



Senate Budget and Fiscal Review

Subcommittee No. 1 2007 Agendas

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SUBCOMMITTEE NO. 1 on Education



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

Tuesday, March 6, 2007
1:30 p.m.
Room 113, State Capitol

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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 2007-08 and present their overall recommendations.

BACKGROUND: Funding for California’s public elementary and secondary education system is administered predominantly through the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education. The public elementary and secondary education system educates approximately 5.9 million students enrolled largely in kindergarten through 12th grade. The primary goal of the Superintendent and the CDE is to provide policy direction to local school districts and to work with the educational community to improve academic performance.

At the local level, K-12 education is the responsibility of nearly 1,000 school districts, 58 county offices of education, and more than 9,300 schools. Approximately 307,800 teachers are employed in public schools statewide.

Total K-12 Funding (All Funds)

The 2007-08 Governor’s Budget proposes \$68.6 billion in total funding for K-12 education, which reflects an increase of \$1.8 billion (2.7 percent) above 2006-07 revised budget. The Department of Finance estimates that average per-pupil funding from all sources (state, local, federal, other) totals \$11,584 in 2007-08, an increase of \$344 above the \$11,240 per-pupil amount in 2006-07.

Table 1					
K-12 Summary, All Funds	Actual	Revised	Proposed		Percent
<i>(dollars in millions)</i>	2005-06	2006-07	2007-08	Amount	Change
K-12 Proposition 98:					
State General Fund	\$34,582	\$36,658	\$36,851	\$193	0.5
Local Property Taxes	11,959	12,353	13,595	1,242	10.1
Subtotal, Proposition 98	(\$46,541)	(\$49,011)	(\$50,446)*	(\$1,435)	(2.9)
Other K-12 Funds:					
State General Fund (Non-98):					
Teacher Retirement	\$999	\$876	\$966	\$91	10.4
Bond Payments	1,681	1,857	2,201	345	18.6
Other Programs	160	554	413	-140	-25.4
State Lottery Funds	1,036	1,012	1,012	0	0
Federal Funds	6,931	7,113	6,568	-545	-7.7
Other	6,147	6,352	6,948	596	9.4
Subtotal, Other Funds	(\$16,954)	(\$17,763)	(\$18,109)	(\$346)	(1.9)
Total , All Funds	\$63,495	\$66,774	\$68,555	\$1,781	2.7
K-12 ADA	5,964,108	5,940,989	5,917,948	-23,041	-0.39
Per Pupil Funding, All Funds	\$10,646	\$11,240*	\$11,584*	\$344	3.1

* Reflects the funding shift of \$627 million in funding for Home-to-School Transportation from Proposition 98 to the Public Transportation Account per the Governor’s proposal. Without the shift, the K-12 Proposition 98 increase would total \$2.1 billion (4.2 percent).

As reflected in Table 1, the \$68.6 billion in total funds for K-12 education can be summarized as follows: \$42.1 billion (61.4 percent) in state funds (General Fund and State Lottery Fund); \$19.9 billion (29 percent) in local funds (property taxes and other local revenues); and \$6.6 billion (9.6 percent) in federal funds.

The budget reflects a decrease of \$545 million (7.7 percent) in federal funds, although this figure will be updated by the Department of Finance April Letter and/or May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2007, that was just passed by Congress and signed by the President in February 2007.

Proposition 98

Total Proposition 98 funding for K-14 education in 2007-08 is proposed at \$56.8 billion, an increase of \$1.8 billion, or 3.3 percent, over the revised 2006-07 budget. (See Table 2) The Administration states that this level of funding meets the Proposition 98 minimum funding guarantee in 2007-08, as currently estimated by the Department of Finance.

Table 2					
K-14 Proposition 98					
Appropriations Summary					
<i>(dollars in thousands)</i>	2005-06	2006-07	Proposed 2007-08	\$ Change	% Change
<i>Distribution of Prop 98 Funds</i>					
Department of Education	\$46,485,854	\$48,945,279	\$50,385,924*	\$1,440,645	2.9
Community Colleges	5,472,403	5,897,062	6,274,142	377,080	6.4
Corrections & Rehabilitation**	45,780	52,964	54,250	1,286	2.4
State Special Schools	42,567	44,533	44,253	-280	-0.6
Commission on Teacher Credentialing	31,814	49,881	39,881	-10,000	-20.0
Dept. of Developmental Services	10,217	9,121	8,677	-444	-4.9
Dept. of Mental Health	18,400	13,400	18,400	5,000	37.3
School Facilities Aid Program	7,841	5,766	5,015	-771	-13.3
Am. Indian Education Centers	4,698	4,343	4,518	175	4.0
Total	\$52,119,574	\$55,022,369	\$56,835,060	\$1,812,691	3.3
<i>Prop 98 Fund Source</i>					
State General Fund	\$38,358,017	\$40,812,023	\$41,189,857	\$377,834	0.9
Local Property Taxes	13,761,557	14,210,346	15,645,203	1,434,857	10.1
Total	\$52,119,574	\$55,022,369	\$56,835,060	\$1,812,691	3.3
K-12 Enrollment-ADA***	5,964,108	5,940,989	5,917,948	-23,041	-0.39
<u>K-12 Funding per ADA****</u>	<u>\$7,803</u>	<u>\$8,293</u>	<u>\$8,569</u>	<u>\$276</u>	<u>3.3</u>
* Includes one-time funds for prior year Proposition 98 settle-up.					
** Division of Juvenile Justice. (Formerly California Youth Authority.)					
***Average Daily Attendance					
**** Includes one-time funds for prior year Proposition 98 settle-up. Without these one-time funds, K-12 per ADA funding totals would equal \$8,250 in 2006-07 and \$8,524 in 2007-08.					

The Governor proposes to shift \$627 million in funding for the Home-to-School Transportation program – administered by the California Department of Education – from the Proposition 98 General Fund to the Public Transportation Account. In making this shift, the Administration proposes to rebench the Proposition 98 minimum guarantee downward by \$627 million.

Of the \$56.8 billion in Proposition 98 spending for K-14 education in 2007-08, \$50.4 billion is appropriated to the Department of Education for K-12 schools; \$6.3 billion for Community Colleges; and \$175 million for all other state education agencies.

General Funds comprise \$41.2 billion (72.5 percent) of total Proposition 98 funding; property taxes comprise the remaining \$15.6 billion (27.5 percent).

The number of students in K-12 schools, as measured by unduplicated average daily attendance (ADA), is estimated to decrease by 23,041 in 2007-08, a decrease of 0.39 percent over the revised 2006-07 budget. Average per-pupil Proposition 98 funding is estimated to be \$8,569 in 2007-08, an increase of \$276 (3.3 percent) above the revised 2006-07 level of \$8,293.

Comments:

- **Lottery Funds Predicted to Decline in 2007-08.** Education programs (K-12 education and higher education) currently receive more than \$1.2 billion in state lottery funds. These funds can be used for a variety of purposes, although some funding for K-12 and community colleges must be set-aside for instructional materials. State lottery revenues have been increasing in recent years. However, according to the LAO, the Lottery Commission issued a statement in February that they were lowering their lottery fund estimates downward by **\$136 million** in 2006-07 due to lower than expected revenues for the state lottery.
- **Federal Funds Update to Reflect New Federal Appropriations Bill for Education.** The budget reflects a decrease of \$545 million (7.7 percent) in federal funds, although this figure will be updated by the Department of Finance April Letter and/or May Revise to reflect new amounts in the federal Labor, Health and Human Services (HHS), and Education appropriations bill for federal fiscal year 2007, that was just passed by Congress and signed by the President in February 2007. The Department of Education will provide a federal funds update at the Subcommittee's April 24th hearing.

II. LAO -- Proposition 98 Analysis and Recommendations

In their budget analysis, the LAO provides the following findings and recommendations regarding Proposition 98 funding for K-12 education, as proposed by the Governor's budget.

LAO Proposition 98 Update

- **Updated Revenue Forecast Leads to Different Estimates for Proposition 98 Minimum Guarantee in Both the Current and Budget Years.** Because of lower estimates for General Fund revenues, our forecast suggests the minimum guarantee is \$609 million lower in 2006-07 and \$261 million higher in 2007-08, as compared to the administration's estimates.
- **For the First Time, Proposition 98 Funding Level Will Be Adjusted Downward to Reflect Declining Attendance.** After two years of being held harmless for statewide declines in student population, in 2007-08 the Proposition 98 minimum guarantee will be calculated using the actual change in K-12 average daily attendance (-0.4 percent). Overall Proposition 98 funding still increases compared to the current year.
- **Forecast Suggests Test 1 Factor Could Become Operative in Near Future.** Healthy growth in General Fund and local property tax revenues coupled with declining K-12 attendance result in a shrinking share of the General Fund going to Proposition 98. The LAO forecast suggests the Test 1 requirement—roughly 40 percent of all General Fund spending—could become operative as early as 2009-10.

LAO Proposition 98 Priorities

- **Proposition 98 Priorities.** Recommend Legislature reduce current-year Proposition 98 spending by \$609 million, which would reduce the 2007-08 minimum guarantee by \$634 million. These actions would help the state address its General Fund budgetary problem.
- **Maintain Priority on Reducing Debt.** Recommend Legislature use any additional Proposition 98 funds that materialize this year to pay for the ongoing cost of state-mandated local programs and reduce the state's "credit card" debt.

LAO Proposition 98 Roadmap

- **A Proposition 98 Roadmap.** A long-term roadmap could strengthen the Legislature's role in the annual budget process, increase its ability to pay for its high-priority policy initiatives, and help school and community college districts implement state initiatives more effectively.
- **Major Components of a K-12 Spending Roadmap.** Our roadmap includes two priorities goals: (1) investing in child development programs and supplemental funding programs for the major subgroups of K-12 students who perform well below state standards, and (2) helping districts address the long-term financial threat posed by retiree health insurance costs.
- **Implementing the LAO's Roadmap's K-12 Priorities.** Invest new discretionary Proposition 98 funds in three program areas: (1) child development programs, (2) existing programs that support supplementary services to low-performing and at-risk students, and (3) "fiscal solvency" block grants that would assist districts to pay for retiree health benefits.
- **Major Components of a California Community Roadmap.** Recommend using new discretionary Proposition 98 funds to: (1) pay off districts' outstanding liabilities through fiscal solvency block grants, and (2) improve completion rates through student success block grants.

ISSUE 2: Major Adjustments – Student Enrollment

DESCRIPTION: The Governor’s Budget estimates that K-12 education enrollment – as measured by average daily attendance (ADA) -- will decline by 0.39 percent from 2006-07 to 2007-08. According to the Legislative Analyst, the Governor’s proposed enrollment adjustments provide a net budget reduction (savings) of **\$71.6 million** in 2007-08.

BACKGROUND: The number of students enrolled in K-12 schools, as measured by ADA, is estimated by the Governor to decrease by 23,000 in 2007-08, a decline of 0.39 percent below the revised 2006-07 level. This attendance decline will bring total K-12 (ADA) to 5,918,000 in 2007-08. While enrollment rates have slowed since the mid-1990s, this reflects the third consecutive year of actual attendance decline for K-12 schools statewide.

According to Department of Finance (DOF) population estimates, K-12 enrollment levels will continue to decline over the next several years and will start climbing again in 2009-10. The recent decline in enrollment reflects the loss of children born to “baby-boomers” who are aging out of the K-12 schools – particularly high schools -- and a decline in birth rates beginning in the 1990s.

Enrollment	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (Proposed)
Student ADA	5,813,779	5,915,493	5,966,626	5,983,774	5,964,000	5,941,000	5,918,000

Student enrollment changes play out quite differently for elementary schools and high schools than reflected by statewide trends overall. Elementary school enrollments slowed in the late 1990’s and have experienced actual declines since 2003-04. Elementary enrollments are expected to start growing again in 2008-08. High school enrollments grew steadily in the late 1990s through 2004-05 and since then have begun to slow. High school enrollments are projected to decline beginning in 2007-08 and are not expected to grow again until 2013-14.

Enrollment trends also differ greatly among school districts. Roughly half the school districts in the state (more than 500) are currently experiencing declining enrollment. The remaining districts are growing – some slightly and some rapidly. This issue will be discussed further in the next agenda item.

Most K-12 education programs – revenue limits and categoricals -- receive year-to-year statutory growth adjustments. These enrollment growth rates, reflecting the estimated changes in student attendance, are summarized below for the last several years. Categorical programs typically receive enrollment growth at budgeted rates; revenue limits, which are continuously appropriated, receive growth at adjusted rates.

Enrollment	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (Proposed)
Budgeted Growth Rates	1.40	1.37	1.34	0.95	0.69	0	-0.39
Adjusted Growth Rates	1.71	1.77	0.99	0.43	-0.12	-0.36	NA

Statewide, student enrollment growth rates have been slowing since the mid-1990s when annual growth was budgeted at more than 2.5 percent, and finally turned negative in 2005-06. Despite estimated negative growth of 0.26 percent at May Revise, enrollment growth was budgeted at zero percent in 2006-07 for education programs to buffer K-12 education from the full effects of negative enrollment adjustments in the first year of the budgeted decline.

Governor's Budget Proposal: The Governor's Budget provides **\$71.6 million** in net reductions associated with various student enrollment adjustments between 2006-7 and 2007-08. Adjustments can be broken down into three major categories:

- **Statutory ADA Adjustments for Revenue Limit and Some Categorical Programs.** According to the LAO, the Governor proposes **\$110.4 million** in reductions for county and school district revenue limit apportionments to reflect changes in the ADA growth rate, estimated by the Governor at -0.39 percent for 2007-08. In addition, the Governor proposes **\$23.5 million** in reductions for 21 categorical programs, such as special education, targeted instructional improvement grants, professional development block grants, school and library improvement grants, and instructional materials that also have growth formulas tied to the ADA growth rate.
- **Hold Harmless for Selected Categorical Programs.** The Governor proposes to hold approximately 28 selected categorical programs harmless from negative growth rate adjustments because ADA-based adjustments are not clearly required by statute for the program and/or the program is new or was recently expanded. For these selected programs, the Governor's proposes to budget enrollment at the 2006-07 level, so there is a no (zero) enrollment adjustment in 2007-08. Economic Impact Aid is the largest program that the Governor proposes to protect from negative enrollment adjustments. Other large programs that are protected include: supplemental instruction, grade 7-12 school counseling, CAHSEE supplemental instruction, arts and music block grants, deferred maintenance, and home-to-school transportation. According to the LAO, the Governor's proposal to protect these programs from negative enrollment adjustments that would otherwise be incurred by programs results in costs of nearly \$13 million in 2007-08.
- **Adjustments for Categorical Programs with Separate Population Formulas.** The Governor proposes **\$62.3 million** in enrollment adjustment increases for 11 categorical programs with special statutory enrollment or other workload factors that are growing. Programs in this category include charter school block grants, ROC/Ps, adult education, class size reduction, school meals and six child care programs. The Governor proposes positive enrollment growth for all of these programs.

LAO Analysis: According to the LAO, the Governor's proposal to protect selected categorical programs from negative growth adjustments is discretionary and the Legislature could eliminate these proposed protections for all of these programs, which would create budget savings of **\$13 million** that could be used for other purposes in 2007-08. Alternatively, the Legislature could create a different list of programs to protect from negative growth adjustments that could cost more or less in 2007-08 depending upon the programs selected.

COMMENTS: The Department of Finance will update 2007-08 estimates of student enrollment as part of the Governor's May Revise to provide more up-to-date K-12 enrollment estimates. As suggested by the LAO, the Legislature has the option of decreasing funding for all the categorical programs the Governor proposes to protect from negative growth adjustments. This would create approximately **\$13 million** in savings that could be redirected for other purposes.

ISSUE 3: Major Adjustments – Declining Enrollment Districts

DESCRIPTION: The Governor’s Budget estimates **\$501 million** for revenue limit enrollment adjustments for school districts experiencing declining enrollment in 2007-08. This amount builds upon **\$476 million** in adjustments for school districts in 2006-07 and adds **\$25 million** in declining enrollment calculations for charter school students who return to school districts under a new state law.

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). State statute 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 Governor’s budget estimates that the costs of declining enrollment total **\$501 million** in 2007-08. This estimate reflects 2006-07 costs of **\$476 million** and adds **\$25 million** to conform to Chapter 653; Statutes of 2006 (SB 1446/Perata). This new law changes the way charter school students are counted for purposes of declining enrollment when they return to school districts. Specifically, the bill allows school districts to deduct, from their prior year enrollment losses, students returning to their district from charter schools.

The CDE reports that a total of **536 school districts** experienced declining enrollment in 2005-06 – the latest actual data available. As indicated in the previous item, K-12 attendance overall will continue to decline for the next several years and begin to grow again beginning in 2009-10. For this reason, it is estimated 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 started to include estimates of declining enrollment adjustments in their annual revenue limit adjustments. The following table summarizes increases in the declining enrollment adjustments in recent years utilizing data from DOF and CDE.

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (Estimated)
Statewide Growth Rate	2.10%	1.75%	0.85%	0.30%	-0.33%	-0.39%	-0.39%
Districts Receiving Declining Enrollment Adjustment	329	375	413	439	536	NA*	NA*
Difference Between Prior Year ADA & Actual ADA for Declining Districts	16,000	19,000	28,000	50,000	78,000	NA*	NA*
Costs of Declining Enrollment	\$75 m	\$90 m	\$135 m	\$246 m	\$402 m	\$476 m	\$501 m
* Data Not Available							

LAO Recommendations: The LAO concurs with DOF estimates of declining enrollment costs reflected in the Governor’s 2007-08 budget. In previous years, DOF utilized past-year costs adjusted for COLAs as the method for estimating declining enrollment adjustments for the Governor’s budget. In their analysis last year, the LAO found that this methodology underestimated costs and recommended a new methodology using the current district-level attendance data and DOF long-term enrollment projections. The Governor adopted this new methodology at May Revise last year.

COMMENTS: This issue is raised for information purposes only to highlight the significant, growing state costs of declining enrollment adjustments for school districts under current law.

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

DESCRIPTION: The Governor’s Budget provides **\$1.9 billion** to fully fund statutory COLAs for K-12 revenue limit and categorical programs in 2007-08. This provides a **4.04 percent** COLA for revenue limits and categorical programs. COLAs provide discretionary funding to local education agencies.

BACKGROUND: The annual budget provides K-12 education programs with COLAs for all revenue limit programs and most categorical programs. COLAs are provided to address higher annual costs to schools resulting from inflation. Most education programs receive this adjustment through statute (revenue limits and most categorical programs), while some categorical programs (home-to-school transportation, etc.) typically receive discretionary COLAs in the budget. COLAs are applied to state education programs, not to federal programs. Budgeted COLAs for the last several years are summarized below:

COLA Rates	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 Proposed
Budgeted	3.17	3.87	2.0	0	2.41	4.2	5.92	4.04

The 2006-07 budget provided a 5.92 percent COLA to education programs – the highest COLA in at least twenty years. At this high rate, K-12 education programs received \$2.6 billion in new discretionary funds in 2006-07.

In contrast, the 2003-04 budget did not fund any COLA for K-12 revenue limit and categorical programs due to a budget shortfall that year. Deficit factors were created for revenue limits as a result of these foregone cost-of-living adjustments and additional revenue limit reductions. This revenue limit deficit factor balance totaled more than \$800 million in 2003-04 and was paid-off over several years. The 2006-07 provided a final payment of \$308.6 million to eliminate any outstanding revenue limit deficit obligations for school districts and county offices of education. This funding fully restores revenue limits to where they would have been without these reductions.

Governor’s Budget Proposal: The Governor’s Budget proposes **\$1.9 billion** to fully fund statutory COLAs for K-12 revenue limits and categorical programs in 2007-08. The Governor estimates a 4.04 percent COLA, which provides **\$1.4 billion** for revenue limits and **\$515.7 million** for categorical programs that either require a COLA pursuant to state statute or tradition. The table below provides additional breakdowns of proposed COLAs for revenue limits and some categorical programs in 2007-08.

<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	4.04%	\$1,383.6	\$133.0	\$66.0	\$316.7	\$1,899.3

LAO Analysis: Estimation of the COLA for K-12 education (and community colleges) relies upon the gross domestic product deflator for purchases of goods and services by state and local governments (GDPSL). The Governor’s COLA estimates reflect two quarters of GDPSL growth rates available when the budget was prepared. According to the LAO, the additional quarter of GDPSL rates available since then are consistent with the figures budgeted by the Administration in January.

COMMENTS: The Department of Finance will update COLA estimates as part of the Governor’s May Revise to reflect four quarters of GDPSL growth rates. According to the LAO, COLA rates at May Revise are likely to be very close to the Governor’s current budget year estimate of 4.04 percent.

ISSUE 5: Major Adjustments – Home-to-School Transportation Shift

DESCRIPTION: The Governor proposes to shift **\$627 million** in funding for the Home-to-School Transportation program from Proposition 98 General Fund to the Public Transportation Account (PTA). In making this shift, the Administration proposes to rebench the Proposition 98 minimum guarantee downward by **\$627 million** to reflect the savings in state General Funds. The Governor includes a 4.04 percent COLA for this program in 2007-08.

BACKGROUND: The Home-to-School Transportation program provides funding for school districts to purchase and operate school buses for transporting students to and from school. Recent data indicate that almost all school districts (930) participate in the program, transporting a total of approximately 936,000 students (including special education students), or about one in six K-12 students. Participation in the program has been limited to only those districts which participated in the early 1980s. At this time, a base year of funding was established for each district, which has been adjusted over the years at the discretion of the Governor and Legislature. There are no statutory requirements for enrollment adjustments or COLAs. However, COLA increases have typically been provided for the program.

LAO Analysis: The LAO raises a variety of concerns with the Governor's proposal, including, but not limited to, its legality. First, the LAO believes that the re-benching of Proposition 98, which is the primary reason for the funding shift, is likely unconstitutional. According to the LAO, the State Constitution does not contain language authorizing such a re-benching of the minimum guarantee. Further, the LAO notes that the Governor's proposal runs contrary to the intent of the voters when they passed Proposition 98, which was to insulate K-14 from competing state funding priorities.

The LAO further expresses concern with the stability of the Public Transportation Account (PTA) as a funding source for the Home-to-School Transportation Program. While school bus transportation appears to meet the definitional requirements to receive PTA funding, it remains uncertain as to whether the PTA will have sufficient ongoing funds to support the program. The LAO notes that the revenue streams for the PTA, which fluctuate based on changes in gasoline prices and the economy in general, are very volatile, and as such, may not be able to support this program past 2007-08.

The LAO, as well as the Department of Education, are particularly worried about the Home-to-School Transportation program losing the protections granted under Proposition 98 with the Governor's proposed shift. The LAO believes that this shift sets a bad precedent and may allow future Administrations and Legislatures to shift historically, Proposition 98 funded programs out from under their constitutionally protected shelters any time the state needed to achieve fiscal savings. Once the program is removed from the protections offered by Proposition 98, the state could then choose to defund the program in the future, realizing even greater ongoing savings. As a result, the vision enacted by the voters with the passage of Proposition 98 would now be rendered meaningless.

LAO Recommendation: The LAO recommends that the Legislature reject the Governor's proposal to fund the Home-to-School Transportation program from the Public Transportation Account and rebench the Proposition 98 guarantee by a like amount.

Comments: Given the strong concerns from the LAO about the legality of the Governor's proposed Home-to-School Transportation funding shift, this does not appear to be a viable budget proposal. In response to the LAO's concerns, the Administration still believes their proposal works legally, although they have also indicated they are looking at alternatives.

ISSUE 6: Education Mandates –Annual Payments (6110-295-0001)

DESCRIPTION: The Governor proposes to continue the practice of deferring payments for annual education program mandate claims in 2007-08. This practice arose in recent years as a means to achieve short-term budget savings. The annual cost of education mandates is estimated at approximately **\$160 million** for K-12 schools.

BACKGROUND: Several years ago, funding for education mandate programs 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 does not eliminate 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. The LAO estimates that the state paid **\$48.6 million** in interest on the unpaid mandates through 2002-03, the latest figure available.

Governor’s Budget Proposal: The Governor proposes to defer payments for the annual costs of 38 mandated education programs for K-12 school districts and county offices of education in 2007-08. The Governor retains a total of \$38,000 or \$1,000 for each of these mandates, however the Governor proposes to defer an estimated **\$160 million** in annual payments for these mandates in 2007-08. This continues the practice in recent years of deferring or suspending annual mandate payments to achieve short term budget savings.

In addition, the Governor is proposing to defer \$25 million in annual payments for community college mandates that brings the total mandate deferral amount to \$185 million for K-14 education in 2007-08.

The Governor also proposes to continue suspension of four K-12 education mandate programs in 2007-08, including: School Bus Safety I & II; Law Enforcement Sexual Harassment Training; County Treasury Withdrawals, and Grand Jury Proceedings.

LAO Recommendation: In previous analyses the LAO has consistently recommended restoration of funding for annual, ongoing education program mandates in order to reduce “education credit card” debt. However, given the shortage of new, ongoing Proposition 98 funding in 2007-08, the LAO is not making this recommendation. Instead, the LAO recommends that if new funds become available during the budget process, the Legislature give high priority to paying the annual costs of state-mandated local programs.

Governor’s Local Mandate Reform Proposal: The Governor’s budget proposes significant reforms as a part of the 2007-08 budget that, according to the Department of Finance, apply to K-12 education and community colleges, as well as, other local government mandates. According to the LAO, the Governor’s proposal would change the process the state utilizes to (1) determine whether a reimbursable mandate exists and (2) specify the method for determining reimbursement. The LAO believes that the Governor’s mandate reform proposal provides a good starting point for discussion. In their recommendation, the LAO offers a similar proposal for the Legislature to consider, which is outlined in the LAO’s *Perspective and Issues* publication.

Comments: Staff supports the LAO recommendation to defer \$160 million in annual K-12 mandate payments in 2007-08 given the estimated shortage of new, ongoing Proposition 98 funds in the budget year. However, if new funds become available, LAO recommends giving priority to paying the annual costs of state-mandated local programs.

The LAO has also recommended major reforms in the past to address the local mandate process for K-14 education. The Subcommittee has heard several of these LAO proposals in recent years. Now the Governor is proposing similar reforms. The Governor's proposed local mandate reforms and LAO recommended reforms provide important options for the Legislature to consider in 2007-08.

The Governor's Local Mandate Reform Proposal will be heard by Senate Budget Subcommittee #4 as a part of the Commission on State Mandates Budget item on March 8th. Now that the Department of Finance has confirmed that this proposal applies to K-14 education, Subcommittee #1 may want to consider hearing this issue separately at a future date.

ISSUE 7: Education Mandates – Prior Year Payments

DESCRIPTION: The Governor also proposes no additional funding to pay for outstanding prior year K-12 education mandate claims. Per the LAO, the total outstanding mandate obligation for K-14 education will total **\$550 million** in 2007-08. This includes \$435 million for K-12 and \$115 million for community colleges. It is important to note that the state must eventually pay all claims, once audited and approved, and that the state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account.

BACKGROUND: As a result of the continuing practice of deferring annual mandate payments for K-12 education, the state had accumulated more than **\$1.2 billion** in outstanding mandate payments by the end of 2005-06 according to the LAO. An additional \$100 million in outstanding deferrals for community colleges brought the total to \$1.3 billion.

Given significant one-time revenues available, the 2006-07 budget appropriated \$967 million to payoff K-14 education mandates. Of this amount, \$927 million was appropriated to reimburse school districts and county offices of education for outstanding, prior year education mandate claims. As indicated by the table below, funding was provided through from several sources that were appropriated in the 2006-07 budget act and education budget trailer bill (Chapter 79; Statutes of 2006).

Prop 98 - Prior Year Mandate Expenditures	K-12	CCC	TOTAL
Current Year Settle-Up	650,062,000	15,000,000	665,062,000
Prior Year Settle –Up for 06-07 (Ch.216/2004)	133,189,000	0	133,189,000
Prior Year Settle –Up for 07-08 (Ch.216/2004)	125,000,000	25,000,000	150,000,000
Prop 98 Reversions	18,726,000		18,726,000
TOTAL	926,977,000	40,000,000	966,977,000

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. The 2006-07 payment was partially pre-paid by the 2005-06 budget and fully paid by the 2006-07 budget. The 2007-08 payment was fully prepaid by the 2006-07 budget.

Estimated Outstanding Obligations in 2007-08: According to the LAO, the outstanding mandate balance for K-14 education will total **\$365 million** by the end of 2006-07 -- \$275 million for K-12 education and \$90 million for community colleges. These amounts reflect the deferral of more than \$100 million in annual mandates costs in 2006-07. (Another \$30 million in one-time funds was provided for annual mandate payments in 2006-07.)

With the Governor’s proposed deferral of \$185 million in K-14 mandate payments in 2007-08, the total outstanding mandate obligation for K-14 grows to **\$550 million** in 2007-08, per the LAO. This includes \$435 million for K-12 education and \$115 million for community colleges.

COMMENTS: As indicated by the last item, the LAO generally recommends that the Legislature place a high priority on paying off the costs of its "education credit card" and has recommended major reforms in the past to address the local mandate process. The Governor’s proposed local mandate reforms and LAO recommended reforms provide important options for the Legislature to consider in 2007-08.

ISSUE 8: Implementation Update: Status of New One-Time Funds in 2006-07

DESCRIPTION: The California Department of Education will update the Subcommittee on the implementation status of approximately **\$1.6 billion** in new one-time funds appropriated in the 2006-07 budget for new or expanded programs. The department will utilize a summary they prepared entitled *2006-07 Budget Actions and Program Funding Information* (see Attachment) in providing this update.

BACKGROUND: The 2006-07 budget appropriated **\$2.8 billion** in one-time Proposition 98 funds in 2006-07 for K-12 education and community colleges, reflecting a \$2.3 billion increase in 2005-06 Proposition 98 funding resulting from significant new revenues, and other one-time funds including \$283 million from prior year settle-up payments and \$248 from the Proposition 98 Reversion Account.

Of the \$2.8 billion in one-time funds in 2006-07, **\$2.5 billion** is provided for K-12 education for several new programs. These funds are summarized in the following table prepared by the Legislative Analyst's Office.

K-12 Spending From One-Time Funds	
<i>2006-07 (In Millions)</i>	
	Amount
Payment of K-12 mandate claims from prior years	\$927
Discretionary block grant	534
Arts, music, and P.E. equipment block grant	500
School facilities emergency repairs (<i>Williams</i> settlement)	137
Instructional materials	100
Preschool facilities	50
Teacher recruitment	50
Career technical education equipment	40
Mandates—2006-07 costs	30
Other	165
Total	\$2,533

Source: *California Spending Plan, 2006-07*, Office of Legislative Analyst.

While \$957 million of these one-time funds were appropriated for payment of outstanding education mandates, the remaining **\$1.6 billion** were appropriated for a number of new programs or to expand some existing programs.

Comments: The Department of Education is implementing new, ongoing funding allocations for a number of new or expanded programs in 2006-07. It will be helpful for the department to identify any major problems they are having with implementation of these new, one-time funds early in the budget season so that these issues can be addressed through the budget process. For example, have there been significant delays in allocating funds to local education agencies and, if so, what is the likelihood that funds appropriated will be fully expended in 2006-07?

ISSUE 9: Implementation Update: Status of New Ongoing Funds in 2006-07

DESCRIPTION: The California Department of Education will update the Subcommittee on the implementation status of approximately **\$1.4 billion** in new, ongoing funds appropriated in the 2006-07 budget for new or expanded programs. The department will utilize a summary they prepared entitled *2006-07 Budget Actions and Program Funding Information* (see Attachment) in providing this update.

BACKGROUND: The 2006-07 budget appropriated an additional \$5.2 billion (10.3 percent) in Proposition 98 funding for K-12 education and community colleges above the enacted 2005-06 budget. Of this amount, **\$4.5 billion** was provided in new, ongoing funding for K-12 education as summarized in the table prepared by the LAO.

Ongoing K-12 Proposition 98 Changes	
<i>2006-07</i>	
<i>(In Millions)</i>	
	Amount
Cost-of-living adjustments, growth, and other adjustments	\$2,383
Proposition 49 after-school programs	426
Revenue limit equalization	350
Economic Impact Aid	350
Deficit-factor reduction (including basic aid)	309
Counselors	200
Arts and music block grant	105
Child care eligibility	67
Preschool expansion	50
Increased support for high school exit exam	50
Other	187
Total Changes	\$4,476

Source: *California Spending Plan, 2006-07*, Office of Legislative Analyst.

More than \$3.0 billion of the new ongoing funds appropriated in 2006-07 provide discretionary funding for K-12 local education agencies. These discretionary funds include COLA and growth adjustments, revenue limit equalization funding, and revenue limit deficit factor elimination. However, the remaining **\$1.4 billion** is appropriated for new programs or to expand existing programs -- largely programs administered by the Department of Education.

Comments: The Department of Education is implementing new, ongoing funding allocations for a number of new or expanded programs in 2006-07. It will be helpful for the department to identify any major problems they are having with implementation of these new, one-time funds early in the budget season so that these issues can be addressed through the budget process. For example, have there been significant delays in allocating funds to local education agencies and, if so, what is the likelihood that funds appropriated will be fully expended in 2006-07? For ongoing funds, does the department need additional direction or clarification in allocating funds to local education agencies in order to reflect the intent of the Legislature?

2006-07 Budget Fund Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing	
One-time Funds						
1	Arts, Music, and Physical Education Supplies, Equipment and Professional Development	\$500	AB 1802 (Ch. 79), Sec. 43a16 SB 1131 (Ch. 371)	SFSD PDCSD	Funding based on prior year P-2 ADA with \$2,500 minimum per school. This program is established to support school districts, charter schools and county offices of education instructional programs in acquiring instructional resources used in the delivery of sequential standards-based instruction in physical education and visual and performing arts. Instructional resources purchased with these funds shall be supplies and equipment specifically identified in the district or school physical education and visual and performing arts sequential standards-based curriculum. Recommend that purchases reflect program needs directly related to students' achieving the content standards as described in the Visual and Performing Arts Framework (2004 edition) and the Physical Education Model Standards (in press). SB 1131 clean-up to clarify ADA, school site minimums, and use of funds (adds professional development)	75% of funds to be issued in March/April 2007 25% of funds are projected to be issued in June 2007 .
2	Discretionary Block Grant for School Sites	400.1	AB 1802 (Ch. 79), Sec. 43a2 SB 1131 (Ch. 371)	SFSD	Entitlements based on 2006-07 enrollment plus adult education and ROC/P ADA. School site uses include a variety of one-time purposes. School site minimum allocations. Use of funds shall be proposed by each school's schoolsite council. Funds apportioned may be expended for any one-time educational purpose including, but not limited to, instructional materials, classroom and laboratory supplies and materials, school and classroom library materials, educational technology, deferred maintenance, one-time expenditures designed to close the achievement gap, or professional development. Before funds may be encumbered or expended, the governing board of the school district shall approve the proposed use.	75% apportionments were issued December 2006 . The remaining 25% apportionments are projected to be issued in September 2007 . If the schoolsite council, schoolwide advisory group, or school support group, as applicable, and the governing board of the school district are unable to agree on the use of the funds by May 1, 2007 , the dispute shall be immediately submitted to the county board of education. The county board of education shall resolve the dispute within 30 days of submission. The decision of the county board of education shall be final.
3	Discretionary Block Grant for School Districts	133.4	AB 1802 (Ch. 79), Sec. 43a3 SB 1131 (Ch. 371)	SFSD	Entitlements based on 2006-07 enrollment plus adult education and ROC/P ADA. District uses limited to listed school site uses plus fiscal solvency and home-to-school transportation. Funds apportioned pursuant to this paragraph may be expended for instructional materials, classroom and laboratory supplies and materials, school and classroom library materials, educational technology, deferred maintenance, professional development, home-to-school transportation, one-time expenditures designed to close the achievement gap, or outstanding one-time fiscal obligations of school districts. District minimum allocation is \$10,000.	75% apportionments were issued December 2006 . The remaining 25% apportionments are projected to be issued in September 2007 .
4	Williams Settlement Emergency Repair Program (ERP)	137	BA item 6110-485-0001(1)	Office of Public School Construction (OPSC), not CDE.	A total of \$321.4 million is available. This program is administered through the Office of Public School Construction (OPSC) and is available for schools identified as being in deciles 1-3 of the 2003 API. AB 607 (Ch. 704) adds a provision that will enable local educational agencies (LEAs) to request grant funding in addition to the reimbursement funding option already available. AB 607 also requires the list of schools that are eligible to participate in the ERP to be updated every three years, in accordance with the school's API ranking. Based on the updated list, schools ranked in deciles 1-3 of the 2006 API will be considered eligible for funding in 2007-08. This bill requires the State Allocation Board (SAB) to establish a process for schools to apply for grants and provide certification of the completion of projects.	The OPSC developed emergency regulations to revise the program to include a grant application process in addition to requests for reimbursement. The proposed regulations were approved by the SAB on January 24, 2007 and are under consideration by DGS management. They will be submitted to the Office of Administrative Law in late March or April 2007. If approved, applications under the grant program may be issued by OPSC in May 2007. The standard reimbursement process is currently in effect. Projects are funded on an on-going basis by application to the OPSC and must be approved by the SAB.

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name		Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
5	Instructional Materials, Library Materials, and Education Technology	100	AB 1802 (Ch. 79), Sec. 43a4 SB 1131 (Ch. 371)	SFSD	Distributed to school districts, charter schools, and county offices of education on a per-pupil basis, based on 2005-06 enrollment. Funds shall be used solely for any of the following: instructional materials, school and classroom library materials, and one-time educational technology costs.	Funds distributed on a 75/25 basis. 75% apportionments issued in November 2006 . 25% apportionments are projected to be issued in April 2007 .
6	Preschool Facilities Revolving Fund	50	AB 1802 (Ch. 79), Sec. 43a17	CDD	Funds available for the renovation, repair or improvement of an existing building and for the purchase of new relocatable child care facilities in accordance with <i>EC</i> Section 8278.3.	The application will be issued upon awarding of the contracts for the Prekindergarten and Family Literacy Program (PKFLP). Contract awards: May 2007 .
7	Teacher recruitment and retention	50	AB 1802 (Ch. 79), Sec. 43a20 SB 1131 (Ch. 371)	PDCSD SFSD	For schools in deciles 1-3 of 2005 base API; \$50 per enrolled pupil, if insufficient, funds to be prorated. Funds shall be used for the purposes of improving the educational culture and environment at those schools.	CDE program and fiscal staff are working on data analysis for allocations and program guidelines. The application is projected to be available in Spring, 2007 .
8	Career Technical Education Equipment and Supplies	40	AB 1802 (Ch. 79), Sec. 43a14 SB 1131 (Ch. 371) Sec. 9 pp 14	SPALD SFSD	The Career Technical Education (CTE) funding for equipment and supplies will be distributed by formula to school districts, county offices of education, qualifying charter schools, and regional occupational centers and programs. The funding can only be used for CTE equipment, supplies, and minor refurbishing of CTE facilities. The funding formula is based on 2004-05 CTE student enrollments. The amount available for each student is \$26.89. The minimum allocation will be \$3250.	Application issued: November 29, 2006 Applications due: May 15, 2007 . Applications will be processed by CDE as they are received. Notifications are expected to begin by June 30, 2007 .
9	Instructional Materials for English Learners	30	AB 1802 (Ch. 79), Sec. 43a10 SB 1131 (Ch. 371)	CFIR SFSD	Up to \$25 per English learner pupil based on most recent certified language census (R30-LC). Funding to provide supplemental instructional materials specifically for English learners in kindergarten and grades one through twelve, inclusive. The purpose of these materials will be to accelerate pupils as rapidly as possible towards grade level proficiency. The funds shall be used to purchase supplemental materials that are designed to help English learners become proficient in reading, writing, and speaking English. These materials may only be used in addition to the standards-aligned materials adopted by the State Board of Education pursuant to Section 60605 of the <i>Education Code</i> .	LEAs intent to purchase instructional materials forms were available January, 2007 . Intent to purchase and request for review forms due: April 5, 2007 . SBE agenda item: July & September 2007 . Notifications to LEAs: Fall 2007 .
10	English Learner Demonstration and Research on Best Practices	20	AB 1802 (Ch. 79), Sec. 43a13 AB 2117 (Ch. 561)	PDCSD PED	\$200 per English learner pupil is available for 3 years (2007-08 to 2009-10) to support local assistance costs of participating in a research/demonstration pilot. Advisory committee to assist in developing criteria that will be used to select LEAs in the competitive grant program.	Advisory committee meets February and March 2007 . RFA is projected to be issued in April 2007 .
11	Parental Involvement	15	AB 1802 (Ch. 79), Sec. 43a9 SB 1131 (Ch. 371) EC. Sec. 51120, et seq.	SDAD	Pursuant to <i>Education Code</i> section 51120. The Nell Soto Parent/Teacher Involvement Program was established for the purpose of providing grant awards to schools in which a majority of teachers and parents agree to strengthen the communications between schools and parents as a means of improving pupil academic achievement.	Application available: January 19, 2007 Applications due to CDE: March 2, 2007 Expected notification date: April 15, 2007 .
12	School Gardens	15	BA item 6110-485-0001(19) AB 1535 (Ch. 437)	NSD SFSD FASD	Schools may apply for a grant of up to \$2,500 for schools with fewer than 1,000 students enrolled or up to \$5,000 for schools with 1,000 or more students enrolled. The three-year grant funds may be used for supplies, equipment, and professional development for garden-based learning.	Application issued: February 22, 2007 Applications due: April 20, 2007 Notifications expected: May 16, 2007

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
13 Fruits and Vegetables	14.7	AB 1811 (Ch. 48) BA item 6110-485-0001 (2005)	NSD FASD	California Fresh Start Pilot Program promotes the consumption of fresh fruits and vegetables by school age children by providing funding for school breakfast programs to serve additional servings of fruits and vegetables. \$14.7 million was available and carried forward from 2005-06 to 2006-07.	The application is available and may be submitted throughout the year. Applications must be approved prior to claiming reimbursement. Currently, the projected balance available for FY07-08 is \$3.7 million.
14 Fiscal Solvency Plans	10	AB 1802 (Ch. 79), Sec. 43a6 SB 1131 (Ch. 371) Sec. 9	SFSD	Grants for development and reviews of plans to meet long term fiscal obligations. SB 1131 clean-up clarifies entities that can submit plan and adds funding cap of \$1 million for COE for review of plans as part of budget process.	Application issued: February 23, 2007 Applications are due: May 15, 2007 . Expected notifications: June 29, 2007
15 Healthy Start Supplemental Support Services for Children	10	AB 1802 (Ch. 79), Sec. 43a7 SB 1131 (Ch. 371) Sec. 9	LSPD	Eligible schools for Healthy Start services include two types: (1) kindergarten through grade six schools with at least 50 percent of their students who (a) come from families that receive benefits from Temporary Assistance for Needy Families (TANF)/ California Work Opportunity and Responsibility for Kids (CalWORKS) or are English learners, or (b) qualify for free or reduced-price meals; and (2) grade seven through twelve schools with at least 35 percent of their students who (a) come from families that receive benefits from TANF/CalWORKS or are English learners; or (b) qualify for free or reduced-price meals. LEAs may apply for a five-year operational grant (\$300,000) or a seven-year combined planning and operational grant (\$350,000). Both types of grants may also include an additional \$100,000 for start-up. Grantees must provide a 25 percent match of funds.	Application available: November 1, 2006 Applications due: February 2, 2007 Notifications: May 4, 2007
16 Local Data Management Capacity Building/CALPADS Prep	9.5	AB 1802 (Ch. 79), Sec. 43a5 BA item 6110-101-0349 SB 1131 (Ch. 371)	DMD	Assist non-CSIS State Reporting LEAs implement improved local data management practices so that they have the capacity and capability to use data for local decision making and to report data to CALPADS once it is launched. CSIS State Reporting LEAs submit their full CBEDS, their Language Census, and Student National Origin Report through CSIS to CDE. All other LEAs, approximately 732 LEAs plus independently reporting charter schools are eligible to participate. Participating LEAs receive funding based upon the formula prescribed by law--approximately \$8.51 per student or \$15,000 for small LEAs.	The implementation plan for this program was approved by DOF, OSE, and LAO in September 2006. LEAs were notified of the program in December 2006. LEAs will be required to meet specific deliverables before receiving funding. The first deliverable is attending/completing a series of professional development sessions conducted by CSIS. These sessions will begin in early spring 2007. Payments are projected to begin once LEAs complete the training sessions. LEAs have three years to participate in the program. It is anticipated that the bulk of funding will be earned by LEAs in 2007-08 and 2008-09.
17 CAHSEE Individual Intervention Materials	5.5	AB 1802 (Ch. 79), Sec. 43a18	SFSD SAD SPALD	Funds for allocation to local educational agencies for the purpose of purchasing state-approved individual intervention materials for students who have failed one or both parts of the California High School Exit Examination.	A list of individual intervention materials will be submitted to the State Board of Education for approval in March 2007. Allocations to LEAs will be based on the number of eligible students who have not passed the CAHSEE from Fall 2006 (see item 5). Apportionments are estimated to be issue approximately May 2007 .

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
18 Child Care Facilities Revolving Fund	5	BA item 6110-196-0001(14)	CDD	Up to \$5 million of the Child Care Facilities Revolving Fund balance may be allocated to allow facilities to perform necessary renovations and repairs to meet health and safety standards to comply with ADA requirements and to perform emergency repairs that were the result of an unforeseen event and are necessary to maintain normal operation of the child care and development program.	The application is projected to be issued in Spring 2007 .
19 Preschool Direct Child Care Services	5	AB 172 (Ch. 211), Sec. 8 EC Sec. 8235-8239	CDD	Up to \$5 million of unearned contract funds appropriated in Schedule (1.5)(a) of Item 6110-196-0001 of Budget Act 2005 for general child care programs is available for expenditure to provide direct child care services to meet the needs of parents for the portion of the day that is not covered by services provided as part of a preschool program pursuant to EC Section 8238.4. These dollars constitute the full day option for the part day prekindergarten and Family Literacy program.	Application issued: November 22, 2006 . Applications due: January 19, 2007 . Awards anticipated in March and contracts to be executed in May 2007 .
20 School Breakfast Start-up	3	AB 1802 (Ch. 79), Sec. 43a8 SB 1131 (Ch.371)	NSD	Startup school breakfast and summer food service programs pursuant to EC Sec. 49550.3.	Funds awarded with FY 05-06 allocations in January 2007 . Fully funded all eligible grant requests to start up or expand breakfast/summer food service programs
Ongoing Funds					
21 Economic Impact Aid	\$973	AB 1811 (Ch. 48), Sec. 31 BA item 6110-128-0001 SB 1131 (Ch. 371) AB 1802 (Ch. 79), Sec. 10, 11, 14, 15, 16, 20, 35, 36 EC. Secs. 54020, et seq.	SFSD	Revises formula to use Title I as poverty indicator; distribute funding based on EL pupils and Title I counts; hold districts harmless from formula change; Augments EIA appropriation by \$350 million and establishes a funding calculation to provide a supplemental adjustment to an LEA's per pupil rate; and revise existing concentration grant. Title I data substituted by other data for charters and small districts.	September 2006 — First flow of funds based on 05/06 funding December 2006 — Base entitlements calculated without supplemental adjustment funding March 2007 — Final entitlements calculated with supplemental adjustment to per pupil rate
22 Before & After School Programs - Proposition 49	550	SB 638 Ch. 380 EC Sec. 8482.3 - 8484.6	LSPD SFSD	Funding for academic and enrichment activities as constructive alternatives for kindergarten through grade nine students in before- and after-school programs. The application process is for all eligible applicants (LEAs and public agencies) requesting to establish before- and after-school programs at public elementary, middle, and junior high schools.	All funds have been allocated, except \$19.4 million held in a reserve for appeals until their final disposition.

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

	Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
23	Middle & High School Supplemental Counseling Program	200	AB 1802 (Ch. 79), Sec. 13 AB 1811 (Ch. 48), Sec. 29 BA item 6110-108-0001 SB 1131 (Ch. 371), Sec. 5 EC. Secs. 52378, et seq.	SFSD LSPD SPALD SAD	<p>Funding supports additional, appropriate counseling services for students in grades seven through twelve at risk of (1) not passing the California High School Exit Examination (CAHSEE) or (2) not accessing the standards curriculum because they are two or more grade levels below standards by the seventh grade. This supplemental funding will be used to increase the access for those students to appropriate counseling services.</p> <p>The amount of funding for each district will be determined by the number of districts that apply based upon their previous year enrollment as reported on the annual California Basic Education Data System (CBEDS). This will serve as the basis for calculating the distribution of \$200 million.</p> <p>This funding is allocated to school districts and block grant funded charter schools serving grades seven to twelve, inclusive. County offices of education (COEs) are not eligible to apply for funds.</p>	<p>First round: Application issued: October 31, 2006 Applications due: December 9, 2006 Notifications issued: January 18, 2007</p> <p>Second round: Application issued: November 9, 2006 Application due: March 30, 2007 Notification estimated: May 2007</p>
24	Arts and Music Block Grant	105	AB 1811 (Ch. 48), Sec. 42 BA item 6110-265-0001	SFSD PDCSD	<p>Per pupil allocation with minimums per school site. Can be used for staff, standards-aligned materials, etc. The purpose is to support the implementation of sequential standards-aligned visual and performing arts instruction in kindergarten and grades 1 to 12, inclusive for school districts, charter schools, and county offices of education instructional programs. Funds allocated on a per pupil basis, with a minimum of \$2,500 for school sites with 20 or fewer students and a minimum of \$4,000 per school site with more than 20 students. This ongoing funding is intended to supplement existing resources for arts and music and may be used for professional development of generalist teachers, arts specialists and administrators, hiring of new teachers or visual and performing arts coordinators, evaluating school arts education programs, creating district arts education plans, and purchasing newly adopted instructional materials. Another program provides one-time funding for equipment and supplies.</p>	<p>Funds to go out on a 75/25 basis:</p> <p>75% apportionments were issued in December 2006 based on prior year enrollment.</p> <p>The remaining 25% apportionments will be issued in May 2007 based on current year enrollment.</p>
25	CAHSEE Intensive Instruction and Services	69.6	AB 1811 (Ch. 48), Sec. 39 BA item 6110-204-0001 AB 1802 (Ch. 79), Sec. 3 EC Sec. 37254	SFSD SAD SPALD TSD	<p>Up to \$500 per eligible student. Eligible students are determined by using the CAHSEE results data LEAs provide to the CDE via an online form. Each LEA must submit the following data: (1) the number of grade twelve students in the class of 2007; (2) the number of grade twelve students in the class of 2007 who have not yet passed one or both parts of the California High School Exit Examination (CAHSEE); (3) the number of grade eleven students in the class of 2008; and (4) the number of grade eleven students in the class of 2008 who have not yet passed one or both parts of the CAHSEE. To determine the number of eligible students at each grade level for each district, CDE staff will add the number of students at each grade level who have not yet passed one or both parts of the CAHSEE from each school.</p>	<p>Apportionments issued October 2006.</p>

2006-07 Budget Actions and Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
26 Preschool Expansion in Low-performing Areas	50	BA item 6110-196-0001 AB 172 (Ch. 211) AB 1811 (Ch. 48) EC Sec. 8235-8239	CDD	\$45 million is to reimburse part-day prekindergarten and family literacy programs on a per child basis at the same rate that is used for state preschool programs. Funds are assigned to programs located in attendance area of elementary schools in deciles 1 to 3 inclusive based on 2005 base API pursuant to EC Section 52056. Preference to underserved areas as described in subdivision (d) of EC Section 8279.3. \$5 million to be distributed to each participating classroom at a rate of \$2,500 per classroom per school year. Funds may be used for compensation/support costs for program coordinators, staff development, family literacy services and instructional materials (including consumables). Additional unearned contract dollars allows for a full day option.	Application issued: November 2006 . Applications due: January 19, 2007 . Awards anticipated in March and contracts to be executed in April/May, 2007 .
27 Physical Education Teacher Incentive Grants	40	AB 1811 (Ch. 48) BA item 6110-260-0001	PDCSD SFSD	Incentive grants to schools serving Kindergarten through eighth to support hiring of more credentialed physical education teachers. P. E. minutes subject to 41020 audit and specified resolution process (county resolves). The funds are to be used to hire credentialed staff to help kids develop healthy life-long exercise habits. \$35,000 will be awarded to each eligible randomly-selected school.	The application is projected to be issued in March 2007 .
28 Professional Development for Teachers of English Learners	25	BA item 6110-137-0001(3) AB 1811 (Ch. 48) SB 472 (Ch. 524) EC 99237.5	PDCSD SFSD	These funds are available to LEAs to provide professional development in reading language arts and mathematics to teachers of English learner pupils. The funds will provide teachers with 40 hour of training, followup instruction, and support. The professional development shall be sufficient in scope, depth, and duration to fully equip teachers with comprehensive instructional strategies using state board adopted instructional materials.	The English Language Learners Professional Development Advisory Committee met February 27 - 28, 2007 to begin developing the professional development guidelines and criteria for providers. Current projections are for the funding of the ELL professional development to begin in Fall 2007 .
29 Certificated Staff Mentoring Program	11.2	BA 6110-267-0001 SB 1209, Ch. 517 EC Sec. 44560	PDCSD	The Certificated Staff Mentoring Program is established for the purpose of encouraging excellent, experienced teachers to teach in "staff priority schools" and to assist teacher interns during their induction and first years of teaching. Eligible LEAs include "staff priority schools", which, by law, have an aggregate API score that was at or below the 30th percentile relative to other public schools in the state in any of the five previous school years, or are juvenile court schools, county community schools or community day schools operated by a county office of education. Eligible teachers must have a professional clear credential allowing the teacher to instruct at the grade level and in the subject matter to which the beginning teachers or interns are assigned, have no less than 7 years experience in the subject matter to which the beginning teachers or interns are assigned, be willing to teach in a "staff priority school" and provide assistance to at least one but no more than five interns or beginning teachers for at least five years, and have a demonstrated ability to foster pupil achievement and determined by the school principal. Mentor teachers will receive a stipend of \$6,000 yearly or another amount as specified in the Budget Act. The California Commission on Teacher Credentialing (CCTC) also is funded with \$6.8 million to increase grants to school districts and COEs that agree to enhance internship programs pursuant to SB 1209.	Application issued January 2007 . Applications due March 5, 2007 . Apportionments projected for April 2007 .

Legend:

BA item 6110-xxx-xxxx refers to the Budget Act of 2006, Ch. 47 and 48, Statutes of 2006.

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
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AB 1801 (Ch. 47) Budget Act as amended by AB 1811 (Ch. 48).

AB 1802 (Ch. 79) is the primary 2006 education budget trailer bill.

SB 1131 (Ch. 371) is an education budget clean-up bill.

CCTC = California Commission on Teacher Credentialing

OPSC = Office of Public School Construction, Department of General Services

CDE Divisions:

SFSD = School Fiscal Services

PDCSD = Professional Development and Curriculum Support

LSPD = Learning Support and Partnerships

SPALD = Secondary, Postsecondary & Adult Leadership

SAD = Standards and Assessment

CDD = Child Development

FASD = Fiscal and Administrative Services

NSD = Nutrition Services

CSD = Charter School

DMD = Data Management

SFPD = School Facilities Planning

TSD = Technology Services

CFIR = Curriculum Frameworks and Instructional Resources

This spreadsheet is updated periodically and posted on the CDE Web site at: <http://www.cde.ca.gov/re/lr/ga/budtable0607.asp>

More detailed information from funding profiles for specific programs can be obtained on the CDE Web site at: <http://www.cde.ca.gov/fg/fo/>

SUBCOMMITTEE NO. 1 on Education



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

OUTCOMES

Tuesday, March 6, 2007

1:30 p.m.

Room 113, State Capitol

(No actions taken by Subcommittee)

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6110/6870 Issue 1	Department of Education & California Community Colleges Proposition 98 and K-12 Education Funding Overview – Office of the Legislative Analyst, Jennifer Kuhn	Page 2
6110 Issue 2	Department of Education Major Adjustments – Student Enrollment	Page 6
Issue 3	Major Adjustments – Declining Enrollment Districts	Page 8
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Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education



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

Agenda
March 13, 2007
1:30 p.m. - Room 113

- I. Child Care
 - A. Background Page 2
 - B. Governor's Budget Proposal Page 3
 - 1. Funding of CalWORKS Stage 2 Child Care Services Page 3
 - 2. Freezing of State Median Income Page 4
 - C. Current Year Implementation Page 5
 - D. Other Child Care Issues Page 5
 - 1. Reexamine Major Renovation and Repair Program Page 5
 - 2. Statewide Child Care Quality Plan Page 6
 - 3. Federal CCDF State Expenditure Plan Page 6
- II. State Preschool Program
 - A. Background Page 7
 - B. Current Year Implementation Page 7
 - C. Governor's Budget Proposal Page 9
 - 1. Wrap-Around Care Page 9
- III. Implementation of Proposition 49 (Information Only)
 - A. Background Page 9
 - B. Current Year Implementation Page 10
- IV. Public Comment

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

I. 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 exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Subsidized child care is also available on a limited basis for families with exceptional financial need (the “working poor”). 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 of license-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 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; and (5) limiting the availability of child care services to 11- and 12-year olds by tacitly shifting this age group to After School Programs. In addition, the Legislature approved, and the Administration enacted, Centralized Eligibility Lists in order to consolidate the separate waiting lists formerly housed by individual providers into a central location.

As part of the 2006-07 Budget, the Legislature adopted a series of actions aimed at increasing support for child care programs. Specifically, the Legislature: (1) redirected funding from enrollment growth for Title V Centers and instead used those dollars to increase the Standard Reimbursement Rate for center-based programs; (the intent was to address long-standing issues surrounding the inability of centers to continuing operating at the reimbursement rate that was previously being provided); (2) "Unfroze" the child care income eligibility ceilings and adjusted the ceiling to reflect 75 percent of the current (2006-07) State Median Income and appropriated an additional \$67 million to reflect increased caseload that may result due to the increased income eligibility; (3) Adjusted the family fee schedule to add new "steps" (accounting for the higher income limits) and retained the level at which fees begin to be assessed at 40 percent of SMI; and (4) Implemented compromise, county-based Regional Market Rates.

- B. Governor's Proposal. The Governor’s Budget provides the California Department of Education with approximately \$3.2 billion to support approximately 911,185 children in the state’s subsidized child care, After School, and Preschool systems. The proposed amount represents a decrease of approximately \$22 million from current-level expenditures. Of the amount proposed (for all child development programs), 26 percent of the funding will be spent on current and former CalWORKS recipients.

Also included in the Governor’s Budget is \$76.7 million to a fund a 4.04 percent Cost-of-Living-Adjustment (COLA) and growth in non-CalWORKs child development programs. Growth in non-CalWORKs child development programs (including Center-based Care and Preschool) is based on the growth rate in the 0- to 4-year old population. Growth adjustments in the CalWORKs child care programs are based on actual CalWORKs caseload adjustments, which are coordinated between the Department of Social Services (DSS) and CDE.

Following are the two child care proposals contained in the Governor's Budget:

1. Funding for CalWORKs Stage 2 Child Care Services.

Included in the Governor's 2007-08 proposal is a shift in the traditional *mix* of funding for Stage 2 Child Care services. While long-administered by CDE, Stage 2 Child Care has traditionally been funded with federal TANF and Child Care Development Block Grant monies as well as Proposition 98 dollars. The chart on the following page illustrates the mix of funding sources in the Stage 2 Child Care program over time.

<i>\$'s in millions</i>	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (proposed)
Proposition 98	\$103.0	\$55.5	\$107.6	\$18.4	\$69.1	\$404.7
Federal TANF	351.7	535.0	315.2	407.7	369.1	42.7
Federal Child Care Develop. Block Grant Funds (CCDF)	128.5	6.5	2.1	8.0	13.7	--
Total	<i>538.2</i>	<i>597.0</i>	<i>424.9</i>	<i>434.1</i>	<i>451.9</i>	<i>447.4</i>

Staff notes that while this fund shift has been described by some as "moving" Stage 2 Child Care "into" Proposition 98, the State has always paid a portion of Stage 2 child care costs from Proposition 98 and the Administration's proposal appears to reconfigure the current funding sources.

Staff recommends that action on this item be held open pending updated federal and state revenues, which will be available at the May Revision.

2. Freezing of State Median Income. The Governor proposes Budget Bill Language which would freeze the income eligibility levels for families participating in the state's child care programs.

Language to this effect was also proposed as part of last year's budget proposal, at which point the Administration called for a working group to develop a methodology to link any future changes in eligibility to the development of a new family fee schedule. The language further called for the working group to: consider the use of alternative indexes for future income eligibility adjustments; examine the standard reimbursement rate; and review child care contracts to maximize expenditures.

As part of the current year budget process, Legislative staff, working with representatives from the Administration, negotiated an increase in the income eligibility levels for the current year and developed a new family fee schedule linking these new income levels to the family fee schedule. Further, staff worked to coordinate these actions with revised standard reimbursement rates. All of the above-noted changes were approved by the Legislature and the Governor and included in the current year Budget Act.

However, the Administration did not view these changes as being ongoing, and failed to include additional funding in its January proposal to continue adjusting income eligibility thresholds to keep pace with the changing State Median Income.

Staff recommends that this issue be held open pending the May Revision.

- C. Current Year Implementation. As required by federal law, and consistent with actions taken in the current year Budget Act, the maximum amount that child care providers may be paid was altered (generally increased) in the current year based on recent regional child care market rate data. As a result of these changes, the average cost of child care is increasing statewide, and the appropriations provided in the 2006-07 Budget Act for all stages of CalWORKs child care will likely prove insufficient.

Stage 1 and Stage 2 child care services, which are entitlements under state law, are eligible to access the child care "reserve" which is an approximately \$50 million pot of money which was "held back" from the CalWORKs child care appropriation in order to account for the volatility of caseload movements between Stage 1 and Stage 2 Child care services. In this case, the dollars can be used to account for volatility in the reimbursement rates and cover the projected shortfall in the programs. CDE estimates the shortfalls in Stage 1 (administered by DSS) and Stage 2 to be in the range of \$20-\$30 million.

Stage 3 child care services, unlike Stages 1 and 2 are not an entitlement and shortfalls in that program will not automatically be covered by the child care reserve, General Fund or TANF. The amount needed for Stage 3 remains unclear, and coupled with caseload adjustments at the May Revision, it is unclear at this point in time, what the total needs of the program will be. However, Staff notes that additional resources could be needed for 2006-07 to ensure that children receiving services under this program will remain enrolled.

No action is needed on this item at this time, although staff recommends this issue be revised at the May Revision.

- D. Other Child Care Issues. In addition to the above-noted elements contained in the Governor's Budget, the Office of the Legislative Analyst (LAO) and Staff have raised several additional issues which were not addressed in the Governor's proposal.

1. Reexamine Child Care Facilities Revolving Fund (CCFRF) Program.

Background. CDE currently offers two programs intended to help child care and preschool providers purchase and maintain facilities.

The CCFRF program, which was established by statute in 1997, provides no-interest loans of up to \$150,000 to help child care providers purchase portable facilities and to make major renovations and repairs to existing facilities, all in order to increase child care capacity. Providers have three years to use the loan, followed by a ten year period of repayment. Loan repayments are made back to the revolving fund, thus replenishing the fund.

Since the fund's inception, the state has awarded 590 CCFRF contracts – all for the purchase of portable facilities. While the portables have indeed increased capacity (by approximately 20,000 program slots), the major renovation and repair component of the program has yet to be implemented, a concern raised by the LAO.

CDE also administers the Facilities Renovation and Repair (FRR) program, which awards grants up to \$1,000 to existing providers for minor facility repairs of existing

buildings as needed to meet health and safety requirements or to comply with requirements set forth by the Americans with Disabilities Act. Unlike the above-noted CCFRF, the FRR is simply intended to maintain existing child care capacity rather than increasing capacity. Funds for this program are appropriated annually in the Budget Act; historically, all funds appropriated are expended each year.

The LAO recommends that CDE explain to the committee why the major renovation and repair portion of the CCFRF program has yet to be implemented and offer any suggestion it may have to expedite implementation. Further, CDE should discuss the pros and cons of shifting administration for the program back to its School Facilities Division.

2. Statewide Child Care Quality Plan.

Background. California currently spends roughly \$100 million each year for more than 40 child care "quality improvement" programs. Quality improvement activities include: (1) offering health and safety training for providers; (2) conducting provider licensing inspections; (3) developing learning standards and instructional materials; and (4) providing programming (broadcast over public television stations) aimed at better educating child care providers. As a condition of receiving federal Child Care Development Block Grant Funds (CCDF), California is required to spend no less than four percent of its aggregate child care spending on activities designed to improve the quality and availability of child care, and the expenditures noted above, are designed to meet this requirement. Unfortunately, as noted by the LAO, expenditures occur amongst multiple agencies and are not coordinated, nor do they occur in concert with a common definition of "quality" or in support of a unified statewide plan.

To meet this end, the LAO recommends that the Legislature convene a working group of relevant stakeholders and direct it to develop a strategic child care and development quality plan by March 1, 2008.

Staff recommends that this issue be held open, but notes that the LAO's recommendation may be better suited to either legislation or Supplemental Reporting Language than to the Budget Act itself.

3. Federal Child Care and Development Funds (CCDF) State Expenditure Plan.

Background. Federal law requires the state to submit a Statewide Plan outlining how California intends to spend federal CCDF dollars. CDE submits such a plan every other year. The plan's preparation and review process is outlined in Budget Bill language; however, the language contained in the Budget Bill details a process that applies only to the portion of the State Plan that addresses child care "quality". Child Care advocates have suggested changes to the language which would broaden the scope to include a public hearing process on the entire statewide CCDF expenditure plan, and specifying the length of the public hearing process to better allow public input on the development of the state's expenditure plan.

The LAO did not examine this issue in its analysis of the Budget Bill; however, staff recommends that the issue be held open while staff, the LAO, DOF, and CDE work on language to address concerns related to the public hearing process surrounding the state's CCDF expenditure plan.

II. State Preschool Program

A. Background.

The California Department of Education (CDE) administers state preschool programs for 3- to 5-year old children from low-income families. These pre-kindergarten educational programs focus on early childhood education and enrichment and generally last for three hours. In the current year, the preschool services were dramatically expanded (by \$50 million) with funds earmarked in the Budget Act, but appropriated by Chapter 211, Statutes of 2006. The expansion added approximately 12,000 slots, bringing total participation to over 110,000 children. The LAO finds that the demand for state supported preschool far outweighs the capacity -- approximately 34,000 children who meet eligibility requirements for state preschool are on CDE waiting lists.

State preschool providers contract directly with CDE and are reimbursed using a Standard Reimbursement Rate (SRR) which is established in the annual Budget Act (the Governor proposed this rate be \$21.12 per child per day for 2007-08, an increase of \$0.82 per child per day or 4.04 percent – consistent with the statutory COLA).

B. Current Year Implementation.

The current year Budget Act appropriated \$50 million in preschool expansion while Chapter 211, Statutes of 2006, provided the statutory framework for the expenditure of these funds. Rather than simply expanding the existing state preschool program, Chapter 211 sought to appropriate the funds in a more targeted manner, by establishing the new *Pre-Kindergarten and Family Literacy Program* (PKFL). This new PKFL program expanded state preschool, added a "wrap around" care component, which seeks to bridge preschool programs with child care programs in order to provide a full day's worth of care, and included a variety of additional criteria not otherwise included in the existing State Preschool program. The chart on the next page (provided by the Legislative Analyst) outlines the differences between the existing State Preschool program and the new PKFL program.

Standard System	Chapter 211 (PKFL) System
<i>Eligibility</i>	
<p>Age: Three and four year olds. 10 percent of participants may be older.</p> <p>Participation: Two-year maximum.</p> <p>Income: Families must earn less than 75 percent of State Median Income (SMI). 10 percent of participants may earn more after initial enrollment.</p> <p>Location: Statewide.</p>	<p>Age: One year prior to enrollment in Kindergarten.</p> <p>Participation: One-year maximum.</p> <p>Income: Families must earn less than 75 percent of SMI. 20 percent of participants may earn more at initial enrollment.</p> <p>Location: Provider must be located in the enrollment area of an elementary school ranked in bottom three deciles of the Academic Performance Index.</p>
<i>Program Details</i>	
<p>Preschool Minimum Day/Year: 3 hours per day and 175 days per year.</p> <p>Wrap Around Minimum Day/Year: 6.5 hours per day. Number of days per year depends on contract.</p> <p>Preschool Curriculum: Includes education, nutrition, health and social services.</p> <p>Wrap Around Standards: Must comply with all Title V child care requirements.</p>	<p>Preschool Minimum Day/Year: "Part-day" not defined. 175-180 days per year.</p> <p>Wrap Around Minimum Day/Year: Minimum hours per day not specifically defined. Minimum of 246 days per year.</p> <p>Preschool Curriculum: Same as state preschool with added requirement of parental involvement and education.</p> <p>Wrap Around Standards: Same as standard system.</p>
<i>Funding (Proposed 2007-08 Rates)</i>	
<p>Preschool Rate: \$21.12 per day per child.</p> <p>Wrap Around Rate: \$13.10 per day per child.</p>	<p>Preschool Rate: Same per child rates as standard. \$2,500 per classroom per year.</p> <p>Wrap Around Rate: Same as standard system.</p>

According to CDE, interest in the new PKFL program has been widespread. CDE received over 185 applications for the program, and demand exceeded the available supply of grants by \$7.6 million. With the new funds, Preschool programs will be developed on 439 new sites across the state. Given the timing of the implementing legislation (Chapter 211 went into effect on January 1, 2007), CDE will be unable to have contracts with grantees in place prior to April of 2007. As a result, approximately \$37.5 million of the original \$50 million appropriation will remain unexpended in the current year. In addition, at least \$4 million of the \$5 million appropriated for "wrap around" care will also remain unexpended in the current year due to limitations placed on its usage.

Staff notes that the committee will need to consider at the May Revision if it wishes to "score" the current year savings noted above to the benefit of the Proposition 98 guarantee (thereby reducing the state's minimum K-14 obligation in 2006-07), or whether the unused funds should be used for other K-12 or Preschool-related one-time purposes.

Hold issue open pending the May Revision.

C. Governor's Budget.

The Governor generally proposes to maintain the State Preschool Program at existing levels, with additional funding provided for growth (which will add approximately 2,550 new children into the program) and COLA (which will increase the Standard Reimbursement Rate by \$0.82 per child per day).

In addition to the above baseline changes, the Governor proposes to make permanent \$5 million in funds provided via Chapter 211 for "wrap around" care. Total funding under the Governor's proposal would exceed \$418 million.

1. "Wrap Around" Care Proposal.

As discussed above, the Governor's Budget includes \$5 million (in ongoing funds) to bridge preschool services with state-subsidized child care services - two systems which have struggled to successfully link. Anecdotally, a major barrier for low-income family participation in state preschool has been the part-day nature of the program when families are in need of full-day care. As a result, Chapter 211, Statutes of 2006 sought to address this issue by providing funding specifically for this purpose. However, the \$5 million for wrap around care (both in the current year and proposed by the Governor for 2007-08) is linked directly with the PKFL program (as funded by the \$50 million in expansion funds). Given that both the PKFL program has a different set of participation criteria from the original preschool program, and that CDE has indicated that, moving forward, it will be unable to spend approximately half of the \$5 million of wrap around monies because of its linkage to the PKFL program, both staff and the LAO recommend broadening the use of the funds.

Specifically, the LAO recommends that the Legislature approve the \$5 million in ongoing funds provided for wrap around care, but that the funds instead be designated for the much larger standard wrap around child care program rather than limiting it to the \$50 million PKFL program.

Staff notes that, under the LAO's recommendation, PKFL providers would still be able to access the funds, but the dollars would be used more effectively and efficiently by allowing all families and providers access.

Staff recommends that this issue be held open pending the May Revision.

III. After School Programs (Information Only)

- A. Background. The state makes Before and After School Programs available to children statewide with funding provided by both the state General Fund (through the After School Education and Safety Program) and the federal government (via the 21st Century Community Learning Centers Program).

In 2002, the voters approved Proposition 49 to increase the amount of state support available to Before and After School Programs. After several years of failing to meet the state General Fund revenue "trigger" contained in the initiative, the provisions of Proposition 49 went into effect in the 2006-07 fiscal year. This had the effect of requiring the state to quadruple (in a single year) the amount of funding it expends on state-funded After School Programs.

In the current year, the state is spending \$547.4 million General Fund to support After School Programs and the federal government is providing the state with \$162.6 million for a similar purpose. As a condition of Proposition 49, the State funds are continuously appropriated and are not appropriated in the annual Budget Act. Federal funds (for the 21st Century Learning Centers Program) are appropriated annually in the Budget Act.

The Governor's 2007-08 budget proposal holds constant funding for the State's After School program at \$547.4 million, while federal support for the 21st Century Community Learning Centers Program is slated to decrease by \$33.6 million (to \$129 million), due primarily to the absence of prior-year carry over funds which had been previously been available to supplement the program.

B. Current Year Implementation. CDE estimates that in the current year, all of the \$447 million of Proposition 49 funds will be fully expended. Like the expanded Preschool program, the After School program was also oversubscribed, with applications exceeding resources by approximately \$200 million. According to CDE, 1,900 applicants received rejection notices, although some of those have since received grants, on appeal (mainly because they were new schools which were not initially able to provide free/reduced price meal data on their student populations to meet the needs-based threshold for program participation).

No action needed.

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

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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
<i>Distribution of Prop 98 Funds</i>					
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
<i>Prop 98 Fund Source</i>					
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>

2006-07 Budget Fund Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing	
One-time Funds						
1	Arts, Music, and Physical Education Supplies, Equipment and Professional Development	\$500	AB 1802 (Ch. 79), Sec. 43a16 SB 1131 (Ch. 371)	SFSD PDCSD	Funding based on prior year P-2 ADA with \$2,500 minimum per school. This program is established to support school districts, charter schools and county offices of education instructional programs in acquiring instructional resources used in the delivery of sequential standards-based instruction in physical education and visual and performing arts. Instructional resources purchased with these funds shall be supplies and equipment specifically identified in the district or school physical education and visual and performing arts sequential standards-based curriculum. Recommend that purchases reflect program needs directly related to students' achieving the content standards as described in the Visual and Performing Arts Framework (2004 edition) and the Physical Education Model Standards (in press). SB 1131 clean-up to clarify ADA, school site minimums, and use of funds (adds professional development)	75% of funds to be issued in March/April 2007 25% of funds are projected to be issued in June 2007 .
2	Discretionary Block Grant for School Sites	400.1	AB 1802 (Ch. 79), Sec. 43a2 SB 1131 (Ch. 371)	SFSD	Entitlements based on 2006-07 enrollment plus adult education and ROC/P ADA. School site uses include a variety of one-time purposes. School site minimum allocations. Use of funds shall be proposed by each school's schoolsite council. Funds apportioned may be expended for any one-time educational purpose including, but not limited to, instructional materials, classroom and laboratory supplies and materials, school and classroom library materials, educational technology, deferred maintenance, one-time expenditures designed to close the achievement gap, or professional development. Before funds may be encumbered or expended, the governing board of the school district shall approve the proposed use.	75% apportionments were issued December 2006 . The remaining 25% apportionments are projected to be issued in September 2007 . If the schoolsite council, schoolwide advisory group, or school support group, as applicable, and the governing board of the school district are unable to agree on the use of the funds by May 1, 2007 , the dispute shall be immediately submitted to the county board of education. The county board of education shall resolve the dispute within 30 days of submission. The decision of the county board of education shall be final.
3	Discretionary Block Grant for School Districts	133.4	AB 1802 (Ch. 79), Sec. 43a3 SB 1131 (Ch. 371)	SFSD	Entitlements based on 2006-07 enrollment plus adult education and ROC/P ADA. District uses limited to listed school site uses plus fiscal solvency and home-to-school transportation. Funds apportioned pursuant to this paragraph may be expended for instructional materials, classroom and laboratory supplies and materials, school and classroom library materials, educational technology, deferred maintenance, professional development, home-to-school transportation, one-time expenditures designed to close the achievement gap, or outstanding one-time fiscal obligations of school districts. District minimum allocation is \$10,000.	75% apportionments were issued December 2006 . The remaining 25% apportionments are projected to be issued in September 2007 .
4	Williams Settlement Emergency Repair Program (ERP)	137	BA item 6110-485-0001(1)	Office of Public School Construction (OPSC), not CDE.	A total of \$321.4 million is available. This program is administered through the Office of Public School Construction (OPSC) and is available for schools identified as being in deciles 1-3 of the 2003 API. AB 607 (Ch. 704) adds a provision that will enable local educational agencies (LEAs) to request grant funding in addition to the reimbursement funding option already available. AB 607 also requires the list of schools that are eligible to participate in the ERP to be updated every three years, in accordance with the school's API ranking. Based on the updated list, schools ranked in deciles 1-3 of the 2006 API will be considered eligible for funding in 2007-08. This bill requires the State Allocation Board (SAB) to establish a process for schools to apply for grants and provide certification of the completion of projects.	The OPSC developed emergency regulations to revise the program to include a grant application process in addition to requests for reimbursement. The proposed regulations were approved by the SAB on January 24, 2007 and are under consideration by DGS management. They will be submitted to the Office of Administrative Law in late March or April 2007. If approved, applications under the grant program may be issued by OPSC in May 2007. The standard reimbursement process is currently in effect. Projects are funded on an on-going basis by application to the OPSC and must be approved by the SAB.

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name		Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
5	Instructional Materials, Library Materials, and Education Technology	100	AB 1802 (Ch. 79), Sec. 43a4 SB 1131 (Ch. 371)	SFSD	Distributed to school districts, charter schools, and county offices of education on a per-pupil basis, based on 2005-06 enrollment. Funds shall be used solely for any of the following: instructional materials, school and classroom library materials, and one-time educational technology costs.	Funds distributed on a 75/25 basis. 75% apportionments issued in November 2006 . 25% apportionments are projected to be issued in April 2007 .
6	Preschool Facilities Revolving Fund	50	AB 1802 (Ch. 79), Sec. 43a17	CDD	Funds available for the renovation, repair or improvement of an existing building and for the purchase of new relocatable child care facilities in accordance with <i>EC</i> Section 8278.3.	The application will be issued upon awarding of the contracts for the Prekindergarten and Family Literacy Program (PKFLP). Contract awards: May 2007 .
7	Teacher recruitment and retention	50	AB 1802 (Ch. 79), Sec. 43a20 SB 1131 (Ch. 371)	PDCSD SFSD	For schools in deciles 1-3 of 2005 base API; \$50 per enrolled pupil, if insufficient, funds to be prorated. Funds shall be used for the purposes of improving the educational culture and environment at those schools.	CDE program and fiscal staff are working on data analysis for allocations and program guidelines. The application is projected to be available in Spring, 2007 .
8	Career Technical Education Equipment and Supplies	40	AB 1802 (Ch. 79), Sec. 43a14 SB 1131 (Ch. 371) Sec. 9 pp 14	SPALD SFSD	The Career Technical Education (CTE) funding for equipment and supplies will be distributed by formula to school districts, county offices of education, qualifying charter schools, and regional occupational centers and programs. The funding can only be used for CTE equipment, supplies, and minor refurbishing of CTE facilities. The funding formula is based on 2004-05 CTE student enrollments. The amount available for each student is \$26.89. The minimum allocation will be \$3250.	Application issued: November 29, 2006 Applications due: May 15, 2007 . Applications will be processed by CDE as they are received. Notifications are expected to begin by June 30, 2007 .
9	Instructional Materials for English Learners	30	AB 1802 (Ch. 79), Sec. 43a10 SB 1131 (Ch. 371)	CFIR SFSD	Up to \$25 per English learner pupil based on most recent certified language census (R30-LC). Funding to provide supplemental instructional materials specifically for English learners in kindergarten and grades one through twelve, inclusive. The purpose of these materials will be to accelerate pupils as rapidly as possible towards grade level proficiency. The funds shall be used to purchase supplemental materials that are designed to help English learners become proficient in reading, writing, and speaking English. These materials may only be used in addition to the standards-aligned materials adopted by the State Board of Education pursuant to Section 60605 of the <i>Education Code</i> .	LEAs intent to purchase instructional materials forms were available January, 2007 . Intent to purchase and request for review forms due: April 5, 2007 . SBE agenda item: July & September 2007 . Notifications to LEAs: Fall 2007 .
10	English Learner Demonstration and Research on Best Practices	20	AB 1802 (Ch. 79), Sec. 43a13 AB 2117 (Ch. 561)	PDCSD PED	\$200 per English learner pupil is available for 3 years (2007-08 to 2009-10) to support local assistance costs of participating in a research/demonstration pilot. Advisory committee to assist in developing criteria that will be used to select LEAs in the competitive grant program.	Advisory committee meets February and March 2007 . RFA is projected to be issued in April 2007 .
11	Parental Involvement	15	AB 1802 (Ch. 79), Sec. 43a9 SB 1131 (Ch. 371) EC. Sec. 51120, et seq.	SDAD	Pursuant to <i>Education Code</i> section 51120. The Nell Soto Parent/Teacher Involvement Program was established for the purpose of providing grant awards to schools in which a majority of teachers and parents agree to strengthen the communications between schools and parents as a means of improving pupil academic achievement.	Application available: January 19, 2007 Applications due to CDE: March 2, 2007 Expected notification date: April 15, 2007 .
12	School Gardens	15	BA item 6110-485-0001(19) AB 1535 (Ch. 437)	NSD SFSD FASD	Schools may apply for a grant of up to \$2,500 for schools with fewer than 1,000 students enrolled or up to \$5,000 for schools with 1,000 or more students enrolled. The three-year grant funds may be used for supplies, equipment, and professional development for garden-based learning.	Application issued: February 22, 2007 Applications due: April 20, 2007 Notifications expected: May 16, 2007

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
13 Fruits and Vegetables	14.7	AB 1811 (Ch. 48) BA item 6110-485-0001 (2005)	NSD FASD	California Fresh Start Pilot Program promotes the consumption of fresh fruits and vegetables by school age children by providing funding for school breakfast programs to serve additional servings of fruits and vegetables. \$14.7 million was available and carried forward from 2005-06 to 2006-07.	The application is available and may be submitted throughout the year. Applications must be approved prior to claiming reimbursement. Currently, the projected balance available for FY07-08 is \$3.7 million.
14 Fiscal Solvency Plans	10	AB 1802 (Ch. 79), Sec. 43a6 SB 1131 (Ch. 371) Sec. 9	SFSD	Grants for development and reviews of plans to meet long term fiscal obligations. SB 1131 clean-up clarifies entities that can submit plan and adds funding cap of \$1 million for COE for review of plans as part of budget process.	Application issued: February 23, 2007 Applications are due: May 15, 2007 . Expected notifications: June 29, 2007
15 Healthy Start Supplemental Support Services for Children	10	AB 1802 (Ch. 79), Sec. 43a7 SB 1131 (Ch. 371) Sec. 9	LSPD	Eligible schools for Healthy Start services include two types: (1) kindergarten through grade six schools with at least 50 percent of their students who (a) come from families that receive benefits from Temporary Assistance for Needy Families (TANF)/ California Work Opportunity and Responsibility for Kids (CalWORKS) or are English learners, or (b) qualify for free or reduced-price meals; and (2) grade seven through twelve schools with at least 35 percent of their students who (a) come from families that receive benefits from TANF/CalWORKS or are English learners; or (b) qualify for free or reduced-price meals. LEAs may apply for a five-year operational grant (\$300,000) or a seven-year combined planning and operational grant (\$350,000). Both types of grants may also include an additional \$100,000 for start-up. Grantees must provide a 25 percent match of funds.	Application available: November 1, 2006 Applications due: February 2, 2007 Notifications: May 4, 2007
16 Local Data Management Capacity Building/CALPADS Prep	9.5	AB 1802 (Ch. 79), Sec. 43a5 BA item 6110-101-0349 SB 1131 (Ch. 371)	DMD	Assist non-CSIS State Reporting LEAs implement improved local data management practices so that they have the capacity and capability to use data for local decision making and to report data to CALPADS once it is launched. CSIS State Reporting LEAs submit their full CBEDS, their Language Census, and Student National Origin Report through CSIS to CDE. All other LEAs, approximately 732 LEAs plus independently reporting charter schools are eligible to participate. Participating LEAs receive funding based upon the formula prescribed by law--approximately \$8.51 per student or \$15,000 for small LEAs.	The implementation plan for this program was approved by DOF, OSE, and LAO in September 2006. LEAs were notified of the program in December 2006. LEAs will be required to meet specific deliverables before receiving funding. The first deliverable is attending/completing a series of professional development sessions conducted by CSIS. These sessions will begin in early spring 2007. Payments are projected to begin once LEAs complete the training sessions. LEAs have three years to participate in the program. It is anticipated that the bulk of funding will be earned by LEAs in 2007-08 and 2008-09.
17 CAHSEE Individual Intervention Materials	5.5	AB 1802 (Ch. 79), Sec. 43a18	SFSD SAD SPALD	Funds for allocation to local educational agencies for the purpose of purchasing state-approved individual intervention materials for students who have failed one or both parts of the California High School Exit Examination.	A list of individual intervention materials will be submitted to the State Board of Education for approval in March 2007. Allocations to LEAs will be based on the number of eligible students who have not passed the CAHSEE from Fall 2006 (see item 5). Apportionments are estimated to be issue approximately May 2007 .

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
18 Child Care Facilities Revolving Fund	5	BA item 6110-196-0001(14)	CDD	Up to \$5 million of the Child Care Facilities Revolving Fund balance may be allocated to allow facilities to perform necessary renovations and repairs to meet health and safety standards to comply with ADA requirements and to perform emergency repairs that were the result of an unforeseen event and are necessary to maintain normal operation of the child care and development program.	The application is projected to be issued in Spring 2007 .
19 Preschool Direct Child Care Services	5	AB 172 (Ch. 211), Sec. 8 EC Sec. 8235-8239	CDD	Up to \$5 million of unearned contract funds appropriated in Schedule (1.5)(a) of Item 6110-196-0001 of Budget Act 2005 for general child care programs is available for expenditure to provide direct child care services to meet the needs of parents for the portion of the day that is not covered by services provided as part of a preschool program pursuant to EC Section 8238.4. These dollars constitute the full day option for the part day prekindergarten and Family Literacy program.	Application issued: November 22, 2006 . Applications due: January 19, 2007 . Awards anticipated in March and contracts to be executed in May 2007 .
20 School Breakfast Start-up	3	AB 1802 (Ch. 79), Sec. 43a8 SB 1131 (Ch.371)	NSD	Startup school breakfast and summer food service programs pursuant to EC Sec. 49550.3.	Funds awarded with FY 05-06 allocations in January 2007 . Fully funded all eligible grant requests to start up or expand breakfast/summer food service programs
Ongoing Funds					
21 Economic Impact Aid	\$973	AB 1811 (Ch. 48), Sec. 31 BA item 6110-128-0001 SB 1131 (Ch. 371) AB 1802 (Ch. 79), Sec. 10, 11, 14, 15, 16, 20, 35, 36 EC. Secs. 54020, et seq.	SFSD	Revises formula to use Title I as poverty indicator; distribute funding based on EL pupils and Title I counts; hold districts harmless from formula change; Augments EIA appropriation by \$350 million and establishes a funding calculation to provide a supplemental adjustment to an LEA's per pupil rate; and revise existing concentration grant. Title I data substituted by other data for charters and small districts.	September 2006 — First flow of funds based on 05/06 funding December 2006 — Base entitlements calculated without supplemental adjustment funding March 2007 — Final entitlements calculated with supplemental adjustment to per pupil rate
22 Before & After School Programs - Proposition 49	550	SB 638 Ch. 380 EC Sec. 8482.3 - 8484.6	LSPD SFSD	Funding for academic and enrichment activities as constructive alternatives for kindergarten through grade nine students in before- and after-school programs. The application process is for all eligible applicants (LEAs and public agencies) requesting to establish before- and after-school programs at public elementary, middle, and junior high schools.	All funds have been allocated, except \$19.4 million held in a reserve for appeals until their final disposition.

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

	Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
23	Middle & High School Supplemental Counseling Program	200	AB 1802 (Ch. 79), Sec. 13 AB 1811 (Ch. 48), Sec. 29 BA item 6110-108-0001 SB 1131 (Ch. 371), Sec. 5 EC. Secs. 52378, et seq.	SFSD LSPD SPALD SAD	<p>Funding supports additional, appropriate counseling services for students in grades seven through twelve at risk of (1) not passing the California High School Exit Examination (CAHSEE) or (2) not accessing the standards curriculum because they are two or more grade levels below standards by the seventh grade. This supplemental funding will be used to increase the access for those students to appropriate counseling services.</p> <p>The amount of funding for each district will be determined by the number of districts that apply based upon their previous year enrollment as reported on the annual California Basic Education Data System (CBEDS). This will serve as the basis for calculating the distribution of \$200 million.</p> <p>This funding is allocated to school districts and block grant funded charter schools serving grades seven to twelve, inclusive. County offices of education (COEs) are not eligible to apply for funds.</p>	<p>First round: Application issued: October 31, 2006 Applications due: December 9, 2006 Notifications issued: January 18, 2007</p> <p>Second round: Application issued: November 9, 2006 Application due: March 30, 2007 Notification estimated: May 2007</p>
24	Arts and Music Block Grant	105	AB 1811 (Ch. 48), Sec. 42 BA item 6110-265-0001	SFSD PDCSD	<p>Per pupil allocation with minimums per school site. Can be used for staff, standards-aligned materials, etc. The purpose is to support the implementation of sequential standards-aligned visual and performing arts instruction in kindergarten and grades 1 to 12, inclusive for school districts, charter schools, and county offices of education instructional programs. Funds allocated on a per pupil basis, with a minimum of \$2,500 for school sites with 20 or fewer students and a minimum of \$4,000 per school site with more than 20 students. This ongoing funding is intended to supplement existing resources for arts and music and may be used for professional development of generalist teachers, arts specialists and administrators, hiring of new teachers or visual and performing arts coordinators, evaluating school arts education programs, creating district arts education plans, and purchasing newly adopted instructional materials. Another program provides one-time funding for equipment and supplies.</p>	<p>Funds to go out on a 75/25 basis:</p> <p>75% apportionments were issued in December 2006 based on prior year enrollment.</p> <p>The remaining 25% apportionments will be issued in May 2007 based on current year enrollment.</p>
25	CAHSEE Intensive Instruction and Services	69.6	AB 1811 (Ch. 48), Sec. 39 BA item 6110-204-0001 AB 1802 (Ch. 79), Sec. 3 EC Sec. 37254	SFSD SAD SPALD TSD	<p>Up to \$500 per eligible student. Eligible students are determined by using the CAHSEE results data LEAs provide to the CDE via an online form. Each LEA must submit the following data: (1) the number of grade twelve students in the class of 2007; (2) the number of grade twelve students in the class of 2007 who have not yet passed one or both parts of the California High School Exit Examination (CAHSEE); (3) the number of grade eleven students in the class of 2008; and (4) the number of grade eleven students in the class of 2008 who have not yet passed one or both parts of the CAHSEE. To determine the number of eligible students at each grade level for each district, CDE staff will add the number of students at each grade level who have not yet passed one or both parts of the CAHSEE from each school.</p>	<p>Apportionments issued October 2006.</p>

2006-07 Budget Actions and Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
26 Preschool Expansion in Low-performing Areas	50	BA item 6110-196-0001 AB 172 (Ch. 211) AB 1811 (Ch. 48) EC Sec. 8235-8239	CDD	\$45 million is to reimburse part-day prekindergarten and family literacy programs on a per child basis at the same rate that is used for state preschool programs. Funds are assigned to programs located in attendance area of elementary schools in deciles 1 to 3 inclusive based on 2005 base API pursuant to EC Section 52056. Preference to underserved areas as described in subdivision (d) of EC Section 8279.3. \$5 million to be distributed to each participating classroom at a rate of \$2,500 per classroom per school year. Funds may be used for compensation/support costs for program coordinators, staff development, family literacy services and instructional materials (including consumables). Additional unearned contract dollars allows for a full day option.	Application issued: November 2006 . Applications due: January 19, 2007 . Awards anticipated in March and contracts to be executed in April/May, 2007 .
27 Physical Education Teacher Incentive Grants	40	AB 1811 (Ch. 48) BA item 6110-260-0001	PDCSD SFSD	Incentive grants to schools serving Kindergarten through eighth to support hiring of more credentialed physical education teachers. P. E. minutes subject to 41020 audit and specified resolution process (county resolves). The funds are to be used to hire credentialed staff to help kids develop healthy life-long exercise habits. \$35,000 will be awarded to each eligible randomly-selected school.	The application is projected to be issued in March 2007 .
28 Professional Development for Teachers of English Learners	25	BA item 6110-137-0001(3) AB 1811 (Ch. 48) SB 472 (Ch. 524) EC 99237.5	PDCSD SFSD	These funds are available to LEAs to provide professional development in reading language arts and mathematics to teachers of English learner pupils. The funds will provide teachers with 40 hour of training, followup instruction, and support. The professional development shall be sufficient in scope, depth, and duration to fully equip teachers with comprehensive instructional strategies using state board adopted instructional materials.	The English Language Learners Professional Development Advisory Committee met February 27 - 28, 2007 to begin developing the professional development guidelines and criteria for providers. Current projections are for the funding of the ELL professional development to begin in Fall 2007 .
29 Certificated Staff Mentoring Program	11.2	BA 6110-267-0001 SB 1209, Ch. 517 EC Sec. 44560	PDCSD	The Certificated Staff Mentoring Program is established for the purpose of encouraging excellent, experienced teachers to teach in "staff priority schools" and to assist teacher interns during their induction and first years of teaching. Eligible LEAs include "staff priority schools", which, by law, have an aggregate API score that was at or below the 30th percentile relative to other public schools in the state in any of the five previous school years, or are juvenile court schools, county community schools or community day schools operated by a county office of education. Eligible teachers must have a professional clear credential allowing the teacher to instruct at the grade level and in the subject matter to which the beginning teachers or interns are assigned, have no less than 7 years experience in the subject matter to which the beginning teachers or interns are assigned, be willing to teach in a "staff priority school" and provide assistance to at least one but no more than five interns or beginning teachers for at least five years, and have a demonstrated ability to foster pupil achievement and determined by the school principal. Mentor teachers will receive a stipend of \$6,000 yearly or another amount as specified in the Budget Act. The California Commission on Teacher Credentialing (CCTC) also is funded with \$6.8 million to increase grants to school districts and COEs that agree to enhance internship programs pursuant to SB 1209.	Application issued January 2007 . Applications due March 5, 2007 . Apportionments projected for April 2007 .

Legend:

BA item 6110-xxx-xxxx refers to the Budget Act of 2006, Ch. 47 and 48, Statutes of 2006.

2006-07 Budget Actions and Program Funding Information
 One-time and ongoing funding listed by order of amount

Program Name	Amount In Millions	Authority	CDE Div.	Description	Updated Comments/Timing
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AB 1801 (Ch. 47) Budget Act as amended by AB 1811 (Ch. 48).

AB 1802 (Ch. 79) is the primary 2006 education budget trailer bill.

SB 1131 (Ch. 371) is an education budget clean-up bill.

CCTC = California Commission on Teacher Credentialing

OPSC = Office of Public School Construction, Department of General Services

CDE Divisions:

SFSD = School Fiscal Services

PDCSD = Professional Development and Curriculum Support

LSPD = Learning Support and Partnerships

SPALD = Secondary, Postsecondary & Adult Leadership

SAD = Standards and Assessment

CDD = Child Development

FASD = Fiscal and Administrative Services

NSD = Nutrition Services

CSD = Charter School

DMD = Data Management

SFPD = School Facilities Planning

TSD = Technology Services

CFIR = Curriculum Frameworks and Instructional Resources

This spreadsheet is updated periodically and posted on the CDE Web site at: <http://www.cde.ca.gov/re/lr/ga/budtable0607.asp>

More detailed information from funding profiles for specific programs can be obtained on the CDE Web site at: <http://www.cde.ca.gov/fg/fo/>

II. Governor's Compact

(A) Background. 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 2007-08 proposed budget provided funding for the third 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) continues to express concerns that simply "rubberstamping" the *Compact* would further promote 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 either the *Master Plan for Higher Education* or statutory indices used in other programs.

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 provided 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 5,000 full-time equivalent students (FTES) at UC and 8,490 FTES at CSU.
5. *Long-Term Funding Needs.* Beginning in 2007-08, through the end of the *Compact* (2010-11), UC and CSU will 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 early 2000's, UC and CSU retain the authority to increase student fees – but agreed to 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.
- c) Academic Graduate Student Fees. Academic graduate student fees were supposed to 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 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 2007-08 academic year, fees will be increased approximately seven percent. All UC law students and business students at the Berkeley and Los Angeles campuses are proposed to see increases of between 11 and 12 percent.
- 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 agree to achieve major preparation agreements between all ten UC campuses and all 108 community colleges, while CSU agreed to 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, and agreed to provide at least \$12 million and \$45 million respectively 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.

(B). Overview of Governor's Budget.

Governor's 2007-08 UC Budget Proposal				
<i>(Dollars in Millions)</i>				
	2006-07 Budgeted	2007-08 Proposed	Change	
			Amount	Percent Change
UC				
General Fund	\$3,078.0	\$3,270.1	\$192.1	6.2%
Fee revenue	1,998.0	2,151.0	153.0	7.7
<i>Subtotals</i>	<i>(\$5,076.0)</i>	<i>(\$5,421.1)</i>	<i>(\$345.1)</i>	<i>(6.8%)</i>
All other funds	\$13,252.8	\$13,738.2	\$485.4	3.7%
Totals	\$18,328.8	\$19,159.3	\$830.5	4.5%

III. General Support Increases. Pursuant to the *Compact*, the Governor's proposal provides a four percent or \$116.7 million base budget increase for UC. Through the current year, the *Compact* only called for a three percent base budget increase; the additional one percent "bump" becomes effective under the terms of the *Compact* beginning in 2007-08.

Under the assumption that this base budget increase should be designed as a cost-of-living-adjustment (COLA), the LAO is recommending that the Legislature instead fund a base budget increase of 2.4 percent or \$70 million, which reflects the estimated rate of inflation. According to the LAO, \$70 million should be sufficient for UC to cover the increased operations costs for the coming year.

Staff notes that the \$46.7 million which makes up the difference between the Governor's Budget proposal and the LAO's recommendation is targeted by the UC for employee compensation. These funds are traditionally pooled for faculty and staff COLA, merit, benefit, and equity increases and then distributed pursuant to collective bargaining or other compensation agreements.

Staff recommends that this issue be held open pending the Governor's May Revision and a better assessment of the condition of the state General Fund.

IV. Student Fees.

A. 2007-08 Proposal. Consistent with his *Compact*, the Governor increases fees at both the UC and CSU. For UC, fees are proposed to increase by seven percent for the majority of students, with ten percent fee increases proposed for professional degree students in business and law. Recent actions by the UC Regents approved these fee increases, but allow them to be rescinded should the Legislature and the Governor elect to "buy out" the increases with an augmentation of General Fund monies. This fee increase will produce revenues of approximately \$105 million dollars; of this amount,

UC intends to return approximately 33% or \$35 million to financial aid for its students. The net result is approximately \$70 million in new revenue to the UC system.

Background on 2007-08 Fee Increases. Instead of initially proposing fee increases in their November 2006 budget documentation (as is the tradition), the Regents proposed a system budget that contained a set of revenue and resource assumptions. They stated that those revenues – equating to roughly \$70 million – could come from either the State General Fund (in the form of a student fee "buy out") or from a Student Fee Increase. This was a change from past practice in that it placed the burden of imposing a fee increase on the Governor in that the determination would ultimately be made by whether or not he provided \$70 million in additional General Fund in his January budget proposal.

B. General Student Fee Background. In 2004-05, the Governor proposed his own long-term student fee policy. 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.

In 2006-07, *contrary to his Compact*, which called for UC and CSU to increase student fees by eight percent for undergraduates and ten percent for graduate students, the Governor and the Legislature "bought 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 still remain below those of their comparison institutions (including the Universities of Michigan, Illinois, New York and Virginia). Comparison school fees averaged \$8,354 in **2006-07**, which is \$1,007 higher than the fee levels proposed for UC resident undergraduate students in **2007-08**.

The chart on the following page offers a recent history of fee levels at the UC:

University of California Student Fees

	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1997-98	4,212	13,196	4,722	13,706
1998-99	4,037	13,611	4,638	14,022
1999-00	3,903	14,077	4,578	14,442
2000-01	3,964	14,578	4,747	15,181
2001-02	3,859	14,933	4,914	15,808
2002-03	3,859	15,361	4,914	16,236
2002-03 (<i>fees increased mid-year</i>)	4,017	16,396	5,017	16,393
2003-04	5,530	19,740	6,843	19,332
2004-05	6,312	23,268	7,928	22,867
2005-06	6,802	24,622	8,708	23,669
2006-07	6,852	25,486	8,938	23,889
2007-08	7,347	27,027	9,481	24,466

The LAO raises a variety of issues related to how student fee levels are established. The LAO and the UC approach budgeting from two different perspectives. In an overly simplified explanation, UC first determines the total resources it will need to operate in any given fiscal year, and then delineates the portion of the revenue which will be derived from the *Compact* versus the portion to come from student fees (or conversely the "buying out" of student fees). The end result is that UC has driven the Legislature to formulate a statewide expenditure plan that, assuming the Legislature abides by the provisions of the *Compact* and either increases fees or provides a like-amount of General fund, fully meets UC's financial needs, as defined by the UC. The Legislature has traditionally agreed with this budgeting technique, believing that UC is best able to determine the resource needs of its campuses.

The LAO takes a different approach. Instead of "buying into" UC's definition of its resource needs, the LAO believes that the Legislature should define the amount of resources UC needs to operate, as well as the percentage of those resources that should be derived from student fees. Under the LAO's approach, the Legislature would appropriate an amount that, when coupled with the anticipated fee revenues, would be sufficient to cover inflationary adjustments, and thus expect that UC operate within those resources.

To meet this end, the LAO is recommending that the committee reject the Governor's proposed fee increase and instead adopt a more modest increase of 2.4 percent. This 2.4 percent increase is linked to the rate of inflation experienced by the UC and would ensure that students continue paying the same "share" of their educational costs in 2007-08 as they are currently paying. Further, the LAO is recommending that the Legislature **NOT** provide a "backfill" for the remaining amount of the Governor's proposed fee increase,

believing instead that UC should be able to operate with the approximate \$36 million in revenue that would be generated by a 2.4 percent fee increase.

Staff recommends that the committee hold this issue open pending the Governor's May Revision and a better assessment of the condition of the state General Fund.

V. Student Enrollment Growth.

A. Status of Current Year Enrollment Levels.

Pursuant to language adopted as part of the Annual Budget Act, UC is required to meet specified enrollment targets; this language has been adopted by the Legislature in recent years to ensure that the dollars appropriated for enrollment growth are indeed used to enroll additional students. If funds are not used for this purpose and the UC fails to 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 193,455 FTES. This FTES target represents the number of students that UC received enrollment growth funding for in the current year. At present, UC estimates that, systemwide, it will be "over-enrolled" by approximately 3,039 FTES. While these "over-enrolled" students pay fees, and thus provide the university with fee revenue, UC receives no state enrollment funding for these students.

UC will likely comment that they tend to over-enroll students in order to accept all eligible students; however staff would note that, campuses do have options to limit enrollments, while still "accepting all eligible students". One such option is to impose, and adhere to, application deadlines.

B. Enrollment Growth Projections for 2007-08.

Pursuant to the *Compact*, the Governor's Budget proposes to fund enrollment growth equivalent to 2.5 percent. At UC, this approximate 2.5 percent increase equates to 5,000 FTES and an augmentation of \$54.4 million. Of this amount, \$570,000 and 38 FTES are attributable to increased medical school enrollments (under the PRIME program) at four UC Medical Schools, including Irvine, San Francisco, Davis, and San Diego (*Note*: This program will be discussed in more detail below.) Additionally, 675 FTES are attributable to the third year of new students attending UC Merced.

As part of its *Analysis of the 2007-08 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. Further supporting the LAO's

assertion is the Department of Finance Demographics Unit, which predicts that UC enrollments will grow by approximately 2 percent in 2007-08.

UC contends that 2.5 percent enrollment growth is: (1) consistent with the growth targets outlined as part of the Administration's "*Compact*"; (2) the minimum amount needed to continue admitting all eligible students (both first-time freshman and transfer students); and (3) necessary to get the system "back on track" after several years of managing enrollments downward.

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. PRIME (Programs in Medical Education).

The Governor's Budget provides \$570,000 to grow medical school enrollments by 38 FTES. This medical school enrollment expansion is in its third year, and marks the first time medical school enrollments have increased since the mid-1970's. Until 2005-06, the incoming medical school class was limited to 622 FTES spread across UC's five Schools of Medicine.

While the bulk of the cost associated with these additional 38 FTES is absorbed within UC's enrollment growth allocation, the additional \$570,000 covers the cost difference between what the state pays for "regular" student enrollments and the cost to UC to educate a medical student. Medical schools tend to have a higher marginal cost rate because of the smaller student-to-faculty ratio (3.5-to-1). In the case of PRIME, the cost amounts to an additional \$15,000 above the per student rate already provided by the state.

Background. The PRIME program began at UC Irvine with a grant from the California Endowment and for 2007-08 is proposed to expand to a total of four UC Medical Schools (including Irvine, San Francisco, Davis, and San Diego). Specifically, PRIME seeks to train physicians to serve in underrepresented communities, whether geographic or demographic.

Under UC's proposal, students participating in the PRIME program at Irvine will continue to serve the underrepresented Latino community; UC San Francisco Medical students will team with Master's Degree students in Public Health at UC Berkeley to work with underserved communities in an urban setting. Students at UCSF's Fresno center will focus their efforts on working with migrant and seasonal workers in California's central valley. UC Davis Medical students will work with medically underserved populations in the rural regions of the state, while UC San Diego students will focus on immigrant and underserved populations (including Native American populations) in San Diego county.

Staff recommends that the committee hold funding for the PRIME program open pending the May Revision and resolution of the above-noted enrollment growth issues.

VI. UC Merced. The Governor's Budget continues providing \$24 million for start-up costs associated with the Merced campus. Of this amount, \$10 million is for the core operations of the university and \$14 million is specifically for the unique costs associated with opening a new campus. These costs are slated to decrease over time, as enrollments grow and the funding derived from enrollment growth increases. Initially, the Merced campus intended to open with 1,000 FTES, including 600 freshman, 300 transfer students, and 100 graduate students. However, actual enrollments fell short of the campus' goals and UC Merced opened with 865 FTES students in the Fall of 2005. Since then, the campus has re-benched its enrollment goals, planning to grow by 800 FTES annually. Even those enrollment goals have been difficult to achieve. Recent enrollment data suggests that the campus will likely average increases of 675 FTES annually, reaching 4,000 FTES by the 2010-11 academic year.

UC originally indicated that enrollments at the Merced campus would need to reach a threshold of approximately 5,000 FTES, at which point the \$14 million in start-up funds will begin to phase out; given the current enrollment trends, it will be closer to 2012-13 before the campus reaches 5,000 FTES. However, the *Compact*, as negotiated between UC and the Governor, appears to begin phasing out the \$14 million in start-up funding beginning in 2010-11, regardless of the enrollment levels achieved by the campus. Based on UC's estimates, the enrollments at that point in time will likely be closer to 4,000 FTES.

In addition to the enrollment challenges noted above, the campus continues to face expansion obstacles raised by the US Army Corps of Engineers. Specifically, the Corps has long-standing issues pertaining to the environmental impact of the campus on surrounding vernal pools which serve as habitat to the endangered "fairy shrimp". These matters have yet to be resolved.

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

VII. State-Funded Research. The Governor proposes to appropriate \$253.5 million (General Fund) to UC for state supported research. This represents a net increase of \$14 million over current year. The increase is derived from the following proposed adjustments: (1) a \$15 million augmentation for the California Institutes for Science and Innovation; (2) a \$5 million appropriation for a new "Petascale" supercomputing facility; and (3) a \$6 million reduction attributable to the Governor's proposed dismantling of the units conducting research and education related to labor and employment.

- A. California Institutes for Science and Innovation. Originally created by the state in the 2000-01 Budget Act, the UC houses four Institutes for Science and Innovation which engage in multi-disciplinary research focused on: (1) information technology; (2) telecommunications; (3) nanotechnology; and (4) biology. State funding was provided for both capital facilities (\$100 million) and continues to be provided for ongoing support (\$4.8 million annually).

As part of its Regents Budget, the UC requested, and the Governor proposes a \$15 million increase in ongoing support for these Institutes. According to UC, funds will

be used to enhance the core research functions of the Institutes and ensure that each of the four Institutes has a minimum level of support with which to operate and attract funding from private sources.

The LAO recommends that the Legislature reject the proposed \$15 million augmentation, citing a lack of adequate information on use of the additional funds. The LAO further notes that, if the expansion of the Institutes is a priority to the UC, it could choose to redirect funds from other state-funded research activities.

Staff recommends holding the issue open pending the May Revision and the resolution of other General Fund-related decisions by the Committee.

- B. Petascale Supercomputing Facility. The Governor's Budget includes \$5 million to help the UC be "more competitive" in its bid for the development and management of the next generation supercomputing facility (known as the Petascale supercomputer, named for the speed at which it can process information). While the National Science Foundation (the entity to whom the bid is to be submitted) does not require a state "match", the Governor and the UC believe that the inclusion of such a match would make California's proposal stand above its competitors.

The National Science Foundation launched a national bidding process to choose the future "home" for this new supercomputer. Whichever institution wins the bid to house the supercomputer is guaranteed ten percent of the Petascale computer's resources for its own use. The UC believes that the new supercomputer will help advance research in areas of interest to the state, including the biological and medical sciences; earthquake analysis; climate change, natural resources and energy planning; as well as engineering research.

UC, in conjunction with its managed National Laboratories, formed a consortium composed of California institutions as well as Georgia Tech and IBM, to compete for the \$200 million award. If California wins the grant, the Petascale computer would be housed at the Lawrence Livermore National Laboratory.

The LAO has raised a series of concerns with the proposal, including the lack of clarity surrounding any future state funding commitments. According to the LAO, the Department of Finance indicates its intent to provide a total of \$50 million over the next 10 years, provided UC procures the grant. However, LAO notes that the language in the Budget Bill does not specifically require that \$5 million revert to the General Fund in the event that the UC is unsuccessful in its quest.

Staff recommends holding the issue open pending the May Revision and the resolution of other General Fund-related decisions by the Committee.

- C. Labor Research Reduction. For the fifth year in a row, the Governor's Budget deletes all funding (\$6 million) for the labor-related research and related education programs at the UC. As part of the current-year budget negotiations, the Legislature augmented the UC's budget to provide funding for these activities, funding which was sustained in the current year Budget Act. It remains unclear why the restoration of these funds

was viewed as "one time" by the Administration and thus removed from the 2007-08 budget proposal.

Staff recommends that the Legislature place \$6 million for labor research (with accompanying provisional language) on the "checklist" pending the May Revision.

XI. UC Retirement Program (UCRP). The UC Budget Proposal requested a \$60 million augmentation to cover UC's employer costs of reinstating employer/employee contributions to the UCRP. This proposal was denied by the Administration and thus no funding was included in the Governor's January proposal.

Under the provisions of the *Compact*, the Governor agreed to provide funding for "other basic budget costs, such as annuitant health benefits, employer retirement contributions, and changes in debt service, in addition to the base budget support provided each year." What remains unclear is at what actuarial point the Governor committed to provide UC with funds to reinstate retirement contributions. Given that UCRP is projected to remain funded at 100 percent in the Budget Year, the Administration may argue that it has no obligation to fund UC's \$60 million request.

Background. The UCRP, which is governed by the UC Board of Regents and administered by the UC Office of the President, provides pension, survivor, and death benefits to eligible retired UC employees and beneficiaries. The core benefit offered by UCRP is a defined benefit pension similar to the benefits offered through CalPERS, the California State Teachers' Retirement System, and local retirement systems.

Peak Value of the Fund. Since about 1987, the actuarial value of UCRP's assets has exceeded the value of the system's actuarially accrued liabilities (that is, UCRP's funded level has been above 100 percent). UCRP's funded level reached a peak of 16 percent in the 1980's primarily due to strong investment returns. According to the LAO, no other major public pension system in the U.S. is known to have such a long record of having a funded level above 100 percent.

Retirement Contribution "Holiday". In the early 1990's, given the strong condition of the fund, coupled with the effects of a deteriorating state economy, the Legislature and the Governor took action to remove \$55.6 million in funding that the state had been providing to UC to cover the state's share of UC's employer-covered pension costs. The UC Regents followed suit shortly thereafter by suspending all contributions to the UCRP for both the employees and the university (as the employer). Since November 1, 1990, no contributions have been made into the UCRP.

In the intervening 15 years, during which both UC employees and the UC system have had a retirement contribution "holiday", the UC Regents adopted a policy requiring employees to redirect approximately two percent of their salary into a pretax defined contribution plan. This account belongs to the employee and supplements their retirement savings, including their UCRP pension benefits. Employees did not have the choice to "opt out" of the defined contribution plan.

Decline in Fund Value. In recent years, the funded level of UCRP has declined due to the lack of annual contributions, despite a healthy average annual investment return over

the preceding ten years. In 2000, UCRP's funded level was 154 percent, but by 2006, this level had declined to 104 percent, the weakest return for UCRP in the past two decades. This level is still extremely healthy compared to public retirement systems nationwide. Actuarial projections have indicated that UCRP's funded ratio will drop to 95 percent within approximately three years unless corrective action (i.e., resuming contributions into the fund) is taken.

Current Status. The Regents' have adopted a multi-year plan which would phase-in both employee and employer contributions in order to keep the UCRP at or near the 100 percent funded level. Under the Regents' plan, in the first year, contributions for both the employee and employer would be two percent. Under this scenario, for the first year, UC proposes eliminating current employee contributions to the pretax defined contribution plan (as discussed above) and instead redirect those payments to the UCRP – resulting in no net change to the employee paychecks. However, staff notes that the ability of UC to initiate this plan is contingent upon its ability to make employer contributions, which appears to be dependent on the receipt of additional funds from the state.

Future Contributions. The status of future contribution levels also remains unsettled. Eventually, UC intends to ramp up contributions to the pension plan from the 0 percent of payroll today to about 16 percent of payroll in order to keep the system 100 percent funded on an actuarial basis. Total out-year costs to the state will likely exceed \$300 million, annually, to keep UCRP funded between the 95-100 percent funded level.

Staff notes that the committee may wish to explore the following issues:

- Given that UCRP is currently funded at slightly over 100 percent, at what point are contributions into the fund absolutely necessary to maintain the fund at a minimum level of 95 percent of its accrued liabilities? (Per the UC Regents policy.)
- CalPERS is currently funded at approximately 87 percent. What is the appropriate level of funding for public pension systems?
- UC intends to "phase-in" employer and employee contributions after a 15-year hiatus. Is a phased-in approach more appealing or practical than suddenly implementing a 16 percent contribution, but at a later date?
- What is the state's historic commitment to funding UC's Retirement Program? Do we traditionally fund the employer-side contributions when the system is at or above 100 percent funded?
- Absent additional funding from the State, how will UC fund its employer share of the retirement contributions?
- Employee unions have claimed that UC already has sufficient funds to either offset contributions or defer the reinstatement of contributions. UC may wish to comment on how funds it had previously spent on employer contributions were redirected during the 15 years that both employees and UC (as the employer) experienced a retirement contribution "holiday".
- Does the Board of Regents, as a "public board" provide sufficient "oversight" of the investment portfolio? How does this oversight compare to the public retirement

boards charged with fiduciary responsibility over the assets of other public pension systems such as CalPERS or STRS?

XII. Proposed Consent

Staff recommends that the following item be adopted with the accompanying changes:

- 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 \$14,553,000
- 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 \$778,000
- 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 \$174,108,000
- 6440-011-0042 Transfer by Controller from State Hwy. Acct.,
Earthquake Risk Reduction Fund of 1996 (\$1,000,000)
- 6440-401 Budget Language, University of California, related to unexpended GO bond funds remaining after completion of a capital outlay project.
- 6440-490 Reappropriation, University of California.

SUBCOMMITTEE NO. 1 on Education



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

Monday, April 9, 2007
10:00 a.m.
Room 113, State Capitol

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Issue 4	Teacher Retention and Recruitment Block Grant	Page 15
6360	Commission on Teacher Credentialing (CTC)	
Issue 5	CTC Budget Overview and Governor's Proposals	Page 17
Issue 6	Supplemental Report Language	Page 23

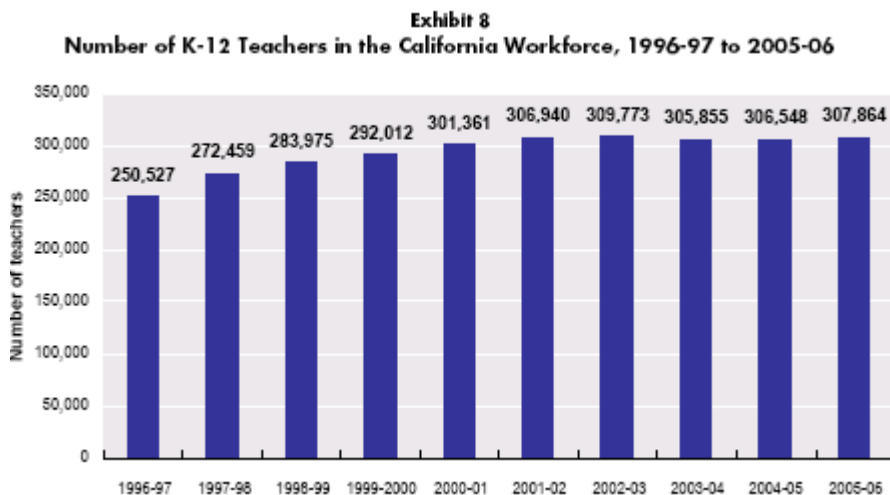
Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by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

ISSUE 1: California’s Teaching Force – Center for the Future of Teaching and Learning

DESCRIPTION: The Center for the Future of Teaching and Learning will provide the Subcommittee with an update on the status of our state teaching workforce, reflecting data and research from a recent report entitled *Teaching and California’s Future - California’s Teaching Force 2006*. The Center will discuss the size of the state teaching workforce and the status of under-prepared teachers, and also make recommendations about how to strengthen the teaching force in coming years.

BACKGROUND:

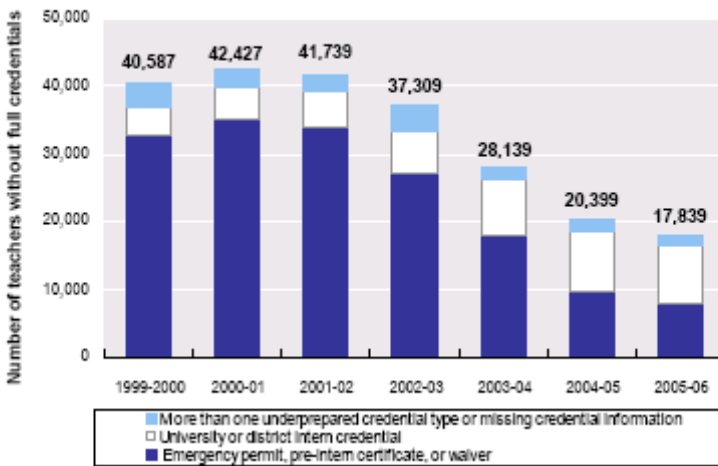
California’s Teaching Workforce. California’s K-12 teaching workforce grew significantly in the late 1990s and early 2000s as a result of the state’s K-3 class size reduction program and increased student enrollments. Between 1996-97 and 2002-03, the teacher workforce grew by 59,000 teachers or 25 percent. In 2003-04, this trend reversed and actually dropped by nearly 4,000 teachers. Since then, the number of teachers has been growing slightly reflecting lower enrollment growth for the state overall.



Source: *California’s Teaching Force 2006*. The Center for the Future of Teaching and Learning.

Fewer Under-Prepared Teachers. The Center defines under-prepared as those teachers who have not completed a teacher preparation program and attained a preliminary or professional clear teaching credential. Under-prepared teachers include interns and holders of emergency permits and waivers. According to the Center, the number of under-prepared teachers in California classrooms has declined over the last five years. At its peak in 2000-01, the state had more than 42,000 under-prepared teachers, representing 14 percent of the state’s teacher workforce. Since then, the number has dropped to approximately 17,800 teachers, representing about 6 percent of the teacher workforce.

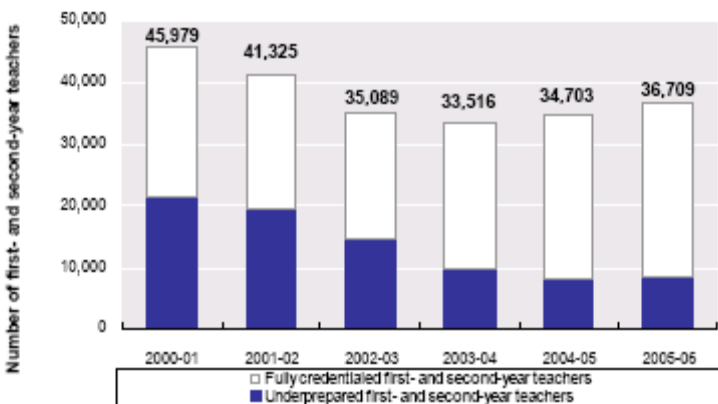
Exhibit 10
Number of Underprepared Teachers by Credential Type, 1999-2000 to 2005-06



Source: *California's Teaching Force 2006*. The Center for the Future of Teaching and Learning.

Novice Teachers Increasing Somewhat. According to the Center, the number of novice teachers – defined as first and second year teachers – has been growing in recent years. There are approximately 36,700 novice teachers in California currently. The Center points out that the first two years of teaching are the most difficult. While the Center notes that the number of novice teachers have been growing somewhat, the number of novice teachers who are also under-prepared has fallen in recent years.

Exhibit 11
Number of Novice Teachers by Credential Status, 2000-01 to 2005-06



Source: *California's Teaching Force 2006*. The Center for the Future of Teaching and Learning.

Under-Prepared and Novice Teachers – Continuing Areas of Concern. Despite an overall reduction in the number of under-prepared teachers statewide, the Center identifies several continuing areas of concern:

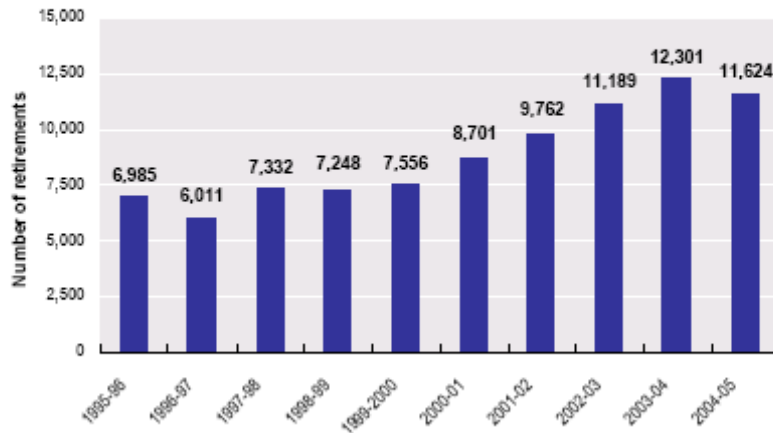
- **Unfair distribution of under-prepared and novice teachers among schools.** The Center notes that under-prepared and novice teachers continue to be unfairly distributed across high- and low-achieving schools. A total of 21 percent of the teachers in schools in the lowest achievement quartile were under-prepared or novice teachers compared to 12 percent of the teachers in the top

quartile of schools. Similarly, 18 percent of the teachers in schools with the highest minority student quartile were under-prepared or novice teachers compared to 11 percent of the lowest minority student quartile.

- **Special education teachers severely under-prepared.** The Center reports that special education continues to be the area with the highest percentages of under-prepared teachers. While the number of under-prepared teachers has fallen significantly overall, the proportion of under-prepared special education teachers has fallen more slowly than general education teachers. Specifically, 12 percent of teachers authorized to teach special education are under-prepared compared to 3 percent of elementary teachers and 6 percent of secondary teachers. Among novice special education teachers, 45 percent are under-prepared, compared to 13 percent for elementary teachers and 25 percent for secondary teachers. The shortage of credentialed special education teachers is greatest in schools serving large populations of minority children. A total of 18 percent of the teachers in schools with the highest quartile of minority students were under-prepared compared to 7 percent of the teachers in the schools with the lowest quartile of schools.
- **Continuing Shortages of science and math teachers.** The Center reports a persistent shortage of fully credentialed math and science teachers across the state. Although the shortage has declined over the last five years, a significant shortage still exists. For middle schools, 9 percent of math teachers and 8 percent of science teachers are under-prepared and 17 percent of the math teachers and 16 percent of science teachers were novices. For high schools, 12 percent of math teachers and 9 percent of science teachers are under-prepared and 16 percent of both math and science teachers were novices. The shortages are more severe in the lowest-performing schools, with 18 percent of math teachers and 16 percent of science teachers under-prepared compared to 5 percent of the math teachers and 4 percent of the teachers in high-performing schools.

Retirements Remain Historically High. According to the Center, the age distribution of the current teacher workforce predicts an increase in the number of retirements over the next 10 years from baby boomers. California employs more than 53,000 teachers who are over 50 years of age. If all these teachers retire at the average retirement age of 61, California will need to replace 53,000 teachers in the next 5 years. Over the next 10 years, the state will need to replace 98,000 teachers, or 32 percent of its 308,000 teachers.

Exhibit 32
Number of California State Teachers' Retirement System (CalSTRS)
Membership Retirements, 1995-96 to 2004-05

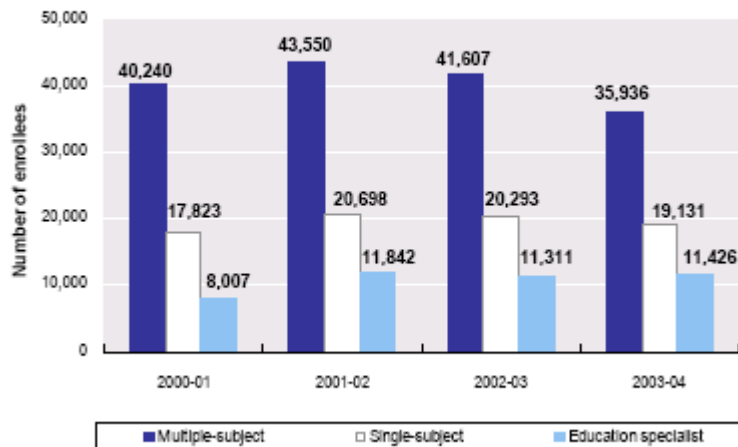


(Source: See Appendix A for source and technical information.)

Source: *California's Teaching Force 2006*. The Center for the Future of Teaching and Learning.

Teacher Supply Down. The Center reports that several indicators of teacher supply have begun to decline. Specifically, the number of enrollees in teacher preparation programs has decreased, particularly for elementary multiple-subject preparation enrollees. Enrollments in special education (education specialists) seem to be holding constant.

Exhibit 34
Number of Enrollees in Teacher Preparation Programs, 2000-01 to 2003-04

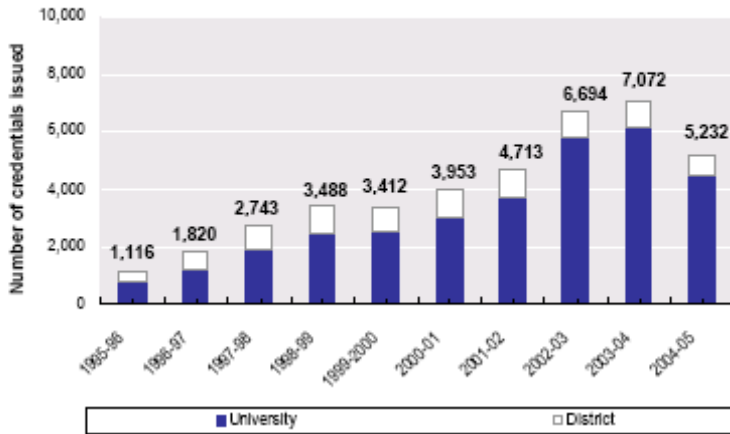


(Source: See Appendix A for source and technical information.)

Source: *California's Teaching Force 2006*. The Center for the Future of Teaching and Learning.

University and district intern credentials are also experiencing a decline from 2003-04 levels, after experiencing steady growth in recent years. Most of the drop has occurred in university intern program credentials.

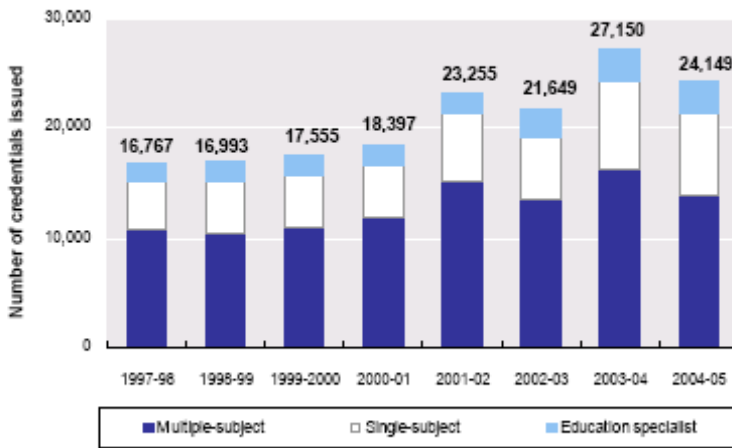
Exhibit 35
Number of New University and District Intern Credentials Issued, 1995-96 to 2004-05



Source: *California's Teaching Force 2006*. The Center for the Future of Teaching and Learning.

The number of preliminary teaching credentials issued has grown generally in recent years, with some fluctuations, but appears to be declining from the high level in 2003-04, largely due to a drop in multiple subject credentials.

Exhibit 36
Number of New Preliminary Teaching Credentials Issued, 1997-98 to 2004-05

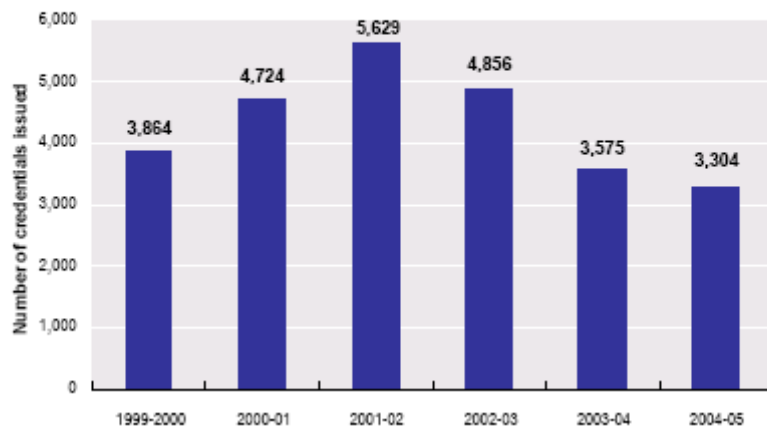


Note: Education-specialist credentials authorize the holder to teach students with disabilities.

Source: *California's Teaching Force 2006*. The Center for the Future of Teaching and Learning.

The number of California credentials issued to teachers trained out-of-state has declined significantly from a high level in 2001-02. Of the 3,304 credentials issued to teachers prepared out-of-state, 1,423 were multiple-subject credentials, 1,564 were single-subject credentials, and 317 were special education credentials.

Exhibit 37
Number of California Credentials Issued to Teachers
Trained Out of State, 1999-2000 to 2004-05



Source: *California's Teaching Force 2006*. The Center for the Future of Teaching and Learning.

Warning Signs and Opportunities. The Center believes that state policies to strengthen the teaching workforce have helped to lower the number of under-prepared teachers. However, the Center has identified the following “warning signs” on the horizon for state policymakers, which could increase the shortage of well-prepared teachers in California.

- Veteran teachers will continue to retire in record numbers – about 100,000 in the next decade.
- The production of new teachers has declined in the past year, and the number of students going into teaching programs has gone down considerably.
- The demand for teachers is quite uneven; the teacher labor markets are regional and are not consistent statewide. In many communities, particularly along the coast, student enrollment is going down. But in the inland portions of the state, enrollment is going up rapidly – and that is where the biggest teacher shortages are likely to occur.
- The \$2.8 billion settlement between the Governor and the California Teachers Association calls for further class-size reduction in the low-performing schools, which will require more teachers.
- There continues to be a severe shortage of special education teachers and no adequate state policy to produce a sufficient number of such teachers.
- Despite repeated calls from the business and scientific communities to substantially increase the rigor and quality of math and science teaching, there is no current state policy to either produce large numbers of new math and science teachers or expand the capacity of current teachers.

Department of Education

ISSUE 2: Implementation of NCLB Highly Qualified Teacher Requirements

DESCRIPTION: The Department of Education will provide an update on implementation of California's revised plan for compliance with the "highly qualified teacher" provisions of the federal No Child Left Behind Act (NCLB).

BACKGROUND:

NCLB Highly Qualified Teacher Requirements. The federal No Child Left Behind Act (NCLB) was approved in 2001 by Congress and signed by the President. Among its provisions is a requirement that all teachers of core academic subjects be "highly qualified" by the end of the 2005-06 school year. California defines teachers to be highly qualified for purposes of NCLB if they satisfy the following conditions:

- Possess a bachelor's degree,
- Possess a teaching credential or are working on a credential through an approved intern program, and
- Demonstrate subject matter competence in each subject they are assigned to teach.

Each state was required to develop a plan— with annual, measurable objectives -- for meeting its highly qualified teacher definitions.

Highly Qualified Teacher Deadlines & Recent Extension: NCLB requires that all new teachers hired in Title I schools by the end of the 2002-03 school year must meet the "highly qualified" definition. In addition, NCLB requires that all teachers of core academic subjects meet the highly qualified definition by the end of the 2005-06 school year.

Not a single state had met the NCLB deadline for complying with its highly qualified requirements for core academic teachers by the end of 2005-06. For this reason, the U.S. Department of Education (USDE) extended the deadline for states by one additional year – to the end of 2006-07. As a condition of this extension, states were required to submit revised state plans for placing a highly qualified teacher in every classroom offering instruction in a core academic subject by the end of 2006-07.

As a part of these revised plans, states were required to address NCLB requirements for "teacher equity" that require states to assure that poor and minority students are not disproportionately taught by unqualified and inexperienced teachers in their first years of teaching.

California's Revised State Plan for Highly Qualified Teachers: California first submitted its revised plan to USDE in July 2006. A peer review panel concluded that California's revised plan was deficient in a number of areas, including its plan to address the inequitable distribution of qualified and experienced teachers. CDE submitted a revised plan to USDE in September 2006. This plan was then further refined to include six new requirements that address each of the deficiencies. These revisions

culminated in a November 2006 state plan that was finally approved by USDE in December 2006. These six requirements are summarized below.

Detailed Identification of Noncompliant Classrooms. The revised Highly Qualified Teacher (HQT) plan must provide a detailed analysis of the core academic subject classes in the State that are currently not being taught by highly qualified teachers. The analysis must, in particular, address schools that are not making adequate yearly progress and whether or not these schools have more acute needs than do other schools in attracting highly qualified teachers. The analysis must also identify the districts and schools around the State where significant numbers of teachers do not meet HQT standards, and examine whether or not there are particular hard-to-staff courses frequently taught by non-highly qualified teachers.

LEA Plans and Monitoring. The revised plan must provide information on HQT status in each local education agency (LEA) and the steps the state will take to ensure that each LEA has plans in place to assist teachers who are not highly qualified to attain HQT status as quickly as possible.

LEA Technical Assistance. The revised plan must include information on the technical assistance, programs and services that the state will offer to assist LEAs in successfully completing their HQT plans particularly where large groups of teachers are not highly qualified and the resources the LEAs will use to meet their HQT goals.

LEA Corrective Action. The revised plan must describe how the state will work with LEAs that fail to reach the 100 percent HQT goal by the end of the 2006-2007 school year.

Subject Matter Verification. The revised plan must explain how and when the state will complete the High Objective Uniform State Standard of Evaluation (HOUSSE) process for verifying the subject matter competency of teachers that are “not new” to the profession who were hired prior to the end of the 2005-06 school year, and how the state will discontinue the use of HOUSSE procedures for teachers hired after the end of the 2005-06 school year.

State’s Equity Plan. The revised plan must include a copy of the State’s written “equity plan” for ensuring that poor or minority children are not taught by inexperienced, unqualified, or out-of-field teachers at higher rates than are other children.

Status of HQT Compliance in California:

California does not currently have accurate data on the number and types of teachers of core academic subjects that are not considered highly qualified for purposes of NCLB under our state’s definition. For this reason, our state does not really know how many teachers will be considered noncompliant with NCLB by the end of 2006-07.

The development of more accurate, detailed data on highly qualified teachers is one the requirements of our state’s revised highly qualified teacher plan. In the absence of more accurate data, California’s revised plan relies upon limited existing data and preliminary data for 2006-07. This information provides estimates only of the number and types of teachers who are noncompliant with NCLB.

Core Academic Classes: As indicated in the table below, the latest available data indicates that only 74 percent of the classes in our state are taught by highly qualified teachers. However, preliminary 2005-06 data indicates that overall compliance is closer to 85 percent. Compliance is higher for elementary schools than secondary schools.

2004-05 Data (2006 CSPR*)			
School Type	Total Number of Core Academic Classes	Number of Core Academic Classes Taught by HQTs	Percentage of Core Academic Classes Taught by HQTs
All Schools	635,484	472,482	74%
Elementary Schools	173,723	135,266	78%
High-Poverty Schools	48,977	36,880	75%
Low-Poverty Schools	34,341	27,807	81%
Secondary Schools	461,761	337,215	73%
High-Poverty Schools	102,721	62,565	61%
Low-Poverty Schools	119,361	96,323	81%

Core Classes in High- and Low-Poverty Schools. The percentage of core classes taught by HQTs is different for high- and low-poverty schools, particularly secondary schools. A total of 81 percent of core teachers in low-poverty elementary and secondary schools are taught by highly qualified teachers. These figures fall to 75 percent for high-poverty elementary schools and 61 percent for high-poverty secondary schools.

Core Classes in Other Types of Schools. At the elementary level, Special Education, County Community, Alternative, K-12, and Community Day schools have the highest proportion (more than 25 percent) of core teachers who are not highly qualified. At the secondary level, Special Education, Community Day, Opportunity, Juvenile Hall, Alternative, and Continuation schools have the highest proportion (more than 25 percent) of core teachers who are not highly qualified.

Core Classes by Teaching Assignment: The types of teaching assignments that are over-represented among non-compliant highly qualified core classes include secondary special education (43.2 percent); elementary special education (24.9 percent); and career-technical education (24.3 percent).

Other Teacher Shortage Data from CDE. The Department of Education produces an annual report designating critical shortages of teachers for the Student Aid Commission. This report is required by statute governing the Assumption Program of Loans for Education (APLE), administered by the Commission. The report identifies teaching fields with the most critical shortages of teachers for purposes of allocation of APLE grants to teachers in shortage fields. The report utilizes data from school districts on the number of teachers with emergency permits or waivers and the number of new teacher hires reflecting existing vacancies and estimated new hires for the coming year. This data is compiled and submitted by local school districts through the California Basic Educational Data System (CBEDS) data system.

The CDE teacher shortage report for 2007, as displayed below, reflects 2005-06 data. From this data, CDE designates teacher shortages in fields with the highest percentage shortages equating to five percent of the total full-time equivalent (FTE) teachers. Shortage areas designated by CDE are

highlighted on the table below, and include: Special Education, including State Special Schools; Physical and Life Science; Business; Agriculture; Foreign Language; Mathematics/Computer Education.

Teacher FTE Demand and Shortage Areas by Subject, 2007-08

(2005-06 data)

Subject Areas	FTE Teachers	FTE on Emergency Permits Or Waivers	Estimated New Hires	TOTAL FTE Shortage	Percent of Subject FTE Teachers	Percent of Total FTE Teachers
Self-contained Classrooms	135,102.50	2,286.55	6,613.4	8,899.95	6.6%	3.1%
Special Education	28,416.48	1,981.50	3,368.9	5,350.40	18.8%	1.8%
Mathematics/Computer Ed.	21,940.15	678.80	2,069.8	2,748.60	12.5%	1.0%
English (Drama & Humanities)	25,482.77	519.24	2,056.3	2,575.54	10.1%	0.9%
Life & Physical Science	15,636.93	354.02	2,153.1	2,507.12	16.0%	0.9%
Social Science	17,758.53	297.27	1,198.2	1,495.47	8.4%	0.5%
PE/Health/Dance	13,046.61	314.44	667.3	981.74	7.5%	0.3%
Other Specializations	7,516.89	552.00	0.0	552.00	7.3%	0.2%
Foreign Language	6,036.32	132.26	633.2	765.46	12.7%	0.3%
Music	4,221.16	133.03	320.1	453.13	10.7%	0.2%
Reading	4,445.37	139.10	355.9	495.00	11.1%	0.2%
Art	4,372.05	99.10	250.1	349.20	8.0%	0.1%
Business	1,067.57	23.73	129.5	153.23	14.4%	0.1%
Industrial Arts	2,259.59	41.44	240.3	281.74	12.5%	0.1%
Home Economics	1,236.89	20.02	79.9	99.92	8.1%	0.0%
Agriculture	482.77	9.60	59.6	69.20	14.3%	0.0%
Special Schools	200.00	12.00	27.0	39.00	19.5%	0.0%
TOTAL	289,222.58	7,594.10	20,222.6	27,816.7	9.6%	

COMMENTS: It is unclear how many teachers will be found to be non-compliant with the highly qualified requirements of NCLB at the end of 2006-07. As a part of its revised state plan to the USDE, the Department of Education is working to develop this data. The Center for the Future of Teaching and Learning estimates that approximately 8,000 teachers of core classes with emergency permits, waivers, or pre-intern certificates will not be deemed highly qualified under NCLB by the end of the 2006-07 school year. Given these numbers, will California be able to meet the deadlines for compliance in its new state plan?

Department of Education

ISSUE 3: Federal Title II Funding for State Activities -- 6110-195-0890

DESCRIPTION: The Governor proposes to utilize **\$1.1 million** in federal Title II carryover funds for development of the statewide teacher data system -- CALTIDES -- in 2007-08. The Governor proposes to set-aside another **\$5.3 million** in Title II funds for CALTIDES development in 2008-09 and 2009-10. The Governor’s April 1st Letter proposes **\$1.1 million** in ongoing Title II funds to backfill \$690,000 and 4.0 positions previously funded through federal Title V funding to assist LEAs with meeting the highly qualified teacher requirements for NCLB. The Department of Education proposes an additional **\$1.1 million** in Title II state activities funds for implementation of California’s state plan for complying with the highly qualified teacher provisions of NCLB.

BACKGROUND: Federal Title II funds are provided to states to support the preparation, training, and recruitment of highly qualified teachers and principals. The funding and its requirements were part of the No Child Left Behind Act law of 2001. Federal law requires that states distribute 95 percent of these funds to local school districts who can use the funds for purposes related to the goals of the funding. The federal government also requires that states spend a certain minimum percentage of their funds on state-level activities designed to provide technical assistance to school districts and allows states to spend a certain percentage on grant administrative activities.

Governor's January 10 Budget Proposal: The Governor proposes to continue \$1.6 million in federal Title II funding for state-level activities for the Principal Training program and \$4.4 million for the Subject Matter Projects -- a teacher preparation program administered by the University of California.

The Governor’s budget also proposes **\$1.1 million** in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2007-08. Of this total, the Governor provides **\$894,000** for 1.0 limited-term analyst position, contracts for project management, project oversight, and other expenses to the Department of Education and **\$248,000** for 2.5 positions and other expenses to the Commission on Teacher Credentialing for development of CALTIDES.

The Governor proposes to set-aside another **\$5.3 million** in Title II carryover funds for CALTIDES development beyond the budget year.

Governor’s Proposal to Set-Aside Carryover Funds for CALTIDES. According to CDE, there is approximately **\$5.3 million** in federal Title II carryover funds available for expenditure in 2007-08. The Governor does not propose to appropriate these one-time carryover funds and instead proposes to set them aside to offset an estimated **\$10.0 million** in one-time costs for CALTIDES development in 2008-09 and 2009-10. CALTIDES development is projected to be completed in 2009-10.

CALTIDES Expenditures	2006-07 (Budgeted)	2007-08 (Proposed)	2008-09 (Estimated)	2009-10 (Estimated)
	\$.938 million	\$1.1 million	\$7.0 million	\$3.0 million

The 2006-07 budget provided a total of \$938,000 in one-time federal Title II funds for CALTIDES development which included \$686,000 for CDE to support project management, Request for Proposal (RFP), and project oversight contracts and \$252,000 for CTC to support 2.5 positions.

Implementation Status: The Feasibility Study Report (FSR) for CALTIDES was approved by the Department of Finance in March 2006. The RFP is under development and will be completed in late summer 2007. The vendor will be selected in summer 2008. Development of the CALTIDES system will be completed in 2009 and system implementation will commence in 2010.

Risk of Excess Carryover Funds. The U.S. Department of Education (USDE) gives states 27 months to expend (encumber) federal funds. If federal funds are not expended within this timeframe, they must be returned to the USDE. In 2005-06, there was a federal finding that California was not spending enough for Title II state-level activities. Due to an accumulation of Title II carryover funds, the state was at risk for reverting some federal funds back to USDE. The 2006-07 budget contained several one-time proposals to spend these funds quickly and minimize losses of federal funds. In the end, the state was unable to expend approximately \$300,000 in Title II funds by September 30, 2006, and these funds were reverted to USDE.

Governor's April Letter Request: The Governor's requests that **\$690,000 and 4.0 positions** of federal Title V funds be shifted and funded with federal Title II funds. This fund shift would support continued efforts to provide professional development activities for administrators, principals, and teachers with a focus on efforts to assist LEAs with meeting the highly qualified teachers requirements of NCLB. The Department of Education requested this shift due to loss of federal Title V funds available for state level activities.

CDE Proposal for Title II Carryover Funds: The Department of Education proposes to expend **\$1.1 million** of the \$5.3 million in unappropriated Title II carryover funds proposed by the Governor in 2007-08 to begin a new monitoring and technical assistance program to help school districts comply with the highly qualified teacher requirements of NCLB. The Department of Education requests **\$1.1 million and 8.0 positions** to establish a **Compliance, Monitoring, Interventions and Sanctions (CMIS) program** to ensure that NCLB's highly qualified teacher provisions are met in California. According to the Department of Education, this new program is necessary to meet the assurances the department made to the federal government as a part the state's newly revised highly qualified teacher plan. The department proposes CMIS as a continuing program through 2012 that would utilize annual Title II carryover funds for support of the program.

COMMENTS: *Staff supports* the Governor's general intent to set-aside **\$5.3 million** in Title II carryover funds in 2007-08 to offset an estimated **\$10.0 million** in CALTIDES expenditures predicted in 2008-09 and 2009-12. Title II funds are an excellent source of funding for the state's new teacher data system, especially since the project will provide necessary data for complying with the highly qualified teacher provisions of NCLB, as reflected in the state's revised plan.

At the same time, *staff notes* that the Department of Education has made substantial assurances to the federal government for monitoring, assisting, and enforcing the highly qualified teacher provisions of NCLB as a part of the revised plan. According to the Department, these assurances require the development of new processes and resources. The Department of Education is requesting **\$1.1 million**

and 8.0 positions to establish a Compliance, Monitoring, Interventions and Sanctions (CMIS) program to meet these assurances. In considering this proposal, it will be important for the Subcommittee to understand whether the Department of Education can meet its federal obligations without these additional resources.

Staff recommends that the LAO work with the Department of Education on an expenditure plan for utilizing Title II carryover funds to meet the state's data, monitoring, assistance, and enforcement obligations for complying with the highly qualified teacher provisions of NCLB.

Department of Education

ISSUE 4: Teacher Retention and Recruitment: School Enrichment Block Grants

DESCRIPTION: The Governor proposes to continue one-time funding of **\$50 million** for School Enrichment Block Grants to support the recruitment and retention of teachers and principals in schools in the lowest three deciles of the 2005 base Academic Performance Index (API).

BACKGROUND:

2005-06 Budget: 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 agreement 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.

2006-07 Budget: The 2006-07 budget included \$50 million for 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). The Governor originally proposed \$100 million in 2006-07 to expand and permanently continue these block grants.

Governor’s Budget Proposal for 2007-08: The Governor proposes to continue funding of \$50 million for the School Enrichment Block Grants to school districts and charter schools in the lowest three deciles of the 2005 API in 2007-08. The Governor would continue the 2006-07 funding rate of \$50 per pupil with minimum school site grants of \$5,000. This 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

School Enrichment Block Grants can be expended for the general purposes of improving the school environment and culture, and as is the case in 2006-07, 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.

LAO Recommendation: Last year, the LAO recommended 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:

- **One-Time Funding:** The Governor is proposing a third year of one-time funding for this program in 2007-08. While the Governor uses one-time funds for this program, the program appears to be ongoing for schools in the lowest three deciles, as determined by the 2005 base API.
- **Program Overlap:** Based upon current year estimates, schools will receive approximately \$24.00 per student from School Enrichment Block Grants in 2007-08 per the Governor's proposal. Beginning in 2007-08, the new Quality Education Improvement Act (QEIA) will provide \$2.8 billion over seven years to approximately 600 schools in decile 1 and 2 of the API statewide. Participating QEIA schools will receive \$500 per student annually for their grade K-3 students; \$900 per student for their grade 4-8 students; and \$1,000 per student for their grade 9-12 students. In addition, the High Priority Schools program will provide another \$400 per student to a new cohort of decile 1 and 2 schools over the next few years.
- **Alternative Schools Excluded.** This program, and several other programs that target funds to schools in the lowest deciles of the API, exclude alternative schools. Most of the state's 1,000 alternative schools participate in the state's Alternative Schools Accountability Model (ASAM) and therefore do not have a valid API for purposes of being eligible for this or any other program that uses API for determining eligibility. Most all of these alternatives schools are low-performing and serve students with significant educational needs.

6360 Commission on Teacher Credentialing

ISSUE 5: Commission on Teacher Credentialing – Budget Overview and Governor’s Budget Proposals

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 and Administration Account and the Teacher Credentials Fund in 2007-08. The Governor proposes several budget year adjustments to support ongoing credential workload efficiencies, credentialing and accreditation reforms; administration of teacher assessments; and development of a statewide teacher data system. The Governor also proposes to create a new teacher recruitment and preparation program known as EnCorps.

CTC will provide an update on special fund balances; credential workload and staffing; and accreditation, as well as an update the members on the various credential reforms in process as a result of the passage of Chapter 517 (SB 1209/Scott).

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.

The CTC currently receives approximately 250,000 applications annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

Summary of Expenditures					
(dollars in thousands)					
	2005-06	2006-07	2007-08	\$ Change	% Change
General Fund	\$2,700	\$0	\$0	--	--
General Fund, Proposition 98	24,988	49,881	39,881	-\$10,000	-20.0
Teacher Credentials Fund	11,442	15,369	14,601	-768	-5.0
Test Development & Adm. Account	2,814	4,792	4,188	-604	-12.6
Reimbursements	76	1,027	248	-779	-75.9
Total	\$42,020	\$71,069	\$58,918	-\$12,151	-17.1

Governor's Budget: The Governor's Budget proposes **\$58.9 million** for the CTC's budget in 2007-08, a decrease of **\$12.2 million** from the 2006-07 budget. Most of this decrease is associated with the Governor's proposal to add \$10 million in one-time General Funds (Proposition 98) for a new teacher recruitment program – EnCorps – in 2006-07. Funding for the EnCorps program would be available on a one-time basis beginning in 2007-08. However, because funds are appropriated from 2006-07 Proposition 98 savings, expenditures for this new, limited-term program are budgeted in 2006-07 and appear as a funding loss in 2007-08.

In addition, the budget proposes a net reduction of \$1.4 million in expenditures from the two special funds that support the CTC's state operations -- the Teacher Credentials Fund and the Test Development and Administration Account. The majority of this reduction reflects a \$1.5 million decrease in pro-rata charges assessed to the CTC and a \$100,000 increase for other baseline budget adjustments. In total, the Governor's Budget proposes to expend \$18.8 million from CTC's two special funds in 2007-08.

The Governor's budget provides \$39.9 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. This amount continues the \$6.8 million increase provided in the 2006-07 budget to improve and expand intern grants to school districts and county offices of education, pursuant to Chapter 517, Statutes of 2006 (SB 1209/Scott).

The 2005-06 budget provided a \$2.7 million General Fund (Non-Proposition 98) appropriation to address a shortfall in special funds to support the CTC's state operations budget. These funds were provided on a one-time basis. Healthy fund balances were restored in 2006-07 and expenditures from the Teacher Credentials Fund and the Test Development and Administration Account were increased by \$2.7 million to offset the elimination of one-time General Funds.

Summary of Credential Workload and Staffing Changes: For the development of the 2006-07 budget the Legislature and the Administration provided resources to address the credentialing workload. In May 2006 the workload hit an all time high of 80,000 pending paper applications. The Governor's budget summary indicates that during 2006-07 the credentialing backlog has been reduced from 77,000 to 44,000, and reduced the average processing time below the regulatory time limit of 75 days for both credential renewals and university recommended credentials for new teachers. According to CTC, the credentialing workload has been further reduced to 25,000 for pending paper applications. This reflects a reduction of approximately 32 percent in pending workload.

The CTC has made great strides to utilize technology to improve processing times and include the following activities:

- As of January 1, 2007, credential renewals must be processed on-line and will be processed within 10 working days.
- As of February 2007, the Institutions of Higher Education process all recommendations on-line and the process is fully automated.
- In addition, the CTC is working with school districts and county offices of education to automate the 30-day substitutes, which make up approximately 22 percent of the CTC workload annually.

Healthy Fund Balances Estimated. The Governor's budget projects positive, healthy fund balances for CTC's two special funds in 2007-08. The budget estimates that the fund balance for the Teacher Credentials Fund will total nearly \$5 million in 2007-08, assuming seven percent growth from 2006-07. The CTC will continue to monitor the estimates and will update the projections as necessary. The budget also estimates that the fund balance for the Test Development and Administration Account will total \$3 million in 2007-08.

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. The credential fees have been adjusted over the last several years based on credential volume and resources in the fund. As of February 2007, the Commission is projecting a 7 percent growth in 2006-07 and a conservative zero percent growth in 2007-08. Based on the most current fund condition statements this leaves a healthy reserve in the fund in the event of minor changes. There are a couple of factors that have lead to the current status of the funds, including:
 - In 2005-06 there was a one-time General Fund transfer of \$2,155,000 to the fund as a result of the projected fund balance.
 - In 2005-06, given the uncertainty of the department, several expenditures were suspended.
 - Revenues in 2006-07 have increased as a result of the statewide efforts to recruit individuals into the teaching profession.
 - In 2007-08, the Administration changed the methodology for capturing the costs associated with pro-rata and as a result reduced the expenditure authority by \$695,000.

- 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 has adjusted the exam fees as necessary to ensure the Commission's costs were supported. In February 2007, per Education Code section 44235.1, the Commission took action to reduce exam fees to candidates as a result of the award of a new contract for 2007-08. In the previous contracts there were costs associated with the development and administration for each examination. Under the new contract, for administration only of the CBEST, RICA and CSET, the Commission was able to ensure current expenses were supported as well as realize a savings for the teacher candidates. As a result, the RICA written exam was reduced by \$10.00, RICA video \$102.00, and CSET by \$12.00. There are a couple of factors that have lead to the current status of the funds, including:
 - In 2005-06 there was a one-time General Fund transfer of \$545,000 to the fund as a result of the projected fund balance.
 - In 2005-06, given the uncertainty of the department, several expenditures were suspended.
 - In 2007-08, the Administration changed the methodology for capturing the costs associated with pro-rata and as a result reduced the expenditure authority by \$832,000.

- In addition, the projected revenues for 2007-08 have increased as a result of the most recent contract award associated with the administration only of the CBEST, RICA, and CSET.

Budget Year Adjustments:

Reduction in Pro-Rata Charges to CTC. The Governor's Budget reflects changes in CTC's portion of the state administration, General Fund recovery adjustment, known as state agency pro-rata charges. This change, which is being applied to agencies statewide, reduces expenses for CTC by **\$1.5 million** in 2007-08.

Governor's 2007-08 Budget Proposals:

ISSUE 1. Continue Efforts/Progress in Reducing Credential Processing Time. The Governor proposes to continue position authority provided in the 2006-07 budget to reduce credential processing time and backlogs. Specifically, the 2006-07 budget converted four high level positions in the Professional Services Division into seven technical positions in the Certification, Assignment and Waivers Division for this purpose. The Governor proposes to continue this authority for one additional year – until June 30, 2008. The Governor notes that while “significant” progress has been made in 2006-07, it is “critical” that efforts continue until the backlog is eliminated and processing time is below the 75-day standard.¹

The Governor also proposes to continue language requiring the CTC to 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 include information on the size of the current backlog as well as updated estimates as to when the backlog will be fully eliminated.

COMMENTS: The CTC has made substantial progress in reducing its backlog of credential applications and remains committed to further reduction and elimination of this backlog in 2007-08. This effort will require continued staffing in 2007-08, as proposed by the Governor.

ISSUE 2. New Teacher Recruitment and Preparation Program. The Governor proposes to provide **\$10 million** in one-time Proposition 98 funds to create the EnCorps Teacher program in 2007-08. This program is intended to add 2,000 experienced retirees to the teaching corps, particularly retirees with subject matter knowledge in several shortage fields -- math, science, and career-technical education. The program is proposed as a public-private partnership between local education agencies and private business and industry. Once recruited by the EnCorps program, retirees would be prepared for teaching through CTC's Intern Program, which provides internship grants to Institutions of Higher Education, school districts, and county offices of education. It is unclear how business and industry would participate in EnCorps. According to the Administration, there is some potential for business and industry to continue the salaries of EnCorps participants during their internship. Funding for this program would be available for a two-year period commencing in 2007-08.

¹ The Governor's Budget summary indicates that during 2006-07 the “credentialing backlog” has been reduced from 77,000 to 44,000 applications and reduced average processing time below the regulatory time limit of 75 days for both credential renewals and university recommended credentials for new teachers. According to CTC, the credentialing backlog has been further reduced to 25,000 applications.

COMMENTS: The 2006-07 budget provides \$31.7 million in Proposition 98 funding to CTC for the Intern Program, which currently provides funding for approximately 8,000 interns annually. The Governor proposes to expand this program on a one-time basis to address particular teacher shortages in math, science, and career-technical education.

ISSUE 3. Increased Support for CTC Credentialing Reforms. The Governor's April 1st Letter proposes **\$113,000 and 1.0 limited-term position** to support review and revision of the Special Education Credential, the Reading and Language Arts Specialist Credential, the Reading Certificated and Designated Subjects Credential for Career and Vocational Education, and the revision of the standards related to intern and inductions programs.

The Governor is also proposing legislation – SB 52 (Scott) -- directing the CTC to streamline the credentialing process for career-technical education teachers. These efforts are intended to address 175 different credentials for career technical education teachers reflecting industries and trades in California. The Governor proposes that, by September 30, 2007, the CTC establish a more streamlined list of credentials utilizing the 15 industry sectors included in California's new curriculum standards for career-technical education.

COMMENTS: The 2006-07 budget act provided one-time federal funds to support the evaluation of the Special Education Credential and the revision of standards related to teacher intern and induction programs. The continued resources for these activities will support work toward the revision of special education standards and the revision of teacher intern and induction standards as identified in SB 1209.

ISSUE 4. Increased Support for CTC Accreditation Reforms for Teacher Preparation Programs. The Governor's April 1st Letter proposes **\$227,000 and 2.0 permanent positions** to support implementation of CTC's revised accreditation system for teacher preparation programs.

COMMENTS: Over the last two years, the CTC has been in the process of evaluating an outdated accreditation process for teacher preparation programs. The accreditation workgroup recommended to the Commission a model that was data driven and ensures accountability. This model was adopted by the Commission in September 2006. The CTC is currently working on the implementation plan to ensure the new model will be ready in 2007-08. Once implemented, the accreditation model will generate additional workload that is addressed by these positions.

ISSUE 5. Continue Support for Teacher Data System Development. The Governor's budget provides \$1.1 million in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2007-08. Of this total, the Governor provides **\$248,000 for 2.5 limited-term positions and other expenses to CTC** and \$894,000 for one limited-term position and other expenses to the California Department of Education (CDE) for development of CALTIDES. The 2006-07 budget provided a total of \$938,000 in one-time federal Title II funds for this purpose -- \$252,000 for CTC and \$686,000 for CDE.

COMMENTS: Title II funds are appropriated in the CDE budget and appear as a reimbursement to the CTC budget.

ISSUE 6. Continue Support for the Teacher Performance Assessment. The Governor's Budget provides **\$237,000 for 2.0 positions** and other expenses to support development and implementation administration of the Teacher Performance Assessment pursuant to SB 1209.

COMMENTS: SB 1209 requires development and implementation of the Teacher Performance Assessment by July 1, 2008.

CTC STAFF RECOMMENDATIONS: When the Subcommittee takes action on the CTC budget, *staff recommends* the Subcommittee reject the Governor's proposal to use \$10 million in one-time Proposition 98 funds in for a new EnCorps program, given limited new Proposition 98 funds in 2007-08.

Staff further recommends that the Subcommittee approve all of the other Governor's proposals for CTC, including the two April Letter requests, when it takes action on the CTC budget.

Commission on Teacher Credentialing

ISSUE 6. Supplemental Budget Report Language -- Legislative Working Group on Teacher Credential and Accreditation Reform

Description: The LAO will provide an overview of the Report of the Legislative Working Group on Teacher Credential and Accreditation Reform (March 2007) as required by Supplemental Report Language of the 2006 Budget Act.

Background: The *Supplemental Report of the 2006 Budget Act* required the Assembly Education Committee and Senate Education Committee to convene a working group to undertake major teacher credential and accreditation reform.

The language required the reforms to include:

- (a) Significantly simplifying credential requirements, devolving credentialing responsibility to institutions of higher education and county offices of education, and eliminating any redundancies associated with credential reviews and fingerprinting;
- (b) Significantly simplifying the state's existing accreditation system by shifting from periodic, input-oriented reviews to annual reviews of measurable performance outcomes; and
- (c) Considering various governance options for administering the teacher credentialing process.

Pursuant to the Supplemental Report Language, the working group included staff representatives from the Senate Education Committee, Assembly Education Committee, Senate Budget Committee, Assembly Budget Committee, the Legislative Analyst's Office, the Office of the Secretary for Education, the Department of Finance, the Commission on Teacher Credentialing, and the Department of Education. The working group met on January 4, 2007, to discuss the issues outlined above.

ISSUES & RECOMMENDATIONS: The following is a summary of each of the issues addressed by the working group and resulting recommendations:

Issue 1: Significantly simplifying credential requirements, devolving credentialing responsibility to institutions of higher education and county offices of education, and eliminating any redundancies associated with credential reviews and fingerprinting.

- *Significantly simplifying credential requirements.*

Recommendation: The Legislature should ask the CTC to conduct a survey of districts regarding the use of supplemental authorizations. The survey should ask whether or not there is a desire among districts for these authorizations and should include questions about the purpose of the authorizations, how districts use them, and whether districts find the authorizations helpful or constraining. The survey should also seek advice on the feasibility of consolidating the 63 supplemental authorizations into broader categories.

The Legislature should also ask the CTC to look into the feasibility of limiting supplemental authorizations to the 13 single subject credential authorizations listed in Education Code 44257 and limiting subject matter authorizations to the 10 core subjects listed in Section 9101 of Title IX of ESEA (English, reading/language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography).

The Legislature should require the CTC to report to the Legislature by April 1, 2008 on the results of the survey and on recommended changes to: 1) supplementary/subject matter authorizations; 2) career technical education credentials; 3) adult education credentials; and 4) special education credentials.

The Legislature should also continue to monitor recently enacted legislation, specifically SB 1209 and SB 2042 to see if the legislation has been implemented as intended.

- *Devolving credentialing responsibility to institutions of higher education (IHE) and county offices of education.*

Recommendation: Although the Commission has made progress in reducing credential processing times, the Legislature may want to consider making changes to statute that would ensure credential processing is timely and efficient. The Legislature should, in consultation with the CTC, IHEs and school districts, determine a reasonable timeline for credential processing and establish that timeline in statute. This timeline should also include a deadline for IHEs to submit credential information to CTC. Once this timeline is in statute, the Legislature could amend statute to shorten the term of the Temporary County Certificate to six months or less.

If instead, the Legislature wishes to devolve credentialing responsibilities to IHEs or COEs, the Legislature should first consult with both groups, school districts and other interested stakeholders on the feasibility of this option.

- *Eliminating any redundancies associated with credential reviews and fingerprinting.*

Recommendation: The criminal background review of the credential application process does include redundancies that result in additional costs. However, it appears that these redundancies provide certain protections to both pupils and credential candidates that may be important to preserve. Should the Legislature seek to devolve credentialing and criminal background responsibilities to counties, it may require changes to various sections of the education and penal codes to ensure adequate protection of school children and due process for candidates and teachers who apply for credentials.

Issue 2: Significantly simplifying the state's existing accreditation system by shifting from periodic, input-oriented reviews to annual reviews of measurable performance outcomes.

Recommendation: The Commission's actions appear to be in line with the recommendations of the LAO. Staff recommends that the Legislature monitor the Commission's implementation of the new system and ask the Commission to report on the implementation and accreditation activities prior to the 2009-10 fiscal year.

The Legislature may wish to consider amending existing statute to require that accreditation of educator preparation programs be based, in part, on program and candidate data collected by programs and reported to the Commission.

Issue 3: Considering various governance options for administering the teacher credentialing process. *Should educator licensing be a function of the State Board of Education?*

Recommendation: The working group did not have a final recommendation with regard to shifting responsibilities from an independent and autonomous board to a subcommittee of the State Board of Education or any other governance models. While shifting some of the Commission's workload to the State Board of Education could potentially lead to better coordination between K-12 policy and educator preparation, it could also dilute focus on educator-specific issues due to the competing demands of the State Board's portfolio.

Given the complexity of a shift in the governance structure, the Legislature should continue to monitor the progress of the Commission as it addresses some of the operational concerns previously mentioned in this report. Should financial, processing, or other problems persist, the Legislature can revisit the governance issue in 2007-08.

Comments: Copies of the full working group report are available on the Assembly Education website.

Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education



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

April 17, 2007
1:30 pm – Room 113

- I. California State University (Item 6610)
 - A. Charles B. Reed, Chancellor, California State University
 - B. Overview of Governor's Budget (Office of the Legislative Analyst)
 - C. General Support Increases
 - D. Status of Employee Compensation Issues
 - E. Student Fees
 - F. Student Enrollment Growth:
 - 1. *Status of Current Year Enrollment Levels*
 - 2. *Enrollment Growth Projections for 2007-08*
 - G. Math and Science Teacher Initiative
- II. California State Library (Item 6120)
 - A. Integrated Library System Replacement Project
 - B. Public Library Foundation
- III. California Student Aid Commission (Item 7980)
 - A. Assumption Program of Loans for Education (APLE)
 - B. State Nursing – Assumption Program of Loans for Education
 - C. State Facilities – Nursing Assumption Program of Loans for Education
 - D. Public Interest Attorney Loan Repayment Program
 - E. EdFUND Operational and Fiscal Issues:
 - 1. *Status of Student Aid Commission/EdFUND Operating Agreement*
 - 2. *Status of Pending Federal Changes Impacting EdFUND*
 - a) *Status of California Voluntary Flexible Agreements (VFAs)*
 - b) *Defaulted Loan Collection Activities*
 - c) *Assessment of a Default Fee on Student Loans*
- IV. California Postsecondary Education Commission (Item 6420)
 - A. Prioritization of CPEC Responsibilities
 - B. Development of a new Faculty Compensation Methodology
- V. Proposed Consent

I. CALIFORNIA STATE UNIVERSITY (Item 6610)

B. Overview of Governor's Budget

Governor's 2007-08 CSU Budget Proposal				
<i>(Dollars in Millions)</i>				
	2006-07 Budgeted	2007-08 Proposed	Change	
			Amount	Percent Change
CSU				
General Fund	\$2,811.4	\$2,976.3	\$164.9	5.9%
Fee revenue	1,243.4	1,366.4	123.0	9.9
<i>Subtotals</i>	<i>(\$4,054.8)</i>	<i>(\$4,342.7)</i>	<i>(\$287.9)</i>	<i>(7.1%)</i>
All other funds	\$2,631.9	\$2,433.2	-\$198.7	-7.5%
Totals	\$6,686.7	\$6,775.9	\$89.2	1.3%

C. General Support Increases. Pursuant to the *Compact*, the Governor's proposal provides a four percent or \$108.9 million base budget increase for CSU. Through the current year, the *Compact* called for a three percent base budget increase; the additional one percent "bump" becomes effective under the terms of the *Compact* beginning in 2007-08.

Under the assumption that this base budget increase should be designed as a cost-of-living-adjustment (COLA), the LAO is recommending that the Legislature instead fund a base budget increase of 2.4 percent or \$65.3 million, which reflects the estimated rate of inflation. According to the LAO, \$65.3 million should be sufficient for CSU to cover the increased operations costs for the coming year.

Staff notes that the \$43.6 million which makes up the difference between the Governor's Budget proposal and the LAO's recommendation is targeted by the CSU for employee compensation. These funds are traditionally pooled for faculty and staff COLA, merit, benefit, and equity increases and then distributed pursuant to collective bargaining or other compensation agreements.

Staff recommends that this issue be held open pending the Governor's May Revision and a better assessment of the condition of the state General Fund.

D. Status of Employee Compensation Issues. On April 3, 2007, the California State University reached a tentative agreement with its faculty union (the California Faculty Association) on a four-year employment contract. This agreement was reached after 22 months of negotiations, during which time the current contract was extended several times. This tentative agreement must still be

ratified by the membership of the California Faculty Association, followed by approval of the CSU Board of Trustees.

While the parameters of the negotiated contract have been reported, the final ramifications of the agreement on CSU's budget and a determination of whether or not the CSU will seek additional funds from the state are still being considered. Following is a brief summary of the tentative contract:

- 20.7 percent increase in General Salary Increases over the term (four years) of the contract;
- One percent step increase in each year of the contract; approximately one-third of faculty members are eligible annually for such increases;
- Combined, this equates to an increase for faculty of 3.98 percent in the first year (2006-07); 6.50 percent in the second year; 6.97 percent in the third year; and 7.50 percent in the final year
- \$28 million to be set-aside to provide for two new merit-based pay programs aimed at both junior- and senior-level faculty;
- An additional one percent increase in each of the last three years of the contract, contingent upon additional funding provided for this purpose in the Budget Act.

Three other union/collective bargaining groups (CSU-EU; Academic Professionals; and Skilled Crafts) have contract that contain "double-joining" language which calls for additional salary increases contingent upon CSU negotiating an agreement with the California Faculty Association. As a result, each of these three groups will also receive an additional one percent increase.

CSU has indicated that, in the current year, the combined cost of the above contract provisions will be approximately \$10.6 million more (on an ongoing basis) than CSU has budgeted for compensation. As such, the CSU system intends to absorb this increased cost (on a one-time basis) by requiring campuses to redirect funds from other programs. In future years, that \$10 million cost grows: to \$41 million in 2007-08 and 2008-09, and to \$45 million in 2009-10. It remains unclear if CSU will seek additional state resources, above the amount proposed by the *Compact*, to cover these costs.

E. Student Fees.

1. 2007-08 Proposal. Consistent with his *Compact*, the Governor increases fees at both the UC and CSU. For CSU, fees are proposed to increase by ten percent for undergraduate, graduate, and teacher credentialing students. Recent actions by the CSU Trustees approved these fee increases, but allow them to be rescinded should the Legislature and the Governor elect to "buy out" the increases with an augmentation of General Fund monies. This fee increase will produce revenues of approximately \$97.8 million dollars. Of this amount, CSU intends to return approximately 33% or \$32.6 million to financial aid programs in order to offset the impact of the fee increase on low-income students that were not otherwise eligible for a Cal Grant, and to the extent that funds are available, middle income students (depending on their individual financial circumstances.) The net result is approximately \$65.2 million in new revenue to the CSU system.

Background on 2007-08 Fee Increases. Instead of initially proposing fee increases in their November 2006 budget documentation (as is the tradition), the CSU Trustees proposed a system budget that contained a set of revenue and resource assumptions. They stated that those revenues – equating to roughly \$65.2 million – could come from either the State General Fund (in the form of a student fee "buy out") or from a Student Fee Increase. This was a change from past practice in that it placed the burden of actually imposing a fee increase on the Governor, in that the determination would ultimately be made by whether or not he provided \$65.2 million in additional General Fund in his January budget proposal.

2. General Student Fee Background. In 2004-05, the Governor proposed his own long-term student fee policy. 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.

In 2006-07, *contrary to his Compact*, which called for UC and CSU to increase fees by eight percent for undergraduates and ten percent for graduate students, the Governor and the Legislature "bought out" those fee increases by providing \$54.4 million General Fund 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 a ten percent increase 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 CSU remain below those of their comparison institutions (including, Rutgers University, University of Maryland, State University of New York, and Arizona State University, among others). Comparison school fees averaged \$6,655 in **2006-07**, which is \$3,204 more than the amount proposed for CSU resident undergraduates in **2007-08**. For graduate students, fee levels at CSU continue to be significantly lower than at its comparison institutions, by over \$4,700 annually.

As discussed earlier, the Governor proposes to increase student fees by ten percent which equates to a level of \$3,451 for undergraduate students and \$4,093 for Graduate students. Nonresident tuition for out-of-state students is proposed to remain constant at \$10,170 (this amount is paid in addition to the fee levels noted above.)

The chart on the following page offers a recent history of fee levels at the CSU:

California State University Student Fees				
	<u>Undergraduate</u>		<u>Graduate</u>	
	Resident	Nonresident	Resident	Nonresident
1994-95	\$1,584	\$8,964	\$1,584	\$8,964
1995-96	1,584	8,964	1,584	8,964
1996-97	1,584	8,964	1,584	8,964
1997-98	1,584	8,964	1,584	8,964
1998-99	1,506	8,886	1,584	8,964
1999-00	1,428	8,808	1,506	8,886
2000-01	1,428	8,808	1,506	8,886
2001-02	1,428	8,808	1,506	8,886
2002-03	1,428	9,888	1,506	9,966
2002-03	1,573	10,033	1,734	10,194
(fees increased mid-year)				
2003-04	2,572	11,032	2,782	11,242
2004-05	2,916	13,086	3,402	13,572
2005-06	3,164	13,334	3,746	13,916
2006-07	3,199	13,334	3,781	13,951
2007-08	3,451	13,334	4,093	14,263

Note: Actual fees may vary by campus depending on the particular level of campus-based fees.

The LAO raises a variety of issues related to how student fee levels are established. The LAO and the CSU approach budgeting from two different perspectives. Using an overly simplified explanation, CSU first determines the total resources it will need to operate in any given fiscal year, and then delineates the portion of the revenue which will be derived from the *Compact* versus the portion to come from student fees (or conversely the "buying out" of student fees). The end result is that CSU has driven the Legislature to formulate a statewide expenditure plan that, assuming the Legislature abides by the provisions of the *Compact* and either increases fees or provides a like amount of General fund, fully meets CSU's financial needs, as defined by the CSU. The Legislature has traditionally agreed with this budgeting technique, believing that CSU is best able to determine the resource needs of its campuses.

The LAO takes a different approach. Instead of "buying into" CSU's definition of its resource needs, the LAO believes that the Legislature should define the amount of resources CSU needs to operate, as well as the percentage of those resources that should be derived from student fees. Under the LAO's approach, the Legislature would appropriate an amount that, when coupled with the anticipated fee revenues, would be sufficient to cover inflationary adjustments, and thus expect that CSU operate within those resources.

To meet this end, the LAO is recommending that the committee reject the Governor's proposed fee increase and instead adopt a more modest increase of 2.4 percent. This 2.4 percent increase is linked to the rate of inflation experienced by the CSU and would ensure that students continue paying the same "share" of their educational costs in 2007-08 as they are currently paying. Further, the LAO is recommending that the Legislature **NOT** provide a "backfill" for the remaining amount of the Governor's proposed fee increase, believing instead that CSU should be able to operate with the approximate \$65.2 million in revenue that would be generated by a 2.4 percent fee increase.

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

F. Student Enrollment Growth.

1. Status of Current Year Enrollment Levels.

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

In the current year, CSU enrollment target is 334,198 full-time equivalent students (FTES). This FTES target represents the number of students that CSU received enrollment growth funding for in the current year. At present, CSU estimates that, system-wide, it will be "over-enrolled" by approximately 6,095 FTES. While these "over-enrolled" students pay fees, and thus provide the university with fee revenue, CSU receives no additional state enrollment funding for these students.

CSU will likely comment that they tend to over-enroll students in order to accept all eligible students; however, staff would note that, campuses do have options to limit enrollments, while still "accepting all eligible students." One such option is to impose, and adhere to, application deadlines.

2. Enrollment Growth Projections for 2007-08.

Pursuant to the *Compact*, the Governor's Budget proposes to fund enrollment growth equivalent to 2.5 percent. At CSU, this 2.5 percent increase equates to 8,355 FTES and an augmentation of \$65.5 million.

As part of its *Analysis of the 2007-08 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. Further supporting the LAO's assertion is the Department of Finance Demographics

Unit, which predicts that CSU's enrollments will grow by approximately 1.2 percent in 2007-08.

CSU contends that 2.5 percent enrollment growth is: (1) consistent with the growth targets outlined as part of the Administration's "*Compact*"; (2) the minimum amount needed to continue admitting all eligible students (both first-time freshman and transfer students); and (3) necessary to get the system "back on track" after several years of managing enrollments downward. However, CSU has expressed concerns that, given the level of "over-enrollment" in the current year (72% above the levels budgeted), even the 2.5 percent growth proposed by the Governor may not be sufficient to meet their increased enrollment trends.

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.

G. Governor's Math/Science Initiative. As part of the 2005-06 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 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.

Included in the 2006-07 Budget, is \$1.1 million for UC to fully-fund their campus-based resource centers and \$1.4 million CSU. In the current year, CSU intends to use the additional current year 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.

Governor's 2007-08 Proposal. The Governor continues providing \$1.1 million to UC for this program, but increases funding for CSU by \$2.0 million to a total of \$2.713 million. CSU indicates that they intend to use the \$2 million increase to: (1) continue and expand the multiple math and science teaching credential pathways; (2) establish three regional centers to allow for multi-campus collaboration for recruitment activities; and (3) promote teaching "academies", summer teacher recruitment programs, online training programs and community college bridge programs.

Neither the LAO nor staff raised concerns with the funding provided to UC, however at the time of its *Analysis of the Budget Bill*, the LAO withheld recommendation on the \$2 million augmentation to CSU, pending receipt of a progress report on CSU's implementation of the Math and Science Initiative.

CSU recently submitted a report on the progress of the Initiative; however, neither staff nor the LAO have had time to review the documents. As such, staff recommends that funding for this project be held open, pending the Governor's May Revision, to allow both staff and the LAO sufficient time to review the report.

II. CALIFORNIA STATE LIBRARY (Item 6120)

Governor's 2007-08 Budget Proposal				
California State Library (General Fund)				
<i>(Dollars in Thousands)</i>				
	Revised	Proposed	Change	
	2006-07	2007-08	Amount	Percent
State Operations				
Support/operating budget	\$11,100	\$11,961	861	7.8%
Lease-revenue bonds	2,454	2,348	-106	-4.3%
Repairs for Sutro Library	17	17	0	0%
<i>Subtotals</i>	<u>\$13,571</u>	<u>\$14,326</u>	<u>\$755</u>	<u>5.6%</u>
Local Assistance				
CA Civil Liberties Public Education Prog.	\$500	\$500	0	0%
California Newspaper Project	240	240	0	0%
California Library Services Act	21,342	21,342	0	0%
CA English Acquisition & Literacy Prog.	5,064	5,064	0	0%
Public Library Foundation	21,360	21,308	-52.0	0%
<i>Subtotals</i>	<u>48,506</u>	<u>48,454</u>	<u>-\$52.0</u>	<u>0.1%</u>
Totals	\$62,077	\$62,780	703.0	1.1%

The Governor's Budget proposes a total of \$89.9 million for the California State Library's operations and the various local assistance programs. Of that amount, \$62.8 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: (1) administers and promotes literacy outreach programs; (2) develops technological systems to improve resource sharing and enhance access to information; and (3) administers the Public Library Foundation, which, via a statutory formula, distributes state funding to support basic services at local libraries.

A. Integrated Library System Replacement Project. The Governor's Budget shifts \$52,000 in funding from the Public Library Foundation to the State Library's operational budget to fund the first year of a three-year information technology project.

According to the State Library, the Integrated Library System Replacement Project is necessary to keep the State's library records automated in the face of the vendor's phase-out of the current information technology system. The current system has been in operation since 1989 and while it has served the State Library well, the vendor who designed and supports the system will cease upgrading it or providing any maintenance or support.

The total cost for the project is \$2.5 million; however, the State Library intends to redirect approximately \$937,000, leaving the balance of the project to be funded with additional state resources. The \$52,000 "provided" for this project represents the additional costs to the state in year one; costs in year two – at which time the state will actually procure the new system – escalate to \$1.4 million; in year three, the project would require an additional \$135,000. On an ongoing basis, the State Library will need an additional \$250,000 annually to maintain the new system.

Library advocates have raised concerns with the redirection of funds for this project from the Public Library Foundation (PLF) – which provides money to local libraries. DOF believes that since local libraries will have public access to the State Library's catalog, it is appropriate for the PLF to fund (at least) the first year of the project's costs.

Staff notes that while \$52,000 represents less than 0.2% of the total amount appropriated to the PLF, the essence of the project is to catalog and maintain State of California library holdings, for state purposes. While the public will indeed have access to these records, funding for the project appears to be more appropriately borne by the state, and not redirected from funding allocated to local libraries. Furthermore, it remains unclear if out-year costs (\$1.4 million in 2008-09 and ongoing operational costs beginning in 2009-10) would also be funded out of the PLF.

Staff recommends that the committee: (1) Approve the Integrated Library System Replacement Project; (2) reject the Governor's budget proposal to shift funds from the PLF to cover the costs; and instead (3) augment the State Library's State Operations budget by \$52,000 to cover the first-year costs of the project.

B. Public Library Foundation. The Governor's Budget proposes to *reduce*, by \$52,000, the amount of funding available for the Public Library Foundation (PLF), bringing total funding in 2007-08 to \$21.3 million. This program provides core operational assistance to local libraries and is used to support library staffing; maintain hours of operation; develop and expand library-based programs such as after-school reading programs and homework assistance centers; and purchase books and materials. The Governor's proposal redirects \$52,000 from the PLF to fund the Integrated Library System, as discussed above.

At its peak (in 2000-01) the state appropriated \$56.9 million to the Public Library Foundation. Since then, local libraries had experienced a rapid decline in support for the program, equating to an approximate 75 percent reduction over six years. The Legislature and the Governor took action to halt these reductions by providing a \$7 million augmentation in the current year budget, bringing the total appropriation level to \$21.4 million.

Staff recommends that \$52,000 be shifted back to the PLF (pursuant to the above-noted recommendation), and that the remainder of the item be held open pending the May Revision.

III. CALIFORNIA STUDENT AID COMMISSION (Item 7980)

The Governor's 2007-08 Budget proposes a total of \$1.7 billion in expenditures from all funding sources (\$891.6 million General Fund) for the California Student Aid Commission. This proposal reflects a \$64.1 million or a 3.9 percent increase above estimated current-year expenditures.

Figure 1				
Student Aid Commission				
Budget Summary^a				
<i>(Dollars in Millions)</i>				
	2006-07	2007-08		
	Revised	Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant programs				
Entitlement	\$666.5	\$725.6	\$59.1	8.9%
Competitive	114.2	117.3	3.1	2.7%
Pre-Entitlement	1.4	0.2	-1.2	-86.7%
Cal Grant C	8.9	9.2	0.3	3.4%
<i>Subtotals—Cal Grant</i>	<i>\$791.0</i>	<i>\$852.3</i>	<i>\$61.3</i>	<i>7.8%</i>
APLE ^b	\$46.3	\$49.3	\$2.9	6.3%
Graduate APLE	0.4	0.4	—	—
National Guard APLE	—	0.2	0.2	N/A
Law enforcement scholarships	0.1	0.1	—	—
Totals	\$837.8	\$902.3	\$64.5	7.7%
Funding Sources				
General Fund	\$827.2	\$891.6	\$64.4	7.8%
Federal Trust Fund	10.7	10.7	—	—
^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.				

Specifically, the Governor's Budget proposes an increase of \$61.3 million (7.8 percent) over the current year expenditures for the Cal Grant Program. Following are the increases to the Cal Grant Program as proposed by the Governor: (1) an increase in the total number of Cal Grants entitlement awards available (by 1,784 for a total of 255,235 new and renewal grants) based on new estimates of eligible high school graduates, transfer students and renewal applicants (\$32.6 million); and (2) an increase in the maximum Cal Grant award level for students attending UC and CSU to cover the

costs associated with the proposed fee increases (\$28.7 million). The maximum award level for students attending private colleges is proposed to remain unchanged.

Other adjustments to the Student Aid Commission's budget include a \$2.9 million increase in the funding available for the Assumption Program of Loans for Education Program (APLE). This funding adjustment is needed to cover the loan-forgiveness costs associated with previously-issued warrants. In addition, the Governor proposes to issue 8,000 new APLE warrants in 2007-08, 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 (as discussed later in this agenda.)

In addition, the Administration's budget proposal continues the National Guard APLE program, pending an extension of the program's sunset date. This program offers loan forgiveness to individuals who enlist or re-enlist in the National Guard, State Military Reserve and/or Naval Militia.

A. Assumption Program of Loans for Education (APLE). The Governor's budget authorizes 8,000 new APLE loan assumption warrants (an increase of 600 from the current year); however, the Governor proposes allocating the 600 new warrants directly to the UC and CSU to award exclusively to students participating in their Math and Science Teacher Initiative.

This proposal represents the third time, in as many years, that the Legislature has examined this proposal – each time rejecting it. Instead, this committee has taken several alternative actions. For the 2005-06 Budget, the Legislature denied the Governor's proposal 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 conform to current statute (which already grants priority for teachers in these specialty areas) and meet the need for more math and science teachers *within* the confines of the *current* APLE program, rather than 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.

When hearing the 2006-07 Governor's Budget, the committee again denied the same proposal. This time, the Legislature simply rejected the proposal but retained the number of authorized APLE warrants at 8,000. The Governor vetoed the number of awards down to 7,400 and "set-aside" the 600 warrants specifying that they be allocated to UC and CSU pursuant to Legislation – Legislation which was never enacted.

The concerns raised by staff and the LAO for the past two years, remain unchanged. 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 have expressed concern that a set-aside of awards will only create confusion for students and administrators and further restrict an already underutilized program. 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 crucial to recruiting UC and CSU 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.

Both DOF and the LAO note that the APLE program is underutilized. According to the LAO, approximately 10 percent of APLE warrants go unused. DOF cites this underutilization as a reason to support the set-aside of 600 warrants for UC and CSU's Math and Science Teacher Initiative, believing that the warrants will not encroach on the existing program. The LAO, on the other hand, argues that the underutilization presents yet another reason NOT to support the proposal: seeing no point in further restricting a program that already has more slots than participants.

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

- B. State Nursing - Assumption Program of Loans for Education (SNAPLE).** Initially established in statute via the 2005-06 Budget Trailer bill, the SNAPLE program is designed 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.

In 2005-06, the Legislature originally authorized the issuance of 100 new loan assumption warrants, and \$100,000 and one position, to administer the program to administer a new APLE program aimed at recruiting individuals into nursing education. Those warrants went unused due to a delay in getting the program implemented.

In 2006-07, the Governor failed to include continued authority for new loan assumption warrants, despite legislative intent that the program be ongoing. In response, the Legislature authorized the Student Aid Commission to issue 100 loan assumption warrants for the program in the current year.

For 2007-08, the Governor's Budget, once again, includes language requiring the Student Aid Commission to issue a report on the SNAPLE program by April 1, 2008, but fails to provide authority for the Commission to issue new SNAPLE loan assumption warrants. This is the same proposal submitted by the Governor last year.

In the past, DOF indicated 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 several factors.) DOF now contends that it wants to ensure that current year loan assumption authority is utilized prior to "authorizing" the issuance of any additional warrants.

According to the Student Aid Commission, the SNAPLE program has indeed had a slow start. The Commission is in the process of promulgating regulations through the Office of Administrative Law, and intends to issue at least a portion of the 100 authorized warrants in the current year. Given that these warrants were authorized for the 2006-07 fiscal year, the authority

will simply expire as of June 30, 2007, if the Legislature does not explicitly authorize additional warrants for 2007-08.

Staff recommends that the Legislature continue the program into 2007-08 by authorizing the issuance of 100 new SNAPLE loan assumption warrants in the Budget Act.

C. State Facilities – Nursing Loan Assumption Program (SNAPLE-SF). Established in statute in 2006, the SNAPLE-SF program provides up to \$20,000 in loan assumption benefits (\$5,000 per year for four years) as an incentive for registered nurses to work in 24-hour state facilities, including prisons, mental hospitals, and veteran's homes.

Senate Bill 139 (Scott), which is currently making its way through the legislative process, would clarify that the SNAPLE-SF program applies to new employees, not existing employees.

In the current year, the 2006-07 Budget Act authorized the Student Aid Commission to issue 40 loan assumption warrants for this program. The Commission has indicated that they are in process of promulgating regulations for the program and intends to issue the 40 authorized warrants this year.

In 2007-08, the Governor's Budget proposed that no new warrants (above the initial 40) be issued for this program, despite both the ongoing nature of the statute and the ongoing operational support (\$30,000) which was provided in the 2006-07 Budget Act.

Staff recommends that the Legislature continue the program into 2007-08 by authorizing the issuance of an additional 40 new SNAPLE-SF loan assumption warrants in the Budget Act.

D. 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.

Legislation introduced this session (Assembly Bill 171, Beall) would restructure the program to more closely align it with the existing APLE programs and add county counsel offices as an eligible "public interest" area for purposes of loan forgiveness. Related legislation includes Assembly Bill 1267 (Feuer), which would establish a new Civic Service Loan Assumption Program that would pay back student loans incurred by UC and CSU students who enter "civic" service, as defined.

Background. 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 \$23,768 proposed for 2007-08. Faced with increasing debt burdens, many law school graduates have

expressed that they 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, contingent upon the May Revision.

E. EdFUND Operational and Fiscal Issues

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 do not “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 one of several guaranty 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 guaranty marketplace.

In recent years, when EdFUND's Student Loan Operating Fund was flush, the Legislature and the Governor EdFUND dollars to support the continued operations of the Student Aid Commission (\$15.4 million ongoing) as well as to supplant state money in the Cal Grant program (on a one-time basis.)

1. Status of Student Aid Commission/EdFUND Operating Agreement.

The Student Aid Commission’s governing board annually delineates the activities of the commission’s auxiliary organization (EdFund) through a Memorandum of Understanding, also known as their "operating agreement." In recent years, the Legislature has expressed concern with some aspects of the way EdFund has carried out these activities and with CSAC’s oversight of EdFund activities. For example, in 2005, the Legislature held several hearings that identified concerns with the administration of FFELP in the state. In response, the Legislature: (1) directed the LAO to prepare a report that identified various “structural options” for improving access to these loans; and (2) directed the State Auditor to perform an audit of CSAC and EdFund’s administration of FFELP.

The CSAC committed to the Auditor and the Legislature that it would modify its operating agreement with EdFund in response to their concerns. When it became clear that CSAC would not be able to approve a new operating agreement before the existing agreement was set to expire on September 30, 2006, CSAC sought an extension until January 31, 2007. In notifying the Legislature of this extension, CSAC and EdFund assured the Legislature that the

extension would allow sufficient time to develop a new agreement that responds to the Auditor's concerns. In mid-January, CSAC now stated that it would be unable to meet that deadline and sought another extension until June 30, 2007. The Joint Legislative Budget Committee granted CSAC the extension. Again, CSAC assures the Legislature that it will have a new agreement in place before the June 30, 2007 deadline.

Staff recommends that the committee request that the Student Aid Commission and EdFUND provide an update on the status of adopting a new Operating Agreement.

2. *Status of Pending Federal Changes Impacting EdFUND.*

Pending changes to the FFELP, which are made at the federal level, will have a direct impact on EdFUND and its fiscal condition. Many of the proposed changes are pending and any programmatic reductions would not occur until the beginning of the next federal fiscal year. Even under the best-case scenario, the proposals being debated in Congress may result in a fiscal scenario for EdFUND that will call into question its ability to continue subsidizing the ongoing operations of the California Student Aid Commission and its associated programs.

Following is a discussion of three key components that impact the fiscal condition of EdFUND and services to students:

a) Status of California Voluntary Flexible Agreements (VFA)

One of the most crucial fiscal issues uncovered by the Bureau of State Audits (BSA), in an audit conducted of EdFUND in April of 2006, 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.

EdFUND is predicting that, moving forward, no additional revenues will be derived from the VFAs. The President's current budget proposal eliminates the program altogether. However, staff would note that, including California, several other large state guarantors (including Texas, Massachusetts, and Wisconsin) have VFA contracts in place, and eliminating the program would have fiscal ramifications nationwide.

b) Defaulted Loan Collection Activities

Like many state guarantors, the bulk of EdFUND's revenues are derived from recoveries on student loan defaults. Under current law, guarantors are allowed to retain 23 percent of the revenue derived from collections activities. Revenues to guarantors that are derived from repackaging defaulted loans into the newer Consolidation Loans, were reduced by the federal government in October of 2006, allowing EdFUND to keep only 10 percent (where they were previously able to retain 18.5 percent).

Under each of the various federal funding scenarios, including the President's Budget Proposal as well as the competing House of Representatives bill (H.R. 5), the amount of funding that guarantors will be allowed to retain will be reduced – anywhere from 3 percent to 7 percent in the first year (depending on the proposal). H.R. 5 would reduce the collection revenues incrementally, allowing guarantors to keep 20 percent of the revenues in 2007-08 and then reducing that amount to 18 percent in out-years. The President's proposal would reduce revenues immediately; beginning in 2007-08, guarantors would be allowed to retain only 16 percent of collection revenues.

c) 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 been able to waive the fee for student borrowers, thereby "backfilling" the fee revenue with their own resources.

EdFUND, whose financial reserves have declined significantly, was able to waive the fee for borrowers from July 1, 2006 through September 30, 2006 – which was the period of time during which the bulk of the student loan activity occurs. In order to avoid having to assess a one percent fee on students in the future, EdFUND has partnered with 18 student loan lenders in the current year and approximately 13 lenders for 2007-08, who have agreed to pay the fee on behalf of its student clients. This arrangement will allow EdFUND to comply with federal law (and deposit an amount equal to one percent into the Federal Fund) without having to charge borrowers directly.

Staff recommends that the Legislature continue closely monitoring all of these issues in order to keep apprised of the fiscal stability of EdFUND.

IV. CALIFORNIA POSTSECONDARY EDUCATION COMMISSION (Item 6420)

Governor's 2007-08 CPEC Budget Proposal				
<i>(Dollars in Thousands)</i>				
	2006-07 Budgeted	2007-08 Proposed	Change	
			Amount	Percent Change
CPEC				
General Fund	\$2,177	\$2,186	\$9	0.41%
Federal Funds	9,026	9,028	2	0.02
Reimbursements	3	3	--	--
Totals	\$11,206	\$11,217	\$11	0.10%

The Governor's budget proposal for CPEC contains primarily "baseline" adjustments. This budget would normally be placed on the committee's Consent Agenda if not for proposals by the Administration (contained in Budget Bill provisional language) to: (1) prioritize CPEC's various statutory responsibilities, in light of the level of funding they currently receive; and (2) require CPEC to develop options for a new faculty salary comparison methodology.

A. Prioritization of CPEC Responsibilities.

The Governor's Budget proposal includes language delineating the following three priorities as being the highest for CPEC: (1) conducting all reviews and recommendations of the need for new institutions for public higher education; (2) conducting all reviews and recommendations of the need for new programs within the public higher education segments; and (3) making recommendations for a new methodology for assessing the adequacy of the UC and CSU faculty compensation packages and comparing them with compensation at other universities nationwide.

Current statute assigns a number of different responsibilities to CPEC related to the oversight and coordination of higher education activities. In addition to its statutory tasks, CPEC is occasionally asked to perform other duties by the Governor and the Legislature (such as convening workgroups or studying a particular issue). The Commission also initiates its own agenda and activities.

In 2002, the LAO examined CPEC's statutory workload compared with the fiscal resources it had available, and determined that CPEC was unable to effectively carry out a number of its statutory functions. Given that CPEC generally fulfilled its role as a clearinghouse of higher education information, the LAO recommended that the commission maintain its data management functions while additionally focusing on one or two discrete roles.

The LAO agrees that CPEC's functions need to be prioritized and generally concurs with the first two priorities, as proposed. However, the LAO notes the absence of CPEC's data management functions from the list of priorities and recommends that the legislature adopt revised language to reflect its inclusion.

Staff recommends that the committee adopt the LAO's recommendation and revise Provision (1) of Item 6420-001-0001, as follows, to include CPEC's data management functions among the list of high priority activities:

Provisions: 1. To the extent that the funding in this item is not adequate to fulfill all of the Commission's statutory responsibilities, it is the intent of the Legislature that the Commission prioritize its workload to ensure at a minimum that the following statutory responsibilities are completed in a timely manner during the 2007-08 fiscal year:

- (a) All reviews and recommendations of the need for new institutions for the public higher education segments, inclusive of community colleges, pursuant to subdivision (e) of Section 66903.
- (b) All reviews and recommendations of the need for new programs for the public higher education segments, inclusive of community colleges, pursuant to subdivision (f) of Section 66903.
- (c) All data management responsibilities pursuant to Education Code Section 66903, subdivisions (l) and (m), as well as its responsibilities as the designated state educational agency to carry out federal education programs, as called for in Education Code Section 66903(d).

B. Development of a New Faculty Compensation Methodology.

The Governor's Budget includes language directing CPEC to recommend a new methodology that compares *total* faculty compensation at the UC and CSU with other institutions, as well as recommending options for assessing the appropriateness of these compensation levels.

Both staff and the LAO agree with the need to alter the current methodology, primarily because of an unmet need to capture *total* compensation data rather than just salary levels. Instead of approving the language proposed by the Administration, the LAO recommends altering the language and simply requiring CPEC to collect specified pieces of compensation data and then make that data generally available. According to the LAO, even without having data from comparison institutions, information solely from UC and CSU would still give the legislature and the general public a sense of the investments made in California public higher education.

While staff agrees with the need to alter the methodology, this issue (including the data elements to be collected, which institutions information should be collected from, how the information will be utilized, etc), is a complicated policy issue with a minor nexus to the Budget Act itself.

As such, staff recommends that the committee: (1) Delete Provision (1)(c) of Item 6420-001-0001, as follows, and (2) recommend that the Administration place the contents of the Provision into legislation for consideration by the Legislature through the policy committee process:

~~(c) Consistent with the statutory role of the Commission pursuant to subdivision (s) of Section 66903, at determination of options and a recommendation for a new methodology for faculty compensation comparisons for the University of California (UC) and the California State University (CSU) faculty. Considerations for this effort shall address the intent that faculty compensation shall include, but not necessarily be limited to, all forms of employee compensation including regular salary for the academic year, fringe benefits including health, dental, and vision insurance, vehicle use, housing and mortgage assistance, life insurance, opportunities for additional compensation and any other forms of compensation. The new methodology shall also identify options for assessing the appropriateness of UC and CSU compensation levels. These options should include, but not be limited to, comparing UC and CSU compensation with other appropriate university systems or consider comparisons with other public systems separately from options which may include private institutions. For purposes of developing options and recommendations the Commission shall consult with the Legislative Analyst, the Department of Finance, the University of California and the California State University. The Commission shall initiate this effort no later than September 1, 2007, and shall provide a progress report and timeline for completion of the study no later than January 1, 2008. It is intended that a final report of options considered and recommendations be available to the Governor's Office and the Legislature by June 30, 2008. It is intended that the University of California and the California State University provide any and all data in a timely manner as necessary to facilitate this effort.~~

V. PROPOSED CONSENT

Staff recommends that the following items be Approved as Budgeted.

1. Item 6120-011-0001 Support, California State Library. *April 1, 2007 Finance Letter* (Issue 958). Technical Correction to Distributed Administration Schedule.
2. Item 6120-011-0020 State Law Library, California State Library. Payable from State Law Library Special Account. \$580,000
3. Item 6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$7,022,000
4. Item 6120-011-6000 Support, California State Library. Payable from the California Public Library Construction and Renovation Fund. \$2,874,000
5. Item 6120-011-6029 Support, California State Library, California Cultural and Historical Endowment. \$1,817,000
6. Item 6120-012-0001 Support, California State Library, Debt Service. \$2,348,000
7. Item 6120-013-0001 Support, California State Library, Sutro Library Special Repairs. \$17,000
8. 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
9. Item 6120-160-0001 Local Assistance, California State Library, California Newspaper Project. \$240,000
10. Item 6120-211-0001 Local Assistance, California State Library, Library Development Services. \$21,342,000
11. Item 6120-211-0890 Local Assistance, California State Library, Library Development Services. Payable from the Federal Trust Fund. \$12,518,000
12. Item 6120-213-0001 Local Assistance, California State Library, California English Acquisition and Literacy Program. \$5,064,000
13. Item 6120-490 Reappropriation, California State Library, *add item per April 1, 2007 Finance Letter* (Issue 959) to reappropriate expenditure authority for California Cultural and Historical Endowment.

14. Item 6420-001-0890 Support, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$449,000
15. Item 6420-101-0890 Local Assistance, California Postsecondary Education Commission, payable from the Federal Trust Fund. \$8,579,000
16. Item 6610-001-0890 Support, California State University. Federal Trust Fund \$39,500,000
17. Item 6610-002-0001 Assembly, Senate, Executive, and Judicial Fellows Programs; Center for California Studies, California State University. \$3,111,000
18. 6610-003-0001 Support, California State University. Debt Service \$61,883,000
19. 6610-402 Fee Revenue Deposits into Local Trust Funds – General Fund Offset, California State University.
20. 6610-490 Reappropriation, California State University.
21. Item 7980-101-0890 Local Assistance, California Student Aid Commission. \$10,622,000.
22. Item 7980-495 Reversion, California Student Aid Commission.

SUBCOMMITTEE NO. 1 on Education



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

Tuesday, March 20, 2007
1:30 p.m.
Room 113, State Capitol

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ISSUE 1: Microsoft Settlement Agreement – Information Only

DESCRIPTION: In fall of 2006, the Superintendent of Public Instruction announced the availability of more than \$400 million in funding for educational technology for California schools as a result of a settlement agreement between California consumers and Microsoft. The source of these funds for schools is unclaimed settlement funds for California consumers and businesses. The Department of Education will provide an update on the allocation of these settlement funds to schools in California.

BACKGROUND:

Eligible Schools: Public elementary and middle schools where 40 percent or more of the students qualify for free- or reduced-price meals. High schools are eligible if any of their students come from an eligible elementary or middle school.

Types of Funding Available: Funds are allocated in the form of vouchers to schools that can be redeemed for cash with proof of purchases for qualifying products or services. There are two basic types of vouchers:

- General Purpose Vouchers – Fifty percent of the vouchers can be used for a variety of hardware products, (computers, printers, etc.), software products (non-custom) and technology services (training, etc.)
- Specific Category Vouchers – Fifty percent of the vouchers are for specific categories of computer software. Only off-the-shelf products are allowed.

Allocation of Voucher Funds: Voucher amounts for schools are determined based upon October 2005 enrollment counts for each eligible school. The initial allocation of \$250 million provides approximately \$50 per student. This amount will be increased to reflect approximately \$150 million from the second allocation.

Application Timeframe: LEAs were able to start submitting voucher claims on September 25, 2006. The application process for vouchers remains open until June 1, 2008. Vouchers must be redeemed by September 2012.

Requirement for Technology Plans: School districts are required to apply for vouchers on behalf of their eligible schools. All applicant districts must have a current, state-approved technology plan in order to be eligible for funding. State Special Schools, direct funded charter schools, and county offices of education are not required to have a state-approved plan.

COMMENTS: The Microsoft settlement provides substantial resources for technology hardware and software purchases for most schools in the California. While the Legislature has no control over these funds, it is important for the Legislature to be aware of these resources and to understand their effects on technology planning and instructional improvement.

ISSUE 2: Statewide Data Systems -- K-12 High-Speed Network (6110-182-0001)

DESCRIPTION: The Governor provides **\$10.4 million** in Proposition 98 funds for the K-12 High Speed Network in 2007-08. In addition, the Governor authorizes \$4.6 million in E-Rate and California Teleconnect Funds and \$596,000 of unexpended cash reserves for the K-12 Network, bringing total expenditure authority to **\$15.6 million** in 2007-08. The 2006-07 budget provided the same level of funding. However, the Governor does not propose to continue budget control language included in the 2006-07 budget to protect state assets.

BACKGROUND: 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 required 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 funding previously appropriated for development of the K-12 network. Prior to expenditure of these funds, the Joint Legislative Audit

Committee (JLAC) was required to complete an audit of the K-12 network.

2006-07 Budget: The 2006-07 budget authorized \$15.6 million in expenditures for the K-12 High Speed Network in 2006-07 including \$4.0 million in one-time funds from the Proposition 98 Reversion Account, \$4.6 million from E-Rate and Teleconnect Funds, and \$7.0 million in other excess funds and reserves.

The 2006-07 budget also included Budget Control Section 24.55 to implement recommendations from a January 2006 report by the Bureau of State Audits on the California K-12 High Speed Network. The budget control language establishes standards and reporting requirements relating to the audit for K-12 education and public higher education segments. The Governor vetoed specific language from Control Section 24.55 that required any assets purchased primarily with state funds be transferred to the state if CENIC no longer manages the California Research and Education Network (CalREN).

The LAO has developed the following summary of the provisions of Budget Control Section 24.55

2006-07 Budget Act Control Language

Section 24.55 of the *2006-07 Budget Act*, placed the following requirements on the Corporation for Education Network Initiatives in California (CENIC) and the Imperial County of Education:

- Ensure that any interest earned on state monies held by CENIC accrues to the segment providing the excess monies and is used to operate the California Research and Education Network (CalREN) for that segment.
- Create a service level agreement (SLA) for CalREN and the High Speed Network (HSN).
- Establish fee payment schedules that do not require prepayment.
- Submit a report to the Legislature and the Governor by December 1, 2006, with the following:
 - Information on revenues and expenses over \$100,000 in 2005-06.
 - A financial accounting of all primarily state-funded assets for CalREN and HSN.
 - The SLA for CENIC.
 - A list of all prepayments made in 2005-06 and the first quarter of 2006-07 and an explanation of savings resulting from each.
 - Fees charged by CENIC to all private and out-of-state educational institutes using CalREN.
 - Revised budget for 2006-07 for CalREN and the HSN.

Governor's 2007-08 Budget Proposal:

The Governor provides **\$10.4 million** in Proposition 98 funds for the K-12 High Speed Network in 2007-08. In addition the Governor authorizes \$4.6 million in E-Rate and California Teleconnet Funds and \$596,000 of unexpended cash reserves for the K-12 Network, bringing total expenditure authority to **\$15.6 million** in 2007-08. The 2006-07 budget provided the same level of funding.

The Governor does not propose to continue budget control language included in the 2006-07 budget. The Governor vetoed some of this language intended to protect state assets as recommended by the BSA audits. The Governor argues that this language is not needed due to protections added by Chapter 552. However, the provisions vetoed by the Governor are the same provisions that were avoided by Chapter 552.

LAO Findings & Recommendations: The high speed network serving California's K-12 and higher education systems, is now known as the California Education Network (CEN). The LAO notes that the 2005 BSA audit of CEN found that the network was sound, but lacked important contractual and accountability measures. The LAO further notes that actions taken in recent years have improved the transparency, particularly of the K-12 High Speed Network. As presented below, the LAO recommends continued funding for the K-12 High Speed Network. The LAO also recommends legislation to extend accountability measures enacted for the K-12 High Speed Network to the higher education systems.

- **Provide \$12.6 Million for the High Speed Network (HSN).** Recommend Legislature provide \$12.6 million Proposition 98 for the HSN project. This would include \$10 million in ongoing Proposition 98 funding and \$2.6 million in one-time Proposition 98 funds. The ongoing funds would support a baseline budget. The \$2.6 million in one-time funds would support the first phase of a two-year technology refresh plan. Once completed, the refresh plan would increase network capacity, replace aging equipment, upgrade technology and improve performance monitoring.
- **Enact Legislation to Further Protect State Interests.** Recommend Legislature enact legislation requiring contracts between higher education and the Corporation for Education Network Initiatives in California (CENIC) include the contractual provisions required in Chapter 552 for the K-12 system.
- **Request CENIC Provide Asset and Fee Information As Required in the 2006-07 Budget Act.** Recommend Legislature require CENIC to provide previously requested information, by April 1, 2007, on its assets and fee structure.

COMMENTS: *Staff recommends* that the Subcommittee require CENIC to provide data on assets and fee structure by April 1st, as recommended by the LAO. This information was required by Control Section 24.55 as a part of a report due last December, but according to the LAO was not provided.

Staff recommends that the Subcommittee hold off on the LAO's proposal to provide an additional \$2.6 million in one-time Proposition 98 funds for the first phase of technology refresh plan until after May Revise.

Staff also recommends that the Subcommittee consider the LAO's recommendation to amend statute – or add budget control language – to restore language that was agreed to as a part of the 2006-07 budget to protect state assets if CENIC should cease managing the project. Because this issue involves higher education, the Subcommittee may want to discuss this issue further at a future Subcommittee hearing before taking action after May Revise.

OUTCOME:

ISSUE 3: 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 **\$2.7 million** from state and federal sources to support development and implementation of the CALPADS in 2007-08. These funds support state contracts for project management, project oversight, and systems integration. The CDE will also present a proposal to provide approximately **\$32.5 million** in ongoing Proposition 98 funding to provide ongoing incentive funding to support LEA activities to collect, maintain, and submit quality student-level and teacher-level data to CALPADS.

BACKGROUND: 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). Senate Bill 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 improve evaluation of education progress and investments over time;
- To provide LEAs with 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 for pupil data systems and issues.

The CDE submitted a Feasibility Study Report for CALPADS to the Department of Finance on August 20, 2004. In spite of delays spanning more than a year, the Department of Finance approved the FSR in October 2005.

2006-07 Budget:

CALPADS Development: The 2006-07 Budget appropriated a total of \$1.784 million in General Fund and federal funds to the CDE to support the development of CALPADS. These funds supported project management and project oversight contracts. Of this amount about half will be available in 2007-08 to support systems integration costs.

Statewide Student Identifier (SSID) Maintenance: CALPADS will depend on the existence of a well functioning statewide student identifier system. Currently this system is maintained by CSIS. The 2006-07 Budget appropriated a total of \$397,000 (Item 6110-101-0349) to the CSIS program to maintain the statewide SSID locator database and to support LEAs to acquire and maintain their SSIDs, including the resolution of SSID anomalies. The 2006-07 also provided \$828,000 (6110-001-0349) to support LEAs not participating in the CSIS State Reporting program to acquire new SSIDs and maintain their existing SSIDs. LEAs are provided \$0.25 per enrolled student.

Best Practices Cohort: The 2006-07 Budget provided a total of \$29.5 million in one-

time local assistance funding to support the Best Practices Cohort program. This is a voluntary program for which approximately 1,000 LEAs and independently reporting charter schools are eligible. The purpose of this program is to build the capacity of LEAs/independently reporting charter schools who have not participated in the CSIS program to establish the hardware, software, and management processes necessary for a smooth transition to the new California Longitudinal Pupil Achievement Data System (CALPADS). Of this total, \$9.5 million is from one-time Proposition 98 funds, and \$20 million is from the Educational Telecommunications Fund. Expenditures of these funds required development of a plan by CSIS and the CDE that must be approved by the Department of Finance, Office of the Secretary of Education and State Department of Education, in consultation with the Legislative Analyst's Office. The plan was submitted for approval in September 2006, and approved in October 2006.

The 2006-07 budget also provided a total of \$2.33 million in one-time Proposition 98 funds for the CSIS program to administer and implement the Best Practices Cohort program. Of the \$2.33 million, \$1.5 million is to support state level CSIS activities over a three year period (\$500,000 per year in 2006-07, 2007-08, and 2008-09); and \$533,000 for related CSIS equipment (hardware and software) purchases.

Governor's 2007-08 Budget Proposal: The Governor's budget proposes a total of **\$2.7 million** in state and federal funds to CALPADS in 2007-08. These funds include:

Fund	Provision	Dollars	Positions	Description
6110-001-0001	19	\$945,000	1	To support project management, project oversight and systems integration contracts
6110-001-0890	17	\$881,000		To support project management, project oversight and systems integration contracts
6110-001-0890	18	\$781,000		From Statewide Longitudinal Data System Grant for CALPADS to support systems integration.
6110-001-0890	29	\$56,000	1	½ position to support CALPADS (the EDEN position is not related to CALPADS at all, but to the state submitting current data to the feds.)
TOTAL		\$2,663,000	2	

CALPADS Implementation: According to the FSR prepared in April 2005, one-time implementation costs for CALPADS are estimated to total **\$9.5 million** over the implementation period. The Department will update these figures after bids are opened in late April. The target date for implementation of CALPADS is 2009. The CDE will provide a full status report on the CALPADS implementation timetable, including the following prior, current and upcoming events:

- Request for Proposal released September 2006
- Bidder's draft proposals submitted on December 18, 2006
- Confidential discussions with proposing bidders completed January 26, 2007
- Final proposals due March 21, 2007
- Public Cost Opening April 27, 2007
- Update cost figures and submit to DOF for consideration in May Revise
- Special Project Report (SPR) written and submitted to DOF in June; SPR must be approved before contractor begins work
- Selected vendor begins work late summer 2007
- CALPADS statewide implementation 2009

CDE Proposal of LEA Support: The CDE is proposing **\$32.5 million** in ongoing Proposition 98 funding to support LEA activities related to maintaining Statewide Student Identifiers (SSIDs), collecting and reporting student and teacher level data to CALPADS, and using CALPADS and local data for decision making to increase student achievement. This proposal would provide LEA funding at the level of \$5.0 per student.

COMMENTS: *Staff notes* that the development of student data that can produce longitudinal student performance data, including student graduation and dropout data, is a high priority for the Legislature, as well as the Governor and the Superintendent of Public Instruction. Even with limited funding available, it is important that funding for CALPADS remain on track to assure adequate support and to avoid any further delays in implementation.

Staff recommends that the Subcommittee give high priority to the Department of Education's proposal to provide an additional \$32.5 million in ongoing funding to LEAs as an incentive for developing and maintaining high quality data needed for support of CALPADS. The Subcommittee provided \$15 million for this purpose as a part of the 2006-07 budget. These funds were eliminated as a part of final budget negotiations.

Due to the limited availability of discretionary Proposition 98 funds in 2007-08, the Department's proposal can only be funded if additional funds become available at May Revise or if the Subcommittee chooses to redirect funds from other programs proposed for 2007-08.

SUGGESTED QUESTIONS:

1. *To CDE: Is the CALPADS system on track to be fully implemented in 2009?*
2. *To CDE: Can you provide an updated summary of the estimated costs for completing CALPADS implementation in the next few years?*
3. *To CDE: Now that all LEAs have established individual identifiers for their students, is there any chance that CDE/CESIS will be able to develop more accurate dropout data before CALPADS is fully implemented?*

OUTCOME:

ISSUE 4. Statewide Data System – California Longitudinal Teacher Integrated Data Education System (CALTIDES) -- 6110-001-0890

DESCRIPTION: The Governor’s budget provides **\$1.4 million** in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2007-08. Of this total, the Governor provides **\$1.2 million** for one limited-term analyst position and other contract expenses to the California Department of Education and **\$248,000** for 2.5 limited-term positions and other expenses to the Commission on Teacher Credentialing (CTC) for development of CALTIDES. The Department of Education will provide an update on the development status of the new teacher data system.

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 submitted by the Department of Education and approved by the Department of Finance in spring 2006. As required by language in the 2005-06 budget, the feasibility study report was 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.

The 2006-07 budget provided a total of \$938,000 in one-time federal Title II funds for CALTIDES development which included \$686,000 for CDE to support project management, Request for Proposal (RFP), and project oversight contracts and \$252,000 for CTC to support 2.5 positions.

Governor’s 2007-08 Budget Proposal: The Governor’s budget provides **\$1.4 million** in one-time federal Title II funds to continue development of the CALTIDES in 2007-08. Of this total, the Governor provides **\$1.2 million** for one limited-term analyst position, contracts for project management, project oversight and other expenses to CDE and **\$248,000** for 2.5 positions and other expenses to CTC and for development of CALTIDES.

Related Legislation: Chapter 840; Statutes of 2006 (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. 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.

Implementation Status: The FSR for CALTIDES was approved by the Department of Finance in March 2006. The RFP is under development and will be completed in late summer 2007. The vendor will be selected in summer 2008. Development of the CALTIDES system will be completed in 2009 and system implementation will commence in 2010.

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 full implementation of the teacher data system, i.e. what is the earliest the system could be implemented?*

ISSUE 5: Statewide Data Systems – Statewide Program Improvement Management System -- 6110-485

DESCRIPTION: The Governor’s budget provides **\$1.0 million** in one-time funds to the California Department of Education for both the development of a statewide, Internet-based information management system and for training on use of the system. The new system would provide a data management tool for schools that are subject -- or likely to be subject -- to state or federal intervention for failing to make academic progress. The Governor proposes to use one-time funds from the Proposition 98 Reversion Account for this new statewide program. While not proposed, there would be ongoing costs of approximately **\$700,000** annually for maintenance of this new statewide system.

BACKGROUND: The Governor’s budget provides **\$1.0 million** to the Department of Education for a county office of education to contract with an outside agency to develop, implement, and provide training in the use of an Internet-based information management system statewide. The system would provide a comprehensive, unified intervention program to improve the academic achievement of schools that are, or are likely to become, subject to state or federal intervention. Criteria for selection of the county office of education would be developed by the State Department of Education, in consultation with the Office of the Secretary of Education and the Department of Finance, and would be subject to approval by the State Board of Education. The project would be competitively bid to LEAs.

The Governor’s budget provides \$1.0 million in one-time funds from the Proposition 98 Reversion Account for development and implementation of this new statewide system, including statewide training on the use of the new system. The Governor’s budget proposal does not include detail on the ongoing costs of maintaining this statewide system.

LAO ANALYSIS: The LAO does not have specific problems with the Governor’s proposed statewide program improvement management system, but recognizes that the state has other education technology priorities.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that after May Revise the Subcommittee reject this proposal for a new statewide program improvement management system and redirect the **\$1.0 million** in one-time funds from the Proposition 98 Reversion Account to meeting other Proposition 98 program priorities and assuring funding for statewide student and teacher information systems currently under development in 2007-08.

If the Subcommittee supports this concept, *staff recommends* that this proposal be subject to the standard review process for statewide information technology projects before any funding is provided.

Questions:

1. *The San Diego County Office of Education has developed a program management system that the Governor’s proposal is apparently modeled after, so why does the*

- state need to spend an additional \$1 million for the development of a new statewide system?*
- 2. The ongoing maintenance costs of the Governor's new program management system, under the San Diego County Office model, would total nearly \$700,000 annually. What are the Administration's estimates for ongoing costs of the new system and how will these costs be funded?*
 - 3. As a new statewide information technology system, why isn't this system subject to the standard approval process by the Department of Finance, Office of Technology Review, Oversight and Security, which is required for statewide technology projects?*
 - 4. How would the new proposal align state level intervention activities through the California Department of Education with the features of the Governor's new statewide information management system?*

OUTCOME:

ISSUE 6: Child Health - School Meal Reimbursements -6110-203-0001

DESCRIPTION: The Governor proposes to consider an unspecified increase in the reimbursement rate for free- and reduced-price meals in 2007-08. The Governor has not set-aside any funding in the 2007-08 budget for this purpose. The Governor proposes that any increases in the state meals rate in 2007-08 be tied through legislation to elimination of fried foods and progress toward elimination of foods with trans fats served at schools. The Governor is sponsoring legislation – AB 1503/Fuller -- to accomplish these changes.

BACKGROUND: The state meal program supplements the federal funds school districts receive for free- and reduced-price meals, including school breakfasts and lunches. According to the California Department of Education, the federal funding provides approximately \$2.40 per meal and state funds provide approximately 15.6 cents per meal.

Last year, the CDE recommended increasing the state meal program reimbursement for free- and reduced-price meals from approximately 14 cents to 21 cents per meal as a means of improving the quality of school meals. School meal funds provide reimbursements to school districts for food costs, supplies, equipment, and labor associated with providing school meals.

According to CDE, the state meal rate for free- and reduced-priced meals has not received an overall funding increase for the last fifteen years. However, state school meal funds do receive annual, statutory COLA adjustments, as well as growth.

2006-07 Budget: The Governor proposed to increase the state meal reimbursement rates for free- and reduced-price meals by seven cents -- from 14 cents to 21 cents – as a part of his May Revise proposals in 2006-07. The Governor included \$37.8 million as a part of his proposal, which tied funding to improvements in the quality of school meals. The Legislature approved this funding increase in the final budget bill, which tied funds to passage of implementing legislation. However, the Governor subsequently vetoed the \$37.8 million in the 2006-07 budget bill because funds were not linked “to legislation that would require schools to improve the nutritional quality of school meals served to California students.” The Governor set aside the vetoed funds for appropriation in subsequent legislation.

The Governor did not veto budget trailer bill language in SB 1102 (Ch. 79; Statutes of 2006) that increased the meal rate to 21 cents in 2006-07, although the Governor included a statement about deletion and set-aside of the \$37.8 million in the veto section of that bill.

The Governor also vetoed subsequent legislation to appropriate the \$37.8 million for 2006-07. SB 1674 (Murray) would have appropriated \$37.8 million for meal rate increases, which would have required schools to follow U.S. Department of Agriculture nutritional guidelines and prohibited schools from selling or serving any food item that needed to be deep fried in final preparation of being sold or served to students.

Governor's 2007-08 Budget Proposal: The Governor's 2007-08 budget proposal deletes the \$37.8 million in 2006-07 funds set-aside for increasing reimbursement rates for free- and reduced-priced meals. The Governor supports consideration of increase in the state meal reimbursement rate, along with legislation to eliminate unhealthy fried foods and unhealthy fats from school meals. However, the Governor has not set aside any funding in the 2007-08 budget for this purpose.

The Governor's budget does provides full growth and COLA for the school meals programs in 2007-08. Specifically, the budget includes \$1.0 million for a projected increase in the number of meals served and \$3.8 million for a 4.04 percent COLA.

The Administration is sponsoring legislation – **AB 1503 (Fuller)** – that would prohibit schools from selling or serving any food item that was fried during development, processing, or preparation. The bill would also require schools to begin the process of eliminating foods sold or served to students that contain unnatural or manufactured trans fats.

The bill does not include an appropriation for school meals reimbursement increases. In contrast, the bill would set the reimbursement rate commencing with the 2006-07 fiscal year at 15.6 cents, rather than at 21 cents, as established by SB 1102. The bill would also establish the rate at 21 cents per meal for districts that meet the more stringent nutrition standards proposed – no fried foods and commence process of eliminating foods with trans-fats. In addition, the bill would also limit annual COLAs to funding provided in the annual budget act.

CDE Implementing Increased Meal Reimbursement Rates in 2006-07: Although the Governor vetoed funding for the school meal increase in the 2006-07, CDE began providing meal reimbursements at 21 cents in July 2006, after SB 1102 was signed into law. CDE believes this statute directed the department to increase the reimbursement rate to 21 cents. Without additional funding in 2006-07, CDE will run a deficiency for this program in 2006-07. CDE reports it has advised local education agencies that funding for school meal increases was not finally approved in 2006-07.

Cost of Increasing Meal Reimbursements in 2007-08: The cost of increasing the reimbursement rate for free- and reduced priced meals to 21 cents was estimated at \$37.8 million in 2006-07. CDE has re-estimated the cost of these increases at \$27.0 million in 2006-07 and \$28.0 million in 2007-08. This is more than \$10.0 million less than what was originally estimated.

The \$37.8 million need was based on an increase from \$0.1413 (2005-06 rate) to \$0.21. The 2006-07 appropriation was sufficient to increase the rate from \$0.1413 to \$0.1563 when projecting the number of meals that would be reimbursed for the year. The increase in the appropriation was due to COLA and growth. Since the difference between the "fundable" rate (\$0.1563) and the statutory rate (\$0.21) decreased, the need to fill the "gap" decreased to \$28 million for the estimated 599 million free- and reduced-price meals served annually by California schools.

The CDE proposes that this \$10.0 million in savings be applied to increases in meal

reimbursements for paid school meals. The department argues that new, rigorous state nutrition standards pursuant to SB 12 (Ch. 235/2005) and SB 965 (Ch. 237/2005) and meal quality improvements being proposed by the Governor apply to all school meals and result in additional costs to schools.

COMMENTS: According to the Department of Finance, if funds become available at May Revise, they will consider an increase in school meals reimbursements along with other priorities. Fortunately, the costs of increasing free- and reduced-price meals to 21 cents is now estimated to cost \$26.0 million in 2006-07 and \$27.0 million in 2007-08 – a \$10 million drop in annual costs, as previously estimated.

OUTCOME:

ISSUE 7: Child Health -- California Fresh Start Program -- 6110-486

DESCRIPTION: The Governor proposes to reappropriate approximately **\$4.0 million** in unexpended, prior-year funds for the California Fresh Start Pilot Program to continue the program in 2007-08. This program provides additional funding for school breakfast meals to increase servings of fruits and vegetables for K-12 students.

BACKGROUND: The 2005-06 budget provided **\$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 to include 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, as well as for the State Special Schools. Funding is based on 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.

Governor’s 2007-08 Proposal: The Governor proposes to reappropriate the unexpended, prior year balances from the Fresh Start Pilot Program to continue the pilot program in 2007-08. The Department of Education estimates that these balances will total approximately \$3.0 million in 2007-08.

The original \$18.2 million in funding provided for the Fresh Start Pilot Program in 2005-06 assumed full participation of 1,100 districts and charter schools that together serve approximately 180 million breakfast meals annually. Due to delays associated with the approval of emergency regulations for this new pilot program, only \$3.0 million was expended for the program in 2005-06.

The 2006-07 reappropriated approximately \$15.0 million in unexpended funds for the Fresh Start Pilot Program in 2006-07. The Department of Education estimates that approximately \$11.0 million of these funds will be expended by the end of the fiscal year, leaving approximately \$4.0 million in unexpended balances available from the original appropriation.

Program Evaluation: Of the \$18.2 million provided in 2005-06, \$300,000 was set-aside for an independent evaluation of the pilot program. The evaluation is being conducted by the Center for Weight and Health at U.C. Berkeley. The final evaluation is not due until September 2007; however preliminary findings for the pilot evaluation were released on March 9, 2007. These findings indicate that the program has increased the offerings of fruits and vegetables by 264 percent. It is not clear from the study whether fruit and vegetable consumption has also increased.

COMMENTS: Staff recommends deferring action on the Fresh Start Program until after the release of May Revision to align it with other nutrition related items at that time.

Based upon the preliminary results of the pilot evaluation, *staff does not recommend* continuing a separate nutrition program intended to increase servings of fruits and vegetables. Instead, *staff recommends* that the Subcommittee consider using the approximately \$4.0 million in unexpended, prior year funds from the pilot program toward funding the school meal increase in 2007-08. This issue was discussed in the previous agenda item. Increased meal reimbursements would give schools extra funding for increased servings of fruits and vegetables and give schools the flexibility to make other changes needed to improve the quality of school meals.

ISSUE 8: Child Health -- Physical Education Teacher Incentive Grants for K-8 Schools --6110-260-0001

DESCRIPTION: K-8 Physical Education Block Grant. The Governor provides **\$41.6 million** in Physical Education Teacher Incentive Grants to K-8 school districts and charter schools to support the hiring of additional credentialed physical education teachers. Grantees are randomly selected and equitably distributed based upon school type, size and geographic location. This new ongoing program was established in the 2006-07 budget. The Department of Education recommends adding budget bill language to establish a grant period of three years.

BACKGROUND:

Governor's 2007-08 Budget Proposal: The 2006-07 budget provided \$40 million for Physical Education Teacher Incentive Grants, as originally proposed by the Governor. Established as an ongoing program, the Governor proposes \$41.6 million in 2007-08 to continue funding for incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$36,414 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. High schools are not eligible for these teacher incentive grants.

In order to be eligible for grants, schools must be providing instructional minutes for physical education required by statute. If not, schools must develop a plan to meeting these statutory requirements and correct the deficiency the following school year.

One Time Funds for Physical Education in 2006-07. The 2006-07 budget also provided \$500 million Arts, Music and Physical Education Block Grants. These one-time block grants are available to school districts, county offices of education and charter schools for purchase of arts, music and physical education supplies and equipment. Funding is being allocated on the basis of student average daily attendance (ADA) with minimum school site grants of \$2,500.

LAO Recommendation: The LAO made a number of comments about the Governor's Physical Education Teacher Incentive Grants last year. Some of these comments still have relevance. Specifically, the LAO noted that the ongoing grant program contains no requirements for a local spending plan, expenditure or outcome data, or program evaluation. The LAO also noted that the Governor's physical education proposals are not well integrated with existing after-school programs, which emphasize physical activity and recreation. Lastly, the Governor's proposal presumed that there is a shortage of qualified physical education teachers. However, according to the LAO, there is no evidence of such a shortage.

COMMENTS:

Teacher Incentive Block Grant: The length of Physical Education Teacher Incentive Grants to schools is not specified in the budget. The Department of Education recommends establishing a three year grant period. *Staff* supports this recommendation, with language that would limit new grants to schools that have not previously participated in the program. This would give the department authority to establish grant cycles and also allow grants to reach more than only 1,000 of the state's 6,700 elementary and middle schools.

Arts, Music and Physical Education Block Grants: While a one-time program, there is concern that budget trailer bill language establishing the Arts, Music and Physical Education Block Grant program in 2006-07 should be changed to specify funding for "physical education" rather than "physical fitness". The Department of Finance and the Department of Education support this clarifying change to AB 1131 (Ch. 371; 2006). *Staff supports* this clarifying change.

OUTCOME:

ISSUE 9: Child Health – Early Mental Health Initiative (4400-102-0001)

DESCRIPTION: The Governor proposes to augment funding for the Early Mental Health Initiative (EMHI) program, as administered by the Department of Mental Health, by \$5 million in 2007-08. This would bring total funding for the EMHI program to \$15 million in 2007-08 in order to fund a new cycle of EMHI grants. This program provides three-year mental health grants to school sites for early identification and intervention services for students in grades K-3. While administered by the Department of Mental Health, the EMHI program is funded with Proposition 98 funds.

BACKGROUND: AB 1650 (Hansen) Chapter 757, Statutes of 1991, authorized the School-Based Early Mental Health Intervention and Prevention Services for Children Act, known as the Early Mental Health Initiative (EMHI). EMHI allows the DMH to award matching grants to local education agencies (LEAs) defined as school districts, county offices of education, or state special schools to implement, expand, or modify early mental health intervention and prevention programs.

EMHI grants are provided for one, three-year cycle. EMHI programs must be based at publicly-funded elementary schools and provide services to students in kindergarten through third grade (K-3) experiencing mild to moderate school adjustment difficulties. Students participating in an EMHI-funded program are typically assigned to a trained and supervised child aide. The child aide provides program services to the student once a week during regular school days for 30 to 40 minutes for approximately 12 to 15 weeks in an activity room.

The goals of the EMHI program and subsequent legislation are to enhance the social and emotional development of young students, increase the likelihood that students experiencing mild to moderate school adjustment difficulties will succeed in school, increase their personal competencies related to life success, and minimize the need for more intensive and costly services, as they grow older.

By allocating matching fiscal support for the first three years of the LEA's early mental health intervention and prevention program, EMHI provides an opportunity for the LEAs working with cooperating mental health entities, such as local mental health programs or private nonprofit agencies, to implement school-based programs which enhance the school adjustment, mental health, and social/emotional development of students.

Program Evaluation: The EMHI program has been independently evaluated using pre- and post-test data for students. Findings indicate that EMHI recipients make significant improvements in social behaviors and school adjustments as evaluated by both teachers and school-based mental health professionals.

Governor's Budget Proposal. The Governor proposes to increase funding for the EMHI program to \$15 million in 2007-08, an increase of \$5 million. Since grants are allocated on a three year cycle, the additional of \$5 million in funding would allow the EMHI program to return to a consistent cycle where every year one-third of the programs

drop out of the funding cycle and are replaced by a new cycle of programs. The additional \$5 million will provide funding for more than 50 grants serving approximately 5,000 K-3 students on 150 school sites.

LAO ANALYSIS:

COMMENTS: This item is presented as information only. Funding for the EMHI program is included in the budget for the Department of Mental Health. Senate Budget and Fiscal Review Subcommittee #3 approved the Governor's \$5 million augmentation proposal for EMHI on March 12, 2007.

ISSUE 10: English Learners & Economically Disadvantaged Students -- Economic Impact Aid Program -- 6110-128-0001

DESCRIPTION: The Governor's budget proposes \$1.012 billion in funding for the Economic Impact Aid (EIA) program in 2007-08, which continues 2006-07 levels of funding adjusted by a COLA. The 2006-07 budget provided a \$350 million augmentation for EIA – a 60 percent increase -- to alter and expand funding for the state program. EIA provides state funding to school districts to assist economically disadvantaged students and students who are English learners. The Department of Education will provide an update on implementation of new funding for EIA in 2006-07. In addition, the Department recommends shifting EIA funds for charter schools into the charter school categorical block grant.

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 federal compensatory education program is known as the Title I Basic Grant program.

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.

The 2006-07 budget augmented EIA by **\$350 million**, which brings total funding to \$973.4 million and reflects a 60 percent increase in funding for the program. AB 1802 (Ch. 79/2006) – the budget trailer bill – changes, updates, and simplifies the formula for distributing funds through the Economic Impact Aid program. Specifically, the new formula:

- Changes the measurement of economically disadvantaged from CalWorks participant counts to census-based counts used for the federal Title I program.
- Calculates per pupil funding rates by dividing a district's total EIA funding by its Title I and English learner student data counts and holds districts harmless from any loss of per pupil funding in the future.
- Establishes equal funding weights for economically disadvantaged student and English learner student counts.
- Provides a concentration factor for districts with over 50 percent EIA eligible students.
- Provides a funding adjustment to each district calculated on the basis of \$600 minus its per pupil funding amount.

Governor's 2007-08: The Governor's 2007-08 budget proposes to continue current funding levels funding for EIA, with adjustments by a COLA, which brings the program

to **\$1.012 billion** 2007-08. The Governor proposes zero growth for EIA, thereby holding EIA harmless from negative growth adjustments in 2007-08.

EIA Funding for Issue for Charter Schools: According to the Department of Education the portion of the 2006-07 augmentation for EIA (\$350 million) intended for charter schools is currently part of the main EIA item, instead of the charter school item, which is where the "base" EIA funding for charter schools is located. There is language allowing transfer of funds, as appropriate, to the charter school item. The EIA allocations for charter schools and the EIA allocations for other schools are interdependent, and cannot be calculated until charter school data are collected as part of the first principal apportionment (P-1) process in February.

In future years, the Department of Education suggests it would be more effective if the EIA calculations for charter schools and for other schools were on separate tracks. This would involve transferring funds from the EIA item to the charter item--currently estimated to be around \$20 million, and developing separate estimates for growth in EIA pupil counts. The department is currently working on developing these figures. This change would required a straightforward change to budget bill language and conforming changes in statute.

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. New studies released last week that examine the adequacy of school funding in improving student outcomes, confirm the strong challenges of poverty for California students. Yet, until 2006-07, funding for the EIA formula had been relatively flat since it was created more than 25 years ago.

In contrast to more than \$2.0 billion in additional funding the state has provided for low-performing schools, EIA expansion provides funding for *all* economically disadvantaged students and *all* English learners, whatever school they attend

RECOMMENDATIONS: *Staff recommends* that the Subcommittee direct the Department of Education -- in consultation with the Department of Finance and the Legislative Analyst's Office -- to develop language to improve the process for allocation of EIA funds for charter schools. This language can then be considered by the Subcommittee at a future hearing.

OUTCOME:

ISSUE 11: English Learners – LAO Update

DESCRIPTION: The LAO has identified a significant achievement gap between English learner (EL) students and their English speaking counterparts. The LAO will present an overview of EL students in California and summarize their educational performance. The LAO will also discuss education funding for EL students and make recommendations for making funding more strategic. In addition, the LAO will present a number of findings and recommendations about instructional approaches, instructional materials, teacher quality and assessment and accountability for EL students in California.

Overview of Funding for English Learner Students. According to the LAO, the Governor’s budget provides approximately \$68.6 billion for K-12 education from all sources. Only \$1.3 billion of these funds are targeted specifically to EL students or EL instruction. Of the \$1.3 billion, \$1.2 billion is state funding and \$160 million in federal funding. The LAO identifies state and federal funding targeted to EL students in 2007-08 in the table below.

Program	2007-08 (Proposed)	Description
Discretionary Funds		
Economic Impact Aid	\$1,012.7	Funds districts to provide supplementary services to EL and economically disadvantaged students.
Title III Limited-English Proficient	158.6 ^a	Funds districts to provide supplementary services to EL students.
English Language Acquisition Program	63.4	Funds districts to provide supplementary services to EL students in grades 4-8.
Professional Development		
Mathematics and Reading Professional Development Program—EL component	\$25.0	Funds districts to provide teachers of EL students with professional development in reading and mathematics.
Bilingual Teacher Training Program	2.1	Funds county offices of education to assist K-12 teachers in attaining the training and authorizations necessary to teach EL students.
Assessment/Accountability		
CELDT ^b	\$9.7	Funds state-level contract and administration costs.
	11.9 ^a	Also provides \$5 per EL to assist districts with local administration.
Parent Outreach		
Community-Based English Tutoring program	\$50.0	Funds schools to provide free or subsidized English language instructions to parents or other adult members of the community who pledge to tutor EL students.
Clearinghouse for Multi-Lingual Documents (CMD)	0.3 ^a	Funds the California Department of Education (CDE) to develop an electronic clearinghouse for districts to access and share translated documents.
Totals	\$1,333.7	

The LAO identifies several one-time programs targeted to EL students in 2006-07, which are listed in the table below.

One-Time Funds	2006-07 Budget	
EL instructional materials	\$30.0	Funds districts to purchase materials for EL students to supplement the core instructional program.
Best practices pilot project	20.0	Provides three-year competitive grants to schools to support or expand successful programs for EL students. Corresponding evaluation (unfunded) is intended to identify best practices for the state
Document translation	0.5 ^a	Funds CDE to translate commonly used documents into multiple languages and post them on its CMD Web site.

^a Federal funds

^b California English Language Development Test

LAO ANALYSIS/RECOMMENDATIONS: The LAO recommends that the Legislature take the following actions as a part of the 2007-08 budget:

- **Adopt a More Strategic Approach to Funding EL Students.** Recommend Legislature determine an explicit “weight” at which EL students should be funded.
- **Fund Best Practices Study.** Recommend Legislature provide between \$500,000 and \$800,000 in a one-time monies for an evaluation of the recently established best practices pilot program. Recommend evaluation focus on identifying effective instructional approaches, instructional materials, and professional development programs designed to enhance EL student achievement.
- **Fund Teacher Preparation Program Study.** Recommend Legislature provide between \$250,000 and \$500,000 in one-time monies to evaluate the effectiveness of teacher preparation programs at improving EL student achievement.
- **Modify State Assessments to Measure Student Progress.** Recommend Legislature require the California Department of Education to contract for a report on the feasibility of vertically scaling the state’s assessment system and report back by April 1, 2008.

OUTCOME:

ISSUE 12 English Learners – Community- Based English Tutoring Program -- 6110-227-0001

DESCRIPTION: The Governor proposes **\$50 million** for the Community-Based English Tutoring (CBET) program authorized by Chapter 632, Statutes of 2006 (SB 368/Escutia). This program would provide English language instruction to adults who would be expected to provide tutoring to K-12 students. The Governor’s proposal essentially extends funding for a similar program established by Proposition 227 that was funded at \$50 million a year through 2006-07.

BACKGROUND: As established by Proposition 227 in 1998, the Community-Based English Tutoring (CBET) Program requires local educational agencies (LEAs) to provide free or subsidized programs of adult English language instruction to parents or other members of the community who pledge to provide personal English language tutoring to English learners. Eligible LEAs include any school district, county office of education, or direct-funded charter school that enrolled one or more English learners in the previous school year.

Funding for the program has been allocated based upon the number of English learners enrolled in each of the participating LEAs. These funds may be used for direct program services, community notification, transportation, and background safety checks required of the tutors who volunteer in public schools settings.

Recent Legislation to Extend CBET. Chapter 632, Statutes of 2006 (SB 368/Escutia) continues the community-based adult English language instruction and tutoring program created by Proposition 227, with some modifications intended to improve the effectiveness of the program. Chapter 632 makes funding for the CBET program subject to an annual appropriation in the Budget Act and requires school districts, as a condition of funding, to provide free or subsidized programs of adult English language instruction to parents and other community members who pledge to provide personal English language tutoring to K-12 English learners.

LAO ANALYSIS: According to the LAO, the Legislature may decide to either continue the CBET program in 2007-08 or redirect the funding for another education purposes. Notably, the LAO reports that a recent evaluation of the CBET program found that while the program was popular, there was no evidence that the program had improved the achievement of English learners.

The LAO raises several other issues, including:

- **Lack of clarity regarding CBET program’s primary goal leads to uneven implementation.** The goals of the CBET, as defined in statute, are to “encourage family members and others to provide personal English language tutoring [to English learner children], and support these efforts by raising the general level of English language knowledge in the community.” The recent CBET evaluation found uneven implementation of the program based upon differing interpretations of these goals. Some districts focused supporting K-12

English learners, whereas other districts focused more on adult education or English as a Second Language (ESL).

- **If CBET program continues, improving EL student achievement should be the primary goal.** The LAO notes that SB 368 made major changes to the accountability requirements for CBET by requiring districts to adopt plans defining their program objectives and measuring their program results. If the Legislature decides to continue funding for CBET, the LAO suggests changing state law to emphasize improvements for K-12 English learners.
- **Legislature may want to consider other uses for CBET program funds.** Given the state's limited resources and the considerable needs of K-12 English learners, the LAO notes that the Legislature may want to consider other ways to effectively use \$50 million for the benefit of English learners.

COMMENTS: As indicated by the LAO, the Legislature is not required to continue funding for the CBET program beyond 2006-07. SB 638 makes funding subject to appropriation in the annual budget. Given limited discretionary funding available in 2007-08, *staff recommends* that after May Revise the Subcommittee consider whether \$50 million for the Community-Based English Tutoring program represents the best use of funds for English learners for improving the achievement of English learners. Given the importance of poverty in the findings of recent education adequacy studies, it might be more effective to continue expansion of the Economic Impact Aid program for English learners and economically disadvantaged students as a means of reducing the achievement gap for English learners. *Staff notes* that the Legislature appropriated \$20 million in 2006-07 for a multi-year project to identify best practices for improving outcomes for English learners that will guide budget and policy decisions in the future.

OUTCOME:

ISSUE 13: School Facilities – Emergency Repair Program (6110-485)

DESCRIPTION: The Governor proposes **\$100 million** for the school facilities Emergency Repair Program (ERP) in 2007-08 pursuant to the *Williams v. California* lawsuit settlement. An additional **\$330 million** was appropriated for this program in 2004-05 and 2005-06 appropriations. To date, only **\$16.5 million** of these prior year funds have been expended, because very few districts have applied for funding. Funding allocations are expected to increase in 2007-08 as a result of Chapter 704/Statutes of 2006, which authorizes a grant-based ERP, rather than a reimbursement-based program.

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.

Chapter 899 also 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 school districts, on behalf of their eligible schools, in December 2005. (Only one school district – Compton Unified – did not complete a needs assessment.)

Funding History: The 2005-06 budget provided **\$196 million** from the Proposition 98 Reversion Account for the first year of the ERP program per the *Williams* settlement agreement; the 2006-07 budget provides an additional **\$137 million** from the Reversion Account for the program. (According to the State Allocation Board, the fund balance for the Emergency Repair Account as of February 28, 2007 was \$320 million.)

(In millions)	2005-06	2006-07	Subtotal	2007-08 Proposed/ Estimated	Total
Appropriations	\$196.0	\$137.0	\$333.0	\$100.0	\$433.0
Expenditures	\$2.6	\$13.9	\$16.5	\$25.0	\$41.5

The Governor proposes to provide an additional **\$100 million** in funds from the Proposition 98 Reversion Account for ERP in 2007-08, pursuant to the requirements of the *Williams* settlement agreement. The Administration estimates the ERP will expend \$25.0 million in 2006-07 and 2007-08.

Low Program Participation: Last year, the LAO reported on the very low expenditures for the ERP. 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 identified 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.

As a result, the LAO recommended a number of changes to the ERP. Specifically, the LAO recommended 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.

Chapter 704/Statutes of 2006 enacted changes to the program. Districts can now apply for funding for specific projects before undertaking the actual repair work. However, the new grant-based program has not been implemented to date, and will not be in effect until the beginning of 2007-08. According to the State Allocation Board (SAB), the grant-based program will make it much easier for schools to access funding for emergency repairs, as schools will not be required to pre-pay for these projects. While the SAB estimates that the volume of applications and the level of funding requested will increase substantially, they are unable to make expenditure estimates at this time.

COMMENTS:

There is significant, excess funding for the Emergency Repair Program, as presently structured, in the current year. According to the State Allocation Board, the fund balance for the Emergency Repair Account is currently \$320 million. The Governor's proposal will make another \$100 million available, bringing total funding to \$420 million. The Governor's proposal conforms with the requirements of the *Williams* settlement agreement.

It is hoped that changes in the program enacted by Chapter 704 will increase utilization of funds in 2007-08, once the new law becomes fully operational at the end of this fiscal year. At this time there are not solid estimates for what funding will actually be needed in 2007-08. In addition, it is now known if it is feasible for the SAB to allocate \$420 million in funds in one year.

The Emergency Repair Program makes funds available for schools in the lowest three deciles of the Academic Performance Index (API). In order to be eligible, decile 1-3 schools must have valid API scores. This definition excludes most of the state's 1,000 alternative schools, serving between 225,000 to 300,000 students per year, from eligibility for these program funds.

OUTCOME:

ISSUE 14: School Facilities – Charter School Facility Grant Program – 6110-485

DESCRIPTION: The Governor proposes **\$43.9 million** in one-time funds from the Proposition 98 Reversion Account for the Charter Schools Facility Grant program established by SB 740 (Chapter 892, Statutes of 2001). Of this total, \$20 million is proposed to cover 2006-07 costs and \$23.9 million is proposed as an advance for 2007-08 costs.

BACKGROUND: The Charter School Facilities Grant Program was created in 2001 by SB 740 (O'Connell) to provide funding to charter schools in low-income areas to provide partial reimbursement for the rental and leasing costs of charter schools in low-income areas when these schools are unable to secure public or other facilities. Charter schools that occupy school district or county office facilities or that are provided with facilities by their authorizing authority are not eligible for the program. In order to be eligible, charter schools are must meet one of the following requirements:

- The charter school is located within the attendance area of an elementary school in which at least 70 percent of the students qualify for free or reduced-priced lunches; or
- At least 70 percent of the students served at the charter school are eligible for free or reduced-priced lunches.

In meeting these requirements, eligible charter schools may not count student enrollment, as measured by average daily attendance (ADA), generated through non-classroom based instruction.

Program Growth: When the program began in 2001-02, a total of 95 charter schools statewide were eligible for the program, reflecting total student ADA of 10,930. According to the Department of Education, charter school enrollments are increasing at approximately 15 percent a year, so the number of charter schools and students eligible for facility grants will continue to grow in the future. The growth rate between 2005-06 and 2006-07 is estimated at 16.8 percent.

Program Funding: While funding for the program is subject to annual budget act appropriations, SB 740 authorizes eligible charter schools to receive \$750 per student ADA or 75 percent of annual their annual facility rental or leasing costs, whichever is lower. If funds appropriated through the budget act are not sufficient to cover these authorized levels, funds are pro-rated to charter schools to reflect available funds.

According to the Department of Education, eligible charter school facility grant reimbursements are estimated at approximately \$16.3 million in 2005-06, the latest data available. The \$9.0 million appropriated in the 2006-07 budget, as pro-rated to cover 2005-06 costs, provides funding for approximately 55 percent of eligible charter school facility reimbursement need.

Funding History: SB 740 contained intent language that the Charter School Facility

Grant program be funded at the level of \$10 million a year for the 2001-02, 2002-03, and 2003-04 years, which translates to a total of \$30 million. Funds for the program were first appropriated in 2001-02 at the \$10 million level, but were later eliminated as a part of mid-year budget reductions since the program was going to run on a reimbursement basis and funds were not needed until 2002-03.

The program continues to be forward funded, so that budget year funds pay for current year expenditures. A total of \$43.4 million has been appropriated for the program over the last five years, although only \$38.7 million has actually been expended for the program due to the reversion of \$4.7 million in 2002-03 funds.

Charter School Facility Grant Program * (In Millions)	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	TOTAL
Previous Appropriations	\$10.0**	\$7.7	\$7.7	\$9.0	\$9.0	--	\$43.4
Previous Funds Expended	\$5.3**	\$7.7	\$7.7	\$9.0	\$9.0	--	\$38.7
Governor's Budget: Proposed Appropriations						\$20.0 (06-07 costs) \$23.9 (07-08 costs)	\$43.9

* \$10 million appropriated in 2001-02 was later eliminated as a result of mid-year cuts and program reversions.

** \$4.7 million in unexpended 2002-03 funds were reverted in June 2004.

Governor's Budget Proposal. The 2006-07 budget provides \$9.0 million to continue funding the Charter School Facilities Grant Program. These funds cover 2005-06 facility reimbursements for charter schools. The Governor's 2007-08 budget proposes **\$20 million** to cover 2006-07 facility reimbursements and proposes an additional **\$23.9 million** to cover 2007-08 costs -- thereby moving away from a reimbursement-based system. The Governor proposes to continue the use of one-time, Proposition 98 Reversion Account funds for the program.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has identified several options for considering the Governor's 2007-08 budget proposal. These options are list below:

1. No funding. SB 740 stated legislative intent to provide \$10 million per year for three years -- 2001-02, 2002-03, and 2003-04. The state provided funding, on a reimbursement basis, for those three years as well as for 2004-05 and 2005-06. In total, the state has spent \$38.7 million on the program. The Legislature has met its expressed statutory obligation in SB 740.

2. Maintain funding at the existing level budgeted in 2006-07 (\$9 million), adjusted for charter school growth to equal approximately \$10.5 million. This would result in awards being pro-rated downward to approximately 50 to 55 percent of eligible charter school facility reimbursements.

3. Augment funding in 2007-08 by \$7.3 million to provide a total of \$16.3 million. At this level, eligible reimbursements would be fully funded per SB 740, which sets funding at \$750 per student or 75 percent of total facility expenditures submitted, whichever is less.

4. Augment funding in 2007-08 to stop the practice of forward funding the program. This would require changes in the payment schedule to either: (a) provide reimbursements at the end of each year or several times each year, or (b) make advance allocations at beginning of year that would be reconciled at the end of each year. No rationale has yet been given for such a change. Costs could be estimated for the budget year using current year charter school ADA figures, adjusted by the latest charter school growth figures.

COMMENTS: The intent of SB 740 was to provide three years of funding at \$10 million per year, or \$30 million, for the Charter School Facilities Grant program. The Governor proposes a fifth actual year of funding for the program in 2007-08, and adding another \$43.9 million to the \$38.7 million already available since the program began. While the Governor proposes to continue the practice of appropriating one-time funds from the Proposition 98 Reversion Account, the Administration views this as an ongoing program, reflecting a strong commitment to charter schools.

Staff recommends that if the Subcommittee considers whether the Charter Schools Facility Grant Program should be continued as an ongoing program, understanding there are significant out-year cost pressures to fully fund the program given increasing charter school enrollments.

If the Subcommittee supports continued funding, *staff recommends* that the Subcommittee provide funding in 2007-08 for 2006-07 costs only and maintain funding at approximately 50 percent of need, as currently provided. This would provide approximately \$10.5 million in 2007-08, instead of the \$20 million proposed by the Governor.

Staff recommends that the Subcommittee reject the Administration's proposal to provide \$23.9 million in advance funding for 2007-08 funding, given limited discretionary funding available in 2007-08. *Staff* is not opposed to making funding current, but suggests this conversion could be accomplished in future budget years when the LAO predicts growth in Proposition 98 funding.

OUTCOME:

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1

Chair, Jack Scott

Member, Bob Margett

Member, Joe Simitian

OUTCOMES

Tuesday, March 20, 2007

1:30 p.m.

Room 113, State Capitol

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ISSUE 8: Child Health -- Physical Education Teacher Incentive Grants for K-8 Schools --6110-260-0001

DESCRIPTION: K-8 Physical Education Block Grant. The Governor provides **\$41.6 million** in Physical Education Teacher Incentive Grants to K-8 school districts and charter schools to support the hiring of additional credentialed physical education teachers. Grantees are randomly selected and equitably distributed based upon school type, size and geographic location. This new ongoing program was established in the 2006-07 budget. The Department of Education recommends adding budget bill language to establish a grant period of three years.

BACKGROUND:

Governor's 2007-08 Budget Proposal: The 2006-07 budget provided \$40 million for Physical Education Teacher Incentive Grants, as originally proposed by the Governor. Established as an ongoing program, the Governor proposes \$41.6 million in 2007-08 to continue funding for incentive grants to 1,000 elementary and middle schools to hire credentialed physical education teachers. Incentive grants would provide \$36,414 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. High schools are not eligible for these teacher incentive grants.

In order to be eligible for grants, schools must be providing instructional minutes for physical education required by statute. If not, schools must develop a plan to meeting these statutory requirements and correct the deficiency the following school year.

One Time Funds for Physical Education in 2006-07. The 2006-07 budget also provided \$500 million Arts, Music and Physical Education Block Grants. These one-time block grants are available to school districts, county offices of education and charter schools for purchase of arts, music and physical education supplies and equipment. Funding is being allocated on the basis of student average daily attendance (ADA) with minimum school site grants of \$2,500.

LAO Recommendation: The LAO made a number of comments about the Governor's Physical Education Teacher Incentive Grants last year. Some of these comments still have relevance. Specifically, the LAO noted that the ongoing grant program contains no requirements for a local spending plan, expenditure or outcome data, or program evaluation. The LAO also noted that the Governor's physical education proposals are not well integrated with existing after-school programs, which emphasize physical activity and recreation. Lastly, the Governor's proposal presumed that there is a shortage of qualified physical education teachers. However, according to the LAO, there is no evidence of such a shortage.

COMMENTS:

Teacher Incentive Block Grant: The length of Physical Education Teacher Incentive Grants to schools is not specified in the budget. The Department of Education recommends establishing a three year grant period. *Staff* supports this recommendation, with language that would limit new grants to schools that have not previously participated in the program. This would give the department authority to establish grant cycles and also allow grants to reach more than only 1,000 of the state's 6,700 elementary and middle schools.

Arts, Music and Physical Education Block Grants: While a one-time program, there is concern that budget trailer bill language establishing the Arts, Music and Physical Education Block Grant program in 2006-07 should be changed to specify funding for "physical education" rather than "physical fitness". The Department of Finance and the Department of Education support this clarifying change to AB 1131 (Ch. 371; 2006). *Staff supports* this clarifying change.

OUTCOME: Subcommittee adopted clarifying change to language enacted by Chapter 371, Statutes of 2006 to specify funding for the Arts, Music and Physical Education Block Grant be provided for "physical education" not "physical fitness." (Vote: 3-0)

SUBCOMMITTEE NO. 1 on Education



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

Tuesday, April 24, 2007
1:30 p.m.
Room 113, State Capitol

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ISSUE 1: Federal Funds Overview

DESCRIPTION: The Governor’s Budget estimates that California will receive **\$6.3 billion** in federal funds for K-12 education in 2007-08. However, the Department of Finance has not yet updated its federal fund estimates to reflect the final appropriations measure for federal fiscal year (FFY) 2007. The Department of Education will provide an update of new federal funding estimates for California.

BACKGROUND: The table below reflects federal funds that will be appropriated by the U.S. Department of Education (USDE) to California for FFY 2007, which coincides with the state 2007-08 fiscal year. These amounts reflect the appropriations from the final continuing resolution for education signed by the President in February 15, 2007. March 2007. **Attachment A** summarizes federal grants for the FFY 2001-2007, provided by the USDE on April 5, 2007.

Federal Local Assistance Grants to California

Budget Item	Program	FFY 2006	FFY 2007	Change
6110-				
102-0890	Learn and Serve America	2,619,000	1,799,000	-820,000
103-0890	Byrd Honors Scholarship	5,127,000	5,241,000	114,000
112-0890	Charter Schools	23,869,000	23,869,000	0
113-0890	State Assessments	33,952,540	34,215,508	262,968
119-0890	Title I (Part D) - Neglected and Delinquent	2,835,780	2,812,194	-23,586
123-0890	Title V – Innovative Programs	12,321,975	12,420,932	98,957
125-0890	Title III - Migrant Education	125,572,327	130,750,549	5,178,222
125-0890	Title III – Language Acquisition Grants	166,955,253	169,057,668	2,102,415
126-0890	Title I (Part B) - Reading First Grants	144,886,608	136,987,926	-7,898,682
136-0890	Title I (Part A) – Basic Grants & School Improvement Set Aside	1,723,482,942	1,629,665,898	-93,817,044
136-0890	School Improvement Grants	0	16,561,217	16,561,217
136-0890	Even Start	11,909,704	9,377,969	-2,531,735
136-0890	Homeless Education	8,288,438	7,682,978	-605,460
137-0890	Rural/Low-Income School Program	1,177,127	1,177,127	0
156-0890	Adult Education	80,605,056	79,748,370	-856,686
161-0890	Special Education-Entitlement Grants	1,130,940,237	1,150,175,848	19,235,611
	Special Education-Preschool	38,677,085	38,677,082	-3
166-0890	Vocational Education & Tech. Prep.	139,986,152	140,775,071	761,919
180-0890	Education Technology	34,985,639	32,629,206	-2,356,433
183-0890	Safe and Drug Free Schools	41,539,958	41,539,958	0
193-0890	Title II (Part A) Math & Science Partnerships	25,055,987	23,634,838	-1,421,149
195-0890	Title II (Part A) – Teacher Quality Grants & State Activities	335,450,834	332,042,670	-3,408,164
197-0890	21st Century Community Learning	131,320,892	127,685,271	-3,635,621
	TOTAL			-73,059,254

Overall, federal funds to California will decrease by **\$73.1 million** in 2007-08 (FFY 2007). Approximately half of the federal grant programs to California will decrease. Most notably, Title I Basic Grants – the largest federal grant program for our state -- will decline by **\$93.8 million** (5.4 percent). In contrast, Special Education will grow by **\$19.2 million** (1.7 percent) in 2007-08, after a small reduction in 2006-07. In addition, a new School Improvement program will provide **\$16.6 million** in additional funding for NCLB accountability activities in California.

Comments: While federal funds to California grew between \$60 million and \$154 million annually between FFY 2001 and 2005, this trend reversed in FFY 2006 when funds for our state decreased by **\$154 million**. While the year-to-year loss to California will be somewhat lower for FFY 2007 --\$73.1 million – this is still a loss of important funding for our state. The major change in FFY 2007 is the loss of **\$93.8 million** in Title I grants to school district that reflects California’s declining share of poverty funds.

ISSUE 2: Local Assistance Federal Funds Adjustments -- April Finance Letters (Consent Items)

Staff recommends approval of the following federal local assistance revisions to the Governor's January 10 Budget, as proposed by the April 2007 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 programs and policies.

Federal Funds Adjustments – Various Local Assistance Budget Items

6110-102-0890, Local Assistance, One-time Carryover for the Learn and Serve America Program (Issues 263 and 264)

It is requested that this item be increased by \$162,000 to reflect additional one-time carryover funding to support additional service learning activities. It is also requested that this item be increased by \$3,000 to conform base federal expenditure authority to available grant funding.

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

X. The funds appropriated in this item include a one-time carryover of \$162,000, available for the support of additional service learning activities during the 2007-08 fiscal year.

6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issue 791)

It is requested that this item be increased by \$114,000 to align the appropriation with available federal funds. The funds will be used to promote student excellence and achievement by awarding scholarships solely on the basis of academic merit to recognize students who show promise of continued academic excellence.

6110-112-0890, Local Assistance, Public Charter Schools (Issue 980)

It is requested that this item be reduced by \$2,423,000 to align the appropriation authority with the anticipated federal grant award amount. Public Charter School funds are used to fund start-up, implementation, and best practices dissemination for charter schools.

6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 646)

It is requested that this item be decreased by \$53,000 to align appropriation authority with the anticipated federal grant. Federal Neglected and Delinquent Children Program

funds are used to address the educational needs of neglected and delinquent children and to provide education continuity for children in juvenile institutions.

6110-123-0890, Local Assistance, Title V Innovative Programs (Issue 839)

It is requested that this item be increased by \$104,000 to align the appropriation with the anticipated federal grant award. These grant funds are provided to districts to develop and implement innovative educational programs intended to improve school, student, and teacher performance.

6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 642, 643, 649, and 650)

It is requested that Schedule (1) of this item be increased by \$6,576,000. This adjustment includes an increase of \$2,976,000 to align the Migrant Education Program appropriation with the anticipated federal grant and an increase of \$3.6 million to reflect the availability of one-time federal carryover funds. These funds will be used to meet the educational needs of highly mobile children whose family members are employed in seasonal occupations. The program provides supplemental services to support the core academic program children receive during the regular school day.

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

X. Of the funds appropriated in Schedule (1), \$3,600,000 is provided in one-time carryover funds to support the existing program.

It is further requested that Schedule (3) of this item be increased by \$5,771,000. This adjustment includes an increase of \$3,871,000 to align the English Language Acquisition Program appropriation with the anticipated federal grant and an increase of \$1.9 million to reflect the availability of one-time carryover funds. These funds will be used to help students attain English proficiency and meet grade level standards.

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

X. Of the funds appropriated in Schedule (3), \$1,900,000 is provided in one-time carryover funds to support the existing program.

6110-137-0890, Local Assistance, Rural/Low-Income School Program (Issue 645)

It is requested that this item be decreased by \$498,000 to align appropriation authority with the anticipated federal grant. Rural/Low-Income School Program funds are used to improve instruction and achievement for children in rural and low-income schools by supporting activities such as teacher recruitment and retention, professional development, educational technology projects, and parental involvement activities.

6110-156-0890, Local Assistance, One-time Carryover for Adult Education (Issue 262)

It is requested that this item be increased by \$2,348,000 to reflect additional one-time carryover funding to support adult education programs, with provisional language added to specify that these one-time funds be used to ensure compliance with federal reporting requirements.

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

X. The funds appropriated in this item include a one-time carryover of \$2,348,000, 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 109-77.

6110-166-0890, Local Assistance, One-time Carryover for Vocational Education (Issue 261)

It is requested that this item be increased by \$10,718,000 to reflect additional one-time carryover funding to support vocational education programs, with provisional language added to specify that these one-time funds be used to expand and align K-12 tech prep programs with community college economic development programs.

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

X. The funds appropriated in this item include a one-time carryover of \$10,718,000. These funds shall be used during the 2007-08 academic year to support additional vocational education institutional activities, with first priority being given to supporting curriculum development and articulation of K-12 technical preparation 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.

6110-180-0890: Local Assistance, Education Technology Program (Issue 051)

It is requested that this item be reduced by \$2,233,000. This proposal would realign the program budget with the new federal grant. The reduction would be allocated proportionately among competitive grants, formula grants, and the California Technology Assistance Project. We note that at least \$250 million in private funds is available to local education agencies directly as a result of a settlement with Microsoft, which will help mitigate the impact of the federal reduction.

It is further requested that Provisions 1, 2 and 3 be amended as follows:

"1. Of the funds appropriated in this item, ~~\$16,662,000~~ \$15,569,000 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, ~~\$16,662,000~~ \$15,569,000 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, ~~\$701,000~~ \$654,000 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."

6110-183-0890, Local Assistance, Safe and Drug Free Schools Program (Issues 788 and 789)

It is requested that this item be increased by \$3,211,000. This adjustment includes an increase of \$811,000 to align the appropriation with the anticipated federal grant. In addition, this adjustment includes an increase of \$2.4 million to reflect the availability of one-time carryover funds from 2006-07. These funds will be used to support programs that prevent violence in and around schools, prevent the illegal use of alcohol, tobacco, and drugs, and involve parents and communities.

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

X. Of the funds appropriated in this item, \$2,400,000 is a one-time carryover available to support the existing program.

6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issues 089 and 093)

It is requested that this item be increased by \$2,176,000. This adjustment includes a decrease of \$1,426,000 to align Title II, Part B of the Elementary and Secondary Education Act (Mathematics and Science Partnership Program) appropriation with the anticipated federal grant award and an increase of \$3,602,000 to reflect the availability of one-time carryover funds. This program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support for mathematics and science teachers.

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

X. Of the funds appropriated in this item, \$3,602,000 is provided in one-time carryover funds to support the Math and Science Partnership Program.

6110-195-0890, Local Assistance, Title II Improving Teacher Quality Local Grants (Issue 086)

It is requested that this item be decreased by \$4,683,000 to align with appropriation authority for the Teacher and Principal Training and Recruiting Fund with the anticipated federal grant award. This program provides an apportionment to local education agencies for activities focused on preparing, training, and recruiting high-quality teachers.

ISSUE 3. Federal Forest Loan Program (6110-650-0001)

DESCRIPTION: The Governor proposes a one-time General Fund loan of **\$69 million** in 2006-07 to backfill the loss of federal aid from the Secure Rural Schools program to school districts and community colleges in rural areas of the state. The Governor proposes urgency legislation – **SB 133 (Aanestad)** -- to authorize the State Controller to make these loans in 2006-07. Districts would be required to fully repay these loans, with interest, in 2007-08.

BACKGROUND: For more than one hundred years, the federal government has been returning a portion of revenues from federal forest reserves to surrounding communities. These federal forest reserve funds were intended to compensate surrounding communities from the loss of revenues when these lands were removed from the tax base. Rural communities relied upon these tax revenues to supplement local funding for schools and roads.

In the mid-1980s, revenues from forest reserves began to decline, due in large part from a decline in timber sales. In 2000, the federal government created the Secure Rural Schools and Community Self-Determination Act to provide transitional assistance to rural communities for schools and roads due to the decline in timber revenues. The Secure Rural Schools Act expired in 2006; the last authorized payment was made in December 2006. While Congress authorized funding for one additional year – through 2007 -- no funds have been appropriated yet.

President Bush has indicated a commitment to providing transitional assistance to counties and States covered under the Secure Rural Schools act. The President's 2008 budget proposes funding through the U.S. Department of Agriculture for the National Forest Land Adjustment for Rural Communities Act.

Governor's Budget Proposal: The Governor's budget sets aside \$69 million in 2006-07 funds for the purpose of providing short term loans to schools in rural areas of the state that are currently losing federal aid from the Secure Rural Schools program. The Governor is proposing **SB 133 (Aanestad)**, an urgency measure, to authorize this loan program. The bill would:

- Authorize the state controller to make loans from the General Fund during 2006-07 to authorize the State Controller to make these loans in 2006-07 to school districts and community colleges that have not received federal forest reserve funds in 2006-07.
- Requires that requests for loans be submitted to the SPI within 30 days of the effective day of the measure and that requests justify the amount needed.
- Limits loans to the amount of federal forest reserve funding that the school or

community college district received during the 2005-06 year.

- Provides that loans be fully repaid on or before June 30, 2008, along with interest calculated at the rate earned by the General Fund in the Pooled Money Investment Account on the date the loan was issued.
- Requires the SPI to approve or deny loans within 60 days of the effective date of the measure and that the Controller issue loans within 90 days of the effective date of the measure.
- Provides that the measure self-repeals on January 1, 2009.

COMMENTS: California schools were estimated to receive approximately **\$29.4 million** in revenues from the Secure Rural Schools program in 2006. The Governor has set aside **\$69 million** in 2006-07 funds to replace these funds, which provides more than double what schools received in federal funding in 2006. It is possible that federal funds will not be appropriated for 2007 (2007-08) and that schools will have to pay the state back without the benefit of offsetting federal revenues. Some schools rely heavily on these federal funds. For many eligible school districts, these federal funds comprise 15 to 30 percent of their budgets. These districts may risk fiscal insolvency and require a state emergency loan if they are required to pay the state back. This would compound General Fund risk. It should also be recognized that the federal government may never reappropriate funding for the Secure Rural Schools program. The federal supplemental appropriations bill that contains funding for the program is very uncertain, as it is tied to actions on the war in Iraq.

ISSUE 4: Fiscal Status of School Districts –FCMAT Presentation

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 of each fiscal year; second interim reports are due by April 15 each year. Additional time is needed by the Department to certify these reports.

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 2006-07 – the most recent report available – there are currently three school districts with negative certifications and 19 school districts with qualified certifications. **Attachment B** provides a complete listing of negative and qualified certifications. The three school districts with negative certifications listed below will not be able to meet their financial obligations for 2006-2007 or 2007-2008.

District	County	Budget
Vallejo Unified	Solano	\$142.8 million
Parlier Unified	Fresno	\$27.8 million
Biggs Unified	Butte	\$6.4 million

All three schools districts on the negative list for the First Interim Report this year -- Vallejo Unified, Parlier Unified and Biggs Unified – were also on the negative list for the First Interim Report last year.

According to FCMAT, the number of school districts with negative and qualified certifications will reportedly increase when the Second Interim Report for 2006-07 is released by CDE later this spring.

State Emergency Loan Recipients. A school district governing board may request an emergency apportionment loan from the state if the board has determined the district has insufficient funds to meet its current fiscal obligations. Current law states intent that

emergency apportionment loans be appropriated through legislation, not through the budget. The conditions for accepting loans are specified in statute, depending on the size of the loan.

For loans that exceed 200 percent of the district's recommended reserve, the following conditions apply:

- The State Superintendent of Public Instruction (SSPI) shall assume all the legal rights, duties, and powers of the governing board of the district.
- The SSPI shall appoint an administrator to act on behalf of the SSPI.
- The school district governing board shall be advisory only and report to the state administrator.
- The authority of the SSPI and state administrator shall continue until certain conditions are met. At that time, the SSPI shall appoint a trustee to replace the administrator.

For loans equal to or less than 200 percent of the district's recommended reserve, the following conditions apply:

- The SSPI shall appoint a trustee to monitor and review the operation of the district.
- The school district governing board shall retain governing authority, but the trustee shall have the authority to stay and rescind any action of the local district governing board that, in the judgment of the trustee, may affect the financial condition of the district
- The authority of the SSPI and the state-appointed trustee shall continue until the loan has been repaid, the district has adequate fiscal systems and controls in place, and the SSPI has determined that the district's future compliance with the fiscal plan approved for the district is probable.

Five school districts are currently receiving state emergency loans – Emery Unified, Oakland Unified, Richmond/West Contra Costa Unified, Vallejo Unified, and West Fresno Elementary. **Attachment C** summarizes the amounts of these emergency loans and the status of repayments.

Oakland Unified and West Fresno Unified, which are both receiving emergency loans from the state, were on the negative list for the First Interim Report last year, but are on the qualified list this year. Two other districts with emergency loans -- West Contra Costa Unified and Emery Unified -- are not on either the negative or qualified certification lists for the First Interim Report.

Annual Reports for Districts Receiving Emergency Loans. Legislation appropriating emergency state loans to school districts requires the preparation of annual written status reports for assessing the progress of schools districts in meeting their improvement plans. These reports are prepared by FCMAT for a two year period through funds provided in

emergency loan legislation for each district. There is no process for funding these reports in subsequent years, if progress reports continue to be needed.

The 2006-07 budget authorized FCMAT to utilize any unexpended funds available from prior years to fund additional annual written progress reports for the Oakland Unified School District, the West Fresno Elementary School District and the Vallejo Unified School district. The Governor's Budget does not propose to continue this authority for FCMAT in 2007-08, as currently proposed. According to the Department of Education, the following amounts are needed to continue state funding for the progress reports: \$150,000 for Oakland Unified; \$125,000 for Vallejo Unified; and \$110,000 for West Fresno Unified \$110,000.

Comments: Staff recommends that at May Revise the Subcommittee approve language included in the 2006-07 budget reappropriating unexpended funds to cover the 2007-08 costs for annual progress reports for Oakland Unified, Vallejo Unified and West Fresno Unified.

ISSUE 5. School District Fiscal Solvency Grants (6110-650-0001)

DESCRIPTION: The 2006-07 budget provides **\$10 million** in one-time funds grants for fiscal solvency planning. Of this amount, **\$9 million** is available for school districts and charter schools to reimburse their costs of developing management plans for addressing long-term unfunded liabilities related to retiree health benefits. In addition, **\$1 million** is available to county offices of education for review of district plans. The Department of Education will provide a status report on the implementation of this program.

BACKGROUND: The 2006-07 budget trailer bill -- AB 1802 (Chapter 79, Statutes of 2006), as modified by Senate Bill 1131 (Chapter 371, Statutes of 2006) -- appropriates **\$9 million** in one-time settle-up funds to school districts and charter schools for fiscal solvency planning. Specifically, these measures provide funding of up to \$15,000 per school district and charter schools that have completed management plans to meet their outstanding long-term fiscal obligations for retired employee non-pension benefits.

The Governmental Accounting Standards Board (GASB) Statement 45, released in June 2004, defines other post-employment benefits (OPEB) and establishes standards for employers to measure and report their costs and obligations relating to OPEB.

The authorizing legislation also provides **\$1 million** statewide for county offices of education to consider district management plans during the review of a district's budget.

Requirements for Grant Funds: In order to receive fiscal solvency planning funds, districts and charter schools must complete a management plan for meeting their OPEB obligations. The Superintendent of Public Instruction (SPI) is required, pursuant to Chapter 371, Statutes of 2006, to specify the elements included in the plan. Plans must be approved by the governing board of the school district or charter school. School districts must then submit their plans to their county superintendents for review. Charter schools must submit their plans to their authorizing entities; no other review is required.

Funding Available: Districts and charter schools will be reimbursed for their actual costs, up to \$15,000, for activities related to developing the plan for meeting their OPEB obligations. Applications will be funded on a first-come basis. Given maximum grants of \$15,000 per LEA, the Department of Education estimates that the \$9 million appropriated will fund approximately 600 LEAs statewide.

Program Implementation: According to the Department of Education, application grants were issued February 23, 2007, and are due back to the department by May 15, 2007. Grantees are expected to be notified by June 29, 2007.

Comments: While funds appropriated in the 2006-07 trailer bill for fiscal solvency planning are one-time Proposition 98 funds, these funds remain available for expenditure over a three-year period.

ISSUE 6. Chief Business Officer Training Program (6110-650-0001)

DESCRIPTION: The Governor proposes **\$2.5 million** in one-time Proposition 98 funds to fully fund eligible candidates for the Chief Business Officers (CBO) Training Program. The Governor's proposal continues one-time funding for this program, which provides incentive funding for training of chief school business or financial officers employed by school districts and county offices of education.

BACKGROUND: The CBO Training Program, as established by Chapter 356, Statutes of 2005 (SB 352/Scott), is administered by the Superintendent of Public Instruction, with the approval of the State Board of Education. The purpose of the program is to provide rigorous training to chief business and financial officers in order to improve the financial management of school districts and county offices of education. The statute requires, but is not limited to, instruction and training in the following areas:

- (1) School finance, including revenue projection, cash flow management, budget development, financial reporting, monitoring controls, and average daily attendance projections and accounting.
- (2) School operations, including matters relating to facilities, maintenance, transportation, food services, collective bargaining, risk management, and purchasing.
- (3) Leadership, including organizational dynamics, communication, facilitation and presentation.

The program is required to provide at least 200 hours of training. Of this amount, 40 hours is required for intensive individualized support and professional development in the above areas. Eligible training candidates include individuals employed full-time as chief business or financial officers by school districts or county offices of education, or individuals nominated by school districts or county offices of education.

Funding is intended to serve 350 eligible training candidates per fiscal year at a rate of \$3,000 per candidate. Priority for enrollment is given to eligible candidates from districts that are currently operating with a state-appointed administrator or trustee, or from districts that have received a negative or qualified budget certification within the last five years.

The 2005-06 budget appropriated \$1.05 million in one-time funds as the first installment in funding for the program. Due to delays in implementing the program in the first year, these one-time funds were reappropriated in 2006-07. The Governor proposes another \$2.5 million for the second year of the program in 2007-08.

COMMENTS: The CBO Training Program was intended to reach chief business or financial officers in schools districts and county offices statewide over a three year period. For this reason, one-time funding is an appropriate source of funding for the program. The State Board of Education is required to submit an interim report on the program to the Legislature by September 30, 2007. A final report is due to the Legislature by August 31, 2008.

ISSUE 7: California School Information Services (CSIS) Program

DESCRIPTION: The Governor's budget provides \$6.1 million for the CSIS program in 2007-08, which continues funding at the 2006-07 level. The Department of Education has asked the Administration to consider two budget requests for CSIS that would provide staffing, services and technology necessary to support the California Longitudinal Pupil Achievement Data System (CALPADS).

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. 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 also 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.

2006-07 Budget: Last year's budget provided **\$29.5 million** for a new "CSIS-lite" program to provide funding for non-CSIS districts and some charter schools so that they can become ready for CALPADS implementation (\$20 million from the Educational Telecommunications Fund and \$9.5 million in one-time Proposition 98 funds). This program has been named the Best Practices Cohort program, and will help prepare LEA participants to collect, maintain, and submit student and teacher level data to CALPADS. The program is voluntary, and the more than 1,000 districts and independently-reporting charters that are not currently participating in CSIS are eligible to participate. The program provides one-time funding and some technical assistance to provide the districts and charter schools with the main improvements in information technology systems that are usually associated with participation in CSIS. This proposal was developed by the Administration, in consultation with CDE and the LAO. The 2006-07 budget also provided approximately **\$1.5 million** (allocated \$500,000 each year in 2006-07, 2007-08, and 2008-09) for CSIS to implement the new proposal.

CDE Proposal – Additional CSIS Support for CALPADS. CSIS is requesting **\$600,000** so that CSIS can meet the 2007-08 work requirements defined in the CALPADS Request for Proposal (RFP) and the October 21, 2005 report to the Department of Finance. This funding will support 3.9 FTE for CSIS and 50 percent of a CSIS contractor to serve as subject matter experts for the design and development of

CALPADS and to support knowledge transfer between the vendor and CSIS, so that CSIS is able to support CALPADS after the vendor's commitment ends.

The CALPADS RFP obligates California to provide 1.5 FTE in CSIS resources to the CALPADS vendor in 2007-08. The other resources are necessary to provide expertise on local needs and systems, the CSIS Data Dictionary, file formats, data submission requirements, and compatibility with CSIS capable systems.

Comments: According to CDE, California has invested millions in CSIS and CSIS-capable local systems. Providing this funding will ensure that legal obligations to the CALPADS vendor are met and the investment in CSIS is appropriately leveraged as CALPADS is developed.

CDE Proposal – Augmentation for CSIS Central Operations. CSIS is requesting an increase of **\$1,630,000** in CSIS central operations funding to:

1. maintain system stability,
2. adequately test software before deployment, and
3. provide assistance to local education agencies (LEAs).

The request includes \$380,000 for computer servers and 2.0 staff positions devoted to keeping the system stable; \$140,000 in testing software and 2.5 positions for improved testing, 5.5 positions for improved client support; and 1.0 position to maintain necessary system and program documentation.

The report for the period of October 6, 2006 – January 5, 2007, by the Independent Oversight Consultant (IPOC) dated March 8, 2007, identified the top three issues and risks to CSIS as: 1) development timelines exceeding staff resources; 2) CSIS constrained resources; and 3) performance issues with CSIS technical infrastructure.

According to CDE, the next quarterly report is under development and IPOC has notified CSIS that they intend to again raise concerns about stability of the system, adequate testing, and the inability of CSIS to respond to LEAs in a timely manner due to resource constraints. The system had 43 unscheduled outages during the past quarter, and in January 2007 alone, CSIS received nearly 4,000 requests for LEA assistance, far exceeding the ability of CSIS to support LEAs in an effective or efficient fashion.

Comments: According to CDE, CSIS does not have sufficient resources to meet its needs. The data collected by CSIS will be used to determine graduation and dropout rates and trends and also will be used to populate CALPADS when it is implemented. Adequate resources should be provided to ensure California has quality data necessary to inform its decisions. In addition, a stable system and well functioning process experienced by LEAs is critical for a smooth and successful transition to CALPADS. Without additional resources, the Department of Education is concerned this will not be accomplished.

ISSUE 8: Program Improvement (PI) Schools & Districts (6110-136-0890)

DESCRIPTION: The Governor’s Budget provides **\$49.8 million** in federal Title I set-aside funds for low performing schools and districts identified as needing “Program Improvement” (PI) under the federal No Child Left Behind (NCLB) Act in 2007-08. The Governor’s budget does not appropriate an additional **\$15.2 million** in additional in Title I set-aside base funding and **\$45 million** in one-time Title I set-aside funds. In addition, the Governor’s budget does not reflect the availability of **\$17.6 million** in new, ongoing federal Title I funds for school and district improvement. The Administration will likely update their proposals as part of the May Revision. The Department of Education will present proposals for expending additional Title I federal funds available in 2007-08. CDE will also provide an update on implementation of NCLB accountability provisions in California.

BACKGROUND: The federal No Child Left Behind Act allows states to “set-aside” four percent of their total Title I grant to help schools and districts improve their performance.

Status of Program Improvement Schools and Districts. According to the Department of Education, there are currently 2,218 Title 1 funded schools and 159 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 two years.

Year	Program Improvement Schools	Program Improvement Districts
Year 1	700	59
Year 2	340	100
Year 3	484	0
Year 4	340	0
Year 5	354	0
TOTAL	2,218	159

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’s budget provides **\$49.8 million** in ongoing Title I set-aside funds for 2007-08, as follows:

- **\$10 million** for the Statewide System of School Support, which are regional consortia providing technical assistance to schools and districts in need of improvement.

- **\$1.6 million** to support State Intervention and Assistance Teams (SAIT) that enter into contracts with Title I Program Improvement schools, HP schools, or II/USP schools that have failed to meet growth targets (\$75,000 per SAIT team assigned to an elementary or middle schools; \$100,000 for per team assigned to a high school).
- **\$22 million** to provide \$150 per pupil for schools to implement corrective actions resulting from their work with SAIT teams.
- **\$16.2 million** for school districts identified as program improvement, to help these districts work with external providers to perform assessments related to developing and implementing improvement plans. Districts receive \$50,000 plus \$10,000 per schools that is Title I supported from this set-aside.

According to the Department of Education, preliminary estimates are that an additional **\$77.8 million** is available in 2007-08 that is not included in the Governor's 2007-08 budget. This includes an additional **\$15.2 million** in continuing Title set-aside base funds and **\$45 million** in one-time Title I carryover funds are available for school and district improvement in 2007-08. In addition, there is **\$17.6 million** in new, ongoing Title I funds for school improvement grants in 2007-08. The Governor has not proposed to appropriate these funds to date, in part because of a lack of information about the final federal amounts available.

CDE Proposals for Expanding District-Based Supports and Interventions. The Department of Education has proposed a plan for expending the additional **\$77.8 million** new federal funds available in 2007-08. The Department proposes expending the new funds as follows:

- **\$ 7 million** increase for Statewide Systems of School Support;
- **\$28 million** increase in grants for PI Districts;
- **\$15.6 million** to add grants for Non-PI Districts with a number of PI schools; and
- **\$27 million** for a new DAIT program element to assist with corrective actions in PI districts.

CDE Proposal for District Intervention Teams. CDE has submitted a proposal to the Administration for utilizing district assistance and intervention teams (DAIT) to assist districts in making changes to improve their performance. This program is modeled after the department's intervention approach for schools. CDE has been piloting the DIAT approach in anticipation of the 100 PI districts that could be eligible for state interventions this fall if they fail to make AYP in their third year.

CDE Proposal for Technical Fix to Budget Schedule. The administration has proposed new budget control language for Title I funds that would allow CDE to adjust the above amounts based on the number of schools and districts that are ultimately identified as program improvement, after the budget passes. CDE is proposing an alternative technical fix that will restructure the item into schedules, which will allow for transfer of funds between areas in an easier and more timely manner. A copy of CDE's proposed technical changes to the Governor's budget language are included in [Attachment D](#).

COMMENTS: The Administration will likely provide a new expenditure plan for Title I Set-Aside funds and the new federal School Improvement funds at May Revise. CDE and DOF area currently working to verify the level of additional funding available in 2007-08. The Department of Education indicates that because of the delay in obtaining final federal grants figures, Title I Set-Aside estimates, as reflected in this agenda, may change.

Staff recommends that the Subcommittee consider CDE's proposals for strengthening support for district-based support and interventions for districts, given research that supports the effectiveness of this approach.

Staff also recommends that the Subcommittee adopt the CDE proposal for adjusting the budget schedule for Title I Set Aside funds to make program adjustments reflecting workload easier within the budget year. A copy of CDE's proposal is included in [Attachment D](#). CDE's proposed changes would separately schedule School Improvement and Even Start under Title I. The LAO supports these changes and recommends adding a new reporting requirement for School Improvement as a part of the CDE technical fixes. Staff recommends that the Subcommittee adopt this additional LAO change.

ISSUE 9: High Priority (HP) Schools Grant Program (Item 6110-123-0001)

DESCRIPTION: The Governor's budget proposes a total of **\$243 million** in 2007-08 for the High Priority (HP) Schools Grant program, the same level of funding appropriated in 2006-07. Of this amount, the budget continues **\$201 million** for a second cohort of HP schools and **\$10 million** (or whatever greater or amount is necessary) for corrective actions for HP schools. The Department of Education estimates current year and budget years costs for the HP program of \$130 million for each year, reflecting current program commitments. As a result, there are more than **\$100 million** in funding balances for the program in both 2006-07 and 2007-08, as currently proposed by the Governor. The Administration is still considering how to utilize these funds balances. The Department of Education will present two proposals for expending some of the HP fund balances in 2007-08. The LAO will also make recommendations for capturing these funds as savings and for expending some of these funds.

BACKGROUND: The High Priority Grant program, established in 2001, provides improvement funding to low-performing schools and provides state interventions and ultimately sanctions for schools that fail to improve. The HP program defines eligible schools to include any school with a valid API in deciles 1-5. The program gives first priority to decile 1 schools; second priority to decile 2 schools; third priority to decile 3 schools; fourth priority to decile 4 schools; and fifth priority to decile 5 schools.

HP Grants to Schools: In the first year of the HP program, schools selected to participate are eligible for planning grants of \$50,000. In subsequent years, schools receive implementation grants of \$400 per pupil or a total of \$25,000 for the school site, whichever is greater.

HP schools are generally eligible for implementation grant funding for three years. Schools that make significant growth, but do not make growth targets, are eligible for one additional year of funding. HP schools that fail to make significant progress will be subject to interventions and sanctions by the Superintendent of Public Instruction (SPI) and State Board.

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. Specifically, Section 52055.662 of the Education Code reads:

It is the intent of the Legislature to appropriate any savings achieved as a result of schools being phased out of the Immediate Intervention Underperforming School Program and the High Priority Schools Grant Program to provide High Priority Schools Grant awards to eligible schools, pursuant to Section 52055.605 that have not previously received a grant under the program.

HP School Cohorts Funded. Funding for the first HP cohort was appropriated in the 2002-03 budget. The first cohort provided funding for 366 schools. Of these schools, 174 were in deciles 1 and 113 were in decile 2 of the API. A total of 203 of these schools exited the HP program and 28 schools remain in the program. Another five of these schools closed.

The 2005-06 budget provided funding for a second cohort of HP. 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. Planning grants for cohort two schools were issued in 2006-07. In March 2007, the State Board approved implementation grants for 408 cohort two schools. Of these schools, 187 were in decile 1 and 221 were in decile 2.

To date, all eligible decile 1 and 2 schools that have volunteered to participate in the program have been funded. A total of xxx decile 1 schools and xxx decile 2 schools have opted not to participate in the HP program.

The second cohort of HP relies on the 2005 base API. CDE has indicated that a new 2006 decile ranking will be released soon that may generate additional decile 1 and 2 eligible schools for the HP program. If an additional cohort were funded, these schools would be given first priority as long as they had not already participated in the program. Next priority would be given to schools in decile 3 of the API.

Governor's Budget Proposal: The Governor's budget proposes a total of **\$243 million** in 2007-08 for the High Priority (HP) Schools Grant program, the same level of funding appropriated in 2006-07. Of this amount, the budget continues:

- **\$201 million** for a second cohort of HP schools. The budget specifies that annual funding for planning grants and implementation grants for the second cohort, as proposed, cannot exceed this amount in any fiscal year.
- **\$10 million** (or whatever greater amount is necessary) to support schools working with School Assistance and Intervention Teams (SAITs) or schools subject to sanctions by the SPI.

In addition to the \$243 million for HP School Grants, the Governor's budget proposes **\$6.0 million** for state corrective actions for non-Title I schools working with School Assistance and Intervention Teams or non-Title I schools subject to state and federal sanctions after participating in the Immediate Intervention/ Underperforming Schools Program (II/USP).

The Governor's 2007-08 budget also proposes to revert **\$49 million** in funds appropriated in 2005-06 for the second cohort of HP. These funds were never expended due to delays in the enactment of legislation required to establish exit criteria for the program as a condition of expenditure.

Costs of the Current HP Program: The Department of Education estimates current year and budget year costs for the HP program of \$130 million for each year, reflecting current program commitments. As a result, there are more than **\$100 million** in funding balances for the program in both 2006-07 and 2007-08, as currently proposed by the Governor.

	2006-07 (Budgeted)	2007-08 (Proposed)
Appropriations		
Cohort Two Schools	\$201,000,000	\$201,000,000
SAIT	-/+\$10,000,000	-/+\$10,000,000
Total Appropriations	\$243,000,000	\$243,000,000
Expenditures		
Cohort Two Schools (408)	\$101,987,400	\$101,987,400
CSR Conversion Schools (71)	\$25,821,484	\$25,821,484
Remaining Schools (28)	\$1,314,800	\$1,314,800
SAIT	\$1,481,750	0
Total Expenditures	\$130,605,434	\$129,123,684
BALANCES	\$102,603,566	\$104,085,316

The Governor does not have a proposal for addressing these HP funding balances. The Administration is still considering how to utilize these fund balances in conjunction with recent findings from the HP evaluation.

CDE Recommendations: The Department of Education recommends two proposals for utilizing some of the \$100 million in fund balances available for the HP program within the Governor’s HP proposal for 2007-08.

- **District-Based Interventions.** CDE proposes **\$46 million** in local assistance funds in 2007-08 to provide grant allocations to school districts with HP schools in deciles 1 and 2 that would be used for specific district-activities directed to support of HP schools and staffs. The cost of the program would grow to **\$80 million** in 2008-09, based upon projections of future savings from cohort two. Research on school improvement as well as a recent evaluation of the HP program point to the important role that districts play in school improvement, suggesting the need for the state to switch from a school-based accountability and intervention system to a district-based system.

CDE proposes **\$241,000 and 2.0 positions** for state operations related to administration and support of this new program.

- **Alternative School Improvement.** The Department of Education proposes to use **\$4.0 million** of the 2007-08 funds to develop a two-year pilot program for assisting and intervening with alternative schools that are either not currently eligible to participate or cannot appropriately benefit from the HP program as it is now structured. The objective of the pilot program would be to develop suitable HP program requirements for alternative schools and to validate them with a limited cohort of these schools prior to offering the program more broadly. The pilot would provide immediate support to the cohort of alternative schools selected for participation. Goals of the pilot program are to develop HP eligibility, implementation and accountability requirements for alternative schools.

Last year, CDE sponsored AB 2254 (Umberg), which would set aside \$10 million in new HP funding for grants for alternative schools to participate in the program.

CDE also requests **\$241,000 and 2.0 positions** for state operations related to administration and support of this pilot program.

According to the Department of Education, most of the state's more than 1,000 alternative schools participate in the Alternative Schools Accountability Model, and as such do not generate a valid API that allows them to participate in the HP program. Alternative schools, which include community schools, community day schools, continuation high schools, county court schools, and state Division of Juvenile Justice schools, serve students who have not been successful in traditional programs. While they do not have a valid API, most of these schools perform at or below the equivalent level of decile 1 or 2 schools. Given the needs of their students, and their low-performance, alternative schools could also benefit from state improvement funding and interventions to improve outcomes for their students.

Recent HP Evaluation. A recent evaluation conducted by American Institutes of Research found that achievement gains for HP schools were only slightly higher than gains in similar schools that did not participate in the program. The evaluation suggested that the minimal effect might have been a result of the basic design of the program in which a relatively short-term injection of funds is insufficient to affect long-term school performance. These findings were similar for an earlier evaluation of the II/USP program. The HP evaluation recommended that:

- Role of the school district be enhanced in the system.
- Long-term role of external evaluators be explicitly clarified.
- CDE should target failure early.
- Timing of funds should be carefully considered for the next cohort.
- Clear guidance needed on how to integrate HP objectives and API growth targets into a Single Plan for Academic Achievement.

LAO Recommendations: The LAO makes the following recommendations for addressing current year and budget year HP funding balances.

- **2006-07 Fund Balances.** The LAO would give first priority to capturing the estimated \$100 million in funding balances in 2006-07 as savings to reduce the 2006-07 Proposition 98 minimum guarantee.
- **2007-08 Fund Balances.** The LAO would also give first priority to savings options for the \$100 million in HP funding balances proposed by the Governor in 2007-08. The LAO cites findings from the II/USP and HP evaluations conducted by AIR that found no significant impact for schools. However, the LAO notes that these same studies found positive effects for schools resulting from district-level activities. The LAO indicates that districts ultimately make decisions about assisting and resourcing their schools. For this reason, the LAO also supports CDE’s proposal for district-based interventions. In addition, the LAO also supports CDE’s pilot program for alternative schools improvement, reflecting findings from a special report on this topic.

COMMENTS: The Administration is still considering options for addressing the more than **\$100 million** in funding balances for HP program in both 2006-07 and 2007-08, as proposed by the Governor’s January 10 budget. General funding options include:

- **Capture Savings.** Savings from 2006-07 could be captured as savings or reappropriated for HP in 2007-08, thereby reducing the cost of the program in that year.
- **Fund New Program Elements.** Funding could be provided for a new district-centered intervention program and alternative schools improvement program as recommended by the CDE and LAO.
- **Fund New Participants.** Funding has been offered to most decile 1 and 2 schools. Therefore decile 1 and 2 schools that have not already participated in the program and decile 3 schools would have priority for a new cohort of funding. Funding for another cohort of 408 schools would cost approximately \$130 million a year for three to four years.
- **Reevaluate Continued Investments in HP School Grants.** Given the limited success of providing short-term funding to low-performing schools, as found by recent evaluations of the II/USP and HP programs, the state may wish to reevaluate the effectiveness or policies to provide grants to low-performing schools. Instead, the state may wish to consider investments providing ongoing resources to economically disadvantaged students, regardless of where they attend school. Findings from the recent “adequacy” studies confirm the strong relationship between poverty and low achievement. As a result, the state may want to consider further investments in the Economic Impact Aid program, which provides ongoing funds to schools for economically disadvantaged and English

learner students. The state has committed over **\$2.0 billion** in programs for low-performing schools in recent years. In addition, the state will provide **\$2.8 billion** to low-performing schools over the next seven years as a part of the Quality Education Improvement Act enacted last year.

Staff recommends that the Subcommittee ask the Administration about what options they are considering for appropriating the 2006-07 and 2007-08 funding balances for HP program and how this relates to the Williams agreement.

ISSUE 10: Standardized Testing and Reporting System (STAR) and California English Language Development Test (CELDT)

DESCRIPTION: The Governor proposes to continue an estimated **\$4.5 million** in 2007-08 to cover the costs of providing a 2nd grade STAR test, although that test sunsets at the end of 2006-07. As a part of their recommendations for improving accountability for English learners, the LAO recommends that **CDE study the feasibility of developing a vertical scaling system** for the STAR program in order to track progress for individual students from year-to-year. The Governor continues **\$1.4 million** in carryover funds for the development of a test of English language proficiency for English learners in kindergarten and 1st grade, pursuant to the requirements of the No Child Left Behind Act.

BACKGROUND: The Governor's budget provides **\$117.9 million** in funding for state assessments in 2007-08. (**Attachment E** lists and describes these state assessments.) This includes **\$85.1 million** in Proposition 98 funds and \$32.8 million in federal funds. The Governor's budget essentially continues funding for assessment programs at the 2006-07 and does not reflect any new outlays for statewide assessments.

Funding for state assessments are utilized for the following purposes: 1) reimbursing school districts for their local costs of administering the tests, and 2) paying for the statewide costs of developing and maintaining these tests, including payment to the private companies that develop the test items.

The Governor's budget does not reflect any major policy initiatives on testing, with the exception of a proposal to continue STAR testing 2nd graders, which is discussed below.

Continuation of Funding for STAR 2nd Grade Test. The current state testing system was created by legislation passed in 1997. The existing program was re-authorized in 2004 by SB 1448 (Alpert), Chapter 233, which re-authorized the state testing system for grades 3-11 until 2011 but only re-authorized the test for 2nd grade until June 30, 2007. Unless this law is changed, there will be no legal authority for the continuation of the state system in 2nd grade beginning July 1 of this year.

The Governor proposes trailer bill legislation to extend the authorization for 2nd grade testing until July 1, 2011, when the rest of the program sunsets. Accordingly, the Administration continues funding for 2nd grade testing in the 2007-08 budget. CDE estimates the state spends **\$4.5 million** a year for administration of the 2nd grade STAR test. The Administration supports ongoing second grade testing for the following reasons:

- Second grade tests provide the only statewide assessment of whether or not a student has mastered basic reading skills. Testing in subsequent grades is focused on subject matter/content knowledge.
- Without second grade testing, the first information about student performance, related to state aligned standards, would not be available until the beginning of fourth grade.

Second grade testing is currently used to measure placement of students in third grade. Later identification of students who need additional support can be detrimental to student achievement.

Comments: The Governor's proposal to extend 2nd grade testing is a policy issue, not a budget issue. However, if current law is not changed to extend the sunset of 2nd grade testing, there will no authority for expending the **\$4.5 million** proposed for the exam in 2007-08. As a policy matter, the issue of 2nd grade testing is not without controversy. Some advocates argue that 2nd grade testing is developmentally inappropriate, takes time away from classroom instruction and does not provide diagnostic data that can help inform instructional practices or identify areas that students need help in. Others argue that the 2nd grade tests are developmentally appropriate by design, take about one hour a day for six days, and provide valuable information to parents and teachers about how students are doing in reading and math that can be utilized to address student needs beginning in 3rd grade, rather than 4th grade. Per DOF, the estimated savings for the sunset of the 2nd grade STAR test is **\$2.0 million** in 2007-08 and **\$4.3 million** in future years.

LAO Recommendation for Vertical Scaling of STAR. As part of its recommendations regarding English learners, the LAO recommends that the state's STAR system be revised to be "vertically scaled" – that is, so that performance levels mean the same thing in each grade. This would allow the state to measure student gains and losses across years. The LAO notes that this data is particularly important for English learners, because aggregate comparisons of how English learners perform as a group from one year to the next are not particularly meaningful because the students classified as English learners change every year due to redesignation and immigration. As a first step, the LAO recommends that the CDE be required to contract out for a report on the feasibility of this change.

Comments: The state already collects vertically scaled data the CELDT, which is used to assess the progress of English learners in acquiring skills in speaking, reading, and writing English. The availability of vertically scaled data would allow the state to apply to the federal government to receive more flexibility in implementing NCLB. The LAO recommendation for a CDE feasibility study seems like a reasonable first step.

K-1 CELDT Testing in Reading and Writing. NCLB requires that states develop testing systems in specific areas. In a recent review of California's testing system, the federal government cited the state for not testing English learners in grades K-1 for reading and writing skills. CDE notes that CELDT already tests K-1 English learners for *listening* and *speaking skills*. The federal NCLB requirement would add *reading* (e.g., letter recognition) and *writing* (e.g., tracing letters) components to the test. Previous budgets have contained funding for this purpose, but legislation required for expenditure of funds has not been successful. The Governor's budget continues **\$1.4 million** for the development of this test, subject to legislation in 2007-08. Once developed, the administration of the new test elements cost approximately \$1 million annually.

Comments: The Department of Education is sponsoring **SB 827 (Padilla)**, which is intended to add the federal assessment requirements for K-1st grade English learners.

ISSUE 11: California High School Exit Exam (6110-113-0001/0890)

DESCRIPTION: The Department of Education will provide an update on implementation and outcomes for the California High School Exit Exam (CAHSEE) for the Class of 2006. The Class of 2006 was the first group of students required to pass CAHSEE in order to graduate from high school with a diploma. The Governor's budget proposes an additional **\$270,000** for CAHSEE administration in 2007-08 to increase the number of times 12th graders can take the exam. The Governor's proposal would allow 12th grades to take the test up to five times, rather than three times as currently allowed.

BACKGROUND: The Governor's budget provides a total of **\$21.5 million** for maintenance and administration of the CAHSEE in 2007-08. This includes **\$10.9 million** in Proposition 98 funds and **\$10.6 million** in federal funds. The Governor proposes to continue funding at comparable levels to the 2006-07 budget, with a small decrease overall to reflect lower program costs in 2007-08.

Governor's Budget Proposal – 12th Grade Test Administrations. CAHSEE funds are available for seven administrations of the exam annually. Under current regulations, 12th grade students may take up to five administrations of the exam; 11th grade students may take up to two administrations; and 10th grade students are required to take one administration. The Governor's budget proposes to add \$270,000 to allow 12th graders to take CAHSEE up to five times, rather than three times as currently allowed.

CAHSEE Passage Rates. The class of 2006 was the first graduating class to be subject to the requirement that students pass the California High School Exit Exam in order to graduate from high school and receive a diploma.

According to the most recent data collected by CDE, nearly **40,000** seniors from the class of 2006 did not pass by the end of the 2005-06. It is unclear whether these students are still enrolled in school, as fifth grade seniors, Adult Education students, or as Community College students. The 2006-07 budget provides \$10 million for Community Colleges non-credit programs to assist students failing CAHSEE.

According to CDE, **91 percent** of all students in the class of 2006 passed the CAHSEE. This does not include students who were scheduled to graduate by 2006 but dropped out before they got to their senior year. However, this rate varied by school and by subgroup. The chart below contains the latest passage rates by student subgroup as provided by the Department of Education.

**12th Grade Passage Rates,
Class of 2006**

	Class of 2006
All Students	91%
Economically disadvantaged	86%
English learner	76%
Special education	48%

**11th Grade Passage Rates,
Class of 2006 & 2007**

	Class of 2006	Class of 2007
All Students	78 %	79%
Economically disadvantaged	66%	68%
English learner	51%	52%
Special education	36%	34%

**10th Grade Passage Rates,
Class of 2006, 2007 & 2008**

	Class of 2006	Class of 2007	Class of 2008
All Students	73%	75%	73%
Economically disadvantaged	48%	50%	51%
English learner	30%	31%	27%
Special education	19%	20%	21%

Comments:

- **What Happens for Students Who Have Not Passed CAHSEE?** While passage rates have been increasing for students planning to graduate, 40,000 students in the class of 2006 did not pass CAHSEE. What has happened to these students? Did these students make additional attempts at passing CAHSEE after June of 2006? What were the outcomes for these students?
- **CAHSEE Evaluation.** Funding has been available in recent years for ongoing, independent evaluations of the CAHSEE exam. These continuing evaluations have been conducted by Human Resources Research Organizations (HumRRO). What is the status of these evaluations? What are the findings and recommendations of the latest HumRRO report?
- **CAHSEE Study of Educational Experience of English Learners and Students with Disabilities.** The 2006-07 budget provided CDE \$100,000 for a study of English learners and students with disabilities in the Class of 2006 who had not passed CAHSEE, given the lower passage rates for these students. The study will identify and consider intervention services provided to these students. When will this study be completed? Can CDE offer any preliminary findings from this study?

ISSUE 12: CAHSEE Supplemental Intervention Services (6110-204-0001) and CAHSEE Workbooks (6110-485)

DESCRIPTION: The Governor proposes **\$72.4 million** in 2007-08 to continue ongoing funding for CAHSEE supplemental intervention services for 11th and 12th grade students who have not passed CAHSEE. The Governor also proposes **\$5.5 million** to continue one-time funding for purchase of individualized CAHSEE workbooks for these same students in 2007-08. The Department of Education will provide an update on how districts are utilizing their supplemental instructional and support service funds and the effect of these services in improving CAHSEE passage rates.

BACKGROUND:

Supplemental Instructional Services and Support. The 2006-07 budget provided an increase of \$49 million for supplemental instructional services and supports designed to assist 11th and 12th graders who have not yet passed the CAHSEE. This brought total funding to \$70.0 million in 2006-07 for ALL eligible students. (Previously there was separate funding for students served by general general and special education programs/services.) The Governor proposes to continue this increase, and provides a COLA for the program, for a total proposed funding level of **\$72.4 million** in 2007-08. The Governor also proposes to hold the program harmless from the negative statewide growth.

Individual Workbooks. The 2006-07 budget provided an allocation of **\$5.5 million** in one-time funds to LEAs for the purchase of State Board of Education (SBE) approved CAHSEE intervention materials for 11th and 12th grade students who have failed the CAHSEE. The budget language required CDE to select and recommend intervention materials for SBE approval. The CDE recommended three submissions for approval by the SBE, which were approved in March 2007. The \$5.5 million from the 2006-07 budget is scheduled to be allocated to LEAs in mid-May.

The Governor proposes to continue funding for CAHSEE workbooks at **\$5.0 million**, in 2007-08, using one-time funds from the Proposition 98 reversion account. The Governor proposes to continue similar budget language and requirements for the program in 2006-07. LEAs would be eligible for funding of up to \$20 for 11th and 12th grade students who have failed one or both parts of the CAHSEE. CDE would be required to select a vendor or vendors to develop and produce study guide workbooks. Study materials must:

- assist students in mastering standards necessary for passing CAHSEE;
- include a computer-based component that adapts to each student's specific remediation needs; and
- include appropriate professional development support for teachers.

CDE Recommendations: CDE recommends the following changes with regard to the Governor’s proposal for CAHSEE workbooks:

- Remove the requirement for materials review from proposed trailer bill language. If this change is not possible, CDE recommends that the review be funded at \$10,000.
- Change trailer bill requirement to allow CDE to fund “up to” \$20 per student. CDE anticipates that the current funding amount will not allow for an allocation of \$20 per student. According to the CDE, the 2006-07 budget does not contain sufficient funds to allocate \$20 per pupil; it is under-funded by \$33,000. The 2007-08 budget proposes less funding overall and is expected to be under-funded by approximately \$533,000 since it provides \$5 million rather than \$5.5 million.

Comments: The Governor proposes \$5.0 million in one-time Proposition 98 funds for workbooks in 2007-08. Staff recommends that the Subcommittee not continue this one-time funding for CAHSEE workbooks, as first provided in 2006-07. Instead, staff recommends that funding for workbooks be funded as a part of the \$72.4 million in ongoing funding proposed by the Governor for CAHSEE supplemental instruction and support in 2007-08.

ISSUE 13: Supplemental Counseling Program for Grade 7-12 Students (6110-108-0001)

DESCRIPTION: The Governor's Budget provides funding of **\$208 million** to schools to continue funding for the Supplemental School Counseling program in 2007-08. The 2006-07 budget provided \$200 million for this new program to increase counseling services for students in grades 7-12. Priority for counseling services is given to students who are at-risk of not passing or who have not passed the California High School Exit Exam (CAHSEE) as well as students who are at-risk of not graduating high school due to insufficient credits. The Department of Education will provide an update on implementation of this new Supplemental Counseling program.

BACKGROUND: The 2006-07 budget provided \$200 million in ongoing funds for a new block grant to support additional counseling services for students in grades 7-12. The Governor proposes to continue this program at last year's funding level, along with an increase for a COLA, at a total proposed funding level of \$208 million. As with EIA and other programs, the Governor proposes to hold the program harmless from negative statewide growth by not adjusting the total funding level downward.

As a condition of receiving Supplemental Counseling funds, participating districts must do the following:

- Give priority in receipt of the additional counseling services to students who have not passed the California High School Exit Exam (CAHSEE), are at risk of not passing the CAHSEE, or risk not graduating due to insufficient credits.
- Hold a meeting between a counselor, the student, and the student's parents for the following types of students at risk of not graduating: 7th graders who score below basic on the California Standards Test; 10th graders who fail the CAHSEE on their first try; and 12th graders who have not yet passed the CAHSEE. The meeting must identify coursework designed to help students meet state standards, pass the CAHSEE, and obtain sufficient credits to graduate, and this information must be included in the identified students' files as they move from grade level to grade level.

COMMENTS: CDE has indicated that its initial attempts to implement the program yielded fewer-than-expected applicants. It subsequently extended the deadline for application with greater success and will provide an update on the most recent number of applicants and the status of funding allocations.

County offices of education argue that they should be eligible to receive funding from the program and are sponsoring legislation that would allow students they serve to participate in the program.

Issue 14: Partnership for Success Program (6110-650-0001)

DESCRIPTION: The Governor proposes **\$1.5 million** in one-time funds for Partnership for Success pilot program between K-12 local education agencies and California State University (CSU) campuses. The purpose of the program is to increase college-going and college-completion rates for participating students. Funds would be used for three partnerships that would develop and implement counseling, planning, mentoring, and other related services. Private funds would be required to match state funds for the regional partnerships.

BACKGROUND: As proposed, the Partnership for Success pilot program would provide grants totaling **\$1.5 million** to three partnerships between local school districts and a California State University (CSU) campus. State funds would be combined with private matching funds to support these partnerships.

The partnerships will develop “roadmaps” to guide participating students from middle to high school to ensure that they complete the necessary courses to meet CSU entrance requirements. The three participating CSU campuses would guarantee admission for students who complete the program and would provide necessary financial, as well as academic support services, mentoring, and academic counseling to ensure degree completion within four years.

The Partnership is intended as a reform model to foster a “college going culture” for a district's entire class of 7th grade students that follows them through middle and high school. Partnerships would achieve this culture by exposing students to a university campus through site visits, mentoring, tutoring, and on-going communication with the university. This exposure is intended to lead to improved college attendance and completion rates, as well.

According to the Administration, this proposal is modeled after the Compact for Success program, a public-private partnership between the Sweetwater Unified School District and San Diego State University.

COMMENTS: This program appears directly duplicative of the Student Academic Preparation, Outreach, and Early Assessment Programs administered by the University of California and California State University.

In the current year, the Budget Act provides \$31 million to the University of California (UC) and \$52 million to the California State University (CSU) for these programs. Under these programs, the UC and CSU partner with K-12 schools, in a regional collaborative model, to create a college-going culture as early as the fourth grade. The intent of these programs is to: (1) increase the number of students completing the A-G college preparatory course pattern in high school; (2) ensure that students complete high school (by graduating and passing the CAHSEE) or are transfer-ready (if coming from a

community college); and (3) work towards making students academically ready for a four-year college (not just UC or CSU).

In addition to the UC- and CSU-administered programs, the Student Aid Commission administers the Cal-SOAP (California Student Opportunity and Access Program) which works with parents, students, and families to provide assistance with financial issues (associated with going to college) and further increase the college-going culture.

The goals and outcomes of all these programs closely mimic the proposed “Partnership for Success” proposal by the Administration and any augmentation for this purpose would be better directed to the UC and CSU who have been administering these programs since the 1980’s.

Staff poses the following questions:

- (1) According to the Administration, this program is modeled after the Compact for Success between Sweetwater Unified School District and San Diego State University. This program has been developed utilizing existing funds available for school districts and higher education segments. Why are additional funds needed for this program?*
- (2) Does the Administration intend to fund the Compact for Success between Sweetwater Unified School District and San Diego State University or will three new CSU sites be competitively selected?*
- (3) Is this program intended as a one-time pilot program and, if so, does the Administration intend to provide additional state funding in the future to create a new statewide program or to simply provide a model that school districts and CSU campuses could fund with available resources?*

ISSUE 15. Alternative Schools – LAO Proposal

Description: The LAO will present finding and recommendations from their report – *Improving Alternative Education in California* -- published in February 2007. The report contains a number of findings and recommendations relative to alternative schools. An executive summary of the report is included in Attachment F. Copies of the report are available on-line at www.lao.ca.gov and will also be provided at the Subcommittee hearing.

Background: Alternative schools are specific models of schools (and programs, in the case of independent study) established by the state over a number of years to serve students (especially high schools students) who need an alternative to the regular school model due to behavioral, logistical or academic issues. The LAO report includes an analysis of the following types of alternative schools:

- continuation schools – operated by school districts
- community day schools – operated by school districts and county offices of education
- community schools – operated exclusively by county offices of education

Highlights of LAO Recommendations:

- 1) **Revise attendance rule regarding which students get included in the accountability system.** Under current law, only the test scores from those students who have been in attendance at a school from October until the time the statewide STAR test is administered in the spring are “counted” in the state’s accountability system whereby the state assigns an API score to a school based on a composite of achievement data. This “attendance rule” is also used for the state’s determination of whether a school met its annual yearly progress target for the federal NCLB accountability system. Any student who transfers to another school after October is not counted toward his or her old school’s accountability score or the new school’s score. Given that alternative schools have very high mobility rates (many students stay for less than one semester), the LAO points out that the API and AYP scores of these schools fail to accurately measure the school’s performance. The attendance rule also allows regular high schools to avoid responsibility for the progress of low-performing students by referring them to alternative schools during the year.

The LAO accordingly recommends replacing the current “entire school year” rule with one that assigns accountability scores based on each student’s “home” school. This change would assign the test scores of alternative school students to the comprehensive high school of each alternative school student.

- 2) **Revamp Alternative Schools Accountability Model (ASAM).** Under current law, alternative schools pick three performance measures from a list of 14 possible measures, and report their performance on those measures for students enrolled for at least 90 days. Many of these measures do not consider educational performance and do not allow comparisons among schools. Also, the requirement that schools only report data on students enrolled for at least 90 days excludes more than half of all students attending these schools. In addition, the state's ASAM model does not contain any consequences for poor performance.

The LAO accordingly recommends that the state revamp ASAM to focus on the goals of accelerated learning and graduation for the students that attend these schools. Specifically, it recommends a) including measures of short-term success that can be evaluated every three to six months and b) including a measure of student-level growth on state tests over time since the current testing system does not measure year-to-year growth.

- 3) **Deem independent study programs “schools” for purposes of accountability systems, and restrict use of independent study for students who are behind grade level.** The LAO found that independent study participants account for a large proportion of high school students enrolled in alternative programs. Yet, despite the frequent use of these programs, particularly for students who are not having success at regular programs, the LAO found a severe lack of data on independent study programs, how they are used, and how students do in them, since districts house these programs at various sites. The LAO accordingly recommends that independent study programs be deemed separate schools for the purposes of the ASAM. This proposal would not require districts to create separate independent study schools. Rather, the state would simply aggregate relevant test score data for all students in the program in each district and calculate an API and an alternative API for full-time independent study students in the district.

The LAO report also notes the lack of research supporting the use of independent study for students who are behind grade level and questions the apparent over-use for this particular group of students. It accordingly recommends that CDE be authorized to evaluate how well students learn in independent study programs and prohibit the use of these programs for students who score below the basic level of statewide STAR tests, if it determines that students are not making significant progress in the program.

- 4) **Restructure state program subsidies into a flexible grant.** The LAO points out a number of problems with the current system of state-funded programs with their various requirements. Each state program (community day schools, community schools, continuation schools) has a different set of funding, minimum day requirements and description of the type of student that may attend. It notes that during visits to schools, several district administrators noted a need for additional options for students that go beyond the current requirements of the state's

programs. The LAO also notes that the programs may create negative incentives that push districts to act in ways contrary to the best interests of the students, specifically: a) the state's allowance that some of these programs provide a shorter day may lead to fewer hours of instruction than at traditional high schools; b) the direct funding of county office-run programs shifts responsibility for these children away from school districts; c) sending students to county programs sometimes requires students to travel long distances and may deny them access to services available at district programs (after school programs, sports, and vocational and elective courses).

The LAO accordingly recommends combining the existing funding streams for the various state alternative school programs into a district alternative program block grant. Funding would go directly to school districts based on a formula that considers total district population as well as the number of students that exhibit significant behavioral problems. The existing state requirements for the various programs would disappear and districts could use block grant funds to support needed alternative programs, as well as implement new types of alternative programs, such as short- and long-term programs based on the needs of students.

COMMENTS: Staff recommends that the Subcommittee consider the LAO proposals to reform funding and accountability for alternative education programs. Because there may be additional costs with the alternative education reforms and given limited additional ongoing funding in 2007-08, it makes sense to look at accountability reforms first. These issues could be handled through the policy committee process.

Within the budget, the Subcommittee may want to consider how Alternative Schools could be given access to existing programs directed to low-performing schools. Most alternative schools participate in the Alternative School Accountability Model because of the high mobility of their students. Most schools that participate in ASAM do not have valid API rankings needed to qualify for special state funding improving low-performing schools, even though alternative schools perform at comparable levels to these schools.

For example, alternative schools do not have access to Emergency Facility Repair program funds available through the William's settlement agreement for decile 1-3 schools. Likewise, while alternative schools have some of the state's highest proportion of under-qualified teachers, these schools are not eligible for School Enrichment Block Grants that are directed toward recruitment and retention of qualified teachers at decile 1-3 schools. Alternative schools were also not eligible for instructional materials funds directed to decile 1 and 2 schools available as a part of the William's settlement agreement.

ISSUE 16. Community Day School Funding (6110-190-0001)

DESCRIPTION: The Governor’s budget provides **\$51.8 million** for the community day school program in 2007-08. This amount reflects a \$2.0 million increase over the amount provided in 2006-07 to provide a cost-of-living adjustment. The budget does not provide growth for the program since it is not required by statute. The Department of Education proposes an additional **\$4.1 million** in 2007-08 to cover an estimated shortfall in funding for this program in both the current year and budget year.

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 “zero tolerance” offenses (e.g., carrying a handgun to school, etc.) The program was created to provide a new option for students mandatorily expelled for these zero tolerances offenses. 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, or 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. The CDS supplemental funding program was well funded in the beginning, however funding has not kept up with enrollment since there is not growth factor for the program.

Fiscal Year	CDS Enrollment (ADA)	CDS Funding
1995-96	0	0
1996-97	862	\$52,593,000
1997-98	1,914	30,000,000
1998-99	3,104	20,000,000
1999-00	5,717	30,423,000
2000-01	7,218	41,377,000
2001-02	8,448	42,205,000
2002-03	10,463	42,204,000
2003-04	11,180	32,205,000
2004-05	11,414	45,060,000
2005-06	11,820	46,966,000
2006-07	11,820	49,746,000
2007-08		51,769,000

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 **\$4.1 million** in 2007-08 to address an estimated program deficiency in both the current year and budget year. CDE estimates a shortfall of **\$2,023,000** in 2006-07 and **\$2,105,000** in 2007-08. The 2007-08 amount reflects funding for estimated COLA and program growth.

COMMENTS/RECOMMENDATIONS: 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.

The Budget Conference Committee approved \$4.3 million in deficiency funds for Community Day Schools in 2006-07. These funds were eliminated as a part of final budget negotiations between the Legislature and the Administration.

ISSUE 17. Supplemental Instruction Funding (6110-104-0001)

DESCRIPTION: The Department of Education has requested **\$46.5 million** in additional funding for Supplemental Instruction programs -- estimated to run deficiencies in 2007-08. CDE has also been able offset shortages for one mandated program by using excess funds from the other mandated program. In addition, Budget Control Section 12.60 allows CDE to shift program savings from a list of categorical programs to address funding shortages for other programs on that list. CDE has utilized this authority to address funding shortages for Supplemental Instruction programs in the past. However, based upon 2006-07 estimates, it is not likely this source of funding can be utilized in the future.

Supplemental Instruction. The state funds four supplemental instruction programs outside of the regular school day for elementary and secondary students that are performing below grade level proficiency expectations. Programs may be offered before or after the regular school day, on Saturdays, during inter-sessions, or during summer sessions.

Schools districts receive funding at a rate of approximately \$4 per hour of instruction for all supplemental instruction programs. Funding is not based on average daily attendance (ADA). There is no specified minimum number of hours or days per pupil for any supplemental instruction program, nor is there any specified minimum or maximum student/teacher ratio for programs. There is also no requirement that supplemental instruction be provided by credentialed teachers.

Supplemental Instruction. The Governor's budget proposes **\$328.9 million** in 2007-08 for four supplemental instruction program listed below. Two of these programs are considered mandated programs because school districts are required to provide specific supplemental instruction services for students who qualify. The other two programs are structured as voluntary programs.

Mandated Programs

- **Supplemental instruction for grades 7-12 (\$238 million).** School districts are required to offer this to students in grades 7-12 who do not demonstrate sufficient progress toward passing the California High School Exit Exam.
- **Supplemental instruction for students in grades 2-9 retained or recommended for retention (\$57.5 million).** School districts are required to offer this to students in grades 2-9 who have been recommended for retention (repeating the same grade).

Voluntary Programs

- **Supplemental instruction for students in grades 2-6 with low-STAR scores and at risk of retention (\$22 million).** School districts may offer this program to students in grades 2-6 who score below grade level in math or reading/language arts or who are at risk of being retained.
- **Supplemental instruction for students in grades K-12 (core academic) (\$101 million).** School districts may offer this program in math, science, or other core academic areas. They are not required to offer this program.

The Governor's budget proposes a total funding level of **\$419.0 million**, which provides an increase of \$16 million above last year's funding level. This increase reflects a COLA for the program. The Governor proposes zero growth funding for the two mandated programs with statutory growth factors, which holds these programs harmless from negative growth adjustments. The two voluntary programs do not have statutory growth requirements.

CDE Proposal to Address Supplemental Instruction Shortfall. CDE is requesting an additional **\$46.5 million** for Supplemental Instruction programs in 2007-08 to fully fund program entitlements. According to CDE, Supplemental Instruction programs have not had sufficient funds to fund school districts at their caps. The shortfall in 2004-05 was \$29.8 million; the shortfall in 2005-06 was \$33.5 million; and the shortfall in 2006-07 (based on first Principal Apportionment data) will be \$44.9 million.

COMMENTS. With regard to the two mandated programs, CAHSEE grade 7-12 remedial has had excess funds in 2004-05 and 2005-06 that have been able to offset funding shortfalls in the grade 2-9 retention program. Together with additional program savings available through budget Control Section 12.60, shortfalls for mandated programs were fully offset in 2004-05 and offset by 75 percent in 2005-06. (Budget Control Section 12.60 gives CDE the authority to shift unexpended funds from a list of categorical programs to fund shortfalls in other programs on the list.)

CDE has been able to utilize this authority to shortfalls in the mandated programs in the past, but they must obtain approval from DOF to use the savings to fund shortfalls. It is unclear to what extent savings will be available to fund these shortfalls in 2006-07 and 2007-08.

ATTACHMENT 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/08stbystate.pdf>

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

	2001	2002	2003	2004	2005	2006	2007	2008	Change Fiscal Year 2007 to 2008		2001 to 2008
	Actual	Actual	Actual	Actual	Actual	Actual	Estimate	Estimate	Amount	Percent	% Change
ESEA Title I Grants to Local Educational Agencies	1,185,906,438	1,448,833,975	1,649,697,459	1,765,537,626	1,776,542,957	1,723,482,942	1,629,665,898	1,767,657,707	137,991,809	8.5%	49.1%
School Improvement Grants	0	0	0	0	0	0	16,561,217	66,163,626	49,602,409	299.5%	---
Reading First State Grants	0	137,397,187	142,801,723	146,145,963	152,898,960	144,886,608	136,987,926	135,702,322	-1,285,604	-0.9%	---
Even Start	30,484,555	31,210,336	31,342,083	31,451,159	27,702,424	11,909,704	9,377,969	0	-9,377,969	-100.0%	-100.0%
State Agency Program--Migrant	120,926,758	129,903,308	130,703,626	130,148,295	128,385,808	125,572,327	130,750,549	128,587,583	-2,162,966	-1.7%	6.3%
State Agency Program--Neglected and Delinquent	4,145,673	3,888,998	3,350,153	3,249,282	2,867,245	2,835,780	2,812,194	2,812,194	0	0.0%	-32.2%
Comprehensive School Reform (Title I)	26,717,068	30,996,645	31,096,447	31,344,563	27,680,353	0	0	0	0	---	-100.0%
Capital Expenses for Private School Children	1,053,529	0	0	0	0	0	0	0	N/A	N/A	N/A
Promise Scholarships	0	0	0	0	0	0	0	31,679,018	31,679,018	---	---
Subtotal, Education for the Disadvantaged	1,369,234,021	1,782,230,449	1,988,991,491	2,107,876,888	2,116,077,747	2,008,687,361	1,926,155,753	2,132,602,450	206,446,697	10.7%	55.8%
Impact Aid Basic Support Payments	53,309,293	64,042,753	67,097,816	61,579,096	63,249,138	56,706,167	66,010,054	68,340,981	2,330,927	3.5%	28.2%
Impact Aid Payments for Children with Disabilities	4,224,942	4,206,625	4,216,837	3,860,401	3,536,937	3,428,155	3,982,552	3,982,525	-27	0.0%	-5.7%
Impact Aid Construction	282,115	1,171,468	1,153,830	1,008,648	1,106,386	355,506	422,219	0	-422,219	-100.0%	-100.0%
Subtotal, Impact Aid	57,816,350	69,420,846	72,468,483	66,448,145	67,892,461	60,489,828	70,414,825	72,323,506	1,908,681	2.7%	25.1%
Improving Teacher Quality State Grants	0	332,170,724	341,185,718	341,331,785	339,448,010	335,450,834	332,042,670	319,155,675	-12,886,995	-3.9%	---
Mathematics and Science Partnerships	0	0	13,901,945	20,616,756	24,513,072	25,055,987	23,634,838	23,630,166	-4,672	0.0%	---
Educational Technology State Grants	55,910,034	85,123,372	89,959,919	93,318,376	65,730,620	34,985,639	32,629,206	0	-32,629,206	-100.0%	-100.0%
21st Century Community Learning Centers	0	41,494,874	76,288,342	136,981,161	137,174,714	131,320,892	127,685,271	119,526,574	-8,158,697	-6.4%	---
State Grants for Innovative Programs	45,930,964	46,714,168	46,410,526	36,429,854	24,693,735	12,321,975	12,420,932	0	-12,420,932	-100.0%	-100.0%
State Assessments	0	29,379,201	30,621,018	32,267,812	33,952,540	33,952,540	34,215,508	34,215,508	0	0.0%	---
Rural and Low-income Schools Program	0	2,719,404	2,573,030	1,425,730	1,718,545	1,177,127	1,177,127	1,176,655	-472	0.0%	---
Small, Rural School Achievement Program	0	4,269,841	7,489,667	5,195,246	5,088,044	5,552,549	5,552,549	5,550,387	-2,162	0.0%	---
Indian Education--Grants to Local Educational Agencies	6,584,676	6,551,544	6,706,324	6,460,486	6,348,742	6,359,784	6,359,784	6,359,780	-4	0.0%	-3.4%
Safe and Drug-Free Schools and Communities State Grants	52,938,133	61,558,718	60,756,063	53,257,421	52,742,911	41,539,958	41,539,958	12,832,908	-28,707,050	-69.1%	-75.8%
Language Acquisition State Grants	0	117,280,776	140,308,451	161,549,115	149,565,827	166,955,253	169,057,668	169,521,066	463,398	0.3%	---
Fund for the Improvement of Education--Comprehensive School Reform	6,043,539	9,219,549	9,159,623	9,233,404	0	0	0	0	0	---	-100.0%
State Grants for Community Service for Expelled or Suspended Students	0	6,724,307	6,652,068	0	0	0	0	0	0	---	---
Eisenhower Professional Development State Grants	53,702,377	0	0	0	0	0	0	0	N/A	N/A	N/A
Class Size Reduction	174,941,971	0	0	0	0	0	0	0	N/A	N/A	N/A
Immigrant Education	32,069,254	0	0	0	0	0	0	0	N/A	N/A	N/A
Subtotal, All of the Above Programs, which constitute the No Child Left Behind Act of 2001	1,855,171,319	2,594,857,773	2,893,472,668	3,072,392,179	3,024,946,968	2,863,849,727	2,782,886,089	2,896,894,675	114,008,586	4.1%	56.2%
Education for Homeless Children and Youth	4,851,972	7,046,528	7,713,390	8,500,225	8,606,995	8,288,438	7,682,978	7,764,672	81,694	1.1%	60.0%
School Renovation Grants	138,523,710	0	0	0	0	0	0	0	N/A	N/A	N/A
Special Education--Grants to States	650,017,799	781,662,507	933,124,077	1,072,636,899	1,132,572,659	1,130,940,237	1,150,175,848	1,117,655,486	-32,520,362	-2.8%	71.9%
Special Education--Preschool Grants	39,848,701	39,848,701	39,529,222	39,550,707	39,160,720	38,677,085	38,677,082	38,677,082	0	0.0%	-2.9%
Grants for Infants and Families	46,979,082	49,954,044	52,016,926	54,397,335	53,695,159	54,072,123	54,247,851	52,590,456	-1,657,395	-3.1%	11.9%
Subtotal, Special Education	736,845,582	871,465,252	1,024,670,225	1,166,584,941	1,225,428,538	1,223,689,445	1,243,100,781	1,208,923,024	-34,177,757	-2.7%	64.1%
Career and Technical Education State Grants	120,745,507	129,790,082	127,491,358	128,464,270	128,962,835	128,752,910	129,514,828	63,230,535	-66,284,293	-51.2%	-47.6%
Tech-Prep Education State Grants	11,895,013	12,177,613	11,688,655	11,563,216	11,355,769	11,260,242	11,260,243	0	-11,260,243	-100.0%	-100.0%
Subtotal, Vocational and Adult Education	132,640,520	141,967,695	139,180,013	140,027,486	140,318,604	140,013,152	140,775,071	63,230,535	-77,544,536	-55.1%	-52.3%
Subtotal, All Elementary/Secondary Level Programs	2,868,033,103	3,615,337,248	4,065,036,296	4,387,504,831	4,399,301,105	4,235,840,762	4,174,444,919	4,176,812,906	2,367,987	0.1%	45.6%

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

	2001	2002	2003	2004	2005	2006	2007	2008	Change Fiscal Year 2007 to 2008		2001 to 2008
	Actual	Actual	Actual	Actual	Actual	Actual	Estimate	Estimate	Amount	Percent	% Change
Federal Pell Grants	1,200,100,000	1,318,200,000	1,412,300,000	1,480,100,000	1,437,000,000	1,459,000,000	1,576,300,000	1,708,600,000	132,300,000	8.4%	42.4%
Federal Supplemental Educational Opportunity Grants	72,922,843	77,970,591	80,274,407	81,054,630	80,673,260	79,297,539	79,297,538	0	-79,297,538	-100.0%	-100.0%
Federal Work-Study	111,356,320	113,597,618	111,208,497	108,384,102	106,438,596	101,256,834	101,256,834	101,271,043	14,209	0.0%	-9.1%
Federal Perkins Loans--Capital Contributions	11,298,174	9,353,065	9,144,438	9,768,901	0	0	0	0	0	---	-100.0%
Leveraging Educational Assistance Partnership	8,445,098	10,298,903	10,220,874	12,582,059	12,286,525	10,712,192	10,712,192	0	-10,712,192	-100.0%	-100.0%
Byrd Honors Scholarships	4,993,500	5,101,500	5,071,500	5,166,000	5,139,000	5,127,000	5,241,000	0	-5,241,000	-100.0%	-100.0%
Subtotal, All Postsecondary Education Programs	1,409,115,935	1,534,521,677	1,628,219,716	1,697,055,692	1,641,537,381	1,655,393,565	1,772,807,564	1,809,871,043	37,063,479	2.1%	28.4%
Vocational Rehabilitation State Grants	234,214,418	243,137,267	251,750,039	247,893,144	248,655,290	260,883,318	271,452,802	271,762,257	309,455	0.1%	16.0%
Client Assistance State Grants	1,192,563	1,207,727	1,232,680	1,231,546	1,224,186	1,214,097	1,210,950	1,209,690	-1,260	-0.1%	1.4%
Protection and Advocacy of Individual Rights	1,398,943	1,514,547	1,693,359	1,691,911	1,681,759	1,668,092	1,663,983	1,662,417	-1,566	-0.1%	18.8%
Supported Employment State Grants	4,161,014	4,125,408	4,121,066	4,123,626	4,120,381	3,103,391	3,070,439	0	-3,070,439	-100.0%	-100.0%
Independent Living State Grants	1,986,795	1,980,087	1,978,260	1,975,296	2,050,192	2,032,616	2,026,987	2,022,670	-4,317	-0.2%	1.8%
Services for Older Blind Individuals	1,713,855	2,290,298	2,622,009	3,086,562	3,367,434	3,260,338	3,258,597	3,258,628	31	0.0%	90.1%
Assistive Technology State Grant Program	0	0	0	0	657,838	730,315	989,070	988,787	-283	0.0%	---
Protection and Advocacy for Assistive Technology	50,000	50,000	455,130	435,629	421,079	415,188	414,113	0	-414,113	-100.0%	-100.0%
Adult Basic and Literacy Education State Grants	52,665,928	56,712,395	63,213,469	64,223,365	63,714,874	63,063,484	63,063,458	63,076,042	12,584	0.0%	19.8%
English Literacy and Civics Education State Grants	20,821,914	19,608,981	18,324,637	18,051,837	17,667,652	17,541,572	16,684,912	16,684,868	-44	0.0%	-19.9%
State Grants for Incarcerated Youth Offenders	1,810,924	1,752,413	1,940,308	2,178,727	2,408,209	2,677,875	2,677,875	0	-2,677,875	-100.0%	-100.0%
Subtotal, All Other	320,016,354	332,379,123	347,330,957	344,891,643	345,968,894	356,590,286	366,513,186	360,665,359	-5,847,827	-1.6%	12.7%
Total	4,597,165,392	5,482,238,048	6,040,586,969	6,429,452,166	6,386,807,380	6,247,824,613	6,313,765,669	6,347,349,308	33,583,639	0.5%	38.1%
New Student Loan Volume:											
Federal Direct Student Loans	963,316,745	1,025,071,217	1,143,192,002	1,212,778,592	1,233,018,577	1,224,992,206	1,313,839,767	1,454,308,715	140,468,948	10.7%	51.0%
Federal Family Education Loans	2,334,991,696	2,571,612,543	2,739,726,228	3,190,422,446	3,471,557,178	3,905,974,017	4,326,695,448	4,776,097,476	449,402,028	10.4%	104.5%
Total, New Student Loan Volume	3,298,308,441	3,596,683,760	3,882,918,230	4,403,201,038	4,704,575,755	5,130,966,223	5,640,535,215	6,230,406,191	589,870,976	10.5%	88.9%
Grand Total	7,895,473,833	9,078,921,808	9,923,505,199	10,832,653,204	11,091,383,135	11,378,790,836	11,954,300,884	12,577,755,499	623,454,615	5.2%	59.3%

NOTES:

N/A = Not applicable. Program was consolidated or terminated under the No Child Left Behind Act of 2001.

NOTE: State allocations for fiscal years 2007 and 2008 are preliminary estimates based on currently available data. Allocations based on new data may result in significant changes from these preliminary estimates.

ATTACHMENT B.
First Interim Status Report, 2006-07

<http://www.cde.ca.gov/fg/fi/ir/first0607.asp>

First Interim Status, Fiscal Year 2006-07

List of Negative and Qualified Certifications School Districts and County Offices of Education 2006-07 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 2006-07 or 2007-08.

County	District	Total Budget (\$)
Butte	Biggs Unified	6.4 million
Fresno	Parlier Unified	27.8 million
Solano	Vallejo City Unified	142.8 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 2006-07, 2007-08, or 2008-09.

County	District	Total Budget (\$)
Alameda	Oakland Unified	487.5 million
Amador	Amador County Office	8.7 million
Amador	Amador County Unified	31.5 million
El Dorado	Gold Oak Union Elementary	5.2 million
Fresno	Golden Plains Unified	19.4 million
Fresno	West Fresno Elementary	9.1 million
Humboldt	Eureka Unified	39.6 million
Lassen	Fort Sage Unified	2.7 million
Lassen	Johnstonville Elementary	1.7 million
Los Angeles	Eastside Union Elementary	26.7 million
Mendocino	Ukiah Unified	51.2 million
Nevada	Ready Springs Union Elementary	2.6 million
Nevada	Twin Ridges Elementary	5.7 million
Plumas	Plumas Unified	29.0 million
Sacramento	Del Paso Heights Elementary	19.8 million
San Mateo	San Mateo Union High	91.7 million
Siskiyou	Junction Elementary	0.4 million
Sonoma	Healdsburg Unified	18.6 million
Tuolumne	Twain Harte-Long Barn Union Elementary	3.9 million

ATTACHMENT C.

**State Emergency Loans
1991-2005
(As of October 31, 2005)**

<http://www.cde.ca.gov/fg/fi/ir/loanlist.asp>

**STATE EMERGENCY LOANS
1991 to 2005
As of October 31, 2005**

Note: This page may need to be printed in landscape view.

District	State Administrator/State Trustee	Amount of State Loan	Legal Authority	Date of Issue	Payoff Date	Interest Rate	Annual Loan Payment and Month Due	Outstanding Balance
Vallejo Unified	Administrator 6/22/04 - Present	\$50,000,000 (\$60,000,000 authorized)	Senate Bill 1190, Chapter 53, Statutes of 2004	6/23/04	6/24/24	1.500%	\$2,912,287 due in June 2005-2024	\$47,837,713
Oakland Unified	Administrator 6/16/03 - Present	\$65,000,000 (\$100,000,000 authorized)	Senate Bill 39, Chapter 14, Statutes of 2003	6/04/03	6/05/23	1.778%	\$3,890,534 due in June 2004-2023	\$59,481,707
West Fresno Elementary	Administrator 3/19/03 - Present	\$1,300,000 (\$2,000,000 authorized)	Assembly Bill 38, Chapter 1, Statutes of 2003	12/29/03	12/30/13	1.930%	\$144,195 due in December 2004-2013	\$1,180,895
Emery Unified	Administrator 8/07/01 - 6/30/04 Trustee 7/01/04 - Present	\$1,300,000 (\$2,300,000 authorized)	Assembly Bill 96, Chapter 135, Statutes of 2001	9/21/01	9/30/21	4.190%	\$97,273 due in September 2002-2021	\$1,117,724
Compton Unified	Administrators 7/93 - 12/10/01 Trustee 12/11/01 - 6/02/03	\$3,500,000 7,000,000 <u>9,451,259</u> \$19,951,259	Assembly Bills 657 and 1708, Chapters 78 and 924, Statutes of 1993	7/19/93 10/14/93 6/29/94	6/30/01	4.400% 4.313% 4.387%	none	-0-
Coachella Valley Unified	Administrators 5/26/92 - 9/30/96 Trustee 10/01/96 - 12/20/01	\$5,130,708 <u>2,169,292</u> \$7,300,000	Senate Bill 1278, Chapter 59, Statutes of 1992	6/16/92 1/26/93	12/20/01	5.338% 4.493%	none	-0-
Richmond/ West Contra Costa Unified	Pre-AB 1200 Trustee 7/01/90 - 5/01/91 Administrator 5/02/91 - 5/03/92 Trustee 5/04/92 - Present	\$ 2,000,000 7,525,000 <u>19,000,000</u> \$28,525,000	Assembly Bill 1202, Chapter 171, Statutes of 1990 Superior Court Order	8/01/90 1/01/91 7/01/91	2/01/18	1.532%	\$1,421,602 due in February 2006- 2018	\$16,641,911

Questions: Management Assistance Unit | 916-327-0538

[Download Free Readers](#)

ATTACHMENT D.

Department of Education Proposed Technical Changes to Budget Item 6110-136-0890

6110-136-0890--For local assistance,
Department of Education, payable from
the Federal Trust Fund..... 1,710,241,000
\$1,660,392,000

Schedule:

(1)	10.30.060-Title I-	1,652,483,00
	ESEA.....	0
		<u>\$1,640,978,735</u>
(2)	10.30.065-McKinney-	
	Vento Homeless	
	Children Education..	7,909,000
(3)	<u>10.30.XXX - Even Start</u>	<u>11,504,265</u>
	<u>Program</u>	

~~(3) 10.30.080 Title I-~~
~~School Improvement.. 49,849,000~~

~~Provisions:~~

- ~~1. In administering the accountability system required by this item, the Department of Education shall align the forms, processes, and procedures required of local educational agencies in a manner that they may be utilized for the purposes of implementing the Public Schools Accountability Act, as established by Chapter 6.1 (commencing with Section 52050) of Part 28 of the Education Code, so that duplication of effort is minimized at the local level.~~
- ~~2. Of the funds appropriated in Schedule (3), \$10,000,000 shall be available for use by the Department of Education for the purposes of the Statewide System of School Support established by Article 4.2 (commencing with Section 52059) of Chapter 6.1 of Part 28 of the Education Code.~~
- ~~3. Of the funds appropriated in Schedule (3), up to \$1,600,000~~

~~shall be made available to support school assistance and intervention teams that enter into a contract with a school pursuant to subdivision (a) of Section 52055.51 of the Education Code. These funds shall be allocated in the amount of \$75,000 for each school assistance and intervention team assigned to an elementary or middle school, and \$100,000 for each team assigned to a high school. The Department of Education and Department of Finance may approve applications with justification for a total funding level of \$125,000.~~

~~4. Of the funds appropriated in Schedule (3), up to \$22,069,000 shall be made available to provide \$150 per pupil for each pupil in a school that is managed in accordance with paragraph (3) of subdivision (b) of Section 52055.5 of the Education Code or that contracts with a school assistance and intervention team pursuant to subdivision (a) of Section 52055.51 of the Education Code.~~

~~5. Of the funds appropriated in Schedule (3), \$16,180,000 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.~~

~~6. The Department of Education may expend funds from Schedule (3) in amounts greater or less than designated in Provisions 2, 3, 4, and 5 to meet the requirements of all programs. Expenditures greater than designated in the provisions shall not be valid without prior approval by the Department of Finance.~~

6110-XXX-0890--For local assistance,
Department of Education, payable from
the Federal Trust Fund..... 49,849,000
Schedule:

(1)10.30.XXX - Statewide System

<u>Of School Support</u>	<u>10,000,000</u>
<u>(2) 10.30.XXX - School Assist</u>	
<u>And Intervention Teams</u>	<u>1,600,000</u>
<u>(3) 10.30.XXX - SAIT Correct</u>	
<u>Actions</u>	<u>22,069,000</u>
<u>(4) 10.30.XXX - Program Imp -</u>	
<u>LEA's</u>	<u>16,180,000</u>

Provisions:

1. In administering the
accountability system required
by this item, the Department of
Education shall align the forms,
processes, and procedures
required of local educational
agencies in a manner that they
may be utilized for the purposes
of implementing the Public
Schools Accountability Act, as
established by Chapter 6.1
(commencing with Section 52050)
of Part 28 of the Education
Code, so that duplication of
effort is minimized at the local
level.

ATTACHMENT E.

**California Assessment System
2006-07**

<http://www.cde.ca.gov/ta/tg/sa/documents/calassesssys07.pdf>

CALIFORNIA ASSESSMENT SYSTEM

2006–07

STAR Program											
CSTs	CAPA	CAT/6 Survey	STS	Aprenda 3	CELDT	CAHSEE	PFT	NAEP	EAP	CHSPE	GED
Standards-based	Standards-based	Norm-referenced	Standards-based	Norm-referenced	Standards-based	Standards-based	Criterion-referenced	Criterion-referenced	Standards-based	Criterion-referenced	Criterion-referenced
Grades 2–11	Grades 2–11	Grades 3 and 7	Grades 2–4	Grades 5–11	Grades K–12	Grades 10–12 Adult Students	Grades 5, 7, 9	Grades 4, 8, 12	Grade 11*	Ages 16 and up or complete grade 10*	Ages 18 and up*
English-Language Arts Mathematics Grades 4, 7 Written Composition Grades 8–11 History-Social Science Grades 5, 8–11 Science	English-Language Arts Mathematics (for students with significant cognitive disabilities)	Reading/Language Spelling Mathematics	Reading/Language Mathematics (for Spanish-speaking English learners who either receive instruction in their primary language or have been enrolled in a school in the United States less than 12 months)	Reading Spelling Language Mathematics (for Spanish-speaking English learners who either receive instruction in their primary language or have been enrolled in a school in the United States less than 12 months)	K–1 Listening Speaking Grades 2–12 Listening Speaking Reading Writing	English-Language Arts Mathematics Grade 10 All students Grades 11 and 12 Adult Students Students who have not previously passed	Aerobic Capacity Body Composition Abdominal Strength and Endurance Trunk Extensor Strength and Flexibility Upper Body Strength and Endurance Flexibility	Reading Mathematics Writing Civics Economics U.S. History	Augmentations to CSTs in: English-Language Arts Algebra II Summative High School Mathematics	Reading Writing Mathematics	Reading Writing Mathematics Science Social Science
Results Individual School District County State	Results Individual School District County State	Results Individual School District County State	Results Individual School District County State	Results Individual School District County State	Results Individual School District County State	Results Individual School District County State	Results Individual School District County State	Results National State	Results Individual School District	Results Individual School District	Results Individual

*Voluntary for students

Prepared by the California Department of Education
December 2006

Legend:

- | | |
|---|--|
| <p>STAR = Standardized Testing and Reporting Program</p> <p>CSTs = California Standards Tests</p> <p>CAPA = California Alternate Performance Assessment</p> <p>CAT/6 Survey = California Achievement Tests, Sixth Edition Survey</p> <p>STS = Standards-based Tests in Spanish</p> <p>Aprenda 3 = Aprenda, La prueba de logros en español, Tercera edición (Aprenda 3)</p> <p>CELDT = California English Language Development Test</p> | <p>CAHSEE = California High School Exit Examination</p> <p>EAP = Early Assessment Program</p> <p>PFT = Physical Fitness Test</p> <p>CHSPE = California High School Proficiency Exam</p> <p>GED = General Educational Development</p> <p>NAEP = National Assessment of Educational Progress</p> |
|---|--|

ATTACHMENT F.

LAO Report

February 2007

Improving Alternative Education in California

Between 10 percent to 15 percent of high school students enroll in one of the state's four alternative programs each year. These programs serve many of the state's at-risk students. We recommend fixing the state and federal accountability programs so that schools and districts are held responsible for the success of students in alternative programs. We also recommend funding reforms that reinforce the district's responsibility for creating effective options for students.

Executive Summary

State law authorizes three types of alternative schools—continuation schools, community schools, and community day schools—to serve high school students who are “at risk” of dropping out of school. In addition, some districts use independent study to educate at-risk high school students. Between 10 percent to 15 percent of high school students enroll in one of these programs each year.

Despite the importance of alternative education, existing K-12 accountability programs do not permit an evaluation of whether participating students are making progress. In fact, the state's accountability system allows schools and districts to use referrals to alternative schools as a way to avoid responsibility for the progress of low-performing students. The way that the state finances alternative schools further blurs accountability and creates incentives that result in fewer services to these students.

By addressing these two issues, the Legislature can begin the process of improving alternative education in California. Improving state and federal accountability programs is a crucial first step. Schools and districts need to be held responsible for the success of students who are referred to local alternative programs. In addition, we also recommend the Legislature revise the state's alternative school accountability program so that it focuses on learning gains and graduating students from high school.

We also recommend creating a new funding mechanism for the support of alternative programs that would reinforce the district's responsibility for creating effective options for at-risk students. Our proposed block grant would give districts maximum flexibility to support district alternatives that best meet the needs of its students.

Alternative programs are designed, at least in part, to create a safety net for students who are unsuccessful in our regular comprehensive high schools. Currently, data are not adequate to answer the question of whether these programs serve this role. Our recommendations, therefore, would provide the data the Legislature needs to answer this question. More importantly, however, our recommendations would help ensure that all parties involved in the process—including school officials, teachers, parents, and students—would seek the answer to this question as well.

SUBCOMMITTEE NO. 1 on Education



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

Tuesday, April 24, 2007
1:30 p.m.
Room 113, State Capitol (Outcomes)

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

ISSUE 2: Local Assistance Federal Funds Adjustments -- April Finance Letters (Consent Items)

Staff recommends approval of the following federal local assistance revisions to the Governor's January 10 Budget, as proposed by the April 2007 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 programs and policies.

OUTCOME: Approved Consent Items adjusted to reflect DOF request to add \$2,163,000 to the Migrant Education Program (Item 6110-125-0890) for purposes of aligning the state appropriation with the recently revised federal grant amount. (Vote 3-0)

Federal Funds Adjustments – Various Local Assistance Budget Items

6110-102-0890, Local Assistance, One-time Carryover for the Learn and Serve America Program (Issues 263 and 264)

It is requested that this item be increased by \$162,000 to reflect additional one-time carryover funding to support additional service learning activities. It is also requested that this item be increased by \$3,000 to conform base federal expenditure authority to available grant funding.

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

X. The funds appropriated in this item include a one-time carryover of \$162,000, available for the support of additional service learning activities during the 2007-08 fiscal year.

6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issue 791)

It is requested that this item be increased by \$114,000 to align the appropriation with available federal funds. The funds will be used to promote student excellence and achievement by awarding scholarships solely on the basis of academic merit to recognize students who show promise of continued academic excellence.

6110-112-0890, Local Assistance, Public Charter Schools (Issue 980)

It is requested that this item be reduced by \$2,423,000 to align the appropriation authority with the anticipated federal grant award amount. Public Charter School funds are used to fund start-up, implementation, and best practices dissemination for charter schools.

6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 646)

It is requested that this item be decreased by \$53,000 to align appropriation authority with the anticipated federal grant. Federal Neglected and Delinquent Children Program funds are used to address the educational needs of neglected and delinquent children and to provide education continuity for children in juvenile institutions.

6110-123-0890, Local Assistance, Title V Innovative Programs (Issue 839)

It is requested that this item be increased by \$104,000 to align the appropriation with the anticipated federal grant award. These grant funds are provided to districts to develop and implement innovative educational programs intended to improve school, student, and teacher performance.

6110-125-0890, Local Assistance, Migrant Education Program and English Language Acquisition Program (Issues 642, 643, 649, and 650)

It is requested that Schedule (1) of this item be increased by \$6,576,000. This adjustment includes an increase of \$2,976,000 to align the Migrant Education Program appropriation with the anticipated federal grant and an increase of \$3.6 million to reflect the availability of one-time federal carryover funds. These funds will be used to meet the educational needs of highly mobile children whose family members are employed in seasonal occupations. The program provides supplemental services to support the core academic program children receive during the regular school day.

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

X. Of the funds appropriated in Schedule (1), \$3,600,000 is provided in one-time carryover funds to support the existing program.

It is further requested that Schedule (3) of this item be increased by \$5,771,000. This adjustment includes an increase of \$3,871,000 to align the English Language Acquisition Program appropriation with the anticipated federal grant and an increase of \$1.9 million to reflect the availability of one-time carryover funds. These funds will be used to help students attain English proficiency and meet grade level standards.

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

X. Of the funds appropriated in Schedule (3), \$1,900,000 is provided in one-time carryover funds to support the existing program.

6110-137-0890, Local Assistance, Rural/Low-Income School Program (Issue 645)

It is requested that this item be decreased by \$498,000 to align appropriation authority with the anticipated federal grant. Rural/Low-Income School Program funds are used to improve instruction and achievement for children in rural and low-income schools by supporting activities such as teacher recruitment and retention, professional development, educational technology projects, and parental involvement activities.

6110-156-0890, Local Assistance, One-time Carryover for Adult Education (Issue 262)

It is requested that this item be increased by \$2,348,000 to reflect additional one-time carryover funding to support adult education programs, with provisional language added to specify that these one-time funds be used to ensure compliance with federal reporting requirements.

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

X. The funds appropriated in this item include a one-time carryover of \$2,348,000, 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 109-77.

6110-166-0890, Local Assistance, One-time Carryover for Vocational Education (Issue 261)

It is requested that this item be increased by \$10,718,000 to reflect additional one-time carryover funding to support vocational education programs, with provisional language added to specify that these one-time funds be used to expand and align K-12 tech prep programs with community college economic development programs.

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

X. The funds appropriated in this item include a one-time carryover of \$10,718,000. These funds shall be used during the 2007-08 academic year to support additional vocational education institutional activities, with first priority being given to supporting curriculum development and articulation of K-12 technical preparation 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.

6110-180-0890: Local Assistance, Education Technology Program (Issue 051)

It is requested that this item be reduced by \$2,233,000. This proposal would realign the program budget with the new federal grant. The reduction would be allocated

proportionately among competitive grants, formula grants, and the California Technology Assistance Project. We note that at least \$250 million in private funds is available to local education agencies directly as a result of a settlement with Microsoft, which will help mitigate the impact of the federal reduction.

It is further requested that Provisions 1, 2 and 3 be amended as follows:

"1. Of the funds appropriated in this item, ~~\$16,662,000~~ \$15,569,000 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, ~~\$16,662,000~~ \$15,569,000 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, ~~\$701,000~~ \$654,000 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."

6110-183-0890, Local Assistance, Safe and Drug Free Schools Program (Issues 788 and 789)

It is requested that this item be increased by \$3,211,000. This adjustment includes an increase of \$811,000 to align the appropriation with the anticipated federal grant. In addition, this adjustment includes an increase of \$2.4 million to reflect the availability of one-time carryover funds from 2006-07. These funds will be used to support programs that prevent violence in and around schools, prevent the illegal use of alcohol, tobacco, and drugs, and involve parents and communities.

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

X. Of the funds appropriated in this item, \$2,400,000 is a one-time carryover available to support the existing program.

6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issues 089 and 093)

It is requested that this item be increased by \$2,176,000. This adjustment includes a decrease of \$1,426,000 to align Title II, Part B of the Elementary and Secondary

Education Act (Mathematics and Science Partnership Program) appropriation with the anticipated federal grant award and an increase of \$3,602,000 to reflect the availability of one-time carryover funds. This program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support for mathematics and science teachers.

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

X. Of the funds appropriated in this item, \$3,602,000 is provided in one-time carryover funds to support the Math and Science Partnership Program.

6110-195-0890, Local Assistance, Title II Improving Teacher Quality Local Grants (Issue 086)

It is requested that this item be decreased by \$4,683,000 to align with appropriation authority for the Teacher and Principal Training and Recruiting Fund with the anticipated federal grant award. This program provides an apportionment to local education agencies for activities focused on preparing, training, and recruiting high-quality teachers.

ISSUE 8: Program Improvement (PI) Schools & Districts (6110-136-0890)

DESCRIPTION: The Governor’s Budget provides **\$49.8 million** in federal Title I set-aside funds for low performing schools and districts identified as needing “Program Improvement” (PI) under the federal No Child Left Behind (NCLB) Act in 2007-08. The Governor’s budget does not appropriate an additional **\$15.2 million** in additional in Title I set-aside base funding and **\$45 million** in one-time Title I set-aside funds. In addition, the Governor’s budget does not reflect the availability of **\$17.6 million** in new, ongoing federal Title I funds for school and district improvement. The Administration will likely update their proposals as part of the May Revision. The Department of Education will present proposals for expending additional Title I federal funds available in 2007-08. CDE will also provide an update on implementation of NCLB accountability provisions in California.

BACKGROUND: The federal No Child Left Behind Act allows states to “set-aside” four percent of their total Title I grant to help schools and districts improve their performance.

Status of Program Improvement Schools and Districts. According to the Department of Education, there are currently 2,218 Title 1 funded schools and 159 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 two years.

Year	Program Improvement Schools	Program Improvement Districts
Year 1	700	59
Year 2	340	100
Year 3	484	0
Year 4	340	0
Year 5	354	0
TOTAL	2,218	159

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’s budget provides **\$49.8 million** in ongoing Title I set-aside funds for 2007-08, as follows:

- **\$10 million** for the Statewide System of School Support, which are regional consortia providing technical assistance to schools and districts in need of improvement.

- **\$1.6 million** to support State Intervention and Assistance Teams (SAIT) that enter into contracts with Title I Program Improvement schools, HP schools, or II/USP schools that have failed to meet growth targets (\$75,000 per SAIT team assigned to an elementary or middle schools; \$100,000 for per team assigned to a high school).
- **\$22 million** to provide \$150 per pupil for schools to implement corrective actions resulting from their work with SAIT teams.
- **\$16.2 million** for school districts identified as program improvement, to help these districts work with external providers to perform assessments related to developing and implementing improvement plans. Districts receive \$50,000 plus \$10,000 per schools that is Title I supported from this set-aside.

According to the Department of Education, preliminary estimates are that an additional **\$77.8 million** is available in 2007-08 that is not included in the Governor's 2007-08 budget. This includes an additional **\$15.2 million** in continuing Title set-aside base funds and **\$45 million** in one-time Title I carryover funds are available for school and district improvement in 2007-08. In addition, there is **\$17.6 million** in new, ongoing Title I funds for school improvement grants in 2007-08. The Governor has not proposed to appropriate these funds to date, in part because of a lack of information about the final federal amounts available.

CDE Proposals for Expanding District-Based Supports and Interventions. The Department of Education has proposed a plan for expending the additional **\$77.8 million** new federal funds available in 2007-08. The Department proposes expending the new funds as follows:

- **\$ 7 million** increase for Statewide Systems of School Support;
- **\$28 million** increase in grants for PI Districts;
- **\$15.6 million** to add grants for Non-PI Districts with a number of PI schools; and
- **\$27 million** for a new DAIT program element to assist with corrective actions in PI districts.

CDE Proposal for District Intervention Teams. CDE has submitted a proposal to the Administration for utilizing district assistance and intervention teams (DAIT) to assist districts in making changes to improve their performance. This program is modeled after the department's intervention approach for schools. CDE has been piloting the DIAT approach in anticipation of the 100 PI districts that could be eligible for state interventions this fall if they fail to make AYP in their third year.

CDE Proposal for Technical Fix to Budget Schedule. The administration has proposed new budget control language for Title I funds that would allow CDE to adjust the above amounts based on the number of schools and districts that are ultimately identified as program improvement, after the budget passes. CDE is proposing an alternative technical fix that will restructure the item into schedules, which will allow for transfer of funds between areas in an easier and more timely manner. A copy of CDE's proposed technical changes to the Governor's budget language are included in **Attachment D**.

COMMENTS: The Administration will likely provide a new expenditure plan for Title I Set-Aside funds and the new federal School Improvement funds at May Revise. CDE and DOF area currently working to verify the level of additional funding available in 2007-08. The Department of Education indicates that because of the delay in obtaining final federal grants figures, Title I Set-Aside estimates, as reflected in this agenda, may change.

Staff recommends that the Subcommittee consider CDE's proposals for strengthening support for district-based support and interventions for districts, given research that supports the effectiveness of this approach.

Staff also recommends that the Subcommittee adopt the CDE proposal for adjusting the budget schedule for Title I Set Aside funds to make program adjustments reflecting workload easier within the budget year. A copy of CDE's proposal is included in **Attachment D**. CDE's proposed changes would separately schedule School Improvement and Even Start under Title I. The LAO supports these changes and recommends adding a new reporting requirement for School Improvement as a part of the CDE technical fixes. Staff recommends that the Subcommittee adopt this additional LAO change.

OUTCOME: Approved CDE language (AGENDA ATTACHMENT D) to make technical changes to the budget schedule for Title I Set-Aside funds with the addition of: (1) statutory references recommended by DOF and (2) an annual expenditure and savings report recommended by LAO. (Vote 3-0)

ISSUE 10: Standardized Testing and Reporting System (STAR) and California English Language Development Test (CELDT)

DESCRIPTION: The Governor proposes to continue an estimated **\$4.5 million** in 2007-08 to cover the costs of providing a 2nd grade STAR test, although that test sunsets at the end of 2006-07. As a part of their recommendations for improving accountability for English learners, the LAO recommends that **CDE study the feasibility of developing a vertical scaling system** for the STAR program in order to track progress for individual students from year-to-year. The Governor continues **\$1.4 million** in carryover funds for the development of a test of English language proficiency for English learners in kindergarten and 1st grade, pursuant to the requirements of the No Child Left Behind Act.

BACKGROUND: The Governor's budget provides **\$117.9 million** in funding for state assessments in 2007-08. (**Attachment E** lists and describes these state assessments.) This includes **\$85.1 million** in Proposition 98 funds and \$32.8 million in federal funds. The Governor's budget essentially continues funding for assessment programs at the 2006-07 and does not reflect any new outlays for statewide assessments.

Funding for state assessments are utilized for the following purposes: 1) reimbursing school districts for their local costs of administering the tests, and 2) paying for the statewide costs of developing and maintaining these tests, including payment to the private companies that develop the test items.

The Governor's budget does not reflect any major policy initiatives on testing, with the exception of a proposal to continue STAR testing 2nd graders, which is discussed below.

Continuation of Funding for STAR 2nd Grade Test. The current state testing system was created by legislation passed in 1997. The existing program was re-authorized in 2004 by SB 1448 (Alpert), Chapter 233, which re-authorized the state testing system for grades 3-11 until 2011 but only re-authorized the test for 2nd grade until June 30, 2007. Unless this law is changed, there will be no legal authority for the continuation of the state system in 2nd grade beginning July 1 of this year.

The Governor proposes trailer bill legislation to extend the authorization for 2nd grade testing until July 1, 2011, when the rest of the program sunsets. Accordingly, the Administration continues funding for 2nd grade testing in the 2007-08 budget. CDE estimates the state spends **\$4.5 million** a year for administration of the 2nd grade STAR test. The Administration supports ongoing second grade testing for the following reasons:

- Second grade tests provide the only statewide assessment of whether or not a student has mastered basic reading skills. Testing in subsequent grades is focused on subject matter/content knowledge.
- Without second grade testing, the first information about student performance, related to state aligned standards, would not be available until the beginning of fourth grade.

Second grade testing is currently used to measure placement of students in third grade. Later identification of students who need additional support can be detrimental to student achievement.

Comments: The Governor's proposal to extend 2nd grade testing is a policy issue, not a budget issue. However, if current law is not changed to extend the sunset of 2nd grade testing, there will no authority for expending the **\$4.5 million** proposed for the exam in 2007-08. As a policy matter, the issue of 2nd grade testing is not without controversy. Some advocates argue that 2nd grade testing is developmentally inappropriate, takes time away from classroom instruction and does not provide diagnostic data that can help inform instructional practices or identify areas that students need help in. Others argue that the 2nd grade tests are developmentally appropriate by design, take about one hour a day for six days, and provide valuable information to parents and teachers about how students are doing in reading and math that can be utilized to address student needs beginning in 3rd grade, rather than 4th grade. Per DOF, the estimated savings for the sunset of the 2nd grade STAR test is **\$2.0 million** in 2007-08 and **\$4.3 million** in future years.

OUTCOME: Approved motion to delete funding for 2nd grade STAR test from the budget consistent with current law. (Vote: 2-1) The Subcommittee may reconsider funding at May Revise subject to policy legislation.

LAO Recommendation for Vertical Scaling of STAR. As part of its recommendations regarding English learners, the LAO recommends that the state's STAR system be revised to be "vertically scaled" – that is, so that performance levels mean the same thing in each grade. This would allow the state to measure student gains and losses across years. The LAO notes that this data is particularly important for English learners, because aggregate comparisons of how English learners perform as a group from one year to the next are not particularly meaningful because the students classified as English learners change every year due to redesignation and immigration. As a first step, the LAO recommends that the CDE be required to contract out for a report on the feasibility of this change.

Comments: The state already collects vertically scaled data the CELDT, which is used to assess the progress of English learners in acquiring skills in speaking, reading, and writing English. The availability of vertically scaled data would allow the state to apply to the federal government to receive more flexibility in implementing NCLB. The LAO recommendation for a CDE feasibility study seems like a reasonable first step.

K-1 CELDT Testing in Reading and Writing. NCLB requires that states develop testing systems in specific areas. In a recent review of California's testing system, the federal government cited the state for not testing English learners in grades K-1 for reading and writing skills. CDE notes that CELDT already tests K-1 English learners for *listening* and *speaking skills*. The federal NCLB requirement would add *reading* (e.g., letter recognition) and *writing* (e.g., tracing letters) components to the test. Previous budgets have contained funding for this purpose, but legislation required for expenditure of funds has not been successful. The Governor's budget continues **\$1.4 million** for the

development of this test, subject to legislation in 2007-08. Once developed, the administration of the new test elements cost approximately \$1 million annually.

Comments: The Department of Education is sponsoring **SB 827 (Padilla)**, which is intended to add the federal assessment requirements for K-1st grade English learners.

ATTACHMENT D.

Department of Education Proposed Technical Changes to Budget Item 6110-136-0890

6110-136-0890--For local assistance,
Department of Education, payable from
the Federal Trust Fund..... 1,710,241,000
\$1,660,392,000

Schedule:

- (1) 10.30.060-Title I- 1,652,483,00
ESEA..... 0
\$1,640,978,735
- (2) 10.30.065-McKinney-
Vento Homeless
Children Education.. 7,909,000
- (3) 10.30.XXX - Even Start 11,504,265
Program

~~(3) 10.30.080 Title I-~~

~~School Improvement.. 49,849,000~~

~~Provisions:~~

- ~~1. In administering the
accountability system required
by this item, the Department of
Education shall align the forms,
processes, and procedures
required of local educational
agencies in a manner that they
may be utilized for the purposes
of implementing the Public
Schools Accountability Act, as
established by Chapter 6.1
(commencing with Section 52050)
of Part 28 of the Education
Code, so that duplication of
effort is minimized at the local
level.~~
- ~~2. Of the funds appropriated in
Schedule (3), \$10,000,000 shall
be available for use by the
Department of Education for the
purposes of the Statewide System
of School Support established by
Article 4.2 (commencing with
Section 52059) of Chapter 6.1 of
Part 28 of the Education
Code.~~
- ~~3. Of the funds appropriated in
Schedule (3), up to \$1,600,000~~

~~shall be made available to support school assistance and intervention teams that enter into a contract with a school pursuant to subdivision (a) of Section 52055.51 of the Education Code. These funds shall be allocated in the amount of \$75,000 for each school assistance and intervention team assigned to an elementary or middle school, and \$100,000 for each team assigned to a high school. The Department of Education and Department of Finance may approve applications with justification for a total funding level of \$125,000.~~

~~4. Of the funds appropriated in Schedule (3), up to \$22,069,000 shall be made available to provide \$150 per pupil for each pupil in a school that is managed in accordance with paragraph (3) of subdivision (b) of Section 52055.5 of the Education Code or that contracts with a school assistance and intervention team pursuant to subdivision (a) of Section 52055.51 of the Education Code.~~

~~5. Of the funds appropriated in Schedule (3), \$16,180,000 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.~~

~~6. The Department of Education may expend funds from Schedule (3) in amounts greater or less than designated in Provisions 2, 3, 4, and 5 to meet the requirements of all programs. Expenditures greater than designated in the provisions shall not be valid without prior approval by the Department of Finance.~~

6110-XXX-0890--For local assistance,
Department of Education, payable from
the Federal Trust Fund..... 49,849,000
Schedule:

(1)10.30.XXX - Statewide System

<u>Of School Support</u>	<u>10,000,000</u>
<u>(2) 10.30.XXX - School Assist</u>	
<u>And Intervention Teams</u>	<u>1,600,000</u>
<u>(3) 10.30.XXX - SAIT Correct</u>	
<u>Actions</u>	<u>22,069,000</u>
<u>(4) 10.30.XXX - Program Imp -</u>	
<u>LEA's</u>	<u>16,180,000</u>

Provisions:

1. In administering the
accountability system required
by this item, the Department of
Education shall align the forms,
processes, and procedures
required of local educational
agencies in a manner that they
may be utilized for the purposes
of implementing the Public
Schools Accountability Act, as
established by Chapter 6.1
(commencing with Section 52050)
of Part 28 of the Education
Code, so that duplication of
effort is minimized at the local
level.



Subcommittee No. 1 Education

**Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian**

**Agenda
May 1, 2007
1:30pm – Room 113**

Hastings College of the Law (6600)

Nell Jessup Newton, Dean, Hastings College of the Law

California Community Colleges (6870)

- I. Dr. Marshall Drummond, Chancellor, California Community Colleges
- II. Overview of Governor's Budget Proposal for California Community Colleges (LAO) Page 2
- III. Enrollment Growth Page 2
- IV. Basic Skills Page 4
- V. Unfunded Budget Change Proposals Page 6

Higher Education Intersegmental Issues

- VI. Nursing Education Page 7
- VII. Student Academic Preparation (UC and CSU) Page 9

Capital Outlay (6440 and 6610)

- VIII. Long Range Development Planning – Budget Bill Language (UC and CSU) Page 10
- IX. UC Telemedicine Page 11
- X. UC Berkeley Energy Biosciences Institute and Helios Research Facility Page 11

Consent

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

Figure 1					
Community College Budget Summary					
<i>(Dollars in Millions)</i>					
	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Change From 2006-07	
				Amount	Percent
Community College Proposition 98					
General Fund	\$3,669.7	\$4,039.6	\$4,223.6	\$184.0	4.6%
Local property tax	1,802.7	1,857.4	2,050.5	193.1	10.4
Subtotals, Proposition 98	(\$5,472.4)	(\$5,897.0)	(\$6,274.1)	(\$377.1)	(6.4%)
Other Funds					
General Fund	(264.8)	(293.3)	(278.6)	-\$14.7	(-5.0%)
Proposition 98 Reversion Account	35.6	22.3	--	-22.3	-100.0
State operations	9.2	9.7	9.9	0.2	2.1
Teachers' retirement	82.2	83.0	82.0	-1.0	-1.2
Bond payments	137.8	148.3	187.3	39.0	26.3
Loan for Compton CCD	--	30.0	--	-30.0	-100.0
Compton Loan Payback	--	--	-0.6	-0.6	--
State lottery funds	177.9	173.9	173.9	--	--
Other state funds	13.3	13.9	13.7	-0.2	-1.4
Student fees	344.9	321.7	281.9	-39.8	-12.4
Federal funds	249.8	267.0	267.0	--	--
Other local funds	1,241.7	1,326.9	1,326.9	--	--
Subtotals, other funds	(\$2,292.4)	(\$2,396.7)	(\$2,342.0)	-\$54.7	(-2.3%)
Grand Totals	\$7,764.8	\$8,293.7	\$8,616.1	\$322.4	3.9%
Detail may not total due to rounding.					

III. Student Enrollment Growth

Current law requires that the state provide a minimal level of funding to support student enrollment growth at the community colleges. Recently-enacted statute (Chapter 631, Statutes of 2006) calls for enrollment growth funding to be provided based on the average growth rate of two populations: 19- to 24-year olds and 25- to 65-year olds. For 2007-08, the change in these two populations is projected to grow by 1.65 percent; an increase of this amount would call for an additional 19,000 full-time equivalent students (FTES) at a cost of \$90 million.

Governor's Budget

Exceeding the statutorily-required level, the Governor's Budget provides \$109.1 million in funding to support a 2.0 percent growth in student enrollments (approximately 23,000 FTES). This amount is in excess of the statutory growth rate, but less than the 3.0 percent enrollment growth levels requested by the Community Colleges Board of Governors.

Current-year Enrollments

The current-year budget provides \$102.6 million to support 2.0 percent enrollment growth in general apportionments and 1.74 percent growth in selected categorical programs.

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) the condition of the region's economy, either luring students away from campus and into the local workforce or motivating them to return to college; (2) a substantial decrease in the number of "unfunded" student enrollments; (3) the impact of student fee reductions; and (4) the availability of specific course offerings.

Prior-Year Restoration Funds

In addition to the amount available for enrollment in the current year, the Community Colleges budget retains unused growth funding from prior years. These funds (known as "restoration funds") allow districts with declining enrollments to be held harmless for one year and have a period of time in which to recover those lost students. After that one year, if the enrollment slots for which the district is funded remain vacant, the district loses the funding, but it is retained in the Community Colleges' base budget. Districts then have three years to increase their enrollments back to the original level, thus "earning back" or "restoring" that funding loss. If these restoration dollars remain unused by the community colleges at the end of any given fiscal year, they are generally available for one-time purposes such as covering shortfalls in student fee revenue or providing general apportionments to districts.

When combined, the current-year enrollment growth funding, coupled with the restoration funding, will allow the community colleges to grow approximately 5% in the current year with total funds that exceed \$250 million.

Based on Fall 2006 enrollment data, the Community Colleges Chancellor's Office is estimating current-year growth of approximately 3 percent; however, it is unclear how much of this increase is due to actual "growth" in the current year, versus districts that are "restoring" past-year declines. Under any circumstance, the numbers are likely to change based on the second academic term, and the Chancellor's Office, Department of Finance, and Legislative Analyst are all working together to establish a better current-year estimate. Staff would note, however, that even under the most optimistic scenario, Community Colleges **will not** grow by the 5 percent for which they are provided funding. As such, the committee may wish to explore alternative uses for the unneeded current-year funds.

Potential Current-Year Action

Barring any action by the Legislature, any unused 2006-07 enrollment growth dollars or prior-year restoration dollars (those that were originally appropriated in 2003-04) 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.

In addition to allowing the unused funds to revert (per the above comments), the Legislature has several options. First, the Legislative Analyst suggests tapping these unused funds to reduce the current-year Proposition 98 guarantee (as previously discussed in K-12 hearings held by this committee). This would require action by the Legislature to amend the 2006-07 Budget Act,

before the end of the current fiscal year. Second, the committee may elect to allow the community colleges to retain those unused funds and redirect them for another purpose. This option also requires the Legislature to amend the current-year Budget Act before the end of the fiscal year and reschedule the funds to align with the new purposes.

At present, the Community Colleges Chancellor's Office is proposing that any unused funds be retained within the community colleges budget and redirected to a variety of the community colleges' unfunded budget proposals (many of which are discussed later in this document). Potential one-time uses include (1) backfilling shortfalls in local property tax and/or fee revenues; (2) augmenting the amount available for physical plant improvements and instructional equipment; (3) providing funding for mandate reimbursements; (4) increasing funding for technology; and (5) providing resources for career-technical education equipment.

2007-08 Enrollment Growth Projections

For 2007-08, the Governor proposes to fund two percent enrollment growth, a target that the colleges may or may not reach.

In response to the current-year enrollment trend, the community colleges are in the process of reevaluating the amount of enrollment growth necessary in 2007-08. As part of its Fall 2006 systemwide budget proposal, the Chancellor's Office requested enrollment growth totaling four percent (or \$170 million).

In its *Analysis of the 2007-08 Budget Bill*, the LAO conducted its own review of enrollment growth projections and trends and determined that providing funding for enrollment growth of 2.0 percent would be excessive. Given that prior-year enrollment dollars have gone unused, the LAO is recommending that the Legislature only fund enrollment growth at the statutorily-required level of 1.65 percent, citing this as a more sufficient level to meet enrollment demand at the community colleges. Further, the LAO asserts that reducing the amount of funded enrollment growth would free up \$19 million (Proposition 98) for another, perhaps higher priority purpose.

Staff recommends that the committee hold open action on either the proposed augmentation of \$109 million for enrollment growth in 2007-08 or reductions to the current-year budget, pending both the Governor's May Revision and better estimates of current-year enrollment levels.

IV. Basic Skills

The Administration proposes to shift \$33.1 million from the community college's Basic Skills categorical program to the Matriculation program.

Definitions

Basic Skills courses include pre-collegiate work in such areas as elementary mathematics and English, while *Matriculation* provides a variety of services 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.

The current-year Budget Act (as well as prior Budget Acts) specifically fund enrollments in the Basic Skills program over and above the enrollment "cap" of the district. The growth "cap" is a district-based enrollment ceiling, set annually by the Chancellor's Office depending on the

amount of enrollment growth funding available in the budget. Districts that grow enrollments beyond this ceiling receive no state dollars to support those students. However, in recent years, the Legislature has allowed a district's Basic Skills program to grow beyond their enrollment "cap" by specifically appropriating dollars for this purpose in the Budget Act. These dollars are commonly known as "Basic Skills Overcap."

Current Status

According to the Legislative Analyst, enrollment levels in Basic Skills programs statewide have – since 2003-04 – failed to push districts beyond their growth caps. As such, these dollars are no longer being used for their original purpose. Under control language enacted in both the 2005-06 and 2006-07 Budget Acts, Basic Skills Overcap dollars that are not used to support enrollments in the Basic Skills program are available on a one-time (per Basic Skills FTES) for specified uses by the districts.

The Governor, the Legislative Analyst, and the Community Colleges all have differing perspectives on how these now unneeded Basic Skills enrollment dollars should be used.

Governor's Proposal

The Governor proposes shifting the entire balance of the Basic Skills overcap fund (\$33.1 million) to the Matriculation program, hence, using the funds for an entirely different purpose. The Administration further targets the use of the funds by specifying that \$19.1 million would be used to serve students determined to be most "in need" of matriculation services; priority would be given to high school graduates transitioning to community college. The additional \$14 million would be used to increase the base funding of the Matriculation program.

Legislative Analyst Proposal

First and foremost, the LAO recommends that the unused overcap funds be eliminated from the community colleges' budget and thus reducing the amount of Proposition 98 spending proposed for both the 2006-07 and the 2007-08 fiscal years. The LAO notes, however, that if the Legislature is committed to retaining the funds within the community college budget, it should reallocate the funds, using a block grant format, and target those colleges serving the least prepared students. This approach would allow the selected districts flexibility to choose how the funds would best be spent.

Community College Proposal

The community colleges propose that, consistent with past legislative actions, the overcap funds remain in the Basic Skills categorical program and be allocated to districts based on the current per Basic Skills FTES methodology. Under this proposal, funds could be used for a variety of activities, including assessment and planning, curriculum development, counseling, supplemental instruction, tutoring, instructional materials and the like. Colleges would need to participate in a Basic Skills program "self-assessment", which is a tool developed by researchers to assess the efficacy and efficiency of campus-based Basic Skills programs.

Staff recommends that the committee hold open action related to the proposed funding shift, pending the Governor's May Revision and a better assessment of current and future Proposition 98 funding levels.

V. 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 items which were denied funding.

1. Part-Time Faculty Office Hours and Health Insurance (\$12 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. Career Development and College Preparation (\$30 million)

In prior years, this item was known as Non-credit instruction. Non-credit instruction (also called 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.

Current law (Chapter 631, Statutes of 2006) establishes a new subcategory of non-credit courses, now defined as "career development and college preparation" courses. These courses are designed to be a "gateway" for both recent immigrants and long-term residents into higher education and/or the workforce. Current law further defines which noncredit courses meet the parameters of this new subcategory.

Under the enacting legislation, these "gateway" courses receive a supplemental rate per FTES. Regular non-credit courses are funded at \$2,626, or about 60 percent of the *credit* FTES rate (approximately \$4,637). These new enhanced/gateway courses receive a supplement of approximately \$466 per FTES, bringing the rate to \$3,091.

This \$30 million augmentation request was designed by the Chancellor's Office to be the second step in a multi-year process to increase the rate of "gateway" non-credit enrollments to the credit FTES rate. An additional \$30 million in 2007-08 would increase the existing rate by another \$465 per FTES or 15 percent.

3. Restore Support for Matriculation Services (\$14 million)

The community colleges are requesting that the state provide additional funding for matriculation services, restoring funding to prior levels. This amount represents the second year of a two year request which began with a current-year augmentation of \$24 million. According to the Chancellor's Office, the availability and use of these services may spell the difference between educational success and an inconclusive one.

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 2007-08 Budget Proposal, the Governor includes approximately \$134.4 million for matriculation (of this amount, \$33.1 million was redirected from the Basic Skills program).

4. Increase Ratio of Full-Time Faculty (\$45 million)

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

5. Student Services for Newly Accredited Colleges (\$873,000)

This proposal would provide funding for student support services at new colleges. Under the current fiscal process, newly accredited colleges are not eligible for an increase in base funding support without a budget augmentation specifically for that purpose.

VI. Nursing Education

Background and Recent Strategy

In recent years, the Legislature has taken a multi-pronged approach to addressing the state's well-documented nursing shortage. This strategy has included: (1) increasing the number of students enrolled in nursing education programs; (2) increasing the availability of career "pathways" from K-12 to postsecondary education to various health professions; (3) providing "seed money" for colleges to start up new nursing programs or expand existing ones; (4) encouraging individuals to obtain their Masters' Degree in Nursing and return to teach in college nursing programs; and (5) providing financial incentives for nurses to practice in the State's 24-hour care facilities (including state hospitals, prisons, and veteran's homes).

At the post-secondary education level, the state has consistently been systematically increasing the number of "slots" in nursing programs at the community college level (RN's or Registered Nurses); the California State University (RN's, Baccalaureate degree nurses, and Masters' degree nurses); and the University of California (Baccalaureate degree and Masters' degree nurses).

Community Colleges

The Governor's Budget provides a total of \$25.9 million in ongoing funding for nursing education; \$9 million of this amount is new for 2007-08. Of this total, \$14 million is continued from prior years to support increased nursing enrollments and unmet equipment needs; \$8 million would be used for attrition-reduction services; and \$3.9 million would increase the availability of nursing prerequisite courses (such as anatomy, micro-biology, and physiology). The dollars targeted at attrition reduction may be used by a district to increase student enrollments, if the district has a nursing program attrition rate below 15 percent.

In addition to the ongoing funds referenced above, the Governor has also proposed \$9 million in one-time dollars (current year) for the community colleges to develop five new nursing programs (\$5 million) and establish four new nursing "simulator" laboratories (\$4 million).

Issues

The LAO has raised concerns with two specific provisions of this proposal, specifically, the \$9 million in one-time funding and the augmentation of \$3.9 million to increase prerequisite courses.

The LAO recommends deleting the \$9 million in one-time funds because it finds that the need for additional funding for the stated purposes has not been justified. Staff, however, recommends that the Legislature, which has consistently urged the expansion of new nursing

programs, consider approving the request (pending the May Revision), with modifications allowing the funds to be used for a broader set of one-time purposes.

Both the staff and the LAO recommend deleting the Governor's \$3.9 million request to increase prerequisite courses. Staff further recommends redirecting those funds to nursing enrollments and attrition reduction services. Specifically, it remains unclear how the funds would be used. By one account, the funds would provide colleges with a supplemental funding "bump" for this particular category of courses. However, funding these courses at a supplemental rate would create a precedent of providing differential funding rates depending on the type of course – a funding mechanism which has generally not been supported by the Legislature. Other options include allocating a set amount of money to each college strictly as a monetary incentive to increase course offerings in those disciplines.

In addition to the above-noted concern, both the LAO and staff assert that increasing prerequisite courses is not a solution to the nursing shortage. By all accounts, nursing programs at the community colleges continue to be substantially oversubscribed. Any additional support provided to the community colleges for nursing would be better used if it was targeted to either increasing the number of slots in these programs or augmenting the student support services available to ensure that students complete the program.

California State University (CSU)

The Governor's Budget provides a total of \$2.7 million in ongoing funding specifically for nursing enrollments. These dollars fund a total of 410 FTES in a combination of accelerated Masters' degree programs and regular Masters' degree programs, as well as 35 FTES in Baccalaureate degree programs. Total enrollments for these programs far exceed the numbers referenced above and are funded within the base operations of the CSU. Of this \$2.7 million, CSU is using \$1.7 million to educate a cohort, every three years, of students in accelerated Masters' programs. These "Entry-Level Masters" programs allow a student who previously obtained their baccalaureate degree in a non-associated subject matter to obtain both their RN degree and their Master of Science in Nursing degree during a consolidated three-year period.

Issues

Two issues have emerged with regard to funding CSU's nursing enrollments. First, the LAO and staff would note that the state's approach to funding both CSU and the University of California's nursing students has been inconsistent. In some cases, we have required that the enrollment increase be funded from within the total enrollment growth funding provided annually in the Budget Act. Sometimes we have provided colleges with a supplemental "bump" in the per student rate, other times, we have not. In other cases, we have funded these students "outside" of the university's enrollment growth allocations, and as such, have provided funding that represents the full-cost of instruction. Moving forward, the Legislature will want to consider adopting a more standardized approach to funding nursing enrollments.

In addition to the 445 total FTES referenced above, the Governor's 2007-08 budget would require the CSU to absorb 340 baccalaureate degree nursing students, within their proposed 2.5 percent enrollment growth allocation. Staff notes that, given the condition of CSU's "over-enrollments" (exceeding 6,000 FTES) in the current year, CSU may have difficulty absorbing these additional 340 FTES within their 2.5 percent.

University of California (UC)

The Governor's Budget provides a total of \$1.7 million in ongoing funding specifically for nursing enrollments. These dollars fund a total of 122 FTES in accelerated Entry-Level Masters' degree programs and 20 FTES in regular Masters' degree programs. Like the CSU, total enrollments in these programs far exceed the numbers referenced above and are funded within the base operations of the UC. In addition, UC intends to educate an additional 216 FTES in baccalaureate nursing degree programs, the cost of which will be absorbed within their normal growth targets.

Issues

No specific issues have been raised regarding the UC nursing proposal. However, UC notes that any decrease in the amount of funding provided for general enrollment growth for (below the 2.5 percent proposed by the Governor) will substantially hinder their ability to meet these nursing enrollment targets.

VII. Student Academic Preparation Programs. The Governor's Budget, again, fails to provide any state funding for either the UC or CSU student academic preparation and retention programs. This equates to a loss of \$26.3 million for these programs (\$19.3 million for UC and \$7 million for CSU).

This action by the Administration appears to be consistent with its "*Compact*" with the university systems. The compact 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, while the Administration fails to guarantee General Fund support for the programs.

Staff notes that while this action may mesh with the Administration's *Compact*, it is not consistent with prior actions of the Legislature, which has repeatedly restored funding for these programs.

As part of the 2005-06 budget process, 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 (annual) 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.

At the CSU, Early Assessment Program (EAP) is the primary beneficiary of the state support. The EAP program seeks to improve the proficiency level of entering students by assessing their English and mathematics skill levels while the student is still in high school.

In addition to the above-noted programs, the Legislature also provides funding for the California State Summer School for Mathematics and Science (COSMOS). The COSMOS provides academic preparation activities for 540 high achieving high school students annually in a residential environment. While not part of UC's formal Accountability Framework, student success in this

program has been highly regarded and "graduates" of the program are much more likely to ultimately pursue careers in science, technology, engineering, or mathematics fields.

The Legislative Analyst continues to raise concerns with how the funds are allocated, as well as the data available from evaluations of the programs. According to the *Analysis of the 2007-08 Budget Bill*, student academic preparation programs are generally supported by the LAO. Consistent with prior analyses, the LAO recommends an alternative 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 use the dollars to target K-12 school districts with low college participation rates. Further, the LAO recommends that the legislature transfer funding that has been set aside for evaluation and research from the university systems to an external evaluator, in order to better assess the efficacy of the programs.

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, it remains unclear why the Administration continues proposing the elimination of state funding for these programs.

Staff recommends that the committee approve augmentations of \$19.3 million for UC and \$7 million for CSU to *backfill* the reductions contained in the Governor's Budget.

VIII. University Long-Range Development Planning

Current Process

Each campus of the UC and CSU prepare a Long-Range Development Plan or Physical Master Plan that guides the future expansion and development of the campus for the next 10 to 15 years. This document serves as an outline of the campus's priorities, including its academic goals and target or projected student enrollment levels. In developing these long-range plans, campuses consult with the local community in an attempt to develop mutually agreeable expansion plans. However, an agreement between the campus and local community does not always occur. A frequent topic of dispute is how both the campus and community will address potential impacts on the surrounding region.

Legislative Analyst

In its exploration and analysis of this issue, the LAO concluded that there is an absence of: (1) state accountability and oversight related to the campus's development of these plans; (2) standardization of public participation in the local process; (3) coordination with the university systems related to statewide enrollment projections; and (4) campus "fair share" agreements related to the mitigation of off-campus impacts.

In an attempt to address a portion of the above-noted deficiencies, the LAO has drafted Supplemental Reporting Language for both the UC and CSU requiring the systems to report on a variety of features related to campus-based long-range planning. The proposed language is included as an attachment to this document. Staff recommends that the committee discuss the language but defer adoption until the May Revision, pending possible modifications.

IX. University of California Telemedicine Capital Outlay Program

As passed by the voters in November of 2006, Proposition 1D provided General Obligation (GO) bond monies to the University of California explicitly to expand telemedicine and medical education facilities (consistent with the UC plan to increase enrollments in medical schools). The measure specified that \$200 million would be available for this purpose. The Governor's 2007-08 budget proposal appropriates \$199 million, in a lump sum, to the University of California for the broad purposes of the Proposition.

Use of Funds

UC indicates that it intends to divide the funds among the five campuses with medical schools (Davis, Irvine, Los Angeles, San Diego, and San Francisco). Under this scenario, UC would distribute approximately \$35 million per campus. To date, each of the five campuses has submitted a proposal outlining how they intend to use the funds. Davis, Irvine, San Diego and San Francisco all have proposed either the addition of new space or the renovation of existing space to accommodate increased medical school capacity and the telemedicine expansion. Some of these projects would be "matched" with funding from non-state sources. Neither staff nor the LAO have raised any concerns with these specific projects.

At the time of the LAO's Analysis, the Los Angeles (LA) campus had yet to submit its proposal. Since then, the LA campus has provided the Legislature with a partial funding plan. Under the campus's plan, \$19 million would be used to purchase telemedicine-related equipment. Both LAO and staff have expressed concern over the incomplete nature of this request.

Systemwide Reserve

Of the \$199 million, UC would "hold back" \$24 million in reserve for the medical schools to "connect" with regional hospitals for telemedicine services. At present, those dollars are not included in the project costs outlined by the campus. Staff recommends that the appropriation of these dollars be withheld until next year (or later) at which point campuses will have developed plans for connecting with other medical facilities.

Structure of the Appropriations

The Governor's Budget proposes to appropriate all \$199 million to UC in a single sum rather than scheduling the dollars out on a project-by-project basis, as has been the standing practice. Inherent in this appropriation methodology is the understanding that once funding for the project is scheduled in the annual Budget Bill, the Legislature has "approved" the project, including the scope of construction and associated costs.

In order to remain consistent in its approach to both approving and funding projects, both staff and the LAO recommend that the committee amend the Budget Bill and specifically appropriate dollars on a project-by-project basis. Further, staff recommends that the committee bifurcate the funding requests and only appropriate the amount needed in 2007-08, rather than the total amount.

X. University of California, Berkeley, Energy Biosciences Institute

The Governor's Budget includes \$70 million in lease revenue bonding authority for the University of California at Berkeley to construct two facilities aimed at researching alternative energy sources. These funds would be provided in addition to the \$890 million available to UC under the enactment

of Proposition 1D. The first project, known as Helios, would seek to develop new solar energy technologies. Under the Governor's initial proposal, Helios would receive \$30 million from the state to construct a new \$100 million building. The remaining funding would be derived from a variety of federal and private sources. The second project, the Energy Biosciences Institute, would receive the remaining \$40 million. The short-term operations and research functions of the Energy Biosciences Institute would focus on alternative fuel sources and be funded by a ten-year \$500 million grant from the BP (formerly known as British Petroleum) corporation. Shortly after the release of the Governor's Budget, the Legislature was notified that UC and the Administration *combined these two proposals into a single \$70 million request.*

A variety of questions have been raised regarding both the facility proposal presented by the Berkeley campus and the nature of the University's public-private partnership with BP. Specifically the committee may wish to further examine the following points:

- Is the state actually "obligated" to build a \$70 million building to comply with Berkeley's proposal to BP?
- How do these previously separate proposals (The Energy Biosciences Institute and the Helios Project) relate?
- How will this landmark public-private partnership be structured? UC indicates that a contract between the Berkeley campus and BP will not be available until the end of the current fiscal year.
- Is this partnership with BP the best direction of UC's research agenda?
- What protections does the state have in regards to retaining the rights (and hence the royalties) to any commercial applications of research conducted at the facility?
- What "oversight" does the UC Academic Senate have over the researchers?
- Is there an "ethics" committee to address issues related to biofuel development or other types of research and the subsequent commercialization of that research?
- How will UC guarantee more "transparency" if this project were to move forward?
- Why is the Administration proposing the use of Lease-Revenue bonds when a General Obligation (GO) Bond was just passed by the voters in November of 2006 (Proposition 1D) and a new GO Bond measure may be on the horizon?
- Who has future responsibility for maintaining the facilities after the conclusion of the BP grant?

Proposed Consent

- 6440-001-3054. Support, University of California. California Health Benefit Review Program. Increase item by \$1,886,000 per *April Finance Letter*.
- 6440-301-0648. Capital Outlay, University of California. Capital Outlay projects, per attached.
- 6440-302-6048. Capital Outlay, University of California. Capital Outlay projects, per attached.
- 6600-001-0001. Support, Hastings College of the Law. \$10,631,000
- 6610-002-0648. Capital Outlay, California State University. Capital Renewal \$50,000,000
- 6610-301-0574. Capital Outlay, California State University. Minor Capital Outlay \$20,000,000
- 6610-301-6028. Capital Outlay, California State University. Add item per *April Finance Letter* for Minor Capital Outlay. \$7,000,000
- 6610-301-6028. Capital Outlay, California State University. Add item per *April Finance Letter* for Equipment for the Monterey Bay Campus Library. \$4,228,000
- 6610-301-6048. Capital Outlay, California State University. Capital Outlay projects, per attached.
- 6610-302-6048. Capital Outlay, California State University. Capital Outlay projects, per attached.
- 6610-492. Reappropriation, California State University. From fund number 6048, 2006.
- 6610-496. Reversion, California State University. San Francisco School of the Arts. \$9,935,000
- 6870-001-0001. Support, California Community Colleges. Chancellor's Office. \$9,935,000
- 6870-001-0890. Support, California Community Colleges. Chancellors Office. Add item per *April Finance Letter*. \$12,000
- 6870-001-0909. Support, California Community Colleges. Fund for Instructional Improvement \$14,000
- 6870-001-0925. Support, California Community Colleges. California Business Resource and Assistance Innovation Network Fund \$13,000
- 6870-001-6028. Support, California Community Colleges. Facilities Planning, Payable from the 2002 Higher Education Capital Outlay Bond Fund \$1,833,000
- 6870-101-0001. Local Assistance, California Community Colleges. Add Language to CalWORKS Provision, per *April Finance Letter*.
- 6870-101-0890. Local Assistance, California Community Colleges. Add item per *April Finance Letter*. \$235,000
- 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. \$15,000
- 6870-103-0001. Local Assistance, California Community Colleges. Lease Revenue Bond Payments. \$59,401,000

- 6870-107-0001. Local Assistance, California Community Colleges. Local District Financial Management and Oversight. \$350,000
- 6870-111-0001. Local Assistance, California Community Colleges. CalWORKS Services, Foster Parent Training, Vocational Education, and Telecommunications/Technology. \$0
- 6870-295-0001. Local Assistance, California Community Colleges. Mandate Reimbursement. \$4,004,000
- 6870-495. Reversion, California Community Colleges.
- 6870-497. Reversion, California Community Colleges, Capital Outlay.

**BUDGET BILL LANGUAGE:
UC STUDENT ACADEMIC PREPARATION PROGRAMS**

Add the following provision to Item 6440-001-0001:

X. Of the funds appropriated in Schedule (1), \$19,300,000 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 \$31,300,000 for these programs. The University of California shall provide a plan to the Department of Finance and the fiscal committees of each house of the Legislature for expenditure of both state and university funds for SAPEP by September 1, 2007.

**BUDGET BILL LANGUAGE:
CSU STUDENT ACADEMIC PREPARATION PROGRAMS**

Amend Provision 10 of Item 6610-001-0001:

10. Of the amount the funds appropriated in Schedule (1), ~~\$45,000,000~~ \$52,000,000 is appropriated for student academic preparation and student support services programs. The university shall provide \$45,000,000 to support the Early Academic Assessment Program 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, 2008.

SUPPLEMENTAL REPORT LANGUAGE FOR LONG RANGE DEVELOPMENT PLANNING

Item 6440-001-0001 – University of California

Long Range Planning. Based on academic goals and projected enrollment levels, each University of California (UC) campus and medical center periodically develops a Long Range Development Plan (LRDP) that guides its physical development – such as location of buildings and transportation systems – for an established time horizon. In order to ensure greater legislative oversight over the process used by UC to prepare and implement each plan (as well as the accompanying Environmental Impact Report [EIR]), the university shall provide the Legislature with the following:

- *Copies of Draft LRDPs.* The UC shall provide the Legislature with copies of draft LRDPs at the time they are submitted for public review. (Before the UC Regents can approve an LRDP and accompanying EIR, a campus must allow time for the public to review and comment on these documents.)
- *Systemwide Enrollment Projections.* The UC shall provide systemwide enrollment projections through at least 2020 by ~~December 1, 2007~~ January 10, 2008. In its report, the university should explain and justify the assumptions and data used to calculate the enrollment projections.
- *Use of Summer Term.* It is the intent of the Legislature that UC campuses make fuller use of the summer term as a means to accommodate an anticipated increase in the number of students with existing classrooms. The university shall report to the Legislature by March 15, 2008, on its efforts to optimize ~~operate~~ the summer enrollment term at full capacity, in comparison to other academic terms. This report shall include data on the number of full-time equivalent ~~full-time equivalent~~ students enrolled (by campus) in summer 2007 and fall 2007, both in terms of full-time equivalents and headcount. In addition, UC shall discuss specific steps campuses are taking to increase summer enrollments.
- *Mitigation of Off-Campus Impacts – Current Projects.* When a campus's enrollment and facilities expand, it can sometimes negatively affect the surrounding environment. In view of the recent decision in *City of Marina v. California State University Board of Trustees*, it is the intent of the Legislature that UC take steps to reach agreements with local public agencies regarding the mitigation of off-campus impacts. Beginning on March 1, 2008, ~~the~~ university shall annually report (by campus) on the status of mitigating the all identified ~~the~~ off-campus impacts of each capital outlay project. For each impact, this report shall identify whether a fair share agreement has been reached with lo-

cal agencies. The report should also list any monetary payments made by the campus for off-campus mitigation. For those impacts for which there is no fair share agreement, UC should explain what steps are being taken to reach an agreement.

- ***Mitigation of Off-Campus Impacts – Future Projects.*** It is the intent of the Legislature that UC work with the appropriate jurisdictions in mitigating all off-campus impacts associated with future capital outlay projects. Specifically, funding requests for all new capital projects shall include information on whether the university has reached an agreement with such jurisdictions regarding the implementation and costs of specific mitigation measures.

California State University (6610-001-0001)

Long Range Planning. Each of the 23 California State University (CSU) campuses periodically develops a physical master plan that is supposed to guide the future development of its facilities – based on academic goals and projected student enrollment levels – for an established time horizon. In order to ensure greater legislative oversight over the process used by CSU to prepare and implement each plan (as well as the accompanying Environmental Impact Report [EIR]), the university shall provide the Legislature with the following:

- ***Copies of Draft Physical Master Plans.*** The CSU shall provide the Legislature with copies of draft physical master plans before they are approved by the CSU Board of Trustees.
- ***Systemwide Enrollment Projections.*** The CSU shall provide systemwide enrollment projections through at least 2020 by ~~December 1, 2007~~ January 10, 2008. In its report, the university should explain and justify the assumptions and data used to calculate the enrollment projections.
- ***Use of Summer Term.*** It is the intent of the Legislature that CSU campuses make fuller use of the summer term as a means to accommodate an anticipated increase in the number of students with existing classrooms. The university shall report to the Legislature by March 15, 2008, on its efforts to optimize ~~operate~~ the summer enrollment ~~term~~ at full capacity, in comparison to other academic terms. This report shall include data on the number of ~~full-time equivalent~~ students enrolled (by campus) in summer 2007 and fall 2007, both in terms of full-time equivalents and headcount. In addition, CSU shall discuss specific steps campuses are taking to increase summer enrollments.
- ***Mitigation of Off-Campus Impacts – Current Projects.*** When a campus's enrollment and facilities expand, it can sometimes negatively affect the surrounding environment. In view of the recent decision in *City of Marina v. CSU*

University Board of Trustees, it is the intent of the Legislature that CSU take steps to reach agreements with local public agencies regarding the mitigation of off-campus impacts. Beginning on March 1, 2008, the university shall annually report (by campus) on the status of mitigating ~~the~~ all identified off-campus impacts ~~of each capital outlay project~~. For each impact, this report shall identify whether an agreement has been reached with local agencies. The report should also list any monetary payments made by the campus for off-campus mitigation. For those impacts for which there is no agreement, CSU should explain what steps are being taken to reach an agreement.

- ***Mitigation of Off-Campus Impacts – Future Projects.*** It is the intent of the Legislature that CSU work with the appropriate jurisdictions in mitigating all off-campus impacts associated with future capital outlay projects. Specifically, funding requests for all new capital projects shall include information on whether the university has reached an agreement with such jurisdictions regarding the implementation and costs of specific mitigation measures.



320 STEPHENS HALL
UNIVERSITY OF CALIFORNIA

**Resolution¹ on the Energy Biosciences Institute
Approved at the Special Meeting of the Berkeley Division
April 19, 2007**

WHEREAS the public mission of the University of California, Berkeley, mandates the highest standards of scholarly integrity and transparency, particularly in regard to its relationships with sources of private funding, and given the position of the Systemwide Academic Senate on this issue, be it

RESOLVED, cognizant of the memorial passed and ratified by the Systemwide Academic Senate in 2006², that the Academic Senate instruct the Chair of the Berkeley Division to advise the Chancellor that grave issues of academic freedom would be raised if the campus were to deviate from the principle that no unit of the University, whether by faculty vote or administrative decision, has the authority to prevent a faculty member from accepting external research funding based solely on the source of funds. Policies such as the faculty code of conduct are already in place on our campus to uphold the highest standards and integrity of research. The Academic Senate believes that any intervention on the basis of assumptions about the moral or political standing of the donor is unwarranted.

* * * * *

WHEREAS the proposed partnership between BP and the University of California, Berkeley raises concerns about appointments and the allocation of resources, be it

RESOLVED that the Academic Senate instruct the Chair of the Berkeley Division to advise the Chancellor that an adequately supported committee³ composed of four members of the Academic Senate (the chairs of the Budget Committee, the Committee on Research, the Committee on Academic Planning and Resource Allocation, and the Committee on Academic Freedom) be constituted to serve in an advisory capacity to the chancellor in the initiation and oversight of the Energy Biosciences Institute and similar future endeavors.

1. Notice of a special meeting of the Academic Senate, April 19, 2007 with resolutions concerning university agreements
(http://academic-senate.berkeley.edu/meetings/documents/Div_SpecialMtg_0407.pdf/).

2. Memorial passed by the Systemwide Academic Council on September 27, 2006 and ratified by the Assembly on October 11, 2006.

(<http://www.universityofcalifornia.edu/senate/assembly/oct2006/research%20funding.11.06.pdf>)

“The Academic Council instructs the Chair of the Council to advise the President that grave issues of academic freedom would be raised if the Regents were to deviate from the principle that no unit of the University, whether by faculty vote or administrative decision, has the authority to prevent a faculty member from accepting external research funding based solely on the source of funds. Policies such as the faculty code of conduct are already in place on all campuses to uphold the highest standards and integrity of research. The Academic Council believes that the Regental intervention on the basis of assumptions about the moral or political standing of the donor is unwarranted.”

3. Excerpt from the memo of W. Drummond, Chair, Berkeley Division of the Academic Senate, emailed on March 21, 2007. (http://academic-senate.berkeley.edu/EBI_chron.pdf), itself derived from the aforementioned resolutions.

“Following the announcement of February 1, the nature of consultations with the Senate changed. Negotiations got underway to create a contract to operationalize the EBI. On March 20, VCR Burnside advised me that the chairs of the Budget Committee, the Committee on Research, the Committee on Academic Planning and Resource Allocation, and the Committee on Academic Freedom had been invited to participate in the negotiation of the contract for the EBI agreement with BP. She asked that DIVCO entrust these chairs to provide confidential input to the negotiations. Once the contract was signed, they would be released from a pledge of confidentiality.”

**UNIVERSITY OF CALIFORNIA
2007-08 CAPITAL OUTLAY BUDGET AS PROPOSED IN THE GOVERNOR'S BUDGET**

	Governor's Budget Funding	Phase
Universitywide		
Telemedicine/PRIME Medical Education —Facilities (D, I, LA, SD, SF)	199,000	PWCE
Energy Biosciences Institute Project (BP Grant)	40,000 (LRB)	PWCE
Berkeley		
* Durant Hall Renovation	9,970	PWC
Campbell Hall Seismic Replacement Building	6,400	PW
Helios Research Facility	30,000 (LRB)	PWCE
Davis		
Veterinary Medicine 3B	4,751	W
Electrical Improvements Phase 4	4,335	PWC
Irvine		
Engineering Unit 3	3,292	E
* Humanities Building	23,977	C
* Arts Building	39,855	PWC
* Steinhaus Hall Seismic Improvements	9,681	PWC
Merced		
Social Sciences and Management Building	37,255	C
Riverside		
College of Humanities and Social Sciences Instruction and Research Facility	940	E
Psychology Building	1,612	E
Boyce Hall and Webber Hall Renovations	31,776	WC
* East Campus Infrastructure Improvements Phase 2	8,893	PWC
Batchelor Hall Building System Renewal	402	P
San Diego		
Music Building	2,204	E
Management School Facility Phase 2	1,000	P
San Francisco		
Electrical Distribution Improvements Phase 2	892	W
Santa Barbara		
Engineering II Life Safety Improvements and Addition	5,000	WC
Infrastructure Renewal Phase 1	252	W
Davidson Library Addition and Renewal	1,055	W
Santa Cruz		
Digital Arts Facility	1,044	E
McHenry Addition and Renovation Project	38,184	CE
Biomedical Sciences Facility	69,370	C
Infrastructure Improvements Phase 2	317	W
ANR		
* Hopland REC Field Laboratory and Multipurpose Facility	1,708	PWC
TOTALS	573,165	
General Obligation Bonds	\$ 503,165	
General Funds (GF)	\$ -	
State Lease Revenue Bonds (LRB)	\$ 70,000	

* Streamlined projects

CALIFORNIA STATE UNIVERSITY
FY 07/08 Capital Outlay
Consent List

Item:	Requested	At Issue	Approved
6610-301-6048 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2006			
(1) 06.50.066 Bakersfield: Art Center and Satellite Plan, Preliminary plans	387,000		387,000
(2) 06.54.081 Dominguez Hills: Educational Resource Center Addition, Construction	58,359,000		58,359,000
(3) 06.68.123 San Marcos: Social and Behavioral Sciences Building, Working drawings and construction	53,688,000		53,688,000
(4) 06.73.096 Los Angeles: Corporation Yard and Public Safety, Construction	15,133,000		15,133,000
(5) 06.80.156 San Diego: Storm/Nasatir Halls Renovation, Preliminary Plans and working drawings	2,552,000		2,552,000
(6) 06.83.002 Channel Islands: Infrastructure Improvements, Phases 1a and 1b, Construction	47,134,000		47,134,000
(7) 06.83.003 Channel Islands: Classroom/Faculty Office Renovation/Addition, Preliminary plans and working drawings	1,989,000		1,989,000
(8) 06.83.005 Channel Islands: Entrance Road, Preliminary plans and working drawings	1,390,000		1,390,000
(9) 06.83.006 Channel Islands: John Spoor Broome Library, Equipment	3,074,000		3,074,000
(10) 06.84.105 San Francisco: School of the Arts, Acquisition	12,382,000		12,382,000
(11) 06.92.067 Stanislaus: Science I Renovation (Seismic), Preliminary plans and working drawings	1,049,000		1,049,000
(12) 06.96.116 San Luis Obispo: Center for Science, Working drawings	2,707,000		2,707,000
(13) 06.98.107 Pomona: Library Addition and Renovation, Phase I, Equipment	5,863,000		5,863,000
(14) 06.98.109 Pomona: College of Business Administration, working drawings and construction	31,429,000		31,429,000
Subtotal	237,136,000		237,136,000
6610-302-6048 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2006			
(1) 06.48.381 Systemwide: Nursing Facility Improvements, Preliminary plans, working drawings, construction and equipment	14,326,000		14,326,000
(2) 06.50.064 Bakersfield: Math and Computer Science Building, Equipment	1,513,000		1,513,000
(3) 06.50.064 Bakersfield: Nursing Renovation, Equipment	221,000		221,000
(4) 06.56.093 Fresno: Library Addition and Renovation, Equipment	6,884,000		6,884,000
(5) 06.62.095 Fullerton: College of Business and Economics, Equipment	6,593,000		6,593,000
(6) 06.67.098 Humboldt: Forbes PE Complex Renovation, Equipment	1,366,000		1,366,000
(7) 06.71.111 Long Beach: Library Addition and Renovation, Equipment	481,000		481,000
(8) 06.73.097 Los Angeles: Science Replacement Building, Wing B, Working drawings and construction	50,500,000		50,500,000
(9) 06.78.095 San Bernardino: Palm Desert Off-Campus Center, Phase III, Equipment	999,000		999,000
(10) 06.90.086 Sonoma: Music/Faculty Office Building, Equipment	1,553,000		1,553,000
(11) 6.98108 Pomona: Science Renovation (Seismic), Equipment	4,475,000		4,475,000
Subtotal	88,911,000		88,911,000
Total Consent List	326,047,000		326,047,000

California Community Colleges

District	College/Center	Project Name	Ph.	DOF Letter Changes	Ph.	2007-08 Amt.	Net Totals
Item 6870-301-6028, Chapter XXX/07 (6028- 2002 Higher Education Capital Outlay Bond Funds)							
Glendale	Glendale College	Allied Health/Aviation Lab			E	\$616,000	
Los Angeles	LA Valley	Health Science Building			E	\$3,219,000	
Rancho Santiago	Santa Ana	Physical Education Seismic Replacement/Expansion			E	\$69,000	
Item 6870-301-6028	TOTAL					\$3,904,000	\$3,904,000
Item 6870-301-6041, Chapter XXX/07 (6041- 2004 Higher Education Capital Outlay Bond Funds)							
Contra Costa	Contra Costa College	Art Building Seismic Retrofit	C	(\$2,493,000)		\$0	
San Bernardino	San Bernardino Valley College	North Hall, Seismic Replacement			C	\$17,490,000	
San Bernardino	San Bernardino Valley College	North Hall/Media Communications Seismic Replacement			C	\$7,222,000	
San Bernardino	San Bernardino Valley College	Chemistry and Physical Science Seismic Replacement			C	\$25,237,000	
Item 6870-301-6041	TOTAL			(\$2,493,000)		\$49,949,000	\$47,456,000
Item 6870-301-6049, Chapter XXX/07 (2006 Bonds)							
Allan Hancock	Allan Hancock College	One-Stop Student Services Center			CE	\$15,091,000	
Antelope Valley	Antelope Valley College	Theatre Arts Facility			CE	\$10,404,000	
Antelope Valley	Antelope Valley College	Health and Science Building			PW	\$2,770,000	
Barstow	Barstow College	Performing Arts Center			CE	\$20,225,000	
Barstow	Barstow College	Wellness Center			PW	\$296,000	
Cerritos	Cerritos College	Seismic Retrofit Gym			PW	\$910,000	
Chaffey	Ralph M. Lewis Fontana Center	Fontana Center Phase III - Academic Building			PW	\$883,000	
Coast	Orange Coast College	Consumer & Science Lab Building			PW	\$1,129,000	
Contra Costa	Contra Costa College	Physical/ Biological Science Buildings Renovation	C	(\$8,273,000)		\$0	
Contra Costa	Los Medanos College	Art Area Remodel			C	\$2,261,000	
El Camino	El Camino College	Humanities Complex Replacement			E	\$2,686,000	
El Camino	El Camino College	Social Science Remodel for Efficiency			PW	\$453,000	
Glendale	Glendale College	Laboratory College Services Building			PW	\$2,769,000	
Long Beach	Long Beach City College, Pacific Coast Campus	Multi-Disciplinary Academic Building			PW	\$1,467,000	
Los Angeles	East Los Angeles College	Multi-Media Classrooms			CE	\$15,674,000	
Los Angeles	Los Angeles City College	Jefferson Hall Modernization			PW	\$344,000	
Los Angeles	Los Angeles Harbor College	Library/Learning Resource Center			PW	\$1,218,000	
Los Angeles	Los Angeles Trade Tech College	Learning Assistance Center (Basement)			PW	\$2,303,000	
Los Angeles	Los Angeles Valley College	Library/Learning Assistance Center			PW	\$833,000	
Los Rios	American River College	Fine Arts Instructional Space Expansion			C	\$7,225,000	
Los Rios	American River College	Library Expansion			PW	\$84,000	
Los Rios	Cosumnes River College	Science Building Instructional Expansion			C	\$8,670,000	
Los Rios	Sacramento City College	Fine Arts Building Modernization			C	\$4,922,000	

California Community Colleges

Los Rios	Sacramento City College	Performing Arts Modernization	PW	\$281,000	
Mt. San Antonio	Mt. San Antonio College	Administration Remodel	PW	\$521,000	
Mt. San Jacinto	Menifee Valley Center	General Classroom Building	CE	\$13,142,000	
North Orange County	Fullerton College	Technology and Engineering Complex	PW	\$3,102,000	
Palomar	Palomar College	Multi-Disciplinary Building	CE	\$41,482,000	
Redwoods	College of the Redwoods	Student Services/Administration & Performing Arts Bldg	PW	\$1,322,000	
Riverside	Riverside City College	Nursing/Science Building	PW	\$1,300,000	
South Orange County	Saddleback College	Learning Resouce Center Renovation	C	\$14,983,000	
San Bernardino	Crafton Hills College	Learning Resource/Technology Center	CE	\$14,506,000	
San Francisco	City College of San Francisco - Ocean /Phelan Campus	Joint Use Instructional Facility	CE	\$38,552,000	
San Francisco	City College of San Francisco - Ocean /Phelan Campus	Classroom/Lab Arts Complex	W	\$797,000	
San Francisco	City College of San Francisco - Ocean /Phelan Campus	Performing Arts Center	PW	\$1,743,000	
San Francisco	City College of San Francisco - Chinatown Campus	Campus Building	PWC	\$41,748,000	
San Joaquin Delta	San Joaquin Delta College	Goleman Learning Resource Center Modernization	CE	\$9,596,000	
San Joaquin Delta	San Joaquin Delta College	Cunningham Math/Science Replacement	PW	\$2,302,000	
San Mateo County	Skyline College	Facility Maintenance Center	E	\$250,000	
Santa Barbara	Santa Barbara City College	High Technology Center	CE	\$30,672,000	
Santa Clarita	College of the Canyons	Library Addition	PW	\$454,000	
Santa Monica	Santa Monica College	Student Services & Administration Building	PW	\$1,321,000	
Sequoias	College of the Sequoias	Nursing and Allied Health Center	CE	\$7,823,000	
Sequoias	Tulare Center	Phase I Site Development & Facilities	P	\$1,723,000	
Shasta-Trinity-Tehama Jt.	Shasta College	Library Addition	CE	\$12,094,000	
Sierra Joint	Sierra College	Child Development Center	PW	\$700,000	
Sonoma County	Santa Rosa Junior College - Public Safety Training Center	Public Safety Training Ctr. Adv. Lab & Office Complex	PW	\$298,000	
West Hills	West Hills College, Coalinga	Agricultural Science Facility	PW	\$615,000	
West Valley-Mission	West Valley College	Campus Technology Center	CE	\$16,148,000	
West Valley-Mission	West Valley College	Math and Science Replacement	CE	\$5,243,000	
West Valley-Mission	West Valley College	Science and Math Building Renovation	C	\$18,475,000	
West Valley-Mission	Mission College	Main Building, Second Floor Reconstruction	C	\$20,511,000	
Feather River	Feather River College	Learning Resource Center and Technology Building	CE	\$9,864,000	
Item 6870-301-6049	TOTAL		(\$8,273,000)	\$414,185,000	\$405,912,000

California Community Colleges

Item 6870-303-6041, Chapter XXX/07 (2004) Bonds

San Mateo County	College of San Mateo	Demolition of Seismic Hazardous Buildings	PWC	\$10,907,000	
Item 6870-303-6041			TOTAL	\$10,907,000	\$10,907,000

Item 6870-303-6049, Chapter XXX/07 (2006 Bonds)

Cabrillo	Cabrillo College	Visual Arts Reconstruction (Building 300)	PWCE	\$3,098,000	
Ohlone	Ohlone College	Water Intrusion Below Grade	PWC	\$11,379,000	
Grossmont - Cucamonga	Cuyamaca College	LRC Expansion/Remodel, Phase 1	PWCE	\$2,084,000	
Los Angeles	East Los Angeles College	Bailey Library Modernization/Addition	PWCE	\$10,086,000	
Los Angeles	Los Angeles Mission College	Mission Media Arts Center	PWCE	\$14,035,000	
San Mateo County	Canada College	Reactivation of Academic Facilities	PWCE	\$5,688,000	
West Kern	Taft College	TIL Center	PWCE	\$10,541,000	
Item 6870-303-6049			TOTAL	\$56,911,000	\$56,911,000

Total Use of all Bonds **\$535,856,000** **\$525,090,000**

SUBCOMMITTEE NO. 1 on Education



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

Tuesday, May 8, 2006
1:30 pm
Room 113, State Capitol

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6110

**Issue 1. School Transportation Funding Shift – April Finance Letter Request
(6110-111-001/0046 & 6110-611-0046/0001)**

DESCRIPTION: The Governor’s January budget proposes to shift **\$627 million** in funding for the Home-to-School Transportation program from Proposition 98 General Fund to the Public Transportation Account (PTA). In making this shift, the Administration proposed to rebench the Proposition 98 minimum guarantee downward by **\$627 million** to reflect the savings in state General Funds. In the April Finance Letter, the Governor proposes to essentially undo the January proposal as it affects the Proposition 98 budget, while maintaining state General Fund savings. The Department of Finance will present this April Budget Letter proposal.

BACKGROUND: In his April DOF letter, the Governor proposes significant changes to the January budget PTA shift proposal. In effect, the Governor proposes to continue the proposed use of \$627 million in PTA public transportation funds for Home-to-School transportation, but does not propose to reduce the Proposition 98 minimum funding level by the same amount. Specifically, the Governor is proposing that the PTA funds be used as a reimbursement to the state General Fund for expenditures related to the Home-to-School Transportation program.

Under the Governor’s April Letter proposal, the state would still capture \$627 million in General Fund savings. The savings would result from reimbursements to the state General Fund from the PTA in order to offset the costs of the Home-to-School Transportation program. The Governor would eliminate direct PTA funding of the Home-to-School Transportation program, as proposed in January, and restore Proposition 98 funding for the program. In addition, the Governor would no longer propose to rebench the minimum Proposition 98 funding guarantee downward by \$627 million.

As a part of the April Finance Letter, the Administration proposes the following budget control section to bring this proposal into effect:

SEC. 24.80. (a) Notwithstanding any other provision of law, the Director of Finance is authorized to reimburse overall General Fund expenditures for the purposes of offsetting the cost of Home-to-School Program for the 2007-08 fiscal year from the Public Transportation Account, State Transportation Fund. Upon order of the Director of Finance, up to \$627,000,000 from the Public Transportation Account, State Transportation Fund, may be used to reimburse General Fund expenditures from Item 6110-111-0001 and the deferral amount from 2006-07 paid in 2007-08 pursuant to approval of budget trailer legislation

during the 2007-08 Regular Session that provides an appropriation for this purpose. The total reimbursement shall not reduce the balance in the Public Transportation Account, State Transportation Fund, below a prudent reserve as determined by the Director of Finance.

(b) It is not the intent of the Legislature in enacting this section to provide additional expenditure authority to state programs.

(c) Funds provided from the Public Transportation Account, State Transportation Fund, for this purpose are derived from the sales tax on fuels and are dedicated to mass transportation purposes pursuant to Section 99310.5 of the Public Utilities Code. The Legislature hereby finds that transporting students to schools is a component of the state's mass transportation program.

COMMENTS: At the Subcommittee's March 6 hearing, the LAO recommended that the Legislature reject the Governor's January budget proposal to shift PTA funds to Home-to-School Transportation and rebench the minimum downward by a like amount. The LAO felt the Governor's January rebenching proposal was both unconstitutional and at odds with the intent of the voters when they passed Proposition 98. While the Administration believed their January proposal worked legally, they indicated they were working with education groups to identify alternatives that would achieve savings and use PTA funds legally.

The Governor's April Letter proposal restores Proposition 98 funding for Home-to-School Transportation programs and therefore eliminates any rebenching of Proposition 98. While the April proposal removes the LAO's Proposition 98 legal concerns, the April proposal raises strong concerns for the LAO about the legality of using PTA funds to reimburse the General Fund. The LAO believes that PTA funds must be used for mass-transit and cannot be used to reimburse the General Fund. Overall, the LAO questions the legality and viability of the Governor's April Letter proposal.

ISSUE 2: Education Transparency Website -- April Finance Letter

DESCRIPTION: The April Finance Letter proposes new funding of **\$214,000** for the Office of the Secretary for Education for administration of a new Education Transparency Website. The April Letter requests **\$150,000** in ongoing funding for **1.5 positions** to administer the website and **\$64,000** in one-time funds for equipment purchases. The Governor's Office has been the lead agency in developing this initiative.

BACKGROUND: The Office of the Secretary for Education (OSE) advises the Governor on K-12 and higher education issues. The Governor's budget provides \$2.1 million and 17.1 positions in 2007-08 for OSE. While OSE has not been established in statute, it has operated for a number of years in an advisory role for the Administration.

April Finance Letter. In the April DOF Budget Letter, the Administration proposes an increase of \$214,000 for OSE in 2007-08 to administer an Education Transparency Website. Of this amount, \$150,000 would be ongoing funding for 1.5 positions at OSE -- \$94,000 for 1.0 website administrator position and \$56,000 for a 0.5 technical support position. In addition, \$64,000 is requested for purchase of equipment needed for administration of the website.

As proposed by the Governor, the Education Transparency Website would utilize school specific data available from the California Department of Education, but present this data in a more simple and intuitive fashion. The intended audience is the general public, in particular parents who may have basic questions about local schools. Specifically, the website is intended to allow parents and others to compare and contrast data for schools such as enrollment, test scores, pupil discipline, and teacher credentialing and experience.

According to OSE, the Education Transparency Website is proposed as a public-private collaboration. While the Education Transparency Website will be administered by Office of the Secretary of Education, the Governor's Office has been the lead agency in developing this project.

According to OSE's budget proposal, the new system is already being developed by the Governor's Office and scheduled for piloting beginning in June 2007. Initial development of the website has been accomplished using existing technology resources and staff. Permanent website launch is planned for August 2007, following an initial testing of the website.

OSE staffing is requested to ensure that the website is updated periodically, as information is made available by CDE. In addition, OSE anticipates the need for upgrades based upon need during the year. Additional improvements will be made based upon findings from focus groups and input from concerned stakeholders.

COMMENTS:

Ongoing Funding Not Justified. It appears that the simple website interface has already been built by the Governor's Office using existing resources. While there may be some costs for periodic upgrading of the system, \$150,000 and 1.5 ongoing positions at OSE do not appear justified. This minimal workload requires periodic services of a part-time information systems analyst only – a half time position is not justified. In addition, there is no justification for a full-time Administrator position. If the project were approved by the Legislature, it could probably be maintained at DTS or CDE within existing resources.

CDE School Level Data Already Exists. The California Department of Education provides a wealth of school level information to the public on its website. In particular, the public can access School Accountability Report Cards for individual schools that includes some of the very data that will be utilized by the Education Transparency Website. The new website is intended to provide a website interface that will make CDE data more user-friendly and allow school-by-school data comparisons. The Administration has indicated that it intends for the website to be located on the Governor's webpage and not on the California Department of Education's website. It is unclear why the Governor's Office has not worked directly with CDE to build this new interface within the CDE website system.

Nature of Public-Private Partnership. The April Letter does not specify a public-private partnership for the Education Transparency Website project. However, OSE has indicated that some public-private collaboration is envisioned. What is the nature of this public-private collaboration?

Commercial Websites Available. According to the Project Manager, there are several commercial website products that provide similar information to what is being proposed for the Education Transparency Website. For example, Google, Inc., announced on April 30, 2007, that it is providing free technology to four states, including California that would make public data more accessible to the public by using a new technology called "Sitemap". So why is new public system needed? According to the State and Consumer Services Agency, these commercial systems do not protect the privacy of users.

RECOMMENDATIONS: Staff recommends that the Subcommittee reject this proposal at May Revise and redirect funds to CSIS support. The heart of the Education Transparency Website is the development of a website interface that has already been built. It is likely that this website interface can be administered within existing resources (or minimal one-time and ongoing resources) at Governor's Office or perhaps more appropriately at the Department of Education.

OUTCOME:

ISSUE 3. State Special Schools – Support and Capital Outlay (6110-001-0001, 6110-005-0001, 6110-006-0001 & 6110-301-0660)

DESCRIPTION: The Governor's January 10 budget and DOF April Letter proposes new funding for staff, utility costs and unemployment insurance at the State Special Schools in 2007-08. In addition, the Governor's January 10 budget proposes funding augmentations for three capital outlay projects at the School for the Deaf in Riverside. The DOF May Letter requests a reappropriation of prior year funding for two of these capital outlay projects due to project delays.

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.

The Governor's budget proposes a total funding level of approximately **\$98 million** for the state's three special schools. These schools are administered by the California Department of Education.

Governor's Budget – State Operations. The Governor's January 10 budget and DOF April Budget Letter contain the following augmentations for staff and services at the State Special Schools:

1. **Physical Education Teacher - California School for the Blind (Fremont).** The Governor's January budget proposes a \$88,000 General Fund augmentation and one position for an adaptive physical education teacher at this school.
2. **Utility Costs - California School for the Deaf (Riverside).** The Governor's January budget proposes a General Fund augmentation of \$420,000 to cover utility costs at this school. The DOF April Budget Letter proposes to correct a technical error in the January 10 budget, whereby \$420,000 was inadvertently placed in the wrong item for increased utility costs for the California School for the Deaf at Riverside. DOF accordingly proposes that \$420,000 be shifted from item 6110-001-0001 to item 6110-005-0001, and that the language "Of the funds appropriated in this item, \$420,000 is for funding increased utility costs at the California School for the Deaf, Riverside," be moved from item 6110-001-0001 to 6110-005-0001. **(April Letter Issue 953)**
3. **Unemployment Insurance Costs (All Three State Schools).** The DOF April Budget Letter requests an increase of \$275,000 to cover increased Unemployment Insurance costs related to increased claims and contract costs for the State Special Schools. DOF states that these increased benefits and claims result primarily from seasonal (school year) staffing issues. **(April Letter Issue 955)**

Governor's Budget - Capital Outlay. The Governor's January 10 budget includes the following augmentations for capital outlay projects at the **California School for the Deaf in Riverside**. All projects will be funded with lease-revenue bonds and subject to the Field Act.

4. **Multi-Purpose/Activity Center.** Proposes **\$2,342,000** for design, construction and equipment for a 16,775 square foot multi-purpose activity room. The lowest responsive bid received for the project last year was 20 percent above project funding; the proposed increase will pay for the overage. The facility will be used for elementary and middle school activities during the day and for recreational activities for dormitory students.
5. **Career Technical Education Complex.** Proposes **\$3,845,000** for design and construction of a career technical education complex. The project will provide for the demolition of the existing 52-year-old vocational education building and construction or a replacement complex that will include a classroom/administrative building, a shop building, a greenhouse, a service yard and parking lot.
6. **Various Projects – Classrooms, Bus Loop and Building Renovations.** Proposes **\$10,383,000** for preliminary plans, design, construction and equipment of six support cores for academic areas, three additional classrooms and the construction of a new early childhood education bus loop. The project also includes renovations of some older buildings and installation of new hot water boilers.

DOF May Letter – Capital Outlay Reappropriations. The May DOF Letter proposes that Item 6110-490 be added to reappropriate prior year funds for the Multi-Purpose/Activity Center and the Career Technical Education Complex at the School for the Deaf in Riverside.

7. **Multi-Purpose Activity Center.** Reappropriates **\$5,003,000** for construction and equipment. The project has been delayed due to a lack of construction funding after the project was bid on March 23, 2006. The lowest responsive bid was 19.8 percent above approved construction funding. The reappropriation request will allow the existing funds to remain intact until a supplemental appropriation of \$2.3 million is approved for 2007-08.
8. **Career Technical Education Complex.** Reappropriates **\$927,000** for working drawings, construction and equipment. The project has been delayed due to unforeseen delays during the California Environmental Quality Act (CEQA) review. The CEQA soil testing detected volatile organic compound called pinene. The pinene issue has been resolved but the CEQA delays will require that the existing funds for the working drawings, construction and equipment will need to be reappropriated in order to meet the revised project schedule.

COMMENTS/RECOMMENDATION: *Staff recommends* approval of the Governor's state operations and capital outlay proposals for the State Special Schools listed in items 1-8 above.

OUTCOME:

ISSUE 4. State Operations - Special Education Due Process Contract

DESCRIPTION: The Governor's Budget proposes **\$10.7 million** in 2007-08 to fund administration of the state special education due process program. This program is operated under contract with the Office of Administrative Hearings (OAH), Department of General Services. CDE is requesting **\$1.7 million** in additional funding for the OAH contract in 2007-08 to cover annual cost increases.

BACKGROUND: Federal special education law requires that states receiving federal special education funding maintain a due process system to resolve disputes between parents and school officials regarding compliance with federal laws governing the education of students with disabilities receiving special education services. Federal law prohibits CDE from acting as the administrative hearing agency for such disputes, in order to avoid conflict of interest.

Due Process Contract History: 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, OAH's bid was \$30.4 million for three years, which was 30 percent lower than McGeorge's bid. 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 June 1, 2005, and mediations starting January 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. As of January 2006, OAH assumed responsibility for providing mediations in addition to due process hearings.

2006-07 Budget: Last year, the Governor proposed \$4.5 million in non-Proposition 98 General Fund to cover unexpected 2005-06 costs to OAH for administration of the statewide special education due process program. Later, these additional costs were reduced to \$2.0 million. The final 2006-07 budget provided an additional \$1.4 million to

cover 2005-06 OAH costs for closing an estimated 1,600 cases in the pipeline from the previous state contract. The 2006-07 budget also provided \$320,000 in ongoing funds to cover increased employee compensation costs for the OAH contract. These funds were vetoed by the Governor in 2006-07, because the Administration indicated that funds would be available through the employee compensation process. (These funds, now estimated at \$513,000, have not yet been made available to the CDE due to oversights in allocating employee compensation funds. The DOF advises that it intends to seek legislation to make these funds available.)

Governor’s 2007-08 Budget Proposal. The Governor’s 2007-08 budget provides **\$10.7 million** to the Department of Education for the OAH due process contract. This continues funding at the 2006-07 level and includes **\$513,000** for increased employee compensation costs associated with the OAH contract.

CDE Proposal: CDE requests an additional **\$378,000** in 2006-07 and **\$1,684,000** in 2007-08 for the OAH contract. According to the department, OAH contract costs are increasing by more than \$1 million per year due to increasing workload. According to CDE, they approved these yearly increases when they signed the three year inter-agency agreement with OAH.

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. Due to the delays in these reports and concerns about assuring access during the transition period, the 2006-07 budget added reporting requirements for the OAH.

Data provided by OAH for 2005-06, is not complete due to shared responsibilities for mediation with the previous contractor for that year. In summary, with 683,178 special education students in 2005-06, there were 2,834 requests for due process. Most of these cases were heard in mediation, although the actual number is not known and it is unclear how all of these cases were fully resolved. Of the 2,834 requests for hearing in 2005-06, 119 due process hearings resulted.

Total K-12 Student Enrollment	6,312,393
Total K-12 Student Enrollment – Special Education	683,178
Total Due Process Requests Received	2,843
Total Mediations (Conducted)	NA*

Total Hearings (Decisions)	119
Total Cases on Appeal	?

*2005-06 data not available. For the first three quarters of 2006-07, OAH facilitated 1,230 mediations.

COMMENTS: Staff does not believe that the CDE proposal is justified. Staff questions whether the OAH practice of using Administrative Law Judges to conduct mediations, which reflects the bulk of the OAH workload, rather than mediators, is a cost effective practice. According to CDE, the cost of mediators under the previous due process contract ranged from \$54 to \$89 per hour. This compares with an hourly rate of \$169 for Administrative Law Judges (ALJs) at OAH. For the first three quarters of 2006-07, OAH facilitated 1,230 mediations. It would appear far more cost effective to utilize mediators than ALJs for mediations. ALJs could then be reserved for the 119 due process hearings conducted annually by OAH. Staff also notes that annual increases agreed to by CDE in the interagency agreement with OAH are all subject to budget act appropriations.

ISSUE 5: State Operations – CDE Positions and Operating Expenses

DESCRIPTION: The Governor proposes a number of staffing adjustments – increases and decreases – in 2007-08 that are included in the Governor’s January 10 budget, but that have not yet been heard by the Subcommittee. Other proposals were discussed by the Subcommittee at earlier hearings or in other items in this agenda. CDE will present priority state operations requests for both staffing and other operating expenses.

Governor’s CDE Staffing Proposals: The Governor January 10 budget proposes the following staffing adjustments for the Department of Education that have not yet been heard by the Subcommittee:

1. **State Board of Education Positions.** Fully restores funding for staff and operations at the State Board of Education in 2007-08. The budget adds **\$1,536,000** in General Funds (Non-98) and **\$53,000** in reimbursements to restore **9.2 staff positions** and other operating expenses for the State Board. The Legislature eliminated all funding for the State Board’s staff and expenses in the 2006-07 budget in response to State Board actions on English/Language Arts curriculum as it affects the availability of instructional materials for English learners. [Note: The Finance April Budget Letter requests \$425,000 in General Funds for CDE to cover the operational costs of the State Board in 2006-07. The Administration is pursuing legislation for this current year deficiency. No budget action is requested. (Issue 641).]
2. **Education Data Exchange Network (EDEN).** Provides **\$112,000** in federal funds and **1.0 position** to coordinate workload for the Federal Education Exchange Network. As proposed, this position would be devoted half time to the EDEN program and half-time for California Longitudinal Pupil Achievement Data System (CALPADS). The Department of Education had requested four new data positions – one each for EDEN and CALPADS and two for California Longitudinal Teacher Integrated Data System (CALTIDES). The Governor’s budget funded only one of these positions, split between EDEN and CALPADS.
3. **Career Technical Education.** Continues **2.0 positions** and **\$160,000** for career technical education programs funded half from state General Funds and half from federal Perkins funds.
4. **Career Technical Education.** Augments staff for career technical education by **2.0 positions** and **\$278,000** to implement new accountability requirements created by the reauthorized federal vocational education (Perkins) act. Federal Perkins funds of \$139,000 are matched by \$139,000 in state General Funds. Under the new federal program, the Department of Education will be required to annually evaluate school district performance against established goals.
5. **School Mental Health Network.** Converts **3.0 positions** from limited-term

status to permanent status and provides **\$633,000** for implementation of the Mental Health Services Act (Proposition 63) in school districts. Proposition 63 was passed by voters as Proposition 63 in 2004. The proposed funding and positions will institute a permanent partnership with the Department of Mental health to support training for school districts and mental health services agencies to promote early recognition of children's mental illnesses.

6. **English Learner Instructional Materials Program.** Eliminate **2.0 positions**, established on a limited-term basis, and **\$220,000** in federal Title III funds for implementation of the English Learner Instructional Materials program
7. **Educational Technology Program.** Remove **3.0 positions**, established on a limited-term basis, and **\$378,000** in federal funds for the Education Technology program. (The Finance April Budget Letter proposes to restore 2.0 positions with federal technology funds.
8. **Child Nutrition Information and Payment System (CNIPS).** Remove **7.8 positions** and **\$3,199,000** in federal nutrition funds and add **6.3 positions** and **\$2,639,000** in federal nutrition funds for administration of CNIPS.
9. **Fresh Start Pilot Program.** Eliminates **1.0 position** for claims processing and **\$174,000** in state General Funds for administration of Fresh Start Pilot Program. This pilot program, funded with one-time funds in 2005-06, covers the costs of purchasing additional servings of fruits and vegetables for students. Most of the \$18.2 million in one-time funds provided for the program has been expended.
10. **State Preschool Expansion.** Continue **1.0 position** and **\$150,000** in state General Funds for expansion of the State Preschool Program established in Chapter 211; Statutes of 2006 (AB 172/Chan).
11. **Certificated Staff Mentoring Program.** Adds **1.0 position** and **\$101,000** in state General Funds to administer the Certificated Staff Mentoring program, established by Chapter 517; Statutes of 2006 (SB 1209/Scott). This new programs provides support and mentoring to new teachers in low-performing schools.
12. **English Learner Best Practices Pilot Program.** Add **1.0 position** and **\$100,000** in federal Title III funds for administration of the English Learner Best Practices Pilot program established by the 2006-07 budget.

CDE Staffing Proposals. There are a number of positions requests that the CDE submitted to the DOF that were not funded in the Governor's January budget. The issues listed below include CDE's highest priority requests. Only those issues that have not been discussed by the Subcommittee in other hearings or are not covered by April Letter proposals, are highlighted below:

- **Title V Backfill Proposals.** Two years ago, the federal government eliminated funding for a major federal program (Title V) that CDE had relied upon heavily to fund its operations. Last year, CDE backfilled this cut using one-time federal carryover. This year, DOF has approved one of CDE’s proposals to backfill this federal cut, but not all of them. Specifically, CDE requests the General Fund increases of **\$610,000** for the Assessment Division; **\$693,000** for the Learning Support and Partnership Division; and **\$290,000** for the Secondary, Postsecondary, and Adult Leadership Division to offset equal losses in federal Title V funds.

- **Corrective Actions for Districts in School Improvement.** CDE requests **4.0 positions** and **\$489,000** in federal Title I funds to implement corrective actions in school districts that will enter their third year of Program Improvement this fall. Corrective actions are required for districts identified as needing “program improvement” under the federal No Child Left Behind (NCLB) act. CDE anticipates as many as 100 districts may be facing corrective actions as early as this fall. These districts will require technical assistance in implementing the corrective actions. Without the additional staff, CDE states that it will be unable to offer adequate technical assistance to these districts.

CDE Operating Expense Proposal. CDE has identified the following priority state operation proposal that involves new facility costs for the department.

- **Facility Costs for Bus Driver Training Program** -- CDE submitted a proposal for **\$519,000** from the Driver Training Penalty Assessment Fund (non-General Fund) for facility leasing costs, training bus replacement and increased student lodging costs. Under current law, CDE is required to provide driver safety training for school bus transportation, school pupil activity buses, farm labor vehicles and public transit. CDE has been using a building owned by the California Highway Patrol, which is old and will soon be demolished. CDE needs to lease space until CHP replaces the building.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay approval of staffing and operating expense proposals until May Revision to coordinate with actions on local assistance proposals and to consider new or revised proposals from the Administration.

ISSUE 6: April Finance Letters – State Operations – Federal Funds Adjustments

DESCRIPTION: The DOF April budget letters propose various changes to federal funded state operations budget items for the Department of Education.

BACKGROUND: The April DOF Letters proposes the following adjustments to the January 10 budget for Department of Education state operations. All of these issues involve federal funds adjustments for state operations.

- 1. 6110-001-0890, State Operations, Education Technology Administration (Issue 002).** It is requested that this item be increased by \$220,000 in federal funds to continue **2.0 limited-term positions** for an additional two years. The positions would continue to address baseline workload under the federal Enhancing Education Through Technology program requirements. These positions were removed from the Governor's January budget 2007-08, as it was unknown if the federal government would be continuing the program. The federal government did ultimately continue the program, albeit at a slightly reduced level (see related April Letter Issue #051), yet base workload requirements will remain essentially unchanged.
- 2. 6110-001-0890, State Operations, Education Technology Administration (Issue 050).** It is requested that language in this item be amended to reallocate budgeted federal funds for administration. Specifically, the proposed change would reduce contracted technical support and evaluation services from \$686,000 to \$150,000 (\$536,000). This adjustment would align the contract allocation with the level needed according to the SDE, thereby allowing it to use the funds instead for addressing other workload such as complying with federal Enhancing Education Through Technology and E-Rate program requirements.

It is requested that Provision 8 be amended as follows:

"8. Of the funds appropriated in this item, \$1,427,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of this amount:
a. ~~\$686,000~~ \$150,000 is available only for contracted technical support and evaluation services."

- 3. 6110-001-0890, State Operations, Mathematics and Science Partnership Program (Issue 088).** It is requested that this item be increased by **\$367,000** in federal funds for **1.5 positions** to support increased workload and to expand the external evaluator contract. This program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support for mathematics and science teachers.

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

this action:

X. Of the funds appropriated in this item, \$167,000 and 1.5 positions are provided to support increased workload for the Mathematics and Science Partnership Program. Additionally, \$200,000 is provided to expand the external evaluator contract.

4. 6110-001-0890, State Operations, Migrant Education Program Oversight (Issue 651). It is requested that this item be increased by \$800,000 to reflect the availability of \$800,000 federal Title I one-time carryover funds from 2006-07. The funds will be used to develop various SDE operational plans to provide appropriate educational services to migrant students and to ensure the SDE's compliance with federal Migrant Education Program requirements.

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

X. Of the funds appropriated, \$800,000 is provided in one-time carryover funds to develop evaluation, improvement, and service delivery plans to meet federal Migrant Education program requirements. The completed plans shall be incorporated into the Single Plan for Pupil Achievement pursuant to Education Code Section 64001.

5. 6110-001-0890, State Operations, Free and Reduced-Price Meal Direct Certification Grant (Issue 785). It is requested that this item be increased by \$172,000 to reflect the availability of one-time carryover funds for a federal grant. The grant supports efforts to directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs.

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

X. Of the amount appropriated in this item, \$172,000 is available from one-time carryover funds to support efforts that directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs.

6. 6110-001-0890, State Operations, School Wellness Grant (Issue 786). It is requested that this item be increased by \$50,000 to reflect the availability of a one-time carryover funds from the School Wellness Grant, which supports training and technical assistance for local educational agencies implementing local wellness policies.

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

X. Of the amount appropriated in this item, \$50,000 is available from one-time federal funds for providing training and technical assistance to local educational agencies implementing local wellness policies.

7. **6110-001-0890, State Operations, Evaluation of No Child Left Behind Assessment Requirements (Issue 841).** It is requested that this item be reduced by \$2.0 million to reflect the removal of one-time funds for an evaluation of whether California has met the assessment requirements of the federal No Child Left Behind Act of 2001. The evaluation has been completed, and it is no longer necessary to include funding in the annual Budget Act. Provisional language for this evaluation was removed from the Governor's Budget; however, the funding was not removed.
8. **I6110-001-0890, State Operations, Technical Adjustment for Federal Special Education Funds (Issue 952).** It is requested that \$127,000 in federal funds, originally budgeted in Provision 46 of Item 6110-001-0890, Budget Act of 2006, for education monitoring and technical assistance in correctional facilities, be restored. The federal funds were inadvertently eliminated as a one-time cost. Although the monitoring in correctional facilities workload has sunset (Education Code Section 56867 (h)), the SDE advises that the federal funds should remain as a part of the base for administration (in other words, the federal grant for administration continues to provide California with the funds).

RECOMMENDATION:

The Department of Finance and Department of Education recommend that the Subcommittee adopt the following revised language for the federal Migrant Education program in item 4 above:

- X. Of the funds appropriated, \$800,000 is provided in one-time carryover funds to complete the comprehensive needs assessment, develop the SEA's service delivery plan and develop a process and contract for program evaluation to meet federal Migrant Education program requirements. The State plan pursuant to Title I Code of Federal Regulations 200.83-200.84, shall include a summary of the comprehensive needs assessment, the service delivery plan and the evaluation design.

Staff recommends approval of April DOF Finance Letter items 1-8, with the revised language for the Migrant Education program recommended by DOF and CDE. All of these proposed items reflect federal funds adjustments for state operations administered by the Department of Education.

ISSUE 7: April Finance Letters - Various State Operations and Local Assistance Items

DESCRIPTION: The DOF April Budget Letters propose adjustments to various state operations and local assistance budget items for the Department of Education.

BACKGROUND: The April DOF Letters propose the following adjustments to the January 10 budget:

1. 6110-001-0001, State Operations, Child Nutrition Standards (Issue 787). It is requested that this item be increased \$200,000 reimbursements for efforts to establish an approved listing of beverages that can be served on school campuses and that comply with Chapter 237, Statutes of 2005.

It is further requested that Provision 21 be amended as follows:

"21. Of the reimbursement funds appropriated in this item, ~~\$200,000~~ \$400,000 shall be available to the SDE to contract for assistance in developing an approved listing of food and beverage items that ~~complies~~ comply with the nutrition standards of Chapter 235 of the Statutes of 2005 and Chapter 237 of the Statutes of 2005. In order to fund the development and maintenance of the approved product listing, the SDE shall collect a fee, as it deems appropriate, from vendors seeking to have their product reviewed for potential placement on the approved product listing. Reimbursements collected in 2007-08 may be used to offset costs incurred in 2006-07."

2. 6110-491 and 6110-001-3085, State Operations, Mental Health Services Act, Proposition 63, Reappropriation (Issue 951). It is requested that \$289,000 in funds (income tax for Mental Health Services) appropriated in Schedule (1) of Item 6110-491, Budget Act of 2006 be reappropriated for 2007-08. These funds were appropriated to allow the SDE to contract for training school business officials pursuant to the Mental Health Services Act. Due to contract bid issues (non-qualified bids and appeals), the funds will not be spent until March 2008 according to the SDE.

It is requested that the following language be added:

6110-491—Reappropriation, Department of Education. Notwithstanding any other provision of law, the balances of the appropriations provided in the following citations are reappropriated for the purposes and subject to the limitations, unless otherwise specified, in those appropriations, and shall be available for encumbrance or expenditure until June 30, 2008:

(1) Schedule (1) of Item 6110-491, Budget Act of 2006 (Chs. 47 and 48, Stats. 2006). Of the funds appropriated in this item, \$289,000 is made available for the 2007-08 fiscal year, for the purpose of fulfilling contracting services with local education agencies pursuant to the Mental Health Services Act (Proposition 63).

3. 6110-001-0890, State Operations, Department of Education, Technical Adjustment for Model Charter Schools Program (Issue 981). It is requested that this item be reduced by \$1,409,000 to eliminate a pending budget revision that was inadvertently included in the Governor's Budget for the federal Model Charter Schools program. The funding for this program was not received, and this technical adjustment is necessary to correct the error.

4. 6110-113-0001, Local Assistance, California's Pupil Testing Program, California High School Proficiency Exam Reimbursements. (Issue 832). It is requested that Schedules (5) and (6) of this item be amended to reflect an increase in reimbursement authority of \$74,000 for the California High School Proficiency Exam (CHSPE). These funds will be used to pay a contractor for the administration of the CHSPE.

5. 6110-113-0001, Local Assistance, California's Pupil Testing Program, California High School Proficiency Exam Provisional Language (Issue 833). It is also requested that Provisions 1 and 4 of this item be amended as follows to clarify and conform to the Education Code. Specifically, it is requested that a CHSPE statutory reference be added to Provision 1. As in past Budget Act items, this item will appropriate funds for the administration of the CHSPE and a statutory reference will eliminate ambiguity as to the appropriate use of these funds. Also, it is requested that the term "annually" be struck from Provision 4. This term is unnecessary because the common practice of the State Board of Education is to adjust the California High School Exit Exam apportionment funding on an as-needed basis.

"1. The funds appropriated in this item shall be for the pupil testing programs authorized by Chapter 3 (Section 48412), Chapter 5 (commencing with Section 60600), Chapter 6 (commencing with Section 60800), Chapter 7 (commencing with Section 60810), and Chapter 9 (commencing with Section 60850) of Part 33 of the Education Code."

"4. The funds appropriated in Schedule (4) include funds for approved contract costs and apportionment costs for the administration of the California High School Exit Examination (CAHSEE) pursuant to Chapter 9 (commencing with Section 60850) of Part 33 of the Education Code. The State Board of Education shall ~~annually~~ establish the amount of funding to be apportioned to school districts for the CAHSEE. The amount of funding to be apportioned per test shall not be valid without the approval of the Department of Finance."

6. 6110-136-0890, Local Assistance, Title I School Improvement Program (Issue 844). It is requested that trailer bill language be adopted to increase the amount of funding that may be expended from Schedule (3) on school assistance and intervention teams (SAIT). Prior to enactment of the 2006-07 Budget, the SDE estimated the necessary funding for SAIT teams. However, after the Budget was enacted, the SDE determined that the actual costs of SAIT teams would be higher than anticipated. This action will not result in an increase to the current year appropriation. Rather, existing funds will be reallocated from general purpose School Improvement Program activities to SAIT activities. SAIT teams are assigned to schools that have failed to make significant

academic progress under the High Priority Schools Grant Program.

It is further requested that Provision 3 be amended as follows:

"3. Of the funds appropriated in Schedule (3), up to ~~\$1,600,000~~ \$2,000,000 shall be made available to support school assistance and intervention teams that enter into a contract with a school pursuant to subdivision (a) of Section 52055.51 of the Education Code. These funds shall be allocated in the amount of \$75,000 for each school assistance and intervention team assigned to an elementary or middle school and \$100,000 for each team assigned to a high school. The State Department of Education and Department of Finance may approve applications with justification for a total funding level of \$125,000."

RECOMMENDATION: *Staff recommends* approval of April DOF Finance Letter items 1-6, as listed above. These proposed items reflect state operations and local assistance adjustments that are technical in nature.

ISSUE 8: Reading First Program (Item 6110-126-0890)

DESCRIPTION: The Governor’s Budget proposes a total of **\$158.9 million** in federal funding to continue the Reading First program in 2007-08. The Governor proposes to use **\$15.1 million** in federal Reading First one-time carryover funds for additional schools in currently funded school districts. The Governor’s proposal does not allow any of these carryover funds to be used for schools in districts that are not currently participating in the program. Instead, the Governor’s proposal authorizes up to a total of six years of funding for existing district grantees. The April Finance Budget Letter requests that the level of ongoing level of Reading First funding be reduced by **\$9.6 million** to reflect a reduction in federal Reading First grants to California in 2007-08.

BACKGROUND: The federal Reading First Program, first authorized under the No Child Left Behind Act of 2001, 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 and K-12 special education students.

Eligible Districts: 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.

Grant Levels: 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.

Use of Funds: 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.

Significant Progress Requirements. The federal law requires that Reading First grantees demonstrate “significant progress” in improving reading scores in order to receive funding beyond three years. 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. The State Board of Education finally adopted a definition of significant progress in 2006-07, after fourth year grants had been released for the first round of Reading First schools.

Program Participation: To date, the State Department of Education has allocated Reading First funds to four rounds or cohorts of grantees. The first round of funding began in 2002-03 and in 2007-08 this cohort will be in its sixth year of funding. As indicated below, the Reading First program currently provides grants to nearly 20,119 classrooms in 122 school districts statewide, representing more than half of the eligible schools and teachers statewide.

Existing Grantees:	Districts	Schools	Classrooms/ Teachers
Round 1 (Waivered Classrooms)	13	317	8,495 (412)
Round 2 (Waivered Classrooms)	60	368	8,191 (695)
Round 3 (Waivered Classrooms)	37	135	2,953 (627)
Round 4 (Waivered Classrooms)	12	26	480 (xx)
Subtotal, Existing Grantees (Subtotal, Waivered Classrooms)	122	846	20,119 (xxx)

Unfunded Programs:

While more than half of the state eligible schools are funded, approximately 770 schools and 16,373 teachers are not participating in the Reading First program as indicated by the table below.

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

The Administration has resisted adding funding for unfunded districts in recent years. The Legislature set aside **\$6.5 million** in carryover funds in 2005-06 for unfunded school districts, which were approved in the final budget that year. According to CDE, nine districts of the unfunded districts applied for funding. As a result of this funding, an additional xxx schools, xxx teachers and xxxx students were served in unfunded districts

statewide.

2006-07 Budget: The Governor vetoed \$15.1 million in the 2006-07 budget, which included \$3.0 million for schools in districts that are not currently participating in the Reading First program. The Governor's veto, included below, expresses the strong view that funding should not be provided for new schools in districts that are not currently receiving funding.

I am reducing \$15,100,000 in federal Reading First carryover expenditure authority from prior years and deleting the provisional language associated with it. I am concerned that this language both proposes to initiate a new cohort of grant recipients, and would require subsequent legislation to define the criteria by which currently participating districts are determined to be making progress in the program and thus, whether current grant recipients continue to receive funding. This language is an attempt to enact substantive law in the Budget Act rather than in a single subject bill as required by the Constitution.

Further, this proposal is inconsistent with the approved federal Reading First State Plan which appropriately gives the authority to define "significant progress" to the State Board of Education (SBE) as the State Educational Agency responsible for implementation of the federal No Child Left Behind Act. The SBE has been working with constituents to develop a fair and meaningful definition of "significant progress" and should be allowed to continue their work. Finally, the addition of a new cohort in the fifth year of a six-year program may serve to undermine the overall performance of the state's Reading First program and, therefore, jeopardize future funding for this program if it is reauthorized at the federal level. I am willing to support a substantive bill that maintains the authority of the SBE to define "significant progress", extends availability of funding for existing cohorts for the 5th and 6th years, and avoids creation of a new cohort of grant recipients.

2007-08 Budget Proposal: The Governor's Budget proposes a total of **\$158.9 million** in federal funding to continue the Reading First program in 2007-08. The Governor proposes to use **\$15.1 million** in federal Reading First one-time carryover funds for additional schools in currently funded school districts. Carryover funds are expected to increase to approximately **\$22 million** at May Revise. In keeping with the 2006-07 veto message, the Governor's 2007-08 budget proposal does not provide funding for any new grantees and instead authorizes additional years of funding – up to six years -- for existing grantees.

Advisory Group for Implementing Reading First in Waivered Classrooms: The 2005-06 budget established an advisory committee composed of waivered 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.

Special Education Budget Reports: Budget bill language requires the Department of Education to produce a number of reports on the participation of special education teachers in Reading First. The federal Reading First program is focused on reading improvement for K-12 special education students, as well as K-3 students. These reports were required due to concern about the extent to which special education teachers were participating in Reading First, especially given the poor performance of special education students as measured by state assessments. The most recent report from the Department of Education indicates that 2,720 K-12 special education teachers have participated in some Reading First professional development since the program began. However, the department also reports:

“There is high probability that no Special Education teachers are participating in the Reading First program as only teachers in core curriculum can participate. Currently, the data collected from LEAs does not include whether the teacher teaches Special Education.”

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.

Recent GAO Report on Reading First. A February 2007 report by the federal Government Accountability Office (GAO) found that, while states reported some improvements in reading instruction as a result of the Reading First funding, some federal government officials violated provisions of the No Child Left Behind Act when they implemented Reading First, by "pressur[ing] state and local applicants to choose specific reading programs and assessments" (pressuring states and locals to purchase specific instructional material programs). Such actions are expressly prohibited by NCLB, due to the importance of "preserv[ing] state and local control over key aspects of the public school system" and the importance of ensuring that federal officials don't influence local purchasing decisions that could benefit particular private publishing companies. The federal government responded to the audit with a plan to put procedures in place to protect against such violations in the future. However, these findings are important in that they may affect any changes to the program if and when the program is reauthorized by Congress.

LAO Recommendation: The LAO is concerned about the lack of an expenditure plan

for the Reading First program in 2007-08, which utilizes both ongoing and carryover funds to continue funding for current Reading First cohorts.

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. In recent years, the LAO has consistently recommended modifications in the structure of the Reading First program to allow for actual reading instruction to students instead of teacher training and coaching.

COMMENTS:

Level of Reading First Funding in 2007-08 Uncertain. The Department of Education estimates a total of **\$22 million** in Reading First carryover funds in 2007-08. The Governor's budget reflects **\$15.2 million** in carryover funds, although this figure will likely be updated at May Revise. At the same time the April Finance Budget Letter requests a **\$9.6 million** reduction in ongoing Reading First funds to California. To what extent will carryover funds be needed to backfill this loss of base funding in order to maintain the existing program?

Expenditure Plan for Governor's Proposal. As raised by the LAO, what are the costs of including all unfunded eligible schools within districts that are already participating in the program, as proposed by the Governor? How many schools will be funded in how many districts? What are the outyear costs of the Governor's proposal?

Allocation of Any Carryover Funds for Current Program. How should excess carryover funds, beyond what is needed to fund the Governor's program, be distributed in 2007-08? If additional funds remain, it seems logical to invite unfunded eligible schools within districts that have not yet received funding into the program. Statewide, only 55 percent of eligible schools are participating in the program.

Improving Participation of Special Education Teachers. The federal law specifies that this funding is intended for teachers in grades K-3 *and* special education teachers in grades K-12. CDE data reports, as required in the budget, raise concern about the lack of participation by special education teachers in the Reading First program. Given the need for improving reading language arts achievement among special education students, as evidenced by state assessments, what can be done to assure equal participation for K-12 special education teachers?

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

- 1. According to the Administration, funding for school districts will not extend beyond six years. So presumably, the 13 districts in Round 1 will be phase out of the program and space will be made for new, previously unfunded eligible school districts in 2008-09. Does the Department of Education have a plan for attracting new districts to the program in 2008-09? What are the reasons for low*

participation from unfunded school districts? 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?

- 2. Reading First grants are allocated on the basis of the number of eligible K-3 classroom teachers in participating school districts. Grants are not allocated for K-12 special education classroom teachers, as authorized under the federal and state law. Given the poor reading performance of special education students as measured by STAR and CAHSEE assessments, why aren't special education teachers participating more directly in the Reading First program?*
- 3. 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. Has the Department of Education ever determined if these funds were effective in reducing special education referrals?*

OUTCOME:

Issue 9: Career Technical Education (CTE)

Beginning in 2007-08, the Governor proposes spending \$52 million annually (Proposition-98), on career technical education in the community colleges budget. Of this amount, \$20 million is ongoing and appropriated annually in the Budget Bill. These funds were originally appropriated when the CTE improvement grant program was created by Senate Bill 70 (Scott, Chapter 352/Statutes of 2005). The remaining funding (\$32 million) is new for 2007-08 and was appropriated in statute to the community colleges as part of the *CTA v. Schwarzenegger* legal settlement (Chapter 751/Statutes of 2006).

Current Year (2006-07)

Of the \$20 million appropriated in the current year, the bulk of the funds are being spent to articulate and coordinate curriculum and student services between middle schools, high schools, community colleges, and the California State University. According to the LAO, lack of coordination is the main contributor to Career Technical Education problems.

These articulated curricula provide clear career pathways linking high school courses with community college courses thereby allowing students to obtain the direct skills necessary to enter into high need, emerging employment sectors while avoiding course duplication, and unnecessary redundancy. Targeted sectors include: Advanced Transportation Technologies; Applied Manufacturing; Biotechnology; Environmental Technology; Geographic Information Systems; Health; and Multimedia and Entertainment. On the whole, the LAO found that the funds appropriated for career technical education were used to provide teachers and administrators with the release time necessary to establish critical linkages and create programs that are responsive to both student interests and industry needs.

The community colleges anticipate that the entire \$20 million appropriated in the current year will be allocated to colleges before June 30, 2007. Funds are being distributed through a competitive grant process, whereby consortia of local colleges, schools, ROC/P's, and business/industry partners apply in response to a Request for Proposals.

Governor's Budget

The Governor's Budget continues to provide \$20 million in the "base" funding for CTE. In addition, recently enacted legislation (Chapter 751/Statutes of 2006) appropriates an additional \$32 million to the community colleges in 2007-08 (for a total of \$52 million). This total amount increases to \$58 million beginning in 2008-09.

The Administration, the Community Colleges Chancellor's Office, and the California Department of Education (CDE) are in the process of developing an expenditure plan to account for the influx of the additional \$32 million, and have yet to finalize how they intend to spend the full \$52 million.

A draft of the proposal indicates the Administration's continuing intent to, via the community colleges budget, bring K-12 CTE programs in line with existing postsecondary and business-related opportunities. Under the draft plan, funds would be spent on a total of 24 new and continuing programs, including: (1) early outreach to middle school students; (2) curriculum planning, articulation and career pathways; 3) expansion of K-12 Partnership Academies; (4) development and expansion of business and industry involvement; (5) career-technical teacher recruitment and professional development; and (6) research and evaluation.

Given that the proposal is still in draft form, it remains unclear if the myriad of programs proposed will actually be implemented and, if so, how the dollars would be allocated. At present, it appears as if the bulk, if not all, of the funds would be distributed to K-12 and community colleges via a grant process.

Both the LAO and Staff have raised a variety of concerns and issues with the Governor's proposal.

Expenditure Plan

First and foremost, the LAO is concerned with the ability of the Administration to present the Legislature with an expenditure plan in a timely manner. Both the community colleges and the Administration have known since the CTA settlement bill was chaptered in late-September that \$52 million was going to be available for expenditure in 2007-08, but as yet, the Legislature has not received an expenditure plan.

Competitive Grant Process

Second, the LAO notes that, in the absence of a coordinated statewide approach to career-technical education, the mechanism by which we allocate these dollars to schools and districts (via a competitive grant process), does not make sense. Given that, over the seven-year duration of the CTA settlement, career-technical education spending will total \$400 million, the LAO advocates for a consistent statewide direction. Absent that direction, the LAO argues that the Community College Chancellor's Office does not have a clear sense of where the state needs to head, and as a result is not in a position to judge what types of proposals will be the most successful in improving career-technical education.

The LAO goes on to note that the use of a competitive grant process disadvantages schools, colleges, and areas of the state that may need the funds the most. These districts frequently lack the resources to submit high quality proposals or in some instances, apply for funding at all.

Further, given that the Administration's draft proposal calls for 24 programs, and presumably 24 separate applications for schools and colleges to submit, a grant funding mechanism seems both inefficient and overly burdensome.

Linkages with four-year institutions

The Administration's plan, and the LAO's concerns focus solely on the roles of K-12, community colleges, and industry in career technical education. Staff would note that the four-year institutions may have a role to play, either by providing baccalaureate- or masters-level education as part of a student's career "pathway" or as a possibly-overlooked industry partner.

Public four-year universities play a significant role in the economy of their local community, frequently serving as a major employer. Providing better linkages to the University of California and the California State University as part of the state's CTE program would serve two purposes: (1) Provide industry employment for students (particularly in the skilled trades); while (2) meeting the staffing needs of our public postsecondary institutions.

What is the solution?

The LAO recommends that the Legislature adopt a regional approach to distributing the funds. This would be effectuated by providing grants to each county (or region) of the state, thus providing all areas of the state with the opportunity to participate in the program and ensuring that a fundamental level of education-business coordination would occur. The LAO further recommends that the Legislature revamp the current statutory program to enunciate clear outcomes and performance measures by which these regional collaboratives would be assessed.

Staff notes that it remains unclear if the Department of Finance intends to present the Legislature with a proposal at the May Revision which better spells out the Administration's vision for the expenditure of funds. Without additional information, the Legislature may wish to move forward, targeting the \$20 million contained in the Budget Bill for regional collaboratives and expanding the uses of the \$32 million appropriation contained in the CTA settlement bill for similar purposes.

Staff recommends that this issue be held open, pending both the May Revision and an update from both the Administration, the Community Colleges Chancellor's Office, and CDE on the status of their jointly-developed expenditure plan.

Issue 10: Proposed Consent

6440-301-6048. Capital Outlay, University of California. Add funding, per *April Finance Letter* to account for increased construction costs of Merced Campus Social Sciences and Management Building. \$5,700,000.

6440-491. Reappropriation, Capital Outlay, University of California. Add item with language per *April Finance Letter* to reappropriate funds for the Santa Barbara campus Arts Building Seismic Correction and Phelps Hall Renovation projects; the Riverside Campus Genomics Building; and the Merced campus Science and Engineering Building.

6440-492. Capital Outlay, University of California. Period of Liquidation Authority. Add item with language per *April Finance Letter* to extend the period of time that funds are available for the Merced campus Science and Engineering building and Library and Information Technology Center.

6440-495. Reversion, Capital Outlay, University of California. Add item with language per *April Finance Letter* to revert unencumbered funds from Riverside campus Environmental Health and Safety Expansion project.

6610-491. Reappropriation, California State University. Add item with language per *April Finance Letter* to reappropriate funds for the California Maritime Academy's Land Acquisition; and the Humboldt campus Forbes Physical Education Complex and Mai Kai Land Acquisition.

6610-493. Capital Outlay, California State University. Period of Liquidation Authority. Add item with language per *April Finance Letter* to extend the period of time that funds are available for the Bakersfield Campus Telecommunication Infrastructure project; the Sacramento campus Infrastructure Upgrade Project; and the San Bernardino campus Science Building Renovation project.

6870-111-0001. Local Assistance, California Community Colleges. CalWORKS Services, Foster Parent Training, Vocational Education, and Telecommunications/Technology. Increase reimbursements per *April Finance Letter*.

6870-301-6041. Capital Outlay, California Community Colleges. Amend item per *April Finance Letter* to remove funding for Contra Costa College Art Building Seismic Retrofit Project.

6870-301-6049. Capital Outlay, California Community Colleges. Amend item per *April Finance Letter* to remove funding for Contra Costa College Physical/Biological Sciences Building project.

6870-490. Reappropriation, Capital Outlay, California Community Colleges. Add item, per *April Finance Letter* to reappropriate funds for 15 projects on a variety of community colleges campuses.

6870-491. Capital Outlay, California Community Colleges. Period of Liquidation Authority. Add item with language per *April Finance Letter* to extend the period of time that funds are available for the Long Beach City College Technology Building Replacement Project.

SUBCOMMITTEE NO. 1 on Education



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

Tuesday, May 8, 2006
1:30 pm
Room 113, State Capitol
OUTCOMES

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6110 CALIFORNIA DEPARTMENT OF EDUCATION

ISSUE 3. State Special Schools – Support and Capital Outlay (6110-001-0001, 6110-005-0001, 6110-006-0001 & 6110-301-0660)

DESCRIPTION: The Governor's January 10 budget and DOF April Letter proposes new funding for staff, utility costs and unemployment insurance at the State Special Schools in 2007-08. In addition, the Governor's January 10 budget proposes funding augmentations for three capital outlay projects at the School for the Deaf in Riverside. The DOF May Letter requests a reappropriation of prior year funding for two of these capital outlay projects due to project delays.

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.

The Governor's budget proposes a total funding level of approximately **\$98 million** for the state's three special schools. These schools are administered by the California Department of Education.

Governor's Budget – State Operations. The Governor's January 10 budget and DOF April Budget Letter contain the following augmentations for staff and services at the State Special Schools:

1. **Physical Education Teacher - California School for the Blind (Fremont).** The Governor's January budget proposes a \$88,000 General Fund augmentation and one position for an adaptive physical education teacher at this school.
2. **Utility Costs - California School for the Deaf (Riverside).** The Governor's January budget proposes a General Fund augmentation of \$420,000 to cover utility costs at this school. The DOF April Budget Letter proposes to correct a technical error in the January 10 budget, whereby \$420,000 was inadvertently placed in the wrong item for increased utility costs for the California School for the Deaf at Riverside. DOF accordingly proposes that \$420,000 be shifted from item 6110-001-0001 to item 6110-005-0001, and that the language "Of the funds appropriated in this item, \$420,000 is for funding increased utility costs at the California School for the Deaf, Riverside," be moved from item 6110-001-0001 to 6110-005-0001. **(April Letter Issue 953)**
3. **Unemployment Insurance Costs (All Three State Schools).** The DOF April Budget Letter requests an increase of \$275,000 to cover increased Unemployment Insurance costs related to increased claims and contract costs for the State Special Schools. DOF states that these increased benefits and claims result primarily

from seasonal (school year) staffing issues. (**April Letter Issue 955**)

Governor's Budget - Capital Outlay. The Governor's January 10 budget includes the following augmentations for capital outlay projects at the **California School for the Deaf in Riverside**. All projects will be funded with lease-revenue bonds and subject to the Field Act.

4. **Multi-Purpose/Activity Center.** Proposes **\$2,342,000** for design, construction and equipment for a 16,775 square foot multi-purpose activity room. The lowest responsive bid received for the project last year was 20 percent above project funding; the proposed increase will pay for the overage. The facility will be used for elementary and middle school activities during the day and for recreational activities for dormitory students.
5. **Career Technical Education Complex.** Proposes **\$3,845,000** for design and construction of a career technical education complex. The project will provide for the demolition of the existing 52-year-old vocational education building and construction of a replacement complex that will include a classroom/administrative building, a shop building, a greenhouse, a service yard and parking lot.
6. **Various Projects – Classrooms, Bus Loop and Building Renovations.** Proposes **\$10,383,000** for preliminary plans, design, construction and equipment of six support cores for academic areas, three additional classrooms and the construction of a new early childhood education bus loop. The project also includes renovations of some older buildings and installation of new hot water boilers.

DOF May Letter – Capital Outlay Reappropriations. The May DOF Letter proposes that Item 6110-490 be added to reappropriate prior year funds for the Multi-Purpose/Activity Center and the Career Technical Education Complex at the School for the Deaf in Riverside.

7. **Multi-Purpose Activity Center.** Reappropriates ~~\$5,003,000~~ **\$6,306,000** for construction and equipment. The project has been delayed due to a lack of construction funding after the project was bid on March 23, 2006. The lowest responsive bid was 19.8 percent above approved construction funding. The reappropriation request will allow the existing funds to remain intact until a supplemental appropriation of \$2.3 million is approved for 2007-08.
8. **Career Technical Education Complex.** Reappropriates ~~\$927,000~~ **\$15,604,000** for working drawings, construction and equipment. The project has been delayed due to unforeseen delays during the California Environmental Quality Act (CEQA) review. The CEQA soil testing detected volatile organic compound called pinene. The pinene issue has been resolved but the CEQA delays will require that the existing funds for the working drawings, construction and

equipment will need to be reappropriated in order to meet the revised project schedule.

COMMENTS/RECOMMENDATION: *Staff recommends* approval of the Governor's state operations and capital outlay proposals for the State Special Schools listed in items 1-8 above.

OUTCOME: **Approved staff recommendation with revisions to items 7 and 8 as recommended by DOF. (Vote: 2-0)**

ISSUE 6: April Finance Letters – State Operations – Federal Funds Adjustments

DESCRIPTION: The DOF April budget letters propose various changes to federal funded state operations budget items for the Department of Education.

BACKGROUND: The April DOF Letters proposes the following adjustments to the January 10 budget for Department of Education state operations. All of these issues involve federal funds adjustments for state operations.

- 1. 6110-001-0890, State Operations, Education Technology Administration (Issue 002).** It is requested that this item be increased by \$220,000 in federal funds to continue **2.0 limited-term positions** for an additional two years. The positions would continue to address baseline workload under the federal Enhancing Education Through Technology program requirements. These positions were removed from the Governor's January budget 2007-08, as it was unknown if the federal government would be continuing the program. The federal government did ultimately continue the program, albeit at a slightly reduced level (see related April Letter Issue #051), yet base workload requirements will remain essentially unchanged.
- 2. 6110-001-0890, State Operations, Education Technology Administration (Issue 050).** It is requested that language in this item be amended to reallocate budgeted federal funds for administration. Specifically, the proposed change would reduce contracted technical support and evaluation services from \$686,000 to \$150,000 (\$536,000). This adjustment would align the contract allocation with the level needed according to the SDE, thereby allowing it to use the funds instead for addressing other workload such as complying with federal Enhancing Education Through Technology and E-Rate program requirements.

It is requested that Provision 8 be amended as follows:

"8. Of the funds appropriated in this item, \$1,427,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of this amount:
a. ~~\$686,000~~ \$150,000 is available only for contracted technical support and evaluation services."

- 3. 6110-001-0890, State Operations, Mathematics and Science Partnership Program (Issue 088).** It is requested that this item be increased by **\$367,000** in federal funds for **1.5 positions** to support increased workload and to expand the external evaluator contract. This program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support for mathematics and science teachers.

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

this action:

X. Of the funds appropriated in this item, \$167,000 and 1.5 positions are provided to support increased workload for the Mathematics and Science Partnership Program. Additionally, \$200,000 is provided to expand the external evaluator contract.

4. 6110-001-0890, State Operations, Migrant Education Program Oversight (Issue 651). It is requested that this item be increased by \$800,000 to reflect the availability of \$800,000 federal Title I one-time carryover funds from 2006-07. The funds will be used to develop various SDE operational plans to provide appropriate educational services to migrant students and to ensure the SDE's compliance with federal Migrant Education Program requirements.

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

X. Of the funds appropriated, \$800,000 is provided in one-time carryover funds to develop evaluation, improvement, and service delivery plans to meet federal Migrant Education program requirements. The completed plans shall be incorporated into the Single Plan for Pupil Achievement pursuant to Education Code Section 64001.

5. 6110-001-0890, State Operations, Free and Reduced-Price Meal Direct Certification Grant (Issue 785). It is requested that this item be increased by \$172,000 to reflect the availability of one-time carryover funds for a federal grant. The grant supports efforts to directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs.

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

X. Of the amount appropriated in this item, \$172,000 is available from one-time carryover funds to support efforts that directly certify eligible pupils from public benefit programs for free and reduced-price school meal programs.

6. 6110-001-0890, State Operations, School Wellness Grant (Issue 786). It is requested that this item be increased by \$50,000 to reflect the availability of a one-time carryover funds from the School Wellness Grant, which supports training and technical assistance for local educational agencies implementing local wellness policies.

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

X. Of the amount appropriated in this item, \$50,000 is available from one-time federal funds for providing training and technical assistance to local educational agencies implementing local wellness policies.

7. **6110-001-0890, State Operations, Evaluation of No Child Left Behind Assessment Requirements (Issue 841).** It is requested that this item be reduced by \$2.0 million to reflect the removal of one-time funds for an evaluation of whether California has met the assessment requirements of the federal No Child Left Behind Act of 2001. The evaluation has been completed, and it is no longer necessary to include funding in the annual Budget Act. Provisional language for this evaluation was removed from the Governor's Budget; however, the funding was not removed.
8. **I6110-001-0890, State Operations, Technical Adjustment for Federal Special Education Funds (Issue 952).** It is requested that \$127,000 in federal funds, originally budgeted in Provision 46 of Item 6110-001-0890, Budget Act of 2006, for education monitoring and technical assistance in correctional facilities, be restored. The federal funds were inadvertently eliminated as a one-time cost. Although the monitoring in correctional facilities workload has sunset (Education Code Section 56867 (h)), the SDE advises that the federal funds should remain as a part of the base for administration (in other words, the federal grant for administration continues to provide California with the funds).

RECOMMENDATION:

The Department of Finance and Department of Education recommend that the Subcommittee adopt the following revised language for the federal Migrant Education program in item 4 above:

- X. Of the funds appropriated, \$800,000 is provided in one-time carryover funds to complete the comprehensive needs assessment, develop the SEA's service delivery plan and develop a process and contract for program evaluation to meet federal Migrant Education program requirements. The State plan pursuant to Title I Code of Federal Regulations 200.83-200.84, shall include a summary of the comprehensive needs assessment, the service delivery plan and the evaluation design.

Staff recommends approval of April DOF Finance Letter items 1-8, with the revised language for the Migrant Education program recommended by DOF and CDE. All of these proposed items reflect federal funds adjustments for state operations administered by the Department of Education.

OUTCOME: Approved staff recommendation. (Vote: 2-0)

ISSUE 7: April Finance Letters - Various State Operations and Local Assistance Items

DESCRIPTION: The DOF April Budget Letters propose adjustments to various state operations and local assistance budget items for the Department of Education.

BACKGROUND: The April DOF Letters propose the following adjustments to the January 10 budget:

1. 6110-001-0001, State Operations, Child Nutrition Standards (Issue 787). It is requested that this item be increased \$200,000 reimbursements for efforts to establish an approved listing of beverages that can be served on school campuses and that comply with Chapter 237, Statutes of 2005.

It is further requested that Provision 21 be amended as follows:

"21. Of the reimbursement funds appropriated in this item, ~~\$200,000~~ \$400,000 shall be available to the SDE to contract for assistance in developing an approved listing of food and beverage items that ~~complies~~ comply with the nutrition standards of Chapter 235 of the Statutes of 2005 and Chapter 237 of the Statutes of 2005. In order to fund the development and maintenance of the approved product listing, the SDE shall collect a fee, as it deems appropriate, from vendors seeking to have their product reviewed for potential placement on the approved product listing. Reimbursements collected in 2007-08 may be used to offset costs incurred in 2006-07."

2. 6110-491 and 6110-001-3085, State Operations, Mental Health Services Act, Proposition 63, Reappropriation (Issue 951). It is requested that \$289,000 in funds (income tax for Mental Health Services) appropriated in Schedule (1) of Item 6110-491, Budget Act of 2006 be reappropriated for 2007-08. These funds were appropriated to allow the SDE to contract for training school business officials pursuant to the Mental Health Services Act. Due to contract bid issues (non-qualified bids and appeals), the funds will not be spent until March 2008 according to the SDE.

It is requested that the following language be added:

6110-491—Reappropriation, Department of Education. Notwithstanding any other provision of law, the balances of the appropriations provided in the following citations are reappropriated for the purposes and subject to the limitations, unless otherwise specified, in those appropriations, and shall be available for encumbrance or expenditure until June 30, 2008:

(1) Schedule (1) of Item 6110-491, Budget Act of 2006 (Chs. 47 and 48, Stats. 2006). Of the funds appropriated in this item, \$289,000 is made available for the 2007-08 fiscal year, for the purpose of fulfilling contracting services with local education agencies pursuant to the Mental Health Services Act (Proposition 63).

3. 6110-001-0890, State Operations, Department of Education, Technical Adjustment for Model Charter Schools Program (Issue 981). It is requested that this item be reduced by \$1,409,000 to eliminate a pending budget revision that was inadvertently included in the Governor's Budget for the federal Model Charter Schools program. The funding for this program was not received, and this technical adjustment is necessary to correct the error.

4. 6110-113-0001, Local Assistance, California's Pupil Testing Program, California High School Proficiency Exam Reimbursements. (Issue 832). It is requested that Schedules (5) and (6) of this item be amended to reflect an increase in reimbursement authority of \$74,000 for the California High School Proficiency Exam (CHSPE). These funds will be used to pay a contractor for the administration of the CHSPE.

5. 6110-113-0001, Local Assistance, California's Pupil Testing Program, California High School Proficiency Exam Provisional Language (Issue 833). It is also requested that Provisions 1 and 4 of this item be amended as follows to clarify and conform to the Education Code. Specifically, it is requested that a CHSPE statutory reference be added to Provision 1. As in past Budget Act items, this item will appropriate funds for the administration of the CHSPE and a statutory reference will eliminate ambiguity as to the appropriate use of these funds. Also, it is requested that the term "annually" be struck from Provision 4. This term is unnecessary because the common practice of the State Board of Education is to adjust the California High School Exit Exam apportionment funding on an as-needed basis.

"1. The funds appropriated in this item shall be for the pupil testing programs authorized by Chapter 3 (Section 48412), Chapter 5 (commencing with Section 60600), Chapter 6 (commencing with Section 60800), Chapter 7 (commencing with Section 60810), and Chapter 9 (commencing with Section 60850) of Part 33 of the Education Code."

"4. The funds appropriated in Schedule (4) include funds for approved contract costs and apportionment costs for the administration of the California High School Exit Examination (CAHSEE) pursuant to Chapter 9 (commencing with Section 60850) of Part 33 of the Education Code. The State Board of Education shall ~~annually~~ establish the amount of funding to be apportioned to school districts for the CAHSEE. The amount of funding to be apportioned per test shall not be valid without the approval of the Department of Finance."

6. 6110-136-0890, Local Assistance, Title I School Improvement Program (Issue 844). It is requested that trailer bill language be adopted to increase the amount of funding that may be expended from Schedule (3) on school assistance and intervention teams (SAIT). Prior to enactment of the 2006-07 Budget, the SDE estimated the necessary funding for SAIT teams. However, after the Budget was enacted, the SDE determined that the actual costs of SAIT teams would be higher than anticipated. This action will not result in an increase to the current year appropriation. Rather, existing funds will be reallocated from general purpose School Improvement Program activities to SAIT activities. SAIT teams are assigned to schools that have failed to make significant

academic progress under the High Priority Schools Grant Program.

It is further requested that Provision 3 be amended as follows:

"3. Of the funds appropriated in Schedule (3), up to ~~\$1,600,000~~ \$2,000,000 shall be made available to support school assistance and intervention teams that enter into a contract with a school pursuant to subdivision (a) of Section 52055.51 of the Education Code. These funds shall be allocated in the amount of \$75,000 for each school assistance and intervention team assigned to an elementary or middle school and \$100,000 for each team assigned to a high school. The State Department of Education and Department of Finance may approve applications with justification for a total funding level of \$125,000."

RECOMMENDATION: *Staff recommends* approval of April DOF Finance Letter items 1-6, as listed above. These proposed items reflect state operations and local assistance adjustments that are technical in nature.

OUTCOME: Approved staff recommendation. (Vote: 2-0)

Issue 10: Proposed Consent.

OUTCOME: Approved Consent List. (Vote: 2-0)

6440-301-6048. Capital Outlay, University of California. Add funding, per *April Finance Letter* to account for increased construction costs of Merced Campus Social Sciences and Management Building. \$5,700,000.

6440-491. Reappropriation, Capital Outlay, University of California. Add item with language per *April Finance Letter* to reappropriate funds for the Santa Barbara campus Arts Building Seismic Correction and Phelps Hall Renovation projects; the Riverside Campus Genomics Building; and the Merced campus Science and Engineering Building.

- 6440-492. Capital Outlay, University of California. Period of Liquidation Authority. Add item with language per *April Finance Letter* to extend the period of time that funds are available for the Merced campus Science and Engineering building and Library and Information Technology Center.
- 6440-495. Reversion, Capital Outlay, University of California. Add item with language per *April Finance Letter* to revert unencumbered funds from Riverside campus Environmental Health and Safety Expansion project.
- 6610-491. Reappropriation, California State University. Add item with language per *April Finance Letter* to reappropriate funds for the California Maritime Academy's Land Acquisition; and the Humboldt campus Forbes Physical Education Complex and Mai Kai Land Acquisition.
- 6610-493. Capital Outlay, California State University. Period of Liquidation Authority. Add item with language per *April Finance Letter* to extend the period of time that funds are available for the Bakersfield Campus Telecommunication Infrastructure project; the Sacramento campus Infrastructure Upgrade Project; and the San Bernardino campus Science Building Renovation project.
- 6870-111-0001. Local Assistance, California Community Colleges. CalWORKS Services, Foster Parent Training, Vocational Education, and Telecommunications/Technology. Increase reimbursements per *April Finance Letter*.
- 6870-301-6041. Capital Outlay, California Community Colleges. Amend item per *April Finance Letter* to remove funding for Contra Costa College Art Building Seismic Retrofit Project.
- 6870-301-6049. Capital Outlay, California Community Colleges. Amend item per *April Finance Letter* to remove funding for Contra Costa College Physical/Biological Sciences Building project.
- 6870-490. Reappropriation, Capital Outlay, California Community Colleges. Add item, per *April Finance Letter* to reappropriate funds for 15 projects on a variety of community colleges campuses.
- 6870-491. Capital Outlay, California Community Colleges. Period of Liquidation Authority. Add item with language per *April Finance Letter* to extend the period of time that funds are available for the Long Beach City College Technology Building Replacement Project.

SUBCOMMITTEE NO. 1 on Education



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

Friday, May 18, 2007
9:30 a.m.
Room 112, State Capitol

AGENDA – PART A

<u>Item/</u>	Department	Page
6110/6870	Proposition 98	
	May Revise Overview – Legislative Analyst’s Office & Department of Finance	
6110	Department of Education	
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Issue 2	State Operations –CDE Staff and Operating Expenses	3

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6110 Department of Education

ISSUE 1. Federal Local Assistance Adjustments - May Revise Letters

DESCRIPTION: The DOF May Revise Letters propose adjustments to two budget items that reflect changes in the level of federal funds available in 2007-08:

1. 6110-240-0890, Local Assistance, Advanced Placement Fee Waiver Program (Issue 796)

It is requested that this item be increased by **\$183,000** due to increased participation and increased federal funding. The funding will be used to reimburse school districts that provide waivers of a portion of Advanced Placement test fees for eligible, economically-disadvantaged pupils.

2. 6110-201-0890, Local Assistance, Child Nutrition Program (Issues 797 and 794)

It is requested that this item be increased by **\$18.0 million** due to anticipated growth in the Child Nutrition Program. The SDE estimates a 1.7-percent increase in the number of meals served in California schools in 2007-08. Local educational agencies will be reimbursed for meals served through the federal entitlement program.

It is also requested that this item be increased by **\$218,000** to reflect the receipt of a federal grant for providing training and technical assistance to local educational agencies implementing local wellness policies.

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

X. Of the amount appropriated in Schedule (1) of this item, \$218,000 is provided from one-time federal funds for providing training and technical assistance to local educational agencies implementing local wellness policies.

RECOMMENDATION: *Staff recommends* approval of May Revise items 1-2, as listed above. These proposed items reflect federal local assistance adjustments that are technical in nature.

6110 Department of Education

ISSUE 2. State Operations – CDE Staff and Operating Expenses

DESCRIPTION: The Governor proposes a number of staff and expense adjustments for the California Department of Education (CDE).

The Governor's January 10 budget proposes the following staffing adjustments for CDE that were heard by the Subcommittee on May 8th:

1. **State Board of Education Positions.** Fully restores funding for staff and operations at the State Board of Education in 2007-08. The budget adds **\$1,536,000** in General Funds (Non-98) and **\$53,000** in reimbursements to restore **9.2 staff positions** and other operating expenses for the State Board. The Legislature eliminated all funding for the State Board's staff and expenses in the 2006-07 budget in response to State Board actions on English/Language Arts curriculum as it affects the availability of instructional materials for English learners. [Note: The Finance April Budget Letter requests \$425,000 in General Funds for CDE to cover the operational costs of the State Board in 2006-07. The Administration is pursuing legislation for this current year deficiency. No budget action is requested. (Issue 641).]
2. **Education Data Exchange Network (EDEN).** Provides **\$112,000** in federal funds and **1.0 position** to coordinate workload for the Federal Education Exchange Network. As proposed, this position would be devoted half time to the EDEN program and half-time for California Longitudinal Pupil Achievement Data System (CALPADS). The Department of Education had requested four new data positions – one each for EDEN and CALPADS and two for California Longitudinal Teacher Integrated Data System (CALTIDES). The Governor's budget funded only one of these positions, split between EDEN and CALPADS.
3. **Career Technical Education.** Continues **2.0 positions** and **\$160,000** for career technical education programs funded half from state General Funds and half from federal Perkins funds.
4. **Career Technical Education.** Augments staff for career technical education by **2.0 positions** and **\$278,000** to implement new accountability requirements created by the reauthorized federal vocational education (Perkins) act. Federal Perkins funds of \$139,000 are matched by \$139,000 in state General Funds. Under the new federal program, the Department of Education will be required to annually evaluate school district performance against established goals.
5. **School Mental Health Network.** Converts **3.0 positions** from limited-term status to permanent status and provides **\$633,000** for implementation of the Mental Health Services Act (Proposition 63) in school districts. Proposition 63

was passed by voters as Proposition 63 in 2004. The proposed funding and positions will institute a permanent partnership with the Department of Mental health to support training for school districts and mental health services agencies to promote early recognition of children's mental illnesses.

6. **Educational Technology Program.** Remove **3.0 positions**, established on a limited-term basis, and **\$378,000** in federal funds for the Education Technology program.
7. **Child Nutrition Information and Payment System (CNIPS).** Remove **7.8 positions and \$3,199,000** in federal nutrition funds and add **6.3 positions and \$2,639,000** in federal nutrition funds for administration of CNIPS.
8. **Fresh Start Pilot Program.** Eliminates **1.0 position** for claims processing and **\$174,000** in state General Funds for administration of Fresh Start Pilot Program. This pilot program, funded with one-time funds in 2005-06, covers the costs of purchasing additional servings of fruits and vegetables for students. Most of the \$18.2 million in one-time funds provided for the program has been expended.
9. **State Preschool Expansion.** Continue **1.0 position** and **\$150,000** in state General Funds for expansion of the State Preschool Program established in Chapter 211; Statutes of 2006 (AB 172/Chan).
10. **Certificated Staff Mentoring Program.** Adds **1.0 position** and **\$101,000** in state General Funds to administer the Certificated Staff Mentoring program, established by Chapter 517; Statutes of 2006 (SB 1209/Scott). This new programs provides support and mentoring to new teachers in low-performing schools.
11. **English Learner Best Practices Pilot Program.** Add **1.0 position** and **\$100,000** in federal Title III funds for administration of the English Learner Best Practices Pilot program established by the 2006-07 budget.

The Governor proposes the following additional adjustments to the CDE state operations budget as a part of the May Revise letter:

12. **Supplemental Instructional Materials Administration.** It is requested that item 6110-001-0890 be augmented by \$220,000 federal Title III funds to continue 2.0 limited-term positions for one year. The positions will address workload associated with \$30.0 million provided in 2006-07 for local educational agencies to purchase supplemental instructional materials for English learners. Specifically, the positions will conduct the prescribed instructional material verification and grant award process required by paragraph 10 of subdivision (a) of Section 43 of Chapter 79 of the Statutes of 2006. **(Issue 010).**

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

X. Of the funds appropriated in this item, \$220,000 of federal Title III funds is available to continue 2.0 limited-term positions for one year to handle the verification process prescribed by Chapter 79 of the Statutes of 2006 and allocate funding for local educational agencies to purchase standards aligned supplemental instructional materials for English learners.

13. Facility Costs for Bus Driver Training Program. It is requested that this item be increased by \$182,000 for new facility lease costs necessary for the administration of the School bus Driver Instructor Training Program. A new facility will replace the current office and classroom located on the grounds of the California Highway Patrol Academy in West Sacramento, which is slated for demolition at the end of the 2006-07. **(Issue 161)**

It is further requested that Provision 1 be added as follows to conform to this action:

1. Of the funds appropriated in this item, \$182,000 is only available for increased lease costs to secure new office and classroom space necessary for the operations of the School bus Driver Instructor Training Program.

RECOMMENDATIONS: *Staff recommends* that the Subcommittee approve items 1-13 as proposed in the Governor's January 10 budget and May Revise letter. Related to approval of item 1, *staff also recommends* that the budget for the State Board of Education be established as a separate budget item for CDE within the budget bill.

Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1

Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Friday, May 18, 2007
9:30 a.m.
Room 112, State Capitol

AGENDA – PART B

VOTE ONLY

- 6110 Child Development Programs
- 6120 California State Library
- 6420 California Postsecondary Education Commission
- 6440 University of California
- 6610 California State University
- 7980 California Student Aid Commission

HIGHER EDUCATION

- 6120 California State Library
- 6440 University of California
- 6610 California State University
- 7980 California Student Aid Commission

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#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
CHILD DEVELOPMENT AND HIGHER EDUCATION (VOTE ONLY)							
1	6110-196-0001 6110-196-0890	<i>May Revision:</i> California Department of Education, Child Development Federal Quality Programs (Issue 360)	Shift \$200,000 in one-time federal funding for the Trustline registration program to development of preschool standards; Dept. of Social Services reports it has sufficient resources for the Trustline program	Approve May Revision	Per May Revision	0,000	New Issue
2	6110-196-0001 6110-196-0890	<i>May Revision:</i> California Department of Education, CalWORKS Stage 2 and 3 Child Care (Issue 368)	Increases expenditure authority in 2007-08 by \$13.4 million; funds come from prior year child care program savings.	Approve May Revision	Per May Revision	0,000	Technical Issue
3	6110-196-0001 6110-494	<i>May Revision:</i> California Department of Education, CalWORKS Stage 2 and Stage 3 Child Care (Issue 366)	Decrease the net amount of funds available from 2005 and 2006 for expenditure in the Stage 2 and Stage 3 Child Care programs in 2007-08.	Approve May Revision	Per May Revision	0,000	Technical Issue
4	6110-197-0890	<i>April Revision:</i> California Department of Education, 21st Century Learning Centers Program (Issue 354)	Increases expenditure authority in 2007-08 by \$57.2 million; funds come from prior year savings in the federally-funded 21st Century Program	Approve April Revision	Per April Letter	0,000	New Issue
5	6110-549-0001 6110-649-0001	<i>May Revision:</i> California Department of Education, After School Education and Safety Program (Issue 373)	Shift \$341,000 from the program to state operations to provide technical assistance and support services to program participants.	Approve May Revision	No	0,000	Technical Issue
6	6110-649-0001	<i>May Revision:</i> California Department of Education, After School Education and Safety Program (Issue 371)	Reappropriate \$1.5 million in unexpended After School funds from 2006-07 for technical assistance.	Approve May Revision	No	0,000	Technical Issue
7	6120-011-0001	<i>Governor's Budget:</i> California State Library, State Operations	Governor's Budget provides \$52,000 augmentation for first phase of Integrated Library System Replacement Project; Issue/Budget heard by Subcommittee on April 17th	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
8	6120-150-0001	<i>Governor's Budget:</i> California State Library, California Civil Liberties Public Education Program	No changes proposed	Approve As Budgeted	No	0,000	No changes proposes
9	6420-001-0001 CPEC	<i>Governor's Budget:</i> California Postsecondary Education Commission (CPEC)	Baseline budgetary adjustments to CPEC's budgets; Inclusion of provisional Language related to development of new faculty compensation methodology; Inclusion of language prioritizing CPEC's functions	Approve dollars as Budgeted; Delete language related to faculty compensation methodology and the prioritization of CPEC's functions.	No	0,000	Language proposed by Administration related to development of new faculty salary methodology and the prioritization of CPEC's functions is more appropriate to separate stand-alone legislation than trailer bill; Issue previously heard by committee on April 17th
10	6440-001-0234 University of California	<i>May Revision:</i> Tobacco Research Adjustment (Issue 430)	May Revision Increases funding for tobacco-related research by \$2 million on a one-time basis.	Approve As Budgeted	Per May Revision	0,000	Technical Issue
11	6440-001-0001 UC	<i>January Budget:</i> General Fund Support	Governor's budget provides 4% (\$116.7 million) General Fund augmentation	Approve As Budgeted	No	0,000	Issue previously heard by committee on March 27th
12	6440-001-0001 UC	<i>January Budget:</i> 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; Additional funding (\$570,000) is provided for 38 FTES in the PRIME program to increase enrollments in Medical Schools	Approve 2.5% enrollment growth at rate reflecting legislature's previously-approved marginal cost methodology; Approve \$570,000 for PRIME Program	Revised BBL	-1,450	Enrollment growth issue previously heard by committee on March 27th. Staff, LAO, Admin., UC, and CSU worked last year to resolve issues related to a proposal by the Administration for a new marginal cost proposal. At that time, the Legislature made a series of concessions and a per-FTES figure was adopted in the CY Budget Act, based on that methodology. Staff recommends that the methodology used to establish the per-FTES costs in the current year continue to be used.
13	6440-001-0001 UC	<i>January Budget:</i> Labor Research and Education Programs	Governor's budget provides deletes all funding (\$6 million) for labor-related research and education programs.	Augment by \$6 million to restore program funding	Yes	6,000	Issue previously heard by committee on March 27th

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
14	6440-004-0001 UC	<i>January Budget:</i> UC Merced	Budget continues to provide ongoing support and start up costs for the Merced Campus	Approve As Budgeted	No	0,000	Issue previously heard by committee on March 27th
15	6440-304-6048 UC	<i>January Budget:</i> Capital Outlay, Telemedicine/PRIME Facilities	Governor's budget proposes to "lump sum" appropriate \$199 million available through Proposition 1D (2006) for telemedicine facilities at UC	Amend appropriation to allocate dollars on a project-by-project basis; only appropriate amount needed for 2007-08	Revised BBL	0,000	Issues previously heard by subcommittee on May 1st
16	6610-001-0001 California State University	<i>January Budget:</i> General Fund Support	Governor's budget provides 4% (\$108.7 million) General Fund augmentation	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th
17	6610-001-0001 CSU	<i>January Budget:</i> Enrollment Growth and new Marginal Cost funding rate	Governor's budget provides funding to support growth of 2.5% in student enrollments at the CSU.	Approve 2.5% enrollment growth at rate reflecting legislature's previously-approved marginal cost methodology.	Revised BBL	-1,061	Enrollment growth issue previously heard by committee on April 17th. Staff, LAO, Admin., UC, and CSU worked last year to resolve issues related to a proposal by the Administration for a new marginal cost proposal. At that time, the Legislature made a series of concessions and a per-FTES figure was adopted in the CY Budget Act, based on that methodology. Staff recommends that the methodology used to establish the per-FTES costs in the current year continue to be used.
18	6610-001-0001 CSU	<i>May Revision:</i> Increased Funding for Undergraduate Nursing Enrollments (Issue 408)	Governor's May Revision provides \$3.6 million for an additional 340 full-time equivalent baccalaureate degree nursing students at the CSU. Under the Governor's proposal, these students would be funded at the full cost of instruction.	Approve May Revision	Per May Revision	0,000	Issue previously heard by committee on May 1st
19	6610-401 CSU	<i>January Budget:</i> Provisional Language Bond Funds	Budget contains pro forma provisional language related to the encumbrance of GO bond funds	Approve As Budgeted	AAB	0,000	Technical Issue

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
20	7980-101-0001 CA Student Aid Commission	<i>May Revision:</i> Cal Grant Baseline Adjustments (Budget Year Issue 084; Current Year Issue 084)	May Revision makes a baseline reduction of \$23 million in the current year and a \$42 million baseline reduction for 2007-08 to the amount of funding needed for the Cal Grant program due to revised caseload.	Approve May Revision	No	0,000	New Issue
21	7980-101-0001 CA Student Aid Commission	<i>May Revision:</i> APLE Baseline Adjustments (Budget Year Issue 085; Current Year Issue 085)	May Revision makes a baseline reduction of \$1.3 million in the current year and a \$2.5 million increase for 2007-08 to the amount of funding needed for the Assumption Program of Loans for Education (APLE) due to revised caseload estimates.	Approve May Revision	BBL per May Revision Proposal	0,000	Technical Issue
22	7980-101-0001 Student Aid Commission	<i>May Revision:</i> State Nursing Assumption Program of Loans for Education and Nurses in State Facilities APLE Warrants (Issue 094)	May Revision adds provisional language to the SNAPLE item authorizing the "carryover" of unused warrants in the current year.	Deny May Revision; adopt alternative language authorizing 100 new SNAPLE loan assumption warrants and 100 new SNAPLE-State Facility loan assumption warrants, without restriction	Revised BBL	0,000	Issue previously heard by committee on April 17th
23	7980-101-0001 Student Aid Commission	<i>Governor's Budget:</i> APLE Set-Aside of Governor's Math/Science Teacher Initiative	Governor's Budget sets aside 600 APLE warrants for the exclusive use of the UC and CSU in recruiting math and science teachers.	Deny Governor's proposal.	Delete provisional language setting aside 600 warrants	0,000	Issue previously heard by subcommittee on April 17th

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
HIGHER EDUCATION (DISCUSSION ITEMS)							
24	6120-221-0001 California State Library	<i>Governor's Budget:</i> Public Library Foundation	Governor's Budget provides \$21.3 million for the Public Library Foundation; Subcommittee augmented amount by \$52,000 at April 17th	Augment by \$2 million	No	0,000	Issue previously heard by committee on April 17th
25	6440-001-0001 UC	<i>January Budget:</i> Student Fee Increase	Governor's budget increases fees by 7%	Approve As Budgeted	No	0,000	Issue previously heard by committee on March 27th
26	6610-001-0001 CSU	<i>January Budget:</i> Student Fee Increase	Governor's budget increases fees by 10%	Approve As Budgeted	No	0,000	Issue previously heard by committee on April 17th
27	7980-101-0001 7980-001-0001	<i>New Issue:</i> 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 and 1.0 position to begin administering program	BBL specifying authority for warrants	100	Issue previously heard by committee on April 17th
28	7980-001-0001 7980-001-0784 Student Aid Commission	<i>May Revision:</i> Shift funding for State Operations from EdFUND to the General Fund	May Revision proposes \$15.4 million General Fund to support the ongoing operations of the Student Aid Commission	Adopt May Revision	Per May Revision		New Issue
29	7980-101-0001 Student Aid Commission	<i>May Revision:</i> Shift funding for California Student Opportunity and Access Program (Cal-SOAP) from EdFUND to the General Fund	May Revision proposes \$5 million General Fund to support the ongoing operations of the Student Aid Commission; this represents a reduction of \$3.6 million from the current level of support the program has been receiving from EdFUND Student Loan Operating Fund dollars	Approve May Revision Shift to General Fund; Augment by \$3.6 million to ensure that Cal-SOAP program is held harmless; Adopt Budget Bill Language	Revised Language	3,567	New Issue

**BUDGET BILL LANGUAGE:
UC ENROLLMENT GROWTH**

Amend Provision 13 of Item 6440-001-0001:

Of the funds appropriated in Schedule (1), ~~\$54,380,000~~ \$52,930,000 is to fund 5,000 additional state-supported full-time equivalent (FTE) students at the University of California (UC), based on a marginal General Fund cost of ~~\$10,876~~ \$10,586 per additional student. This funding rate is based on a methodology for determining the marginal cost of each additional state-supported student, as adopted by the Legislature for the 2006-07 budget. This methodology calculates a total marginal cost (including operation and maintenance costs and faculty costs based on the salaries of recently hired professors) and then subtracts from this cost the fee revenue the university anticipates from each additional student (after adjusting for financial aid), in order to determine the amount of General Fund support needed from the state. It is the intent of the Legislature that enrollment growth funding provided to the university in subsequent budgets be based on this specific methodology.

The Legislature expects ~~the University of California~~ UC to enroll a total of 198,455 state-supported FTE students during the 2007-08 academic year. This enrollment target does not include nonresident students and students enrolled in non-state-supported summer programs. ~~The University of California~~ UC shall report to the Legislature by March 15, 2008, on whether it has met the 2007-08 enrollment goal. For purposes of this provision, enrollment totals shall only include state-supported students. If ~~the University of California~~ UC does not meet its total state-supported enrollment goal by at least 250 (FTE) students, the Director of Finance shall revert to the General Fund by April 1, 2008, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.

**BUDGET BILL LANGUAGE:
UC MIGUEL CONTRERAS LABOR PROGRAM**

Add the following provision to Item 6440-001-0001:

X. Of the funds appropriated in Schedule (1), \$6,000,000 shall be used to support research on labor and employment and labor education throughout the University of California system. Of these funds, 60 percent shall be for labor research, and 40 percent shall be for labor education.

REVISED 6440-304-6048 AS FOLLOWS:

6440-304-6048—For capital outlay, University of California, payable from the 2006 Higher Education Capital Outlay Bond Fund	\$60,600,000
Schedule:	
Davis:	
(1) 99.03.365 –Telemedicine Resource Center and Rural-PRIME Facility-Preliminary plans, working drawings, construction, equipment.....	35,000,000
Los Angeles:	
(2) 99.04.270-Telemedicine and PRIME Facilities Phase 1-Equipment	19,700,000
San Francisco:	
(3) 99.02.155-Telemedicine and PRIME-US Education Facilities- Preliminary plans, working drawings, equipment.....	5,900,000

Provisions:

1. If savings are identified in funds encumbered from this general obligation bond fund for construction contracts for capital outlay projects, remaining after completion of a capital outlay project and upon resolution of all change orders and claims, those savings may be used for the following purposes: (a) to begin working drawings for a project for which preliminary plan funds have been appropriated and the plans have been approved by the State Public Works Board consistent with the scope and cost approved by the Legislature as adjusted for inflation only; (b) to proceed further with the underground tank corrections program; (c) to perform engineering evaluations on buildings that have been identified as potentially in need of seismic retrofitting; (d) to proceed with design and construction of projects to meet requirements under the federal Americans with Disabilities Act of 1990; or (e) to fund minor capital outlay projects.

No later than March 1 of each year, the University of California shall provide the Legislative Analyst with a progress report showing the identified savings by project, and the purpose for which the identified savings were used.

No later than November 1 of each year, the University of California shall prepare a report showing (a) the identified savings by project and (b) the purpose for which the identified savings were used. This report shall be submitted to the Chair of the Joint Legislative Budget Committee and to the chairs of the fiscal committees in each house.

2. The funds provided under this item shall be available for expenditure only if the University of California requires the payment of prevailing wage rates by the contractors and subcontractors on all projects in this item and on all other capital outlay projects undertaken by the University of California that are funded using nonstate funds or are otherwise not financed with the funds appropriated in this item. This requirement shall represent a moratorium on granting further exceptions to paying prevailing wage rates until June 30, 2008.

ADD 6440-305-6048 AS FOLLOWS:

6440-305-6048—For capital outlay, University of California, payable from the 2006 Higher Education Capital Outlay Bond Fund \$70,000,000

Irvine:

(1) 99.09.380-Telemedicine/PRIME-LC Facility-Preliminary plans, working drawings, construction, equipment 35,000,000

San Diego:

(2) 99.06.395-Telemedicine and PRIME-HEq Education Facility-Preliminary plans, working drawings, construction, equipment.....35,000,000

Provisions:

1. Notwithstanding Section 13332.11 of the Government Code or any other provision of law, the University of California may proceed with any phase of any project identified in the above schedule, including preparation of preliminary plans, working drawings, construction, or equipment purchase, without the need for any further approvals.
2. The University of California shall complete each project identified in the above schedule within the total funding amount specified in the schedule for that project. Notwithstanding Section 13332.11 of the Government Code or any other provision of law, the budget for any project to be funded from this item may be augmented by the University of California within the total appropriation made by this item, in an amount not to exceed 10 percent of the amount appropriated for that project. No funds appropriated in this item for equipment may be used for an augmentation under this provision, or be augmented from any other funds appropriated in this item. This condition does not limit the authority of the University of California to use nonstate funds.
3. The University of California shall complete each project identified in the above schedule without any change to its scope. The scope of a project, in this respect, means the intended purpose of the project as determined by reference to the following elements of the budget request for that project submitted by the University of California to the Department of Finance: (a) the program elements related to project type, and (b) the functional description of spaces required to deliver the academic and supporting programs as approved by the Legislature.
4. Notwithstanding any other provision of law, the appropriation made by this item is available for encumbrance until June 30, 2009, except that the funds appropriated for construction only must be bid by June 30, 2008, and are available for expenditure until June 30, 2009, and that the funds appropriated for equipment purposes are available for encumbrance until June 30, 2010. For the purposes of encumbrance, funds appropriated for construction management and project contingencies purposes, as well as any bid savings, shall be deemed to be encumbered at the time a contract for that purpose is awarded; these funds also may be used to initiate consulting contracts necessary for management of the project during the liquidation period. Any savings identified at the completion of the project also may be used during the liquidation period to fund the purposes described in Provision 5.
5. Identified savings in a budget for a capital outlay project, as appropriated in this item, remaining after completion of a capital outlay project and upon resolution of all change orders and claims, may be used without further approval: (a) to augment

projects consistent with Provision 2, (b) to proceed further with the underground tank corrections program, (c) to perform engineering evaluations on buildings that have been identified as potentially in need of seismic retrofitting, (d) to proceed with the design and construction of projects to meet requirements under the Federal Americans with Disabilities Act of 1990, or (e) to fund minor capital outlay projects.

6. No later than December 1 of each year, the University of California shall submit a report outlining the expenditure for each project of the funds appropriated by this item to the Chairperson of the Joint Legislative Budget Committee, the chairpersons of the fiscal committees of each house of the Legislature, the Legislative Analyst, and the Director of Finance. The report also shall include the following elements: (a) a statement of the identified savings by project, and the purpose for which the identified savings were used; (b) a certification that each project as proceeding or as completed, has remained within its scope and the amount funded for that project under this item; and (c) an evaluation of the outcome of the project measured against performance criteria.
7. The project identified in Schedule (1) may utilize design-build construction consistent with practices, policies, and procedures of the University of California.

**BUDGET BILL LANGUAGE:
CSU ENROLLMENT GROWTH**

Amend Provision 7 of Item 6610-001-0001:

Of the funds appropriated in Schedule (1), ~~\$65,478,000~~ \$64,417,000 is to fund 8,355 additional state-supported full-time equivalent (FTE) students (~~FTEs~~) at the California State University (CSU), based on a marginal General Fund cost of ~~\$7,837~~ \$7,710 per additional student. This funding rate is based on a methodology for determining the marginal cost of each additional state-supported student, as adopted by the Legislature for the 2006-07 budget. This methodology calculates a total marginal cost (including operation and maintenance costs and faculty costs based on the salaries of recently hired professors) and then subtracts from this cost the fee revenue the university anticipates from each additional student (after adjusting for financial aid), in order to determine the amount of General Fund support needed from the state. It is the intent of the Legislature that enrollment growth funding provided to the university in subsequent budgets be based on this specific methodology.

The Legislature expects CSU to enroll a total of 342,553 state-supported FTE students during the 2007-08 academic year. This enrollment target does not include non-resident students and students enrolled in nonstate supported summer programs. The CSU shall provide a preliminary report to the Legislature by March 15, 2008, and a final report by May 1, 2008, on whether it has met the 2007-08 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 450 FTEs students, the Director of Finance shall revert to the General Fund by May 15, 2008, the total amount of enrollment funding associated with the total share of the enrollment goal that was not met.

Item 7980-101-0001

Provision X.

"The Student Aid Commission shall issue 100 new State Nursing Assumption Program of Loans for Education (SNAPLE) warrants pursuant to Article 1 (commencing with Section 70100) of Chapter 3 of Part 42 of the Education Code."

Provision X.

"The Student Aid Commission is authorized to issue 100 new warrants for the State Nursing Assumption Program of Loans for Education (SNAPLE) Employees of State Facilities Program pursuant to Article 2 (commencing with Section 70120) of Chapter 3 of Part 42 of the Education Code."

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."

Provision X

"Of the funds appropriated in Schedule (1), \$8,567,000 is for the California Student Opportunity and Access Program, established pursuant to Article 4 (commencing with Section 69560) and shall be available to provide financial aid awareness and outreach to students who are preparing to enter or are currently enrolled in college."

**Subcommittee #1
K-12 Agenda -
PART A**

Item #	Proposition 98— Ongoing Funds	Gov's Budget (Jan 10)	Gov's May Revise	Govs Total (Jan&May)	Sub #1 Recos	<i>Staff Recommendation : Approve Sub # 1 recommended items, amounts, and any related language. Use CBET program as balancer.</i>
	K-12					COMMENTS/RELATED ACTIONS
1	Redirect funds to backfill growth shortfall				364.062	
2	Stage 2 child care funding shift	269.0		269.0	269.0	
3	School meals/child nutrition		24.927	24.927	24.927	
4	Community Based English Tutoring (Balancer)	50.000		50.000	13.005	
5	Child Care Stage 2 and Stage 3	7.715		7.715	7.715	
6	Child Care - State Median Income Adjustment				6.8	
7	Early Mental Health Initiative (EMHI)	5.0		5.0	5.0	
8	State Special Schools Adaptive PE Teacher	0.088		0.088	0.088	
9	Additional teachers for career technical education		50.0	50.0	0	
10	Additional teachers for A-G courses		50.0	50.0	0	
11	Preschool expansion		50.0	50.0	0	
12	Additional career technical education counselors		25.0	25.0	0	
13	Encorps Alternative Certification*		12.0	12.0	0	
14	Fresh Start		11.11	11.11	0	
15	School safety resource officers		9.0	9.0	0	
16	County office CAHSEE instructional support		8.671	8.671	0	
17	Math and science teacher recruitment*		7.5	7.5	0	
18	Personnel management assistance teams*		3.0	3.0	0	
19	Principal training*		2.5	2.5	0	
20	Alternative compensation planning*		2.0	2.0	0	
21	Fiscal transparency work group		0.3	0.3	0	
22	Summer School	0.182		0.182	0	
23	K-12 mandate reimbursement process		-0.001	-0.001	-0.001	
24	Afterschool program state operations transfer		-0.341	-0.341	-0.341	
25	High Priority Schools Grant program		-100.0	-100.0	-202.6	Reappropriate 2006-07 HP savings to 2007-08 in order to capture additional savings to meet budget shortfall.
<i>*Moved to One-Time List</i>						

Subcommittee #1
K-12 Agenda
PART B

Item #	Proposition 98 - One-time Funds	Gov's Budget (Jan 10)	Gov's May Revise	Sub #1 Recos	Staff Recommendation : Approve Sub #1 recommended items, amounts and related language. Use K-14 mandates as a balancer.
	K-12				Comments/Related Actions
1	Williams facilities repair account	100.0	96.02	144.718	Senate Total is \$52.302 less than Gov's May Revise, as Senate does not revert HP funds from 2006-07.
2	K-14 mandates (BALANCER)			97.86	
3	CalPADS local data quality		65.0	65.0	Provides \$65 m over three years to LEAs. Adopt LAO BBL
4	Set-aside for declining enrollment costs			50.0	
	Alternative/Court Schools Block Grant			30.0	Block grant to provide emergency facility repairs, adequate instructional materials and teacher recruitment and retention.
5	Child care stage 2	25.733		25.733	
6	Charter school facilities	43.887		18.0	Adopt new BBL regarding State Board approved Charter Schools.
7	Encorps Alternative Certification	10.0	-10.0	12.0	
8	English learner instructional materials		20.0	12.0	
9	Teacher credentials block grant (BTSA)	8.81		8.81	
10	Math & Science Teacher Recruitment*			7.5	Adopt revised BBL.
11	Community Day School deficiencies			4.1	Reflect CDE BCP.
12	Personnel Mgt Assistance Teams*			3.0	
13	Principal Training*			2.5	Adopt revised BBL
14	Budget Officer Training	2.5		2.5	
15	CSIS support and equipment		2.01	2.01	Adopt LAO BBL.
16	Alternative Compensation Planning*			2.0	
17	Low-Performing Schools Enrichment	50.0		0	
18	CAHSEE study guides	5.0		0	
19	Technology set-aside	3.131		0	
20	Compact for success	1.5		0	
21	Program improvement management	1.0	-1.0	0	
22	School safety infrastructure plans		100.0	0	
23	K-12 career tech equipment		50.0	0	
24	Supplemental instruction deficiencies		48.079	0	
25	County office support		8.365	0	
26	School breakfast startup/expansion		4.4	0	
27	Summer of Safety		2.0	0	
28	FCMAT Property tax audits		2.0	0	To be conducted/funded within State Controller's Office.
29	High speed internet maintenance		1.9	0	
	<i>*Moved from May Revise Ongoing List</i>				

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
OUTCOMES							
1	6110-196-0001 6110-196-0890	<i>May Revision:</i> California Department of Education, Child Development Federal Quality Programs (Issue 360)	Shift \$200,000 in one-time federal funding for the Trustline registration program to development of preschool standards; Dept. of Social Services reports it has sufficient resources for the Trustline program	Approve May Revision (Vote 3-0)	Per May Revision	0,000	New Issue
2	6110-196-0001 6110-196-0890	<i>May Revision:</i> California Department of Education, CalWORKS Stage 2 and 3 Child Care (Issue 368)	Increases expenditure authority in 2007-08 by \$13.4 million; funds come from prior year child care program savings.	Approve May Revision (Vote 3-0)	Per May Revision	0,000	Technical Issue
3	6110-196-0001 6110-494	<i>May Revision:</i> California Department of Education, CalWORKS Stage 2 and Stage 3 Child Care (Issue 366)	Decrease the net amount of funds available from 2005 and 2006 for expenditure in the Stage 2 and Stage 3 Child Care programs in 2007-08.	Approve May Revision (Vote 3-0)	Per May Revision	0,000	Technical Issue
4	6110-197-0890	<i>April Revision:</i> California Department of Education, 21st Century Learning Centers Program (Issue 354)	Increases expenditure authority in 2007-08 by \$57.2 million; funds come from prior year savings in the federally-funded 21st Century Program	Approve April Revision (Vote 3-0)	Per April Letter	0,000	New Issue
5	6110-549-0001 6110-649-0001	<i>May Revision:</i> California Department of Education, After School Education and Safety Program (Issue 373)	Shift \$341,000 from the program to state operations to provide technical assistance and support services to program participants.	Approve May Revision (Vote 3-0)	No	0,000	Technical Issue
6	6110-649-0001	<i>May Revision:</i> California Department of Education, After School Education and Safety Program (Issue 371)	Reappropriate \$1.5 million in unexpended After School funds from 2006-07 for technical assistance.	Approve May Revision (Vote 3-0)	No	0,000	Technical Issue
7	6120-011-0001	<i>Governor's Budget:</i> California State Library, State Operations	Governor's Budget provides \$52,000 augmentation for first phase of Integrated Library System Replacement Project; Issue/Budget heard by Subcommittee on April 17th	Approve As Budgeted (Vote 3-0)	No	0,000	Issue previously heard by committee on April 17th

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
8	6120-150-0001	<i>Governor's Budget:</i> California State Library, California Civil Liberties Public Education Program	No changes proposed	Approve As Budgeted (Vote 3-0)	No	0,000	No changes proposes
9	6420-001-0001 CPEC	<i>Governor's Budget:</i> California Postsecondary Education Commission (CPEC)	Baseline budgetary adjustments to CPEC's budgets; Inclusion of provisional Language related to development of new faculty compensation methodology; Inclusion of language prioritizing CPEC's functions	Approve dollars as Budgeted; Delete language related to faculty compensation methodology and the prioritization of CPEC's functions. (Vote 3-0)	No	0,000	Language proposed by Administration related to development of new faculty salary methodology and the prioritization of CPEC's functions is more appropriate to separate stand-alone legislation than trailer bill; Issue previously heard by committee on April 17th
10	6440-001-0234 University of California	<i>May Revision:</i> Tobacco Research Adjustment (Issue 430)	May Revision Increases funding for tobacco-related research by \$2 million on a one-time basis.	Approve As Budgeted (Vote 3-0)	Per May Revision	0,000	Technical Issue
11	6440-001-0001 UC	<i>January Budget:</i> General Fund Support	Governor's budget provides 4% (\$116.7 million) General Fund augmentation	Approve As Budgeted (Vote 2-1)	No	0,000	Issue previously heard by committee on March 27th
12	6440-001-0001 UC	<i>January Budget:</i> 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; Additional funding (\$570,000) is provided for 38 FTES in the PRIME program to increase enrollments in Medical Schools	Approve 2.5% enrollment growth at rate reflecting legislature's previously-approved marginal cost methodology; Approve \$570,000 for PRIME Program (Vote 2-1)	Revised BBL	-1,450	Enrollment growth issue previously heard by committee on March 27th. Staff, LAO, Admin., UC, and CSU worked last year to resolve issues related to a proposal by the Administration for a new marginal cost proposal. At that time, the Legislature made a series of concessions and a per-FTES figure was adopted in the CY Budget Act, based on that methodology. Staff recommends that the methodology used to establish the per-FTES costs in the current year continue to be used.
13	6440-001-0001 UC	<i>January Budget:</i> Labor Research and Education Programs	Governor's budget provides deletes all funding (\$6 million) for labor-related research and education programs.	Augment by \$6 million to restore program funding (Vote 2-1)	Yes	6,000	Issue previously heard by committee on March 27th

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
14	6440-004-0001 UC	<i>January Budget:</i> UC Merced	Budget continues to provide ongoing support and start up costs for the Merced Campus	Approve As Budgeted (Vote 3-0)	No	0,000	Issue previously heard by committee on March 27th
15	6440-304-6048 UC	<i>January Budget:</i> Capital Outlay, Telemedicine/PRIME Facilities	Governor's budget proposes to "lump sum" appropriate \$199 million available through Proposition 1D (2006) for telemedicine facilities at UC	Amend appropriation to allocate dollars on a project-by-project basis; only appropriate amount needed for 2007-08 (Vote 3-0)	Revised BBL	0,000	Issues previously heard by subcommittee on May 1st
16	6610-001-0001 California State University	<i>January Budget:</i> General Fund Support	Governor's budget provides 4% (\$108.7 million) General Fund augmentation	Approve As Budgeted (Vote 2-1)	No	0,000	Issue previously heard by committee on April 17th
17	6610-001-0001 CSU	<i>January Budget:</i> Enrollment Growth and new Marginal Cost funding rate	Governor's budget provides funding to support growth of 2.5% in student enrollments at the CSU.	Approve 2.5% enrollment growth at rate reflecting legislature's previously-approved marginal cost methodology. (Vote 2-1)	Revised BBL	-1,061	Enrollment growth issue previously heard by committee on April 17th. Staff, LAO, Admin., UC, and CSU worked last year to resolve issues related to a proposal by the Administration for a new marginal cost proposal. At that time, the Legislature made a series of concessions and a per-FTES figure was adopted in the CY Budget Act, based on that methodology. Staff recommends that the methodology used to establish the per-FTES costs in the current year continue to be used.
18	6610-001-0001 CSU	<i>May Revision:</i> Increased Funding for Undergraduate Nursing Enrollments (Issue 408)	Governor's May Revision provides \$3.6 million for an additional 340 full-time equivalent baccalaureate degree nursing students at the CSU. Under the Governor's proposal, these students would be funded at the full cost of instruction.	Approve May Revision (Vote 3-0)	Per May Revision	0,000	Issue previously heard by committee on May 1st
19	6610-401 CSU	<i>January Budget:</i> Provisional Language Bond Funds	Budget contains pro forma provisional language related to the encumbrance of GO bond funds	Approve As Budgeted (Vote 3-0)	AAB	0,000	Technical Issue

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
20	7980-101-0001 CA Student Aid Commission	<i>May Revision:</i> Cal Grant Baseline Adjustments (Budget Year Issue 084; Current Year Issue 084)	May Revision makes a baseline reduction of \$23 million in the current year and a \$42 million baseline reduction for 2007-08 to the amount of funding needed for the Cal Grant program due to revised caseload.	Approve May Revision (Vote 3-0)	No	0,000	New Issue
21	7980-101-0001 CA Student Aid Commission	<i>May Revision:</i> APLE Baseline Adjustments (Budget Year Issue 085; Current Year Issue 085)	May Revision makes a baseline reduction of \$1.3 million in the current year and a \$2.5 million increase for 2007-08 to the amount of funding needed for the Assumption Program of Loans for Education (APLE) due to revised caseload estimates.	Approve May Revision (Vote 3-0)	BBL per May Revision Proposal	0,000	Technical Issue
22	7980-101-0001 Student Aid Commission	<i>May Revision:</i> State Nursing Assumption Program of Loans for Education and Nurses in State Facilities APLE Warrants (Issue 094)	May Revision adds provisional language to the SNAPLE item authorizing the "carryover" of unused warrants in the current year.	Deny May Revision; adopt alternative language authorizing 100 new SNAPLE loan assumption warrants and 100 new SNAPLE State Facility loan assumption warrants, without restriction (Vote 2-1)	Revised BBL	0,000	Issue previously heard by committee on April 17th
23	7980-101-0001 Student Aid Commission	<i>Governor's Budget:</i> APLE Set-Aside of Governor's Math/Science Teacher Initiative	Governor's Budget sets aside 600 APLE warrants for the exclusive use of the UC and CSU in recruiting math and science teachers.	Deny Governor's proposal. (Vote 2-0)	Delete provisional language setting aside 600 warrants	0,000	Issue previously heard by subcommittee on April 17th

#	Item	Issue	Description	Staff Recommendation	Language	(000's)	Comments
HIGHER EDUCATION (DISCUSSION ITEMS)							
24	6120-221-0001 California State Library	<i>Governor's Budget:</i> Public Library Foundation	Governor's Budget provides \$21.3 million for the Public Library Foundation; Subcommittee augmented amount by \$52,000 at April 17th	Augment by \$2 million (Vote 2-0)	No	0,000	Issue previously heard by committee on April 17th
25	6440-001-0001 UC	<i>January Budget:</i> Student Fee Increase	Governor's budget increases fees by 7%	Approve As Budgeted (Vote 3-0)	No	0,000	Issue previously heard by committee on March 27th
26	6610-001-0001 CSU	<i>January Budget:</i> Student Fee Increase	Governor's budget increases fees by 10%	Approve As Budgeted (Vote 3-0)	No	0,000	Issue previously heard by committee on April 17th
27	7980-101-0001 7980-001-0001	<i>New Issue:</i> 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 and 1.0 position to begin administering program (Vote 3-0)	BBL specifying authority for warrants	100	Issue previously heard by committee on April 17th
28	7980-001-0001 7980-001-0784 Student Aid Commission	<i>May Revision:</i> Shift funding for State Operations from EdFUND to the General Fund	May Revision proposes \$15.4 million General Fund to support the ongoing operations of the Student Aid Commission	Adopt May Revision (Vote 2-1)	Per May Revision		New Issue
29	7980-101-0001 Student Aid Commission	<i>May Revision:</i> Shift funding for California Student Opportunity and Access Program (Cal-SOAP) from EdFUND to the General Fund	May Revision proposes \$5 million General Fund to support the ongoing operations of the Student Aid Commission; this represents a reduction of \$3.6 million from the current level of support the program has been receiving from EdFUND Student Loan Operating Fund dollars	Approve May Revision Shift to General Fund; Augment by \$3.6 million to ensure that Cal-SOAP program is held harmless; Adopt Budget Bill Language (Vote 2-1)	Revised Language	3,567	New Issue

SUBCOMMITTEE NO. 1 on Education



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

Tuesday, May 22, 2007
2:00 p.m.
Room 113, State Capitol
K-12 Agenda – Part C

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1. Proposition 98 - Transportation Funding Shift

Item	Issue	Description	Staff Recommendation	BBL/TB
<p>Staff Note: The recommendations below are intended to: (1) reject the Governor's proposals to shift funding for the Home-to-School Transportation to the Public Transportation Account; (2) restore Proposition 98 funding for Home-to School Transportation, thereby eliminating any rebenching of the Proposition 98 minimum guarantee; and (3) reject budget control language that would allow the Public Transportation Account to offset the General Fund for purposes of funding Home-to-School Transportation in 2006-07 and 2007-08.</p>				
6110-111-0046 & 6110-613-0046	April Letter. Home-to-School Transportation. Local Assistance. Public Transportation Account Funding. (Issues 900 & 901)	Eliminates Public Transportation Account funding of \$626.8 million for the Home-to-School Transportation program and replaces it with \$626.8 million in funding from Proposition 98 General Fund in 2007-08. Restores the Proposition 98 minimum guarantee.	Approve April Letter	
Budget Control Section 24.80	April Letter. Home to School Transportation Reimbursements to the General Fund from the Public Transportation Account. (Issue 902)	(1) Adds new control section authorizing the Director of Finance to reimburse General Fund expenditures for the Home to School Transportation program from the Public Transportation Account in 2007-08. (2) Reflects reimbursements of \$626.8 million from the Public Transportation Account to the General Fund for the purpose of offsetting the cost of the Home to School Transportation program as proposed by the new budget control section in 2007-08.	Reject April Letter	

<p>Budget Control Section 24.80</p>	<p>May Revise. Home to School Transportation Reimbursements to the General Fund from the Public Transportation Account. (Issue 906)</p>	<p>(1) Increases by \$5.5 million reimbursements from the Public Transportation Account to the General Fund for the purpose of offsetting the cost of the Home to School Transportation program in 2007-08, as proposed by the new budget control section. This reflects two adjustments for the Home-to - School Transportation program -- a \$3.0 million increase for COLA and the addition of \$2.6 million in expenditures for the State Special Schools in 2007-08.</p> <p>(2) Allows an additional \$200 million in General Fund reimbursements for Home-to-School Transportation in 2006-07.</p>	<p>Reject May Revise.</p>	
<p>6110-008-0001& Budget Control Section 24.80</p>	<p>May Revise. Home to School Transportation Funding for State Special Schools & General Fund Reimbursements from the Public Transportation Account. (Issue 960)</p>	<p>(1) Augment funding for Home to School Transportation at the State Special Schools by \$100,000 to reflect increased busing contract costs. This brings total program funds for the schools to \$2.6 million in 2007-08.</p> <p>(2) Authorizes reimbursements of \$2.6 million from the Public Transportation Account to the General Fund for the purpose of offsetting the cost of the Home to School Transportation program for the State Special Schools proposed by the new budget control section.</p>	<p>Reject May Revise.</p>	

2. Enrollment Adjustments

Item	Issue	Description	Staff Recommendation	BBL/TB
Various Items	<p>May Revise: Enrollment Adjustments for Various K-12 Education Programs. Local Assistance. General Fund. (Issue 903)</p>	<p>Provides a total funding decrease of \$370.0 million in 2007-08 to reflect lower estimated student enrollments, as measured by average daily attendance. This amount reflects a reduction in the growth rate for revenue limit and categorical programs of \$293.3 million from the Governor's January Budget to reflect lower estimates of student enrollment in 2007-08. The Governor's January budget estimated a growth rate of -0.39 percent growth rate; the May Revisions estimates growth of -0.48 percent. The May Revise provides negative growth of 0.48 percent 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 5,932,000 in 2007-08, a drop of 28,000 from 2006-07.</p>	<p>Approve May Revision.</p>	

3. Cost-of-Living Increases (COLAs)

Item	Issue	Description	Staff Recommendation	BBL/TB
Various Items	May Revise: COLAs for Various Proposition 98 Categorical Programs. Local Assistance. General Fund. (Issue 905)	Provides \$2.1 billion in total funding K-12 Cost-of-Living-Adjustment (COLA) for revenue limit and categorical programs in 2007-08. This amount reflects an increase of \$221.6 million over the Governor's January Budget for various education programs as a result of an increase in the COLA rate from 4.04 to 4.53 percent per May Revise estimates for 2007-08.	Approve May Revise	
6110-202- 0001	May Revise. COLA for Child and Adult Care Food Program. Local Assistance. General Fund-Non-98. (Issue 798)	Provides an increase of \$57,000 to reflect an increase in COLA rate from 4.04 to 4.53 percent per May Revise estimates.	Approve May Revise	
6110-108-0001	May Revise. Growth & COLA for Deferred Maintenance Program. Local Assistance. General Fund. (Issue 180)	Provides an increase of \$1.1 million to the Deferred Maintenance program to reflect May Revise growth and COLA factors.	Approve May Revise	

4. Federal Funds - Various Title I Programs

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-136-0890	April Letter. Title I Basic Grants - Fund Adjustments. Local Assistance. Federal Funds. (Issues 647 & 648)	Requests a net decrease of \$95.6 million for Title I programs. This includes a decrease of \$107.6 million to align the Title I Basic Program appropriation with the anticipated federal grant. This decrease is offset by an increase of \$12.0 million to reflect the availability of one-time carryover funds. The Title I Basic Program provides funding to local educational agencies with socio-economically disadvantaged student populations. The purpose is to improve the academic achievement of students who are failing or at risk of failing academic standards.	Approve April Letter	
6110-136-0890	April Letter. McKinney-Vento Homeless Education - Fund Adjustments. Local Assistance. Federal Funds. (Issue 644)	Requests decrease of \$598,000 to align the McKinney-Vento Homeless Children Education Program appropriation with the anticipated federal grant. The program facilitates the enrollment, attendance, and success in school of homeless children.	Approve April Letter	

6110-136-0890	April Letter. Even Start - Fund Adjustments. Local Assistance. Federal Funds. (Issue 085)	Requests an increase of \$5.5 million. This adjustment includes an increase of \$467,000 to align the Title I Even Start Program appropriation with the anticipated federal grant and an increase of \$5.0 million to reflect the availability of one-time carryover funds. The Even Start Program provides funds to improve the educational opportunities of low-income families, by integrating early childhood education and parenting education into a unified literacy program.	Approve April Letter	
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5. Federal Funds - Title I School Improvement Set-Aside Funds.

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-134-0890	May Revise. Title I School Improvement Set-Aside Funds -- Carryover Funds and Language. Local Assistance. Federal Funds. (Issue 850)	Provides \$27.1 million in one-time Title I School Improvement carryover funds. The Administration proposes that these funds be expended according to a plan developed by CDE and subject to DOF approval and notification of the Legislature.	Approve \$27.1 million in additional carryover funds for school improvement subject to a plan developed by LAO in consultation with CDE and DOF. Of this amount, set-aside \$4.0 million for a Alternative Schools Accountability. (To Conference Committee)	

6. Federal Funds - Title II Improving Teacher Quality Grants

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0890	April Finance Letter: Title II Funds to Backfill Title V Positions. State Operations. Federal Funds. (Issue 081)	Requests that 4.0 positions and \$690,000 currently funded by the federal Title V program be shifted to federal Title II, Part A funds. These positions will support continued efforts to provide professional development activities for administrators, principals, and teachers. As proposed, these positions will focus efforts on assisting local educational agencies to meet the requirements for Highly Qualified Teachers, pursuant to the Federal No Child Left Behind Act of 2001.	Reject April Letter.	
6110-001-0890	May Revise. Title II Funds to Backfill Title V Positions. (Issue 093)	Amends April Letter proposal to require that the 4.0 positions and \$690,000 shifted from the federal Title V program to the Title II program give priority to assisting LEAs in meeting the requirements for Highly Qualified Teachers pursuant to NCLB.	Reject May Letter.	

6110-001-0890	CDE Proposal. Title II Funds for Compliance Monitoring. State Operations. Federal Funds.	Proposes \$1.1 million and 8 positions for Compliance, Monitoring, Interventions, and Sanctions (CMIS). (An estimated \$5.4 million in Title II funds is set-aside for CALTIDES development in 2008-09 and 2009-10.) These positions and expenses are needed so that California can work toward compliance with the highly qualified teacher provisions of NCLB. The LAO recommends BBL requiring CDE to report on the number of districts it is working with, components of district plans, longitudinal data on the number/percent of highly qualified teachers, and breakdown for low- and high- poverty schools.	Approve \$1.1 million and 8 positions for new CMIS system. Adopt LAO BBL.	
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7. Federal Funds - Title III English Learner & Migrant Education

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0890	April Finance Letter: Translation of Parental Notification Documents. State Operations. Federal Funds. (Issue 640)	Requests increase of \$500,000 to reflect the availability of \$50,000 federal Title III one-time carryover funds from 2005-06 and \$450,000 from 2006-07. The carryover is a result of a delay in securing contracts with vendors to translate parental notification documents to languages other than English. These funds will be used to maintain the continuity of the SDE's translation of documents and make them available to school districts through an existing document clearinghouse.	Approve April Letter.	
6110-001-0890	Legislative Proposal. English Learner Monitoring and Technical Assistance for Alternative Schools and Court Schools. State Operations. Federal Funds.	\$1.2 million for CDE monitoring and technical assistance of LEAs serving English Learners, including alternative education programs, county court schools, and DJJ schools over three year period. The focus of monitoring and technical assistance is to assure access to assessments and services for improving the performance of English learners.	Approve Legislative Proposal.	BBL

8. Federal Funds - Reading First

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-126-0890	April Finance Letter: Reading First Federal Funds Adjustment. Local Assistance. Federal Funds. (Issue 084)	Requests a decrease of \$9.6 million to align appropriation authority for the Reading First Program with the anticipated federal grant award amount. The Reading First Program provides grants to use scientifically based reading programs to improve reading for students in kindergarten through grade 3.	<p>(1) Approve federal funds decrease of \$9.6 million.</p> <p>(2) Provide \$34.9 million for up to 90 percent of unfunded eligible schools in currently funded districts. Require newly funded schools to fund and serve K-12 special education teachers, per federal law.</p> <p>(3) Adopt LAO language. [To Conference Committee]</p>	LAO BBL

9. Federal Title VI Funding - Student Assessments

Issue	Description	Staff Recommendation	BBL/TB
6110-113-0890	April Letter. CAHSEE Evaluation. Local Assistance. Federal Funds. (Issue 842)	Shifts \$130,000 from Schedule (5) to Schedule (6) of this item. This adjustment is necessary to reflect an increase in evaluation costs for the California High School Exit Exam (CAHSEE).	Approve April Letter
6110-113-0890	April Letter. CAHSEE Evaluation Adjustment. Local Assistance. Federal Funds. (Issue 843)	Reduces CAHSEE funding by \$100,000 to reflect the removal of one-time funds for a study of English learner and special education students who did not graduate because of the CAHSEE requirement. The evaluation was a one-time activity, and it is no longer necessary to include funding in the annual Budget Act.	Approve April Letter

10. Federal Funds - Special Education

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0001 & 6110-001-0890	May Revise. Special Education Dispute Resolution Interagency Agreement. State Operations. Federal Funds. (Issue 954)	Requests increase of \$1.6 million from one-time federal carryover funds for the interagency agreement with Office of Administrative Hearings for special education dispute resolution . As proposed, funds will address anticipated caseload and previously approved employee compensation adjustments for special education dispute resolution services, including mediation and fair hearing services, in 2007-08. The Office of Administrative Hearings has advised the Administration that backlog of cases has been virtually resolved and that some modest increase in workload could materialize in 2007-08. The Administration proposes Budget Bill language to monitor the program.	Reject May Revise proposal and redirect \$1.6 million, as follows: (1) Approve \$450,000 increase (five percent) to Dispute Resolution contract for cost-of-living adjustments. (2) Approve \$100,000 and BBL for an independent evaluation for the Due Process contract to assess workload and service efficiencies, guide annual increases in contract funding, and assess service levels, access, and outcomes during the transition of contract providers. (3) Approve \$1,050,000 over three years for Focused Monitoring and Technical Assistance for alternative schools, county court schools, and DJJ schools.	BBL

6110-161-0890	May Revise. Federal Funds Alignment & One-Time Carryover. Local Assistance. Federal Funds. (Issue 952)	Requests an increase of \$7.6 million for special education local assistance, which consists of a \$6.7 million increase in federal funds and \$900,000 in one-time carryover of funds previously available for state-level activities.	(1) Approve \$6,718,000 in federal funds adjustment for new federal grant. (2) Retain \$900,000 in one-time carryover funds for state-level activities for CDE base programs.	BBL
6110-161-0001	May Revise. Proposition 98 . Special Education Growth and Local Revenue Adjustments. Local Assistance. (Issues 950 & 980)	(1) Provides an additional \$35.5 million to the special education base to reflect an increase in current year enrollments from the level previously estimated. (2) Provides an increase of \$2.6 million in General Fund revenues to reflect an estimated decrease in local property tax revenues.	Approve May Revise.	

11. Economic Impact Aid/Charter Schools

Issue	Description	Staff Recommendation	BBL/TB	
6110-128-0001	May Revise. Economic Impact Aid to Charter School Categorical Block Grant Fund Shift. Local Assistance. General Fund. (Issue 664)	Requests a reduction of \$22.2 million from Economic Impact Aid to reflect a permanent shift of funds to the Charter School Categorical Block Grant for the purpose of funding in-lieu Economic Impact Aid (EYE) for charter schools.	Approve May Revise.	
6110-211-0001	May Revise. Economic Impact Aid to Charter School Categorical Block Grant Funding Shift. Local Assistance. General Fund. (Issue 570)	Requests a net increase of \$14.8 million to reflect a transfer of \$22. 2 million from the EIA program to fund EIA eligible pupils in charter schools offset by a reduction of \$7.4 million for baseline adjustments pursuant to Chapter 359 of the Statutes of 2005.	Approve May Revise.	

12. High Speed Internet

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-xxx-0001	LAO Proposal. K-12 High Speed Internet Network. Language to Increase Protection of State' s Interests. Local Assistance. General Fund.	Add budget control language to further protect state's interests by providing additional accountability measures enacted for the K-12 High Speed Network to the higher education systems.	Approve LAO Language	LAO BBL

13. Various State Operations

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0001	Legislative Proposal. Scoring of Separate Budget Item for State Board of Education. State Operations. General Fund -Non-98.	The Subcommittee voted to restore funding of \$ 1.5 million and 9.2 positions for the State Board of Education in 2007-08. The Subcommittee also voted to create a separate budget item within CDE for the State Board to improve transparency. However, the Subcommittee left open how to score that action. <u>Staff recommends</u> establishing a separate budget item for the State Board within the CDE budget. In making this budget bill adjustment, staff recommends moving the funding in Schedule (5) and the language from Provision 1 into a new budget item for the State Board of Education.	Approve staff recommendation.	BBL
6110-001-0001	May Revise: District Reorganization Environmental Impact Report. State Operations. Reimbursements. (Issue 986)	Increases the reimbursement authority for CDE by \$290,000 to cover the costs of preparing an Environmental Impact Report regarding the formation of the Wiseburn Unified School District.	Approve May Revise.	

6110-001-0001	Legislative Proposal: Establish Coordinator for Incarcerated Youth. State Operations. General Fund - Non-98.	Provide \$113,000 and 1.0 permanent position to coordinate education programs for incarcerated youth. Require CDE to prepare an annual report describing youth served in correctional settings and the educational performance of these youth.	Approve proposal.	
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14. Other Issues

Item	Issue	Description	Staff Recommendation	BBL/TB
Control Section 12.32	May Revise. Proposition 98: K-12 / Community Colleges Split. (Issue 949)	Revises Control Section 12.32, which details the expenditure of Proposition 98 funds by K-12 school districts, community college districts, and other state agencies. It is requested that subdivision (b) of Control Section 12.32 be amended to reflect the total appropriations proposed through the May Revision:	Conform Control Section 12. 32 to final actions of Subcommittee.	
6110-265-0001	May Revise. Arts and Music Block Grant. Language Change. Local Assistance. General Fund. (Issue 011)	It is requested that language be amended to ensure that all schools receive a portion of the \$109.2 million designated for enhancing art and music programs. It was the Administration's intent that the Budget Act of 2006 provide additional funding for all schools. According to the Administration, not all schools received an allocation.	(1) Approve May Revise to allow funds to be distributed to all schools on an equal amount per pupil, but retain provisions for school site minimums. (2) Approve additional reporting language for program.	BBL

6110-244-0001	May Revise. BTSA Program. Language Changes. Local Assistance. General Fund. (Issue 090)	Adds provisional language to ensure that funding made available for the BTSA program through the Teacher Credentialing Block Grant is only used for teachers in their first and second year of service, pursuant to current law.	Approve May Revise.	BBL
6110-107-0001	May Revise. Fiscal Crisis and Management Assistance Team. Fiscal Solvency Plans. Language Change. Local Assistance. (Issue 985)	Changes the provisions of current law to establish a deadline of June 30, 2009 , by which districts and charter schools must complete their fiscal solvency plans to be eligible for the incentive funds provided in 2006-07. Clarifies that county office of education review can take place during any phase of the budget review process, including the interim reporting period. The deadline is intended to ensure that districts and charter schools develop these critical plans in a timely manner and that the funds are fully expended prior to the expiration of the appropriation.	Approve May Revise.	
6110-107-0001	Legislative Proposal. Fiscal Crisis and Management Assistance Team. Annual Reports for Districts with Emergency Loans. Local Assistance. General Fund.	Provide augmentation of \$385,000 to FCMAT for preparation of annual reports for school districts receiving emergency loans. This augmentation includes: \$150,000 for Oakland Unified; \$125,000 for Vallejo Unified; and \$110,000 for West Fresno Unified.	Approve Legislative Proposal.	

15. California Fresh Start Program - Reappropriations

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-492	May Revise: Reappropriation - California Fresh Start Pilot Program. State Operations. General Fund - Non-98. (Issue 784)	Reappropriates the unexpended balance of state operations funds appropriated in 2006-07 for processing California Fresh Start Pilot Program reimbursement claims. The 2006-07 budget appropriated \$174,000 and one limited-term position for this purpose. This action will allow CDE to continue processing reimbursements claims until December 31, 2008, which is after the Child Nutrition Information and Payment System is implemented in fall of 2008.	Approve May Revision.	
6110-486	Governor's January Budget. Reappropriation - California Fresh Start Pilot Program. Local Assistance. General Fund.	Reappropriates the unexpended balance of local assistance funds in 2005-06 for processing California Fresh Start Pilot Program reimbursement claims. CDE estimates \$3-4 million will be available for reappropriation in 2007-08.	Approve Governor's Budget	

16. Proposition 98 Reversions

Issue	Description	Staff Recommendation	BBL/TB	
6110-495	May Revise. Proposition 98 Reversions. Various Programs. Local Assistance. General Fund. (Issues 800 & 801)	Provides various amendments and additions to the list of Proposition 98 reversions in the budget bill to reflect latest figures available.	Approve May Revise, with changes to conform to Subcommittee actions.	

17. Legislative Study Language

Item	Issue	Description	Staff Recommendation	BBL/TB
6110-001-0001	Legislative Proposal. Reporting Requirements for Student Complaints . State Operations. Non-98 General Fund.	Add budget bill language to require reporting language to reflecting acitivity levels and outcomes of student civil rights compliants filed with CDE through the uniform civil rights complaints prodedure.	Approve proposed reporting language.	BBL
6110-136-0890	Legislative Proposal. Study to Identify Methods for Improving Poverty Measurements. State Operations. Federal Funds.	Proposes \$150,000 ffrom one-time Title I Set-Aside funds for a study to identify options for improving indicators of student poverty and socio-economic status.	Approve funding and LAO language.	BBL

18. Commission on Teacher Credentialing

Issue	Description	Staff Recommendation	BBL/TB
6360	Governor's Budget. Continue Efforts/Progress in Reducing Credential Processing Time.	Continues position authority provided in the 2006-07 budget to reduce credential processing time and backlogs. Specifically, the 2006-07 budget converted 4.0 high level positions in the Professional Services Division into 7.0 technical positions in the Certification, Assignment and Waivers Division for this purpose. The Governor proposes to continue this authority for one additional year – until June 30, 2008.	Approve Governor's Budget
6360	Governor's Budget. Continue Support for Teacher Data Development. State Operations. Federal Funds.	The Governor's Budget provides \$1.1 million in one-time federal Title II funds to continue development of the California Longitudinal Teacher Integrated Data Education System (CALTIDES) in 2007-08. Of this total, the Governor provides \$248,000 for 2.5 limited-term positions and other expenses to CTC and \$894,000 for one limited-term position and other expenses to the California Department of Education (CDE) for development of CALTIDES.	Approve Governor's Budget

6360	Governor's Budget. Continue Support for the Teacher Performance Assessment. State Operations, Test Development Administration Account.	Provides \$237,000 for 2.0 (two-year) positions and other expenses to support development and implementation administration of the Teacher Performance Assessment pursuant to SB 1209.	Approve Governor's Budget	
6360	April Letter: Increased Support for CTC Accreditation Reforms for Teacher Preparation Programs. (Issue 091) State Operations, Teacher Credentials Fund.	Proposes \$227,000 and 2.0 permanent positions to support implementation of CTC's revised accreditation system for teacher preparation programs.	Approve April Letter	
6360	April Letter: Increased Support for CTC Credentialing Reforms. (Issue 091) State Operations, Teacher Credentials Fund.	Proposes \$113,000 and 1.0 limited-term position to support review and revision of the Special Education Credential, the Reading and Language Arts Specialist Credential, the Reading Certificate, the Designated Subjects Credential for Career and Vocational Education, and the revision of the standards related to intern and induction programs.	Approve April Letter	
6360-495	May Revise. Proposition 98 Reversions for Intern and Paraprofessional Teacher Training Programs. Local Assistance. General Fund. (Issues 095 & 096)	Adds the following amounts to the Proposition 98 Reversion Account in order to reflect the level of savings at May Revise: \$7.4 million for the Alternative Certification (Intern) Program and \$1.6 million for the Paraprofessional Teacher Training Program.	Approve May Revise.	

Community Colleges 2007-08 Proposition 98

BUDGET ITEMS	Governors Budget (2007-08)	2007-08 May Revision	Proposed Changes	Comment
<u>General Apportionment</u>				
General Fund Apportionments	3,145,233	-65,884	a)	
Growth for Apportionments	99,132	-1,600	10,000	Shifted from Matriculation augmentation
<u>Categorical Programs</u>				
<i>Basic Skills</i> and Apprenticeship	15,229		33,100	Deny Admin. January proposal to shift \$ from Basic Skills to Matriculation w/ revised BBL
Student Financial Aid Administration	51,308	332		
Disabled Students	114,472	539		
Special Services for CalWORKs Recipients	43,580			
Foster Care Education Program	4,754	500		
Matriculation	134,436	10,477	b)	\$33.1 million back to basic skills; \$10 million to growth
Academic Senate for the Community Colleges	467			
Equal Employment Opportunity	1,747			
Part-time Faculty Health Insurance	1,000			
Part-time Faculty Compensation	50,828			
Part-time Faculty Office Hours	7,172			
Telecommunications and Technology Services	26,197	1,900	c)	Deny May Technology Proposal; Shifted to ongoing book grant program
Economic Development	46,790			
Transfer Education and Articulation	1,424			
Physical Plant and Instructional Support	27,345			
Extended Opportunity Programs and Services	119,827	564	1,900	Admin. proposed book grant program w/one-time funds; shift to ongoing
Fund for Student Success	6,158			
Career Technical Education	20,000			
Childcare Tax Bail Out	6,804	32		
AB 1280 Baccalaureate Pilot	100	-100	d)	
Nursing Support	25,886			
CAHSEE	10,000			
Total State Apportionment	3,959,889	-53,240	0	
a) Adjustments include: COLA increase (\$23.6 million); \$80 million base reduction for unused enrollment growth; -1.8 million increased fee revenue; -\$5.9 million increased P-tax; and - \$1.79 million updated oil mineral revenues. b) Includes sum of \$10 million augmentation and \$477K COLA; Provisional Language change proposed by Administration.				
c) Support for ongoing costs of "redundant circuits"; d) Program sunsets				

Community Colleges 2007-08 Proposition 98

BUDGET ITEMS	Governors Budget (2007-08)	2007-08 May Revision	Proposed Changes	Comment
One Time Funding				
Deferred Maintenance		48,000	45,600	
Technology (Redundant Circuitry)		2,700	2,000	
Text Book Assistance		2,000	0	
Nursing Prog. Startup	5,000		5,000	
Nursing Program Simulators	4,000		4,000	
CalPASS	1,000		1,000	
Career Tech Equipment		50,000	20,000	
Nursing and Allied Health Equipment		50,000	30,000	Expand uses to include "allied health" fields as well as nursing
Part-Time Faculty Health Insurance			5,000	
Part-Time Faculty Office Hours			5,000	
Basic Skills One-Time Funding (retain in program for one-time purposes)			33,100	
Mandates			35,000	
Accreditation Assistance for small and "at risk" colleges			2,000	
Coordinated Outreach Services for parolees			10,000	New Initiative
Coordination of Nursing and Allied Health Training for 24-hour State facilities			15,000	New Initiative
Total One-Time	10,000	152,700	212,700	

#	Item	Issue	Description	Staff Recommendation	Language	Comments
CALIFORNIA COMMUNITY COLLEGES						
1	6870-101-0001	<i>May Revision:</i> Reduce Apportionments for Unused Current and Prior Year Growth (Issue 877)	Beginning in the current year, the May Revision permanently reduces (by \$80 million) the amount available for CCC enrollments to account for unused enrollment growth in the base budget. May Revision proposes to make an automatic reduction of unused growth annually.	Approve \$80 million reduction; adopt revised budget bill language, denying proposal to make future reductions automatic	Revised BBL	Issue previously heard by committee on May 1st
2	6870-101-0001	<i>May Revision:</i> Growth Funding Reduction (871)	Adjust enrollment growth to reflect 2 percent on a reduced apportionments base; growth equivalent to 1 percent is maintained in the base	See accompanying spreadsheet	Per May Revision	Issue previously heard by committee on May 1st
3	6870-101-0001	<i>May Revision:</i> Student Success Initiative	Admin. shifted \$33.1 million from Basic Skills to matriculation in its January proposal and recommended a restricted uses of the funds in its May Revision	Funds be shifted back to Basic Skills and revised provisional language be adopted specifying uses of funds	Revised BBL	Issue previously heard by committee on May 1st
4	6870-101-0001	<i>May Revision:</i> Increase Funding for Telecommunications and Technology (Issue 884)	May Revision provides an additional \$1.9 million for ongoing maintenance associated with the delivery of redundant circuitry for local colleges	Deny May Revision (see accompanying spreadsheet)	No	New Issue
5	6870-102-0890	<i>May Revision:</i> Increase Funding for Logistics Program Implementation (Issue 875)	Appropriates \$1.5 in federal funds to develop online training and referral services and align curriculum with A through G standards for selected Logistics programs	Approve May Revision	Per May Revision	New Issue
6	6870-101-0001	<i>May Revision:</i> Increase COLA for Apportionments and Select Categorical Programs (Issues 878 and 879)	May Revision provides an additional \$25.2 million to increase the statutory COLA from 4.04 percent to 4.53 percent	Approve May Revision	Per May Revision	New Issue
7	6870-101-0001	<i>May Revision:</i> Increase Revenue Derived from Student Fees (Issue 880)	May Revision reduces the amount of General Fund for community colleges by \$1.8 million to account for increased estimates of fee revenue.	Approve May Revision	Per May Revision	New Issue

#	Item	Issue	Description	Staff Recommendation	Language	Comments
8	6870-101-0001	<i>May Revision:</i> Increase Board Financial Aid Program Adjustments (Issue 881)	May Revision provides an additional \$332,000 General Fund to reflect an adjustment in the amount provided to districts to administer the fee waiver program	Approve May Revision	Per May Revision	New Issue
9	6870-101-0001	<i>May Revision:</i> Increase Revenue Derived from Property Taxes (Issue 886)	May Revision reduces the amount of General Fund for community colleges by \$5.9 million to account for increased property tax estimates	Approve May Revision	Per May Revision	New Issue
10	6870-101-0001	<i>May Revision:</i> Increase Revenues Derived from Oil and Mineral Revenues (Issue 887)	May Revision reduces the amount of General Fund for community colleges by \$1.8 million to account for increased oil and mineral revenue estimates	Approve May Revision	Per May Revision	New Issue
11	6870-101-0001	<i>May Revision:</i> Eliminate One-Time Funding For Baccalaureate Pilot Program (Issue 898)	May Revision removed \$100,000 in one-time funding for the Baccalaureate Pilot program, the implementing statute for which sunseted	Approve May Revision	No	New Issue
12	6870-101-0001	<i>May Revision:</i> Increase Funding for Foster Care Education Program (Issue 888)	May Revision Provides and additional \$500,000 for training for potential foster parents and relative/kinship providers	Approve May Revision	Per May Revision	New Issue
13	6870-101-0001	<i>May Revision:</i> Increase Funding for Fiscal Crisis and Management Assistance Team (FCMAT) Services (Issue 872))	May Revision Provides and additional \$220,000 for the community colleges to access services provided by FCMAT	Approve May Revision	Per May Revision	New Issue
14	6870-101-0001	<i>May Revision:</i> Increase Funding for Matriculation Program (Issue 897)	May Revision augments the Matriculation categorical program by \$10 million	Deny; shift funding to enrollment growth (per spreadsheet)	No	New Issue
15	6870-495	<i>May Revision:</i> Reversion (Issue 889))	May Revision reverts: \$80 million in unused enrollment growth dollars for other K-14 Proposition 98 uses; and \$33.1 million for other community colleges one-time uses	Deny reversion of Basic Skills dollars; alter date of reversions (See accompanying spreadsheet)	Revised BBL	New Issue

#	Item	Issue	Description	Staff Recommendation	Language	Comments
16	6870-486	<i>May Revision:</i> One Time Funding - Reappropriations (Issue 896)	May Revision provides one-time funding of: \$47.5 million for scheduled maintenance; \$2.7 million to create redundant circuits; and \$2.5 million for textbook grants to low-income students	Deny; Shift funding for other one-time priorities (see spreadsheet)	Yes	New Issue
17	Trailer Bill	<i>May Revision:</i> One Time Funding - Reappropriations (Issue 894 and 895)	May Revision Appropriates \$100 million in current-year one-time funds for the purchase of equipment related to career technical education (\$50 million) and nursing program expansion and investment (\$50 million)	Deny; Shift funding for other one-time priorities (see spreadsheet)	Yes	New Issue
18	6870-101-0001	<i>May Revision:</i> Increase Funding for Telecommunications and Technology (Issue 884)	May Revision requires that the CalPASS program submit an annual report to the Chancellors Program in a format specified by the Chancellor.	Adopt May Revision Budget Bill Language; Deny ongoing funds for technology	Budget Bill Language per action	New Issue
19	6870-101-0001	<i>January Budget:</i> Career Technical Education	Budget Act appropriates \$20 million for career-technical education; legislation appropriates \$32 million. CCC's have yet to develop a comprehensive expenditure plan	Adopt Supplemental Reporting Language	SRL	Issue previously heard by committee on May 1st
20	6870-101-0001	<i>New Issue:</i> Pilot Program Outreach to Parolees	Develop pilot program, using one-time funds, to provide educational outreach and support services to parolees.	Approve one-time funds (see spreadsheet)	TBL spec. funds	New Issue
21	6870-101-0001	<i>New Issue:</i> Coordination of Nursing and Allied Health Training with 24-hour State Facilities	Develop pilot program, using one-time funds, aimed at increasing the number of nurses and allied health professional practicing in state 24-hour facilities.	Approve one-time funds (see spreadsheet)	TBL spec. funds	New Issue
21	6870-001-6049	<i>May Revision:</i> Increase Staff for Proposition 1D Accountability (Issue 882)	Appropriates \$143,000 in bond funds and approved one (limited term) position to develop a website to track expenditures and project data from Prop. 1D funded projects	Approve May Revision	Per May Revision	New Issue

#	Item	Issue	Description	Staff Recommendation	Language	Comments
22	6870-002-0890	<i>May Revision:</i> Increase Staff for Logistics Program Implementation (Issue 876)	Appropriates \$251,000 to support two (limited term) positions to implement a community colleges logistics program (the logistics program includes transportation management, air traffic control, navigation services, freight transportation and security, among others)	Approve May Revision	Per May Revision	New Issue

Item 6870-101-0001

Provision 4.1

(a) The amount appropriated in Schedule (1) for Apportionments reflects a reduction of \$80 million to account for ~~an identical~~ a like amount of unused current and prior year growth funding.

~~(b) Notwithstanding any other provision of law or regulation, un-obligated funds available from schedules (1) Apportionments and (3) Growth shall revert to the Proposition 98 Reversion Account within 45 days after the Chancellor certified the annual recalculation of each fiscal year. Within 15 days after certification, the Chancellor shall provide a report to the department of Finance of his estimate of un-obligated amounts detailing at a minimum the earned amounts for each district for credit and non-credit workload growth, changes in foundation grant entitlements, stability funding earned, restoration of workload earned, any estimated shortfalls in property taxes, and any other adjustments to district apportionment funding for the fiscal year. Upon approval of the report by the Department of Finance, the Chancellor shall notify the State Controller to revert the approved un-obligated amounts to the Proposition 98 Reversion Account.~~

Item 6870-495 – Reversion, California Community Colleges, Proposition 98. The following amounts shall be reverted to the Proposition 98 Reversion Account by the Controller ~~within 60 days of enactment of this act~~ on or after March 14, 2008.

- (1) ~~\$4,095,000~~ \$20,939,000, or whatever greater or lesser amount represents the balance available due to the higher property taxes and oil and mineral revenues received, as determined by the Chancellor of the California Community Colleges in conjunction with the Department of Finance, than estimated to be available at the time the 2006 Budget Act was approved, from Schedule (1) Apportionments, of Item 6870-101-0001 of Section 2.00 of the Budget Act of 2006.
- ~~(2) \$80,000,000 or whatever greater or lesser amount represents the balance available from Schedule (1) Apportionments, of Item 6870-101-0001 of Section 2.00 of the Budget Act of 2006 (Ch. 47.48, Stats. 2006) as determined by the Chancellor in conjunction with the Department of Finance.~~
- ~~(3) \$33,110,000 from Schedule (2), Basic Skills and Apprenticeship, of Item 6870-101-0001 of Section 2.00 of the Budget Act of 2006 (Ch 47/48, Stats 2006), notwithstanding control provision 9 of that act.~~

Supplemental Reporting Language related to Career Technical Education Plan. The Department of Finance shall submit to the fiscal and policy committees of the Legislature by September 30, 2007, a comprehensive plan for the use of funds provided in 2007-08 for the Career Technical Education Program (pursuant to Education Code section 88532). This plan shall include the \$20 million provided in the 2007-08 Budget Act and \$32 million appropriated in Chapter 751, Statutes of 2006 (SB 1133, Torlakson). The Department of Finance, along with Chancellor's Office of the California Community Colleges and California Department of Education, shall consult with the fiscal and policy committees of the Legislature and the Legislative Analyst's Office in the development of the plan prior to submitting it for the Legislature's review. It is the intent of the Legislature that the plan distribute a substantial share of the funds on a regional basis that requires K-12 and community college agencies to work closely together to improve local career technical education programs.

One Time Funds (Trailer Bill Appropriations)

(1) Twenty million dollars (\$20,000,000) for transfer by the Controller to Section B of the State School Fund for the purpose of providing competitive one-time grants to community college districts for one-time investments in nursing and allied health programs, including but not limited to the purchase of equipment. One time program investments constitute nonrecurring costs, and do not include investments in ongoing salaries and benefits for district employees or other ongoing program operations and services.

(A) To ensure that these funds are allocated in a manner that expands the capacity of nursing programs and maintains program quality, the Board of Governors shall develop a request for applications (RFA) to evaluation and prioritize funding for the most meritorious projects. Priorities for rating applications shall include, but are not limited to:

(1) The extent to which these funds will directly increasing nursing and allied health program capacity;

(2) The extent to which a district demonstrates that these funds will be used in coordination with other funding sources, both ongoing and one-time, as part of a comprehensive district plan to increase program capacity and improve program quality;

(3) Current attrition rates for nursing programs applying for these funds, and any plans districts have to reduce those rates pursuant to funding provided for that purpose in Schedule (23) of Item 6870-101-0001 of the Budget Act of 2006.

(B) The Board of Governor's shall release the RFA no sooner than 30 days after submitting it to the Legislature and the Department of Finance for review and comment.

(C) Consistent with reporting requirements specified in Provision 29 of Item 6870-101-0001 of the Budget Act of 2006, the Chancellor of the California Community Colleges shall provide the Legislature and the Department of Finance with a report detailing the number and type of projects awarded funding during the 2007-08 fiscal year with these funds. This report shall be provided on or before March 1, 2008.

(2) Twenty million dollars (\$20,000,000) for transfer by the Controller to Section B of the State School Fund for the purpose of providing one-time grants to community college districts for one-time investments in career-technical education programs, including equipment and minor facility remodeling. The Chancellor of the Community Colleges shall allocate the amount appropriated for the one-time grants in this paragraph to the community college districts on an equal amount per actual full-time equivalent student attendance in CTE courses reported for the 2006-07 fiscal year, except that each community college district shall be allocated an amount not less than fifty thousand (\$50,000), and the equal amount per unit of full-time attendance shall be computed accordingly. Community college districts shall expend the allocations made pursuant tot his section for the purpose of one-time expenditures for career technical education equipment, materials, and facility reconfigurations or improvements necessary to remove old or install new equipment. Any equipment that has been replaced with funds provided in this subdivision shall be made available to high schools in the region served to the extent it may benefit career technical education in the high schools.

(3) Ten million dollars (\$10,000,000) for transfer by the Controller to Section B of the State School Fund for the purpose of providing outreach and accompanying educational support services to individuals on parole or within one year of discharge from parole, with the intent of enrolling the targeted parolees in appropriate educational and career-technical education programs. Funds shall be allocated by the Chancellor on a competitive basis through a Request for Applications/Request for Proposals process. Priority for funds shall be granted to: (1) applications who illustrate local and regional collaborative relationships with community-based organizations and other service providers whose primary function is to assist individuals in job placement and (2) applicants located in areas with a high density of parolees.

(4) Fifteen million dollars (\$15,000,000) for transfer by the Controller to Section B of the State School Fund for the purpose of increasing the number of trained nurses and allied health professional employed in 24-hour state facilities, including but not limited to, state hospitals; developmental centers; veterans' homes; and prisons. Funds shall be allocated by the Chancellor, consistent with the community colleges' comprehensive Career Technical Education expenditure plan, on a competitive basis through a Request for Applications/Request for Proposals process. Priority for funds shall be granted to applications who illustrate local and regional collaborative relationships with both 24-hour state operated facilities and K-12 career-technical education programs.

6870-101-0001 – BASIC SKILLS

(c)(1) Of the amount appropriated in Schedule (2) Basic Skills and Apprenticeship, \$33,100,000 shall be available for the following purposes:

(1) \$1,600,000 for faculty and staff development to improve curriculum, instruction, student services, and program practices in the areas of basic skills and English-as-a-second language (ESL) programs. The Chancellor's Office shall select a district, utilizing a competitive process, to carry out these faculty and staff development activities. Faculty and staff development provided using these funds shall be administered in a manner that ensures all colleges receiving funds pursuant to (2) are provided with opportunities to participate. The Chancellor shall provide a status report on the use of these funds by the selected district to the Legislative Analyst and the Department of Finance no later than September 1, 2008.

(2) \$31,500,000 for allocation by the Chancellor to community college districts for improving outcomes of students who enter college needing at least one course in ESL or basic skills.

(A) Funds allocated pursuant to this subdivision may be expended for program and curriculum planning and development, student assessment, advisement and counseling services, supplemental instruction and tutoring, articulation, instructional materials and equipment, and any other purpose directly related to the enhancement of basic skills, ESL, and related student programs. The allocated funds shall augment, and not supplant, current expenditures by districts for Matriculation and assessment services nor for basic skills or ESL instruction and related student programs.

(B) To be eligible to receive funds pursuant to this subdivision, a district must submit to the Chancellor's Office an application certifying that the college will, within the fiscal year: 1) complete an assessment of its programs and activities serving basic skills and ESL students utilizing the assessment tool developed pursuant to Item 6870-493 (1) of the 2006-07 Budget Act; and 2) submit to the Chancellor's Office an action and expenditure plan for funds received under these provisions.

(C) The Chancellor shall work in consultation with the Department of Finance and the Legislative Analyst to develop annual accountability measures for this program. It is the intent of the Legislature that annual performance accountability measures for this program utilize data available as part of the accountability system developed pursuant to Section 84754.5.

(D) The Chancellor shall distribute funds on the basis of the number of full-time equivalent students enrolled in basic skills and ESL courses in the preceding academic year and may establish a minimum allocation of up to \$100,000 per college.

#	Item	Issue	Description	Staff Recommendation	Language	Comments
CHILD DEVELOPMENT						
1	6110-493 6110-196-0001	<i>May Revision:</i> Reappropriation Item After School Safety Program (Issue 372)	Reappropriate \$300,000 for evaluation of After School Program. Evaluation components proposed by Admin. in budget language are not consistent with evaluation that is in statute and was negotiated during the policy process	Approval of reappropriation; adoption of revised language referencing back to evaluation components established in statute	Revised BBL	Administration uses Budget Bill Language to alter the specific requirements (as contained in statute) for evaluating the After School Program . Staff notes that if the Administration is interested in revisiting this issue, it should do so outside of the May Revision process.
2	6110-196-0001	<i>January Budget:</i> Child Development Programs; State Median Income Adjustment	Governor's Budget freezes the income level at which families are eligible for subsidized child care.	Delete language from budget bill, thereby allowing for an increase in the State Median Income threshold	No	Issues previously heard by committee on March 13th
3	6110-101-0620	<i>May Revision:</i> Fully Fund CalWORKs Stage 2 and Stage 3 Child Care (Issue 376)	May Revision proposed to fund \$17.7 million of CalWORKs Child Care with funds from the Child Care Facilities Revolving Fund	Approve May Revision	Per May Revision	New Issue
4	6110-196-0001	<i>New Issue:</i> Child Care Quality Plan	Language re: public hearing and input surrounding development of the federal child care quality plan	Approve New Budget Bill Language	BBL	Issue previously heard by committee on March 13th
5	6110-196-0001	<i>New Issue:</i> Budget Bill Intent Language	In the past, the Legislature has expressed its intent, via language in the Budget Act, to fully-fund Stage 3 child care services	Adopt Budget Bill Language Stating Intent of the Legislature to fully fund CalWORKS Stage 3 Child Care Services	BBL	Issues previously heard by committee on March 13th
6	6110-196-0001	<i>New Issue:</i> Prevention of Fraudulent Payments in Child Care	At the request of this committee, staff sought to better define the issue of child care fraud and outline potential first steps for addressing fraud prevention. Staff recommendation suggests an initial step.	Adopt placeholder Trailer Bill language aimed at requiring CDE contracted providers to develop internal controls for and risk assessment	placeholder TBL	Issue brought before committee at March 13th hearing

#	Item	Issue	Description	Staff Recommendation	Language	Comments
7	6110-196-0001	<i>January Budget:</i> Preschool "Wrap Around" Care	Governor's Budget continues to provide \$5 million (consistent with current statute) for "wrap-around" care; however wrap around services are only available for children/families participating in the new preschool expansion program (PreKindergarten and Family Literacy Program).	Committee adopt revised Budget Bill Language broadening the use of the \$5 million in wrap-around dollars for all state preschool programs	Revised BBL	Issue previously heard by committee on March 13th

#	Item	Issue	Description	Staff Recommendation	Language	Comments
UNIVERSITY OF CALIFORNIA/CALIFORNIA STATE UNIVERSITY						
8	6440-001-0001	<i>Technical Issue:</i> Revised Language -- Student Academic Preparation	Staff inadvertently submitted a version of language to the committee for approval (at its May 1st hearing) which neglected to include the annual reporting requirement	Adopted Revised BBL	Revised BBL	Technical Issue
9	6440-001-0001 University of California	<i>New Issue:</i> Long Range Development Planning (LRDP) Supplemental Reporting Language	In response to a variety of issues related to UC's LRDP process, the LAO, in conjunction with staff and the UC drafted language to requiring the UC to submit copies of LRDPs and EIRs to the Legislature; report on the use of systemwide enrollment projections and the use of summer session; and report on current and future mitigation measures.	Approve SRL	SRL	Issue previously heard by committee on May 1st
10	6440-001-0001 University of California	<i>New Issue:</i> Additional Funding for California State Summer School for Math and Science (COSMOS)	Current year funding for COSMOS is \$1.6 million; which represents a 46 percent decline from its peak funding level of \$3 million in 2000-01.	Augment program by \$500,000	No	New Issue
11	6440-001-0001 University of California	<i>New Issue:</i> Targeting of Employee Compensation Funds	Addition of Budget Bill Language that would specify that funds appropriated in the current year be directed to increase low wage worker salaries at the three UC campuses with the highest cost of living.	Approve Budget Bill Language	BBL	New Issue
12	6610-001-0001	<i>Technical Issue:</i> Revised Language -- Nursing Enrollment Growth	Staff inadvertently submitted a version of budget bill language to the committee (for approval at its May 18th hearing) which failed to clarify that nursing student funded outside of the 2.5 percent enrollment growth should not be counted toward CSU's total enrollment numbers.	Adopted Revised BBL	Revised BBL	Technical Issue

#	Item	Issue	Description	Staff Recommendation	Language	Comments
13	6610-001-0001 California State University	<i>New Issue:</i> Physical Master Plan Supplemental Reporting Language	In response to a variety of issues related to CSU's long range planning process, the LAO, in conjunction with staff and the CSU drafted language to requiring the CSU to submit copies of their campus Physical Master Plans and EIRs to the Legislature; report on the use of systemwide enrollment projections and the use of summer session; and report on current and future mitigation measures.	Approve SRL	SRL	Issue previously heard by committee on May 1st
14	6440-301-6048 University of California	<i>January Budget:</i> Capital Outlay, Santa Cruz Campus Projects	Governor's Budget includes funding from the 2006 General Obligation Bond for four projects on the Santa Cruz campus (McHenry Project; Digital Arts Facility; Infrastructure Improvements; and Biomedical Sciences).	Approve four Capital Projects, as budgeted, and adopt Supplemental Reporting Language expressing intent of legislature that meaningful mitigation of off-campus impacts will be achieved	SRL	Issues previously heard by subcommittee on May 1st
15	6440-005-0001	<i>January Budget:</i> Institutes for Science and Innovation	Governor's budget provides an augmentation of \$15 million for the ongoing support of these four Institutes	Deny augmentation	No	Issue previously heard by committee on March 27th
16	6440-001-0001 University of California	<i>January Budget:</i> Petascale Supercomputing Facility	Governor's budget provides \$5 million augmentation to make the UC "more competitive" in its bid for the development and management of the next supercomputing facility	Deny augmentation	No	Issue previously heard by committee on March 27th
17	6440-001-0001 University of California	<i>New Issue:</i> UC Statewide Agricultural Research	Governor's budget fails to provide additional funding for statewide research related to agriculture -- an industry of critical importance to the state.	Staff recommends that \$1.5 million (derived from the above-noted reduction) be redirected to statewide agriculture research.	Yes	New Issue

#	Item	Issue	Description	Staff Recommendation	Language	Comments
18	6440-001-0001 University of California	<i>New Issue:</i> UC Oceanographic Research	The Governor's budget fails to provide additional funding for oceanographic research conducted through the UC.	Staff recommends that \$1.5 million be redirected to the Scripps Institute of Oceanography.	Yes	New Issue
19	6440-301-0660 University of California	<i>January Budget:</i> Capital Outlay, Energy Biosciences Institute	Governor's Budget proposes \$40 million in lease-revenue bonds for the Energy Biosciences Institute, in conjunction with a ten-year private grant from the BP (formerly British Petroleum) corporation.	Staff recommends appropriating \$5 million lease-revenue bonds for working drawing and the adoption of BBL approving the distribution of the funds pending receipt of the final contractual agreement between BP and the UC by the Legislature.	Revised BBL	Issue previously heard by subcommittee on May 1st
20	6440-301-0660 University of California	<i>January Budget:</i> Capital Outlay, Helios Research Facility	Governor's budget proposes \$30 million in lease-revenue bonds for the Helios solar energy research project. Subsequent to the release of his January Budget the Governor proposed combining this proposal with the Energy Biosciences Proposal (above) for a total \$70 million state	Deny	No	Issue previously heard by subcommittee on May 1st

Reappropriate Funds for After School Education and Safety Evaluation and Contract (Issue 372).

Add Item 6110-493 – Reappropriation, Department of Education.

Notwithstanding Education Code Section 8482.4, \$300,000 from Item 6110-001-0001, Budget Act of 2006 (Chapters 47 and 48, Statutes of 2006), is reappropriated for the purposes specified in Education Code 8483.55(c) and shall be available for encumbrance or expenditure until June 30, 2008 and liquidation until June 30, 2013.

Item 6110-196-0001

Provision X. It is the intent of the Legislature to fully fund the third stage of child care for CalWORKs recipients.

Provision 3. Of the amount appropriated in Schedule (1), \$50,000,000 is available to expand state preschool programs and \$5,000,000 is for wrap-around care ~~pursuant to Chapter 211 of the Statutes of 2006, commencing with Education Code Section 8238.~~ in order to provide direct child care for children in the state preschool program for the portion of each day that is not otherwise covered by services provided as part of the state preschool program.

Provision 5 (e) As required by federal law, the State Department of Education (SDE) shall develop an expenditure plan that sets forth the final priorities for child care. ~~and the reasons therefore if the final priorities are different from those approved in response to the reporting requirement contained in Provision 7(g) of Item 6110-196-0001 of the Budget Act of 2004 (Ch. 208, Stats. 2004).~~ This plan shall be submitted to the Department of Finance by February 15 of each year, and funds shall not be encumbered prior to approval of the plan by the Department of Finance.—The SDE shall coordinate with the DSS, the California Children and Families State Commission, and other applicable entities stakeholders ~~identify annual statewide expenditure for quality enhancements which qualify for meeting federal requirements, and shall reference these expenditures in its biennial federal plan or any subsequent amendments.~~ to develop the Child Care Development Fund (CCDF) Plan. By February 1 of the year of the CCDF Plan is due to the federal government, SDE shall release a draft of the Plan. It shall then commence a 30 day comment period which will include at least one hearing and the opportunity for written comments. SDE shall provide the revised CCDF Plan to the chairperson of the committees in each house that considers appropriations and shall provide a report on the plan to the committee of each house that considers the annual Budget Act appropriation, prior to the May budget revision.

Adopt Placeholder Trailer Bill Language that calls on the California Department of Education to require each contracted child care and development program to create a plan for an internal control framework, to submit that plan for review by the Department of Education, and upon approval, to implement their control framework. Specifically, each child care and development program should, at a minimum, include the following components in their internal control framework:

- (1) Development and maintenance of a controlled environment and accountability for achieving specified outcomes.
- (2) Assessment of risk; analyzing operations to determine the risks of improper payments; taking action to address those risk areas and ensure that management decisions are implemented.
- (3) Usage and sharing of timely, relevant, and reliable financial and non-financial information related to improper payments.
- (4) Assessment and tracking of activities over time; identification of additional actions needed to improve program efficiency and effectiveness.

**BUDGET BILL LANGUAGE:
UC STUDENT ACADEMIC PREPARATION PROGRAMS**

Add the following provision to Item 6440-001-0001:

X. Of the funds appropriated in Schedule (1), \$19,300,000 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 \$31,300,000 for these programs. The University of California (UC) shall provide a plan to the Department of Finance and the fiscal committees of each house of the Legislature for expenditure of both state and university funds for SAPEP by September 1, 2007. 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 UC in April 2005. It is the intent of the Legislature that the report be submitted to the fiscal committees of each house of the Legislature no later than April 1, 2008.

SUPPLEMENTAL REPORT LANGUAGE FOR LONG RANGE DEVELOPMENT PLANNING

Item 6440-001-0001 – University of California

Long Range Planning. Based on academic goals and projected enrollment levels, each University of California (UC) campus and medical center periodically develops a Long Range Development Plan (LRDP) that guides its physical development – such as land use designations, location of buildings, and infrastructure systems – for an established time horizon. In order to ensure greater legislative oversight over the process used by UC to prepare and implement each plan (as well as the accompanying Environmental Impact Report [EIR]), the university shall provide the Legislature with the following:

- *Copies of Draft LRDPs.* At the time draft LRDPs and draft EIRs are submitted for public review, UC shall provide summaries of these documents – including the campus website where the complete documents can be accessed – to the Joint Legislative Budget Committee. (Before the UC Regents can approve an LRDP and certify its accompanying EIR, a campus must allow time for the public to review and comment on these documents, consistent with the requirements of the California Environmental Quality Act [CEQA].)
- *Systemwide Enrollment Projections.* The UC shall provide systemwide enrollment projections through at least 2020 by March 25, 2008. In its report, the university should explain and justify the assumptions and data used to calculate the enrollment projections. The report shall relate the systemwide enrollment projections to the applicable LRDP for each campus. The report shall be presented to the UC Board of Regents before transmittal to the Legislature.
- *Use of Summer Term.* It is the intent of the Legislature that UC campuses make fuller use of the summer term as a means to accommodate an anticipated increase in the number of students with existing classrooms. The university shall report to the Legislature by March 25, 2008, on its efforts to optimize summer enrollment in comparison to other academic terms. This report shall include data on the number of full-time equivalent and headcount students enrolled (by campus) in summer 2007 compared to the three-quarter average enrollment for the regular 2007-08 academic year. In addition, UC shall discuss specific steps campuses are taking to increase summer enrollments.

- ***Mitigation of Off-Campus Impacts – Current Projects.*** When a campus's enrollment and facilities expand, it can sometimes negatively affect the surrounding environment. Consistent with the requirements of CEQA, it is the intent of the Legislature that UC sufficiently mitigate significant off-campus impacts related to campus growth and development. By March 1 of each year from 2008 through 2012, the university shall report (by campus) on the status of implementation – including implementation dates where applicable – of mitigation measures for significant off-campus impacts identified consistent with the requirements of CEQA, including those that require fair share payments to local agencies. This report shall identify the status of fair share mitigation agreements with and payments to local agencies for mitigation of off-campus impacts that are required in certified EIRs. The report should also list any monetary or equivalent in-kind payments to local agencies made by the campuses for the mitigation of off-campus impacts that do not involve fair share language in CEQA documents and that have been implemented under other arrangements. For those significant off-campus impacts that have been triggered but have not been sufficiently mitigated, the university shall report on what additional steps are being taken to reach resolution.
- ***Mitigation of Off-Campus Impacts – Future Projects.*** New capital projects to be included in the annual budget act from 2008-09 through 2012-13 shall identify any known significant off-campus environmental impacts, as well as specify plans to mitigate such impacts (including efforts to work with local jurisdictions).

Item 6610-001-0001 – California State University

Long Range Planning. Each of the 23 California State University (CSU) campuses periodically develops a physical master plan that is supposed to guide the future development of its facilities – based on academic goals and projected student enrollment levels – for an established time horizon. In order to ensure greater legislative oversight over the process used by CSU to prepare and implement each plan (as well as the accompanying Environmental Impact Report [EIR]), the university shall provide the Legislature with the following:

- ***Copies of Draft Physical Master Plans.*** At the time a draft physical master plan and the accompanying draft EIR are submitted for public review, CSU shall provide summaries of these documents – including the campus website where the complete documents can be accessed – to the Joint Legislative Budget Committee. (Before the CSU Board of Trustees can approve a physical master plan and certify its accompanying EIR, a campus must allow time for

- public review and comment on these documents, consistent with the requirements of the California Environmental Quality Act [CEQA].)
- ***Systemwide Enrollment Projections.*** The CSU shall provide systemwide enrollment projections through at least 2020 by March 25, 2008, for the 2008-09 budget year. For physical master plans considering an enrollment ceiling increase, CSU will include 13 years of projected enrollment and discuss how these campus-specific projections relate to the university's systemwide projections. In its report, the university should explain and justify the assumptions and data used to calculate its enrollment projections.
 - ***Use of Summer Term.*** It is the intent of the Legislature that CSU campuses make fuller use of the summer term as a means to accommodate an anticipated increase in the number of students with existing classrooms. The university shall report to the Legislature by March 25, 2008, on its efforts to optimize summer enrollment in comparison to other academic terms. This report shall include data on the number of full-time equivalent and headcount students enrolled (by campus) in summer 2007 compared to the regular 2007-08 academic year. In addition, CSU shall discuss specific steps campuses are taking to increase summer enrollments.
 - ***Mitigation of Off-Campus Impacts – Current Projects.*** When a campus's enrollment and facilities expand, it can sometimes negatively affect the surrounding environment. In view of the recent decision in *City of Marina v. CSU Board of Trustees*, it is the intent of the Legislature that CSU take steps to reach agreements with local public agencies regarding the mitigation of off-campus impacts related to campus growth and development. By March 1 of each year from 2008 through 2012, the university shall report (by campus) on the status of any negotiations with local agencies for mitigation measures for significant off-campus impacts identified consistent with the requirements of CEQA (including implementation dates where applicable). For each impact, this report shall identify whether an agreement has been reached with local agencies. The report should also list any monetary and non-monetary in-kind payments made by the campus for the mitigation of off-campus impacts identified as unavoidable in the certified EIRs. For those impacts for which there is no agreement, CSU should explain what steps were taken and if any additional steps will be taken to reach an agreement.

6440-001-0001

Provision X

Of the amount appropriated in this item, \$8.6 million is provided for the following:

(a) Salary increases for custodial personnel at UC campuses. The university shall provide greater salary increases at the three campuses that have the largest wage disparities between UC custodians and custodians employed by community colleges in the same areas.

(b) Hiring of UC staff for grounds keeping services at any UC campus that currently obtains such services by contract.

6610-001-0001 California State University

Undergraduate Nursing Enrollments

Provision 8(b). ~~Of the amount provided for growth in enrollments pursuant to Provision 7 of this item, the university is provided funding to increase enrollments for baccalaureate degree nursing programs by 340 FTES out of the additional 8,355 FTES required by that provision.~~ in Schedule (1), \$3,600,000 is provided to support the full state cost of 340 FTES in baccalaureate degree nursing programs in 2007-08. FTES supported with this funding shall not count toward the enrollment reported in Provision 7. On or before May 1, 2008, the CSU shall report to the Department of Finance and the Legislature the number of additional FTES enrolled in these programs above 2006-07 levels. In the event that CSU enrolls fewer than the 340 additional students for which funding is provided, the funding associated with the enrollment shortfall shall revert to the General Fund. The Director of Finance shall make any such reversion on or before May 15, 2008.

Supplemental Reporting Language

6440-301-6048 University of California Santa Cruz

A Long Range Development Plan (LRDP) for the University of California (UC), Santa Cruz was adopted by the UC Board of Regents in September of 2006. The LRDP envisions significant new construction and enrollment growth for the UC Santa Cruz campus. The local community, including the City and County of Santa Cruz, has raised significant concerns regarding potential environmental impacts caused by University growth, particularly in the area of water supply, traffic, and housing. The Legislature expects that meaningful mitigation of UC Santa Cruz growth-related off-campus impacts will be achieved, including phased growth plans that assure growth takes place as mitigation measures are implemented. Prior to granting funding requests for future capital projects at the UC Santa Cruz campus, the UC shall demonstrate to the Legislature good faith efforts to ensure that adequate mitigation measures are in place concurrently with the completion of the funded capital project.

6440-001-0001

Provision X

Of the amount appropriated in Schedule (1), Support \$1,500,000 shall be used to support statewide Agriculture research.

Provision X

Of the amount appropriated in Schedule (1), Support, \$1,500,000 shall be used to support research at the Scripps Institute.

6440-301-0660 – For capital outlay, University of California, payable from the Public Buildings Construction Fund \$70,000,000 \$5,000,000

Schedule:

Universitywide:

(1) 99.00.085 – Energy Biosciences Institute – Preliminary plans, and working drawings \$40,000,000 \$5,000,000

Berkeley Campus:

(2) 99.01.260 – Helios Research Facility – Preliminary plans, working drawings, construction, and equipment \$30,000,000
\$0

Amend Provision 1 and Provision 5 of the Item as follows:

Provision

1. The State Public Works Board may issue lease-revenue bonds, notes, or bond anticipation notes pursuant to Chapter 5 (commencing with Section 15830) of Part 10-b of Division 3 of Title 2 of the Government Code to finance ~~all phases~~ the working drawings phase of the project authorized by this item no sooner than 60 days after the completed, signed agreement between the University and BP related to the Energy Biosciences Institute is submitted to the Department of Finance and the Joint Legislative Budget Committee for approval. In no event shall the State Public Works Board issue lease-revenue bonds, notes, or bond anticipation notes for this project without written authorization by the Department of Finance and the Joint Legislative Budget Committee.

5. Funding in Schedule (1) of this item would not be available unless ~~either the University of California at Berkeley or the University of California at San Diego~~ is successful in winning the British Petroleum (BP) Energy Biosciences Institute Research grant. ~~The scope and cost will be defined by the State Public Works Board after the grant is awarded.~~