bureau of State audits found that: (1) recent changes in federal law raise doubts about the ability of the state to sustain its administration of the program; (2) ongoing tensions between the Student Aid Commission and EdFUND have hampered the State’s ability to renegotiate a revenue agreement (known as the Voluntary Flexibility Agreement –

VFA) thereby jeopardizing at least \$24 million in federal revenues; (3) tensions have further hampered and delayed attempts to expand and diversify the services offered by EdFUND; (4) the Student Aid Commission approved bonuses for EdFUND employees in years when the program was operating in a deficit; and (5) the Student Aid Commission has not maintained adequate oversight over EdFUND.

a) Status of California Voluntary Flexible Agreements (VFA)

One of the most crucial fiscal issues uncovered by the Bureau of State Audits (BSA) concerned the negotiation of the state's Voluntary Flexible Agreements (VFA) with the United States Department of Education (USDE).

In 1998, amendments to the Higher Education Act of 1965 gave USDE the authority to negotiate VFAs with individual guaranty agencies. Those guaranty agencies with VFAs receive waivers from certain federal laws and regulations in exchange for meeting specified performance outcomes, all of which are negotiated on a state-by-state basis. The overarching intent of the VFA process is to improve FFELP by encouraging experimentation and sharing of best practices among guaranty agencies. More specifically, VFAs are intended to shift the focus from collecting on defaulted student loans (the emphasis of the standard guaranty agency model) to improving outreach, default prevention, and loan servicing. Currently, five guaranty agencies, including CSAC, have VFAs.

The BSA found that ongoing tensions between the Student Aid Commission and EdFUND resulted in a significant delay in renegotiating California's 2004-05 VFA, which, for that federal fiscal year, resulted in the loss of at least \$15 million in revenue from the federal government.

While negotiations for the 2005-06 VFA appear to be on track, staff notes that USDE has yet to approve the agreement, although USDE has expressed its willingness to make an approved agreement retroactive to October 2005 (the start of the federal fiscal year). In any given fiscal year, these VFAs could result in up to \$30 million in funding from the federal government. Staff recommends that the Legislature continue closely monitoring the progress of the Student Aid Commission and EdFUND in successfully negotiating a VFA.

b) Assessment of a Default Fee on Student Loans

Recent changes in federal law now require FFELP guaranty agencies (including EdFUND) to charge borrowers a one percent federal default fee on the principal amount of all FFELP loans issued after July 1, 2006 and deposit the proceeds of the fee into the Federal Fund. The assessment of this fee was designed to increase the amount of federal funding that guaranty agencies held in reserve, thus decreasing the federal government's fiscal liability for the program.

Guaranty agencies in exceptional financial health have expressed their intent to waive the fee for student borrowers, thereby "backfilling" the fee revenue with their own resources. EdFUND, whose financial reserves have declined significantly, has determined that it will waive the fee for borrowers from July 1, 2006 through October 1, 2006 – which

constitutes the period of time during which the bulk of the student loan activity occurs -- and then begin charging borrowers the one percent fee after October 1, 2006. The Student Aid Commission and EdFUND state that, had the Legislature and Administration NOT used EdFUND revenues to support the Cal Grant program in recent fiscal year, the state may have had the resources to waive the one percent fee beyond the October 1, 2006 date.

Staff recommends that the Legislature continue to closely monitor the assessment of the default fee on student borrowers as well as the fiscal stability of EdFUND.

V. PROPOSED CONSENT

Staff recommends that the following items be Approved as Budgeted.

1. Item 6120-011-0001 State Operations, California State Library. \$10,880,000
2. Item 6120-011-0001 State Operations, California State Library. Addition of two Information Technology Positions, per Governor's Budget proposal. \$220,000
3. Item 6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. \$548,000
4. Item 6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$6,832,000
5. Item 6120-011-6000 Support, California State Library. Payable from California Public Library Construction and Renovation Fund. \$2,755,000
6. Item 6120-011-6029 Support, California State Library, California Cultural and Historical Endowment. \$1,718,000
7. Item 6120-012-0001 Support, California State Library, Debt Service. \$2,454,000
8. Item 6120-013-0001 Support, California State Library, Sutro Library Special Repairs. \$17,000
9. Item 6120-150-0001 Local Assistance, California State Library, California Civil Liberties Public Education Program. \$500,000
10. Item 6120-151-0483 Local Assistance, California State Library, Telephonic Services. Payable from the California Deaf and Disabled Telecommunications Program, Administrative Committee Fund. \$552,000
11. Item 6120-160-0001 Local Assistance, California State Library, California Newspaper Project. \$240,000

12. Item 6120-211-0001 Local Assistance, California State Library, Library Development Services. \$14,342,000
13. Item 6120-211-0890 Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000
14. Item 6120-213-0001 Local Assistance, California State Library, California English Acquisition and Literacy Program. \$5,064,000
15. Item 6420-001-0001 Support, California Postsecondary Education Commission. \$2,065,000
16. Item 6420-001-0890 Support, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$437,000
17. Item 6420-101-0890 Local Assistance, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$8,579,000
18. Item 6440-301-0660 Capital Outlay, University of California, *pursuant to April 1, 2006 Finance Letter*, remove Berkeley campus project from Item.
19. Item 6440-301-6041 Capital Outlay, University of California, *add item per April 1, 2006 Finance Letter* to appropriate (1) \$15,319,000 for construction of San Francisco Campus Medical Sciences Building Improvements; and (2) 49,706,000 for construction of Santa Barbara campus Education and Social Sciences Building project.
20. Item 6440-301-6048 Capital Outlay, University of California, specified projects, per attached.
21. Item 6440-302-6048 Capital Outlay, University of California, specified projects, per attached.
22. Item 6440-401 Capital Outlay, University of California. Budget Bill Language
23. Item 6440-495 Reversion, University of California, *add item per April 1, 2006 Finance Letter* to revert funding for the following projects: (1) San Francisco Campus, Medical Sciences Building Improvements, Phase 2 Construction; (2) Berkeley Campus, Giannini Hall, Seismic Safety corrections; (3) Santa Barbara Campus, Education and Social Sciences Building, Construction;
24. Item 6610-001-6048 Support, California State University, payable from 2006 Bond Fund.

25. Item 6610-301-6028 Capital Outlay, California State University, *add item per April 1, 2006 Finance Letter* to appropriate \$42,252,000 for the construction phase of the Chico Student Services Center project.
26. Item 6610-301-6041 Capital Outlay, California State University, payable from the 2004 Bond Act. Specified projects, per attached.
27. Item 6610-301-6048 Capital Outlay, California State University, payable from the 2006 Bond Act. Specified projects, per attached.
28. Item 6610-302-6041 Capital Outlay, California State University, payable from the 2004 Bond Act. Specified projects, per attached.
29. Item 6610-302-6048 Capital Outlay, California State University, payable from the 2006 Bond Act. Specified projects, per attached.
30. Item 6610-401 Capital Outlay, California State University.
31. Item 6610-496 Capital Outlay, Reversion, California State University, *add item per April 1, 2006 Finance Letter* to revert funding and authority for Chico Campus, Student Services Center.
32. Item 6870-301-0574 Capital Outlay, California Community Colleges, payable from the 1998 Bond Act. Specified projects, per attached.
33. Item 6870-303-0574 Capital Outlay, California Community Colleges, payable from the 1998 Bond Act. Specified project, per attached.
34. Item 6870-301-6028 Capital Outlay, California Community Colleges, payable from the 2002 Bond Act. Specified projects, per attached.
35. Item 6870-301-6028 Capital Outlay, California Community Colleges, *Revise item, per April 1, 2006 Finance Letter to appropriate \$24,392,000 for construction and equipment phases of the Cuesta College Theater Arts Building.*
36. Item 6870-301-6041 Capital Outlay, California Community Colleges, payable from the 2004 Bond Act. Specified projects, per attached.
37. Item 6870-301-6041, Budget Act of 2005 Capital Outlay, California Community Colleges, *Rescope Merced College Leshner Building Remodel Project, per April 1, 2006 Finance Letter.*
38. Item 6870-303-6041 Capital Outlay, California Community Colleges, payable from the 2004 Bond Act. Specified project, per attached.

39. Item 6870-301-6048 Capital Outlay, California Community Colleges, payable from the 2006 Bond Act. Specified projects, per attached.
40. Item 6870-301-6048 Capital Outlay, California Community Colleges, payable from the 2006 Bond Act. *Revise item, per April 1, 2006 Finance Letter as follows: (1) Augment by \$3,289,000 Merced College Allied Health Center project; and (2) Decrease by \$34,927,000 to reflect scheduling change with San Francisco campus – Phelan Campus project.*
41. Item 6870-303-6048 Capital Outlay, California Community Colleges, payable from the 2006 Bond Act. Specified projects, per attached.
42. Item 6870-490 Capital Outlay, Reappropriation, California Community Colleges. *Add item per April 1, 2006 Finance Letter to reappropriate \$300,000 for Mt. San Antonio College Seismic Retrofit and amend the scope of the project.*
43. Item 6870-491 Capital Outlay, Reappropriation, California Community Colleges. *Add item per April 1, 2006 Finance Letter to reappropriate \$1,036,000 for San Francisco City College – Phelan campus working drawings.*
44. Item 6870-497 Capital Outlay, Reversion, California Community Colleges. *Add item pursuant to April 1, 2006 Finance Letter to revert \$11,665,000 for Cuesta College Theater Arts Building.*
45. Item 7980-001-0784 State Operations, California Student Aid Commission. *Decrease item by \$199,000 per April 1, 2006 Finance Letter*
46. Item 7980-001-0784 State Operations, California Student Aid Commission. \$13,879,000
47. Item 7980-001-0784 State Operations, California Student Aid Commission. \$1,569,000 and 2.4 positions for the Cal Grant Delivery System
48. Item 7980-101-0890 Local Assistance, California Student Aid Commission. \$12,583,000.
49. Item 7980-495 Reversion, California Student Aid Commission.

University of California 2006-7 Capital Budget

Appropriations as of April 1 Finance Letter:

<u>Campus</u>	<u>Project Name</u>	<u>Phase</u>	<u>Funds Requested</u>	<u>Source</u>	<u>Bond Fund</u>	<u>Note</u>
Berkeley	Birge Hall Infrastructure Improvements	PWC	\$10,350,000	GO Bonds	2006	
Davis	Veterinary Medicine	P	\$3,100,000	GO Bonds	2006	
Davis	King Hall Renovation and Expansion	PWC	\$17,925,000	GO Bonds	2006	
Irvine	Biological Sciences Unit 3	E	\$3,268,000	GO Bonds	2006	
Irvine	Social and Behavioral Sciences Building	C	\$37,582,000	GO Bonds	2006	
Irvine	Primary Electrical Improvements Step 3	PWC	\$2,571,000	GO Bonds	2006	
Irvine	Humanities Building	PW	\$1,749,000	GO Bonds	2006	
Los Angeles	Life Sciences Replacement Building	C	\$38,576,000	GO Bonds	2006	
Merced	Social Sciences and Management Building	PW	\$2,667,000	GO Bonds	2006	
Riverside	Student Academic Support Services Building	C	\$18,035,000	GO Bonds	2006	
Riverside	Geology Building Renovations Phase 2	PWC	\$9,025,000	GO Bonds	2006	
Riverside	Culver Center for the Arts	WC	\$8,065,000	GO Bonds	2006	
Riverside	Boyce Hall and Webber Hall Renovations	P	\$900,000	GO Bonds	2006	
San Diego	Mayer Hall Addition and Renovation	C	\$13,126,000	GO Bonds	2006	
San Diego	Structural and Materials Engineering Building	PWC	\$75,057,000	GO Bonds	2006	
San Diego	Chilled Water and Electrical Distribution Improvements	WC	\$3,157,000	GO Bonds	2006	
San Francisco	Medical Sciences Building Improvements, Phase 2	C	\$31,698,00	GO Bonds	2004/2006	(a)
San Francisco	Electrical Distribution Improvements, Phase 2	P	\$525,000	GO Bonds	2006	
Santa Barbara	Electrical Infrastructure Renewal, Phase 2	C	\$6,328,000	GO Bonds	2006	
Santa Barbara	Arts Building Seismic Correction and Renewal	PW	\$1,855,000	GO Bonds	2006	
Santa Barbara	Davidson Library Addition and Renovation	P	\$1,250,000	GO Bonds	2006	
Santa Barbara	Pheps Hall Renovation	PW	\$1,100,000	GO Bonds	2006	
Santa Barbara	Infrastructure Renewal Phase 1	P	\$489,000	GO Bonds	2006	
Santa Barbara	Education and Social Science Building	C	\$49,706,000	GO Bonds	2004/2006	(b)
Santa Cruz	McHenry Addition and Renovation Project	WC	\$6,821,000	GO Bonds	2006	
Santa Cruz	Digital Arts Facility	C	\$19,751,000	GO Bonds	2006	
Santa Cruz	Infrastructure Improvements Phase 1	WC	\$7,833,000	GO Bonds	2006	See reappropriation below
Santa Cruz	Biomedical Sciences Facility	PW	\$6,490,000	GO Bonds	2006	
Santa Cruz	Infrastructure Improvements Phase 2	P	\$367,000	GO Bonds	2006	
ANR	Kearney REC Pressure Irrigation System	PWC	\$998,000	GO Bonds	2006	

(a) Includes \$15,319 to be reverted from the 2005-06 Budget Act - 2004 Higher Edu. Outlay Bond and reauthorized for 2006-07

(b) Includes \$49,706,000 to be reverted from the 2004-05 Budget Act - 2004 Higher Edu. Outlay Bond and reauthorized for 2006-07.

Reappropriations as of April 1 Finance Letter:

<u>Campus</u>	<u>Project Name</u>	<u>Phase</u>	<u>Funds Requested</u>	<u>Source</u>	<u>Bond Fund</u>	<u>Note</u>
Los Angeles	Life Sciences Replacement Building	C	\$47,302,000	GO Bonds	1998/2002/2004	(c)
Riverside	Environmental Health and Safety Expansion	PW	\$1,000,000	GO Bonds	2004	(d)
Riverside	Materials and Science Engineering	C	\$50,549,000	GO Bonds	2004	(e)
Santa Cruz	Digital Arts Facility	W	\$888,000	GO Bonds	2004	(f)

(c) To be reappropriated from the 2005-06 Budget Act - \$9,000,000 from the Higher Edu. Outlay Bond of 1998, \$5,802,000 from the Higher Edu. Outlay Bond of 2002, and \$32,500,000 from the Higher Edu. Capital Outlay Bond of 2004

(d) To be reappropriated from the 2005-06 Budget Act - 2004 Higher Edu. Outlay Bond

(e) To be reappropriated from the 2005-06 Budget Act - 2004 Higher Edu. Outlay Bond

(f) To be reappropriated from the 2005-06 Budget Act - 2004 Higher Edu. Outlay Bond

CALIFORNIA STATE UNIVERSITY
FY 06/07 Capital Outlay
Consent List

Item:	Requested	At Issue	Approved
6610-301-6048 For capital outlay, California State University, payable from the <i>proposed</i> Higher Education Capital Outlay Bond Fund of 2006			
(1) 06.48.315 Systemwide: Minor Capital Outlay Program, Preliminary plans, working drawings and construction	25,000,000		25,000,000
(2) 06.48.381 Systemwide: Capital Renewal Program, Preliminary plans, working drawings and construction	50,000,000		50,000,000
(3) 06.67.087 Humboldt: Behavioral and Social Sciences, Equipment	2,229,000		2,229,000
(4) 06.74.007 Monterey Bay: Infrastructure Improvements, Equipment	257,000	257,000	0
(5) 06.78.093 San Bernardino: College of Education Building, Equipment	2,438,000		2,438,000
(6) 06.64.082 East Bay: Student Services Replacement Building, Construction	38,938,000	2,752,000	36,186,000
(7) 06.71.110 Long Beach: Peterson Hall 3 Replacement Building, Construction	82,696,000	11,470,000	71,226,000
(8) 06.96.116 San Luis Obispo: Center for Science, Preliminary plans	1,866,000	1,866,000	0
(9) 06.84.105 San Francisco: School of the Arts Acquisition	6,930,000		6,930,000
Subtotal	210,354,000	16,345,000	194,009,000
6610-302-6048 For capital outlay, California State University, payable from the <i>proposed</i> Higher Education Capital Outlay Bond Fund of 2006			
(1) 06.96.115 San Luis Obispo: Engineering/Architecture Renovation and Replacement, Phase IIb, Equipment	4,397,000		4,397,000
(2) 06.64.080 East Bay: Business and Technology, Equipment	1,544,000		1,544,000
(3) 06.78.092 San Bernardino: Science Buildings Addition/Renovation, Phase II, Equipment	1,573,000		1,573,000
(4) 06.51.009 Maritime Academy: Simulation Center, Equipment	3,618,000		3,618,000
(5) 06.92.064 Stanislaus: Science II (Seismic), Equipment	4,951,000		4,951,000
(6) 06.50.065 Bakersfield: Nursing Renovation, Preliminary plans, working drawings and construction	1,979,000		1,979,000
(7) 06.82.086 Northridge: Performing Arts Center, Working drawings and construction	56,528,000	8,957,000	47,571,000
(8) 06.68.123 San Marcos: Social and Behavioral Sciences Buildings, Preliminary plans	1,078,000	1,078,000	0
Subtotal	75,668,000	10,035,000	65,633,000
6610-301-6041 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2004			

Item:	Requested	At Issue	Approved
(1) 06.83.002 Channel Islands: Infrastructure Improvements, Phases 1a and 1b, Preliminary plans and working drawings	2,533,000	2,533,000	0
(2) 06.73.096 Los Angeles: Corporation Yard and Public Safety, Preliminary plans and working drawings	787,000		787,000
Subtotal	3,320,000	2,533,000	787,000
Total Consent List	289,342,000	28,913,000	260,429,000

California Community Colleges Proposed Capital Outlay Spending Plan

2006-07
(\$ in 000s)

District, College/Center	CFIS	Project Name	Budget Item #	BOG Cat.	Ph.	2006-07 Amount
EXISTING BOND FUNDS						
Prop 1A Bonds, Item 6870-301-0574, Chapter XXX/06						
Contra Costa, Contra Costa		40.13.106 Art Building Seismic Retrofit	301-0574	A-3	PW	\$595
Mira Costa, Mira Costa		40.31.111 Creative Arts Expansion	301-0574	D-1	PWCE	\$9,559
Rio Hondo, Rio Hondo		40.43.106 Applied Technology Building Reconstruction	301-0574	C	CE	\$15,775
San Diego, San Diego District Office		40.47.001 Seismic Retrofit District Office	301-0574	C	C	\$4,683
						<u>\$30,612</u>

Prop 47 Bonds, Item 6870-301-6028, Chapter XXX/06

Desert, College of the Desert		40.10.113 Infrastructure Replacement	301-6028	A-4	C	\$3,104
San Mateo Co., Skyline		40.52.310 Allied Health Vocational Training Center	301-6028	C	CE	\$12,008
Contra Costa, Contra Costa		40.13.106 Art Building Seismic Retrofit	301-6028	A-3	PW	\$595
San Bernardino, San Bernardino Valley		40.46.215 North Hall Seismic Replacement	301-6028	A-3	PW	\$1,694
San Bernardino, San Bernardino Valley		40.46.216 North Hall-Media Communications Seismic Replacement	301-6028	A-3	PW	\$663
San Bernardino, San Bernardino Valley		40.46.217 Chemistry & Physical Science Seismic Replacement	301-6028	A-3	PW	\$1,919
						<u>\$19,388</u>

Prop 55 Bonds, Item 6870-301-6041, Chapter XXX/06

Chaffey, Chaffey		40.08.112 Health and Physical Science Renovation	301-6041	C	CE	\$11,587
Citrus, Citrus		40.09.123 Vocational Technology Building	301-6041	C	CE	\$15,431
Contra Costa, Los Medanos		40.13.315 Core Building Remodel	301-6041	C	CE	\$3,205
Santa Barbara, Santa Barbara City		40.53.123 Drama Music Building Modernization	301-6041	C	CE	\$11,908
Southwestern, Southwestern		40.63.107 Fire Loop Road (Critical Infrastructure)	301-6041	A-4	PWCE	\$1,883
						<u>\$44,014</u>

California Community Colleges
Proposed Capital Outlay Spending Plan
2006-07
(\$ in 000s)

District, College/Center	CFIS	Project Name	Budget Item #	BOG Cat.	Ph.	2006-07 Amount
FUTURE BOND FUNDS						
Future Bonds, Item 6870-301-6048, Chapter XXX/06						
Allan Hancock, Allan Hancock	40.02.118	One-Stop Student Services Center	301-0994	F	PW	\$1,466
Antelope Valley, Antelope Valley	40.03.114	Theatre Arts Facility	301-0994	D-1	PW	\$872
Barstow, Barstow	40.04.104	Performing Arts Center	301-0994	D-1	PW	\$644
Butte-Glenn, Butte	40.05.108	Instructional Arts Building	301-0994	B	PWCE	\$12,660
Cabrillo, Cabrillo	40.06.112	Health Wellness Center	301-0994	B	PWCE	\$11,675
Citrus, Citrus	40.09.126	Student Services Building	301-0994	E	PWCE	\$5,926
Contra Costa, Contra Costa	40.13.107	Physical/ Biological Science Building Renovation	301-0994	C	PW	\$734
Contra Costa, Los Medanos	40.13.316	Art Area Remodel	301-0994	C	PW	\$209
Grossmont-Cuyamaca, Cuyamaca	40.19.118	Business/CIS Building	301-0994	B	PWCE	\$12,903
Grossmont-Cuyamaca, Grossmont	40.19.210	Health Sciences Building	301-0994	B	PWCE	\$15,696
Hartnell, Hartnell East Campus	40.20.103	Center for Applied Technology	301-0994	B	PWCE	\$13,848
Kern, Cerro Coso	40.22.215	Science Modernization	301-0994	C	PWC	\$2,780
Kern, Porterville	40.22.307	Wellness Center	301-0994	D-1	PWCE	\$3,498
Los Angeles, East Los Angeles	40.26.108	Multimedia Classrooms	301-0994	C	PW	\$1,330
Los Angeles, Los Angeles City	40.26.208	Franklin Hall Modernization	301-0994	C	PWCE	\$7,767
Los Angeles, Los Angeles Mission	40.26.413	Culinary Arts Center	301-0994	B	PWCE	\$14,548
Los Angeles, Los Angeles Pierce	40.26.510	Physical Education Building Renovation	301-0994	D-1	PWCE	\$9,033
Los Angeles, Los Angeles Trade Tech	40.26.703	Renovate and Modernize Building A	301-0994	C	PWCE	\$18,376
Los Angeles, Los Angeles Valley	40.26.804	Child Development Center	301-0994	D-1	PWCE	\$9,948
Los Rios, American River	40.27.105	Fine Arts Instructional Space Expansion	301-0994	B	PW	\$177
Los Rios, Consummes River	40.27.212	Science Instructional Laboratory Expansion	301-0994	B	PW	\$219
Los Rios, Sacramento City	40.27.312	Fine Arts Bldg Modern	301-0994	C	PW	\$123
Los Rios, Folsom Lake	40.27.505	Physical Education Space Phase I	301-0994	D-1	PWC	\$6,008
Merced, Merced	40.30.119	Allied Health Building	301-0994	B	PWC	\$8,160
Mt. San Antonio, Mt. San Antonio	40.33.116	Design & Online Tech Center	301-0994	B	PWCE	\$13,828
Mt San Jacinto, Menifee Valley Center	40.34.213	General Classroom Bldg	301-0994	B	PW	\$925
Napa Valley, Napa Valley	40.35.104	Library/Learning Resource Center	301-0994	B	PWCE	\$16,398
North Orange Co., Cypress	40.36.102	Humanities Building 1 Renovation	301-0994	C	PWC	\$19,037
North Orange Co., Fullerton	40.36.203	South Science Building Replacement	301-0994	C	PWC	\$31,725

California Community Colleges Proposed Capital Outlay Spending Plan 2006-07 (\$ in 000s)

District, College/Center	CFIS	Project Name	Budget Item #	BOG Cat.	Ph.	2006-07 Amount
Palo Verde, Palo Verde	40.37.104	Fine and Performing Arts	301-0994	D-1	CE	\$20,827
Palomar, Palomar	40.38.114	Multidisciplinary Building	301-0994	B	PW	\$3,262
Rio Hondo, Rio Hondo	40.43.109	Physical Education Facilities	301-0994	D-1	PWCE	\$21,763
Riverside, Norco Campus	40.44.308	Phase III Industrial Technology Facility	301-0994	B	PWCE	\$20,484
South Orange, Saddleback	40.45.217	Learning Resource Center Renovation	301-0994	C	PW	\$1,156
San Bernardino, Crafton Hills	40.46.106	LRC/Technology Center	301-0994	B	PW	\$1,039
San Francisco, Phelan Campus	40.48.107	Joint Use Instructional Facility	301-0994	B	C	\$34,927
San Francisco, City College of San Francisco	40.48.110	Classroom/Lab Complex for Theater, Music, Visual and Media Arts	301-0994	B	P	\$727
San Joaquin Delta, San Joaquin Delta	40.49.108	Goleman LRC Modernization	301-0994	C	PW	\$959
San Mateo Co., Canada	40.52.104	Facility Maintenance Center	301-0994	D-2	PWCE	\$6,933
San Mateo Co., Skyline	40.52.309	Facility Maintenance Center	301-0994	D-2	PWC	\$4,639
Santa Barbara, Santa Barbara City	40.53.122	High Technology Center	301-0994	B	CE	\$28,188
Santa Clarita, College of the Canyons	40.54.114	University Center	301-0994	B	PWCE	\$20,974
Sequoias, College of the Sequoias	40.56.114	Nursing and Allied Health Center	301-0994	B	PW	\$721
Chabot-Las Positas, Chabot	40.62.115	Language Arts Learning Skills Modernization	301-0994	C	PWCE	\$5,421
Southwestern, Southwestern	40.63.108	Remodel Music Buildings 800/850	301-0994	C	PWCE	\$3,005
State Center, Willow International Center	40.64.501	Academic Facilities Phase II	301-0994	B	PWCE	\$19,247
Ventura Co., Moorpark	40.65.113	Health Science Expansion / Replacement	301-0994	C	PWCE	\$10,359
Ventura Co., Oxnard	40.65.207	OCTV Auditorium	301-0994	D-1	PWCE	\$7,511
West Hills, West Hills College at Coalunga	40.67.104	Wellness Center	301-0994	D-1	PWCE	\$7,748
West Hills, West Hills College at Lemoore	40.67.206	Multi-Use Sports Complex	301-0994	D-1	PWCE	\$14,967
West Kern, Taft	40.68.104	Tech Arts Modernization	301-0994	C	PWC	\$4,430
West Valley-Mission, West Valley	40.69.110	Science and Math Building Renovation	301-0994	C	PW	\$1,677
West Valley-Mission, Mission	40.69.209	Main Building, 2nd Floor Reconstruction	301-0994	C	PW	\$1,893
Copper Mountain, Copper Mountain	40.72.101	Remodel for Efficiency	301-0994	B	PWCE	\$7,525
Feather River, Feather River	40.73.105	Learning Resource Center and Technology Building	301-0994	B	PW	\$773
TOTAL - FUTURE BOND APPROPRIATION						\$ 491,668
TOTALS-ALL APPROPRIATIONS						\$ 585,682

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

OUTCOMES

May 1, 2006
1:30 pm – Room 4203

I. <u>California Department of Education</u> (Item 6110)	
A. Instructional Materials and State Board of Education	Page 2
II. <u>California State Library</u> (Item 6120)	Page 5
A. Public Library Foundation	Page 5
B. Transaction-Based Reimbursements	Page 6
III. <u>Capital Outlay</u>	
A. University of California (Item 6440)	Page 7
B. California State University (Item 6610)	Page 7
C. California Community Colleges (Item 6870)	Page 8
D. Overarching Cost of Construction Issue	Page 8
IV. <u>California Student Aid Commission</u> (Item 7980)	Page 9
A. Cal Grant Award Level for Private College Students	Page 10
B. Implementation of National Guard APLE Program	Page 10
C. Assumption Program of Loans for Education (APLE)	Page 11
D. State Nursing – Assumption Program of Loans for Education	Page 12
E. Public Interest Attorney Loan Repayment Program	Page 12
F. <i>EdFUND Organizational Issues:</i>	
1. LAO Report on Structural Options for Administering the FFELP	Page 13
2. Update on Bureau of State Audit's Findings	Page 13
a) Status of Voluntary Flexible Agreements	Page 14
b) Implementation of a one percent Default Fee on student loans	Page 14
V. <u>Consent</u>	Page 15

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 Department of Education (Item 6110)

A. Instructional Materials and State Board of Education

The Governor's Budget proposes **\$402 million** in Proposition 98 funding for the Instructional Materials Block Grant in 2006-07, which provides a **\$40 million** (11 percent) increase over the 2005-06 level of funding. The Governor's budget also includes an estimated **\$190 million** in State Lottery funds for K-12 schools in 2006-07, which reflects a **\$40 million** increase in lottery revenues beginning in 2005-06 that must be used for instructional materials. The LAO recommends that the Legislature reject the \$40 million Proposition 98 increase considering the \$40 million in new lottery revenues available to schools for instructional materials in 2006-07.

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 the number of enrolled students in grades K-12.

Proposition 20, which was passed by voters in 2000, requires that 50 percent of lottery revenue growth be utilized for purchase of instructional materials by K-12 schools and community colleges. There is no requirement that instructional materials purchased with state lottery funds be aligned to state curriculum standards. Lottery funds are not appropriated through the budget, but continuously appropriated.

Governor's Budget. The Governor proposes a total of **\$592 million** for instructional materials, which includes **\$402 million** in Proposition 98 funding and **\$190 million** in State Lottery Funds in 2006-07.

The Governor's budget proposes a total funding level of **\$402 million** for the state Instructional Materials Block Grant, which provides funding to school districts to purchase standards-aligned materials. This is an increase of \$41 million over last year's funding level of which approximately half is attributable to growth and COLA and half reflects an increase in the program base.

According to the LAO, total funding available for instructional materials has increased significantly in recent years, as indicated in the following table from their analysis.

<i>(Dollars in Millions)</i>				
	2003-04	2004-05	2005-06	2006-07
Instructional Materials Block Grant	\$175	\$333	\$361	\$402
Lottery funds for Instructional materials	115	150	190 ^a	190 ^a
Totals	\$290	\$483^b	\$551	\$592
Year-to-year change	—	66%	14%	7%

a LAO estimates based on lottery revenue projections.
b In addition to the figure shown here, \$168 million in one-time funding was provided in this year.

Williams Settlement. The *Elizier Williams v. State of California* (Williams) lawsuit settlement agreements, which were approved by the courts in 2004, address student access to qualified teachers, instructional materials and clean and safe school facilities. The 2004-05 budget package included \$188 million in one-time funding specifically for the Williams settlement agreements relating to instructional materials. These funds, as appropriated and further specified in Chapter 900, Statutes of 2004, include:

- \$138 million in one-time funding for instructional materials for students in Deciles 1 and 2 of the Academic Performance Index (API).
- \$15 million for county office of education oversight and monitoring of schools in Deciles 1 -3 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 were an advance to be repaid by districts.

The Governor's 2006-07 budget does not provide additional instructional materials funds for Decile 1-3 schools. However, the budget does propose to continue funding for support of county office oversight and monitoring of Decile 1-3 schools at a somewhat higher level. Specifically, the budget increases support from \$15 million available to county offices for the first two years of the program to **\$10 million** in ongoing, annual funding beginning in 2006-07.

English Learner Set-Aside. The Governor's Budget does not continue a funding set-aside for the purchase of instructional materials that *supplement* the regular standards-aligned instructional materials schools purchase through the regular instructional materials program.

The 2004-05 budget provided a **\$30 million** set-aside that was available on a one-time basis over two years for the purchase of supplemental instructional materials to assist students in learning English. Supplemental materials purchased by schools had to be substantially correlated to both academic content standards and English Language Development standards.

The accompanying budget bill language for the 2004-05 set-aside specified that "the purpose of these materials will be to accelerate pupils as rapidly as possible towards grade level proficiency," and that the "funds shall be used to purchase supplemental materials that are designed to help English learners become proficient in reading, writing and speaking English."

The 2004-05 budget funded three limited-term positions to administer the \$30 million set-aside for English learner instructional materials. These positions expire at the end of 2005-06.

According to CDE, 650 school districts and county offices applied for, and received, the \$30 million in supplemental materials funding that resulted in providing approximately \$20 per English learner.

The Legislature provided another **\$20 million** in ongoing funding for purchase of supplemental materials for English learners in 2005-06; however, the Governor vetoed the funds for these purposes.

LAO Recommendation. The LAO recommends that the Legislature eliminate the **\$40 million** augmentation in Proposition 98 funds for instructional materials in 2006-07. This recommendation takes into account the **\$190 million** in instructional materials funding schools will receive from State Lottery funds in 2006-07.

The LAO recommends that the \$40 million in savings be scored as General Fund savings to address the state's budget deficit. If the Legislature chooses to retain these funds for schools, the LAO recommends redirecting the \$40 million toward implementation of reforms it suggests for the Economic Impact Aid program, as discussed at the April 24th Subcommittee hearing.

Comments: The State Board is currently working on updating the English/Language Arts curriculum framework, including the criteria for evaluating instructional materials submitted for adoption. These criteria guide the development of new instructional materials. A number of Senators have expressed strong concern to the Secretary for Education, Superintendent of Public Instruction and State Board of Education that the criteria recently approved by the State Board does not fully recognize the instructional materials needs for students who are English learners.

OUTCOMES: (1) Instructional Materials funding placed on "checklist", pending the May Revision.

(2) Subcommittee approved motion to remove funding for staff and support of the State Board of Education. (Vote 2-1)

II. California State Library (Item 6120)

The Governor's Budget proposes a total of \$74.7 million for the California State Library's operations and the various local assistance programs. Of that amount, \$48.1 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				
<u>General Fund Budget Proposals</u>				
<i>(Dollars in Thousands)</i>				
	Revised	Proposed	Change	
	2005-06	2006-07	Amount	Percent
State Operations				
Support/operating budget	\$10,522	\$11,100	578	5.5%
Lease-revenue bonds	2,450	2,454	4	0.2%
Repairs for Sutro Library	17	17	0	0%
<i>Subtotals</i>	<u>\$12,989</u>	<u>\$13,571</u>	582	4.5%
Local Assistance				
California Civil Liberties Public Education Prog.	\$500	\$500	0	0%
California Newspaper Project	240	240	0	0%
California Library Services Act	14,342	14,342	0	0%
California English Acquisition & Literacy Prog.	5,064	5,064	0	0%
Public Library Foundation	14,360	14,360	0	0%
<i>Subtotals</i>	<u>34,506</u>	<u>34,506</u>	0	0%
Totals	\$47,495	\$48,077	582	1.2%

A. Public Library Foundation

Unlike prior years, the Governor's Budget proposes to hold constant, at \$14.4 million, the amount of funding available for the Public Library Foundation (PLF). 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 financial respite 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, equating to an approximate 75 percent reduction over six years.

Staff recommends that the committee consider placing an augmentation for the Public Library Foundation on the "checklist" pending the May Revision. **OUTCOME: Unspecified amount of funding placed on the "checklist" pending the May Revision.**

B. Transaction-Based Reimbursement System

This program, which was designed to encourage libraries to cooperatively share their materials and resources with each other, uses state funds to reimburse local libraries for the costs associated with Direct and Indirect Loans.

Direct Loans. Currently, California residents may borrow books directly from any library in the state, regardless of where the individual resides. “Direct Loans” allow an individual to borrow materials from libraries outside the jurisdiction of their residence. As a local example, an individual may live in Auburn or Davis, but works in downtown Sacramento and, as a result, may find it easier to check out books from the Sacramento library. Over 28 million items are made available to borrowers annually through libraries where the borrowers do not reside.

Indirect Loans. Indirect loans allow individuals to borrow books from other libraries through an “interlibrary loan” program, where one’s hometown library requests a book on the borrower's behalf from another library anywhere in the state.

Direct loans (which lend materials to individuals) tend to be more prevalent in urban and suburban communities – communities where people work or attend school, while indirect loans tend to occur more predominately in rural communities where library holdings are more limited. Libraries are provided funding, via a reimbursement process, for the costs associated with these library loans. At present, this program is funded with \$12.5 million of General Fund – which represents approximately half the amount needed to fully compensate local libraries for their costs.

Staff recommends that the committee consider placing an augmentation for the Transaction Based Reimbursement System on the "checklist" pending the May Revision. **OUTCOME: Unspecified amount of funding placed on the "checklist" pending the May Revision.**

III. Capital Outlay

- A. **University of California (Item 6440).** The Governor's budget includes \$373.3 million in funding for 30 capital outlay projects spread across all ten UC campuses. With the exception of one project (discussed below), all projects are proposed to be funded with the proceeds of the 2006 General Obligation Bond Act, which is slated to go to the statewide ballot in November of 2006. These projects are included on the committee's consent agenda.

UC Santa Barbara: Education and Social Sciences Building. The Administration and UC are requesting that the committee authorize \$24.6 million in Lease-Revenue Bond funds for the construction phase of the Santa Barbara Education and Social Sciences Building. This proposal is contained in the Governor's *April 1, 2006 Finance Letter* to the Legislature.

Neither staff nor the Legislative Analyst has raised concerns with the project as a whole; however, both parties have expressed concern over the use of Lease-Revenue Bonds for this purpose. Given that the capital outlay portion of the budget proposal is predicated on the passage of a statewide General Obligation Bond measure, this project could be appropriated from that funding source. As a result, it may not be fiscally prudent for the committee to approve the financing of a \$24.6 million project at an interest rate traditionally higher than the rate of General Obligation Bonds.

Both UC and the DOF contend that, as part of the Legislature's negotiation of both the 2002 and 2004 Education Facilities Bond Acts, as contained in Assembly Bill 16 (Chapter 33, Statutes of 2002), the Legislature agreed to a funding "deal" whereby UC would provide an agreed-upon level of GO Bond support out of their allocation for Hastings College of Law, in exchange for a like-amount of additional Lease-Revenue Bonding authority for one of their projects. Given that this "deal" is neither documented nor readily recalled by Legislative staff, the committee may wish to simply consider if they are interested in using lease-revenue bonds as a funding mechanism for this project – regardless of whether there was an off-the-record agreement between various parties in 2002.

OUTCOME: Issue held open.

- B. **California State University (Item 6610).** The Governor's budget includes \$289.3 million in funding for 19 capital outlay projects spread across 14 CSU campuses. With the exception of one project (discussed below), the remaining projects are all included on the committee's consent agenda.

San Marcos: Social and Behavioral Sciences Building. The Governor's Budget includes \$1.1 million in funding from the proposed 2006 Education Facilities Bond to conduct preliminary plans for a new Social and Behavioral Sciences Building on the San Marcos campus. The project will provide 68,000 square feet of classroom, teaching laboratories, and 125 faculty offices. By approving \$1.1 million for preliminary plans, the Legislature will be approving the scope and future costs of the project, which are expected to total \$53.9 million.

The LAO has raised concerns with this project because it believes that the campus has excess capacity to accommodate an increase in student enrollments. Specifically, the LAO cites a new Academic II building slated to come online in 2006-07 which is expected to accommodate a 50 percent increase in enrollment. Furthermore, the LAO cites a decline in summer sessions enrollment to further illustrate that the existing facilities are underutilized. Since the LAO's analysis was released, CSU has provided data indicating that the campus is indeed enrolling students in the summer, but that the number of students served has declined from 2003 to present by approximately 18 percent. At the time of publication, the LAO's Analysis assumed that NO students were enrolled in the summer.

OUTCOME: Project approved "as budgeted" (Vote: 3-0)

- C. **California Community Colleges (Item 6870).** The Governor's budget includes \$585.7 million in funding for 70 capital outlay projects spread across 42 Community College districts. Neither Legislative Staff nor the LAO have raised direct concerns with any specific projects, all of which are proposed for consent. However, there is one significant issue to note: As part of the budget preparation process, the Community Colleges Chancellor's Office revised and updated their building cost guidelines which, until now, were last updated in 1993. These new cost guidelines were used to budget for capital projects proposed in the 2006-07 Budget and account for a significant increase in the budgeted cost of projects moving forward.

- D. **Overarching Issue (Information Only).** Throughout the 2006-07 capital outlay budgets of both the CSU and the Community Colleges, the LAO notes a series of price increases, which reflect a technical change in the way those institutions budget for construction costs. The change is due to a new set of cost guidelines issued by the Department of Finance and aimed at better budgeting and planning for the increased costs of construction. While this committee intends to approve capital outlay projects which are utilizing this new budgeting technique, it is staff's understanding that the overarching issue of how to better budget for rapidly changing capital outlay expenses, remains open, and will be discussed further by DOF and legislative staff and be resolved by future legislative action.

IV. California Student Aid Commission (Item 7980)

The Governor’s 2005-06 Budget proposes a total of \$1.6 billion in expenditures (\$861.6 million General Fund) for the California Student Aid Commission, which reflects a \$60.1 million or a 3.8 percent increase above estimated current-year expenditures.

Figure 1				
Student Aid Commission				
Budget Summary^a				
<i>(Dollars in Millions)</i>				
	2005-06 Revised	2006-07 Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant programs				
Entitlement	\$645.0	\$697.2	\$52.2	8.1%
Competitive	115.5	118.2	2.7	2.4%
Pre-Entitlement	4.9	0.9	-4.0	-81.6%
Cal Grant C	9.2	9.6	0.4	4.4%
<i>Subtotals—Cal Grant</i>	<i>\$774.6</i>	<i>\$825.9</i>	<i>\$51.3</i>	<i>6.6%</i>
APLE ^b	\$40.9	\$47.7	\$6.8	16.7%
Graduate APLE	0.4	0.4	—	—
Law enforcement scholarships	0.1	0.1	—	—
Totals	\$816.0	\$874.2	\$58.2	7.1%
Funding Sources				
General Fund	\$752.4	\$861.6	\$109.2	14.5%
Student Loan Operating Fund ^c	51.0	—	-51.0	-100%
Federal Trust Fund ^d	12.6	12.6	—	—
^a In addition to the programs listed, the commission administers the Byrd Scholarship and the 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 Assumption Program of Loans for Education. ^c These monies pay for Cal Grant costs as well as support and administrative costs.				

Specifically, the Governor’s Budget proposes an increase of \$51.3 million (6.6 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) increase the total number of Cal Grants entitlement awards available (by 4,300 for a total of 268,210 new and renewal grants) based on new estimates of eligible high school graduates, transfer students and renewal applicants (\$39.5 million); and (2) increase the maximum Cal Grant award level for students attending private institutions (\$11.9 million).

Other adjustments to the Student Aid Commission’s budget include a \$6.8 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. In addition, the Governor proposes to issue 8,000 new APLE warrants in 2006-07, the same number as authorized in the current year. Of the 8,000 new warrants, the Governor proposes to "set-aside" 600 warrants specifically for students participating in the UC and CSU Math and Science Teacher Initiative.

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 the issuance of 100 new warrants which would not require funding until a future year.

A. Proposed Increase to Maximum Cal Grant Award for Private College Students

The Governor proposes to augment the Cal Grant budget by \$11.9 million to increase the grant level for students attending private and independent colleges by 16.5 percent. This would result in the maximum grant level being increased from the current amount of \$8,322 to \$9,708. The Governor's proposal would only impact new Cal Grant recipients; students currently receiving awards would retain their current-valued grant.

Between 2003-04 and 2004-05, the maximum Cal Grant award level for students attending private colleges and universities decreased by \$1,376 (14 percent), from an annual award level of \$9,708 to the current level of \$8,332. This proposal by the Governor would take the Cal Grant back to its pre-2003 level.

LAO Recommendation. 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 legislative 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 was enacted for the coming fiscal year, it would raise the maximum grant amount to \$11,011, costing the state an additional \$11.1 million over the amount provided in the Governor's Budget.

Staff recommends that the committee approve this issue "as budgeted". **OUTCOME:** Issue held Open Pending the May Revision.

B. 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 nor 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 2006-07.

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 enlist in the National Guard, State Military Reserve or the Naval Militia?*

OUTCOME: Issue held open pending the May Revision.

C. Assumption Program of Loans for Education (APLE)

The Governor's budget authorizes 8,000 new APLE loan assumption warrants (the same number as authorized in the current year); however, the Governor proposes directly allocating 600 of these warrants to the UC and CSU for those institutions to award to students participating in UC's and CSU's Math and Science Teacher Initiative.

As part of last year's May Revision, the Governor recommended a similar "set-aside" of APLE warrants for the UC/CSU Math and Science Teacher Initiative. The committee denied the Governor's proposal to establish a new APLE program for the Math and Science Teacher Initiative participants, and instead expressed that priority for 300 new APLE warrants be given to individuals training to become math, science, and special education teachers, regardless of the institution they are attending. The intent of the language was to recognize the special need for math and science teachers, but to meet this need within the confines of the existing APLE program, instead of developing either a new loan assumption program or fragmenting the existing APLE program. Further, the language sought to acknowledge that math and science teachers are produced from a variety of institutions, not just the UC and CSU.

The concerns raised by staff and the LAO a year ago, remain unchanged today. Specifically, there is no evidence to suggest that the existing APLE program (in its current format) cannot meet the needs of the state in recruiting and retaining new Math and Science teachers. Further, both staff and the LAO expressed concern that a set-aside of awards will only create confusion for students and administrators. In addition, the development of a new APLE program, or a set-aside within the existing program has traditionally been viewed as a policy issue that should be contained in separate legislation.

In response, the UC and CSU believe that having 600 loan assumption warrants at their disposal is critical to recruiting their students to become math and science teachers, and critical to the ultimate success of their Math and Science Teacher Initiative. They believe that students participating in their Initiative will likely have higher completion rates in both the teacher preparation programs and their math/science teaching commitment. Further, DOF notes that annually, the 8,000 new APLE warrants are underutilized. Specifically, DOF cites the underutilization of existing statutory APLE "set-asides", which are aimed at accommodating K-12 district interns and out-of-state teachers. However, according to the LAO, these unused warrants are eventually re-directed back to college campuses where they are ultimately used by students.

Staff recommends that the committee approve the proposed 8,000 APLE warrants; deny the Administration's request to set-aside 600 warrants for UC and CSU students; and adopt language giving students intending to become math and science teachers (regardless of the institution they

attend) "priority" within the existing APLE program. **OUTCOME:** Issue held open pending the May Revision.

D. State Nursing - Assumption Program of Loans for Education (SNAPLE)

As part of the current year budget trailer bill, the Legislature established the State Nursing - Assumption Program of Loans for Education and authorized the issuance of 100 new loan assumption warrants, and \$100,000 and one position to administer the program.

The intent of SNAPLE is to encourage individuals to complete their graduate-level education in nursing and serve as nursing faculty at accredited California colleges and universities. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a SNAPLE participant teaches nursing. Under this program, the state will assume up to \$25,000 in outstanding student loans if the participant teaches nursing for three consecutive academic years.

The Governor's Budget includes language requiring the Student Aid Commission to issue a report, by April 1, 2007, on the SNAPLE program, but fails to provide authority for the Commission to issue new SNAPLE loan assumption warrants. DOF indicates that it believed the program to be one-time in nature. However, staff notes that was not the intent of the Legislature (as evidenced by the (1) the program's inclusion in statute -- as opposed to budget bill language; (2) the Legislature's addition of one position, on an ongoing basis, to administer the program; and (3) specific language in statute expressing the intent of the Legislature that funding be provided for the program within the annual budget act.) Further, staff notes that DOF, in its final "scoring" of the Legislature's budget actions (through the Change Book system), did not identify this program as one-time in nature.

According to the Student Aid Commission, the SNAPLE program has had a slow start. The Commission is currently in the process of promulgating regulations through the Office of Administrative Law, and will likely not issue any of the 100 authorized warrants in the current year. Given that those warrants were authorized for the 2005-06 fiscal year, the authority will simply expire as of June 30, 2006.

Staff recommends that the Legislature continue the program into 2006-07 by authorizing the issuance of 100 new SNAPLE loan assumption warrants in the Budget Act. **OUTCOME:** Issue held open pending the May Revision.

E. Public Interest Attorney Loan Repayment Program

Current statute establishes the Public Interest Attorney Loan Repayment Program to encourage licensed attorneys to practice in public interest areas of law, which includes, but is not limited to, legal services organizations, prosecuting attorney's offices, child support agency offices, and criminal public defender's offices. Similar to the APLE program, the state forgives a specified amount of student loan debt for each year a Public Interest Attorney practices law in specified arenas. Under this program, the state will assume up to \$11,000 in outstanding student loans if the participant practices public interest law for four years. While this program has been "on the books" since established by the Legislature in 2001, it has yet to become operational due to an absence of state funding and authority for the Student Aid Commission to issue loan assumption warrants.

Since 2001, the cost of receiving a legal education has increased dramatically, as student fees and educational costs have risen. As an example, in 2001 a resident student attending Hastings College of Law paid \$11,232 annually in student fees, compared with \$22,297 in the current year. Faced with increasing debt burdens, many law school graduates are financially unable to choose public interest law due to the lower-paying salaries inherent in those positions.

Staff recommends that the committee *consider* providing start-up costs for the program, including one position and \$100,000 to promulgate regulations and begin implementing the Public Interest Attorney Loan Repayment Program. **OUTCOME: Issue held open pending the May Revision.**

F. EdFUND Organizational Issues (Information Only)

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.

1. Structural Options for Administering the FFELP.

As part of its 2005-06 Budget deliberations, this committee requested the LAO to identify a range of structural options available to the Legislature for providing the state with access to federally-guaranteed student loan services.

The LAO issued the requested report in January, citing five basic structural options for administering – or coordinating the administration of – the federal student loan programs. As part of its *Analysis of the 2006-07 Budget Bill*, the LAO continued its work in this area by recommending that the Legislature enact legislation to restructure the state's administration of financial aid programs into a single, nonprofit, public benefit corporation, that would be subject to strong state accountability requirements.

2. Bureau of State Audits: Changes in the Federal Family Education Loan Program.

Last Spring, the Joint Legislative Audit Committee requested that Bureau of State Audits conduct an audit of the California Student Aid Commission's (CSAC) administration of the Federal Family Education Loan Program (FFELP).

In summary, the Bureau of State audits found that: (1) recent changes in federal law raise doubts about the ability of the state to sustain its administration of the program; (2) ongoing tensions between the Student Aid Commission and EdFUND have hampered the State's ability to renegotiate a revenue agreement (known as the Voluntary Flexibility Agreement – VFA) thereby jeopardizing at least \$24 million in federal revenues; (3) tensions have further hampered and delayed attempts to expand and diversify the services offered by EdFUND; (4) the Student Aid Commission approved bonuses for EdFUND employees in years when the program was operating in a deficit; and (5) the Student Aid Commission has not maintained adequate oversight over EdFUND.

a) Status of California Voluntary Flexible Agreements (VFA)

One of the most crucial fiscal issues uncovered by the Bureau of State Audits (BSA) concerned the negotiation of the state's Voluntary Flexible Agreements (VFA) with the United States Department of Education (USDE).

In 1998, amendments to the Higher Education Act of 1965 gave USDE the authority to negotiate VFAs with individual guaranty agencies. Those guaranty agencies with VFAs receive waivers from certain federal laws and regulations in exchange for meeting specified performance outcomes, all of which are negotiated on a state-by-state basis. The overarching intent of the VFA process is to improve FFELP by encouraging experimentation and sharing of best practices among guaranty agencies. More specifically, VFAs are intended to shift the focus from collecting on defaulted student loans (the emphasis of the standard guaranty agency model) to improving outreach, default prevention, and loan servicing. Currently, five guaranty agencies, including CSAC, have VFAs.

The BSA found that ongoing tensions between the Student Aid Commission and EdFUND resulted in a significant delay in renegotiating California's 2004-05 VFA, which, for that

federal fiscal year, resulted in the loss of at least \$15 million in revenue from the federal government.

While negotiations for the 2005-06 VFA appear to be on track, staff notes that USDE has yet to approve the agreement, although USDE has expressed its willingness to make an approved agreement retroactive to October 2005 (the start of the federal fiscal year). In any given fiscal year, these VFAs could result in up to \$30 million in funding from the federal government. Staff recommends that the Legislature continue closely monitoring the progress of the Student Aid Commission and EdFUND in successfully negotiating a VFA.

b) Assessment of a Default Fee on Student Loans

Recent changes in federal law now require FFELP guaranty agencies (including EdFUND) to charge borrowers a one percent federal default fee on the principal amount of all FFELP loans issued after July 1, 2006 and deposit the proceeds of the fee into the Federal Fund. The assessment of this fee was designed to increase the amount of federal funding that guaranty agencies held in reserve, thus decreasing the federal government's fiscal liability for the program.

Guaranty agencies in exceptional financial health have expressed their intent to waive the fee for student borrowers, thereby "backfilling" the fee revenue with their own resources. EdFUND, whose financial reserves have declined significantly, has determined that it will waive the fee for borrowers from July 1, 2006 through October 1, 2006 -- which constitutes the period of time during which the bulk of the student loan activity occurs -- and then begin charging borrowers the one percent fee after October 1, 2006. The Student Aid Commission and EdFUND state that, had the Legislature and Administration NOT used EdFUND revenues to support the Cal Grant program in recent fiscal year, the state may have had the resources to waive the one percent fee beyond the October 1, 2006 date.

Staff recommends that the Legislature continue to closely monitor the assessment of the default fee on student borrowers as well as the fiscal stability of EdFUND.

V. PROPOSED CONSENT (OUTCOME: Approved 3-0, unless otherwise noted)

Staff recommends that the following items be Approved as Budgeted.

1. Item 6120-011-0001 State Operations, California State Library. \$10,880,000
2. Item 6120-011-0001 State Operations, California State Library. Addition of two Information Technology Positions, per Governor's Budget proposal. \$220,000
(OUTCOME: Approved 2-1)
3. Item 6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. \$548,000

4. Item 6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$6,832,000
5. Item 6120-011-6000 Support, California State Library. Payable from California Public Library Construction and Renovation Fund. \$2,755,000
6. Item 6120-011-6029 Support, California State Library, California Cultural and Historical Endowment. \$1,718,000
7. Item 6120-012-0001 Support, California State Library, Debt Service. \$2,454,000
8. Item 6120-013-0001 Support, California State Library, Sutro Library Special Repairs. \$17,000
9. Item 6120-150-0001 Local Assistance, California State Library, California Civil Liberties Public Education Program. \$500,000
10. Item 6120-151-0483 Local Assistance, California State Library, Telephonic Services. Payable from the California Deaf and Disabled Telecommunications Program, Administrative Committee Fund. \$552,000
11. Item 6120-160-0001 Local Assistance, California State Library, California Newspaper Project. \$240,000
12. Item 6120-211-0001 Local Assistance, California State Library, Library Development Services. \$14,342,000
13. Item 6120-211-0890 Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000
14. Item 6120-213-0001 Local Assistance, California State Library, California English Acquisition and Literacy Program. \$5,064,000
15. Item 6420-001-0001 Support, California Postsecondary Education Commission. \$2,065,000
16. Item 6420-001-0890 Support, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$437,000
17. Item 6420-101-0890 Local Assistance, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$8,579,000
18. ~~Item 6440-301-0660 Capital Outlay, University of California, pursuant to April 1, 2006 Finance Letter, remove Berkeley campus project from Item.~~

- ~~19. Item 6440-301-6041 Capital Outlay, University of California, add item per April 1, 2006 Finance Letter to appropriate (1) \$15,319,000 for construction of San Francisco Campus Medical Sciences Building Improvements; and (2) 49,706,000 for construction of Santa Barbara campus Education and Social Sciences Building project.~~
- ~~20. Item 6440-301-6048 Capital Outlay, University of California, specified projects, per attached.~~
- ~~21. Item 6440-302-6048 Capital Outlay, University of California, specified projects, per attached.~~
- ~~22. Item 6440-401 Capital Outlay, University of California. Budget Bill Language~~
- ~~23. Item 6440-495 Reversion, University of California, add item per April 1, 2006 Finance Letter to revert funding for the following projects: (1) San Francisco Campus, Medical Sciences Building Improvements, Phase 2 Construction; (2) Berkeley Campus, Giannini Hall, Seismic Safety corrections; (3) Santa Barbara Campus, Education and Social Sciences Building, Construction;~~
24. Item 6610-001-6048 Support, California State University, payable from 2006 Bond Fund.
25. Item 6610-301-6028 Capital Outlay, California State University, add item per April 1, 2006 Finance Letter to appropriate \$42,252,000 for the construction phase of the Chico Student Services Center project.
26. Item 6610-301-6041 Capital Outlay, California State University, payable from the 2004 Bond Act. Specified projects, per attached.
27. Item 6610-301-6048 Capital Outlay, California State University, payable from the 2006 Bond Act. Specified projects, per attached.
28. Item 6610-302-6041 Capital Outlay, California State University, payable from the 2004 Bond Act. Specified projects, per attached.
29. Item 6610-302-6048 Capital Outlay, California State University, payable from the 2006 Bond Act. Specified projects, per attached.
30. Item 6610-401 Capital Outlay, California State University.
31. Item 6610-496 Capital Outlay, Reversion, California State University, add item per April 1, 2006 Finance Letter to revert funding and authority for Chico Campus, Student Services Center.

32. Item 6870-301-0574 Capital Outlay, California Community Colleges, payable from the 1998 Bond Act. Specified projects, per attached.
33. Item 6870-303-0574 Capital Outlay, California Community Colleges, payable from the 1998 Bond Act. Specified project, per attached.
34. Item 6870-301-6028 Capital Outlay, California Community Colleges, payable from the 2002 Bond Act. Specified projects, per attached.
35. Item 6870-301-6028 Capital Outlay, California Community Colleges, *Revise item, per April 1, 2006 Finance Letter to appropriate \$24,392,000 for construction and equipment phases of the Cuesta College Theater Arts Building.*
36. Item 6870-301-6041 Capital Outlay, California Community Colleges, payable from the 2004 Bond Act. Specified projects, per attached.
37. Item 6870-301-6041, Budget Act of 2005 Capital Outlay, California Community Colleges, *Rescope Merced College Leshar Building Remodel Project, per April 1, 2006 Finance Letter.*
38. Item 6870-303-6041 Capital Outlay, California Community Colleges, payable from the 2004 Bond Act. Specified project, per attached.
39. Item 6870-301-6048 Capital Outlay, California Community Colleges, payable from the 2006 Bond Act. Specified projects, per attached.
40. Item 6870-301-6048 Capital Outlay, California Community Colleges, payable from the 2006 Bond Act. *Revise item, per April 1, 2006 Finance Letter as follows: (1) Augment by \$3,289,000 Merced College Allied Health Center project; and (2) Decrease by \$34,927,000 to reflect scheduling change with San Francisco campus – Phelan Campus project.*
41. Item 6870-303-6048 Capital Outlay, California Community Colleges, payable from the 2006 Bond Act. Specified projects, per attached.
42. Item 6870-490 Capital Outlay, Reappropriation, California Community Colleges. *Add item per April 1, 2006 Finance Letter to reappropriate \$300,000 for Mt. San Antonio College Seismic Retrofit and amend the scope of the project.*
43. Item 6870-491 Capital Outlay, Reappropriation, California Community Colleges. *Add item per April 1, 2006 Finance Letter to reappropriate \$1,036,000 for San Francisco City College – Phelan campus working drawings.*
44. Item 6870-497 Capital Outlay, Reversion, California Community Colleges. *Add item pursuant to April 1, 2006 Finance Letter to revert \$11,665,000 for Cuesta College Theater Arts Building.*

45. Item 7980-001-0784 State Operations, California Student Aid Commission.
Decrease item by \$199,000 per April 1, 2006 Finance Letter
46. Item 7980-001-0784 State Operations, California Student Aid Commission.
\$13,879,000
47. Item 7980-001-0784 State Operations, California Student Aid Commission.
\$1,569,000 and 2.4 positions for the Cal Grant Delivery System
48. Item 7980-101-0890 Local Assistance, California Student Aid Commission.
\$12,583,000.
49. Item 7980-495 Reversion, California Student Aid Commission.

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, May 8, 2006
1:30 pm
Room 113, State Capitol

<u>Item</u>	<u>Department</u>	<u>Page</u>
0558/0650	Office of the Secretary of Education	
Issue 1	Budget Adjustments and April Finance Letter	1
6360	Commission on Teacher Credentialing	
Issue 2	Budget Update and Adjustments	2
6110	Department of Education	
Issue 3	Local Assistance – Teacher Data System.....	7
Issue 4	Local Assistance – High Priority Schools Grant Program	8
Issue 5	Local Assistance – Community Day Schools	11
Issue 6	State Operations – Special Education Due Process Contract Deficiency	13
Issue 7	State Operations and Capital Outlay – State Special Schools	16
Issue 8	State Operations – Various Positions	18
Issue 9	April Finance Letters – Various State Operations and Local Assistance.....	20
Issue 10	Fiscal Status of School Districts – Presentation by FCMAT	22
Issue 11	Categorical Flexibility – Budget Control Section 12.40	24
Issue 12	Health Benefits Costs – LAO Proposal	27
6440/6610/6870		
Issue 13	May 1 st Finance Letters – Various UC, CSU and CCC Items (Consent).....	30
6110/6870	Proposition 98 Update: LAO Presentation	
Issue 14	Public Comment: Uses of One-Time Prop 98 Funding Approved by Subcommittee on March 27 th	36

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ITEMS 0558/0650-001-0001 OFFICE OF THE SECRETARY FOR EDUCATION**ISSUE 1: Various Adjustments -- New Positions and Changes in Funding Sources**

DESCRIPTION: The Governor's Budget proposes an increase of two staff positions for the Office of the Secretary for Education in 2006-07. As currently proposed, these positions will be funded through federal funds and reimbursements and will not require a General Fund increase.

BACKGROUND: The Governor's budget proposes to add two, ongoing staff positions within the Office of the Secretary for Education:

Staff Representative to Proposition 49 Task Force. The Governor's January budget proposes **\$95,000** in General Funds for one staff position to represent the Secretary for Education at the Proposition 49 Task Force. In a Department of Finance (DOF) April Letter (see below), the Administration proposes to replace General Funds for this position with reimbursements from the Department of Education (CDE). The Proposition 49 Task Force was convened by the Governor's Office, the Secretary for Education, CDE and the Department of Finance to ensure that the Proposition 49 funds are distributed in a timely and effective manner through the development of a statewide master plan. This position would participate in task force meetings; coordinate regional summits of after school providers and stakeholders; conduct field outreach; and assist in policy analysis and development.

Staff to Address Federal Accountability Requirements. The Governor proposes **\$100,000** in federal funds for one staff position to address the growing workload associated with the accountability requirements of the No Child Left Behind Act (NCLB). The position will also address a request by the Governor for the Secretary for Education and the State Board of Education to work with the Superintendent of Public Instruction (SPI) and the U.S. Department of Education to bring the federal and state accountability systems into alignment, in order to target assistance to the most struggling schools.

April Finance Letter – Technical Adjustment:

- 1. Reimbursement, Proposition 49 Staff.** It is requested that Items 0558-001-0001 and 0650-011-0001 be decreased by \$48,000 and \$47,000, respectively, and reimbursement be increased by \$48,000 and \$47,000, respectively, to expend funds received from the Department of Education to provide staff support for the Proposition 49 After School Advisory Committee.

LAO Recommendation:

RECOMMENDATIONS: Staff recommends approve as budgeted with changes proposed by the April Finance Letter.

OUTCOME:

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 2. Budget Update & Adjustments

DESCRIPTION: The Governor’s January budget for the Commission on Teacher Credentialing (CTC) estimates healthy fund balances for the two major special funds that support the CTC – the Test Development Administration Account and the Teacher Credentials Fund in 2006-07. As a result, the Governor’s Budget eliminates the **\$2.7 million** in one-time General Fund support provided in 2005-06. The Governor’s Budget proposes to redirect four existing positions within CTC to reduce credentialing workload. CTC will provide an update on (1) efficiency studies required by the 2005-06 budget and (2) the status of processing efficiencies.

BACKGROUND:

The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

Summary of Credential Workload and Staffing Changes: The CTC currently receives more than **240,159 applications** for credentials, emergency permits and credential waivers. As indicated below, the number of applications has been uneven in recent years. Over the last five years there was growth in the credential applications, followed by a drop in applications for the two prior years. In 2005-06, CTC is experiencing an increase of 3 percent in the application volume from FY 2004-05. Although staffing has been reduced consistently over the last five years through the budget resulting in an overall loss of 17.8 positions (22 percent) as a result of anticipated efficiencies from the Teacher Credentialing Service Improvement Project. It is important to keep in mind that this project was intended to replace an antiquated credentialing system not to replace staff.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Credential Applications Received^a	215,954	239,501	250,701	235,327	233,164	240,159	240,159
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,000
Total	223,819	247,419	255,845	238,154	235,566	242,159	242,159
Total Certification Assignment and Waivers Division Staff	82.1	83.2	77.4	71.2	60.6	65.2	72.2
Credential Fees	\$55	\$55	\$55	\$55	\$55	\$55	\$55

^a Includes emergency permits.

Governor's Budget: The Governor's Budget proposes **\$51.2 million** for the total CTC's budget in 2006-07, providing an overall increase of **\$600,000**. Of this amount, the Governor proposes to continue **\$31.8 million** from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program.

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$2,700	\$0	-2,700	-100.0
General Fund, Proposition 98	\$31,814	\$31,814	0	0.0
Teacher Credentials Fund	12,253	14,754	2,501	20.4
Test Development & Adm. Account	3,751	4,627	876	23.4
Federal Trust Fund	0	0	0	0.0
Reimbursements	76	0	-76	-100.0
Total	\$50,594	\$51,195	\$601	1.2

The Governor proposes **\$19.4 million** from the two special funds that support the CTC's state operations, providing an increase of **\$3.4 million**. Specifically, the Governor proposes funding of **\$14.8 million** from the Teacher Credentials Fund and **\$4.6 million** from the Test Development and Administration Account in 2006-07.

Status of Credential and Exam Fees:

- The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. The credential fee is \$55, which is set in the annual budget, although other statute authorizes a credential fee of up to \$75. In 1998-99, the credential fee was reduced from \$70 to \$60 due to increases in the number of applications. At this time there was increased demand for teachers due to new class size reduction programs. In 2000-01, the fee was dropped to \$55 and has remained at this level since then. The \$15 loss in fees since 1998-99 equates to an annual loss of approximately \$3.3 million.
- The Test Development 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). The commission recently raised fees by \$6 for all exams except the CBEST. Prior to this, fees had not been increased since 2001-02.

Special Fund Balances: In 2005-06, the Governor proposed a General Fund backfill of \$2.7 million to address shortfalls in both the Teacher Credentials Fund and Test Development Administration Account. Both accounts are showing positive balances in 2006-07 as a result of the reduction in expenditure authority for each of these funds and the increase of the General Fund Authority. The overall funding for state operations did not change, just the fund in which the expense is being reflected. Specifically, the CTC projects ending balances of \$3.3 million in 2005-06 and \$1.8 million in 2006-07 for the Teacher Credentials Fund, assuming expenditure

levels proposed by the Governor. For the Test Development Administration Account, fund balances are estimated at \$2.8 million in 2005-06 and \$1.9 million in 2006-07.

Budget Year Adjustments:

- **Eliminate General Fund Backfill and Restore Special Fund Expenditure Authority.** The Governor's Budget eliminates the **\$2.7 million** General Fund appropriation provided in 2005-06 to address an anticipated shortfall in special funds to support the CTC's state operations budget. The Administration provided these funds on a one-time basis. To offset this General Fund reduction, the Governor proposes to increase expenditures from the Teacher Credentials Fund and the Test Development Administration Account by \$2.7 million to reflect an increase in available fund balances.
- **Increase Special Fund Authority to Reflect the Proposed Increase in Central Services Costs.** The Governor proposes to increase the expenditure authority of the Teacher Credentials Fund and the Test Development Administration Account by **\$677,000** to reflect an increase in centralized services costs assessed to special fund agencies. These assessments cover support services provided by other state agencies.
- **Redirect Positions to Reduce Credential Processing Time.** The Governor proposes to convert four high level positions in the Professional Services Division into **seven technical positions** in the Certification, Assignment and Waivers Division to reduce credentialing workload. The Governor also proposes that CTC submit quarterly reports to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports should include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated. The CTC currently provides a quarterly update to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the credentialing workload, so this requirement will continue into 2006-07.

Efficiency Studies Required by 2005-06 Budget:

CTC implemented a number of program efficiencies and cost savings that were approved by the Commission last year and enacted as a part of the final 2005-06 budget. In addition, budget bill language in 2005-06 required the CTC to complete reports for two possible, additional efficiencies raised by the Commission last year. The two efficiencies involved an assessment of both: (1) the feasibility of relying on internal counsel rather than Attorney General representation at administrative hearings; and (2) the feasibility of establishing fees for disciplinary review and associated disciplinary action. The CTC transmitted these two feasibility reports to the Legislature on December 1, 2005. Specific cost estimates and conclusions from each of the studies include:

- **Conclusion: The Feasibility of Relying on Internal Counsel Rather Than Attorney General Representation at Administrative Hearings.** The Commission could realize

significant cost savings (\$707,175) if it received authorization from the Office of the Attorney General or a statutory change to allow for in-house legal representation of administrative hearings. Some savings (\$91,000-\$226,700) could be realized if the CTC instituted a plan to shift some of the current Legal Assistant workload back to the CTC, however, the full amount of the savings could be off-set in part by a duplication of workload once a case was sent to the OAG and assigned to a DAG.

- **Conclusion: Feasibility Study for Establishing Fees for Disciplinary Review and Associated Disciplinary Action.** After a review of the complete proposal at the November/December Commission meeting, the Commission determined that this proposal does not appear feasible to implement given the legal challenges it raises as well as the potential financial burden on teachers. The amount of revenue generated by fees and fines ranges from \$2,524,750 to \$4,955,150. However this potential revenue is off-set by anticipated costs of collection and administration and the estimated recovery rate. The net amounts generated would range from \$993,971-\$2,026,891. None of the changes could be accomplished without extensive statutory and regulatory authority; therefore, the earliest possible implementation date would be January, 2007.

The Legislature and Department of Finance are required to consider these feasibility reports when preparing the CTC 2006-07 budget. While both studies identified provide significant potential savings, the general conclusion of both reports was not positive about implementation. The Governor's Budget did not include these efficiencies in the 2006-07 budget proposal.

Delayed Discipline Efficiencies in 2005-06

The Commission has not implemented three of the efficiencies that were enacted as a part of the 2005-06 budget following a letter from the Legislative Leadership in September 2005. Specifically, the Senate Pro Tem and Assembly Speaker sent a letter to the Chair of the Commission stating that budget provisions contained in Chapter 73, Statutes of 2005 (SB 63/Committee on Budget) "may have inadvertently made substantive policy changes to CCTC procedures related [to] the rights of new applicants." Legislative leaders requested the Commission to postpone adoption of these regulations until early 2006 to give the Legislature an opportunity to revisit this issue. The changes in question, as approved by the Commission early last year and enacted in the 2005-06 budget, include:

- **DPP – Option 1. Eliminating Full Administrative Hearing Process for Lower Levels of Discipline (Private Admonitions and Public Approval).**
CTC Comments: 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. (Estimated Savings=\$100,000)
- **DPP – Option 3. Eliminating All Certified Mailing Requirements.**

CTC Comments: 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. (Estimated Savings=\$11,000)

▪ **DPP – Option 6. Streamlining Investigative Processes for First Time Applicants.**

CTC Comments: 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. (Estimated Savings =\$14,804)

Savings associated with these efficiencies are estimated at \$125,804 annually and the budget for CTC was reduced accordingly in 2005-06. However, because these efficiencies were not implemented CTC has had to absorb these reductions in 2005-06. DPP Options 3 and 6 required statutory changes and that were included as part of Chapter 73. DPP Option 1 was going to be implemented through regulations at the November/December 2005 Commission meeting; however the regulations were pulled from the agenda.

LAO Recommendation: The LAO recommends no changes to CTC 2006-07 budget. The LAO recently released a report calling for major structural changes to CTC.

COMMENTS/RECOMMENDATIONS: Staff recommends approve as budgeted, with changes to eliminate three efficiencies adopted in 2005-06 that have never been implemented at the request of Legislative leadership. This action requires restoration of \$125,804 in the 2006-07 budget.

ISSUE 3. Local Assistance -- Teacher Data System (Item 6110-001-0890)

DESCRIPTION: The Department of Education will provide an update on development of a new teacher data system, including findings of the recently released feasibility study funded in the 2005-06 budget. The Department will also provide an update on the status of meeting the “highly qualified teacher” requirements of the federal No Child Left Behind (NCLB) act.

BACKGROUND: The 2005-06 budget appropriated **\$350,000** in federal Title II funds to the Department of Education to contract for a Feasibility Study Review (FSR) for a new teacher data system. The 2005-06 budget required CDE to convene a working group including the Department of Finance, LAO and other interested parties in selecting a vendor.

The FSR was completed on March 30, 2006 and submitted to the Department of Finance for approval. The Department of Finance is reviewing the FSR to determine whether it will propose any funding for development of the system in 2006-07. As required by language in the 2005-06 budget, the feasibility is required to:

- (1) inventory the teacher data elements currently collected by state agencies and county offices of education;
- (2) identify existing redundancies and inefficiencies;
- (3) identify the existing teacher data needs of state agencies and county offices of education for meeting state and federal compliance and reporting requirements;
- (4) identify the most cost effective approach for converting the existing data systems into an integrated, comprehensive, longitudinally linked teacher information system that can yield high quality program evaluations; and
- (5) estimate the additional one-time and ongoing costs associated with the new system.

Related Legislation: **SB 1614 (Simitian)** requires the Department of Education, in collaboration with the Commission on Teacher Credentialing, to contract for the development of a teacher data system – the California Longitudinal Teacher Integrated Data Education System (CALTIDES). The purpose of the system would be to evaluate the effectiveness of professional development and teacher preparation programs and improve monitoring of teacher assignments. The data system would utilize existing teacher databases and requires the Commission to establish “non-personally identifiable” teacher identification numbers for all public school teachers.

COMMENTS: The Subcommittee may want to ask CDE the following questions about the feasibility study for the teacher data system released in late March:

- (1) *What are the total costs for development of the teacher data system?*
- (2) *What are the ongoing costs associated with such a system once developed?*
- (3) *What is the timeframe for development of the teacher data system, i.e. what is the earliest the system could be implemented?*

ISSUE 4: High Priority Schools Grant Program (Item 6110-123-0001)

DESCRIPTION: The Governor's budget proposes a total of **\$243 million** in 2006-07 for the High Priority (HP) Schools Grant program. This budget provides **\$201 million** for a second cohort of HP. Annual funding for planning grants and implementation grants for the second cohort, as proposed, cannot exceed this amount in any fiscal year. The Governor proposes to revert **\$60 million** in funding appropriated for a second cohort of HP schools in 2005-06 that has not yet been expended. The Department of Education has developed several options for the Legislature to consider in expending these funds for the second HP cohort and for a pilot program to assist and intervene with alternative schools that are not eligible to participate in the HP program.

BACKGROUND: The High Priority Schools Grant Program provides grants of **\$400** per pupil to low performing schools, with priority for schools in the lowest performing deciles of the Academic Performance Index.

Provisions of the *Williams* settlement agreement, as contained in Chapter 900, Statutes of 2004, declares legislative intent that new schools be added to the HP program when HP and II/USP schools are phased out and that overall funding for the program be maintained at no less than **\$200 million** annually.

Funding for the first HP cohort was appropriated in 2002-03. In the spirit of the *Williams* settlement agreement, the 2005-06 budget appropriated \$60 million in II/USP savings to fund a second cohort of the HP program. Expenditure of these funds was contingent upon passage of legislation to address exit criteria for the program. Such legislation -- **AB 1758 (Umberg)** -- was enacted on April 18, 2006. While an urgency statute, it is unclear whether the \$60 million can be expended for new HP grants in the last two months of the 2005-06 fiscal year. If unexpended, the administration proposes that these funds be reverted.

CDE Recommendations:

The Department of Education has just recently developed a number of options and recommendations for coordinating the **\$60 million** in current year funds for HP and the **\$201 million** in HP funds in 2006-07. These options include:

- Allocation of planning grants in the Current Year (CY) is constrained by the \$201 million in the Budget Year (BY).
- There are sufficient funds to invite all unfunded 2005 API Base ranks 1 and 2 schools (775). This includes CSR schools who agree to become HP. This would leave balances of \$14.8 million (of \$201 million) in the budget year and \$25.8 million (of \$60 million) in the current year.
- Budget Year options for the remaining \$14.8 million are summarized in the following tables.

<u>Budget Year Option</u>	<u>Effect on Current Year</u>
1. Fund 31 of the 101 former II/USP schools in rank 1 that were unable to fully participate in HP	• Additional planning costs of \$1.55 million
2. Fund into rank 3 (30 schools)	• Additional planning costs of \$1.5 million
3. a. Fund 140 alternative schools pilot programs (\$7 million) <u>and</u> b. Provide funding for specific district activities directed at helping HP schools (\$7 million)	• None

Following decisions regarding the Budget Year, then decisions can be made to deal with the current year balance.

- Current Year options for \$25.8 million* remaining.
(*amount impacted by Budget Year decisions above)

<u>Current Year One-time Options</u>	<u>Effect on Budget Year</u>
1. Fund alternative schools program (\$7 - \$10 million)	• Frees up \$7 - \$10 million in Budget Year. Interacts with option 3a above.
2. Fund individualized learning plans for students at risk of not passing CAHSEE (\$5 - \$8 million)	• None
3. Provide support for specific district activities directed at helping HP schools (\$7 - \$10 million)	• Frees up \$7 - \$10 million in Budget Year. Interacts with option 3b above.
4. Provide more planning grants to rank 3 schools	• None

CDE is sponsoring **AB 2254 (Umberg)**, which would implement the Alternative Schools Pilot Program outlined above. The bill may be amended to include other options.

LAO Recommendation: The LAO recommends redirecting any new HP funding to support district-based interventions, not school-based interventions. The LAO cites findings from the II/USP evaluation conducted by AIR that found no significant impact for schools, but noted very

positive or negative effects for districts. The LAO indicates that districts ultimately make decisions about assisting and resourcing their schools.

COMMENTS/RECOMMENDATIONS: Staff recommends that the Subcommittee ask CDE and DOF about the status of the **\$60 million** in funds appropriated for a new HP program in the current year and plans for allocating these funds. Suggested questions include:

- (1) Now that the required legislation has been enacted, is it possible to appropriate some or all of the \$60 million in the current year?*
- (2) What is DOF's position on these funds in the budget? Does DOF plan to revert these funds at the end of the year?*
- (3) What level of HP funding does the Administration intend to provide in 2006-07 and how does this relate to the Williams agreements?*

OUTCOME:

ISSUE 5. Local Assistance – Community Day Schools (6110-190-0001)

DESCRIPTION: The Governor’s budget provides **\$49.4 million** for the community day school program. This amount constitutes a \$2.4 million increase over the amount provided in 2005-06 to provide a cost-of-living adjustment. The Department of Education proposes an additional **\$4.3 million** in 2006-07 to cover an estimated shortfall in funding for this program in 2006-07.

BACKGROUND:

The community day school program provides alternative placement options for students that have been expelled or who are high-risk. The program was established pursuant to Chapter 974, Statutes of 1995 (AB 922/Friedman) in conjunction with the passage of other legislation mandating that school districts expel students for certain offenses (e.g., carrying a handgun to school, etc.) The program was created to provide a new option for students mandatorily expelled under the latter legislation. State law specifies that students may be assigned to a community day school only if they are one or more of the following: expelled students, students under probation, students referred to the school by a school attendance review board.

Districts or county offices of education running these program must give first priority to students that are “mandatorily expelled” because they committed an offense requiring expulsion under state law. Second priority is for students expelled under other offenses, and third priority is for all other students that can be served by the program.

In contrast to programs pre-dating the community day schools, which had shorter days and were generally run by county offices of education, community day schools may be run by school districts and are required to provide 6 hours of instruction a day, none of which can be independent study. Programs receive supplemental funds intended to address the additional costs of serving this population.

Enrollment and Funding:

Community Day Schools (CDS) are funded both through revenue limits (general purpose funding) for students and CDS supplemental program funding. State law specifies that districts running community day schools receive an additional \$4,000 per ADA in supplemental funding beginning in the 1999-2000 fiscal year, adjusted every year for inflation. County offices of education running community day schools receive an additional \$3,000 per ADA in supplemental funding, adjusted for inflation since 1999-2000. Programs can also receive an additional \$4 per student per hour (up to two hours a day) of programs provided beyond the 6 hours a day. While supplemental CDS funding is adjusted annually for COLA, it is not adjusted for growth.

Student enrollment, as measured by ADA, has grown significantly since the new program began in 1996-97. Student enrollment grew from 862 students to 11,414 students in 2004-05. According to CDE, there are approximately 380 community day schools statewide in 2005-06 and the number is expected to reach 415 in 2006-07.

While the CDS supplemental funding program was well funded in the beginning, funding has not kept up with enrollment growth, since the funding formula does not provide growth.

Fiscal Year	CDS Enrollment (ADA)	CDS Funding (In thousands)
1995-96	0	0
1996-97	862	52,593
1997-98	1,914	30,000
1998-99	3,104	20,000
1999-00	5,717	30,423
2000-01	7,218	41,377
2001-02	8,448	42,205
2002-03	10,463	42,204
2003-04	11,180	32,205
2004-05	11,414	45,060
2005-06		46,966
2006-07		49,399 (proposed)

Funding for the first year of the program in 1996-97 totaled \$52.6 million, however funding was reduced in later years to reflect program demand. By 2002-03, funding was proposed at \$42.2 million. In 2002-03, the program was reduced by \$10 million as part of mid-year reductions needed to meet a statewide budget shortfall.

In 2003-04, the program was reduced by another \$10 million as part of mid-year cuts, based on estimates that the program was over-funded by this amount. As the program enrollment grew and funding fell, a shortfall for the program began to develop, since the funding formula does not recognize growth.

Deficiency Funding: When the amount provided in the budget for this program is not enough to fund enrollment, CDE must pro-rate the shortfall. This ensures that all programs receive funding, but at a reduced level.

CDE Proposal to Address Budget Year Deficiency: CDE proposes to increase CDS supplemental funding by **\$4.3 million** in 2006-07 to address a program deficiency. This increase would fully fund program growth --estimated at 9.2 percent -- in 2006-07. CDE will provide additional detail on their proposal at the hearing.

COMMENTS/RECOMMENDATIONS: Staff notes that Community Day Schools provide important funding for students who face many educational challenges. Both the number of students and the number of schools participating in the program have grown significantly since the new program began. Until some measure of growth is provided for the program, deficiencies will continue to accumulate for the program statewide. When deficiencies occur, funds are simply pro-rated to all participating schools. In addition to the community day school program, there are several other categorical programs that CDE pro-rates funding to based upon deficiencies.

ISSUE 6. State Operations – Special Education Due Process Contract Deficiency

DESCRIPTION: The Governor's Budget proposes **\$4.5 million** in Non-98, General Funds to fund a deficiency request by CDE to cover a shortfall in funding associated with transition to a new contract provider for operation of the state's special education due process program in 2005-06. CDE now estimates the 2005-06 deficiency at **\$2.0 million**. The quality and timeliness of the data provided by the new CDE contractor -- Office of Administrative Hearings, Department of General Services -- is assessed for the purposes of monitoring outcomes during the transition period.

BACKGROUND:

Federal special education law requires that states receiving federal special education funding have a due process to resolve disputes between parents and school officials over the learning plans and services offered to special education students. Federal law prohibits CDE from acting as the administrative hearing agency for such disputes.

Prior to 2004, Education Code required the CDE to contract with a single, nonprofit organization or entity to provide due process services. This statute reflected the interest in maintaining some impartiality or independence for this function. Since 1989, CDE contracted with the McGeorge School of Law to serve as the administrative hearings agency for these disputes.

In 2002 and 2004, California Attorneys, Administrative Law Judges, and Hearing Officers in State Employment (CASE) initiated a legal case challenging the McGeorge contract. CASE was essentially challenging the state's ability to contract out for services that other civil service employees could perform. Based upon this successful legal challenge, the Administration and CDE requested budget trailer bill language as a part of the 2005-06 budget allowing CDE to contract with a state agency to perform this work.

In 2004-05, CDE issued a request for proposals to solicit competitive bids for a new contractor to provide the services. It received bids from McGeorge and OAH. According to CDE, McGeorge's bid was **\$43.7 million** for three years and OAH's bid was **\$30.4 million** for three years. Because the OAH bid was lower, CDE decided to enter into an interagency agreement with OAH, citing this as the appropriate contracting vehicle between two state agencies.

As of June 1, 2005, CDE and OAH entered into a three-year interagency agreement for the provision of due process hearings starting July 1, 2005, and mediations starting July 1, 2006. It also entered into a six-month transition contract with McGeorge for the provision of mediation services and due process hearings for hearings that were already initiated. According to CDE, as of January 1st of this year, OAH assumed responsibility for providing mediations in addition to due process hearings.

Governor's Budget Deficiency Proposal: The Governor's budget proposes **\$4.5 million** in non-Proposition 98 General Fund to cover unexpected costs in 2005-06 to administer the statewide special education due process program.

CDE now estimates the shortfall at **\$2.0 million** to cover transition costs to administer the due process program. CDE cites the following reasons for the shortfall: a greater than anticipated number of cases and other unanticipated costs. The 2005-06 budget provides a total of **\$10.14**

million to cover the costs of the interagency agreement. The Governor proposes the same level of funding in 2006-07.

Monitoring Data: The 2005 education omnibus trailer bill, SB 63, codified various data requirements for the new due process contract in order to assure the continuation of data provided by the previous contractor. The intent was to maintain data that could provide be used to monitor program access and outcomes during the transition period. The data included in statute reflected data included in CDE's interagency agreement with the new contractor.

The data specifically included quarterly reports from OAH on the status and outcomes of its process. The legislation required quarterly reports to provide continuity in the program, (since McGeorge had provided quarterly data reports on its outcomes), in order to assure that program access and quality were maintained during the transition period.

Despite this statutory requirement, OAH did not submit a report for the first quarter of the 2006-07 year and second quarter data was also delayed. OAH never informed the Legislature of this delay and cites unanticipated workload problems as the reason it did not submit the data. When OAH, submitted the data report for the first quarter, the data was incomplete and difficult to interpret for purposes of monitoring access and outcomes for the program during transition

Related Legislation: CDE is sponsoring **AB 2565 (Evans)** to appropriate the **\$3.5 million** for the current-year deficiency, in the event the Legislature decides not to fund the program through the budget.

COMMENTS/RECOMMENDATIONS:

Data Recommendations: Staff notes that CDE has not been able to provide data that provides assurances about the level and quality of services at OAH compared to services previously provided. In response, staff recommends that the data requirements contained in SB 63 be strengthened so that the Legislature can provide assurances about due process services.

Advocates for students and families have suggested the following data elements as being helpful in evaluating fairness, and are asking that OAH be required to provide information like this in its quarterly reports. (Attachment A provides comparison of these data elements, compared to data provided by McGeorge and OAH.)

- average length of hearings,
- the number of hearing requests that were rejected as insufficient,
- the number of hearing requests from parents and the number of hearing requests from districts,
- identification of non-English languages of parties requesting hearings,
- the number of requests for due process hearings resolved through mediations or resolved prior to the commencement of the hearing.
- the number of final decisions issued, and of these, the number decided in the favor of the pupil and the number decided in favor of the district
- the number of cases in which the districts was represented by an attorney, the number of cases in which the pupils and parents were represented by an attorney.
- Year end data.

Special education advocates note that the dispute resolution process has become more and more legal in nature and consequently more intimidating for parents, who often cannot afford legal representation. In addition, many parents face language barriers (e.g., not speaking English) that may make the process even more intimidating.

Deficiency Recommendations: Staff notes that despite a number of requests, CDE has not been able to provide specific justification to support their **\$2.0 million** deficiency request. In addition, while the estimates of the deficiency are constantly changing, fortunately the amounts have fallen from **\$4.5 million** originally requested by DOF to **\$2.0 million**. This deficiency request would require an appropriation of Non-Proposition 98, General Funds.

ISSUE 7. State Operations – State Special Schools (6110-005-0001 & 6110-006-0001)

DESCRIPTION: The Governor's January budget proposes **\$645,000** in additional staff positions and contract services for the School for the Deaf in Riverside in 2006-07. Most of funding is proposed as ongoing. No new funding is proposed for either the School for the Deaf or School for the Blind in Fremont. The DOF May 1st Letter also proposes funding adjustments for two capital outlay projects at the School for the Deaf in Riverside.

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 - Instruction: The Governor's budget contains the following augmentations for staff and services at the School for the Deaf in Riverside:

- **\$117,000** in one-time General Funds (Non-98) for a contract for a Data Resource Specialist to help transition the school to a new student data collection system.
- **\$47,000** in General Funds (Prop 98) for a 0.5 visual and performing arts teacher position to supplement another partial, existing position.
- **\$117,000** in General Funds (Prop 98) for a 0.9 resource specialist position to help the school implement instruction linked to the state's academic and performance standards.
- **\$285,000** in General Funds (Prop 98) for a 2.8 Early Childhood Education teachers to extend funding to additional students enrolling in the early childhood education program.
- **\$79,000** in General Fund (Non-98) for a 0.8 position to support the additional costs of maintenance and janitorial services for a new Pupil Personnel Services facility scheduled to be completed in July 2006.

Governor's Budget – Capital Outlay. The April DOF Letters propose the following adjustments to two capital outlay projects at the School for the Deaf in Riverside:

- **Building New Gymnasium and Pool Center.** DOF requests that the amount in item 6110-301-0660 be decreased by **\$773,000** to reflect a revision to the request for a gymnasium and pool center. The adjustment reflects the cost to build a new gymnasium and pool center rather than renovate the current facility. The proposed reduction would leave **\$24,963,000** for the project.

- **Kitchen and Dining Hall Seismic Renovations.** DOF requests that the amount in item 6110-301-0660 be increased by **\$4,428,000** to provide for extensive seismic modifications not anticipated for a renovation project for the kitchen and dining hall. The proposed increase would mean a total appropriation level of **\$8,834,000** for the project.

COMMENTS/RECOMMENDATION: *Staff notes* that all of the support augmentations and capital outlay adjustments proposed by the Governor are for one state school – the School for the Deaf in Riverside. *Staff recommends* delaying approval of these proposals until after May Revise.

OUTCOME:

ISSUE 8: 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 but that have not yet been heard by the Subcommittee. Other state operations proposals were discussed by the Subcommittee at earlier hearings or in other items in this agenda.

BACKGROUND: The Governor proposes the following staffing and expense adjustments for the Department of Education that have not yet been heard by the Subcommittee:

Accountability – Phase Out of II/USP. Eliminates **12.8 positions** and **\$1.6 million** in General Funds to reflect the phase-out of the Immediate Intervention in Underperforming School Program (II/USP) in 2006-07. CDE believes that these positions should be retained in order to maintain ongoing, state level accountability functions for schools. The Administration may modify this proposal at May Revise.

Child Nutrition - Information and Payment System. Provides **\$3.2 million** in federal funds and **7.4 limited-term positions** to begin implementation of the new Child Nutrition Information Payment System (CNIPS) in 2006-07. DOF approved the feasibility study report for CNIPS in March 2005.

Child Nutrition - Standards for Non-School-Meal Food. Provides **\$100,000** in General Funds for a **0.9 position** to coordinate the nutrition standards activities to implement Chapter 235/2005 (SB 12/Escutia). Chapter 235 sets nutrition standards for food sold outside the federal school meal programs during the school day at all elementary through high school campuses, effective July 1, 2007. The Governor also proposes **\$200,000** in reimbursements to be collected from vendors who elect to have their product certified as meeting the Chapter 235 standards.

Career Technical Education - Accountability System. Provide **\$63,000** in federal Carl Perkins funds and **\$107,000** in CalWORKs reimbursement funds to allow CDE to administer an accountability system for career technical education. Funding is provided to convert **1.9 limited-term positions** into **permanent positions** for this purpose.

Career-Technical Education Program – Staffing. Provides **\$193,000** in federal Carl Perkins funds for **1.9 limited-term positions** to implement the Career Technical Education program created by Chapter 352, Statutes of 2005 (SB 70/Scott). These positions would oversee the alignment of career technical education curriculum in K-12 schools and community colleges with industry-based programs; analyze and review curriculum; and prepare required reports. The Governor's budget proposes these positions in both 2005-06 and 2006-07.

Career-Technical Education – California Career Resource Network. Provides **\$159,000** in General Funds and **\$159,000** in federal funds to increase funding for an interagency agreement with the California Career Resource Network.

Special Education - Data Collection. Provides **\$288,000** in federal IDEA funds for **2.8 information technology positions** to meet new federal reporting and accountability requirements under the Individuals with Disabilities Education Act, as reauthorized in December 2004.

School Facilities Planning. Provides **\$167,000** to convert **1.9 limited-term positions** in the School Facilities Planning Division to **permanent positions**. These positions are funded with State School Facility Fund revenues. CDE believes these positions are needed to provide school districts with timely review and approval of school construction and modernization plans and the approval of sites on an ongoing basis.

Business Official Training. Provides **\$78,000** in General Funds for a **0.9 position** to administer the new Chief Business Official Training Program created by Chapter 356, Statutes of 2005 (SB 352/Scott). The position will work to develop criteria for the approval of state-approved training providers, developing an application process and reviewing applications. The Governor provides \$1 million for the second year of local assistance funding for the program in 2006-07. The Subcommittee heard this issue at an earlier hearing.

Child Care - Alternative Payment Monitoring Unit. Upgrades a 0.5 office assistant position to a **1.0 office technician** position to help CDE maintain a database in the Alternative Payment Monitoring Unit. The Governor proposes this change in both 2005-06 and 2006-07.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay approval of positions until May Revision to coordinate with actions on local assistance proposals and to consider possible revisions to these proposals.

OUTCOME:

ISSUE 9: April Finance Letter – Various State Operations and Local Assistance Items

DESCRIPTION: The DOF April 1, 2006 budget letters propose various changes to state operations and local assistance budget items for the Department of Education.

BACKGROUND: The April DOF Letters proposes the following adjustments to the January 10 budget:

- 1. State Operations - Restore Funds for the Review of California Native American Materials (Issue 646)** It is requested that Schedule (2) of this item be increased by \$50,000 in order to complete the review process of the California Native American Instructional Materials for alignment to the state History and Social Sciences standards. Chapter 870, Statutes of 2001 (SB 41/Alpert), appropriated \$50,000 to the SDE for this review process. Due to the unanticipated length of time that was required for the development of the materials, the SDE was unable to complete the review before the funds reverted. This action will restore those funds and allow the SDE to complete the necessary review of these materials as required by SB 41.
- 2. Local Assistance – Refugee Children School Impact Grant Program (Issues 828 and 829)** It is requested that Schedule (2) of Item 6110-125-0890 be reduced by \$2,050,000 and that reimbursements for Item 6110-125-0001 be increased by \$1,310,000 to reflect a decrease in federal funds and a funding shift for the Refugee Children School Impact Program. Prior to 2005-06, funding for this program was provided directly to the SDE from the federal government. In the current year and subsequent years, federal funding will be provided to the Department of Social Services, which, in turn, entered into an interagency agreement with the SDE to continue program administration. The Refugee Children School Impact Grant Program ensures that refugee children's education needs are met and receive the same educational opportunities as other students.
- 3. Local Assistance, Federal Vocational Education Funding (Issues 577 and 578)** It is requested that this item be increased by \$8,424,000. This includes a reduction of \$1,395,000 to conform federal expenditure authority with available grant funding and an increase of \$9,819,000 to reflect one-time carryover funding to support additional vocational education activities that complement the Governor's Career Technical Education Initiative.

It is further requested that provisional language be added as follows to conform to this action:

4. Of the funds appropriated in this item, \$7,569,000 is one-time carryover available for the support of additional vocational education instructional activities. These funds shall be used during the 2006-07 academic year to support curriculum development and articulation of K-12 tech prep programs with local community college economic development and vocational education programs in an effort to incorporate greater participation of K-12 students in sequenced, industry-driven coursework that leads to meaningful employment in today's high-tech, high-demand, and emerging technology areas of industry employment.

4. Local Assistance, Special Education (Issue 004) It is requested that Provision 3 of Item 6110-161-0890 be deleted as a technical correction since this provision is currently provided in Item 6110-161-0001.

RECOMMENDATION: *Staff recommends* approval of all four of these April Letter items.

ISSUE 10: Fiscal Status of School Districts – Presentation by FCMAT

DESCRIPTION: Presentation by 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 2005-06 – the most recent report available – there are currently five school districts with negative certifications and 32 school districts with qualified certifications. [See Attachment B for a complete list.] The five school districts with negative certifications listed below will not be able to meet their financial obligations for 2005-2006 or 2006-2007.

District	County	Budget
Oakland Unified	Alameda	\$432.1 million
Vallejo City Unified	Solano	\$143.3 million
Parlier Unified	Fresno	\$25.7 million
West Fresno Elementary	Fresno	\$8.1 million
Biggs Unified	Butte	\$6.4 million

There were 14 school districts on the negative certification list and 48 school districts on the qualified certification list Second Interim Report for 2004-05 released last July. Many school districts dropped off both lists. A total of 9 school districts dropped off the negative list and 16 school districts – including the Los Angeles Unified School District – dropped off the qualified list.

Three school districts remain on the negative certification list from last year -- Oakland Unified, West Fresno Elementary and Vallejo Unified. These districts 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 2005-06 is released by CDE later this spring.

Financial Pressures Facing School Districts. In their analysis last year, the LAO identified major financial pressures facing school districts that they essentially reiterate again in their budget analysis in 2006-07. These pressures include:

- (1) Low general purpose reserves;
- (2) Internal borrowing from self-insurance funds;
- (3) Falling state revenues due to declining enrollment; and
- (4) Higher costs for wage increases and health premiums/benefits.

COMMENTS: The LAO will present proposals for addressing escalating retiree health benefits costs to schools districts later in the Subcommittee agenda.

SUGGESTED 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? (This issue is discussed more fully in the next agenda item.)*

ISSUE 11: Categorical Flexibility – Control Section 12.40

DESCRIPTION: Control section 12.40 allows districts to transfer up to 10% of the funding from any one categorical program into another categorical program, as long as the total increase to any one program does not exceed 15% of the base of the receiving program. The Governor April Finance Letter proposes to reduce the number of programs covered by control section. At the same time, the Subcommittee may wish to revisit the inclusion of Economic Impact Aid on the list of covered programs.

BACKGROUND: 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 budget continues this same level of flexibility in 2006-07. or programs in 17 budget items.

Programs Covered by the Control Section. The Governor’s January budget lists 17 programs that are eligible for categorical transfer authority in Control Section 12.40. The April 1 Finance Letter proposes to eliminate 6 programs from the list. These 6 programs include categorical block grants established by AB 825 (Firebaugh). DOF believes that these programs already have adequate flexibility provisions. The programs that are subject to these flexibility provisions are the following are listed along with the level of proposed funding in 2006-07. The list below reflect adjustments proposed by the April DOF letter:

- Economic Impact Aid (\$648 million)
- Home to School Transportation (\$546.9 million)
- Year-Round School Grant Programs (\$93.1 million)
- Child Nutrition Programs (\$89.7 million)
- Gifted and Talented Pupil Program (\$48.9 million)
- Educational Technology – CTAP (\$16.9 million)
- Educational Services for Foster Youth (\$10 million)
- Specialized Secondary Programs (\$5.9 million)
- Agricultural Vocational Education Incentive Program (\$5 million)
- Bilingual Teacher Training (\$2.1 million)
- Teacher Dismissal Apportionments (\$45,000)

CDE Transfer Report:

As a condition of using the flexibility provisions allowed under control section 12.40, districts must report to CDE on the amounts they shift between programs. The most recent data available on these shifts is from 2004-05, when there were a larger number of programs in the control

section. Several of these program are no longer listed in the control section because they were rolled into the block grants as a part of AB 825.

Attachment C summarized the amounts districts statewide transferred in and out of the programs covered by the control section in 2004-05. These amounts show net transfers for districts statewide; the amounts transferred in and out programs differ by district. Overall, the Economic Impact Aid program accounted for most of the funding transferred *out* of programs. Home-to-School transportation was the program that received the greatest amount of transfers *into* programs.

Other Recent Transfer 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.

April Finance Letter:

Control Section 12.40 (Issue 839). A number of items containing appropriations for block grants were erroneously included in Control Section 12.40. Because statute already allows local educational agencies to transfer funds between these items, they should not be included in this control section. In addition, one of the other items in the control section has been renumbered. It is requested that Section (b) of Control Section 12.40 be amended to reflect these technical corrections.

“(b) The education programs that are eligible for the flexibility provided in subdivision (a) included in the following items: Items

6110-111-0001, 6110-119-0001, 6110-122-0001, 6110-124-0001, 6110-128-0001,
~~6110-151-0001~~ 6110-150-0001, 6110-167-0001, 6110-181-0001, 6110-193-0001,
 6110-203-0001, 6110-209-0001, ~~6110-243-0001~~, ~~6110-245-0001~~, ~~6110-246-0001~~,
~~6110-247-0001~~, ~~6110-248-0001~~, and 6110-224-0001 of this act.”

COMMENTS: While school districts appear to support the transfer flexibility provided by Control Section 12.40, it is questionable whether such large transfers out of the Economic Impact Aid program are appropriate. Economic Impact Aid is the state’s largest compensatory education program for poor students and students who are English learners. The Subcommittee may wish to explore removing Economic Impact Aid from Control Section 12.40.

SUGGESTED QUESTIONS:

1. *When the Legislature appropriates a certain funding level for English learners and poor students through EIA, does it intend for a portion of those funds to be used for transportation?*
2. *As the largest categorical program in the control section, if Economic Impact Aid were removed from the list, that would place demands on the balances of other programs.*
3. *Special education has been excluded from the Control Section 12.40 to protect that program, should Economic Impact Aid should be treated similarly?*
4. *If the Legislature wishes to provide funding flexibility, isn't it more appropriate to provide that flexibility through the new categorical block grants, and not through a control section that includes unrelated programs?*

OUTCOME:

ISSUE 12: Health Benefits Costs to Districts – LAO Proposal

DESCRIPTION: The LAO raises concerns about significant *and growing* retiree health benefit liabilities that are creating significant fiscal pressures for some school districts in the state. The LAO will present findings from a state survey of district liabilities and recommendations for addressing these liabilities.

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 new Government Accounting Standards Board (GASB) policies require school districts to account and report its long-term retirement liabilities in their annual financial statements beginning in 2006-07. These new requirements have brought new attention and concern to the issue of large and growing district health insurance retirement liabilities.

New GASB Policies: The new GASB policies that go into effect in 2006-07 require districts to identify their outstanding liabilities for retiree health benefits. Since many districts haven't been setting funds aside to cover these health benefits -- before employees retire -- some districts have large unfunded liabilities.

Previously, GASB policies did not encourage districts to budget for retiree health benefits the same way they budget pensions costs. This year a new GASB policy will require districts to identify the normal cost of retiree health benefits for current employees, as it does for pension costs. The normal cost is the amount that should be deposited in the benefit fund during an employee's working life to fully cover the cost of the benefits when an employee retires.

LAO Findings: Survey of School Districts:

In a recent survey, sixty-percent of districts statewide reported that they provide some form of health benefits for retirees. The table below is from the LAO Analysis and summarizes information from a recent survey on districts' unfunded liabilities related to retiree health benefits.

Figure 1					
Estimated K-12 Retiree Health Benefits					
Unfunded Liabilities					
<i>(Dollars Per Student Enrollment)</i>					
Benefit	Number of Districts	Per-Pupil Liabilities^a			
		High	Average	Low	
Lifetime	76	\$13,624	\$4,075	\$84	
Over age 65, not lifetime	116	5,144	1,706	61	
Up to age 65	431	5,061	2,668	5	

a These estimates are based on a subset of districts that provide the given benefit.

LAO Findings: The LAO believes that these unfunded liabilities (summarized above) pose a major financial threat to the fiscal health of school districts in future years, particularly if districts chose to continue paying on a pay-as-you-go basis and wait until employees retire to before beginning payment for benefits. Under LAUSD's estimate of its unfunded liability, the LAO predicts that its cost for retiree health benefits on a pay-as-you-go basis will more than double in ten years, increasing from \$275 per student to \$575 per student. By the year 2020, costs are estimated to climb to \$755 per student.

According to the LAO, even if districts change from a pay-as-you go basis, and begin paying down their existing liabilities, the costs may be high. For example, the average district that provides lifetime benefits currently faces liabilities of about \$4,000 per student. To fund this amount over 30 years, a district would have to set aside roughly \$400 per student each year, or 8% of general purpose funds from state funds and local property taxes.

LAO Recommendations: 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.

Given declining revenues from declining enrollment, the LAO believes it is not likely that districts will have the funds to address their serious retiree health liabilities in the short term. For this reason, the LAO proposes the following recommendations:

- **Address Retiree Health Benefit Liabilities.** Data on retiree health benefits suggest that a significant number of school districts and county offices have accumulated significant unfunded liabilities for future costs of retiree health benefits.

- **Require Districts to Address Liabilities.** Recommend enactment of legislation to require county offices of education and school districts to develop a plan for addressing long-term liabilities for retiree health benefits.
- **Negotiate a Plan to Use Federal Funds for Retiree Costs.** Recommend the Legislature enact trailer bill language to allow districts to use state categorical program funds as part of a comprehensive plan for addressing retiree health liabilities. Also recommend the Legislature direct CDE to work with the federal government to develop a template that would guide district development of comprehensive plans for addressing unfunded retiree health benefits.
- **Create a Fiscal Solvency Block Grant.** Recommend the Legislature redirect **\$395.5 million** in Proposition 98 funds to a block grant that would provide districts and county offices with a source of funding to address the fiscal challenges they currently face.

Related Legislation:

SB 1457 (Simitian) – Requires the state to develop standards and criteria for actuarial studies of district retirement benefits in accordance with the new GASB standards. Requires school districts provide studies to the county office of education and counties to examine these studies in determining whether to adopt the school district budget. Requires school districts to develop a long –term plan for funding current and future retiree benefits.

SB 1514 (Maldonado) – Requires school districts to provide information to their governing boards regarding the estimated cost of retiree benefits and to annually certify to the county office of education what reserves are set-aside to cover these benefits.

AB 2793 (Arambula) – Requires that state standards and criteria for determining fiscal health be amended to include the ability of districts to cover the normal cost of their retirements benefits during the current and subsequent two fiscal years. Requires that the fiscal status of each school districts as positive, negative or qualified consider the ability of districts to cover these normal costs during this period.

OUTCOME:

ISSUE 13: UC, CSU and CCC – May 1 Finance Letters (Consent)

Staff recommends that the subcommittee approve all of the issues for the University of California, California State University and the California Community Colleges as contained in the following May 1 Finance Letters.

Amendment to and Addition of Various Budget Bill Items as Follows:

University of California	6440-301-6048
	6440-302-6048
	6440-491
California State University	6610-301-6028
	6610-491

1. University of California

Add Item 6440-491 to reappropriate funds, for the following project phases from Items 6440-301-6041, 6440-302-0574, 6440-302-6028, and 6440-302-6041, Budget Act of 2005.

1. Riverside Campus, Environmental Health and Safety Expansion—Preliminary Plans and Working Drawings.
2. Santa Cruz Campus, Digital Arts Facility—Working Drawings.
3. Los Angeles Campus, Life Sciences Replacement Building—Construction.
4. Riverside Campus, Materials and Science Engineering—Construction.

Reappropriation is necessary on the preceding four projects because of delays attributed to project redesigns to keep the project within the approved budget.

Amend Item 6440-301-6048 to reflect the shifting of two projects from the capital outlay “streamline” process (i.e., all project funding phases appropriated in one fiscal year, but no scope changes or augmentations) to the conventional capital outlay process. (See corresponding reduction below in Item 6610-302-6048.)

1. Increase funding (\$17,925,000) for the Davis Campus: King Hall Renovation and Expansion—Preliminary Plans, Working Drawings, and Construction.
2. Increase funding (\$2,571,000) for the Irvine Campus: Primary Electrical Improvements, Step 3—Preliminary Plans, Working Drawings, and Construction.

Amend Item 6440-302-6048 to reflect the shifting of two projects from the capital outlay “streamline” process to the conventional capital outlay process. (See corresponding shift above in Item 6610-301-6048.)

1. Decrease funding (\$17,925,000) for the Davis Campus: King Hall Renovation and Expansion—Preliminary Plans, Working Drawings, and Construction.
2. Decrease funding (\$2,571,000) for the Irvine Campus: Primary Electrical Improvements, Step 3—Preliminary Plans, Working Drawings, and Construction.

2. California State University

Add Item 6610-491 to reappropriate funds for the following project phases in Item 6610-302-6041, Budget Act of 2004.

1. Bakersfield Campus, Math and Computer Science Building—Construction.
2. Fullerton Campus, College of Business and Economics—Construction.
3. Maritime Academy, Simulation Center—Construction.
4. Northridge Campus, Science 1 Replacement—Construction.
5. Pomona Campus, Science Renovation—Construction.
6. San Luis Obispo, Engineering/Architecture Renovation and Replacement, Phase II—Construction.

For the preceding six projects, a reappropriation is necessary because of delays in completing construction documents to bring the projects in line with the approved budget.

Add Item 6610-491 to reappropriate funds for the following project phases in Item 6610-301-6041, Budget Act of 2005.

7. Dominguez Hills Campus, Educational Resource Center Addition—Construction.
8. Long Beach Campus, Seismic Upgrade, Liberal Arts 2, 3 and 4—Construction.

For the preceding two projects, a reappropriation is necessary because of delays in completing construction documents to bring the projects in line with the approved budget.

9. Long Beach Campus, Peterson Hall 3 Replacement Building—Working Drawings.

The project has been delayed in the approval of preliminary plans by the State Public Works Board, pending the project cost increase included in the proposed 2006-07 Governor’s Budget. Additional time is needed to complete working drawings due to this delay.

Add Item 6610-491 to reappropriate funds for the following project phase in Item 6610-302-6041, Budget Act of 2005.

10. Sonoma Campus, Music/Faculty Office Building—Construction.

A reappropriation is necessary because of delays in completing construction documents to bring the project in line with the approved budget.

Add Item 6610-491 to reappropriate funds for the following project phase in Item 6610-301-6028, Budget Act of 2003.

11. Maritime Academy, Land Acquisition—Acquisition.

A reappropriation is necessary due to delays in acquiring three parcels of property for the Maritime Academy's proposed new physical education building.

3. California Community Colleges.

Capital Outlay, Add Item 6870-491 to reappropriate funds, for the following project phases from Item 6870-301-6028, Budget Act of 2003, as reappropriated by Item 6870-490, Budget Act of 2004 and Budget Act of 2005.

1. Los Angeles Community College District (CCD), East Los Angeles College, Fine and Performing Arts Center—Construction and Equipment. This project has been delayed because of discussions with city planners and fire marshals regarding easements and adequate fire protection and access.

In addition, the following reappropriations are requested because of delays attributed to project redesigns to keep the projects within the approved budget, unexpected site conditions, and delays resulting from plan review and approval. Therefore, add Item 6870-491 to reappropriate funds, for the following project phases from items:

A. 6870-301-6028, Budget Act of 2003:

5. Mt. San Antonio CCD, Mt. San Antonio College, Remodel Classroom Buildings—Equipment.

B. 6870-301-6041, Budget Act of 2004:

1. Mt. San Antonio CCD, Mt. San Antonio College, Agriculture Sciences Project—Construction and Equipment.

C. 6870-301-6041, Budget Act of 2004, as reappropriated by Item 6870-490, Budget Act of 2005:

1. Chaffey CCD, Chaffey College, Health and Physical Science Building Renovation—Working Drawings.
2. Los Angeles CCD, Los Angeles Pierce College, Child Development Center—Construction and Equipment.
3. Palo Verde CCD, Palo Verde College, Physical Education Complex—Construction and Equipment.
4. Rancho Santiago CCD, Santiago Canyon College, Science Building—Construction.
5. Santa Barbara CCD, Santa Barbara City College, High Technology Center—Working Drawings.
6. Copper Mountain CCD, Copper Mountain College, Multi-Use Sports Complex—Construction and Equipment.

D. 6870-301-6041, Budget Act of 2005:

1. Citrus CCD, Citrus College, Vocational Technology Building—Working Drawings.
2. Desert CCD, College of the Desert, Water and Sewer Infrastructure Replacement—Working Drawings.
3. Contra Costa CCD, Los Medanos College, Core Building Remodel—Working Drawings.
4. El Camino CCD, El Camino College, Learning Resource Center Addition—Construction and Equipment.
5. Hartnell CCD, Hartnell East Campus, Center for Assessment and Lifelong Learning—Construction and Equipment.
6. Long Beach CCD, Long Beach City College, Pacific Coast Campus, Library and Learning Resource Center—Construction and Equipment.
7. Long Beach CCD, Long Beach City College, Liberal Arts Campus, Library and Learning Resource Center Renovation and Addition—Construction and Equipment.
8. Los Angeles CCD, Los Angeles Harbor College, Adaptive Physical Education and Physical Education Building Renovation—Construction and Equipment.

9. Los Angeles CCD, Los Angeles Harbor College, Child Development Center—Working Drawings, Construction, and Equipment. Additionally, the district requests a scope change to reduce the original square footage of the 13,587 assignable square feet (asf) building to 9,999 asf as a value engineering effort to keep the project within the state appropriation. This project was appropriated with provisional language that restricted the district from requesting augmentations or scope changes. However, due to cost increases in the construction market, the original scope is no longer feasible. The reduction combines a few smaller classroom areas into one large classroom with folding walls to allow for visual and sound separation which helps keep the program delivery intact. The new scope provides for 1,617 asf laboratory, 1,326 asf office, and 7,056 asf of other (demonstration, storage) child development space.
10. Palo Verde CCD, Palo Verde City College, Fine and Performing Arts—Working Drawings.
11. Rio Hondo CCD, Rio Hondo College, Applied Technology Building Reconstruction—Working Drawings.
12. Rio Hondo CCD, Rio Hondo College, Learning Resource and High Technology Center—Construction and Equipment.
13. San Francisco CCD, John Adams Campus, John Adams Modernization—Construction.
14. San Luis Obispo County CCD, North County Center, Technology and Trades Complex—Construction and Equipment.
15. San Mateo County CCD, Skyline College, Allied Health Vocational Training Center—Working Drawings.
16. Santa Barbara CCD, Santa Barbara City College, Drama and Music Building Modernization—Working Drawings.
17. Sonoma County CCD, Santa Rosa Junior College, Plover Library Conversion—Construction.
18. Victor Valley CCD, Victor Valley College, Seismic Replacement-Auxiliary Gym—Construction and Equipment.

Amend Item 6870-301-6048 to reflect a delay caused by a revised campus-wide environmental impact report that is still under review by the California Coastal Commission (Commission). The project cannot resume until the report is cleared by the Commission and therefore, the phases below cannot be utilized as proposed in the 2006-07 Budget and the current phase, working drawings, will need to be reappropriated (see corresponding reappropriation of working drawings in Item 6870-491 to reappropriate funds from Item 6870-301-6041, Budget Act of 2004).

3. Decrease funding (\$28,188,000) for the Santa Barbara CCD, Santa Barbara City College: High Technology Center—Construction and Equipment.

Amend Item 6870-497 to revert funds for the following project phases from Item 6870-301-6028, Budget Act of 2003, as reappropriated by Item 6870-490, Budget Act of 2004 and Budget Act of 2005:

1. Compton CCD, Compton College, Performing Arts and Recreation Complex—Working Drawings. A reversion is necessary due to a dispute between the college and the Accrediting Commission for Community and Junior Colleges (ACCJC) where Compton is appealing the ACCJC's decision to terminate accreditation before ACCJC's parent organization, the Western Association of Schools and Colleges. Further work is postponed until the college's accreditation issues are resolved.
2. Shasta-Tehama-Trinity CCD, Shasta College, Library Addition—Construction and Equipment. A reversion is necessary due to project increases beyond the approved budget. The project has been to bid twice and both have been unsuccessful. The district will seek a new appropriation in the 2007-08 Budget.

Amend Item 6870-497 to revert funds for the following project phases from Item 6870-301-6041, Budget Act of 2004, as reappropriated by Item 6870-490, Budget Act of 2005:

1. Compton CCD, Compton College, Performing Arts and Recreation Complex—Construction and Equipment. A reversion is necessary due to a dispute between the college and ACCJC as discussed above.

ISSUE 14: Public Comment:

DESCRIPTION: The Subcommittee approved **\$3.2 billion** in one-time Proposition 98 funding for K-14 education at the March 27, 2006 hearing. This included **\$500 million** in funding for the 2005-06 year and **\$270 million** over a ten year period. The Subcommittee agreed to revisit discussion about the uses of these one-time funds at a future hearing. At today's hearing, the Subcommittee is inviting public comment on the uses of the \$3.2 billion in one-time Proposition 98 funds.

ATTACHMENT A.

Suggestions for Improving Data:	McGeorge School of Law	Office of Administrative Hearings
a. which side is winning entire cases more often	✓	✓
b. which side is winning most issues in the split decisions	✓	
c. how often are schools and parents represented by lawyers	✓	✓
d. how many pre-hearing motions were filed by each side	✓	
e. which side is winning most of the pre-hearing motions filed	✓	
f. how many parent requests for due process were dismissed for insufficiency		
g. how often are students of color accessing this system		
h. how often are non-English speaking individuals using this system		
i. how long do the hearings take	✓	✓
j. how much of each hearing, on average, is consumed by the parent's presentation of her case		
k. how much of each hearing, on average, is consumed by the district's presentation of its case		
l. how many of the hearing requests are from parents	✓	✓
m. how many of the hearing requests are from school districts	✓	✓
n. how many witnesses are school districts calling on average		
o. how many witnesses are parents calling on average		
p. from which districts did parent requests for due process come	✓	✓
q. what issues, within special education, generated due process hearing requests during the quarter	✓	
r. what disabilities generated due process hearing requests during the quarter	✓	
s. what age groups (preschool, primary, JH, HS) generated hearing requests during the quarter	✓	✓
t. how many hearing decisions were appealed to court during the quarter	✓	
u. how many cases were totally resolved in mediation by agreement	✓	✓

ATTACHMENT B.
First Interim Status Report, 2005-06

Taken from: <http://www.cde.ca.gov/fg/fi/ir/first0506.asp>
 Last modified: Tuesday, March 14, 2006

[Display version](#)

First Interim Status, Fiscal Year 2005-06

CALIFORNIA DEPARTMENT OF EDUCATION

List of Negative and Qualified Certifications School Districts and County Offices of Education 2005-06 First Interim Report

Negative Certification

A negative certification is assigned to a school district or county office of education when it is determined that, based upon current projections, the school district or county office of education will not meet its financial obligations for fiscal year 2005-06 or 2006-07.

County	District	Total Budget (\$)
Alameda	Oakland Unified	432.1 million
Butte	Biggs Unified	6.4 million
Fresno	Parlier Unified	25.7 million
Fresno	West Fresno Elementary	8.1 million
Solano	Vallejo City Unified	143.3 million

Qualified Certification

A qualified certification is assigned to a school district or county office of education when it is determined that, based upon current projections, the school district or county office of education may not meet its financial obligations for fiscal year 2005-06, 2006-07, or 2007-08.

County	District	Total Budget (\$)
Amador	Amador County Office	8.0 million
Amador	Amador County Unified	31.5 million
Butte	Paradise Unified	37.4 million
El Dorado	Gold Oak Union Elementary	5.3 million
Kings	Delta View Joint Union Elementary	0.7 million
Lassen	Johnstonville Elementary	1.7 million
Lassen	Shaffer Union Elementary	2.4 million
Lassen	Westwood Unified	4.7 million
Los Angeles	Eastside Union	22.3 million
Los Angeles	Las Virgenes Unified	87.4 million
Los Angeles	Lowell Joint Elementary	23.3 million
Los Angeles	Palmdale Elementary	163.7 million

Los Angeles	South Pasadena Unified	29.5 million
Mendocino	Anderson Valley Unified	6.5 million
Mendocino	Willits Unified	16.5 million
Monterey	Salinas City Elementary	62.9 million
Monterey	Spreckels Union	6.0 million
Placer	Placer Hills Union Elementary	8.9 million
Sacramento	San Juan Unified	358.0 million
San Benito	Aromas San Juan Unified	9.7 million
San Benito	Hollister Elementary	42.9 million
San Mateo	San Mateo Union High	88.5 million
Shasta	Junction Elementary	3.1 million
Siskiyou	Dunsmuir Joint Union High	1.6 million
Siskiyou	Willow Creek Elementary	0.5 million
Solano	Benicia Unified	34.9 million
Sonoma	Healdsburg Unified	18.5 million
Sonoma	Monte Rio Elementary	1.2 million
Sonoma	Montgomery Elementary	0.6 million
Sonoma	Sonoma Valley Unified	35.6 million
Tehama	Corning Union Elementary	14.4 million
Ventura	Fillmore Unified	27.6 million

<http://www.cde.ca.gov/fg/fi/ir/first0506.asp>

ATTACHMENT C.
Statewide Categorical Mega Item Transfers
(Budget Control Section 12.40)
2003-2004

2003-2004 Statewide Categorical Mega Item Transfers		Object Code 8998 Transfer	
Budget Act Item	Resource Code and Program Title	Transfer In	Transfer Out
6110-127, 209, 224	0000 – Unrestricted	5,843,720	(831,214)
6110-203	5310 - Child Nutrition: School Programs (e.g., School Lunch, School Breakfast, Milk)	31,269	(46,663)
6110-487	6200 - Class Size Reduction Facilities Funding		(51,182)
6110-200	6240 - Healthy Start: Planning Grants and Operational Grants		(196,636)
6110-101	6263 - Paraprofessional Teacher Training (CTC)		(76,847)
6110-134	6265 - Teachers As a Priority (TAP) Block Grant		(131,774)
	6285 - Community-Based Tutoring Grants		(100,471)
	6286 - English Language Acquisition Program, Teacher Training & Student Assistance		(34,000)
6110-125	6292 - Classroom Library Materials, Grades K-4		(36,118)
6110-150	6295 - (Obsolete) Library Funding		(5,908)
	6296 - Calif. Public School Library Act of 1998		(298,203)
6110-149	6340 - Parent/Teacher Involvement: Nell Soto Program		(13,127)
	6341 - Parent/Teacher Involvement: Teresa Hughes Family/School Partnerships		(79)
6110-228	6405 - School Safety & Violence Prevention, Grades 8-12		(35,000)
6110-102	6670 - Tobacco-Use Prevention Education: High School Competitive Grants		(2,765)
6110-167	7010 - Agricultural Vocational Incentive Grants		(54,820)
6110-132	7045 - Targeted Instructional Improvement Grants Program (TIIG)	7,865,728	(3,461,418)
6110-120	7060 - Dropout Prevention: Educational Clinics	18,017	(11,766)
6110-120	7065 - Dropout Prevention: Implementation Model		(494)
6110-120	7070 - Dropout Prevention: Alternative Work Centers	15,877	(9,600)
6110-120	7075 - Dropout Prevention: Motivation/Maintenance	52,668	(102,472)
6110-128	7090 - Economic Impact Aid (EIA)	147,037	(7,089,562)
6110-128	7091 - Economic Impact Aid: Limited English Proficiency (LEP)	22,612	(12,572,737)

Budget Act Item	Resource Code and Program Title	Transfer In	Transfer Out
6110-181	7110 - Education Technology: CTAPS, SETS, & Supplemental Grants	732,170	(122,281)
6110-181	7120 - Education Technology: Staff Development	55,589	(7,283)
6110-163	7130 - Early Intervention for School Success (EISS)	607	(560)
6110-124	7140 - Gifted & Talented Education (GATE)	1,852,729	(1,276,401)
6110-111	7186 - Institutional Materials/Staff Buyout One-time, Per-pupil Block Grant (99/00)	20,640,441	(25,905)
6110-111	7230 - Transportation: Home to School	2,531	(133,794)
6110-111	7235 - Transportation: School Bus Replacement	9,040,824	(2,181)
6110-111	7240 - Transportation: Special Education (Severely/Orthopedically Handicapped)		(303,436)
6110-116	7250 - School Based Coordination Program (SBCP)	1,262,049	(19,055,711)
6110-116	7260 - School Improvement Program (SIP)	42,013	(694,188)
6110-193	7271 - California Peer Assistance & Review Program for Teacher (CPARP)	666,125	(794,107)
6110-193	7274 - Advanced Placement Challenge Grant		(3,865)
6110-191	7280 - Staff Development: Beginning Teacher Support & Assessment Study (BTSA)		(26,807)
6110-240	7286 - International Baccalaureate (IB) Program: Staff Development & Startup		(10,000)
6110-144, 6110-485	7325 - Staff Development: Principals' Training (AB 75)		(27,130)
6110-197	7345 - Staff Development: Intersegmental Teacher Education Institutes (CTEI)		(11,671)
6110-119	7365 - Supplementary Programs: Foster Youth		(183,388)
6110-119	7366 - Supplementary Programs: Foster Youth in Licensed Care Facilities		(4,403)
6110-108	7375 - Tenth Grade Counseling	98,816	(542,289)
	7810 - Other State		(2,567)
	Grand Total (variance due to rounding)	48,390,820	(48,390,820)
	5-25-05 California Department of Education		

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, May 8, 2006
1:30 pm
Room 113, State Capitol
OUTCOMES

<u>Item</u>	<u>Department</u>	<u>Page</u>
0558/0650	Office of the Secretary of Education	
Issue 1	Budget Adjustments and April Finance Letter.....	1
6360	Commission on Teacher Credentialing	
Issue 2	Budget Update and Adjustments	2
6110	Department of Education	
Issue 3	Local Assistance – Teacher Data System.....	7
Issue 4	Local Assistance – High Priority Schools Grant Program	8
Issue 5	Local Assistance – Community Day Schools	11
Issue 6	State Operations – Special Education Due Process Contract Deficiency	13
Issue 7	State Operations and Capital Outlay – State Special Schools	16
Issue 8	State Operations – Various Positions	18
Issue 9	April Finance Letters – Various State Operations and Local Assistance.....	20
Issue 10	Fiscal Status of School Districts – Presentation by FCMAT	22
Issue 11	Categorical Flexibility – Budget Control Section 12.40	24
Issue 12	Health Benefits Costs – LAO Proposal	27
6440/6610/6870		
Issue 13	May 1 st Finance Letters – Various UC, CSU and CCC Items (Consent).....	30
6110/6870	Proposition 98 Update: LAO Presentation	
Issue 14	Public Comment: Uses of One-Time Prop 98 Funding Approved by Subcommittee on March 27 th	36

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.

ITEMS 0558/0650-001-0001 OFFICE OF THE SECRETARY FOR EDUCATION**ISSUE 1: Various Adjustments -- New Positions and Changes in Funding Sources**

DESCRIPTION: The Governor's Budget proposes an increase of two staff positions for the Office of the Secretary for Education in 2006-07. As currently proposed, these positions will be funded through federal funds and reimbursements and will not require a General Fund increase.

BACKGROUND: The Governor's budget proposes to add two, ongoing staff positions within the Office of the Secretary for Education:

Staff Representative to Proposition 49 Task Force. The Governor's January budget proposes **\$95,000** in General Funds for one staff position to represent the Secretary for Education at the Proposition 49 Task Force. In a Department of Finance (DOF) April Letter (see below), the Administration proposes to replace General Funds for this position with reimbursements from the Department of Education (CDE). The Proposition 49 Task Force was convened by the Governor's Office, the Secretary for Education, CDE and the Department of Finance to ensure that the Proposition 49 funds are distributed in a timely and effective manner through the development of a statewide master plan. This position would participate in task force meetings; coordinate regional summits of after school providers and stakeholders; conduct field outreach; and assist in policy analysis and development.

Staff to Address Federal Accountability Requirements. The Governor proposes **\$100,000** in federal funds for one staff position to address the growing workload associated with the accountability requirements of the No Child Left Behind Act (NCLB). The position will also address a request by the Governor for the Secretary for Education and the State Board of Education to work with the Superintendent of Public Instruction (SPI) and the U.S. Department of Education to bring the federal and state accountability systems into alignment, in order to target assistance to the most struggling schools.

April Finance Letter – Technical Adjustment:

- 1. Reimbursement, Proposition 49 Staff.** It is requested that Items 0558-001-0001 and 0650-011-0001 be decreased by \$48,000 and \$47,000, respectively, and reimbursement be increased by \$48,000 and \$47,000, respectively, to expend funds received from the Department of Education to provide staff support for the Proposition 49 After School Advisory Committee.

LAO Recommendation:

RECOMMENDATIONS: Staff recommends approve as budgeted with changes proposed by the April Finance Letter.

OUTCOME: Subcommittee approved staff recommendation. (Vote 3-0)

ITEM 6360 COMMISSION ON TEACHER CREDENTIALING

ISSUE 2. Budget Update & Adjustments

DESCRIPTION: The Governor’s January budget for the Commission on Teacher Credentialing (CTC) estimates healthy fund balances for the two major special funds that support the CTC – the Test Development Administration Account and the Teacher Credentials Fund in 2006-07. As a result, the Governor’s Budget eliminates the **\$2.7 million** in one-time General Fund support provided in 2005-06. The Governor’s Budget proposes to redirect four existing positions within CTC to reduce credentialing workload. CTC will provide an update on (1) efficiency studies required by the 2005-06 budget and (2) the status of processing efficiencies.

BACKGROUND:

The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

Summary of Credential Workload and Staffing Changes: The CTC currently receives more than **240,159 applications** for credentials, emergency permits and credential waivers. As indicated below, the number of applications has been uneven in recent years. Over the last five years there was growth in the credential applications, followed by a drop in applications for the two prior years. In 2005-06, CTC is experiencing an increase of 3 percent in the application volume from FY 2004-05. Although staffing has been reduced consistently over the last five years through the budget resulting in an overall loss of 17.8 positions (22 percent) as a result of anticipated efficiencies from the Teacher Credentialing Service Improvement Project. It is important to keep in mind that this project was intended to replace an antiquated credentialing system not to replace staff.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Credential Applications Received^a	215,954	239,501	250,701	235,327	233,164	240,159	240,159
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,000
Total	223,819	247,419	255,845	238,154	235,566	242,159	242,159
Total Certification Assignment and Waivers Division Staff	82.1	83.2	77.4	71.2	60.6	65.2	72.2
Credential Fees	\$55	\$55	\$55	\$55	\$55	\$55	\$55

^a Includes emergency permits.

Governor's Budget: The Governor's Budget proposes **\$51.2 million** for the total CTC's budget in 2006-07, providing an overall increase of **\$600,000**. Of this amount, the Governor proposes to continue **\$31.8 million** from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC – the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring Program.

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
General Fund	\$2,700	\$0	-2,700	-100.0
General Fund, Proposition 98	\$31,814	\$31,814	0	0.0
Teacher Credentials Fund	12,253	14,754	2,501	20.4
Test Development & Adm. Account	3,751	4,627	876	23.4
Federal Trust Fund	0	0	0	0.0
Reimbursements	76	0	-76	-100.0
Total	\$50,594	\$51,195	\$601	1.2

The Governor proposes **\$19.4 million** from the two special funds that support the CTC's state operations, providing an increase of **\$3.4 million**. Specifically, the Governor proposes funding of **\$14.8 million** from the Teacher Credentials Fund and **\$4.6 million** from the Test Development and Administration Account in 2006-07.

Status of Credential and Exam Fees:

- The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. The credential fee is \$55, which is set in the annual budget, although other statute authorizes a credential fee of up to \$75. In 1998-99, the credential fee was reduced from \$70 to \$60 due to increases in the number of applications. At this time there was increased demand for teachers due to new class size reduction programs. In 2000-01, the fee was dropped to \$55 and has remained at this level since then. The \$15 loss in fees since 1998-99 equates to an annual loss of approximately \$3.3 million.
- The Test Development 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). The commission recently raised fees by \$6 for all exams except the CBEST. Prior to this, fees had not been increased since 2001-02.

Special Fund Balances: In 2005-06, the Governor proposed a General Fund backfill of \$2.7 million to address shortfalls in both the Teacher Credentials Fund and Test Development Administration Account. Both accounts are showing positive balances in 2006-07 as a result of the reduction in expenditure authority for each of these funds and the increase of the General Fund Authority. The overall funding for state operations did not change, just the fund in which the expense is being reflected. Specifically, the CTC projects ending balances of \$3.3 million in 2005-06 and \$1.8 million in 2006-07 for the Teacher Credentials Fund, assuming expenditure

levels proposed by the Governor. For the Test Development Administration Account, fund balances are estimated at \$2.8 million in 2005-06 and \$1.9 million in 2006-07.

Budget Year Adjustments:

- **Eliminate General Fund Backfill and Restore Special Fund Expenditure Authority.** The Governor's Budget eliminates the **\$2.7 million** General Fund appropriation provided in 2005-06 to address an anticipated shortfall in special funds to support the CTC's state operations budget. The Administration provided these funds on a one-time basis. To offset this General Fund reduction, the Governor proposes to increase expenditures from the Teacher Credentials Fund and the Test Development Administration Account by \$2.7 million to reflect an increase in available fund balances.
- **Increase Special Fund Authority to Reflect the Proposed Increase in Central Services Costs.** The Governor proposes to increase the expenditure authority of the Teacher Credentials Fund and the Test Development Administration Account by **\$677,000** to reflect an increase in centralized services costs assessed to special fund agencies. These assessments cover support services provided by other state agencies.
- **Redirect Positions to Reduce Credential Processing Time.** The Governor proposes to convert four high level positions in the Professional Services Division into **seven technical positions** in the Certification, Assignment and Waivers Division to reduce credentialing workload. The Governor also proposes that CTC submit quarterly reports to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the status of the credentialing backlog. These reports should include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated. The CTC currently provides a quarterly update to the Legislature, Legislative Analyst's Office, Office of the Secretary of Education, and Department of Finance on the credentialing workload, so this requirement will continue into 2006-07.

Efficiency Studies Required by 2005-06 Budget:

CTC implemented a number of program efficiencies and cost savings that were approved by the Commission last year and enacted as a part of the final 2005-06 budget. In addition, budget bill language in 2005-06 required the CTC to complete reports for two possible, additional efficiencies raised by the Commission last year. The two efficiencies involved an assessment of both: (1) the feasibility of relying on internal counsel rather than Attorney General representation at administrative hearings; and (2) the feasibility of establishing fees for disciplinary review and associated disciplinary action. The CTC transmitted these two feasibility reports to the Legislature on December 1, 2005. Specific cost estimates and conclusions from each of the studies include:

- **Conclusion: The Feasibility of Relying on Internal Counsel Rather Than Attorney General Representation at Administrative Hearings.** The Commission could realize

significant cost savings (\$707,175) if it received authorization from the Office of the Attorney General or a statutory change to allow for in-house legal representation of administrative hearings. Some savings (\$91,000-\$226,700) could be realized if the CTC instituted a plan to shift some of the current Legal Assistant workload back to the CTC, however, the full amount of the savings could be off-set in part by a duplication of workload once a case was sent to the OAG and assigned to a DAG.

- **Conclusion: Feasibility Study for Establishing Fees for Disciplinary Review and Associated Disciplinary Action.** After a review of the complete proposal at the November/December Commission meeting, the Commission determined that this proposal does not appear feasible to implement given the legal challenges it raises as well as the potential financial burden on teachers. The amount of revenue generated by fees and fines ranges from \$2,524,750 to \$4,955,150. However this potential revenue is off-set by anticipated costs of collection and administration and the estimated recovery rate. The net amounts generated would range from \$993,971-\$2,026,891. None of the changes could be accomplished without extensive statutory and regulatory authority; therefore, the earliest possible implementation date would be January, 2007.

The Legislature and Department of Finance are required to consider these feasibility reports when preparing the CTC 2006-07 budget. While both studies identified provide significant potential savings, the general conclusion of both reports was not positive about implementation. The Governor's Budget did not include these efficiencies in the 2006-07 budget proposal.

Delayed Discipline Efficiencies in 2005-06

The Commission has not implemented three of the efficiencies that were enacted as a part of the 2005-06 budget following a letter from the Legislative Leadership in September 2005. Specifically, the Senate Pro Tem and Assembly Speaker sent a letter to the Chair of the Commission stating that budget provisions contained in Chapter 73, Statutes of 2005 (SB 63/Committee on Budget) "may have inadvertently made substantive policy changes to CCTC procedures related [to] the rights of new applicants." Legislative leaders requested the Commission to postpone adoption of these regulations until early 2006 to give the Legislature an opportunity to revisit this issue. The changes in question, as approved by the Commission early last year and enacted in the 2005-06 budget, include:

- **DPP – Option 1. Eliminating Full Administrative Hearing Process for Lower Levels of Discipline (Private Admonitions and Public Approval).**
CTC Comments: 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. (Estimated Savings=\$100,000)
- **DPP – Option 3. Eliminating All Certified Mailing Requirements.**

CTC Comments: 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. (Estimated Savings=\$11,000)

▪ **DPP – Option 6. Streamlining Investigative Processes for First Time Applicants.**

CTC Comments: 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. (Estimated Savings =\$14,804)

Savings associated with these efficiencies are estimated at \$125,804 annually and the budget for CTC was reduced accordingly in 2005-06. However, because these efficiencies were not implemented CTC has had to absorb these reductions in 2005-06. DPP Options 3 and 6 required statutory changes and that were included as part of Chapter 73. DPP Option 1 was going to be implemented through regulations at the November/December 2005 Commission meeting; however the regulations were pulled from the agenda.

LAO Recommendation: The LAO recommends no changes to CTC 2006-07 budget. The LAO recently released a report calling for major structural changes to CTC.

COMMENTS/RECOMMENDATIONS: Staff recommends approve as budgeted, with changes to eliminate three efficiencies adopted in 2005-06 that have never been implemented at the request of Legislative leadership. This action requires restoration of \$125,804 in the 2006-07 budget.

OUTCOME: No action. Issue held open.

ISSUE 3. Local Assistance -- Teacher Data System (Item 6110-001-0890)

DESCRIPTION: The Department of Education will provide an update on development of a new teacher data system, including findings of the recently released feasibility study funded in the 2005-06 budget. The Department will also provide an update on the status of meeting the “highly qualified teacher” requirements of the federal No Child Left Behind (NCLB) act.

BACKGROUND: The 2005-06 budget appropriated **\$350,000** in federal Title II funds to the Department of Education to contract for a Feasibility Study Review (FSR) for a new teacher data system. The 2005-06 budget required CDE to convene a working group including the Department of Finance, LAO and other interested parties in selecting a vendor.

The FSR was completed on March 30, 2006 and submitted to the Department of Finance for approval. The Department of Finance is reviewing the FSR to determine whether it will propose any funding for development of the system in 2006-07. As required by language in the 2005-06 budget, the feasibility is required to:

- (1) inventory the teacher data elements currently collected by state agencies and county offices of education;
- (2) identify existing redundancies and inefficiencies;
- (3) identify the existing teacher data needs of state agencies and county offices of education for meeting state and federal compliance and reporting requirements;
- (4) identify the most cost effective approach for converting the existing data systems into an integrated, comprehensive, longitudinally linked teacher information system that can yield high quality program evaluations; and
- (5) estimate the additional one-time and ongoing costs associated with the new system.

Related Legislation: **SB 1614 (Simitian)** requires the Department of Education, in collaboration with the Commission on Teacher Credentialing, to contract for the development of a teacher data system – the California Longitudinal Teacher Integrated Data Education System (CALTIDES). The purpose of the system would be to evaluate the effectiveness of professional development and teacher preparation programs and improve monitoring of teacher assignments. The data system would utilize existing teacher databases and requires the Commission to establish “non-personally identifiable” teacher identification numbers for all public school teachers.

COMMENTS: The Subcommittee may want to ask CDE the following questions about the feasibility study for the teacher data system released in late March:

- (1) What are the total costs for development of the teacher data system?*
- (2) What are the ongoing costs associated with such a system once developed?*
- (3) What is the timeframe for development of the teacher data system, i.e. what is the earliest the system could be implemented?*

OUTCOME: No action. Awaiting May Revise.

ISSUE 4: High Priority Schools Grant Program (Item 6110-123-0001)

DESCRIPTION: The Governor's budget proposes a total of **\$243 million** in 2006-07 for the High Priority (HP) Schools Grant program. This budget provides **\$201 million** for a second cohort of HP. Annual funding for planning grants and implementation grants for the second cohort, as proposed, cannot exceed this amount in any fiscal year. The Governor proposes to revert **\$60 million** in funding appropriated for a second cohort of HP schools in 2005-06 that has not yet been expended. The Department of Education has developed several options for the Legislature to consider in expending these funds for the second HP cohort and for a pilot program to assist and intervene with alternative schools that are not eligible to participate in the HP program.

BACKGROUND: The High Priority Schools Grant Program provides grants of **\$400** per pupil to low performing schools, with priority for schools in the lowest performing deciles of the Academic Performance Index.

Provisions of the *Williams* settlement agreement, as contained in Chapter 900, Statutes of 2004, declares legislative intent that new schools be added to the HP program when HP and II/USP schools are phased out and that overall funding for the program be maintained at no less than **\$200 million** annually.

Funding for the first HP cohort was appropriated in 2002-03. In the spirit of the *Williams* settlement agreement, the 2005-06 budget appropriated \$60 million in II/USP savings to fund a second cohort of the HP program. Expenditure of these funds was contingent upon passage of legislation to address exit criteria for the program. Such legislation -- **AB 1758 (Umberg)** -- was enacted on April 18, 2006. While an urgency statute, it is unclear whether the \$60 million can be expended for new HP grants in the last two months of the 2005-06 fiscal year. If unexpended, the administration proposes that these funds be reverted.

CDE Recommendations:

The Department of Education has just recently developed a number of options and recommendations for coordinating the **\$60 million** in current year funds for HP and the **\$201 million** in HP funds in 2006-07. These options include:

- Allocation of planning grants in the Current Year (CY) is constrained by the \$201 million in the Budget Year (BY).
- There are sufficient funds to invite all unfunded 2005 API Base ranks 1 and 2 schools (775). This includes CSR schools who agree to become HP. This would leave balances of \$14.8 million (of \$201 million) in the budget year and \$25.8 million (of \$60 million) in the current year.
- Budget Year options for the remaining \$14.8 million are summarized in the following tables.

<u>Budget Year Option</u>	<u>Effect on Current Year</u>
1. Fund 31 of the 101 former II/USP schools in rank 1 that were unable to fully participate in HP	• Additional planning costs of \$1.55 million
2. Fund into rank 3 (30 schools)	• Additional planning costs of \$1.5 million
3. a. Fund 140 alternative schools pilot programs (\$7 million) <u>and</u> b. Provide funding for specific district activities directed at helping HP schools (\$7 million)	• None

Following decisions regarding the Budget Year, then decisions can be made to deal with the current year balance.

- Current Year options for \$25.8 million* remaining.
(*amount impacted by Budget Year decisions above)

<u>Current Year One-time Options</u>	<u>Effect on Budget Year</u>
1. Fund alternative schools program (\$7 - \$10 million)	• Frees up \$7 - \$10 million in Budget Year. Interacts with option 3a above.
2. Fund individualized learning plans for students at risk of not passing CAHSEE (\$5 - \$8 million)	• None
3. Provide support for specific district activities directed at helping HP schools (\$7 - \$10 million)	• Frees up \$7 - \$10 million in Budget Year. Interacts with option 3b above.
4. Provide more planning grants to rank 3 schools	• None

CDE is sponsoring **AB 2254 (Umberg)**, which would implement the Alternative Schools Pilot Program outlined above. The bill may be amended to include other options.

LAO Recommendation: The LAO recommends redirecting any new HP funding to support district-based interventions, not school-based interventions. The LAO cites findings from the II/USP evaluation conducted by AIR that found no significant impact for schools, but noted very

positive or negative effects for districts. The LAO indicates that districts ultimately make decisions about assisting and resourcing their schools.

COMMENTS/RECOMMENDATIONS: Staff recommends that the Subcommittee ask CDE and DOF about the status of the **\$60 million** in funds appropriated for a new HP program in the current year and plans for allocating these funds. Suggested questions include:

- (1) Now that the required legislation has been enacted, is it possible to appropriate some or all of the \$60 million in the current year?*
- (2) What is DOF's position on these funds in the budget? Does DOF plan to revert these funds at the end of the year?*
- (3) What level of HP funding does the Administration intend to provide in 2006-07 and how does this relate to the Williams agreements?*

OUTCOME: No action. Awaiting May Revise. LAO to provide data on HP effectiveness.

ISSUE 5. Local Assistance – Community Day Schools (6110-190-0001)

DESCRIPTION: The Governor’s budget provides **\$49.4 million** for the community day school program. This amount constitutes a \$2.4 million increase over the amount provided in 2005-06 to provide a cost-of-living adjustment. The Department of Education proposes an additional **\$4.3 million** in 2006-07 to cover an estimated shortfall in funding for this program in 2006-07.

BACKGROUND:

The community day school program provides alternative placement options for students that have been expelled or who are high-risk. The program was established pursuant to Chapter 974, Statutes of 1995 (AB 922/Friedman) in conjunction with the passage of other legislation mandating that school districts expel students for certain offenses (e.g., carrying a handgun to school, etc.) The program was created to provide a new option for students mandatorily expelled under the latter legislation. State law specifies that students may be assigned to a community day school only if they are one or more of the following: expelled students, students under probation, students referred to the school by a school attendance review board.

Districts or county offices of education running these program must give first priority to students that are “mandatorily expelled” because they committed an offense requiring expulsion under state law. Second priority is for students expelled under other offenses, and third priority is for all other students that can be served by the program.

In contrast to programs pre-dating the community day schools, which had shorter days and were generally run by county offices of education, community day schools may be run by school districts and are required to provide 6 hours of instruction a day, none of which can be independent study. Programs receive supplemental funds intended to address the additional costs of serving this population.

Enrollment and Funding:

Community Day Schools (CDS) are funded both through revenue limits (general purpose funding) for students and CDS supplemental program funding. State law specifies that districts running community day schools receive an additional \$4,000 per ADA in supplemental funding beginning in the 1999-2000 fiscal year, adjusted every year for inflation. County offices of education running community day schools receive an additional \$3,000 per ADA in supplemental funding, adjusted for inflation since 1999-2000. Programs can also receive an additional \$4 per student per hour (up to two hours a day) of programs provided beyond the 6 hours a day. While supplemental CDS funding is adjusted annually for COLA, it is not adjusted for growth.

Student enrollment, as measured by ADA, has grown significantly since the new program began in 1996-97. Student enrollment grew from 862 students to 11,414 students in 2004-05. According to CDE, there are approximately 380 community day schools statewide in 2005-06 and the number is expected to reach 415 in 2006-07.

While the CDS supplemental funding program was well funded in the beginning, funding has not kept up with enrollment growth, since the funding formula does not provide growth.

Fiscal Year	CDS (ADA)	Enrollment	CDS Funding (In thousands)
1995-96	0		0
1996-97	862		52,593
1997-98	1,914		30,000
1998-99	3,104		20,000
1999-00	5,717		30,423
2000-01	7,218		41,377
2001-02	8,448		42,205
2002-03	10,463		42,204
2003-04	11,180		32,205
2004-05	11,414		45,060
2005-06			46,966
2006-07			49,399
			(proposed)

Funding for the first year of the program in 1996-97 totaled \$52.6 million, however funding was reduced in later years to reflect program demand. By 2002-03, funding was proposed at \$42.2 million. In 2002-03, the program was reduced by \$10 million as part of mid-year reductions needed to meet a statewide budget shortfall.

In 2003-04, the program was reduced by another \$10 million as part of mid-year cuts, based on estimates that the program was over-funded by this amount. As the program enrollment grew and funding fell, a shortfall for the program began to develop, since the funding formula does not recognize growth.

Deficiency Funding: When the amount provided in the budget for this program is not enough to fund enrollment, CDE must pro-rate the shortfall. This ensures that all programs receive funding, but at a reduced level.

CDE Proposal to Address Budget Year Deficiency: CDE proposes to increase CDS supplemental funding by **\$4.3 million** in 2006-07 to address a program deficiency. This increase would fully fund program growth --estimated at 9.2 percent -- in 2006-07. CDE will provide additional detail on their proposal at the hearing.

COMMENTS/RECOMMENDATIONS: Staff notes that Community Day Schools provide important funding for students who face many educational challenges. Both the number of students and the number of schools participating in the program have grown significantly since the new program began. Until some measure of growth is provided for the program, deficiencies will continue to accumulate for the program statewide. When deficiencies occur, funds are simply pro-rated to all participating schools. In addition to the community day school program, there are several other categorical programs that CDE pro-rates funding to based upon deficiencies. **OUTCOME: No action. Issue held open.**

ISSUE 6. State Operations – Special Education Due Process Contract Deficiency

DESCRIPTION: The Governor's Budget proposes **\$4.5 million** in Non-98, General Funds to fund a deficiency request by CDE to cover a shortfall in funding associated with transition to a new contract provider for operation of the state's special education due process program in 2005-06. CDE now estimates the 2005-06 deficiency at **\$2.0 million**. The quality and timeliness of the data provided by the new CDE contractor -- Office of Administrative Hearings, Department of General Services -- is assessed for the purposes of monitoring outcomes during the transition period.

BACKGROUND:

Federal special education law requires that states receiving federal special education funding have a due process to resolve disputes between parents and school officials over the learning plans and services offered to special education students. Federal law prohibits CDE from acting as the administrative hearing agency for such disputes.

Prior to 2004, Education Code required the CDE to contract with a single, nonprofit organization or entity to provide due process services. This statute reflected the interest in maintaining some impartiality or independence for this function. Since 1989, CDE contracted with the McGeorge School of Law to serve as the administrative hearings agency for these disputes.

In 2002 and 2004, California Attorneys, Administrative Law Judges, and Hearing Officers in State Employment (CASE) initiated a legal case challenging the McGeorge contract. CASE was essentially challenging the state's ability to contract out for services that other civil service employees could perform. Based upon this successful legal challenge, the Administration and CDE requested budget trailer bill language as a part of the 2005-06 budget allowing CDE to contract with a state agency to perform this work.

In 2004-05, CDE issued a request for proposals to solicit competitive bids for a new contractor to provide the services. It received bids from McGeorge and OAH. According to CDE, McGeorge's bid was **\$43.7 million** for three years and OAH's bid was **\$30.4 million** for three years. Because the OAH bid was lower, CDE decided to enter into an interagency agreement with OAH, citing this as the appropriate contracting vehicle between two state agencies.

As of June 1, 2005, CDE and OAH entered into a three-year interagency agreement for the provision of due process hearings starting July 1, 2005, and mediations starting July 1, 2006. It also entered into a six-month transition contract with McGeorge for the provision of mediation services and due process hearings for hearings that were already initiated. According to CDE, as of January 1st of this year, OAH assumed responsibility for providing mediations in addition to due process hearings.

Governor's Budget Deficiency Proposal: The Governor's budget proposes **\$4.5 million** in non-Proposition 98 General Fund to cover unexpected costs in 2005-06 to administer the statewide special education due process program.

CDE now estimates the shortfall at **\$2.0 million** to cover transition costs to administer the due process program. CDE cites the following reasons for the shortfall: a greater than anticipated number of cases and other unanticipated costs. The 2005-06 budget provides a total of **\$10.14**

million to cover the costs of the interagency agreement. The Governor proposes the same level of funding in 2006-07.

Monitoring Data: The 2005 education omnibus trailer bill, SB 63, codified various data requirements for the new due process contract in order to assure the continuation of data provided by the previous contractor. The intent was to maintain data that could provide be used to monitor program access and outcomes during the transition period. The data included in statute reflected data included in CDE's interagency agreement with the new contractor.

The data specifically included quarterly reports from OAH on the status and outcomes of its process. The legislation required quarterly reports to provide continuity in the program, (since McGeorge had provided quarterly data reports on its outcomes), in order to assure that program access and quality were maintained during the transition period.

Despite this statutory requirement, OAH did not submit a report for the first quarter of the 2006-07 year and second quarter data was also delayed. OAH never informed the Legislature of this delay and cites unanticipated workload problems as the reason it did not submit the data. When OAH, submitted the data report for the first quarter, the data was incomplete and difficult to interpret for purposes of monitoring access and outcomes for the program during transition

Related Legislation: CDE is sponsoring **AB 2565 (Evans)** to appropriate the **\$3.5 million** for the current-year deficiency, in the event the Legislature decides not to fund the program through the budget.

COMMENTS/RECOMMENDATIONS:

Data Recommendations: Staff notes that CDE has not been able to provide data that provides assurances about the level and quality of services at OAH compared to services previously provided. In response, staff recommends that the data requirements contained in SB 63 be strengthened so that the Legislature can provide assurances about due process services.

Advocates for students and families have suggested the following data elements as being helpful in evaluating fairness, and are asking that OAH be required to provide information like this in its quarterly reports. (Attachment A provides comparison of these data elements, compared to data provided by McGeorge and OAH.)

- average length of hearings,
- the number of hearing requests that were rejected as insufficient,
- the number of hearing requests from parents and the number of hearing requests from districts,
- identification of non-English languages of parties requesting hearings,
- the number of requests for due process hearings resolved through mediations or resolved prior to the commencement of the hearing.
- the number of final decisions issued, and of these, the number decided in the favor of the pupil and the number decided in favor of the district
- the number of cases in which the districts was represented by an attorney, the number of cases in which the pupils and parents were represented by an attorney.
- Year end data.

Special education advocates note that the dispute resolution process has become more and more legal in nature and consequently more intimidating for parents, who often cannot afford legal representation. In addition, many parents face language barriers (e.g., not speaking English) that may make the process even more intimidating.

Deficiency Recommendations: Staff notes that despite a number of requests, CDE has not been able to provide specific justification to support their **\$2.0 million** deficiency request. In addition, while the estimates of the deficiency are constantly changing, fortunately the amounts have fallen from **\$4.5 million** originally requested by DOF to **\$2.0 million**. This deficiency request would require an appropriation of Non-Proposition 98, General Funds.

OUTCOME: No action. Issue held open.

ISSUE 7. State Operations – State Special Schools (6110-005-0001 & 6110-006-0001)

DESCRIPTION: The Governor's January budget proposes **\$645,000** in additional staff positions and contract services for the School for the Deaf in Riverside in 2006-07. Most of funding is proposed as ongoing. No new funding is proposed for either the School for the Deaf or School for the Blind in Fremont. The DOF May 1st Letter also proposes funding adjustments for two capital outlay projects at the School for the Deaf in Riverside.

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 - Instruction: The Governor's budget contains the following augmentations for staff and services at the School for the Deaf in Riverside:

- **\$117,000** in one-time General Funds (Non-98) for a contract for a Data Resource Specialist to help transition the school to a new student data collection system.
- **\$47,000** in General Funds (Prop 98) for a 0.5 visual and performing arts teacher position to supplement another partial, existing position.
- **\$117,000** in General Funds (Prop 98) for a 0.9 resource specialist position to help the school implement instruction linked to the state's academic and performance standards.
- **\$285,000** in General Funds (Prop 98) for a 2.8 Early Childhood Education teachers to extend funding to additional students enrolling in the early childhood education program.
- **\$79,000** in General Fund (Non-98) for a 0.8 position to support the additional costs of maintenance and janitorial services for a new Pupil Personnel Services facility scheduled to be completed in July 2006.

Governor's Budget – Capital Outlay. The April DOF Letters propose the following adjustments to two capital outlay projects at the School for the Deaf in Riverside:

- **Building New Gymnasium and Pool Center.** DOF requests that the amount in item 6110-301-0660 be decreased by **\$773,000** to reflect a revision to the request for a gymnasium and pool center. The adjustment reflects the cost to build a new gymnasium and pool center rather than renovate the current facility. The proposed reduction would leave **\$24,963,000** for the project.

- **Kitchen and Dining Hall Seismic Renovations.** DOF requests that the amount in item 6110-301-0660 be increased by **\$4,428,000** to provide for extensive seismic modifications not anticipated for a renovation project for the kitchen and dining hall. The proposed increase would mean a total appropriation level of **\$8,834,000** for the project.

COMMENTS/RECOMMENDATION: *Staff notes* that all of the support augmentations and capital outlay adjustments proposed by the Governor are for one state school – the School for the Deaf in Riverside. *Staff recommends* delaying approval of these proposals until after May Revise.

OUTCOME: No action. Held open.

ISSUE 8: 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 but that have not yet been heard by the Subcommittee. Other state operations proposals were discussed by the Subcommittee at earlier hearings or in other items in this agenda.

BACKGROUND: The Governor proposes the following staffing and expense adjustments for the Department of Education that have not yet been heard by the Subcommittee:

Accountability – Phase Out of II/USP. Eliminates **12.8 positions** and **\$1.6 million** in General Funds to reflect the phase-out of the Immediate Intervention in Underperforming School Program (II/USP) in 2006-07. CDE believes that these positions should be retained in order to maintain ongoing, state level accountability functions for schools. The Administration may modify this proposal at May Revise.

Child Nutrition - Information and Payment System. Provides **\$3.2 million** in federal funds and **7.4 limited-term positions** to begin implementation of the new Child Nutrition Information Payment System (CNIPS) in 2006-07. DOF approved the feasibility study report for CNIPS in March 2005.

Child Nutrition - Standards for Non-School-Meal Food. Provides **\$100,000** in General Funds for a **0.9 position** to coordinate the nutrition standards activities to implement Chapter 235/2005 (SB 12/Escutia). Chapter 235 sets nutrition standards for food sold outside the federal school meal programs during the school day at all elementary through high school campuses, effective July 1, 2007. The Governor also proposes **\$200,000** in reimbursements to be collected from vendors who elect to have their product certified as meeting the Chapter 235 standards.

Career Technical Education - Accountability System. Provide **\$63,000** in federal Carl Perkins funds and **\$107,000** in CalWORKs reimbursement funds to allow CDE to administer an accountability system for career technical education. Funding is provided to convert **1.9 limited-term positions** into **permanent positions** for this purpose.

Career-Technical Education Program – Staffing. Provides **\$193,000** in federal Carl Perkins funds for **1.9 limited-term positions** to implement the Career Technical Education program created by Chapter 352, Statutes of 2005 (SB 70/Scott). These positions would oversee the alignment of career technical education curriculum in K-12 schools and community colleges with industry-based programs; analyze and review curriculum; and prepare required reports. The Governor's budget proposes these positions in both 2005-06 and 2006-07.

Career-Technical Education – California Career Resource Network. Provides **\$159,000** in General Funds and **\$159,000** in federal funds to increase funding for an interagency agreement with the California Career Resource Network.

Special Education - Data Collection. Provides **\$288,000** in federal IDEA funds for **2.8 information technology positions** to meet new federal reporting and accountability requirements under the Individuals with Disabilities Education Act, as reauthorized in December 2004.

School Facilities Planning. Provides **\$167,000** to convert **1.9 limited-term positions** in the School Facilities Planning Division to **permanent positions**. These positions are funded with State School Facility Fund revenues. CDE believes these positions are needed to provide school districts with timely review and approval of school construction and modernization plans and the approval of sites on an ongoing basis.

Business Official Training. Provides **\$78,000** in General Funds for a **0.9 position** to administer the new Chief Business Official Training Program created by Chapter 356, Statutes of 2005 (SB 352/Scott). The position will work to develop criteria for the approval of state-approved training providers, developing an application process and reviewing applications. The Governor provides \$1 million for the second year of local assistance funding for the program in 2006-07. The Subcommittee heard this issue at an earlier hearing.

Child Care - Alternative Payment Monitoring Unit. Upgrades a 0.5 office assistant position to a **1.0 office technician** position to help CDE maintain a database in the Alternative Payment Monitoring Unit. The Governor proposes this change in both 2005-06 and 2006-07.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay approval of positions until May Revision to coordinate with actions on local assistance proposals and to consider possible revisions to these proposals.

OUTCOME: No action. Held open awaiting May Revise.

ISSUE 9: April Finance Letter – Various State Operations and Local Assistance Items

DESCRIPTION: The DOF April 1, 2006 budget letters propose various changes to state operations and local assistance budget items for the Department of Education.

BACKGROUND: The April DOF Letters proposes the following adjustments to the January 10 budget:

- 1. State Operations - Restore Funds for the Review of California Native American Materials (Issue 646)** It is requested that Schedule (2) of this item be increased by \$50,000 in order to complete the review process of the California Native American Instructional Materials for alignment to the state History and Social Sciences standards. Chapter 870, Statutes of 2001 (SB 41/Alpert), appropriated \$50,000 to the SDE for this review process. Due to the unanticipated length of time that was required for the development of the materials, the SDE was unable to complete the review before the funds reverted. This action will restore those funds and allow the SDE to complete the necessary review of these materials as required by SB 41.
- 2. Local Assistance – Refugee Children School Impact Grant Program (Issues 828 and 829)** It is requested that Schedule (2) of Item 6110-125-0890 be reduced by \$2,050,000 and that reimbursements for Item 6110-125-0001 be increased by \$1,310,000 to reflect a decrease in federal funds and a funding shift for the Refugee Children School Impact Program. Prior to 2005-06, funding for this program was provided directly to the SDE from the federal government. In the current year and subsequent years, federal funding will be provided to the Department of Social Services, which, in turn, entered into an interagency agreement with the SDE to continue program administration. The Refugee Children School Impact Grant Program ensures that refugee children's education needs are met and receive the same educational opportunities as other students.
- 3. Local Assistance, Federal Vocational Education Funding (Issues 577 and 578)** It is requested that this item be increased by \$8,424,000. This includes a reduction of \$1,395,000 to conform federal expenditure authority with available grant funding and an increase of \$9,819,000 to reflect one-time carryover funding to support additional vocational education activities that complement the Governor's Career Technical Education Initiative.

It is further requested that provisional language be added as follows to conform to this action:

4. Of the funds appropriated in this item, \$7,569,000 is one-time carryover available for the support of additional vocational education instructional activities. These funds shall be used during the 2006-07 academic year to support curriculum development and articulation of K-12 tech prep programs with local community college economic development and vocational education programs in an effort to incorporate greater participation of K-12 students in sequenced, industry-driven coursework that leads to meaningful employment in today's high-tech, high-demand, and emerging technology areas of industry employment.

4. Local Assistance, Special Education (Issue 004) It is requested that Provision 3 of Item 6110-161-0890 be deleted as a technical correction since this provision is currently provided in Item 6110-161-0001.

RECOMMENDATION: *Staff recommends* approval of all four of these April Letter items.

OUTCOME: Subcommittee approved Issues #1, 2 and 4. Issue #3 held open awaiting technical adjustments at May Revise. (Vote 3-0.)

ISSUE 10: Fiscal Status of School Districts – Presentation by FCMAT

DESCRIPTION: Presentation by 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 2005-06 – the most recent report available – there are currently five school districts with negative certifications and 32 school districts with qualified certifications. [See Attachment B for a complete list.] The five school districts with negative certifications listed below will not be able to meet their financial obligations for 2005-2006 or 2006-2007.

District	County	Budget
Oakland Unified	Alameda	\$432.1 million
Vallejo City Unified	Solano	\$143.3 million
Parlier Unified	Fresno	\$25.7 million
West Fresno Elementary	Fresno	\$8.1 million
Biggs Unified	Butte	\$6.4 million

There were 14 school districts on the negative certification list and 48 school districts on the qualified certification list Second Interim Report for 2004-05 released last July. Many school districts dropped off both lists. A total of 9 school districts dropped off the negative list and 16 school districts – including the Los Angeles Unified School District – dropped off the qualified list.

Three school districts remain on the negative certification list from last year -- Oakland Unified, West Fresno Elementary and Vallejo Unified. These districts 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 2005-06 is released by CDE later this spring.

Financial Pressures Facing School Districts. In their analysis last year, the LAO identified major financial pressures facing school districts that they essentially reiterate again in their budget analysis in 2006-07. These pressures include:

- (1) Low general purpose reserves;
- (2) Internal borrowing from self-insurance funds;
- (3) Falling state revenues due to declining enrollment; and
- (4) Higher costs for wage increases and health premiums/benefits.

COMMENTS: The LAO will present proposals for addressing escalating retiree health benefits costs to schools districts later in the Subcommittee agenda.

SUGGESTED 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? (This issue is discussed more fully in the next agenda item.)*

OUTCOME: Information only. No action.

ISSUE 11: Categorical Flexibility – Control Section 12.40

DESCRIPTION: Control section 12.40 allows districts to transfer up to 10% of the funding from any one categorical program into another categorical program, as long as the total increase to any one program does not exceed 15% of the base of the receiving program. The Governor April Finance Letter proposes to reduce the number of programs covered by control section. At the same time, the Subcommittee may wish to revisit the inclusion of Economic Impact Aid on the list of covered programs.

BACKGROUND: 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 budget continues this same level of flexibility in 2006-07. or programs in 17 budget items.

Programs Covered by the Control Section. The Governor’s January budget lists 17 programs that are eligible for categorical transfer authority in Control Section 12.40. The April 1 Finance Letter proposes to eliminate 6 programs from the list. These 6 programs include categorical block grants established by AB 825 (Firebaugh). DOF believes that these programs already have adequate flexibility provisions. The programs that are subject to these flexibility provisions are the following are listed along with the level of proposed funding in 2006-07. The list below reflect adjustments proposed by the April DOF letter:

- Economic Impact Aid (\$648 million)
- Home to School Transportation (\$546.9 million)
- Year-Round School Grant Programs (\$93.1 million)
- Child Nutrition Programs (\$89.7 million)
- Gifted and Talented Pupil Program (\$48.9 million)
- Educational Technology – CTAP (\$16.9 million)
- Educational Services for Foster Youth (\$10 million)
- Specialized Secondary Programs (\$5.9 million)
- Agricultural Vocational Education Incentive Program (\$5 million)
- Bilingual Teacher Training (\$2.1 million)
- Teacher Dismissal Apportionments (\$45,000)

CDE Transfer Report:

As a condition of using the flexibility provisions allowed under control section 12.40, districts must report to CDE on the amounts they shift between programs. The most recent data available on these shifts is from 2004-05, when there were a larger number of programs in the control

section. Several of these program are no longer listed in the control section because they were rolled into the block grants as a part of AB 825.

Attachment C summarized the amounts districts statewide transferred in and out of the programs covered by the control section in 2004-05. These amounts show net transfers for districts statewide; the amounts transferred in and out programs differ by district. Overall, the Economic Impact Aid program accounted for most of the funding transferred *out* of programs. Home-to-School transportation was the program that received the greatest amount of transfers *into* programs.

Other Recent Transfer 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.

April Finance Letter:

Control Section 12.40 (Issue 839). A number of items containing appropriations for block grants were erroneously included in Control Section 12.40. Because statute already allows local educational agencies to transfer funds between these items, they should not be included in this control section. In addition, one of the other items in the control section has been renumbered. It is requested that Section (b) of Control Section 12.40 be amended to reflect these technical corrections.

“(b) The education programs that are eligible for the flexibility provided in subdivision (a) included in the following items: Items

6110-111-0001, 6110-119-0001, 6110-122-0001, 6110-124-0001, 6110-128-0001,
~~6110-151-0001~~ 6110-150-0001, 6110-167-0001, 6110-181-0001, 6110-193-0001,
 6110-203-0001, 6110-209-0001, ~~6110-243-0001~~, ~~6110-245-0001~~, ~~6110-246-0001~~,
~~6110-247-0001~~, ~~6110-248-0001~~, and 6110-224-0001 of this act.”

COMMENTS: While school districts appear to support the transfer flexibility provided by Control Section 12.40, it is questionable whether such large transfers out of the Economic Impact Aid program are appropriate. Economic Impact Aid is the state’s largest compensatory education program for poor students and students who are English learners. The Subcommittee may wish to explore removing Economic Impact Aid from Control Section 12.40.

SUGGESTED QUESTIONS:

1. *When the Legislature appropriates a certain funding level for English learners and poor students through EIA, does it intend for a portion of those funds to be used for transportation?*
2. *As the largest categorical program in the control section, if Economic Impact Aid were removed from the list, that would place demands on the balances of other programs.*
3. *Special education has been excluded from the Control Section 12.40 to protect that program, should Economic Impact Aid should be treated similarly?*
4. *If the Legislature wishes to provide funding flexibility, isn't it more appropriate to provide that flexibility through the new categorical block grants, and not through a control section that includes unrelated programs?*

OUTCOME: No action.

ISSUE 12: Health Benefits Costs to Districts – LAO Proposal

DESCRIPTION: The LAO raises concerns about significant *and growing* retiree health benefit liabilities that are creating significant fiscal pressures for some school districts in the state. The LAO will present findings from a state survey of district liabilities and recommendations for addressing these liabilities.

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 new Government Accounting Standards Board (GASB) policies require school districts to account and report its long-term retirement liabilities in their annual financial statements beginning in 2006-07. These new requirements have brought new attention and concern to the issue of large and growing district health insurance retirement liabilities.

New GASB Policies: The new GASB policies that go into effect in 2006-07 require districts to identify their outstanding liabilities for retiree health benefits. Since many districts haven't been setting funds aside to cover these health benefits -- before employees retire -- some districts have large unfunded liabilities.

Previously, GASB policies did not encourage districts to budget for retiree health benefits the same way they budget pensions costs. This year a new GASB policy will require districts to identify the normal cost of retiree health benefits for current employees, as it does for pension costs. The normal cost is the amount that should be deposited in the benefit fund during an employee's working life to fully cover the cost of the benefits when an employee retires.

LAO Findings: Survey of School Districts:

In a recent survey, sixty-percent of districts statewide reported that they provide some form of health benefits for retirees. The table below is from the LAO Analysis and summarizes information from a recent survey on districts' unfunded liabilities related to retiree health benefits.

Figure 1					
Estimated K-12 Retiree Health Benefits					
Unfunded Liabilities					
<i>(Dollars Per Student Enrollment)</i>					
Benefit	Number of Districts	Per-Pupil Liabilities^a			
		High	Average	Low	
Lifetime	76	\$13,624	\$4,075	\$84	
Over age 65, not lifetime	116	5,144	1,706	61	
Up to age 65	431	5,061	2,668	5	

a These estimates are based on a subset of districts that provide the given benefit.

LAO Findings: The LAO believes that these unfunded liabilities (summarized above) pose a major financial threat to the fiscal health of school districts in future years, particularly if districts chose to continue paying on a pay-as-you-go basis and wait until employees retire to before beginning payment for benefits. Under LAUSD's estimate of its unfunded liability, the LAO predicts that its cost for retiree health benefits on a pay-as-you-go basis will more than double in ten years, increasing from \$275 per student to \$575 per student. By the year 2020, costs are estimated to climb to \$755 per student.

According to the LAO, even if districts change from a pay-as-you go basis, and begin paying down their existing liabilities, the costs may be high. For example, the average district that provides lifetime benefits currently faces liabilities of about \$4,000 per student. To fund this amount over 30 years, a district would have to set aside roughly \$400 per student each year, or 8% of general purpose funds from state funds and local property taxes.

LAO Recommendations: 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.

Given declining revenues from declining enrollment, the LAO believes it is not likely that districts will have the funds to address their serious retiree health liabilities in the short term. For this reason, the LAO proposes the following recommendations:

- **Address Retiree Health Benefit Liabilities.** Data on retiree health benefits suggest that a significant number of school districts and county offices have accumulated significant unfunded liabilities for future costs of retiree health benefits.

- **Require Districts to Address Liabilities.** Recommend enactment of legislation to require county offices of education and school districts to develop a plan for addressing long-term liabilities for retiree health benefits.
- **Negotiate a Plan to Use Federal Funds for Retiree Costs.** Recommend the Legislature enact trailer bill language to allow districts to use state categorical program funds as part of a comprehensive plan for addressing retiree health liabilities. Also recommend the Legislature direct CDE to work with the federal government to develop a template that would guide district development of comprehensive plans for addressing unfunded retiree health benefits.
- **Create a Fiscal Solvency Block Grant.** Recommend the Legislature redirect **\$395.5 million** in Proposition 98 funds to a block grant that would provide districts and county offices with a source of funding to address the fiscal challenges they currently face.

Related Legislation:

SB 1457 (Simitian) – Requires the state to develop standards and criteria for actuarial studies of district retirement benefits in accordance with the new GASB standards. Requires school districts provide studies to the county office of education and counties to examine these studies in determining whether to adopt the school district budget. Requires school districts to develop a long –term plan for funding current and future retiree benefits.

SB 1514 (Maldonado) – Requires school districts to provide information to their governing boards regarding the estimated cost of retiree benefits and to annually certify to the county office of education what reserves are set-aside to cover these benefits.

AB 2793 (Arambula) – Requires that state standards and criteria for determining fiscal health be amended to include the ability of districts to cover the normal cost of their retirements benefits during the current and subsequent two fiscal years. Requires that the fiscal status of each school districts as positive, negative or qualified consider the ability of districts to cover these normal costs during this period.

OUTCOME: No action.

Amend Item 6440-302-6048 to reflect the shifting of two projects from the capital outlay “streamline” process to the conventional capital outlay process. (See corresponding shift above in Item 6610-301-6048.)

1. Decrease funding (\$17,925,000) for the Davis Campus: King Hall Renovation and Expansion—Preliminary Plans, Working Drawings, and Construction.
2. Decrease funding (\$2,571,000) for the Irvine Campus: Primary Electrical Improvements, Step 3—Preliminary Plans, Working Drawings, and Construction.

2. California State University

Add Item 6610-491 to reappropriate funds for the following project phases in Item 6610-302-6041, Budget Act of 2004.

1. Bakersfield Campus, Math and Computer Science Building—Construction.
2. Fullerton Campus, College of Business and Economics—Construction.
3. Maritime Academy, Simulation Center—Construction.
4. Northridge Campus, Science 1 Replacement—Construction.
5. Pomona Campus, Science Renovation—Construction.
6. San Luis Obispo, Engineering/Architecture Renovation and Replacement, Phase II—Construction.

For the preceding six projects, a reappropriation is necessary because of delays in completing construction documents to bring the projects in line with the approved budget.

Add Item 6610-491 to reappropriate funds for the following project phases in Item 6610-301-6041, Budget Act of 2005.

7. Dominguez Hills Campus, Educational Resource Center Addition—Construction.
8. Long Beach Campus, Seismic Upgrade, Liberal Arts 2, 3 and 4—Construction.

For the preceding two projects, a reappropriation is necessary because of delays in completing construction documents to bring the projects in line with the approved budget.

9. Long Beach Campus, Peterson Hall 3 Replacement Building—Working Drawings.

The project has been delayed in the approval of preliminary plans by the State Public Works Board, pending the project cost increase included in the proposed 2006-07 Governor’s Budget. Additional time is needed to complete working drawings due to this delay.

Add Item 6610-491 to reappropriate funds for the following project phase in Item 6610-302-6041, Budget Act of 2005.

10. Sonoma Campus, Music/Faculty Office Building—Construction.

A reappropriation is necessary because of delays in completing construction documents to bring the project in line with the approved budget.

Add Item 6610-491 to reappropriate funds for the following project phase in Item 6610-301-6028, Budget Act of 2003.

11. Maritime Academy, Land Acquisition—Acquisition.

A reappropriation is necessary due to delays in acquiring three parcels of property for the Maritime Academy's proposed new physical education building.

3. California Community Colleges.

Capital Outlay, Add Item 6870-491 to reappropriate funds, for the following project phases from Item 6870-301-6028, Budget Act of 2003, as reappropriated by Item 6870-490, Budget Act of 2004 and Budget Act of 2005.

1. Los Angeles Community College District (CCD), East Los Angeles College, Fine and Performing Arts Center—Construction and Equipment. This project has been delayed because of discussions with city planners and fire marshals regarding easements and adequate fire protection and access.

In addition, the following reappropriations are requested because of delays attributed to project redesigns to keep the projects within the approved budget, unexpected site conditions, and delays resulting from plan review and approval. Therefore, add Item 6870-491 to reappropriate funds, for the following project phases from items:

A. 6870-301-6028, Budget Act of 2003:

5. Mt. San Antonio CCD, Mt. San Antonio College, Remodel Classroom Buildings—Equipment.

B. 6870-301-6041, Budget Act of 2004:

1. Mt. San Antonio CCD, Mt. San Antonio College, Agriculture Sciences Project—Construction and Equipment.

C. 6870-301-6041, Budget Act of 2004, as reappropriated by Item 6870-490, Budget Act of 2005:

1. Chaffey CCD, Chaffey College, Health and Physical Science Building Renovation—Working Drawings.
2. Los Angeles CCD, Los Angeles Pierce College, Child Development Center—Construction and Equipment.
3. Palo Verde CCD, Palo Verde College, Physical Education Complex—Construction and Equipment.
4. Rancho Santiago CCD, Santiago Canyon College, Science Building—Construction.
5. Santa Barbara CCD, Santa Barbara City College, High Technology Center—Working Drawings.
6. Copper Mountain CCD, Copper Mountain College, Multi-Use Sports Complex—Construction and Equipment.

D. 6870-301-6041, Budget Act of 2005:

1. Citrus CCD, Citrus College, Vocational Technology Building—Working Drawings.
2. Desert CCD, College of the Desert, Water and Sewer Infrastructure Replacement—Working Drawings.
3. Contra Costa CCD, Los Medanos College, Core Building Remodel—Working Drawings.
4. El Camino CCD, El Camino College, Learning Resource Center Addition—Construction and Equipment.
5. Hartnell CCD, Hartnell East Campus, Center for Assessment and Lifelong Learning—Construction and Equipment.
6. Long Beach CCD, Long Beach City College, Pacific Coast Campus, Library and Learning Resource Center—Construction and Equipment.
7. Long Beach CCD, Long Beach City College, Liberal Arts Campus, Library and Learning Resource Center Renovation and Addition—Construction and Equipment.
8. Los Angeles CCD, Los Angeles Harbor College, Adaptive Physical Education and Physical Education Building Renovation—Construction and Equipment.

9. Los Angeles CCD, Los Angeles Harbor College, Child Development Center—Working Drawings, Construction, and Equipment. Additionally, the district requests a scope change to reduce the original square footage of the 13,587 assignable square feet (asf) building to 9,999 asf as a value engineering effort to keep the project within the state appropriation. This project was appropriated with provisional language that restricted the district from requesting augmentations or scope changes. However, due to cost increases in the construction market, the original scope is no longer feasible. The reduction combines a few smaller classroom areas into one large classroom with folding walls to allow for visual and sound separation which helps keep the program delivery intact. The new scope provides for 1,617 asf laboratory, 1,326 asf office, and 7,056 asf of other (demonstration, storage) child development space.
10. Palo Verde CCD, Palo Verde City College, Fine and Performing Arts—Working Drawings.
11. Rio Hondo CCD, Rio Hondo College, Applied Technology Building Reconstruction—Working Drawings.
12. Rio Hondo CCD, Rio Hondo College, Learning Resource and High Technology Center—Construction and Equipment.
13. San Francisco CCD, John Adams Campus, John Adams Modernization—Construction.
14. San Luis Obispo County CCD, North County Center, Technology and Trades Complex—Construction and Equipment.
15. San Mateo County CCD, Skyline College, Allied Health Vocational Training Center—Working Drawings.
16. Santa Barbara CCD, Santa Barbara City College, Drama and Music Building Modernization—Working Drawings.
17. Sonoma County CCD, Santa Rosa Junior College, Plover Library Conversion—Construction.
18. Victor Valley CCD, Victor Valley College, Seismic Replacement-Auxiliary Gym—Construction and Equipment.

Amend Item 6870-301-6048 to reflect a delay caused by a revised campus-wide environmental impact report that is still under review by the California Coastal Commission (Commission). The project cannot resume until the report is cleared by the Commission and therefore, the phases below cannot be utilized as proposed in the 2006-07 Budget and the current phase, working drawings, will need to be reappropriated (see corresponding reappropriation of working drawings in Item 6870-491 to reappropriate funds from Item 6870-301-6041, Budget Act of 2004).

3. Decrease funding (\$28,188,000) for the Santa Barbara CCD, Santa Barbara City College: High Technology Center—Construction and Equipment.

Amend Item 6870-497 to revert funds for the following project phases from Item 6870-301-6028, Budget Act of 2003, as reappropriated by Item 6870-490, Budget Act of 2004 and Budget Act of 2005:

1. Compton CCD, Compton College, Performing Arts and Recreation Complex—Working Drawings. A reversion is necessary due to a dispute between the college and the Accrediting Commission for Community and Junior Colleges (ACCJC) where Compton is appealing the ACCJC's decision to terminate accreditation before ACCJC's parent organization, the Western Association of Schools and Colleges. Further work is postponed until the college's accreditation issues are resolved.
2. Shasta-Tehama-Trinity CCD, Shasta College, Library Addition—Construction and Equipment. A reversion is necessary due to project increases beyond the approved budget. The project has been to bid twice and both have been unsuccessful. The district will seek a new appropriation in the 2007-08 Budget.

Amend Item 6870-497 to revert funds for the following project phases from Item 6870-301-6041, Budget Act of 2004, as reappropriated by Item 6870-490, Budget Act of 2005:

1. Compton CCD, Compton College, Performing Arts and Recreation Complex—Construction and Equipment. A reversion is necessary due to a dispute between the college and ACCJC as discussed above.

ISSUE 14: Public Comment:

DESCRIPTION: The Subcommittee approved **\$3.2 billion** in one-time Proposition 98 funding for K-14 education at the March 27, 2006 hearing. This included **\$500 million** in funding for the 2005-06 year and **\$270 million** over a ten year period. The Subcommittee agreed to revisit discussion about the uses of these one-time funds at a future hearing. At today's hearing, the Subcommittee is inviting public comment on the uses of the \$3.2 billion in one-time Proposition 98 funds.

Jack Scott, Chair
Bob Margett
Joe Simittian



May 15, 2006
1:30 p.m.
Room 113

Page

I. Proposition 98 – May Revision Update	
Presentation by the Legislative Analyst's Office	
II. Higher Education & Child Care – Various Items	1
III. K-12 Education – Various Items	3

PART II -- HIGHER EDUCATION AND CHILD CARE -- VARIOUS ITEMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6110-001-0001; 6110-001-0890 CDE	<i>May Revision:</i> Travel for Child Care (Alternative Payment) Monitoring Program (Issue 331)	May Revision augments the travel budget of the Alternative Payment Monitoring Unit by \$175,000 to conduct a field audit of every APP in the state	Approve May Revision	BBL amending Prov. 7	0,000	New Issue
6110-001-0001; 6110-001-0890	<i>May Revision:</i> Technical Correction -- 21st Century Program (Issue 329)	May Revision makes technical changes to the provisional language specifying the amount of funding available for administering the federal 21st Century Program	Approve May Revision	BBL amending Prov. 27	0,000	Technical Issue
6110-196-0001; 6110-196-0890 CDE	<i>May Revision:</i> Caseload Adjustments for Stages 2 and 3 Child Care (Issue 323)	May Revision makes caseload adjustments to both Stage 2 and Stage 3 Child Care services (totaling a \$25.9 million decrease for Stage 2 and a \$18.5 million increase for Stage 3), also includes a technical adjustment to account for the "holdback" to the TANF reserve	Approve May Revision	BBL amending Prov. 2	0,000	Technical Issue
6110-494; 6110-196-0001; 6110-196-0890	<i>May Revision:</i> Reappropriation of unused prior year Child Care Funds (Issues 330)	May Revision reappropriates unused child care funds from the 2003, 2004, 2005 fiscal years for use in the 2006-07 year for Stage 2 and 3 child care services	Approve May Revision	BBL adding new provisions and amending existing provisions, per DOF letter	0,000	Reappropriation
6110-196-0001; 6110-196-0890	<i>May Revision:</i> Adjust One-Time Federal Funds for Child Care (Issue 330)	May Revision reflects an increase of \$34.9 million in one-time federal funds available for Stage 3 Child Care services; and reduced by \$1 million the amt. of federal funding available for quality projects	Approve May Revision	BBL amending provisions 3 and 4	0,000	Federal Fund adjustment
6110-197-0890	<i>May Revision:</i> Adjust Federal Funds for 21st Century Program (Issue 328)	May Revision reflects a decrease of \$654,000 in federal funds available for the 21st Century Program.	Approve May Revision	BBL amending provision 2	0,000	Federal Fund adjustment

6110-196-0001	May Revision: Child Care Technical Budget Bill Issues (Issue 329)	May Revision makes a variety of technical language changes to accurately reflect appropriate dates, standard reimbursement rate amounts, and funds available for specified activities	Approve May Revision	BBL, per DOF letter	0,000	Technical Language Issue
6120-221-0001 California State Library	May Revision: Public Library Foundation (Issue 001)	May Revision proposes to augment, by \$7 million, funding for the Public Library Foundation	Approve May Revision	No	0,000	Issue previously heard by committee on May 1st
6120-211-0001	May Revision: Transaction-Based Reimbursements (Issue 002)	May Revision proposes to augment, by \$7 million, funding for Direct and Interlibrary Loans	Approve May Revision	No		Issue previously heard by committee on May 1st
6440-001-0234 Univ. of California	May Revision: Tobacco Research (Issue 202)	May Revision makes an adjustment to increase, by \$300,000, the funding available for tobacco-related research	Approve May Revision	No		New Issue
7980-101-0001 CA Student Aid Commission	May Revision: Cal Grant Baseline Adjustments (Budget Year Issue 212; Current Year Issue 212)	May Revision makes a \$14 million baseline reduction in the current year and a \$14.8 million baseline reduction for 2006-07 in the amount of funding needed for the Cal Grant program due to revised caseload estimates;	Approve May Revision	No		New Issue
7980-101-0001	May Revision: Cal Grant Provisional Language (Issue 216)	May Revision adds provisional language to the Cal Grant item, consistent with current law, allowing the Director of Finance to augment the Cal Grant item to fully-fund Cal Grants (pursuant to a 30-day notification to the Joint Legislative Budget Committee)	Approve May Revision	BBL	0,000	New Issue

K-12 Education - Various Items

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: Statewide Longitudinal Data System Grant. State Operations. Federal Funds. (Issue 642)	Increases federal funding by \$654,000 to reflect a new grant from the federal Institute of Education Sciences for development of state longitudinal data systems. The total grant award is \$2.4 million to be expended over a three-year period. For 2006-07, \$350,000 will support California School Information Services programming costs to enhance the usability of the electronic transfer of student transcripts, \$292,000 will support the California Community Colleges Chancellor's Office with Phase 2 of the CCTTRAN (a system to enable the electronic transfer of transcripts), and \$12,000 will support State Department of Education (CDE) participation in the Schools Interoperability Framework activities.	Approve May Revision		
6110-001-0001	May Revision Finance Letter: Education Technology K-12 Voucher Program. State Operations. Reimbursements. (Issue 643)	Increases reimbursement authority by \$139,000 for first year administrative costs of the Education Technology K-12 Voucher Program, which is part of the Microsoft settlement. These funds will be used by the CDE to assist the court appointed claims administrator in determining eligibility and by providing technical assistance to local educational agencies (LEAs).	Approve May Revision		
6110-001-0890	May Revision Finance Letter: Education Technology Program. State Operations. Federal Funds. (Issue 660)	Increases funding by \$278,000 to reflect one-time federal carryover funds for technical support and evaluation services related to administration of the federal Education Technology program.	Approve May Revision		

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890	<p>May Revision Finance Letter: Translations of Parental Notification Documents. State Operations. Federal Funds. (Issue 847)</p>	<p>Provides \$400,000 for translation of parental notification documents to reflect the availability of one-time federal Title III carryover funds from 2005-06. The carryover is a result of a delay in the implementation of the Clearinghouse for Multilingual Documents database. Funds will be used for translated documents, which will be made available to school districts through the clearinghouse.</p>	<p>Approve May Revision</p>		
6110-001-0890	<p>May Revision Finance Letter: Interagency Agreement with California Career Support Network. State Operations. Federal Funds. (Issue 857)</p>	<p>Adds provisional language to specify that \$100,000 of funds appropriated from federal Vocational Education funds will be available for an interagency agreement with the California Career Resource Network for specified career resource development activities.</p>	<p>Approve May Revision.</p>		
6330-001-0001	<p>May Revision Finance Letter: Reimbursement Authority for California Career Support Network. (Issue 857). Local Assistance. General Fund Reimbursement.</p>	<p>Increases reimbursement authority of the California Career Resource Network by \$100,000 for an interagency agreement with the Department of Education for the purpose of developing career exploration materials, publishing relevant job market information, and disseminating these materials to middle and high school counselors.</p>	<p>Approve May Revision. Conforms to previous action.</p>		
6110-001-0890	<p>May Revision Finance Letter: School Wellness Grant. State Operations. Federal Funds. (Issue 882)</p>	<p>Provides \$98,000 to reflect receipt of a federal grant for providing training and technical assistance to local educational agencies implementing local wellness policies.</p>	<p>Approve May Revision</p>		
6110-103-0890	<p>May Revision Finance Letter: Robert Byrd Honors Scholarship Program. Local Assistance. Federal Funds. (Issue 917)</p>	<p>Changes the program item number to reflect the correct citation.</p>	<p>Approve May Revision.</p>		

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: School Meal Certification. State Operations. Federal Funds.(Issue 918)	Provides an increase of \$273,000 to reflect receipt of a federal grant to directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs. (See Item 6110-201-0890, Issue 919, for the local assistance portion of the grant).	Approve May Revision. Conforms to following Local Assistance item.		
6110-201-0890	May Revision Finance Letter: Child Nutrition Program. Local Assistance. Federal Funds. (Issue 919)	Provides an increase of \$281,000 to reflect receipt of a federal grant that will support efforts to directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs. (See Item 6110-001-0001, Issue 918, for the state operations portion of the grant).	Approve May Revision.		
6110-166-0890	May Revision Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issue 582)	Increases federal Vocational Education funding by \$11,428,000 to reflect the availability of one-time carryover funds. This one-time funding will support additional vocational education activities, including those that complement Career Technical Education programs.	Approve May Revision		
6110-166-0890	April Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issues 577 & 578)	Provides an increase of \$11,428,000 to reflect the availability of one-time federal carryover funding. This one-time funding will support additional vocational education activities, including those that complement the Governor's Career Technical Education Initiative.	Approve April Letter - Issue 577. Reject April Letter -Issue 578 to conform to May Revision proposal in previous item.		

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-193-0890	May Revision Finance Letter: Mathematics Science Partnership Grants. Local Assistance. Federal Funds. (Issue 517)	<p>Provides an increase of \$1.0 million from one-time, federal carryover funds. Consistent with current policy, these funds will provide additional competitive grant awards to institutes of higher education and low-performing schools for partnerships to provide staff development and curriculum support for mathematics and science teachers.</p>	Approve May Revision.		
6110-201 - 0890	May Revision Finance Letter: Child Nutrition Program. Local Assistance. Federal Funds. (Issue 911)	<p>Provides an increase of \$10.0 million in federal meal funding to more accurately reflect anticipated growth of the Child Nutrition Program. The CDE estimates a 3 percent increase in the number of meals served in California schools between 2005-06 and 2006-07. LEAs will be reimbursed for meals served through this federal entitlement program.</p>	Approve May Revision.		
6110-001-0001	May Revision Finance Letter: California High School Exit Exam - Legal Representation. State Operations. General Fund. (Issue 251)	<p>Provides a one-time General Fund increase of \$1,625,000 for legal representation from the Attorney General's Office in litigation related to the California High School Exit Exam (Chapman, et. al. v. Department of Education, et. al., Coachella Valley Unified School District, et. al. v. Schwarzenegger, et al., and Valenzuela, et al. v. O'Connell, et al.). These cases were filed in state courts, with the plaintiffs challenging the exam for various reasons. The additional proposed resources are consistent with the most recent cost estimates prepared by the Attorney General's Office.</p>	Approve May Revision.		

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)
6110-107-0001	May Revision Finance Letter: Fiscal Crisis and Management Assistance Team. Local Assistance. General Fund. (Issue 090)	Amends budget bill language to clarify that costs related to county office of education extraordinary costs of audits, examinations, or reviews of charter schools may be reimbursed through Schedule (5) appropriations in the item. This will implement provisions of Chapter 357, Statutes of 2005 (Senate Bill 430).	Approve May Revision.		
6110-198-0001	May Revision Finance Letter: California School Age Families Education (CalsAFE) Program. Local Assistance. General Fund. (Issue 324)	Shifts funds between two budget schedules to address a \$1.0 million surplus in the All Services for Non-converting Pregnant Minors Programs schedule and a \$1.0 million shortfall in the CalsAFE Academic and Supportive Services schedule. Total funding for this program will not be affected as funds will be transferred from the All Services for Non-converting Pregnant Minors Programs schedule to the CalsAFE Academic and Supportive Services schedule.	Approve May Revision.		
6110-211-0001	May Revision Finance Letter: Charter School Categorical Block Grant. Local Assistance. General Fund. (Issue 111)	Reduces the General Fund appropriation by \$2,778,000 to reflect the estimated net adjustments to total charter school average daily attendance and charter school Economic Impact Aid counts. Charter school ADA is less than estimated in the Governor's Budget while Economic Impact Aid counts are higher.	Approve May Revision.		

I. HIGHER EDUCATION (Non Proposition 98)

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6440-001-0001 University of California	January Budget: General Fund Support	Governor's budget provides 3% General Fund augmentation	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th
6440-001-0001 University of California	January Budget: Student Fee Buyout	Governor's budget provides General Fund augmentation to "buy out" proposed student fee increases at the UC	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th
6440-001-0001 University of California	January Budget: Enrollment Growth and new Marginal Cost funding rate	Governor's budget provides funding to support growth of 2.5% in student enrollments at the UC	Approve 2.5% enrollment growth at rate reflecting existing marginal cost methodology	Yes, per attached	-10,380	Enrollment growth issue previously heard by committee on April 17th. Staff, LAO, Admin., UC, and CSU have been working since January to resolve outstanding issues related to the Administration's new marginal cost proposal. Having been unable to resolve those conflicts, staff recommends the committee adopt dollars and language reflecting the current methodology and allow parties to re-examine the issue as part of the 2007-08 budget.
6440-001-0001 University of California	May Revision: Reversion of unused current year enrollment dollars (Issue 206)	Current Year Budget Act requires the UC to revert any funds allocated for enrollment growth which were not used to support student enrollments. This provision will result in \$3.76 million being reverted to the General Fund	Approve May Revision	No	0,000	Issue previously heard by committee on April 17th

6440-001-0001 University of California	January Budget: Support for Nursing Education	Governor's Budget provides \$1.7 million to support increased nursing enrollments at the UC	Reduce by \$757,000 to reflect \$1 million in one-time start-up funds available in May Revision and the addition of 20 Master's Degree Nursing FTEs funded at \$5,143 per FTEs above marginal cost.	Yes, per attached	-0.757	Issue previously heard by committee on April 17th
6440-001-0001 University of California	May Revision: One-time Funds for Nursing (Issue 200)	May Revision proposes \$1 million one-time to recruit faculty and fund other start-up costs associated with expanding undergraduate and graduate nursing programs. Funds would be available for expenditure for a three-year time period.	Approve May Revision with revised BBL	Yes, per attached	0.000	New Issue
6440-001-0001 University of California	January Budget: Support for UC Math and Science Teacher Initiative	Governor's Budget provides \$750,000 to continue supporting UC's Math and Science Teacher Initiative	Approve As Budgeted	AAB	0.000	Issue previously heard by committee on April 17th
6440-001-0001 University of California	January Budget: Support for Student Academic Preparation (outreach) programs	Governor's Budget fails to provide state funding for Student Academic Preparation Programs.	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	17.300	Issue previously heard by committee on April 17th

6440-001-0001	January Budget: Research	Governor's Budget fails to provide funding for research related to labor or to provide augmentations for substance abuse or obesity research.	Augment by \$6 million for labor research; \$4 million for substance abuse research; and \$1 million for obesity and diabetes related research	BBL, per attached	11,000	Labor research issue previously heard by committee on April 17th; other research augmentations are new issues
6440-001-0001	January Budget: Reinstatement of Research-Related Budget Bill Language: Augmentation for Selected Research Programs	Governor's Budget no longer includes language specifying the amount of state dollars to be expended on various research programs.	Restore Budget Bill Language specifying research programs and dollars and adopt reporting language related to UC-Mexico research and academic programs	BBL, per attached	0,000	Reinstatement of BBL heard by committee on April 17th. Reporting language related to UC-Mexico is a new issue
6440-001-0001	New Issue: Reporting Language related to use of budgeted funds and re-implementation of payments to UC Retirement Plan	Committee may wish to consider adopting additional reporting language aimed at (1) obtaining information on the allocation of funds for salary increases; and (2) pending changes to UC's pension program.	Approve new Budget Bill Language	BBL, per attached	0,000	New Issue
6440-001-0001	New Issue: Reporting Language related to UC Compensation practices	Committee discussed, at length, need to adopt specific reporting requirements related to UC compensation practices and policies.	Approve new Budget Bill Language	BBL, per attached	0,000	Issue previously heard by committee on April 17th
6440-301-6048 6440-302-6048	January Budget: UC Capital Outlay	Governor proposed \$315.3 million in new GO bonds to fund capital improvement projects on UC campuses	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th

6440-301-0660	April Finance Letter: UC Capital Outlay	Governor proposed to use \$24.6 million in lease-revenue bonds to finance an Education and Social Sciences Building at UCSB	Delete Item 6440-301-0660 from the Budget Bill; Add \$24.6 million and authority for the project to the 6440-301-6048 (GO Bond funded item).	Yes	0,000	Issue previously heard by committee on April 17th. Recommended action approves project, but shifts funding source to GO bonds. UC's "share" of the pending GO bond measure will not increase (as that amount is set in statute). As a result, UC will need to absorb this project from within its GO bond allocation
6600-001-0001 Hastings College of Law	January Budget: Relocation and Moving Expenses	Augment Governor's proposal for Hastings by \$776,000 (one-time) to provide for moving and relocation costs associated with code-compliance project at Administration building	Augment by \$776,000 (one-time)	BBL specifying one-time use of funds	0,776	Issue previously heard by committee on April 17th
6610-001-0001 California State University	January Budget: General Fund Support	Governor's budget provides 3% General Fund augmentation	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th
6610-001-0001	January Budget: Student Fee Buyout	Governor's budget provides General Fund augmentation to "buy out" proposed student fee increases at the UC	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th

6610-001-0001	January Budget: Enrollment Growth and new Marginal Cost funding rate	Governor's budget provides funding to support growth of 2.5% in student enrollments at the UC	Approve 2.5% enrollment growth	Yes	-13,499	Enrollment growth issue previously heard by committee on April 17th. Staff, LAO, Admin., UC, and CSU have been working since January to resolve outstanding issues related to the Administration's new marginal cost proposal. Having been unable to resolve those conflicts, staff recommends the committee adopt dollars and language reflecting the current methodology and allow parties to re-examine the issue as part of the 2007-08 budget.
6610-001-0001	January Budget: Support for CSU Math and Science Teacher Initiative	Governor's Budget provides \$1.1 million to continue supporting CSU's Math and Science Teacher Initiative	Approve As Budgeted	AAB	0,000	Issue previously heard by committee on April 17th
6610-001-0001 University of California	January Budget: Support for Student Academic Preparation and retention programs	Governor's Budget fails to provide state funding for Student Academic Preparation and Retention Programs.	Augment, by \$7.0 million, and adopt Budget Bill Language specifying (1) amount to be expended on programs and (2) requiring the CSU to report detailed information on the outcomes of the programs (language attached).	BBL, per attached	7,000	Issue previously heard by committee on April 17th
6610-001-0001	January Budget: Support for Nursing Education	Governor's Budget provides \$1.7 million to support increased nursing enrollments at the CSU	Approve As Budgeted with revised BBL	BBL, per attached	0,000	Issue previously heard by committee on April 17th

6610-001-0001	May Revision: One-time Funds for Nursing (Issue 209)	May Revision proposes \$1 million one-time to recruit faculty and fund other start-up costs associated with expanding undergraduate and graduate nursing programs. Funds would be available for expenditure for a three-year time period.	Approve May Revision; Augment by \$1 million one-time; Adopt revised Budget Bill Language	Yes, per attached	1,000	New Issue
6610-001-0001	New /Issue: Additional Funds for Undergraduate Nursing Student Enrollment	CSU notes that they could enroll an additional 35 FTES in Baccalaureate Nursing Programs beginning in the 2006-07 fiscal year.	Approve \$371,000 augmentation to provide support for additional 35 FTES	Yes, per attached	0,371	New Issue
6610-004-0001 (New Item)	New /Issue: Western Interstate Commission on Higher Education Dues	California is one of 15 member states in WICHE. Until the current year, California was in arrears in the payment of its dues to the organization. In the current year, UC, CSU and the CCCCs each paid a portion of the total amount due, bringing California "current".	Approve augmentation of \$112,000 to pay dues for 2007.	BBL stating use of dollars		
7980-101-0001 California Student Aid Commission	January Budget: Increase maximum Cal Grant award level for students attending private colleges and universities	Governor's Budget provides an additional \$11.9 million to increase the maximum Cal Grant award level for students attending private colleges and universities to \$9,708	Approve as Budgeted	AAB	0,000	Issue previously heard by committee on May 1st
7980-101-0001 California Student Aid Commission	January Budget: APLE program set-aside for UC/CSU Math and Science Teacher Initiative	Governor's Budget sets aside 600 APLE loan assumption warrants for sole use by the UC and CSU system to encourage their students to become math and science teachers. Establishes new requirements for these 600 warrants in Budget Bill Language	Approve as Budgeted; Augment number of available APLE warrants by 600 specifically for new program.	Revised BBL		Issue previously heard by committee on April 17th
7980-101-0001	January Budget: Loan Assumption warrants for National Guard APLE program	Governor's Budget proposes to authorize 100 new loan assumption warrant for the National Guard APLE program to encourage individuals to enlist in the National Guard	Deny Governor's Proposal	Delete language		

7980-101-0001	January Budget: SN-APPLE (nursing) Loan Assumption Program	Governor's Budget fails to provide ongoing authority for the Student Aid Commission to issue new loan assumption warrants for the SNAPPLE program in 2006-07	Approve new authority for 100 new loan assumption warrants	BBL and TBL, per attached		Adopt Trailer Bill Language to clarify criteria for awarding loan assumption warrants and make the program easier to administer.
7980-101-0001	May Revision: SN-APPLE Program	May Revision proposes to extend the authorization of 100 current year SNAPPLE awards, which were unused, to 2006-07.	Deny Governor's Proposal			Governor's proposal continues to assume that program is one-time in nature and that the warrants need to be extended an additional year. Please see prior issue.
7980-601-0001	May Revision: Nursing Grant Program (Issue 214)	May Revision proposes to establish a new grant program aimed at recruiting and retaining nurses in state-run health facilities	Deny Governor's Proposal: Adopt language authorizing 40 new loan assumption warrants for a new State Facilities Assumption Program of Loans for Education, contingent upon the enactment of legislation.	BBL authorizing warrants, contingent upon legislation	-0,600	As currently proposed, Nursing Grant program appears difficult to administer and unlikely to result in more nurses entering state-service.
7980-001-0574	May Revision: Nursing Grant Program (Issue 215)	May Revision proposes \$30,000 and half of a position to administer the new nursing grant program	Approve Gov's Proposal, shift funding to budget bill, language making appropriation contingent upon enactment of legislation	BBL	0,000	Establish position as ongoing; retain funding source as SLOF; appropriate in Budget Bill

7980-101-0001 7980-001-0574	New /Issue: Public Interest Attorney Loan Repayment Program	Program established in statute in 2001. Student Aid Commission never received funding or authority to enact the program	Approve authority for 100 new loan assumption warrants; \$100,000 from Student Loan Operating Fund for State operations; and 1.0 position	BBL specifying authority for warrants and funding for the staff position		Issue previously heard by committee on May 1st
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**BUDGET BILL LANGUAGE FOR
UC AND CSU ENROLLMENT TARGETS**

University of California

Replace Provision 13 of Item 6440-001-0001 with the following:

Of the amount appropriated in Schedule (1), \$41,640,000 is to fund 5,149 additional state-supported full-time equivalent [FTE] students at the University of California (UC), based on a marginal General Fund cost of \$8,087 per additional student. As a result, the Legislature expects UC to enroll a total of 193,455 state-supported FTE students during the 2006-07 academic year. This enrollment target does not include nonresident students and students enrolled in non-state supported summer programs. The UC shall report to the Legislature by March 15, 2007, on whether it has met the 2006-07 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If UC does not meet its total state-supported enrollment goal by at least 257 FTE students, the Director of Finance shall revert to the General Fund by April 1, 2007, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.

University of California. Item 6440-001-0001

Provision 15. Of the amount provided in Schedule (1), ~~\$1,720,000~~ \$860,000 is appropriated to fund the full cost of a minimum of ~~130~~ 65 full-time equivalent (FTE) students in Entry-Level Clinical Nursing Programs and Masters Entry Programs in Nursing, ~~with priority given to entry level master's nursing degree programs.~~ and \$103,000 is to support an additional 20 Master's Level Nursing students. This funding is intended as a supplement to marginal cost support provided within UC's enrollment growth funding, in recognition of higher costs associated with master's level nursing programs. The university shall report to the Legislature and the Governor by May 1, 2007 on its progress toward meeting this enrollment goal.

Provision X. Of the amount provided in Schedule (1), \$1,000,000 is appropriated on a one-time basis for faculty recruitment and start-up costs associated with the expansion of undergraduate and graduate nursing programs. It is the intent of the Legislature that these start-up funds result in the UC increasing its 2007-08 graduate-level nursing enrollments by 75 FTES and its 2007-08 undergraduate nursing enrollments by 108 FTES above the number served in 2006-07.

University of California. Item 6440-001-0001

Provision X. Of the amount appropriated in Schedule (1), \$17,300,000 is appropriated for student academic preparation and education programs (SAPEP) and is to be matched with \$12,000,000 from existing university resources, for a total of \$29,300,000 for these programs. The University of California 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, 2006. 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 of California in April 2005. The report should be submitted to the fiscal committee of each house of the Legislature no later than April 1, 2007.

BUDGET BILL LANGUAGE FOR UC RESEARCH INSTITUTES

Amend Provisions 9 and 10 of Item 6440-001-0001:

9. Of the amount appropriated in Schedule (1), \$1,609,000 is for the California State Summer School for Math and Science (COSMOS). The University of California shall report on the outcomes and effectiveness of COSMOS every five years, commencing April 1, 2011.

10. ~~Of the amount appropriated in Schedule (1), \$770,000 is for includes funding for the University of California to support~~ the Welfare Policy Research Project, per Article 9.7 (commencing with Section 11526) of Chapter 2 of Part 3 of the Welfare and Institutions Code.

Add the following provisions to Item 6440-001-0001:

X. Of the funds appropriated in Schedule (1), \$475,000 shall be expended for the Center for Earthquake Engineering Research, contingent upon the center continuing to receive federal matching funds from the National Science Foundation.

X. Of the funds appropriated in Schedule (1), \$385,000 shall be expended for viticulture and enology research contingent upon the receipt of an equal amount of private sector matching funds.

X. Of the funds appropriated in Schedule (1), \$18,000,000 is for the substance abuse research at the University of California, San Francisco campus in the Neurology Department.

X. Of the amount appropriated in Schedule (1), \$770,000 shall be used for lupus research at the University of California at San Francisco.

X. Of the amount appropriated in Schedule (1), \$1,539,000 shall be used to expand spinal cord injury research.

X. Of the amount appropriated in Schedule (1), \$3,848,000, is to fund the Medical Investigation of Neurodevelopmental Disorders (MIND) Institute, including \$3,500,000 for research grants program.

X. Of the amount appropriated in Schedule (1), \$6,000,000 shall be used to support research on labor and employment and labor education. Out of this amount, 60 percent shall be for system-wide labor research grants and 40 percent for the Centers for Labor Research and Education and the Institutes of Industrial Relations at UC Berkeley and UCLA to support labor education throughout the UC system.

X. Of the amount appropriated in Schedule (1), \$1,000,000 is to fund research at the Institute for Experimental Research on Obesity and Diabetes.

BUDGET BILL LANGUAGE FOR UC-MEXICO RESEARCH

Amend Provisions 11 of Item 6440-001-0001:

11. Notwithstanding Section 3.00, for the term of the financing, the University of California may use funds appropriated in Schedule (1) for debt service and costs associated with the purchase, renovation, and financing of a facility for the UC-Mexico research and academic programs in Mexico City. The amount to be financed shall not exceed \$7,000,000. The university shall report to the Legislature by March 15, 2007, on the (1) amount of funds spent to support the UC-Mexico facility (including the specific use of these funds), (2) amount of funds spent to support UC-Mexico research and academic programs, and (3) different types of research conducted and programs operated.

University of California. Item 6440-001-0001

Provision X. It is the intent of the Legislature that UC report by January 15, 2007 on salary increases provided to employees for 2006-07 by employment classification (represented staff, non-represented, staff, academic, senior management). The report should include the degree to which salary increases were consistent with the plan presented in the University's Regents Budget request in November, 2005.

Provision X. It is the intent of the Legislature that before changes are made to existing pension programs, UC report to the Legislature on how changes would affect employees by classification (represented staff, non-represented, staff, academic, senior management).

Budget Act Language on UC Compensation, Accountability, and Transparency

Item 6440-001-0001

It is the intent of the Legislature that UC fundamentally reform its compensation policies and practices to more appropriately reflect its status as a public institution accountable to the State of California. It is the intent of the Legislature that UC submit an annual report by March 1 of each year through 2010-11 to the Joint Legislative Budget Committee, legislative fiscal subcommittees, and the Department of Finance on the University's progress in reforming its compensation policies and practices consistent with the recommendations of the April 2006 Report of the Task Force on UC Compensation, Accountability, and Transparency (Task Force), the PricewaterhouseCoopers report, and the Bureau of State Audits May 2, 2006 report. Specifically, the University's report should include the following:

(1) consistent with the Task Force's recommendation on reporting, annual reports provided to the Board of Regents on total compensation for specified University senior officials (including the President, Provost, senior vice presidents, vice presidents/provosts, associate/assistant vice presidents, the University auditor, the University controller, principal officers of The Regents, chancellors, vice chancellors, national laboratory directors/deputy directors, medical center CEOs, professional school deans, and the top five most highly compensated positions at the Office of the President and each campus, medical center, and Department of Energy Laboratory). Total compensation information on employees not covered by this language is to be made available to the Legislature upon request.

In its annual report of total compensation for senior officials, the University should use a standard reporting template, such as the template recommended in the April 2006 Report of the Task Force, that lists all elements of total compensation, including base salary, benefits and perquisites, and all other forms of UC-provided compensation that accrue to the individual.

(2) plans and actions taken by UC to reform compensation policies and practices to ensure that, (a) clear and appropriate policies are in place to define compensation, (b) university compensation remains competitive,

(c) it is clear with whom the authority lies for making compensation decisions,

(d) policies include specific guidance about when exceptions are appropriate, who may grant them, and through which mechanisms, so that exceptions do not become the rule,

(e) conflicts among existing policies are eliminated,

(f) mechanisms are in place to ensure compliance with newly reformed policies and to reliably impose consequences when policies are violated;

(3) plans and actions taken by UC to update its human resources information system to ensure that campuses and the Office of the President are entering and capturing data in an accurate and systematically compatible manner that permits disclosure of compensation information in a full and timely way.

It is further the intent of the Legislature that the fiscal subcommittees of both houses of the Legislature hold annual hearings to review this report.

Hastings College of Law. Item 6600-001-0001

Provision 3. Of the amount appropriated in this item, \$776,000 is for one-time moving and relocation costs associated with the college's code-compliance upgrade project of its 200 McAllister Street facility.

California State University

Replace Provision 7 of Item 6610-001-0001 with the following:

Of the amount appropriated in Schedule (1), \$47,519,000 is to fund 8,490 additional state-supported full-time equivalent [FTE] students at the California State University (CSU), based on a marginal General Fund cost of \$5,597 per additional student. As a result, the Legislature expects CSU to enroll a total of 332,395 state-supported FTE students during the 2006-07 academic year. This enrollment target does not include non-resident students and students enrolled in non-state supported summer programs. The CSU shall provide a preliminary report to the Legislature by March 15, 2007, and a final report by May 1, 2007, on whether it has met the 2006-07 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If CSU does not meet its total state-supported enrollment goal by at least 425 FTE students, the Director of Finance shall revert to the General Fund by May 15, 2007, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.

California State University. Item 6610-001-0001

Provision X. Of the amount provided in Schedule (1), \$52,000,000 is provided for student academic preparation and student support services programs. The university will provide \$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 committees of each house of the Legislature no later than March 15, 2007.

California State University. Item 6610-001-0001

Provision 9. Of the amount provided in Schedule (1), \$1,720,000 is appropriated to fund the full cost of a minimum of 163 full-time equivalent (FTE) students *in Entry-Level Masters Degree Programs in nursing.* ~~with priority given to entry level master's nursing degree programs.~~ The university shall report to the Legislature and the Governor by May 1, 2007 on its progress toward meeting this enrollment goal.

Provision X. Of the amount provided in Schedule (1), \$2,000,000 is appropriated on a one-time basis for start-up costs associated with the expansion of undergraduate and graduate nursing programs. *It is the intent of the Legislature that these start-up funds result in the CSU increasing its 2007-08 undergraduate nursing enrollments by 340 FTES above the number served in 2006-07.*

Provision X. Of the amount provided in Schedule (1) \$371,000 is appropriated to support the addition of 35 FTES (full-time equivalent students) in Baccalaureate Degree Programs in Nursing. This funding shall be used to support the full cost of instruction, at a rate of \$10,588 for each of these 35 FTES.

California State University. Insert New Item: 6610-004-0001

Schedule (1) Dues to Western Interstate Commission on Higher Education ... \$112,000

California Student Aid Commission. Item 7980-101-0001

Provision 1(d) The purchase of loan assumptions under Article 5 (commencing with Section 69612) of Chapter 2 of Part 42 of the education Code. The Student Aid Commission shall issue ~~8,000~~ 8,600 new warrants. Of this amount, and notwithstanding any other provision of law, the commission shall allocate a total of 600 new warrants to the University of California and the California State University, as determined in consultation with those segments, to be awarded to participants in the Science and Math Teacher Initiative subject to the following provisions

California Student Aid Commission. Item 7980-101-0001

Provision X. The Student Aid Commission shall issue 100 new SNAPLE warrants pursuant to Article 5.6 (commencing with Section 69616) of Chapter 2 of Part 42 of the Education Code.

Article 5.3. State Nursing Assumption Program of Loans for Education (SNAPLE)

SEC. X . Section 69616 of the Education Code is amended to read:

69616. (a) The Legislature hereby recognizes the growing need for new faculty members in the nursing field at California's colleges and universities. This need will be fueled largely by the large number of current faculty approaching retirement age who will need to be replaced and the expected growth in enrollment demand in California. Further, to increase the supply of nurses in California, there must be an expansion of nursing educator opportunities in public colleges and universities that will produce the necessary faculty to teach in nursing programs in the state.

(b) The Legislature finds that the rising costs of higher education, coupled with a shift in available financial aid from scholarships and grants to loans, make loan repayment options an important consideration in a student's decision to pursue a graduate degree in nursing *or a nursing-related field*.

(c) It is the intent of the Legislature that the State Nursing Assumption Program of Loans for Education (SNAPLE) be designed to encourage persons to complete their graduate educations and serve as nursing faculty *in a registered nursing program* at an accredited California college or university.

(d) As used in this article, "commission" means the Student Aid Commission.

SEC. X. Section 69616.1 of the Education Code is amended to read:

69616.1. (a) Program participants shall meet all of the following eligibility criteria prior to selection into the program and shall continue to meet these criteria, as appropriate, during the payment periods:

(1) The participant shall be a United States citizen or eligible noncitizen.

(2) The participant shall be a California resident attending an eligible school or college.

(3) The participant shall be making satisfactory academic progress.

(4) The participant shall have complied with United States Selective Service requirements.

(5) The participant shall not owe a refund on any state or federal educational grant or have delinquent or defaulted student loans.

(b) Any person enrolled in an institution of postsecondary education and participating in the loan assumption program set forth in this article may be eligible to receive a conditional warrant for loan assumption, to be redeemed pursuant to this act upon becoming employed as a full-time nursing faculty member at a California college or university or the equivalent of full-time service as a nursing faculty member employed part-time at ~~two~~ *one* or more California colleges or universities.

(c) (1) The commission shall award loan assumption agreements to *undergraduate* students with demonstrated academic ability and financial need, as determined by the commission pursuant to Article 1.5 (commencing with Section 69503), *and to graduate students with demonstrated academic ability*.

(2) The applicant shall have completed a baccalaureate degree program or be enrolled in an academic program leading to a baccalaureate level or a graduate level degree.

(3) The applicant shall be currently enrolled in or admitted to a program in which he or she will be enrolled on at least a half-time basis each academic term as defined by an eligible institution. The applicant shall agree to maintain satisfactory academic progress.

(4) The applicant shall have been judged by his or her postsecondary institution to have outstanding ability on the basis of criteria that may include, but need not be limited to, any of the following:

(A) Grade point average.

(B) Test scores.

(C) Faculty evaluations.

(D) Interviews.

(E) Other recommendations.

(5) ~~In order to meet the costs of obtaining a graduate degree, the~~ *The* applicant shall have received, or be approved to receive, a loan under one or more of the following designated loan programs:

(A) The Federal Family Education Loan Program (20 U.S.C. Sec. 1071 et seq.).

(B) The Federal Direct Loan Program.

(C) Any loan program approved by the commission.

(6) The applicant shall have agreed to teach nursing on a full-time basis at one or more accredited California colleges or universities for at least three ~~consecutive~~ years, or ~~five part-time on a part-time basis for the equivalent of three full-time academic years, immediately commencing no more than 12 months after obtaining a graduate~~ *an academic* degree.

(7) An applicant who teaches on less than a full-time basis may participate in the program, but is not eligible for loan repayment until that person teaches for the equivalent of a full-time academic year, *unless the applicant, within the 12-month period, enrolls in an academic degree program leading to a more advanced degree in nursing or a nursing-related field.*

(d) A person participating in the program pursuant to this section shall not receive more than one loan assumption agreement.

SEC. X. *Section 69616.2 of the Education Code is amended to read:*

69616.2. The commission shall commence loan assumption payments pursuant to this article upon verification that the applicant has fulfilled all of the following: (a) The applicant has received a *baccalaureate degree or a graduate degree* from an accredited, participating institution.

(b) The applicant has provided the equivalent of full-time nursing instruction at one or more regionally accredited California colleges or universities for one academic year or the equivalent.

(c) The applicant has met the requirements of the loan assumption agreement and all other conditions of this article.

~~SEC. 2.~~

SEC. X. *Section 69616.3 of the Education Code is amended to read:*

69616.3. The terms of the loan assumptions granted under this article shall be as follows, subject to the specific terms of each loan assumption agreement:

(a) After a program participant has completed one academic year, or the equivalent of full-time teaching nursing studies, at one or more regionally accredited, eligible California colleges or universities, the commission shall assume up to eight thousand three hundred thirty-three dollars (\$8,333) of the outstanding liability of the participant under one or more of the designated loan programs.

(b) After the program participant has completed two consecutive academic years, or the equivalent of full-time teaching, at one or more regionally accredited California colleges or universities, the commission shall assume up to an additional eight thousand three hundred thirty-three dollars (\$8,333) of the outstanding liability of the participant under one or more of the designated loan programs, for a total loan assumption of up to sixteen thousand six hundred sixty-six dollars (\$16,666).

(c) After a program participant has completed three consecutive academic years, or the equivalent of full-time teaching, at one or more regionally accredited California colleges or universities, the commission shall assume up to an additional eight thousand three hundred thirty-four dollars (\$8,334) of the outstanding liability of the participant under one or more of the designated loan programs, for a total loan assumption of up to twenty-five thousand dollars (\$25,000).

(d) The commission may assume liability for loans received by the program participant to pay for the costs of obtaining the program participant's undergraduate and graduate degrees. (e) The term of the loan assumption agreement shall be no more than 10 years from the date on which the agreement was executed by the program participant and the commission.

(e) The term of the loan assumption agreement shall be no more than ten years from the date on which the agreement was executed by the program participant and the commission.

SEC. X. Section 69616.4 of the Education Code is amended to read:

69616.4. (a) Except as provided in subdivision (b), if a program participant fails to complete a minimum of three ~~consecutive~~ academic years of teaching *on a full-time basis, or the equivalent on a part-time basis*, as required by this article under the terms of the agreement pursuant to paragraph (6) of subdivision (c) of Section 69616.1, *the loan assumption agreement is no longer effective and shall be deemed terminated, and the commission shall not make any further payments. The participant shall repay loan forgiveness benefits previously provided through this program and resume responsibility for any remaining loan obligations, but shall not be required to repay any loan payments previously made through this program.*

(b) Notwithstanding subdivision (a), if a program participant becomes unable to complete one of the three ~~consecutive~~ years of teaching service *on a full-time basis, or the equivalent on a part-time basis*, due to a serious illness, pregnancy, or other natural causes, ~~the participant shall receive a deferral of the resumption of full liability for the loan~~ *the term of the loan assumption agreement shall be extended for a period not to exceed one academic year. The commission shall make no further payments under the loan assumption agreement until the applicable teaching requirements specified in Section 69616.3 have been satisfied.*

(c) If a natural disaster prevents a program participant from completing one of the required years of teaching service due to the interruption of instruction at the employing accredited California college or university, the term of the loan assumption agreement shall be extended for the period of time equal to the period from the interruption of instruction at the employing accredited California college or university to the resumption of instruction. The commission shall make no further payments under the loan assumption agreement until the applicable teaching requirements specified in Section 69616.3 have been satisfied.

SEC. X. Section 69616.5 of the Education Code is amended to read:

69616.5. (a) The commission shall accept nominations from accredited colleges and universities made pursuant to this article.

(b) The commission shall choose from among those nominations of *undergraduate students* deemed financially needy with outstanding student loans pursuant to Article 1.5 (commencing with Section 69503), and of *graduate students with outstanding student loans*, based upon criteria that may include, *but are not necessarily limited to, all of the following:*

(1) Grades at the undergraduate level in a subject field related to nursing.

(2) Grades in the undergraduate program.

(3) Aptitude for graduate work in the field of nursing.

(4) General aptitude for graduate study.

(5) Critical human resource needs.

(c) The commission may develop additional criteria for the selection of award recipients consistent with the purposes of this article.

California Student Aid Commission.

Item 7980-101-0001. Provision X. The Student Aid Commission is authorized to issue 40 new warrants for a newly-established State Facilities, Nursing Assumption Program of Loans for Education, contingent upon enactment of legislation during the 2006-07 regular legislative session.

Item 7980-001-0574 Provision X. Of the amount appropriated in this item, \$30,000 is to provide for one-half personnel years to implement a new State Facilities, Nursing Assumption Program of Loans for Education, contingent upon enactment of legislation during the regular 2006-07 legislative session.

California Student Aid Commission.

Item 7980-101-0001. Provision X. The Student Aid Commission shall issue 100 new warrants for the Public Interest Attorney Loan Repayment Program, pursuant to Article 12 (commencing with Section 69740) of Chapter 2 of Part 42 of the Education Code.

Item 7980-001-0574. Provision X. Of the amount appropriated in this item, \$100,000 is to provide staff support and outreach associated with the implementation of the Public Interest Attorney Loan Repayment Program, authorized pursuant to Item 7980-101-0001.

Subcommittee No. 1

Chair, Jack Scott

Member, Bob Margett

Member, Joe Simitian

Agenda

May 18, 2006

3:00 p.m. – Room 113

Part II

Higher Education

Community Colleges Ongoing Proposition 98 Funding

CCC	Gov (000's)	Reco	Cost	Comments
Growth (3% categorical and apportionments)	151,357	102,607	-48,750	2% apportionments; 1.74% categorical Allocated pursuant to Legislation enacted in the 2006-07 session
Equalization	130,000	159,438	29,438	AAB
Career Technical Education	50,000	50,000	0	Divide funds into separate schedules; adopt revised BBL
Deferred Maintenance/Instruct. Materials	29,500	26,800	-2,700	Approve May Revision
Matriculation	24,000	24,000	0	Approve May Revision
Mandates	4,000	4,000	0	Approve May Revision
Economic Development	15,000	15,000	0	Approve May Revision
CAHSEE Remediation	10,000	10,000	0	Approve May Revision
Disabled Student Services	9,600	9,600	0	Revised BBL
Apprenticeship	2,500	2,500	0	Approve May Revision
Nursing Stipends	1,500	1,500	0	Remove matching requirement; revise BBL
Nursing Attrition Reduction and Retention	0	8,000	8,000	Nursing Package
Cal-PASS	1,000	1,000	0	Approve May Revision
High Speed Network Costs	800	800	0	Approve as revised
CalWORKS	0	9,000	9,000	\$8 million workstudy; \$1 million job development; BBL specifying use of funds
Non Credit	0	30,000	30,000	w/BBL specifying use of funds contingent upon legislation enacted during 2006-07 legislative session
Total	429,257	454,245	24,988	

Community Colleges One-Time Funding

	Gov (000's)	Recommendation	
CCC			
General Purpose Block Grant	100,000	100,000	Approve May Revision
Deferred Maintenance/Instructional Materials	* 100,000	93,900	Divide funds into separate categories, pursuant to corresponding BBL
Career Tech Equipment an Facilities Improvements	40,000	40,000	Approve May Revision
Mandates	15,000	15,000	Approve May Revision
Part-Time Faculty Office Hrs	0	4,000	Augment Item
Part-Time Faculty Health Insurance	0	5,000	Augment Item
High Speed Network Last Mile Connection	500	1,446	Approve May Revision; augment by \$946K to reflect updated costs
Set-aside for Costs of changing funding formula	23,600	19,710	Full \$23.6 million amount not needed
Clinical Nursing Registry	<u>500</u>	<u>500</u>	Approve May Revision
Subtotal	279,600	279,556	
Compton Set-Aside (General Fund)	30,000		
	* Balancer		

I. COMMUNITY COLLEGES

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
1	6870-001-6028	May Revision: Staff for facilities planning (Issue 811)	Approve May Revision	No	0,000	New Issue
2	6870-101-0001	May Revision: Transfer and Articulation Provisional Language (Issue 818)	Approve May Revision	BBL, per DOF letter	0,000	Technical Issue
3	6870-101-0001	May Revision: Increased COLA (Issues 821 and 823)	Approve May Revision	BBL, per DOF letter	0,000	Conforming to COLA adjustment
4	6870-101-0001	May Revision: Student Fee Revenue Adjustment (Issue 824)	Approve May Revision	No	0,000	Technical Issue
5	6870-101-0001	May Revision: Board Financial Aid Program Adjustment (Issue 825)	Approve May Revision	BBL, per DOF letter	0,000	Technical Issue
6	6870-101-0001	May Revision: Oil and Mineral Adjustment (Issue 829)	Approve May Revision	No	0,000	Technical Issue
7	6870-101-0001	May Revision: Base Adjustment to Apportionments and Growth Funding Reduction (Issues 812 and 820)	Approve May Revision	Per DOF		Issue heard March 27th
8	6870-101-0001	May Revision: Consolidation of Schedule for Nursing (Issue 813)	Approve May Revision	BBL prov. (a)(c), per DOF letter	0,000	Technical Issue

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
9	6870-101-0001 May Revision: Augmentation for Recruitment/Retention of Nursing Faculty (Issue 835)	May Revision proposes a \$1.5 million augmentation, to be matched by local colleges, to provide incentive grants to recruit and retain nursing faculty	Approve May Revision; Remove local match requirement	Revised BBL prov. (6), per attached	0,000	Issue heard March 27th; local match requirement proposed by DOF makes program unworkable
10	6870-101-0001 New Issue: Nursing Program Attrition Reduction and Retention	May Revision fails to provide additional funding for services to nursing students. CCC's have expressed a need to provide coordinated attrition reduction and retention services for students enrolled in nursing programs	Augment by \$8 million and adopt BBL specifying use of funds. Allow CCC's to use a consolidated RFA process for colleges applying for nursing funds	BBL, per attached	8,000	Issue previously heard by committee on March 27
11	6870-101-0001 May Revision: Basic Skills Provisional Language (Issue 815)	May Revision proposes to add provisional language to the Basic Skills categorical program allowing unused funds to be made available on a one-time basis to colleges for deferred maintenance, instructional materials, and hazardous substance abatement	Deny May Revision and adopt alternative language	BBL per attached	0,000	Staff recommends allowing unused Basic Skills monies to remain for one-time uses within the Basic Skills program, per attached substitute language.
12	6870-111-0001 May Revision: Vocational Education Adjustment (Issue 827)	May Revision makes a \$2.9 million adjustment to the amount of one-time federal funds available for vocational education and specifies usage of dollars as being available to expand and align K-12 technical education programs with community college programs	Approve May Revision	BBL, per DOF letter	0,000	New Issue
13	6870-101-0001 January Budget: Services for Disabled Students	Governor's Budget provides \$9.6 million for enhanced services to disabled students. The community colleges have expressed concern with the BBL contained in the Governor's Budget and are requesting changes	Approve as Budgeted; Adopt Revised BBL	BBL, per attached	0,000	New Issue

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
14	6870-101-0001 May Revisor: Deferred Maintenance Augmentation (Issue 830)	May Revision proposes an ongoing augmentation of \$29.5 million for deferred maintenance, instructional materials, and hazardous materials abatement	Approve funding level for program at \$28 million; Adopt Revised BBL	BBL, per attached	-1,500	Revised BBL divides funds into separate categories due to different statutory local matching requirements
15	6870-101-0001 May Revisor: Augmentation for Matriculation Services (Issue 831)	May Revision proposes an ongoing augmentation of \$24 million for matriculation services to students	Approve May Revision	BBL, per DOF letter	0,000	Consistent with CCC priorities for funding
16	6870-295-0001 May Revisor: Augmentation for Community College Mandates (Issue 838)	May Revision proposes an addition \$4 million in ongoing support for mandate claims.	Approve May Revision	BBL, per DOF letter		Issue previously heard by committee on March 27
17	6870-101-0001 May Revisor: Augmentation for Economic Development Program (Issue 832)	May Revision proposes an ongoing augmentation of \$15 million for economic development program, with \$8 million specifically for Responsive Incumbent Worker Training for high growth industries	Approve May Revision	BBL, per DOF letter	0,000	Consistent with CCC priorities for funding
18	6870-101-0001 May Revisor: Augmentation for CAHSEE Remediation Program (Issue 833)	May Revision proposes an ongoing augmentation of \$10 million to provide remedial education services to high school students failing to pass the CAHSEE	Approve May Revision	BBL, per DOF letter	0,000	Consistent with CCC priorities for funding
19	6870-101-0001 May Revisor: Augmentation for Apprenticeship Programs (Issue 834)	May Revision proposes an ongoing augmentation of \$2.5million for apprenticeship programs	Approve May Revision	BBL, per DOF letter	0,000	Consistent with CCC priorities for funding
20	6870-101-0001 May Revisor: Augmentation for CENIC Services (Issue 836)	May Revision proposes \$800,000 to provide community colleges with high speed internet access	Approve May Revision	BBL, per DOF letter	0,000	Consistent with CCC priorities for funding
21	6870-101-0001 May Revisor: Augmentation for CalPASS (Issue 837)	May Revision proposes an addition \$500,000 for the CalPASS data sharing system	Approve May Revision	BBL, per DOF letter	0,000	Issue previously heard by committee on March 27
22	6870-101-0001 New Issue: Augmentation for Services to CalWORKS students	Governor fails to provide additional funds to support services to CalWORKS students	Augment by \$9 million; Adopt BBL specifying use of funds	BBL, per attached	9,000	New Issue

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments	
23	6870-101-0001	January Budget: Enrollment Growth	Governor's budget provides \$151 million to support 3 percent enrollment growth in apportionments and 1.74 percent growth in categorical programs.	Reduce item by \$48.75 million to account for a reduction in budgeted enrollment growth from 3% to 2%	No	-48,750	Enrollment growth at the community colleges has failed to meet budgeted expectations (3 percent) in the current year and enrollment projections for 2006-07 are estimated at approximately 2%.
24	6870-101-0001	January Budget: Equalization	Governor's budget provides \$130 million to fund equalization of apportionments to the 90th percentile. However, updated estimates require additional funds to equalize funding rates to this level	Augment funding by \$29.4 million; specify funds to be allocated upon legislation enacted in the current legislative session	BBL, per attached	29,438	Issue previously heard by committee on March 27
25	6870-101-0001	January Budget: Career Technical Education	Governor's budget provides a total of \$50 million for career-technical education.	Approve as Budgeted		0,000	Issue previously heard by committee on March 27
26	6870-101-0001	New Issue: Noncredit Instruction	Governor's budget makes no changes to the rate at which noncredit instruction is provided.	Augment by \$30 million; adopt BBL specifying use of funds	BBL, per attached	30,000	Issue previously heard by committee on March 27

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
II. ONE-TIME FUNDING ISSUES						
27						
28	6870-486 6870-651-0001	May Revision: Community College Block Grant (Issue 817; Issue 842)	May Revision provides a total of \$100 million in one-time funds (Proposition 98 revision account and one-time "settle up" funds) for a per FTES block grant to colleges	Approve May Revision	Trailer Bill appropriation	0,000 New Issue
29	6870-496	New Issue: Reappropriation of current year, unused, basic skills funding	Community College indicate that \$30.7 million in funding for basic skills will be underutilized in the current year	Adopt Budget Bill Language reappropriating the funds for one-time basic skills uses	BBL, per attached	30,700 New Issue
30	6870-492	May Revision: Reappropriation for Transfer and Articulation (Issue 818)	May Revision proposes to reappropriate \$1.4 million from the current year for transfer and articulation-related activities	Approve May Revision	BBL, per DOF letter	0,000 Technical Issue
31	6870-495	May Revision: Reversion of unused current year funds (Issue 816)	May Revision proposes to revert unused current and prior year funds, including approximately \$90 million in unspent current-year and prior-year enrollment growth funding	Approve May Revision	BBL, per DOF letter	0,000 Issue previously heard by committee on March 27
32	6870-601-0001	May Revision: Set-Aside for General Fund (non-proposition 98) Loan to Compton CCD (Issue 800)	May Revision proposes to set aside \$30 million to address fiscal solvency issues at Compton CCD, pursuant to legislation	Approve May Revision	BBL, per DOF letter	0,000 New Issue
33	6870-651-0001	May Revision: Current Year, One-Time Augmentation for Deferred Maintenance (Issue 840)	May Revision proposes to provide \$100 million to the community colleges for deferred maintenance, instructional equipment, and hazardous materials abatement.	Provide \$93.9 million in one-time funding; conform to action related on ongoing funding	Trailer Bill appropriation	-6100 New Issue

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
34	6870-651-0001	May Revision: Current Year, One-Time Augmentation for Career Technical Education Equipment (Issue 843)	Approve May Revision	Trailer Bill appropriation	0,000	New Issue
35	6870-651-0001	New Issue: One-Time Augmentation for Part-Time Faculty Office Hours and Health Insurance	Augment by \$9 million, one time funds	Trailer Bill or Reversion Account (DOF to determine)	9,000	New Issue
36	6870-651-0001	May Revision: Current Year, One-Time Augmentation for Implementation of a New Funding Formula (Issue 841)	Reduce item by \$3.9 million to account for updated cost estimates to implement new funding formula	Trailer Bill appropriation	-3,890	New Issue
37	6870-651-0001	May Revision: Current Year, One-Time Augmentation for Prior-Year Mandate Claims (Issue 844)	Approve May Revision	Trailer Bill appropriation	0,000	Issue previously heard by committee on March 27
38	6870-651-0001	May Revision: Current Year, One-Time Augmentation for High Speed Internet Services (Issue 846)	Approve May Revision; augment by \$946,000	Trailer Bill appropriation	0,946	New Issue
39	6870-651-0001	May Revision: Current Year, One-Time Augmentation to Establish an Online Nursing Faculty Registry (Issue 845)	Approve May Revision	Trailer Bill appropriation	0,000	New Issue

California Community Colleges - Item 6870-101-0001

Recruitment and Retention of Nursing Faculty. Add new provision as follows:

Provision X (b) \$1,500,000 ~~shall be used to~~ *are for half-year costs associated with fund* ~~ing~~ a five-year grant program designed to recruit and retain full-time nursing faculty. The board of governors shall adopt criteria, *consistent with legislation enacted during the 2005-06 legislative session,* to allocate these funds on a competitive basis ~~with a requirement that funds allocated under this program be matched on a one-to-one basis by the participating district.~~ These criteria shall also specify a detailed annual stipend scale.

Nursing Program Attrition Reduction and Retention Program. Add new provision as follows:

Provision X(d). \$8,000,000 is to provide student supportive services to reduce attrition in nursing programs, consistent with legislation enacted during the 2005-06 legislative session.

Provision X (e). The community colleges chancellors office may use a consolidated application process to distribute funds appropriated under Schedule (23) Nursing Program Support, in order to streamline the application process and expedite the allocation of funds.

Basic Skills Provisional Language. Amend Provision 9

9. Of the funds appropriated in Schedule (2) for Basic Skills and Apprenticeship Programs, any funds not required to meet the demand for the program funded under that schedule shall be made available on a one-time basis for ~~deferred maintenance, instructional materials, and hazardous substance abatement under the same terms and conditions specified in Schedule (17) of this item~~ enhancements to basic skills and immigrant education programs, including but not limited to curriculum development, course articulation, research, professional development, instructional equipment, counseling, and tutoring. Funds shall be allocated to districts on the basis of full-time-equivalent students in basic skills and immigrant education programs.

Services for Disabled Students. Revised Budget Bill Language

Provision 15 (e). Of the funds appropriated in Schedule (5) for Disabled Student Services, \$9,600,000 shall be allocated to support high-cost sign language interpreter services and real-time captioning equipment or other communication accommodations for deaf/hard of hearing students based on a 4 to 1 state to local district match.

Scheduled Maintenance, Instructional Equipment, and Hazardous Materials Abatement.

24. The funds appropriated in Schedule (17) for Physical Plant are available for the following purposes:

(a) Scheduled maintenance and special repairs of facilities. The Chancellor of the California Community Colleges shall allocate funds to districts on the basis of actual reported full-time-equivalent students (FTES), and may establish a minimum allocation per district. As a condition of receiving and expending these funds for maintenance or special repairs, a district shall certify that it will increase its operations and maintenance spending from the 1995-96 fiscal year by the amount it allocates from this appropriation for maintenance and special repairs, plus an equal amount to be provided from district discretionary funds. The chancellor may waive all or a portion of the matching requirement based upon a review of a district's financial condition. The question of whether a district has complied with its resolution shall be reviewed under the annual audit of that district. For every \$1 a district expends from this appropriation for scheduled maintenance and special repairs, the recipient district shall provide \$1 in matching funds.

(b) Hazardous substances abatement, cleanup, and repairs.

(c) Architectural barrier removal projects that meet the requirements of the federal Americans with Disabilities Act of 1990 and seismic retrofit projects limited to \$400,000. Districts that receive funds for architectural barrier removal projects shall provide a \$1 match for every \$1 provided by the state. The amounts in Schedule (17) of this item shall be available for expenditure until June 30, 2007.

25. The funds appropriated in Schedule (17.5) for the Instructional Support Program are available for the following purposes:

(a) Replacement of Instructional equipment and library materials. For every \$3 a district expends from this appropriation for replacement of instructional equipment or library materials, the recipient district shall provide \$1 in matching funds. The chancellor may waive all or a portion of the matching requirement based upon a review of a district's financial condition. The funds provided for instructional equipment and library materials shall not be used for personal services costs or operating expenses. The Chancellor of the California Community Colleges shall allocate funds to districts on the basis of actual reported full-time-equivalent students (FTES), and may establish a minimum allocation per district. The question of whether a district has complied with its resolution shall be reviewed under the annual audit of that district. The amounts in Schedule (17.5) of this item shall be available for expenditure until June 30, 2007.

Services to CalWORKS Students

Of the amount appropriated in Schedule (6) Special Services to CalWORKS Recipients, at least \$8,000,000 is to provide direct work-study wage reimbursement for students served under this program. \$1,000,000 shall be available for campus job development and placement services.

Equalization Language

Provision 8. Of the funds appropriated in Schedule (1) for Apportionments, ~~\$130,000,000~~ \$159,439,000 is for equalization pursuant to this provision, and shall be allocated, pursuant to legislation enacted during the 2005-06 legislative session. ~~according to the formula specified in Chapter 216 of the Statutes of 2004.~~ These funds shall not be considered to be Program Improvement funds pursuant to Title 5 regulations.

NonCredit Instruction

Provision X. Of the amount appropriated in Schedule (1) Apportionments, \$30,000,000 is available as supplemental funding for career and college preparation courses authorized pursuant to legislation enacted during the 2005-06 legislative session. The board of governors shall adopt criteria and standards for both the identification of career and college preparation courses and eligibility of these courses for funding. The criteria and standards shall be based on recommendations from the chancellor, the statewide academic senate, and the statewide association of chief instructional officers. The chancellor shall forward the recommended criteria and standards to the Governor, Legislature, and the Director of the Department of Finance.

Reappropriation of unused current year Basic Skills Funding

Add Item 6870-493 as follows:

"6870-493--Reappropriation, California Community Colleges, Proposition 98. The amount of \$30,724,000 from Schedule (2) of Item 6870-101-0001 of the 2005 Budget Act, as set aside in Provision number 6 of the item, is hereby reappropriated to the board of governors and shall be available for encumbrance and expenditure until June 30, 2007 on a one-time basis for the following purposes:

(1) \$750,000 for research and facilitation of statewide work by community college institutional representatives and experts to improve curriculum, instruction, student services and program practices in the areas of basic skills, including English-as-a-second language and workforce preparation courses for newly legalized immigrants.

(2) \$29,974,000 for allocation by the chancellor to community college districts for the enhancement of basic skills and immigrant education programs. The allocated funds may be expended, at local discretion, for research, curriculum development, professional development, articulation, assessment, counseling, tutoring, instructional materials and other one-time purposes directly related to the enhancement of basic skills and immigrant education programs. The allocated funds shall augment, and not supplant, current expenditures by districts on basic skills and immigrant education programs. The chancellor shall distribute funds on the basis of full-time-equivalent students in basic skills and immigrant education programs and may establish a minimum allocation per district of up to \$50,000.

For the purposes of making the computations required by Section 8 of Article XVI of the California Constitution, the reappropriation made in this item 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 2005-06 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 2005-06 fiscal year."

Jack Scott, Chair
Bob Margett
Joe Simittian



AGENDA
May 18, 2006
3:00 p.m. – Room 113

Page

I. DEPARTMENT OF EDUCATION

Settlement Agreement

1. Budget Year – One-Time Funding	1
2. Budget Year – Ongoing Funds	2
3. Enrollment Growth	3
4. Cost-of-Living Increases (COLAs).....	4
5. Revenue Limit Deficit Factor	6
6. Revenue Limit Equalization	7
7. Mandates	8
8. School Enrichment Block Grants	9
9. BTSAs Expansion Grants	10
10. Teacher Proposals.....	11
11. Fruits and Vegetables	13
12. Child Nutrition	14
13. Physical Education Grants	16
14. Music and Arts Grants	17
15. Digital Classroom Grants	18

16. K-12 High Speed Network.....	19
17. CAHSEE Intervention Grants	20
18. Counseling.....	22
19. Special Education – Local Assistance.....	23
20. Special Education – State Operations	24
21. State Special Schools.....	26
22. Federal Proposal – Program Improvement Schools/Districts	28
23. Accountability	29
24. Reading First	30
25. Instructional Materials	31
26. Student Data Systems – CALPADS and CSIS	32
27. Teacher Data System	34
28. Career Technical Education	35
29. Other Prop 98 Reversions	37
30. Other Prop 98 Reappropriations.....	38
31. Other Local Assistance	40
32. Various Full Funding Proposals.....	41
33. Various State Operations	42
34. Continuous Appropriations -- Current Year	45
35. Continuous Appropriations – Budget Year.....	47
36. Control Section 12.40 – Funding Flexibility.....	49
II. CONTROL SECTION 24.30 & SCHOOL FACILITIES AID PROGRAM (6350)	50
III. CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS (6255)	51
IV. COMMISSION ON TEACHER CREDENTIALING (6360)	52

Issue 1: One-Time Proposition 98 Funding

One-Time Prop 98 Funding Plan (2006-07)

Programs	Proposed Funding
Mandates	959.0
Instructional Materials (Balancer)	78.9
English Learner Instructional Materials	30.0
Emergency Repair Program	137.0
CALPADS	11.0
Revenue Limit Adjustments	10.5
School District Fiscal Solvency Plans	10.0
B TSA	9.6
Charter School Facilities Grants	9.0
School Breakfast Start-up Grants	3.0
Teacher Credentialing Reforms (SB 1209)	2.0
Principal Training	1.0
Budget Officer Training	1.1
CSIS Transition Support	0.5
Attendance Accounting	0.4
Discretionary One-Time School Grants (Per ADA)*	1,000.0

* Provides per ADA grants to districts for one-time school site expenditures, such as deferred maintenance, music and arts, physical education, libraries, and classroom supplies. Districts and schools must document how they spend these one-time funds.

Governor's One-Time Spending Proposal

2,263.0

Staff Recommendation: Approve the proposed one-time Proposition 98 funding plan. Disapprove all other January Budget and May Revision one-time funding proposals. Select Instructional Materials as balancer item.

Issue 2: Ongoing Proposition 98 Funding

Ongoing Prop 98 Funding Plan (2006-07)	
Programs	Proposed Funding
Revenue Limit Equalization *	300.0
Revenue Limit Deficit Factor	308.6
Counselors	75.0
Mandates	133.4
Arts and Music Education (K-12)	150.0
Teacher Recruitment & Retention	100.0
Teacher Credentialing Reforms	18.0
CAHSEE Intervention	50.5
Community Colleges	25.0
School Meal Increases	37.8
Economic Impact Aid	300.0
Special Education (Balancer)	50.0
CALPADS Assistance Funds	15.0
High Speed Network Costs	4.4
CAHSEE - Additional Test Administrations	7.7
National Board Subsidy	5.0
Nursing- Alternative Career Pathways	5.0
Paraprofessional Program	1.3
Kindergarten Oral Health Notification	4.4
CSIS Transition Support	0.5
STAR - Modified Assessment	0.1

* Does not include the \$17.8 million proposed by the Governor for equalizing COE administrative funds.

Governor's Budget Ongoing Proposal

1,588.6

Staff Recommendation: Approve the proposed ongoing Proposition 98 funding plan. Select [Special Education](#) as balancer.

3. Enrollment Growth

Item	Issue	Description	Staff Recommendation	BBL/TB
<p>Various Items</p> <p>Enrollment Growth Adjustments for K-12 Education Programs, Local Assistance. General Fund. (Issue 403)</p>	<p>May Revision Finance Letter:</p>	<p>Provides enrollment growth funding of \$112.4 million in 2006-07. This reflect a reduction of for revenue limit and categorical programs of \$205.9 million below the Governor's January Budget to reflect lower estimates of student enrollment in 2006-07. The Governor's January budget estimated a 0.21 percent growth rate; the May Revisions estimates negative growth of -0.26 percent. For budgeting purposes, the May Revise provides zero growth for most revenue limit and categorical programs and some positive growth for categorical programs with other statutory growth rates. Total average daily attendance (ADA) is estimated to be 5,957,000 in 2006-07, a drop of 66,000 ADA from 2005-06.</p>	<p>Approve May Revision.</p>	

4. Cost-of-Living Increases (COLAs)

Item	Issue	Description	Staff Recommendation	BBL/TB
Various Items	May Revision Finance Letter: Cost-of-Living Adjustments for K-12 Education Programs . Local Assistance. General Fund. (Issue 405)	The May Revision provides \$2.6 billion in total funding K-12 Cost-of-Living-Adjustment (COLA) for revenue limit and categorical programs. This amount reflects an increase of \$320.4 million over the Governor's January Budget as a result of an increase in the COLA rate from 5.18 percent to 5.92 percent.	Approve May Revision	
6110-188-0001	May Revision Finance Letter: State School Deferred Maintenance Program . Local Assistance. General Fund. (Issue 162)	It is requested that this item be increased by \$1,366,000 to fully fund the state's share of the State School Deferred Maintenance Program.	Approve May Revision	
6110-198-0001	May Revision Finance Letter: CalsAFE Program . (Issue 405)	It is requested that this item be increased by \$275,000 to reflect growth and COLA adjustments.	Approve May Revision	
6110-211-0001	May Revision Finance Letter: High School Class Size Reduction . Local Assistance. General Fund. (Issue 405)	It is requested that this item be increased by \$815,000 to reflect a change in the COLA rate from 5.18 percent to 5.92 percent.	Approve May Revision	
6110-234-0001	May Revision Finance Letter: K-3 Class Size Reduction . Local Assistance. General Fund. (Issue 405)	It is requested that this item be increased by \$12,321,000 to reflect a change in the COLA rate from 5.18 percent to 5.92 percent.	Approve May Revision	

6110-104-0001	<p>DOF Technical Correction: Supplemental Instruction. Local Assistance. General Fund.</p>	<p>Growth and COLA adjustments were inadvertently left out of the May Revision letter. DOF requests changing the Governor's Budget to reflect May Revision growth and COLA estimates for two supplemental instruction programs -- Low STAR and Core Academic. Provides a \$149,000 decrease for growth and \$516,000 increase for COLA.</p>	<p>Conform to May Revision growth and COLA adjustments.</p>	
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5. Revenue Limit Deficit Factor

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601-0001 6110-608-0001 Non-Budget Act Items	May Revision Finance Letter: Elimination of Outstanding Deficit Factor. Local Assistance. General Fund. (Issues 127 and 407)	The Governor's Budget proposes \$308.6 million to eliminate outstanding revenue limit deficit factor for school districts and county offices of education. The deficit factor resulted from the elimination of revenue limit COLAs and revenue limit reductions in the 2003-04 budget. The Governor's January budget proposed \$206.2 million in deficit reduction. The Governor's May Revision proposal to pay an additional \$102.4 million to eliminate remaining deficit factor in 2006-07. The LAO recommends approval of the May Revision proposal.	Approve May Revision.	TB

6. Revenue Limit Equalization

Item	Issue	Description	Staff Recommendation	BBL/TB
<p>6110-601-0001 6110-608-0001 Non-Budget Act Items</p>	<p>May Revision Finance Letter: Revenue Limit Equalization. Local Assistance, General Fund. (Issue 126)</p>	<p>The Governor proposes a \$300 million increase in funding to equalize school district revenue limits. The Governor's January Budget provided \$200 million. The May Revision proposes an additional \$100 million, which is estimated to more move the state more than halfway toward fully meeting the state's equalization target. The Governor's proposal does not include revenue limit equalization for county offices of education. The LAO recommends approval of \$200 million for school district revenue limit equalization and redirection of \$100 million to equalize funding for other programs. The LAO also recommends folding four revenue limit add-on programs into the revenue limit base as a part of equalization.</p>	<p>Approve May Revision funding level for revenue limit equalization. Tie to level of funding for Economic Impact Aid expansion. Adopt LAO recommendation to fold four add-on programs into revenue limit base before equalizing.</p>	

7. Mandates

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-295-0001	Governor's January Budget: Restoration of Annual Education Mandate Payments. Local Assistance. General Fund.	The budget proposes to restore annual funding for K-12 education mandates and to stop the recent practice of deferring or suspending all funding for education mandates. Specifically, the Governor proposes to provide \$133.6 million to cover the annual costs of state-mandated local education programs for K-12 school districts and county offices of education in 2006-07. The Governor's May Revision Letter -- discussed in an earlier item -- provides an additional \$30.0 million in one-time funds for payment of annual mandate claims in 2006-07. Together these funds provide \$163.3 million and would more than address the deficiency identified by LAO.	Approve Governor's Budget and May Revision proposals to conform to action on Prop 98 spending plan.	

8. School Enrichment Block Grant (Teacher & Administrator Recruitment and

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-262-0001	Governor's January Budget: Ongoing Funds for School Enrichment Block Grants. Local Assistance. General Fund.	The Governor proposes \$100 million in ongoing funding for School Enrichment Block Grants to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API). The Governor proposes an additional \$3 million in one-time funds to continue a state level contract to assist these low performing schools in recruiting highly qualified teachers. The LAO recommends rejecting this proposal.	Approve Governor's Budget for Block Grants. Reappropriate \$3 million in unexpended 05-06 funds for state level teacher recruitment. [Funds to be used for Personnel Mgt Teams to (1) assist districts in improving their human resources practices to better recruit and retain teachers and (2) establish a clearinghouse for personnel management best practices.]	TB

9. Beginning Teacher Support and Assessment (BTSA)

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-637-0001	Governor's January Budget: BTSA Expansion for Third Year of Program. Local Assistance. General Fund.	The Governor proposes \$65 million to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the Academic Performance Index (API). The LAO recommends rejecting this proposal.	Reject Governor's Budget.	

10. Teacher Proposals

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0890	<p>May Revision Finance Letter: Federal Title II Statewide Activities, State Operations. Federal Funds. (Issue 492)</p>	<p>It is requested that this item be increased by \$2,309,000 in one-time federal carryover funds to implement statewide activities to comply with federal guidelines. Specifically, \$209,000 is provided to implement a No Child Left Behind Monitoring, Interventions, and Sanctions program to oversee California's compliance with federal teacher quality standards. In addition, \$2.1 million is provided to conduct an evaluation of teacher induction programs, including the Beginning Teacher Support and Assessment (BTSA) program. These proposals comply with federal Title II guidelines for statewide activities. The LAO recommends rejecting this proposal.</p>	<p>Approve May Revision and adopt language to allocate \$2.1 million for teacher program and credentialing studies and assessments.</p>	

6110-195-0890	<p>May Revision Finance Letter: Federal Title II Statewide Activities. Local Assistance. Federal Funds. (Issue 491)</p>	<p>It is requested that this item be decreased by \$6,709,000. This reflects a \$3.6 million decrease in federal funding and a \$3.1 million realignment of state Title II funds to comply with federal guidelines. A recent finding by federal program monitoring staff found that funds were inappropriately being allocated to local educational agencies (LEAs) that should have been used for statewide activities, defined as activities that benefit all LEAs.</p>	<p>Approve May Revision.</p>	
6110-195-0001	<p>May Revision Finance Letter: State Teacher Incentives National Board Certification. Local Assistance. General Fund. (Issue 515)</p>	<p>It is requested that this item be increased by \$5.0 million to pay up to \$1,000 of the fee for teachers interested in seeking National Board Certification, with priority for teachers in High Priority Schools. National Board for Professional Teaching Standards certification is a voluntary program, which requires teachers to pass rigorous standards and assessments. Certification currently costs \$2,500, with federal funds covering half the fee. This funding will reduce fees to only \$250 for up to 5,000 teachers.</p>	<p>Approve May Revision.</p>	

11. Fruits and Vegetables

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-486 6110-217-0001	May Revision Finance Letter: Fresh Start Pilot Program. Local Assistance. General Fund. (Issue 916)	The Governor's January Budget proposed \$18.2 million in ongoing funding to continue funding for the California Fresh Start Pilot Program. The May Revision proposal reduces ongoing funding by \$13.0 million to reflect the availability of unexpended California Fresh Start Pilot Program resources. Due to delays in implementing the program, approximately \$13.0 million will not be expended in the current year. These funds, coupled with \$5.2 million in ongoing funding, will be used to provide school meal programs with more fruits and vegetables in 2006-07. LAO recommends rejecting General Funds for this program.	Approve reappropriation of \$13.0 million in one-time funds. Disapprove of \$5.2 million in ongoing funds per LAO recommendation.	
6110-001-0001	April Finance Letter: Fresh Start Pilot Program. State Operations. General Fund. (Issue 881)	Provides \$174,000 to make permanent 2.0 positions established in 2005-06 to administer the California Fresh Start Pilot Program. This provides an increase of \$74,000 above the Governor's January Budget. These positions will process reimbursement claims and maintain records. The Governor proposes to make this program permanent.	Reject May Revision proposal to establish 2.0 permanent positions. Continue 2.0 positions through December 2007 as limited term positions.	

12. Child Nutrition

Item	Issue	Description	Staff Recommendation	BBL/TB
611-203-0001	May Revision Finance Letter: Child Nutrition - Increasing State Meal Rate. Local Assistance. General Fund. (Issue 902)	Provides an increase of \$37.8 million to increase the School Breakfast and Lunch state reimbursement rate by seven cents (\$0.07) from approximately \$0.15 to \$0.22.	Approve May Revision. Conforms to action on Prop 98 spending plans.	
6110-001-0001	May Revision Finance Letter: Child Nutrition Point-of-Service Technology Study. State Operations. General Fund. (Issue 920)	Provides a \$1.0 million increase for a child nutrition point-of-service technology study. This study will assess the availability and costs of current point-of-service technologies that allow parents to monitor and limit the foods children eat at school.	Reject May Revision.	
6110-001-0001	Governor's January Budget: Child Nutrition - Information and Payment System. State Operations. General Fund.	Provides \$3.2 million in federal funds and 7.4 limited-term positions to begin implementation of the new Child Nutrition Information Payment System (CNIPS) in 2006-07. DOF approved the feasibility study report for CNIPS in March 2005.	Approve Governor's Budget.	

6110-001-0001	<p>Governor's January Budget: Child Nutrition - Staff to Support Implementation of Standards for Non-School Meal Food. State Operations. General Fund.</p>	<p>Provides \$100,000 in General Funds for a 0.9 position to coordinate the nutrition standards activities to implement Chapter 235/2005 (SB 12/Escurtia). Chapter 235 sets nutrition standards for food sold outside the federal school meal programs during the school day at all elementary through high school campuses, effective July 1, 2007. The Governor also proposes \$200,000 in reimbursements to be collected from vendors who elect to have their product certified as meeting the Chapter 235 standards.</p>	<p>Approve Governor's Budget.</p>	
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13. Physical Education Block Grants

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-260-0001	Governor's January Budget: Physical Education Block Grant . Local Assistance. General Fund.	Provides \$100 million in ongoing funds for physical education block grants for K-8 schools. Funding may be used for hiring qualified staff, reducing class size, and providing standards aligned professional development and curricula.	Reject Governor's Budget to reflect other priorities in Prop 98 spending plans.	
6110-260-0001	May Revision Finance Letter. Physical Education Block Grants . Language Change. Local Assistance. General Fund. (Issue 516)	Amends budget bill language to require alignment with legislation to be enacted during the 2005-06 Regular Session.	Reject May Revision. Conforms to action on local assistance block grants.	

14. Music and Arts Block Grants

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-265-0001	May Revision Finance Letter: Arts and Music Block Grants . Local Assistance. General Fund. (Issue 673)	<p>The Governor proposes a total of \$166.0 million. The Governor's January Budget proposed \$100 million for K-8 students; the May Revision increases this amount by \$66.0 million to provide funds for students in grades K-12. The May Revision also increases the per pupil rate to \$25 per pupil for sites with enrollment of 201 pupils or more. The grant will continue to provide minimum funding levels of \$3,000 per site for sites with ten or fewer pupils and \$5,000 per site for sites with between eleven and 200 pupils. The LAO recommends rejecting this proposal.</p>	<p>Approve May Revision for K-12 students. Reduce funding level to <u>\$150 million</u> to conform to action on Prop 98 spending plans.</p>	

15. Education Technology - Digital Classrooms

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-264-0001	Governor's January Budget. Digital Classroom Grants. Local Assistance. General Fund.	<p>The Governor proposes \$25 million to establish a new program intended to eventually provide one-time Digital Classroom Block Grants to classrooms in all K-12 schools. These one-time block grants are intended to advance the effective use of education technology in order to improve classroom instruction and student achievement. LAO recommends rejecting this proposal. Under a pending Microsoft settlement schools may soon be receiving an estimated \$400 to \$600 million in technology vouchers for hardware and software purchases.</p>	Reject Governor's Budget.	

16. K-12 High Speed Network

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-182-0001	May Revision Finance Letter: K-12 High Speed Network . Local Assistance: General Fund & Reimbursements . (Issue 647)	<p>Provides \$8.6 million in ongoing and General Funds for costs associated with the K-12 High Speed Network. Total expenditure authority will be \$15.6 million, consisting of \$8.6 million in Proposition 98 General Fund, \$3.0 million from existing reserves, and \$4.0 million in excess funds in the equipment refresh account. Further, it is anticipated that the \$8.6 million will be offset by any funds received from claims for E-rate and/or the California Teleconnect Fund (CTF). The \$15.6 million will allow the K-12 High Speed Network to continue providing LEAs with electronic connections to the Corporation for Education Network Initiatives in California (CENIC), California's colleges and universities, and to each other. Provisional language will exclude major subcontracts, defined as subcontracts above \$25,000, from charges for indirect costs. This will allow the K-12 High Speed Network to fully expend pass-through funds for contracted services without the need to charge indirect costs.</p>	<p>Approve May Revision and LAO recommendations to budget \$4.6 million for E-Rate and CTF funds. This reduces General Funds by \$4.6 million. Adopt LAO budget bill language.</p>	

17. CAHSEE Intervention Grants

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-204-0001	<p>May Revision Finance Letter: Expansion of CAHSEE Assistance. Local Assistance. General Fund. (Issue 840 & 852)</p>	<p>Increases funding by \$30.5 million to provide additional supplemental instruction and specialized materials to pupils who have failed or are at risk of failing the California High School Exit Exam (CAHSEE). This provides a total of \$70.5 million for CAHSEE intervention-related programs. Of the additional funds provided, \$10.0 million will provide supplemental instruction via adult education to fifth-year seniors who have met all graduation requirements except for passage of the CAHSEE. In addition, \$5.5 million will be available on a one-time basis for school districts to purchase individual intervention materials for students who have failed or are at risk of failing the CAHSEE.</p>	<p><u>Approve May Revision level of funding. Adopt LAO and staff recommendations.</u> LAO: (1) direct funding to all students, including students with disabilities, in the Class of 2007 and 2008 who have failed both tests; (2) require CDE to report annually on the number of students taking CAHSEE; and (3) provide \$100,000 in Title VI funds for an independent study of English learner students and students with disabilities who did not pass CAHSEE.</p> <p>(continued in Comments section)</p>	

6110-113-0001	<p>May Revision Finance Letter: Additional Administrations of CAHSEE. Local Assistance. General Fund. (Issue 242)</p>	<p>Provides an increase of \$7.7 million to develop three additional administrations of the California High School Exit Examination (CAHSEE). These administrations will accommodate students who attend school at non-traditional times, such as evenings and weekends, and provide students with additional opportunities to pass the examination. In addition, funds will be used by the independent evaluator to perform analyses related to the three additional administrations.</p>	<p>Approve \$5.12 million for two additional administrations of CAHSEE.</p>	
6110-113-0001	<p>May Revision Finance Proposal: Writing Test for California Modified Assessment for STAR. Local Assistance. General Fund. (Issue 253)</p>	<p>Provides \$80,000 to develop a writing test for the new California Modified Assessment for the STAR program. This augmentation will accommodate the needs of special education students.</p>	<p>Approve May Revision.</p>	

18. Counseling

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-108-0001	May Revision Finance Letter: Grade 7-12 Counseling Program . Local Assistance. General Fund. (Issue 850)	<p>Appropriates \$200.0 million to increase the number of school counselors that serve 7th through 12th grade students. These funds will supplement, not supplant, existing counseling resources and improve the student-to-counselor ratios for middle schools to 500:1 and high schools to 300:1. Moreover, unlike existing counseling services that steer students toward higher education, these new counselors will provide students who do not intend to pursue higher education with needed career and vocational assistance.</p>	<p>Approve May Revision but reduce funding to <u>\$75 million</u> to conform to action on Prop 98 spending plans.</p>	

19. Special Education - Local Assistance

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-161-0890	May Revision Finance Letter: Federal Funds Adjustment . Local Assistance. Federal Funds. (Issue 412)	Decreases federal special education funding by \$13,643,000 to reflect a decrease in the federal special education grant level.	Approve May Revision.	
6110-161-0001	May Revision Finance Letter: Various Baseline Adjustments . Local Assistance. General Fund. (Issues 402 & 408)	It is requested that this item be amended to increase the Proposition 98 General Fund for the Special Education program by a net total of \$3,291,000 . This action will provide a baseline-related increase of \$30,000 and an increase of \$3,261,000 as a result of a decrease in local property taxes. We note that adjustments for growth and the COLA are included in other issues, and bring the total net increase of this item to \$19,454,000.	<p>(1) Approve May Revision baseline adjustments.</p> <p>(2) Augment funding for the extraordinary cost pool by <u>\$2.0 million</u>, with budget bill and trailer bill language to allow reimbursement for students residing in licensed children's institutions.</p> <p>(3) Remove budget bill language directing <u>\$52.6 million</u> for one-time purposes.</p>	

20. Special Education - State Operations

Issue	Description	Staff Recommendation	BBL/TB	
6110-161-0001 6110-161-0890	May Revision Finance Letter: Family Empowerment Centers. State Operations. Federal Funds. (Issue 041)	Increases funding in item by \$934,000 in order to partially shift funding for Family Empowerment Centers for Federal Individuals with Disabilities Education Act (IDEA) funds to General Fund. There would be a corresponding increase in Federal IDEA Special Education local assistance. This transaction will increase special education local assistance and reduce state-level activities to remain within the federal cap.	Approve Governor's Budget.	
6110-001-000 6110-001-0890 6110-161-0890	May Revision Finance Letter: Correctional Youth Authority Special Education Report. State Operations. Federal Funds. (Issue 040)	Reduces state operations by \$303,000 and shifts savings to local assistance by a corresponding amount. The Governor's January budget proposed these funds for the California State University, San Bernardino to provide special education monitoring and technical assistance to the California Youth Authority, pursuant to SB 505 (Perata). This transaction will increase special education local assistance and reduce state-level activities to remain within the federal cap.	Approve Governor's January Budget.	

<p>6110-001-000 6110-001-0890 6110-161-0890</p>	<p>May Revision Finance Letter: State Special Schools Transportation. State Operations. Federal Funds. (Issue 047)</p>	<p>It is requested that Item 6110-001-0890 be reduced by \$963,000 and that Item 6110-161-0890 be increased by a corresponding amount. It is further requested that Item 6110-008-0001 be increased by \$963,000 in order to eliminate Federal Fund reimbursements for State Special Schools Transportation. This transaction will reduce state-level activities to remain within the federal cap. The net cost is an increase of \$963,000 to the General Fund.</p>	<p>Approve Governor's January Budget.</p>	
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21. Special Education - State Special Schools

Issue	Description	Staff Recommendation	BBL/TB
Governor's January Budget: California School for the Deaf - Riverside. State Operations. General Fund	\$117,000 in one-time General Funds (Non-98) for a contract for a Data Resource Specialist to help transition the school to a new student data collection system.	Approve Governor's Budget.	
Governor's January Budget: California School for the Deaf - Riverside. State Operations. General Fund	\$47,000 in General Funds (Prop 98) for a 0.5 visual and performing arts teacher position to supplement another partial, existing position.	Approve Governor's Budget.	
Governor's January Budget: California School for the Deaf - Riverside. State Operations. General Fund	\$117,000 in General Funds (Prop 98) for a 0.9 resource specialist position to help the school implement instruction linked to the state's academic and performance standards.	Approve Governor's Budget.	
Governor's January Budget: California School for the Deaf - Riverside. State Operations. General Fund	\$285,000 in General Funds (Prop 98) for a 2.8 Early Childhood Education teachers to extend funding to additional students enrolling in the early childhood education program.	Approve Governor's Budget.	
Governor's January Budget: California School for the Deaf - Freemont. State Operations. General Fund.	\$79,000 in General Fund (Non-98) for a 0.8 position to support the additional costs of maintenance and janitorial services for a new Pupil Personnel Services facility scheduled to be completed in July 2006.	Approve Governor's Budget.	

	<p>April Finance Letter: California School for the Deaf - Riverside: Capital Outlay. General Fund</p>	<p>Building New Gymnasium and Pool Center. DOF requests that the amount in item 6110-301-0660 be decreased by \$773,000 to reflect a revision to the request for a gymnasium and pool center. The adjustment reflects the cost to build a new gymnasium and pool center rather than renovate the current</p>	<p>Approve April Letter.</p>	
	<p>April Finance Letter: California School for the Deaf - Riverside: Capital Outlay. General Fund</p>	<p>Kitchen and Dining Hall Seismic Renovations. DOF requests that the amount in item 6110-301-0660 be increased by \$4,428,000 to provide for extensive seismic modifications not anticipated for a renovation project for the kitchen and dining hall. The proposed increase would mean a total appropriation level of \$8,834,000 for the project.</p>	<p>Approve April Letter.</p>	

22. Federal Proposal - Program Improvement Schools/Districts

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-135-0890	May Revision Finance Letter: Consolidate Carryover Funds for NCLB Programs and Allocate for Program Improvement Schools/Districts	The Governor proposes to appropriate \$82 million in federal carryover funds for low performing schools and districts identified as needing "Program Improvement" (PI) under the federal No Child Left Behind (NCLB) Act. The Administration is working with the California Department of Education on the development of a specific proposal that would utilize these one-time funds to increase student achievement in Program Improvement schools and districts. The details of the new program have still not been fully developed. The Governor would shift carryover funds from the following federal programs to assist Program Improvement schools and districts: --\$24.3 million for Title I-Basic Grants; --\$22.2 million for Title I-Program Improvement; --\$19.2 million for Title I-Migrant Education; and --\$16.1 million for Title V-Comprehensive School Reform (CSR).	Reject Governor's Proposal. Appropriate funds from the four federal programs back to their originating programs and budget items.	BBL
6110-135-0890	May Revision Finance Letter: Migrant Education Carryover Funds. Local Assistance. Federal Funds. (Issue 848)	It is requested that this item be increased by \$10.0 million to reflect the availability of one-time Migrant Education federal carryover funds. These funds will augment the \$81.9 million provided in the Governor's Budget for the Federal Funds Flexibility Proposal. This proposal will improve migrant student achievement in Program Improvement schools and districts.	Reject May Revision. Appropriate carryover funds to Migrant Education Program.	

23. Accountability

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-123-0001	<p>May Revision Proposal: Eliminate Reversion of Current Year Funding for High Priority Schools Grant Program. Local Assistance. General Fund.</p>	<p>The Governor's budget proposes a total of \$243 million in 2006-07 for the High Priority (HP) Schools Grant program. This budget provides \$201 million for a second cohort of HP. Annual funding for planning grants and implementation grants for the second cohort, as proposed, cannot exceed this amount in any fiscal year. The 2005-06 budget appropriated \$60 million for planning grants for a second cohort of HP schools in 2005-06. These funds have not yet been expended. The Department of Education has developed several options for the Legislature to consider in expending these funds for the second HP cohort and for a pilot program to assist and intervene with alternative schools that are not eligible to participate in the HP program.</p>	<p>Approve May Revision.</p>	
6110-136-0890	<p>May Revision Finance Letter: Title I School Improvement Program. Local Assistance. Federal Funds. (Issue 258)</p>	<p>It is requested that Schedule (3) of this item be decreased by \$17,868,000 to make amounts available for Title I state-monitored schools under the Immediate Intervention/Underperforming Schools Program consistent with CDE funding estimates. Similarly, it is requested that funding be adjusted for the district accountability program.</p>	<p>Approve May Revision.</p>	

24. Federal Proposal - Reading First

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-126-0890	May Revision Finance Letter: Reading First Program . Local Assistance. Federal Funds. (Issue 511)	Increases one-time carryover funding by \$12.6 million to expand grants to participating districts, pursuant to implementing legislation. This brings total funding to \$158.0 million in 2006-07. The Governor is requesting a fifth year of funding for schools that currently receive Reading First grants and proposes to lift the current cap limiting participation to approximately 75 percent of the schools in funded districts. The Governor does not provide funding for schools in new eligible districts.	Approve May Revision carryover funding with changes to provide adopt LAO recommendations to (1) establish the definition of significant progress in legislation and (2) set-aside the same level of funding for a new round of districts as provided in 2005-06.	

25. Instructional Materials

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-189-0001	Governor's January Budget. Instructional Materials Block Grant. Local Assistance. General Fund.	The Governor's Budget proposes \$402 million in Proposition 98 funding for the Instructional Materials Block Grant in 2006-07, which provides a \$40 million (11 percent) increase over the 2005-06 level of funding. The Governor's budget also includes an estimated \$190 million in State Lottery funds for K-12 schools in 2006-07, which reflects a \$40 million increase in lottery revenues beginning in 2005-06 that must be used for instructional materials. The LAO recommends that the Legislature reject the \$40 million Proposition 98 increase considering the \$40 million in new lottery revenues available to schools for instructional materials in 2006-07.	Approve Governor's Budget.	

26. Student Data Systems - CALPADS & CSIS

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0001	<p>May Revision Finance Letter: Staff Position - Statewide Student Identifier Maintenance Program.</p> <p>State Operations. General Funds. (Issue 651)</p>	<p>Increases by \$53,000 for an additional 0.5 position for support and administration of the Student Identifier Acquisition and Maintenance program.</p>	<p>Approve May Revision.</p>	
6110-101-0349	<p>May Revision Finance Letter: District Funding -- California School Information Services (CSIS). Local Assistance. Reimbursements. (Issue 649)</p>	<p>Provides \$15,093,000. This increase will allow \$31.0 million [(\$20.0 million from the Educational Telecommunications Fund and \$11.0 million from 2005-06 Proposition 98 General Fund (see discussion of 2005-06 below)] to be allocated to school districts that voluntarily opt to join a less intensive version of CSIS designed to assist districts in establishing the hardware/software and data management process necessary for a smooth transition to CALPADS in 2008. The funding will be allocated using the existing statutory CSIS funding rate and will be appropriated for expenditure over a two-year period. Requires approval of plan by DOF, OSE, and LAO.</p>	<p>Approve May Revision level of funding. Adopt LAO recommendation for redirection \$500,000 to add 11.0 positions for CSIS support. Amend budget bill language to reflect technical changes regarding LAO approval of plan.</p>	

6110-140-0001	<p>May Revision Finance Letter: Statewide Support -- CALPADS Preparation. Local Assistance. General Fund. (Issue 560)</p>	<p>Provides an increase of \$545,000 to reflect the first year of support for a three-year plan to transition all districts to the California Longitudinal Pupil Achievement Data System (CALPADS). These funds will support 6.0 positions and increased administration costs due to increased workload associated with working with districts that voluntarily opt to join a less intensive version of CSIS. This version will be designed to assist districts in establishing the hardware/software and data management processes necessary for a smooth transition to CALPADS in 2008. It is anticipated that all districts will be completed in the next three years.</p>	<p>Approve May Revision and augment funding by \$15.0 million for CALPADS incentive grants per LAO recommendation. Conforms to action on Prop 98 spending plans.</p>	
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27. Teacher Data Systems

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0890	May Revision Finance Letter: Development of the Teacher Database System. State Operations. Federal Funds. (Issue 494)	Provides an increase of \$938,000 in one-time federal Title II carryover funds for one Associate Governmental Program Analyst position and other first year development costs of the Teacher Database System.	Approve May Revision.	

28. Career Technical Education

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-166-0890	May Revision Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issue 582)	Increases federal Vocational Education funding by \$11,428,000 to reflect the availability of one-time carryover funds. This one-time funding will support additional vocational education activities, including those that complement Career Technical Education programs.	Approve May Revision	
6110-166-0890	April Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issues 577 & 578)	Provides an increase of \$11,428,000 to reflect the availability of one-time federal carryover funding. This one-time funding will support additional vocational education activities, including those that complement the Governor's Career Technical Education Initiative.	Approve April Letter - Issue 577. Reject April Letter - Issue 578 to conform to May Revision proposal in previous item.	
6110-001-0001	New Issue. College Outreach - Parental Notification of College Opportunities. State Operations. General Fund.	Appropriate \$500,000 in ongoing funding to the Department of Education to notify parents of college and financial aid opportunities for their children. CDE would send a notification letter annually to the parents of all 6th, 8th and 10th graders in the state.	Approve Legislative augmentation for college outreach.	
6110-001-0890	Governor's January Budget: Career Technical Education -- Accountability System. State Operations. Federal Funds.	Career Technical Education - Accountability System. Provide \$63,000 in federal Carl Perkins funds and \$107,000 in Cal Works reimbursement funds to allow CDE to administer an accountability system for career technical education. Funding is provided to convert 1.9 limited-term	Approve Governor's Budget.	

6110-001-0001	Governor's January Budget. Career Technical Education --Staff Support. State Operations. General Fund.	Provides \$193,000 in federal Carl Perkins funds for 1.9 limited-term positions to implement the Career Technical Education program created by Chapter 352, Statutes of 2005 (SB 70/Scott). These positions would oversee the alignment of career technical education curriculum in K-12 schools and community colleges with industry-based programs; analyze and review curriculum; and prepare required reports. The Governor's budget proposes these positions in both 2005-06 and 2006-07.	Approve Governor's Budget.	
6110-001-0001	Governor's January Budget. Career Technical Education - California Career Resource Network. State Operations. General Fund.	Provides \$159,000 in General Funds and \$159,000 in federal funds to increase funding for an interagency agreement with the California Career Resource Network.	Approve Governor's Budget and conform to other May Revision changes.	

29. Other Proposition 98 Reversions

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-495	May Revision Finance Letter: Proposition 98 Reversion Account - Various Reversions. Local Assistance. General Fund. (Issues 350,720,923)	The May Revision provides an update of estimated balances available from the current year and prior years.	Approve May Revision. Conform to action on Prop 98 spending plan.	BBL

30. Other Proposition 98 Reappropriations

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-491	<p>May Finance Revision Letter: Reappropriation - Mental Health Services Act. State Operations. (Issue 053)</p>	<p>Reappropriates \$289,000 in funds appropriated in Item 6110-001-3085 of the Budget Act of 2005 be reappropriated. These funds were intended to allow the CDE to provide contracting services to LEAs pursuant to the Mental Health Services Act (Proposition 63). Due to timing issues, the funds will not be spent in fiscal year 2005-06 and are intended to be reappropriated for the same purposes in 2006-07.</p>	<p>Approve May Finance Letter.</p>	
6110-491	<p>May Finance Revision Letter: Reappropriation - Chief Business Officers Training. Local Assistance. (Issue 091)</p>	<p>Reappropriates funding of \$1.0 million in funds provided by Item 6110-485 of the Budget Act of 2005. These funds were intended to fund training of school business officials, pursuant to Chapter 357, Statutes of 2005 (SB 352). Given the time required to develop standards and regulations, it is unlikely that any funds will be expended in 2005-06. Extending the authority for expenditure of these funds through the 2006-07 will allow the CDE to provide training for an estimated 350 school business officials beyond what will be provided pursuant to schedule (7) of Item 6110-485.</p>	<p>Approve May Revision.</p>	

6110-491	<p>May Finance Revision Letter: Reappropriation - Special Education Deficiency. Local Assistance. (Issue 054)</p>	<p>Reappropriates any savings remaining from Item 6110-161-0001 of the Budget Act of 2003 be used to fund any deficiencies in the base Special Education program for 2004-05 and 2005-06. It is our understanding that there is a deficiency of approximately \$2.0 million in 2003-04. It is not yet clear to what extent, if any, there will be a deficiency in 2005-06, but given some early data from the SDE, we are proposing to make use of balances from the Budget Act of 2003 to ensure that there is no deficiency for that year.</p>	<p>Approve May Revision.</p>	
611-491	<p>May Finance Revision Letter: Reappropriation - School District Fiscal Status Reports. Local Assistance. (Issue 055)</p>	<p>Reappropriates any balances remaining from Item 6110-107-0001 of the Budget Act of 2003 be used to provide an additional annual status report for both the Oakland Unified School District and the West Fresno Elementary School District. There is no statutory requirement that provides any further status reports from these districts, though the districts and the state administrator would likely benefit from additional assessments.</p>	<p>Approve May Revision with amendment to allow a study of Vallejo Unified School District.</p>	

31. Other Local Assistance

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-268-0001	<p>May Revision Finance Letter: Child Oral Health Assessments Program. Local Assistance. General Fund. (Issue 921)</p>	<p>Appropriates \$4.4 million for the costs to schools of enforcing new child oral health assessment requirements. Parents with children entering Kindergarten will be required to present proof that their child received an oral health assessment by a licensed dentist, or other licensed or registered dental health professional.</p>	<p>Approve May Revision funding and strike budget language references requiring separate legislation.</p>	

32. Various Full Funding Proposals

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-240-0890	<p>May Revision Finance Letter: Advanced Placement Fee Waiver Program. Local Assistance. Federal Funds. (Issue 912)</p>	<p>Increases federal funding by \$2,426,000 due to increased pupil participation and increased federal funding. The funding will be used to reimburse school districts that waived a portion of Advanced Placement test fees for eligible economically-disadvantaged students.</p>	<p>Approve May Revision.</p>	
6110-190-0001	<p>CDE Proposal. Community Day Schools. Local Assistance. General Fund.</p>	<p>Augment funding for Community Day Schools by \$4.3 million to cover an estimated shortfall in funding for this program in 2006-07. The Governor's budget provides \$49.4 million for the community day school program. This amount constitutes a \$2.4 million increase over the amount provided in 2005-06 to provide a cost-of-living adjustment.</p>	<p>Augment Community Day Schools by \$1.8 million.</p>	

33. Various State Operations

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0001	<p>May Revision Finance Letter: Restoration of Immediate Intervention/Underperforming Schools Program Positions. State Operations. General Funds.</p>	<p>Augments by \$1,627,000 to restore 13.5 positions that support the Immediate Intervention /Underperforming Schools Program (II/USP). The 2006-07 Governor's Budget proposed elimination of these positions to reflect the phase out of the II/USP program. Originally approved for activities associated with the Public Schools Accountability Act of 1999 (PSAA), the SDE indicates that these positions continue to support PSAA-related activities such as the Academic Performance Index, the Governor's Performance Award programs, PSAA waiver requests, and some prolonged II/USP activities. Due to these continuing activities and ongoing efforts to coordinate state and federal accountability programs, it is requested that these positions and funding be restored.</p>	<p>Approve May Revision.</p>	

6110-001-0001	<p>May Revision Finance Letter: School Facilities Planning</p>	<p>School Facilities Planning. Provides positions in the School Facilities Planning Division to permanent positions. These positions are funded with State School Facility Fund revenues. CDE believes these positions are needed to provide school districts with timely review and approval of school construction and modernization plans and the approval of sites on an ongoing basis.</p>	<p>Approve May Finance Letter.</p>	
6110-001-0001	<p>May Revision Finance Letter: Special Education - Data Collection</p>	<p>Special Education - Data Collection. Provides \$288,000 in federal IDEA funds for 2.8 information technology positions to meet new federal reporting and accountability requirements under the Individuals with Disabilities Education Act, as reauthorized in December 2004.</p>	<p>Approve May Revision.</p>	
6110-001-0001	<p>May Revision Finance Letter: Business Official Training</p>	<p>Business Official Training. Provides \$78,000 in General Funds for a 0.9 position to administer the new Chief Business Official Training Program created by Chapter 356, Statutes of 2005 (SB 352/Scott). The position will work to develop criteria for the approval of state-approved training providers, developing an application process and reviewing applications. The Governor provides \$1 million for the second year of local assistance funding for the program in 2006-07. The Subcommittee heard this issue at an earlier hearing.</p>	<p>Approve May Revision.</p>	

6110-001-0001	May Revision Finance Letter: Child Care	Child Care - Alternative Payment Monitoring Unit. Upgrades a 0.5 office assistant position to a 1.0 office technician position to help CDE maintain a database in the Alternative Payment Monitoring Unit. The Governor proposes this change in both 2005-06 and 2006-07.	Approve May Revision.	
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34. Continuous Appropriations - Current Year

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601-0001	<u>School District Apportionments, Continuous Appropriation, Education Code Section 42238, 2004-05 Local Property Tax Offset and Revised Growth Adjustments. Local Assistance. (Issues 123 and 124)</u>	It is noted that this item is reduced to reflect a decrease of \$70,386,000 due to revised estimates of ADA, costs of the Public Employee's Retirement System offset, unemployment insurance reimbursements and other miscellaneous changes. This item is further reduced by \$127,225,000 due to an increase in offsetting local revenue estimates. The total change nets to a decrease in General Fund commitments of \$197,611,000.	Approve May Revision.	
6110-608-0001	<u>County Offices of Education Apportionments, Growth and Local Property Tax Offset. (Issues 403 and 402)</u>	It is requested that this item be increased by \$10,603,000 to reflect an increase in the estimated growth of the apportionments and reduced by \$932,000 to offset changes to local property tax revenue allocations to county offices of education.	Approve May Revision.	
6110-601-0986	<u>School Districts, Local Revenue Allocation. (Issue 402)</u>	It is requested that this item be increased by \$122,603,000 to reflect adjustments to the estimated property tax revenue allocated to K-12 school districts.	Approve May Revision.	

6110-602-0986	County Offices of Education, Local Revenue Allocation. (Issue 402)	It is requested that this item be increased by \$932,000 to reflect adjustments to the estimated property tax revenue allocated to county offices of education.	Approve May Revision.	
6110-603-0986	Special Education, Local Revenue Allocation. (Issue 402)	It is requested that this item be reduced by \$1,252,000 to reflect adjustments to the estimated property tax revenue allocated to special education programs.	Approve May Revision.	

35. Continuous Appropriations - Budget Year

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-601-0986	May Revision: School Districts, Local Revenue Allocation (Issue 402)	It is requested that this item be increased by \$1,988,000 to reflect adjustments to the estimated property tax revenue allocated to K-12 school districts.	Approve May Revision.	
6110-602-0986	May Revision: County Office of Education, Local Revenue Allocation (Issue 402)	It is requested that this item be increased by \$2,104,000 to reflect adjustments to the estimated property tax revenue allocated to county offices of education.	Approve May Revision	
6110-603-0986	May Revision: Special Education, Local Revenue Allocation (Issue 402)	It is requested that this item be reduced by \$3,261,000 to reflect adjustments to the estimated property tax revenue allocated to special education programs.	Approve May Revision	
6110-608-0001	May Revision: County Offices of Education Apportionments, Local Property Tax Offset and Deficit Factor Elimination (Issues 402,407,409)	It is requested that this item be reduced by \$2,104,000 to offset changes to local property tax allocations for county offices of education and increased by \$18,556,000, of which \$756,000 is to fully fund county offices of education revenue limits and eliminate the remaining deficit factor and \$17.8 million to provide additional non-instruction revenues for county offices of education.	Approve May Revision on property tax adjustments and deficit factor. Reduce May Revision proposal for county administration by \$16.8 million.	

6110-601-0001	<p>May Revision: School District Apportionments, Continuous Appropriation, Education Code Section 42238, 2006-07 Growth, Cost of Living, Local Property Tax Offset, and Deficit Factor and Equalization Adjustments, (Issues 120, 121, 122, 126, and 127)</p>	<p>It is requested that this Non-Budget Act item be increased by a total of \$227,910,000 to reflect a decrease of \$197,549,000 to account for revised estimates of Average Daily Attendance (ADA), revised costs of the Public Employee's Retirement System offset, revised unemployment insurance reimbursements and other miscellaneous changes, a decrease of \$6,610,000 to reflect revised local property tax estimate adjustments, an increase of \$230,398,000 to reflect a revised COLA factor of 5.92 percent, an increase of \$101,671,000 to eliminate the deficit factor, and an increase of \$100,000,000 for equalization funding.</p>	<p>Approve May Revision</p>	
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36. Control Section 12.40 - Funding Flexibility

Item	Issue	Description	Staff Recommendation	BBL/TB
Control Section 12.40	April Finance Letter: Transfer Flexibility Among Categorical Programs. (Issue 839)	Eliminates a number of items containing appropriations for block grants that were included in Control Section 12.40. Since statute already allows educational agencies to transfer funds between these block grants, the Administration does not believe they should be included in this control section. In addition, one of the other items in the control section has been renumbered. It is requested that Section (b) of Control Section 12.40 be amended to reflect these technical corrections.	Eliminate EIA and Foster Care from the list of programs that can have funds transferred out.	

II. Control Section 24.30 & School Facilities Aid Program (Item 6350)

Item	Issue	Description	Staff Recommendation	BBL/TB
Control Section 24.30 & School Facilities Aid Program (Item 6350)	Governor's January Budget: State School Facility Programs. Control Section 24.30	The Governor proposes to continue budget control language to require the transfer of rental income from the State Relocatable Classroom Program and remaining funds for the Migrant Housing Program to the State General Fund, as determined by the Department of Finance. According to the State Allocation Board, they have full authority over funds from both these programs.	<p>Eliminate Control Section 24.30 (b) to conform to action by Subcommittee to eliminate section 24.30 (a) at the April 24th Subcommittee hearing. Adopt trailer bill language to allow excess Migrant Housing funds for other State School Facility Program.</p> <p>Conform action to Budget Item 6350 -- School Facilities Aid Program.</p>	

III. California Summer School for the Arts (Item 6255)

Item	Issue	Description	Staff Recommendation	BBL/TB
6255-001-0001	<p>May Revision Budget Letter: California State Summer School for the Arts. State Operations. General Fund (Issue 665)</p>	<p>Provides an increase of \$676,000 to provide additional funds to allow the California State Summer School for the Arts to reduce fees and offer additional scholarships. These funds fulfill the statutory intent that the state provide funding to support up to 75 percent of the total program costs. This augmentation brings total state funding \$1.5 million in 2006-07.</p>	<p>Approve May Revision.</p>	

IV. Commission on Teacher Credentialing (Item 6360)

Item	Issue	Description	Staff Recommendation	BBL/TB
6360-001-0407	May Revision Budget Letter: Development of the Teacher Data System. State Operations. Reimbursement. (Issue 495)	Increases reimbursement authority by \$252,000 for expenditure of Federal Title II one-time carryover funds. These funds will be provided through an interagency agreement with the California Department of Education and will fund 1.5 positions and other costs associated with development of a new Teacher Data System.	Approve May Revision.	
6360-001	Legislative Change Proposal: Elimination of Two Efficiencies Adopted in 2005-06.	CTC implemented a number of program efficiencies and cost savings that were approved by the Commission last year and enacted as a part of the final 2005-06 budget. The Commission has not implemented two of these efficiencies enacted as a part of the 2005-06 budget following a letter from the Legislative Leadership in September 2005. Legislative leaders requested the Commission to postpone adoption of these regulations until early 2006 to give the Legislature an opportunity to revisit this issue.	Approve Legislative changes to the CTC budget for 2006-07 to (1) eliminate two efficiencies approved in the 2005-06; and (2) augment the expenditure of the CTC budget by \$25,804 to reflect the loss in savings.	

6360-001-0001	<p>Legislative Proposal: Administration Funds for Paraprofessional Program. Local Assistance. General Fund.</p>	<p>Increase funding for the Paraprofessional Program by \$1.267 million. This will increase the program stipend from \$3,000 to \$3,5000 for each participant and provide funding for all individuals on the current waiting list. The Paraprofessional Program provides funding to paraprofessionals to take college courses to become future teachers.</p>	<p>Approve Legislative augmentation.</p>	
6360-001-0001	<p>Legislative Proposal: Administration Funds for Paraprofessional Program. State Operations. General Fund.</p>	<p>Add \$227,000 in General Funds to administer the Paraprofessional Training Program. CTC currently receives no funding to administer this program. Provides 3 percent for state administration.</p>	<p>Approve Legislative augmentation.</p>	

Jack Scott, Chair
Bob Margett
Joe Simittian



Outcomes

May 15, 2006
1:30 p.m.
Room 113

Page

- I. Proposition 98 – May Revision Update**
Presentation by the Legislative Analyst's Office
- II. Higher Education & Child Care – Various Items** **1**
- III. K-12 Education – Various Items** **3**

PART II -- HIGHER EDUCATION AND CHILD CARE -- VARIOUS ITEMS

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6110-001-0001; 6110-001-0890 CDE	<i>May Revision:</i> Travel for Child Care (Alternative Payment) Monitoring Program (Issue 331)	May Revision augments the travel budget of the Alternative Payment Monitoring Unit by \$175,000 to conduct a field audit of every APP in the state	Approve May Revision (Approved 3-0)	BBL amending Prov. 7	0,000	New Issue
6110-001-0001; 6110-001-0890	<i>May Revision:</i> Technical Correction -- 21st Century Program (Issue 329)	May Revision makes technical changes to the provisional language specifying the amount of funding available for administering the federal 21st Century Program	Approve May Revision (Approved 3-0)	BBL amending Prov. 27	0,000	Technical Issue
6110-196-0001; 6110-196-0890 CDE	<i>May Revision:</i> Caseload Adjustments for Stages 2 and 3 Child Care (Issue 323)	May Revision makes caseload adjustments to both Stage 2 and Stage 3 Child Care services (totaling a \$25.9 million decrease for Stage 2 and a \$18.5 million increase for Stage 3), also includes a technical adjustment to account for the "holdback" to the TANF reserve	Approve May Revision (Approved 3-0)	BBL amending Prov. 2	0,000	Technical Issue
6110-494; 6110-196-0001; 6110-196-0890	<i>May Revision:</i> Reappropriation of unused prior year Child Care Funds (Issues 330)	May Revision reappropriates unused child care funds from the 2003, 2004, 2005 fiscal years for use in the 2006-07 year for Stage 2 and 3 child care services	Approve May Revision (Approved 3-0)	BBL adding new provisions and amending existing provisions, per DOF letter	0,000	Reappropriation
6110-196-0001; 6110-196-0890	<i>May Revision:</i> Adjust One-Time Federal Funds for Child Care (Issue 330)	May Revision reflects an increase of \$34.9 million in one-time federal funds available for Stage 3 Child Care services; and reduced by \$1 million the amt. of federal funding available for quality projects	Approve May Revision (Approved 3-0)	BBL amending provisions 3 and 4	0,000	Federal Fund adjustment
6110-197-0890	<i>May Revision:</i> Adjust Federal Funds for 21st Century Program (Issue 328)	May Revision reflects a decrease of \$654,000 in federal funds available for the 21st Century Program.	Approve May Revision (Approved 3-0)	BBL amending provision 2	0,000	Federal Fund adjustment

Item	Issue	Description	Staff Recommendation	BBL/TB	Compare to May Revision (000's)	Comments
6110-196-0001	May Revision: Child Care Technical Budget Bill Issues (Issue 329)	May Revision makes a variety of technical language changes to accurately reflect appropriate dates, standard reimbursement rate amounts, and funds available for specified activities	Approve May Revision (Approved 3-0)	BBL, per DOF letter	0,000	Technical Language Issue
6120-221-0001 California State Library	May Revision: Public Library Foundation (Issue 001)	May Revision proposes to augment, by \$7 million, funding for the Public Library Foundation	Approve May Revision (Approved 2-0)	No	0,000	Issue previously heard by committee on May 1st
6120-211-0001	May Revision: Transaction-Based Reimbursements (Issue 002)	May Revision proposes to augment, by \$7 million, funding for Direct and Interlibrary Loans	Approve May Revision (Approved 2-0)	No		Issue previously heard by committee on May 1st
6440-001-0234 Univ. of California	May Revision: Tobacco Research (Issue 202)	May Revision makes an adjustment to increase, by \$300,000, the funding available for tobacco-related research	Approve May Revision (Approved 3-0)	No		New Issue
7980-101-0001 CA Student Aid Commission	May Revision: Cal Grant Baseline Adjustments (Budget Year Issue 212; Current Year Issue 212)	May Revision makes a \$14 million baseline reduction in the current year and a \$14.8 million baseline reduction for 2006-07 in the amount of funding needed for the Cal Grant program due to revised caseload estimates;	Approve May Revision (Approved 3-0)	No		New Issue
7980-101-0001	May Revision: Cal Grant Provisional Language (Issue 216)	May Revision adds provisional language to the Cal Grant item, consistent with current law, allowing the Director of Finance to augment the Cal Grant item to fully-fund Cal Grants (pursuant to a 30-day notification to the Joint Legislative Budget Committee)	Approve May Revision (Approved 3-0)	BBL	0,000	New Issue

K-12 Education - Various Items

OUTCOMES: Subcommittee approved staff recommendations on all issues on pages 3 through 7 with the following exceptions: (1) Issue 642 amended to add language to provide reimbursement authority of \$292,000 for California Community Colleges; and (2) Issue 582 (and conforming Issues 577 & 578) held

Item	Issue	Description	Staff Recommendation	BBLT	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: Statewide Longitudinal Data System Grant. State Operations. Federal Funds. (Issue 642)	Increases federal funding by \$654,000 to reflect a new grant from the federal Institute of Education Sciences for development of state longitudinal data systems. The total grant award is \$2.4 million to be expended over a three-year period. For 2006-07, \$350,000 will support California School Information Services programming costs to enhance the usability of the electronic transfer of student transcripts, \$292,000 will support the California Community Colleges Chancellor's Office with Phase 2 of the CCTTRAN (a system to enable the electronic transfer of transcripts), and \$12,000 will support State Department of Education (CDE) participation in the Schools Interoperability Framework activities.	Approve May Revision		
6110-001-0001	May Revision Finance Letter: Education Technology K-12 Voucher Program. State Operations. Reimbursements. (Issue 643)	Increases reimbursement authority by \$139,000 for first year administrative costs of the Education Technology K-12 Voucher Program, which is part of the Microsoft settlement. These funds will be used by the CDE to assist the court appointed claims administrator in determining eligibility and by providing technical assistance to local educational agencies (LEAs).	Approve May Revision		
6110-001-0890	May Revision Finance Letter: Education Technology Program. State Operations. Federal Funds. (Issue 660)	Increases funding by \$278,000 to reflect one-time federal carryover funds for technical support and evaluation services related to administration of the federal Education Technology program.	Approve May Revision		

Item	Issue	Description	Staff Recommendation	BBLT	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: Translations of Parental Notification Documents. State Operations. Federal Funds. (Issue 847)	Provides \$400,000 for translation of parental notification documents to reflect the availability of one-time federal Title III carryover funds from 2005-06. The carryover is a result of a delay in the implementation of the Clearinghouse for Multilingual Documents database. Funds will be used for translated documents, which will be made available to school districts through the clearinghouse.	Approve May Revision		
6110-001-0890	May Revision Finance Letter: Interagency Agreement with California Career Support Network. State Operations. Federal Funds. (Issue 857)	Adds provisional language to specify that \$100,000 of funds appropriated from federal Vocational Education funds will be available for an interagency agreement with the California Career Resource Network for specified career resource development activities.	Approve May Revision.		
6330-001-0001	May Revision Finance Letter: Reimbursement Authority for California Career Support Network. (Issue 857). Local Assistance. General Fund Reimbursement.	Increases reimbursement authority of the California Career Resource Network by \$100,000 for an interagency agreement with the Department of Education for the purpose of developing career exploration materials, publishing relevant job market information, and disseminating these materials to middle and high school counselors.	Approve May Revision. Conforms to previous action.		
6110-001-0890	May Revision Finance Letter: School Wellness Grant. State Operations. Federal Funds. (Issue 882)	Provides \$98,000 to reflect receipt of a federal grant for providing training and technical assistance to local educational agencies implementing local wellness policies.	Approve May Revision		
6110-103-0890	May Revision Finance Letter: Robert Byrd Honors Scholarship Program. Local Assistance. Federal Funds. (Issue 917)	Changes the program item number to reflect the correct citation.	Approve May Revision.		

Item	Issue	Description	Staff Recommendation	BBL/TT	Compare to May Revision (000's)
6110-001-0890	May Revision Finance Letter: School Meal Certification. State Operations. Federal Funds.(Issue 918)	Provides an increase of \$273,000 to reflect receipt of a federal grant to directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs. (See Item 6110-201-0890, Issue 919, for the local assistance portion of the grant).	Approve May Revision. Conforms to following Local Assistance item.		
6110-201-0890	May Revision Finance Letter: Child Nutrition Program. Local Assistance. Federal Funds. (Issue 919)	Provides an increase of \$281,000 to reflect receipt of a federal grant that will support efforts to directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs. (See Item 6110-001-0001, Issue 918, for the state operations portion of the grant).	Approve May Revision.		
6110-166-0890	May Revision Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issue 582)	Increases federal Vocational Education funding by \$11,428,000 to reflect the availability of one-time carryover funds. This one-time funding will support additional vocational education activities, including those that complement Career Technical Education programs.	Approve May Revision		
6110-166-0890	April Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issues 577 & 578)	Provides an increase of \$11,428,000 to reflect the availability of one-time federal carryover funding. This one-time funding will support additional vocational education activities, including those that complement the Governor's Career Technical Education Initiative.	Approve April Letter - Issue 577. Reject April Letter -Issue 578 to conform to May Revision proposal in		

Item	Issue	Description	Staff Recommendation	BBLT	Compare to May Revision (000's)
6110-193-0890	May Revision Finance Letter: Mathematics Science Partnership Grants. Local Assistance. Federal Funds. (Issue 517)	Provides an increase of \$1.0 million from one-time, federal carryover funds. Consistent with current policy, these funds will provide additional competitive grant awards to institutes of higher education and low-performing schools for partnerships to provide staff development and curriculum support for mathematics and science teachers.	Approve May Revision.		
6110-201 - 0890	May Revision Finance Letter: Child Nutrition Program. Local Assistance. Federal Funds. (Issue 911)	Provides an increase of \$10.0 million in federal meal funding to more accurately reflect anticipated growth of the Child Nutrition Program. The CDE estimates a 3 percent increase in the number of meals served in California schools between 2005-06 and 2006-07. LEAs will be reimbursed for meals served through this federal entitlement program.	Approve May Revision.		
6110-001-0001	May Revision Finance Letter: California High School Exit Exam - Legal Representation. State Operations. General Fund. (Issue 251)	Provides a one-time General Fund increase of \$1,625,000 for legal representation from the Attorney General's Office in litigation related to the California High School Exit Exam (Chapman, et. al. v. Department of Education, et. al., Coachella Valley Unified School District, et. al. v. Schwarzenegger, et al., and Valenzuela, et al. v. O'Connell, et al.). These cases were filed in state courts, with the plaintiffs challenging the exam for various reasons. The additional proposed resources are consistent with the most recent cost estimates prepared by the Attorney General's Office.	Approve May Revision.		

Item	Issue	Description	Staff Recommendation	BBL/T	Compare to May Revision (000's)
6110-107-0001	May Revision Finance Letter: Fiscal Crisis and Management Assistance Team. Local Assistance. General Fund. (Issue 090)	Amends budget bill language to clarify that costs related to county office of education extraordinary costs of audits, examinations, or reviews of charter schools may be reimbursed through Schedule (5) appropriations in the item. This will implement provisions of Chapter 357, Statutes of 2005 (Senate Bill 430).	Approve May Revision.		
6110-198-0001	May Revision Finance Letter: California School Age Families Education (CalsAFE) Program. Local Assistance. General Fund. (Issue 324)	Shifts funds between two budget schedules to address a \$1.0 million surplus in the All Services for Non-converting Pregnant Minors Programs schedule and a \$1.0 million shortfall in the CalsAFE Academic and Supportive Services schedule. Total funding for this program will not be affected as funds will be transferred from the All Services for Non-converting Pregnant Minors Programs schedule to the CalsAFE Academic and Supportive Services schedule.	Approve May Revision.		
6110-211-0001	May Revision Finance Letter: Charter School Categorical Block Grant. Local Assistance. General Fund. (Issue 111)	Reduces the General Fund appropriation by \$2,778,000 to reflect the estimated net adjustments to total charter school average daily attendance and charter school Economic Impact Aid counts. Charter school ADA is less than estimated in the Governor's Budget while Economic Impact Aid counts are higher.	Approve May Revision.		

Jack Scott, Chair
Bob Margett
Joe Simittian



AGENDA
May 18, 2006
3:00 p.m. – Room 113

Page

I. DEPARTMENT OF EDUCATION

Settlement Agreement

1. Budget Year – One-Time Funding	1
2. Budget Year – Ongoing Funds	2
3. Enrollment Growth	3
4. Cost-of-Living Increases (COLAs).....	4
5. Revenue Limit Deficit Factor	6
6. Revenue Limit Equalization	7
7. Mandates	8
8. School Enrichment Block Grants	9
9. BTSAs Expansion Grants	10
10. Teacher Proposals.....	11
11. Fruits and Vegetables	13
12. Child Nutrition	14
13. Physical Education Grants	16
14. Music and Arts Grants	17
15. Digital Classroom Grants	18

16. K-12 High Speed Network.....	19
17. CAHSEE Intervention Grants	20
18. Counseling.....	22
19. Special Education – Local Assistance.....	23
20. Special Education – State Operations	24
21. State Special Schools.....	26
22. Federal Proposal – Program Improvement Schools/Districts	28
23. Accountability	29
24. Reading First	30
25. Instructional Materials	31
26. Student Data Systems – CALPADS and CSIS	32
27. Teacher Data System	34
28. Career Technical Education	35
29. Other Prop 98 Reversions	37
30. Other Prop 98 Reappropriations.....	38
31. Other Local Assistance	40
32. Various Full Funding Proposals.....	41
33. Various State Operations	42
34. Continuous Appropriations -- Current Year	45
35. Continuous Appropriations – Budget Year.....	47
36. Control Section 12.40 – Funding Flexibility.....	49
II. CONTROL SECTION 24.30 & SCHOOL FACILITIES AID PROGRAM (6350)	50
III. CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS (6255)	51
IV. COMMISSION ON TEACHER CREDENTIALING (6360)	52

Issue 1: One-Time Proposition 98 Funding

(In Millions)

One-Time Prop 98 Funding Plan (2006-07)

Programs	Proposed Funding
Mandates	959.0
Instructional Materials (Balancer)	78.9
English Learner Instructional Materials	30.0
Emergency Repair Program	137.0
CALPADS	11.0
Revenue Limit Adjustments	10.5
School District Fiscal Solvency Plans	10.0
B TSA	9.6
Charter School Facilities Grants	9.0
School Breakfast Start-up Grants	3.0
Teacher Credentialing Reforms (SB 1209)	2.0
Principal Training	1.0
Budget Officer Training	1.1
CSIS Transition Support	0.5
Attendance Accounting	0.04
Discretionary One-Time School Grants (Per ADA)*	1,000.0

* Provides per ADA grants to districts for one-time school site expenditures, such as deferred maintenance, music and arts, physical education, libraries, and classroom supplies. Districts and schools must document how they spend these one-time funds.

Governor's One-Time Spending Proposal

2,263.0

Staff Recommendation: Approve the proposed one-time Proposition 98 funding plan. Disapprove all other January Budget and May Revision one-time funding proposals. Select Instructional Materials as balancer item. (Approved 2-0)

Issue 2: Ongoing Proposition 98 Funding

(In Millions)

Ongoing Prop 98 Funding Plan (2006-07)	
Programs	Proposed Funding
Revenue Limit Equalization *	300.0
Revenue Limit Deficit Factor	308.6
Counselors	75.0
Mandates	133.6
Arts and Music Education (K-12)	150.0
Teacher Recruitment & Retention	100.0
Teacher Credentialing Reforms	18.0
CAHSEE Intervention	50.5
Community Colleges	25.0
School Meal Increases	37.8
Economic Impact Aid	300.0
Special Education (Balancer)	50.0
CALPADS Assistance Funds	15.0
High Speed Network Costs	4.0
CAHSEE - Additional Test Administrations	5.1
National Board Subsidy	5.0
Nursing- Alternative Career Pathways	5.0
Paraprofessional Program	1.3
Kindergarten Oral Health Notification	4.4
SIS Transition Support	0.5
STAR - Modified Assessment	0.1

* Does not include the \$17.8 million proposed by the Governor for equalizing COE administrative funds.

Governor's Budget Ongoing Proposal

1,588.6

Staff Recommendation: Approve the proposed ongoing Proposition 98 funding plan. Select Special Education as balancer. (Approved 2-0)

3. Enrollment Growth

Item	Issue	Description	Staff Recommendation	BBL/TB	Com men
Various Items	<p>May Revision Finance Letter: Enrollment Growth Adjustments for K-12 Education Programs. Local Assistance. General Fund. (Issue 403)</p>	<p>Provides enrollment growth funding of \$112.4 million in 2006-07. This reflects a reduction for revenue limit and categorical programs of \$205.9 million below the Governor's January Budget to reflect lower estimates of student enrollment in 2006-07. The Governor's January budget estimated a 0.21 percent growth rate; the May Revision estimates negative growth of -0.26 percent. For budgeting purposes, the May Revise provides zero growth for most revenue limit and categorical programs and some positive growth for categorical programs with other statutory growth rates. Total average daily attendance (ADA) is estimated to be 5,957,000 in 2006-07, a drop of 66,000 ADA from 2005-06.</p>	<p>Approve May Revision. (3-0)</p>		

4. Cost-of-Living Increases (COLAs)

Item	Issue	Description	Staff Recommendation	BBL/TB	Com men
Various Items	May Revision Finance Letter: Cost-of-Living Adjustments for K-12 Education Programs. Local Assistance. General Fund. (Issue 405)	The May Revision provides \$2.6 billion in total funding K-12 Cost-of-Living-Adjustment (COLA) for revenue limit and categorical programs. This amount reflects an increase of \$320.4 million over the Governor's January Budget as a result of an increase in the COLA rate from 5.18 percent to 5.92 percent.	Approve May Revision (3-0)		
6110-188-0001	May Revision Finance Letter: State School Deferred Maintenance Program. Local Assistance. General Fund. (Issue 162)	It is requested that this item be increased by \$1,366,000 to fully fund the state's share of the State School Deferred Maintenance Program.	Approve May Revision (3-0)		
6110-198-0001	May Revision Finance Letter: CalsAFE Program. (Issue 405)	It is requested that this item be increase by \$275,000 to reflect growth and COLA adjustments.	Approve May Revision (3-0)		
6110-211-0001	May Revision Finance Letter: High School Class Size Reduction. Local Assistance. General Fund. (Issue 405)	It is requested that this item be increased by \$815,000 to reflect a change in the COLA rate from 5.18 percent to 5.92 percent.	Approve May Revision (3-0)		
6110-234-0001	May Revision Finance Letter: K-3 Class Size Reduction. Local Assistance. General Fund. (Issue 405)	It is requested that this item be increased by \$12,321,000 to reflect a change in the COLA rate from 5.18 percent to 5.92 percent.	Approve May Revision (3-0)		

6110-104-0001	<p>DOF Technical Correction: Supplemental Instruction . Local Assistance. General Fund.</p>	<p>Growth and COLA adjustments were inadvertently left out of the May Revision letter. DOF requests changing the Governor's Budget to reflect May Revision growth and COLA estimates for two supplemental instruction programs -- Low STAR and Core Academic. Provides a \$149,000 decrease for growth and \$516,000 increase for COLA.</p>	<p>Conform to May Revision growth and COLA adjustments. (3-0)</p>		
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5. Revenue Limit Deficit Factor

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-601-0001 6110-608-0001 Non-Budget Act Items	May Revision Finance Letter: Elimination of Outstanding Deficit Factor. Local Assistance; General Fund. (Issues 127 and 407)	The Governor's Budget proposes \$308.6 million to eliminate outstanding revenue limit deficit factor for school districts and county offices of education. The deficit factor resulted from the elimination of revenue limit COLAs and revenue limit reductions in the 2003-04 budget. The Governor's January budget proposed \$206.2 million in deficit reduction. The Governor's May Revision proposal to pay an additional \$102.4 million to eliminate remaining deficit factor in 2006-07. The LAO recommends approval of the May Revision proposal.	Approve May Revision. (3-0)	TB	

6. Revenue Limit Equalization

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
<p>6110-601-0001 6110-608-0001 Non-Budget Act Items</p>	<p>May Revision Finance Letter: Revenue Limit Equalization. Local Assistance. General Fund. (Issue 126)</p>	<p>The Governor proposes a \$300 million increase in funding to equalize school district revenue limits. The Governor's January Budget provided \$200 million. The May Revision proposes an additional \$100 million, which is estimated to more move the state more than halfway toward fully meeting the state's equalization target. The Governor's proposal does not include revenue limit equalization for county offices of education. The LAO recommends approval of \$200 million for school district revenue limit equalization and redirection of \$100 million to equalize funding for other programs. The LAO also recommends folding four revenue limit add-on programs into the revenue limit base as a part of equalization.</p>	<p>(1) Approve May Revision funding level for revenue limit equalization. (3-0) (2) Tie to level of funding for Economic Impact Aid expansion. (2-1) (3) Adopt LAO recommendation to fold four add-on programs into revenue limit base before equalizing. (No action)</p>		

7. Mandates

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-295-0001	Governor's January Budget: Restoration of Annual Education Mandate Payments. Local Assistance. General Fund.	The budget proposes to restore annual funding for K-12 education mandates and to stop the recent practice of deferring or suspending all funding for education mandates. Specifically, the Governor proposes to provide \$133.6 million to cover the annual costs of state-mandated local education programs for K-12 school districts and county offices of education in 2006-07. The Governor's May Revision Letter -- discussed in an earlier item -- provides an additional \$30.0 million in one-time funds for payment of annual mandate claims in 2006-07. Together these funds provide \$163.3 million and would more than address the deficiency identified by LAO.	Approve Governor's Budget and May Revision proposals to conform to action on Prop 98 spending plan. (3-0)		

8. School Enrichment Block Grant (Teacher & Administrator Recruitment and Retention)

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-262-0001	Governor's January Budget. Ongoing Funds for School Enrichment Block Grants. Local Assistance. General Fund.	The Governor proposes \$100 million in ongoing funding for School Enrichment Block Grants to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the Academic Performance Index (API). The Governor proposes an additional \$3 million in one-time funds to continue a state level contract to assist these low performing schools in recruiting highly qualified teachers. The LAO recommends rejecting this proposal.	Approve Governor's Budget for Block Grants. Reappropriate <u>\$3 million</u> in unexpended 05-06 06-07 funds for state level teacher recruitment. [Funds to be used for Personnel Mgt Teams to (1) assist districts in improving their human resources practices to better recruit and retain teachers and (2) establish a clearinghouse for personnel management best practices.] (3-0)	TB	

9. Beginning Teacher Support and Assessment (BTSA)

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-637-0001	Governor's January Budget. BTSA Expansion for Third Year of Program. Local Assistance. General Fund.	The Governor proposes \$65 million to establish a third year of BTSA funding for beginning teachers serving in schools ranked in the lowest three deciles of the Academic Performance Index (API). The LAO recommends rejecting this proposal.	Reject Governor's Budget. (2-1)		

10. Teacher Proposals

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-001-0890	May Revision Finance Letter: Federal Title II Statewide Activities . State Operations. Federal Funds. (Issue 492)	It is requested that this item be increased by \$2,309,000 in one-time federal carryover funds to implement statewide activities to comply with federal guidelines. Specifically, \$209,000 is provided to implement a No Child Left Behind Monitoring, Interventions, and Sanctions program to oversee California's compliance with federal teacher quality standards. In addition, \$2.1 million is provided to conduct an evaluation of teacher induction programs, including the Beginning Teacher Support and Assessment (BTSA) program. These proposals comply with federal Title II guidelines for statewide activities. The LAO recommends rejecting this proposal.	Approve May Revision and adopt language to allocate \$2.1 million for teacher program and credentialing studies and assessments. Also approved \$50,000 for a subject matter exam in Filipino from Title II funds set to expire by the end of September 2006. (3-0)		

<p>6110-195-0890</p>	<p>May Revision Finance Letter: Federal Title II Statewide Activities. Local Assistance. Federal Funds. (Issue 491)</p>	<p>It is requested that this item be decreased by \$6,709,000. This reflects a \$3.6 million decrease in federal funding and a \$3.1 million realignment of state Title II funds to comply with federal guidelines. A recent finding by federal program monitoring staff found that funds were inappropriately being allocated to local educational agencies (LEAs) that should have been used for statewide activities, defined as activities that benefit all LEAs.</p>	<p>Approve May Revision. (3-0)</p>		
<p>6110-195-0001</p>	<p>May Revision Finance Letter: State Teacher Incentives National Board Certification. Local Assistance. General Fund. (Issue 515)</p>	<p>It is requested that this item be increased by \$5.0 million to pay up to \$1,000 of the fee for teachers interested in seeking National Board Certification, with priority for teachers in High Priority Schools. National Board for Professional Teaching Standards certification is a voluntary program, which requires teachers to pass rigorous standards and assessments. Certification currently costs \$2,500, with federal funds covering half the fee. This funding will reduce fees to only \$250 for up to 5,000 teachers.</p>	<p>Approve May Revision. (2-0)</p>		

11. Fruits and Vegetables

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-486 6110-217-0001	May Revision Finance Letter: Fresh Start Pilot Program. Local Assistance. General Fund. (Issue 916)	The Governor's January Budget proposed \$18.2 million in ongoing funding to continue funding for the California Fresh Start Pilot Program. The May Revision proposal reduces ongoing funding by \$13.0 million to reflect the availability of unexpended California Fresh Start Pilot Program resources. Due to delays in implementing the program, approximately \$13.0 million will not be expended in the current year. These funds, coupled with \$5.2 million in ongoing funding, will be used to provide school meal programs with more fruits and vegetables in 2006-07. LAO recommends rejecting General Funds for this program.	Approve reappropriation of \$13.0 million in one-time funds. Disapprove of \$5.2 million in ongoing funds per LAO recommendation. (2-0)		
6110-001-0001	April Finance Letter: Fresh Start Pilot Program. State Operations. General Fund. (Issue 881)	Provides \$174,000 to make permanent 2.0 positions established in 2005-06 to administer the California Fresh Start Pilot Program. This provides an increase of \$74,000 above the Governor's January Budget. These positions will process reimbursement claims and maintain records. The Governor proposes to make this program permanent.	Reject May Revision proposal to establish 2.0 permanent positions. Continue 2.0 positions through December 2007 as limited term positions. (3-0)		

12. Child Nutrition

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
611-203-0001	May Revision Finance Letter: Child Nutrition - Increasing State Meal Rate. Local Assistance. General Fund. (Issue 902)	Provides an increase of \$37.8 million to increase the School Breakfast and Lunch state reimbursement rate by seven cents (\$0.07) from approximately \$0.15 to \$0.22.	Approve May Revision. Conforms to action on Prop 98 spending plans. (3-0)		
6110-001-0001	May Revision Finance Letter: Child Nutrition Point-of-Service Technology Study. State Operations. General Fund. (Issue 920)	Provides a \$1.0 million increase for a child nutrition point-of-service technology study. This study will assess the availability and costs of current point-of-service technologies that allow parents to monitor and limit the foods children eat at school.	Reject May Revision. (2-0)		
6110-001-0001	Governor's January Budget: Child Nutrition - Information and Payment System. State Operations. General Fund.	Provides \$3.2 million in federal funds and 7.4 limited-term positions to begin implementation of the new Child Nutrition Information Payment System (CNIPS) in 2006-07. DOF approved the feasibility study report for CNIPS in March 2005.	Approve Governor's Budget. (2-0)		

6110-001-0001	<p>Governor's January Budget: Child Nutrition - Staff to Support Implementation of Standards for Non-School Meal Food. State Operations. General Fund.</p>	<p>Provides \$100,000 in General Funds for a 0.9 position to coordinate the nutrition standards activities to implement Chapter 235/2005 (SB 12/Escutia). Chapter 235 sets nutrition standards for food sold outside the federal school meal programs during the school day at all elementary through high school campuses, effective July 1, 2007. The Governor also proposes \$200,000 in reimbursements to be collected from vendors who elect to have their product certified as meeting the Chapter 235 standards.</p>	<p>Approve Governor's Budget. (2-0)</p>		
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13. Physical Education Block Grants

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-260-0001	Governor's January Budget: Physical Education Block Grant . Local Assistance. General Fund.	Provides \$100 million in ongoing funds for physical education block grants for K-8 schools. Funding may be used for hiring qualified staff, reducing class size, and providing standards aligned professional development and curricula.	Reject Governor's Budget to reflect other priorities in Prop 98 spending plans. (3-0)		
6110-260-0001	May Revision Finance Letter. Physical Education Block Grants . Language Change. Local Assistance. General Fund. (Issue 516)	Amends budget bill language to require alignment with legislation to be enacted during the 2005-06 Regular Session.	Reject May Revision. Conforms to action on local assistance block grants. (3-0)		

14. Music and Arts Block Grants

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-265-0001	May Revision Finance Letter: Arts and Music Block Grants . Local Assistance. General Fund. (Issue 673)	The Governor proposes a total of \$166.0 million . The Governor's January Budget proposed \$100 million for K-8 students; the May Revision increases this amount by \$66.0 million to provide funds for students in grades K-12. The May Revision also increases the per pupil rate to \$25 per pupil for sites with enrollment of 201 pupils or more. The grant will continue to provide minimum funding levels of \$3,000 per site for sites with ten or fewer pupils and \$5,000 per site for sites with between eleven and 200 pupils. The LAO recommends rejecting this proposal.	Approve May Revision for K-12 students. Reduce funding level to <u>\$150 million</u> to conform to action on Prop 98 spending plans. (2-0)		

15. Education Technology - Digital Classrooms

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-264-0001	Governor's January Budget. Digital Classroom Grants. Local Assistance. General Fund.	The Governor proposes \$25 million to establish a new program intended to eventually provide one-time Digital Classroom Block Grants to classrooms in all K-12 schools. These one-time block grants are intended to advance the effective use of education technology in order to improve classroom instruction and student achievement. LAO recommends rejecting this proposal. Under a pending Microsoft settlement schools may soon be receiving an estimated \$400 to \$600 million in technology vouchers for hardware and software purchases.	Reject Governor's Budget. (2-1)		

16. K-12 High Speed Network

Item	Issue	Description	Staff Recommendation	BBL/TF	Comments
6110-182-0001	May Revision Finance Letter: K-12 High Speed Network . Local Assistance. General Fund & Reimbursements. (Issue 647)	Provides \$8.6 million in ongoing and General Funds for costs associated with the K-12 High Speed Network. Total expenditure authority will be \$15.6 million , consisting of \$8.6 million in Proposition 98 General Fund, \$3.0 million from existing reserves, and \$4.0 million in excess funds in the equipment refresh account. Further, it is anticipated that the \$8.6 million will be offset by any funds received from claims for E-rate and/or the California Teleconnect Fund (CTF). The \$15.6 million will allow the K-12 High Speed Network to continue providing LEAs with electronic connections to the Corporation for Education Network Initiatives in California (CENIC), California's colleges and universities, and to each other. Provisional language will exclude major subcontracts, defined as subcontracts above \$25,000, from charges for indirect costs. This will allow the K-12 High Speed Network to fully expend pass-through funds for contracted services without the need to charge indirect costs.	Approve May Revision and LAO recommendations to budget \$4.6 million for E-Rate and CTF funds. This reduces General Funds by \$4.6 million. Adopt LAO budget bill language. (2-0)		

17. CAHSEE Intervention Grants

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-204-0001	May Revision Finance Letter: Expansion of CAHSEE Assistance . Local Assistance. General Fund. (Issue 840 & 852)	Increases funding by \$30.5 million to provide additional supplemental instruction and specialized materials to pupils who have failed or are at risk of failing the California High School Exit Exam (CAHSEE). This provides a total of \$70.5 million for CAHSEE intervention-related programs. Of the additional funds provided, \$10.0 million will provide supplemental instruction via adult education to fifth-year seniors who have met all graduation requirements except for passage of the CAHSEE. In addition, \$5.5 million will be available on a one-time basis for school districts to purchase individual intervention materials for students who have failed or are at risk of failing the CAHSEE.	<p><u>Approve May Revision level of funding. Adopt LAO and staff recommendations.</u></p> <p>LAO: (1) direct funding to all students, including students with disabilities, in the Class of 2007 and 2008 who have failed one or both tests; (2) require CDE to report annually on the number of students taking CAHSEE; and (3) provide \$100,000 in Title VI funds for an independent study of English learner students and students with disabilities who did not pass CAHSEE. (continued in Comments section)</p>		<p>Staff: (1) Continue statute on language that requires these supplemental items for CAHSEE funds to be utilized on top of existing supplemental</p>

6110-113-0001	<p>May Revision Finance Letter: Additional Administrations of CAHSEE. Local Assistance. General Fund. (Issue 242)</p>	<p>Provides an increase of \$7.7 million to develop three additional administrations of the California High School Exit Examination (CAHSEE). These administrations will accommodate students who attend school at non-traditional times, such as evenings and weekends, and provide students with additional opportunities to pass the examination. In addition, funds will be used by the independent evaluator to perform analyses related to the three additional administrations.</p>	<p>Approve \$5.12 million for two additional administrations of CAHSEE. (2-0)</p>		
6110-113-0001	<p>May Revision Finance Proposal: Writing Test for California Modified Assessment for STAR. Local Assistance. General Fund. (Issue 253)</p>	<p>Provides \$80,000 to develop a writing test for the new California Modified Assessment for the STAR program. This augmentation will accommodate the needs of special education students.</p>	<p>Approve May Revision. (3-0)</p>		

18. Counseling

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-108-0001	May Revision Finance Letter: Grade 7-12 Counseling Program . Local Assistance. General Fund. (Issue 850)	Appropriates \$200.0 million to increase the number of school counselors that serve 7th through 12th grade students. These funds will supplement, not supplant, existing counseling resources and improve the student-to-counselor ratios for middle schools to 500:1 and high schools to 300:1. Moreover, unlike existing counseling services that steer students toward higher education, these new counselors will provide students who do not intend to pursue higher education with needed career and vocational assistance.	Approve May Revision but reduce funding to <u>\$75 million</u> to conform to action on Prop 98 spending plans. (2-0)		

19. Special Education - Local Assistance

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-161-0890	May Revision Finance Letter: Federal Funds Adjustment . Local Assistance. Federal Funds. (Issue 412)	Decreases federal special education funding by \$13,643,000 to reflect a decrease in the federal special education grant level.	Approve May Revision. (3-0)		
6110-161-0001	May Revision Finance Letter: Various Baseline Adjustments . Local Assistance. General Fund. (Issues 402 & 408)	It is requested that this item be amended to increase the Proposition 98 General Fund for the Special Education program by a net total of \$3,291,000 . This action will provide a baseline-related increase of \$30,000 and an increase of \$3,261,000 as a result of a decrease in local property taxes. We note that adjustments for growth and the COLA are included in other issues, and bring the total net increase of this item to \$19,454,000.	(1) Approve May Revision baseline adjustments. (3-0) (2) Augment funding for the extraordinary cost pool by <u>\$2.0 million</u> , with budget bill and trailer bill language to allow reimbursement for students residing in licensed children's institutions. (2-0) (3) Remove budget bill language directing <u>\$52.6</u> \$50.6 <u>million</u> for one-time purposes. (2-0)		

20. Special Education - State Operations

Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-161-0001 6110-161-0890	May Revision Finance Letter: Family Empowerment Centers. State Operations. Federal Funds. (Issue 041)	Increases funding in item by \$934,000 in order to partially shift funding for Family Empowerment Centers for Federal Individuals with Disabilities Education Act (IDEA) funds to General Fund. There would be a corresponding increase in Federal IDEA Special Education local assistance. This transaction will increase special education local assistance and reduce state-level activities to remain within the federal cap.	Approve Governor's Budget. (3-0)	
6110-001-000 6110-001-0890 6110-161-0890	May Revision Finance Letter: Correctional Youth Authority Special Education Report. State Operations. Federal Funds. (Issue 040)	Reduces state operations by \$303,000 and shifts savings to local assistance by a corresponding amount. The Governor's January budget proposed these funds for the California State University, San Bernardino to provide special education monitoring and technical assistance to the California Youth Authority, pursuant to SB 505 (Perata). This transaction will increase special education local assistance and reduce state-level activities to remain within the federal cap.	Approve Governor's January Budget. (3-0)	

<p>6110-001-000 6110-001-0890 6110-161-0890</p>	<p>May Revision Finance Letter: State Special Schools Transportation. State Operations. Federal Funds. (Issue 047)</p>	<p>It is requested that Item 6110-001-0890 be reduced by \$963,000 and that Item 6110-161-0890 be increased by a corresponding amount. It is further requested that Item 6110-008-0001 be increased by \$963,000 in order to eliminate Federal Fund reimbursements for State Special Schools Transportation. This transaction will reduce state-level activities to remain within the federal cap. The net cost is an increase of \$963,000 to the General Fund.</p>	<p>Approve Governor's January Budget. (3-0)</p>		
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21. Special Education - State Special Schools

Issue	Description	Staff Recommendation	BBL/TB	Comments
Governor's January Budget. California School for the Deaf - Riverside. State Operations. General Fund	\$117,000 in one-time General Funds (Non-98) for a contract for a Data Resource Specialist to help transition the school to a new student data collection system.	Approve Governor's Budget. (3-0)		
Governor's January Budget. California School for the Deaf - Riverside. State Operations. General Fund	\$47,000 in General Funds (Prop 98) for a 0.5 visual and performing arts teacher position to supplement another partial, existing position.	Approve Governor's Budget. (3-0)		
Governor's January Budget. California School for the Deaf - Riverside. State Operations. General Fund	\$117,000 in General Funds (Prop 98) for a 0.9 resource specialist position to help the school implement instruction linked to the state's academic and performance standards.	Approve Governor's Budget. (3-0)		
Governor's January Budget. California School for the Deaf - Riverside. State Operations. General Fund	\$285,000 in General Funds (Prop 98) for a 2.8 Early Childhood Education teachers to extend funding to additional students enrolling in the early childhood education program.	Approve Governor's Budget. (3-0)		
Governor's January Budget: California School for the Deaf - Freemont. State Operations. General Fund.	\$79,000 in General Fund (Non-98) for a 0.8 position to support the additional costs of maintenance and janitorial services for a new Pupil Personnel Services facility scheduled to be completed in July 2006.	Approve Governor's Budget. (3-0)		

	<p>April Finance Letter: California School for the Deaf - Riverside: Capital Outlay. General Fund</p>	<p>Building New Gymnasium and Pool Center. DOF requests that the amount in item 6110-301-0660 be decreased by \$773,000 to reflect a revision to the request for a gymnasium and pool center. The adjustment reflects the cost to build a new gymnasium and pool center rather than renovate the current</p>	<p>Approve April Letter. (3-0)</p>		
	<p>April Finance Letter: California School for the Deaf - Riverside: Capital Outlay. General Fund</p>	<p>Kitchen and Dining Hall Seismic Renovations. DOF requests that the amount in item 6110-301-0660 be increased by \$4,428,000 to provide for extensive seismic modifications not anticipated for a renovation project for the kitchen and dining hall. The proposed increase would mean a total appropriation level of \$8,834,000 for the project.</p>	<p>Approve April Letter. (3-0)</p>		

22. Federal Proposal - Program Improvement Schools/Districts

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-135-0890	May Revision Finance Letter: Consolidate Carryover Funds for NCLB Programs and Allocate for Program Improvement Schools/Districts	<p>The Governor proposes to appropriate \$82 million in federal carryover funds for low performing schools and districts identified as needing "Program Improvement" (PI) under the federal No Child Left Behind (NCLB) Act. The Administration is working with the California Department of Education on the development of a specific proposal that would utilize these one-time funds to increase student achievement in Program Improvement schools and districts. The details of the new program have still not been fully developed. The Governor would shift carryover funds from the following federal programs to assist Program Improvement schools and districts:</p> <ul style="list-style-type: none"> --\$24.3 million for Title I-Basic Grants; --\$22.2 million for Title I-Program Improvement; --\$19.2 million for Title I-Migrant Education; and --\$16.1 million for Title V-Comprehensive School Reform (CSR). 	<p>Reject Governor's Proposal. Appropriate funds from the four federal programs back to their originating programs and budget items. (2-0)</p>	BBL	
6110-135-0890	May Revision Finance Letter: Migrant Education Carryover Funds. Local Assistance. Federal Funds. (Issue 848)	<p>It is requested that this item be increased by \$10.0 million to reflect the availability of one-time Migrant Education federal carryover funds. These funds will augment the \$81.9 million provided in the Governor's Budget for the Federal Funds Flexibility Proposal. This proposal will improve migrant student achievement in Program Improvement schools and districts.</p>	<p>Reject May Revision. Appropriate carryover funds to Migrant Education Program. (2-0)</p>		

23. Accountability

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-123-0001	May Revision Proposal: Eliminate Reversion of Current Year Funding for High Priority Schools Grant Program. Local Assistance. General Fund.	The Governor's budget proposes a total of \$243 million in 2006-07 for the High Priority (HP) Schools Grant program. This budget provides \$201 million for a second cohort of HP. Annual funding for planning grants and implementation grants for the second cohort, as proposed, cannot exceed this amount in any fiscal year. The 2005-06 budget appropriated \$60 million for planning grants for a second cohort of HP schools in 2005-06. These funds have not yet been expended. The Department of Education has developed several options for the Legislature to consider in expending these funds for the second HP cohort and for a pilot program to assist and intervene with alternative schools that are not eligible to participate in the HP program.	Approve May Revision. (3-0)		
6110-136-0890	May Revision Finance Letter: Title I School Improvement Program. Local Assistance. Federal Funds. (Issue 258)	It is requested that Schedule (3) of this item be decreased by \$17,868,000 to make amounts available for Title I state-monitored schools under the Immediate Intervention/Underperforming Schools Program consistent with CDE funding estimates. Similarly, it is requested that funding be adjusted for the district accountability program.	Approve May Revision. (3-0)		

24. Federal Proposal - Reading First

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-126-0890	May Revision Finance Letter: Reading First Program. Local Assistance. Federal Funds. (Issue 511)	Increases one-time carryover funding by \$12.6 million to expand grants to participating districts, pursuant to implementing legislation. This brings total funding to \$158.0 million in 2006-07. The Governor is requesting a fifth year of funding for schools that currently receive Reading First grants and proposes to lift the current cap limiting participation to approximately 75 percent of the schools in funded districts. The Governor does not provide funding for schools in new eligible districts.	Approve May Revision carryover funding with changes to provide adopt LAO recommendations to (1) establish the definition of significant progress in legislation and (2) set-aside the same level of funding for a new round of districts as provided in 2005-06. (2-1)		

25. Instructional Materials

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-189-0001	Governor's January Budget. Instructional Materials Block Grant. Local Assistance. General Fund.	The Governor's Budget proposes \$402 million in Proposition 98 funding for the Instructional Materials Block Grant in 2006-07, which provides a \$40 million (11 percent) increase over the 2005-06 level of funding. The Governor's budget also includes an estimated \$190 million in State Lottery funds for K-12 schools in 2006-07, which reflects a \$40 million increase in lottery revenues beginning in 2005-06 that must be used for instructional materials. The LAO recommends that the Legislature reject the \$40 million Proposition 98 increase considering the \$40 million in new lottery revenues available to schools for instructional materials in 2006-07.	Approve Governor's Budget. (3-0)		

26. Student Data Systems - CALPADS & CSIS

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-001-0001	May Revision Finance Letter: Staff Position - Statewide Student Identifier Maintenance Program. State Operations. General Funds. (Issue 651)	Increases by \$53,000 for an additional 0.5 position for support and administration of the Student Identifier Acquisition and Maintenance program.	Approve May Revision. (3-0)		
6110-101-0349	May Revision Finance Letter: District Funding -- California School Information Services (CSIS). Local Assistance. Reimbursements. (Issue 649)	Provides \$15,093,000 . This increase will allow \$31.0 million [(\$20.0 million from the Educational Telecommunications Fund and \$11.0 million from 2005-06 Proposition 98 General Fund (see discussion of 2005-06 below)] to be allocated to school districts that voluntarily opt to join a less intensive version of CSIS designed to assist districts in establishing the hardware/software and data management process necessary for a smooth transition to CALPADS in 2008. The funding will be allocated using the existing statutory CSIS funding rate and will be appropriated for expenditure over a two-year period. Requires approval of plan by DOF, OSE, and LAO.	Approve May Revision level of funding. Adopt LAO recommendation for redirection \$500,000 to add 11.0 positions for CSIS support. Amend budget bill language to reflect technical changes regarding LAO approval of plan. Add CDE to list of agencies approving plan. (3-0)		

6110-140-0001	<p>May Revision Finance Letter: Statewide Support -- CALPADS Preparation. Local Assistance. General Fund. (Issue 560)</p>	<p>Provides an increase of \$545,000 to reflect the first year of support for a three-year plan to transition all districts to the California Longitudinal Pupil Achievement Data System (CALPADS). These funds will support 6.0 positions and increased administration costs due to increased workload associated with working with districts that voluntarily opt to join a less intensive version of CSIS. This version will be designed to assist districts in establishing the hardware/software and data management processes necessary for a smooth transition to CALPADS in 2008. It is anticipated that all districts will be completed in the next three years.</p>	<p>Approve May Revision and augment funding by \$15.0 million for CALPADS incentive grants per LAO recommendation. Conforms to action on Prop 98 spending plans. (2-0)</p>		
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27. Teacher Data Systems

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-001-0890	May Revision Finance Letter: Development of the Teacher Database System. State Operations. Federal Funds. (Issue 494)	Provides an increase of \$938,000 in one-time federal Title II carryover funds for one Associate Governmental Program Analyst position and other first year development costs of the Teacher Database System.	Approve May Revision. (3-0)		

28. Career Technical Education

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-166-0890	May Revision Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issue 582)	Increases federal Vocational Education funding by \$1,428,000 to reflect the availability of one-time carryover funds. This one-time funding will support additional vocational education activities, including those that complement Career Technical Education programs.	Approve May Revision (3-0)		
6110-166-0890	April Finance Letter: Vocational Education Funding. Local Assistance. Federal Funds. (Issues 577 & 578)	Provides an increase of \$1,428,000 to reflect the availability of one-time federal carryover funding. This one-time funding will support additional vocational education activities, including those that complement the Governor's Career Technical Education Initiative.	Approve April Letter - Issue 577. Reject April Letter - Issue 578 to conform to May Revision proposal in previous item. With dollar adjustment per CDE. (3-0)		
6110-001-0001	New Issue. College Outreach - Parental Notification of College Opportunities. State Operations. General Fund.	Appropriate \$500,000 in ongoing funding to the Department of Education to notify parents of college and financial aid opportunities for their children. CDE would send a notification letter annually to the parents of all 6th, 8th and 10th graders in the state.	Approve Legislative augmentation for college outreach. (Item Held)		

6110-001-0890	Governor's January Budget. Career Technical Education -- Accountability System. State Operations. Federal Funds.	Career Technical Education - Accountability System. Provide \$63,000 in federal Carl Perkins funds and \$107,000 in Cal Works reimbursement funds to allow CDE to administer an accountability system for career technical education. Funding is provided to convert 1.9 limited-term	Approve Governor's Budget. (3-0)		
6110-001-0001	Governor's January Budget. Career Technical Education --Staff Support. State Operations. General Fund.	Provides \$193,000 in federal Carl Perkins funds for 1.9 limited-term positions to implement the Career Technical Education program created by Chapter 352, Statutes of 2005 (SB 70/Scott). These positions would oversee the alignment of career technical education curriculum in K-12 schools and community colleges with industry-based programs; analyze and review curriculum; and prepare required reports. The Governor's budget proposes these positions in both 2005-06 and 2006-07.	Approve Governor's Budget. (3-0)		
6110-001-0001	Governor's January Budget. Career Technical Education - California Career Resource Network. State Operations. General Fund.	Provides \$159,000 in General Funds and \$159,000 in federal funds to increase funding for an interagency agreement with the California Career Resource Network.	Approve Governor's Budget and conform to other May Revision changes. (3-0)		

29. Other Proposition 98 Reversions

Item	Issue	Description	Staff Recommendation	BBL/TB	Com
6110-495	May Revision Finance Letter: Proposition 98 Reversion Account - Various Reversions. Local Assistance. General Fund. (Issues 350,720,923)	The May Revision provides an update of estimated balances available from the current year and prior years.	Approve May Revision. Conform to action on Prop 98 spending plan. (2-0)	BBL	men

30. Other Proposition 98 Reappropriations

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-491	May Finance Revision Letter: Reappropriation - Mental Health Services Act. State Operations. (Issue 053)	Reappropriates \$289,000 in funds appropriated in Item 6110-001-3085 of the Budget Act of 2005 be reappropriated. These funds were intended to allow the CDE to provide contracting services to LEAs pursuant to the Mental Health Services Act (Proposition 63). Due to timing issues, the funds will not be spent in fiscal year 2005-06 and are intended to be reappropriated for the same purposes in 2006-07.	Approve May Finance Letter. (3-0)		
6110-491	May Finance Revision Letter: Reappropriation - Chief Business Officers Training. Local Assistance. (Issue 091)	Reappropriates funding of \$1.0 million in funds provided by Item 6110-485 of the Budget Act of 2005. These funds were intended to fund training of school business officials, pursuant to Chapter 357, Statutes of 2005 (SB 352). Given the time required to develop standards and regulations, it is unlikely that any funds will be expended in 2005-06. Extending the authority for expenditure of these funds through the 2006-07 will allow the CDE to provide training for an estimated 350 school business officials beyond what will be provided pursuant to schedule (7) of Item 6110-485.	Approve May Revision. (3-0)		

6110-491	<p>May Finance Revision Letter: Reappropriation - Special Education Deficiency. Local Assistance. (Issue 054)</p>	<p>Reappropriates any savings remaining from Item 6110-161-0001 of the Budget Act of 2003 be used to fund any deficiencies in the base Special Education program for 2004-05 and 2005-06. It is our understanding that there is a deficiency of approximately \$2.0 million in 2003-04. It is not yet clear to what extent, if any, there will be a deficiency in 2005-06, but given some early data from the SDE, we are proposing to make use of balances from the Budget Act of 2003 to ensure that there is no deficiency for that year.</p>	<p>Approve May Revision. (3-0)</p>		
611-491	<p>May Finance Revision Letter: Reappropriation - School District Fiscal Status Reports. Local Assistance. (Issue 055)</p>	<p>Reappropriates any balances remaining from Item 6110-107-0001 of the Budget Act of 2003 be used to provide an additional annual status report for both the Oakland Unified School District and the West Fresno Elementary School District. There is no statutory requirement that provides any further status reports from these districts, though the districts and the state administrator would likely benefit from additional assessments.</p>	<p>Approve May Revision with amendment to allow a study of Vallejo Unified School District. (3-0)</p>		

31. Other Local Assistance

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-268-0001	<p>May Revision Finance Letter: Child Oral Health Assessments Program. Local Assistance. General Fund. (Issue 921)</p>	<p>Appropriates \$4.4 million for the costs to schools of enforcing new child oral health assessment requirements. Parents with children entering Kindergarten will be required to present proof that their child received an oral health assessment by a licensed dentist, or other licensed or registered dental health professional.</p>	<p>Approve May Revision funding and strike budget language references requiring separate legislation. (2-1)</p>		

32. Various Full Funding Proposals

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-240-0890	<p>May Revision Finance Letter: Advanced Placement Fee Waiver Program. Local Assistance. Federal Funds. (Issue 912)</p>	<p>Increases federal funding by \$2,426,000 due to increased pupil participation and increased federal funding. The funding will be used to reimburse school districts that waived a portion of Advanced Placement test fees for eligible economically-disadvantaged students.</p>	<p>Approve May Revision. (3-0)</p>		
6110-190-0001	<p>CDE Proposal. Community Day Schools. Local Assistance. General Fund.</p>	<p>Augment funding for Community Day Schools by \$4.3 million to cover an estimated shortfall in funding for this program in 2006-07. The Governor's budget provides \$49.4 million for the community day school program. This amount constitutes a \$2.4 million increase over the amount provided in 2005-06 to provide a cost-of-living adjustment.</p>	<p>Augment Community Day Schools by \$1.8 million. (2-0)</p>		

33. Various State Operations

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-001-0001	<p>May Revision Finance Letter: Restoration of Immediate Intervention/Underperforming Schools Program Positions. State Operations. General Funds.</p>	<p>Augments by \$1,627,000 to restore 13.5 positions that support the Immediate Intervention /Underperforming Schools Program (II/USP). The 2006-07 Governor's Budget proposed elimination of these positions to reflect the phase out of the II/USP program. Originally approved for activities associated with the Public Schools Accountability Act of 1999 (PSAA), the SDE indicates that these positions continue to support PSAA-related activities such as the Academic Performance Index, the Governor's Performance Award programs, PSAA waiver requests, and some prolonged II/USP activities. Due to these continuing activities and ongoing efforts to coordinate state and federal accountability programs, it is requested that these positions and funding be restored.</p>	<p>Approve May Revision. (3-0)</p>		

6110-001-0001	May-Revision-Finance-Letter:- Governor's January Budget: School Facilities Planning	School Facilities Planning. Provides \$ 167,000 to convert 1.9 limited-term positions in the School Facilities Planning Division to permanent positions. These positions are funded with State School Facility Fund revenues. CDE believes these positions are needed to provide school districts with timely review and approval of school construction and modernization plans and the approval of sites on an ongoing basis.	Approve May-Finance-Letter-Governor's Budget. (2-0) Approve May-Revision-Governor's Budget. (2-0)		
6110-001-0001	May-Revision-Finance-Letter:- Governor's January Budget: Special Education - Data Collection	Special Education - Data Collection. Provides \$ 288,000 in federal IDEA funds for 2.8 information technology positions to meet new federal reporting and accountability requirements under the Individuals with Disabilities Education Act, as reauthorized in December 2004.	Approve May-Revision-Governor's Budget. (2-0) Approve May-Revision-Governor's Budget. (2-0)		
6110-001-0001	May-Revision-Finance-Letter:- Governor's January Budget: Business Official Training	Business Official Training. Provides \$ 78,000 in General Funds for a 0.9 position to administer the new Chief Business Official Training Program created by Chapter 356, Statutes of 2005 (SB 352/Scott). The position will work to develop criteria for the approval of state-approved training providers, developing an application process and reviewing applications. The Governor provides \$1 million for the second year of local assistance funding for the program in 2006-07. The Subcommittee heard this issue at an earlier hearing.	Approve May-Revision-Governor's Budget. (2-0) Approve May-Revision-Governor's Budget. (2-0)		

6110-001-0001	May Revision Finance Letter:- Governor's January Budget: Child Care	Child Care - Alternative Payment Monitoring Unit. Upgrades a 0.5 office assistant position to a 1.0 office technician position to help CDE maintain a database in the Alternative Payment Monitoring Unit. The Governor proposes this change in both 2005-06 and 2006-07.	Approve May- Revision-Governor's Budget. (2-0)		
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34. Continuous Appropriations - Current Year

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-601-0001	School District Apportionments, Continuous Appropriation, Education Code Section 42238, 2004-05 Local Property Tax Offset and Revised Growth Adjustments. Local Assistance. (Issues 123 and 124)	It is noted that this item is reduced to reflect a decrease of \$70,386,000 due to revised estimates of ADA, costs of the Public Employee's Retirement System offset, unemployment insurance reimbursements and other miscellaneous changes. This item is further reduced by \$127,225,000 due to an increase in offsetting local revenue estimates. The total change nets to a decrease in General Fund commitments of \$197,611,000.	Approve May Revision. (3-0)		
6110-608-0001	County Offices of Education Apportionments, Growth and Local Property Tax Offset. (Issues 403 and 402)	It is requested that this item be increased by \$10,603,000 to reflect an increase in the estimated growth of the apportionments and reduced by \$932,000 to offset changes to local property tax revenue allocations to county offices of education.	Approve May Revision. (3-0)		
6110-601-0986	School Districts, Local Revenue Allocation. (Issue 402)	It is requested that this item be increased by \$122,603,000 to reflect adjustments to the estimated property tax revenue allocated to K-12 school districts.	Approve May Revision. (3-0)		

6110-602-0986	County Offices of Education, Local Revenue Allocation. (Issue 402)	It is requested that this item be increased by \$932,000 to reflect adjustments to the estimated property tax revenue allocated to county offices of education.	Approve May Revision. (3-0)		
6110-603-0986	Special Education, Local Revenue Allocation. (Issue 402)	It is requested that this item be reduced by \$1,252,000 to reflect adjustments to the estimated property tax revenue allocated to special education programs.	Approve May Revision. (3-0)		

35. Continuous Appropriations - Budget Year

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6110-601-0986	May Revision: School Districts, Local Revenue Allocation (Issue 402)	It is requested that this item be increased by \$1,988,000 to reflect adjustments to the estimated property tax revenue allocated to K-12 school districts.	Approve May Revision. (3-0)		
6110-602-0986	May Revision: County Office of Education, Local Revenue Allocation (Issue 402)	It is requested that this item be increased by \$2,104,000 to reflect adjustments to the estimated property tax revenue allocated to county offices of education.	Approve May Revision (3-0)		
6110-603-0986	May Revision: Special Education, Local Revenue Allocation (Issue 402)	It is requested that this item be reduced by \$3,261,000 to reflect adjustments to the estimated property tax revenue allocated to special education programs.	Approve May Revision (3-0)		
6110-608-0001	May Revision: County Offices of Education Apportionments, Local Property Tax Offset and Deficit Factor Elimination (Issues 402,407,409)	It is requested that this item be reduced by \$2,104,000 to offset changes to local property tax allocations for county offices of education and increased by \$18,556,000, of which \$756,000 is to fully fund county offices of education revenue limits and eliminate the remaining deficit factor and \$17.8 million to provide additional non-instruction revenues for county offices of education.	<p>(1) Approve May Revision on property tax adjustments and deficit factor. (3-0)</p> <p>(2) Reduce May Revision proposal for county administration by \$16.8 million. (2-1)</p>		

6110-601-0001	<p>May Revision: School District Appropriations, Continuous Appropriation, Education Code Section 42238, 2006-07 Growth, Cost of Living, Local Property Tax Offset, and Deficit Factor and Equalization Adjustments, (Issues 120, 121, 122, 126, and 127)</p>	<p>It is requested that this Non-Budget Act item be increased by a total of \$227,910,000 to reflect a decrease of \$197,549,000 to account for revised estimates of Average Daily Attendance (ADA), revised costs of the Public Employee's Retirement System offset, revised unemployment insurance reimbursements and other miscellaneous changes, a decrease of \$6,610,000 to reflect revised local property tax estimate adjustments, an increase of \$230,398,000 to reflect a revised COLA factor of 5.92 percent, an increase of \$101,671,000 to eliminate the deficit factor, and an increase of \$100,000,000 for equalization funding.</p>	<p>Approve May Revision (3-0)</p>		
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36. Control Section 12.40 - Funding Flexibility

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
Control Section 12.40	April Finance Letter: Transfer Flexibility Among Categorical Programs. (Issue 839)	Eliminates a number of items containing appropriations for block grants that were included in Control Section 12.40. Since statute already allows educational agencies to transfer funds between these block grants, the Administration does not believe they should be included in this control section. In addition, one of the other items in the control section has been renumbered. It is requested that Section (b) of Control Section 12.40 be amended to reflect these technical corrections.	Eliminate EIA and Foster Care from the list of programs that can have funds transferred out. (2-1)		

II. Control Section 24.30 & School Facilities Aid Program (Item 6350)

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
Control Section 24.30 & School Facilities Aid Program (Item 6350)	Governor's January Budget: State School Facility Programs. Control Section 24.30	The Governor proposes to continue budget control language to require the transfer of rental income from the State Relocatable Classroom Program and remaining funds for the Migrant Housing Program to the State General Fund, as determined by the Department of Finance. According to the State Allocation Board, they have full authority over funds from both these programs.	Eliminate Control Section 24.30 (b) to conform to action by Subcommittee to eliminate section 24.30 (a) at the April 24th Subcommittee hearing. Adopt trailer bill language to allow excess Migrant Housing funds for other State School Facility Program. Conform action to Budget Item 6350 -- School Facilities Aid Program. (3-0)		

III. California Summer School for the Arts (Item 6255)

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6255-001-0001	<p>May Revision Budget Letter: California State Summer School for the Arts. State Operations. General Fund (Issue 665)</p>	<p>Provides an increase of \$676,000 to provide additional funds to allow the California State Summer School for the Arts to reduce fees and offer additional scholarships. These funds fulfill the statutory intent that the state provide funding to support up to 75 percent of the total program costs. This augmentation brings total state funding \$1.5 million in 2006-07.</p>	<p>Approve May Revision. (2-1)</p>		

IV. Commission on Teacher Credentialing (Item 6360)

Item	Issue	Description	Staff Recommendation	BBL/TB	Comments
6360-001-0407	May Revision Budget Letter: Development of the Teacher Data System. State Operations. Reimbursement. (Issue 495)	Increases reimbursement authority by \$252,000 for expenditure of Federal Title II one-time carryover funds. These funds will be provided through an interagency agreement with the California Department of Education and will fund 1.5 positions and other costs associated with development of a new Teacher Data System.	Approve May Revision. (2-0)		
6360-001	Legislative Change Proposal: Elimination of Two Efficiencies Adopted in 2005-06.	CTC implemented a number of program efficiencies and cost savings that were approved by the Commission last year and enacted as a part of the final 2005-06 budget. The Commission has not implemented two of these efficiencies enacted as a part of the 2005-06 budget following a letter from the Legislative Leadership in September 2005. Legislative leaders requested the Commission to postpone adoption of these regulations until early 2006 to give the Legislature an opportunity to revisit this issue.	Approve Legislative changes to the CTC budget for 2006-07 to (1) eliminate two efficiencies approved in the 2005-06; and (2) augment the expenditure of the CTC budget by \$25,804 to reflect the loss in savings. Motion Failed. (1-1)		

6360-101-0001	Legislative Proposal: Administration Funds for Paraprofessional Program. Local Assistance. General Fund.	Increase funding for the Paraprofessional Program by \$1.267 million . This will increase the program stipend from \$3,000 to \$3,500 for each participant and provide funding for all individuals on the current waiting list. The Paraprofessional Program provides funding to paraprofessionals to take college courses to become future teachers.	Approve Legislative augmentation. (2-1)		
6360-001-0001	Legislative Proposal: Administration Funds for Paraprofessional Program. State Operations. General Fund.	Add \$227,000 in General Funds to administer the Paraprofessional Training Program. CTC currently receives no funding to administer this program. Provides 3 percent for state administration.	Approve Legislative augmentation. (2-1)		