Senate Budget and Fiscal Review

Subcommittee No. 1 2013 Agendas

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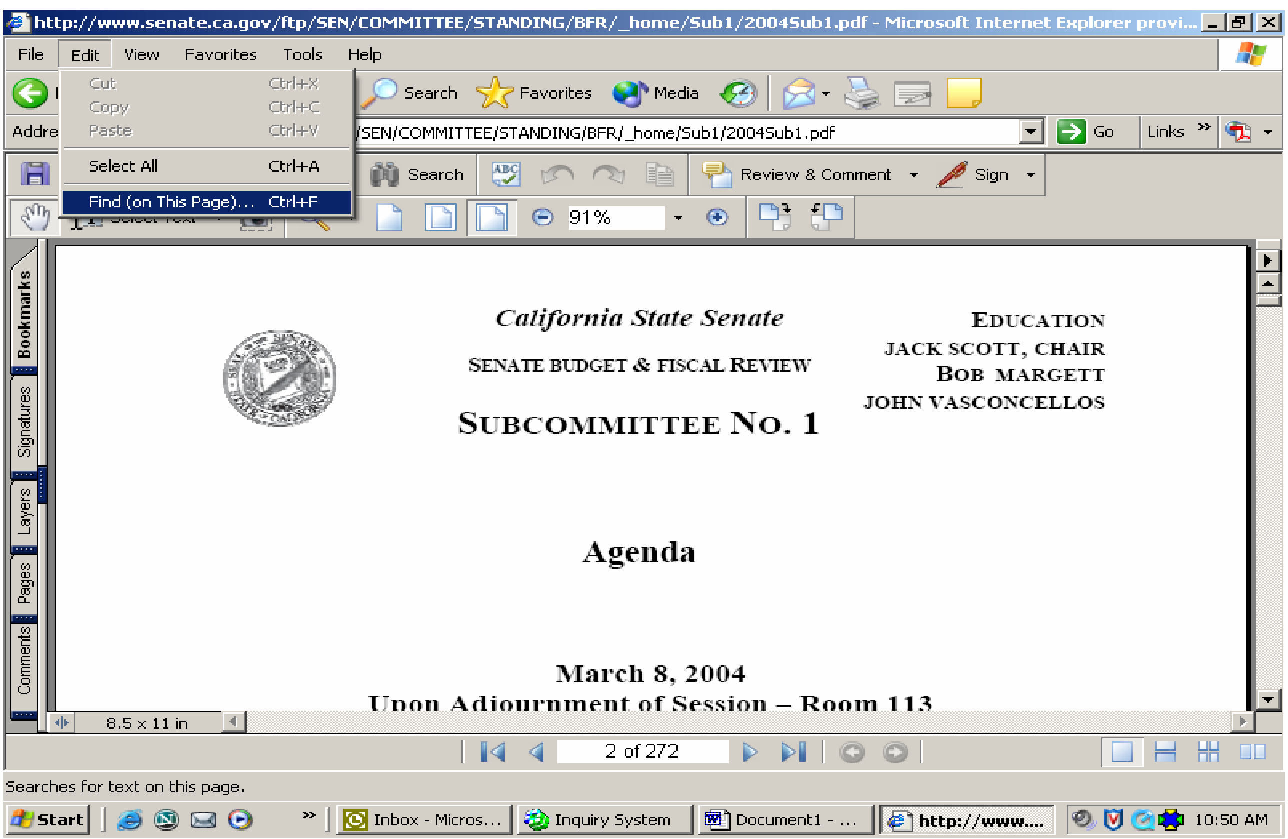

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, March 7, 2013
Upon Adjournment of Senate Rules Committee
Room 3191, State Capitol

Governor's 2013-14 Budget:
Proposition 98 & K-12 Education Budget Overview

I. Highlights of the Governor's Proposition 98 & K-12 Education Budget – Thomas Todd, Department of Finance

II. Proposition 98 and K-12 Education Funding Overview – Edgar Cabral, Office of the Legislative Analyst

III. Governor's K-12 Education Budget & Federal Funds Update - Erin Gabel, California Department of Education

IV. Public Comment

Attachment: *The 2013-14 Budget: Proposition 98 Education Analysis,* Legislative Analyst, February 2013.

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The 2013-14 Budget:

Proposition 98 Education Analysis

MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 2013

LAO

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EXECUTIVE SUMMARY

Overview

Proposition 98 funds K-12 education, the California Community Colleges (CCC), preschool, and various other state education programs. The Governor's 2013-14 budget provides $56.2 billion in total Proposition 98 funding. This is a $2.7 billion (5 percent) increase from the revised current-year level. Under the Governor's budget, Proposition 98 programmatic per-student funding is $7,929 for schools—an increase of $360 (5 percent) from the revised current-year level—and $5,969 for community colleges—an increase of $522 (10 percent). About half of the community college increase is related to the Governor's proposal to restructure adult education. The Governor funds Proposition 98 at his estimate of the 2013-14 minimum guarantee.

Plan Balances Paying Down Outstanding Obligations and Building Up Base Support. Growth in the minimum guarantee, together with freed-up prior-year monies, result in $4.7 billion in available Proposition 98 funding for 2013-14. Of this amount, the Governor dedicates $1.9 billion to paying down deferrals, $1.6 billion to a new K-12 funding formula, and the remainder to various proposals (discussed below). Over the subsequent three years, the Governor proposes to dedicate roughly half of new Proposition 98 funds for paying down deferrals, with remaining growth in Proposition 98 funds dedicated to building up base support. Although no one right mix of spending exists, we think the Governor's generally balanced approach is reasonable.

Specific Proposals

Proposition 39 Energy Efficiency Projects. The Governor proposes to include all Proposition 39 revenues in the Proposition 98 calculation and dedicate all energy-related funding over the next five years to schools and community colleges. In 2013-14, schools and colleges would receive $400.5 million and $49.5 million, respectively, with the funds distributed on a per-student basis. We have serious concerns with virtually every aspect of the proposal. Including all Proposition 39 revenues in the Proposition 98 calculation is a significant departure from our longstanding view of how revenues are to be treated for the purposes of Proposition 98. The proposal excludes eligible projects (such as public hospitals) that potentially could achieve a relatively high level of energy benefits. The proposed per-student allocation method limits potential benefits even among schools and colleges, and the proposal does not coordinate Proposition 39 funding with the state's existing energy efficiency programs. We recommend a different approach that excludes Proposition 39 energy-related funds from the Proposition 98 calculation and charges the California Energy Commission (CEC) with administering a competitive grant process in which all public agencies, including schools and colleges, could seek Proposition 39 funds based on identified facility needs.

Mandates. The Governor has several proposals relating to education mandates. The two most notable proposals are to (1) add $100 million and two mandates—one related to high school graduation requirements and one to behavioral intervention plans (BIP)—to the mandates block grant for schools and (2) modify state requirements for the BIP mandate to align them more closely with federal requirements. Our assessment of these proposals is mixed. We recommend rejecting the proposal to add the two mandates to the block grant since the costs are very uncertain at the moment due to litigation, but we recommend adopting the proposal to modify BIP requirements since this increases local flexibility while still providing certain student protections.

Special Education. The Governor proposes two notable changes to the way the state funds services for students with disabilities (SWDs). One proposal is to remove federal funds from the state's formula for allocating state special education funds. We recommend the Legislature adopt this proposal, as it would make the state's special education funding approach simpler, more rational, and more understandable. Additionally, to eliminate existing funding disparities across the state, we recommend the Legislature adopt a plan for equalizing special education rates in tandem with general education rates under the new K-12 funding formula. The Governor's second major special education proposal is to consolidate eight funding grants currently provided for some specific special education activities into four larger grants. To provide additional flexibility, we recommend the Legislature adopt a more expansive approach that merges 12 grants into 5 larger grants with broader spending requirements.

Adult Education. The Governor proposes a number of changes to the state's adult education system, including eliminating school districts' adult education categorical program and creating a new $300 million CCC categorical program for adult education. We believe the Governor's plan is significantly flawed in many ways. To the extent that school districts discontinued their adult education services, responsibility for adult education would fall to community colleges with widely varying degrees of expertise and interest in administering these programs. To the extent that school districts continued to provide services, the Governor's proposal would do nothing to address longstanding inconsistencies in policies and longstanding coordination problems between adult schools and community colleges. We recommend a more rational, coordinated, and responsive system with both adult schools and CCC as providers. Our recommendations include (1) restoring adult education as a categorical program for school districts; (2) providing up to $300 million for the reconstituted program; (3) more clearly delineating between CCC collegiate and adult education instruction; (4) applying consistent faculty, assessment, fee, and funding policies across all adult education providers; and (5) making new funding available on a regional basis tied to relative program need.

Due to Revenue Uncertainty, Wait Until May to Finalize Budget Package

General Fund revenue estimates are subject to large swings and could change significantly over the coming months, with a large corresponding effect on the Proposition 98 minimum guarantee. Because of this uncertainty, finalizing a Proposition 98 spending plan may be premature until additional revenue information is available in May. One way to respond to any large swings, however, would be to adjust deferral pay downs. In addition, the recommendations we make in this report would free up about $275 million in Proposition 98 funds that could help address any potential reduction in the 2013-14 minimum guarantee from the Governor's level.

INTRODUCTION

In this report, we analyze the Governor's Proposition 98 budget package. The report begins with an overview. The next six sections analyze all the Governor's major Proposition 98 proposals, except for his Local Control Funding Formula proposals, which we analyze separately in our companion document, *Restructuring the K-12 Funding System*. The penultimate section of this report compares the fiscal effects of the Governor's Proposition 98 plan with our Proposition 98 recommendations. The final section lists all the recommendations we make throughout the report.

OVERVIEW

Governor Proposes $2.7 Billion Increase in Proposition 98 Funding. Figure 1 shows Proposition 98 funding for preschool, K-12 education, CCC, and various other state education programs. The Governor's budget increases total Proposition 98 funding by $2.7 billion—a 5 percent increase from the revised current-year level. The General Fund share of Proposition 98 increases by 9 percent whereas the share from local property tax (LPT) revenue is projected to drop by 4 percent. This drop is due to the tapering off of the transfer of one-time cash assets from former redevelopment agencies (RDAs). Also shown in the figure, the year-to-year increase in Proposition 98 funding is notably greater for community colleges (10 percent) than for K-12 education (4 percent). About half of the community college increase is related to the Governor's proposal to restructure adult education.

Figure 1
Proposition 98 Funding[a]

(Dollars in Millions)

	2011-12 Actual	2012-13 Revised	2013-14 Proposed	Change From 2012-13	
				Amount	Percent
Preschool	$368	$481	$481	—	—
K-12 Education					
General Fund	$29,368	$33,406	$36,084	$2,679	8%
Local property tax revenue	11,963	13,777	13,160	-618	-4
Subtotals	($41,331)	($47,183)	($49,244)	($2,061)	(4%)
California Community Colleges					
General Fund	$3,279	$3,543	$4,226	$683	19%
Local property tax revenue	1,974	2,256	2,171	-85	-4
Subtotals	($5,253)	($5,799)	($6,397)	($597)	(10%)
Other Agencies	$83	$78	$79	$1	1%
Totals	**$47,035**	**$53,541**	**$56,200**	**$2,659**	**5%**
General Fund	$33,097	$37,507	$40,870	$3,362	9%
Local property tax revenue	13,937	16,034	15,331	-703	-4

[a] General Fund amounts include Education Protection Account funds.

Programmatic Per-Student Funding Increases for Schools and Colleges. Under the Governor's budget, Proposition 98 programmatic per-student funding for schools is $7,929—an increase of $360 (5 percent) from the revised current-year level. For community colleges, Proposition 98 programmatic per-student funding is $5,969—an increase of $522 (10 percent) from the revised current-year level.

Adjustments to Minimum Guarantee

Estimate of 2012-13 Minimum Guarantee Changes Slightly. For 2012-13, the administration's estimate of the Proposition 98 minimum guarantee is $53.5 billion—down $54 million from the budget act estimate. (Various technical adjustments and changes in revenue *decrease* the minimum guarantee by $480 million. These were largely offset, however, by a guarantee *increase* of $426 million due to the revenue raised from Proposition 39. These revenues were not assumed in the *2012-13 Budget Act*.) Proposition 98-related spending is estimated to be $163 million above the revised estimate of the minimum guarantee, primarily due to increases in revenue limit costs stemming from higher-than-projected charter school attendance. To bring spending down to the minimum guarantee, the Governor proposes to reclassify $163 million in 2012-13 appropriations as funds for meeting a statutory obligation associated with the Quality Education Investment Act (QEIA). Such action has no programmatic effect on schools or community colleges.

2013-14 Minimum Guarantee Increases Due to Revenue Growth. For 2013-14, the Governor proposes to fund at the administration's estimate of the minimum guarantee—$56.2 billion. The $2.7 billion year-to-year increase in the guarantee is driven by the state's General Fund revenue growth. Student average daily attendance (ADA)—another factor that drives growth in the minimum guarantee—is projected to grow by 0.1 percent. (As described in the box on page 8, the minimum guarantee can be very sensitive to year-to-year changes in state revenues.)

Major Spending Changes

Figure 2 summarizes the major changes in Proposition 98 spending proposed by the Governor. We discuss these proposals below, focusing first on proposals affecting schools and then turning to CCC proposals.

Major K-12 Proposals. The Governor's K-12 education budget includes $1.8 billion to retire some existing school payment deferrals. The Governor's budget also provides $1.6 billion as part of a major initiative to restructure the way the state allocates funding to school districts, charter schools, and county offices of education (COEs). For school districts and charter schools, his plan would replace most existing general purpose and categorical funding with a single, new funding formula. The formula includes base grants adjusted for various grade spans as well as supplemental funding based on counts of English learners and low-income students. Virtually all of the proposed $1.6 billion funding increase would be used to align each school district's and charter school's allocation more closely to target funding levels established under the new formula. For COEs, the Governor's plan also would replace existing general purpose and categorical funding with a new formula. The COE formula would incorporate funding for (1) services COEs provide to school districts and (2) alternative education programs. The budget provides $28 million to begin increasing COE allocations to the COE target funding rate.

In addition to these proposals, the Governor's budget allocates $400.5 million to school districts for energy-efficiency projects. This appropriation—along with a corresponding community college appropriation—is intended to fulfill the state's Proposition 39 spending requirements. The budget also provides a $100 million increase to the school mandate block grant to reflect the addition of two large mandates: Graduation Requirements and BIPs. The Governor's plan also includes a 1.65 percent cost-of-living adjustment (COLA) for four categorical programs that are not consolidated into the new funding formula—special education, child nutrition, California American Indian Education Centers, and the American Indian Early Childhood Education Program. In addition to the ongoing Proposition 98 funding shown in Figure 2, the budget includes $9.7 million in one-time funding for the Emergency Repair Program (ERP), which provides funding to school districts for facility repairs.

Figure 2

Proposition 98 Spending Changes

(In Millions)

2012-13 Revised Spending	**$53,541**
Technical Changes	
Make technical adjustments	$148
Fund K-12 categorical growth	49
Fund K-12 revenue limit growth	3
Adjust for prior-year deferral payments	-2,225
Subtotal	(-$2,025)
K-12 Policy Changes	
Pay down deferrals	$1,765
Transition to new funding formula	1,630
Allocate money for energy-related projects	401
Add two programs to mandate block grant[a]	100
Provide COLA for certain programs[b]	63
Swap one-time funds	-17
Subtotal	**($3,941)**
CCC Policy Changes	
Create new adult education categorical program	$300
Increase funding for apportionments	197
Pay down deferrals	179
Allocate money for energy-related projects	50
Fund new technology initiative	17
Subtotal	($742)
Total Changes	**$2,659**
2013-14 Proposed Spending	**$56,200**

[a] Graduation Requirements and Behavioral Intervention Plans.
[b] Applies to special education, child nutrition, California American Indian Education Centers, and American Indian Early Childhood Education Program.
COLA = cost-of-living adjustment.

Major CCC Proposals. The largest of the Governor's CCC augmentations is $300 million for a restructured adult education program. The Governor's budget also includes $197 million in discretionary funding to be allocated based on the priorities of the Chancellor's Office. In addition, the Governor's plan provides $179 million to retire existing payment deferrals, $49.5 million for energy-efficiency projects, and $16.9 million for a new CCC technology initiative.

PAYMENT PLAN FOR RETIRING OUTSTANDING OBLIGATIONS

The largest augmentation in the Governor's budget is $1.9 billion to reduce the amount of outstanding K-14 payment deferrals. This proposal is part of the Governor's multiyear plan for paying off the state's outstanding one-time education obligations. Below, we provide background on these obligations, describe the Governor's proposal to pay off most of these obligations over the next four years, and discuss our assessment of the payment plan.

Background

State's One-Time Education Obligations Have Grown Significantly Over Several Years. The state currently has large outstanding one-time obligations relating to schools and community colleges. Figure 3 describes each existing type of obligation and identifies the corresponding

Changes in General Fund Revenue Will Affect Proposition 98 Minimum Guarantee

Recent information regarding 2012-13 tax revenues—in which January 2013 personal income tax (PIT) collections were $5 billion higher than projected—demonstrate the significant uncertainty regarding state revenue estimates. Although the state's PIT revenues have been subject to large swings, these effects recently have been magnified by a number of factors, including the passage of Proposition 30 (which increased taxes on high-income earners, whose incomes are most volatile), the initial public offering of Facebook, anticipation of federal tax increases, and changes in state revenue accrual policies. Theses swings in tax revenues can significantly change the state's Proposition 98 requirements. Below, we discuss some of the possible implications of higher revenues on the Proposition 98 minimum guarantee.

Virtually All New Revenue in 2012-13 Would Go to Proposition 98 Programs. To the extent that final 2012-13 revenue collections are higher than projected, the 2012-13 minimum guarantee would increase roughly dollar for dollar. (Virtually all revenue goes to Proposition 98 programs due to recent state decisions regarding how to make maintenance factor payments.) As a result, higher revenues in 2012-13 could have substantial benefit for schools and community colleges but provide little, if any, benefit for other state programs.

2013-14 Minimum Guarantee Could Be Lower Year Over Year, but Two-Year Proposition 98 Funding Likely Would Be Higher Than Under Governor's Budget. If the increase in 2012-13 revenues were temporary—that is, if they did not result in a corresponding increase in 2013-14 revenues—the 2013-14 minimum guarantee could be lower than the Governor's estimate. This is because the year-to-year growth in General Fund revenues under this scenario is reduced. This in turn would lower the minimum guarantee in 2013-14. Funding over the two-year period, however, likely would be higher than under the Governor's budget.

Spending Option if This Scenario Materializes. If recent revenue collection trends persist and the Proposition 98 minimum guarantee sees a corresponding increase in 2012-13, the Legislature could use these new, additional funds to accelerate pay down of school and community college deferrals. This approach would pay down deferrals more quickly without affecting ongoing programmatic support. If 2013-14 revenues are lower than the Governor's January estimate, the Legislature correspondingly could reduce the amount of funds dedicated in 2013-14 to paying down deferrals. In essence, the state could adjust its deferral payments across the two years to moderate the effects of revenue volatility on programmatic funding.

amount the state owes. The largest outstanding obligation involves school and community college payments that the state is making late. The state also has a large backlog of unpaid school and community college mandate claims. The other two obligations—for the ERP and QEIA—are connected with lawsuits.

State Relied Heavily on Deferrals During Difficult Fiscal Times. Over the past several years, the state has significantly increased the amount of school and community college payments it makes late. The first Proposition 98 deferrals were adopted in the middle of 2001-02, when $1.1 billion in K-12 payments were deferred from late June 2002 to early July 2002. This delay, while only a few weeks, allowed the state to achieve one-time savings by reducing Proposition 98 General Fund spending in 2001-02. Schools continued to operate a larger program using cash reserves. In 2008-09, facing an even larger budgetary shortfall, the state delayed $3.2 billion in Proposition 98 payments to achieve one-time General Fund savings. The state adopted additional deferrals in each of the next three years. By 2011-12, a total of $10.4 billion in annual Proposition 98 payments were paid late (roughly 21 percent of total Proposition 98 support).

State Has One-Time Proposition 98 Settle-Up Obligations. In addition to the obligations discussed above, the state has $1.7 billion in outstanding one-time Proposition 98 obligations known as "settle-up" obligations. A settle-up obligation is created when the minimum guarantee increases midyear and the state does not make an additional payment within that fiscal year to meet the higher guarantee. Because the associated ongoing base increase in the minimum guarantee is reflected automatically in the subsequent year's Proposition 98 appropriation, the state is left with only a one-time obligation to backfill the unanticipated prior-year shortfall. The state's existing settle-up obligations were created as a result of underfunding in 2006-07 ($212 million), 2009-10 ($1.2 billion), 2010-11 ($2.5 million), and 2011-12 ($251 million). Settle-up funds can be used for any educational purpose, including paying off other state one-time obligations, such as deferrals and mandates.

Figure 3

State Has Several Outstanding One-Time School and Community College Obligations

(In Millions)

Obligation	Description	Amount Outstanding[a]
Payment deferrals	State has deferred certain school and community college payments from one fiscal year to the subsequent fiscal year, thereby achieving one-time state savings.	$8,205
Mandates	State must reimburse school and community college districts for performing certain state-mandated activities. State deferred payments seven consecutive years (2003-04 through 2009-10).	4,014
Emergency Repair Program	As part of the *Williams* settlement, state agreed to provide certain schools with $800 million for emergency facility repairs.	452
Quality Education Investment Act	Associated with a Proposition 98 suspension in 2004-05, the state agreed to provide an additional $2.7 billion to schools and community colleges over a multiyear period.	247

[a] As of year-end 2012-13.

State Has Options for Paying Down Outstanding Obligations. The state typically retires one-time obligations by making a series of payments over several years. In most cases, the state can choose whether to make these payments using ongoing or one-time funds. When using ongoing funds, the state sets aside a portion of undesignated Proposition 98 resources, which reduces the amount of funds available for other ongoing Proposition 98 purposes. (In the subsequent year, these resources are "freed up" to pay off additional obligations or to make programmatic augmentations.) Alternatively, the state can use one-time appropriations made on top of the annual minimum guarantee—such as settle-up funds—to pay off these obligations. This approach has no effect on the ongoing programmatic funding available for schools and community colleges.

Governor's Proposal

As Figure 4 shows, the Governor's proposal includes a multiyear plan for paying off the state's outstanding one-time education obligations. We discuss the proposal in more detail below.

Uses Roughly Half of New Proposition 98 Funds to Pay Down Deferrals. In 2012-13, the state began reducing the amount of late payments by providing $2.2 billion to pay down Proposition 98 deferrals—$2.1 billion for schools and $159 million for community colleges. (This funding was contingent on the passage of Proposition 30.) In 2013-14, the Governor's budget dedicates $1.9 billion to retire additional deferrals—$1.8 billion for schools and $179 million for community colleges. As Figure 5 shows, these payments would reduce the amount of outstanding deferrals to $6.3 billion. Each year for the subsequent three years, the Governor proposes to dedicate roughly half of available Proposition 98 funds toward additional deferral pay downs, with all deferrals eliminated by the end of 2016-17.

Retires a Few Other Obligations Over Period. The Governor's plan provides $247 million on top of the minimum guarantee in 2014-15 for QEIA and an additional $452 million on top of the minimum guarantee in 2016-17 for ERP. These payments would fully retire the state's statutory obligation for both programs. In 2016-17, the Governor also proposes to make a $1.7 billion payment to retire the state's existing settle-up obligations. These funds would be allocated to school districts and community colleges to reduce the mandate backlog. (A backlog of roughly $2.3 billion would remain.)

Figure 4

Governor's Multiyear Plan for Paying Education One-Time Obligations

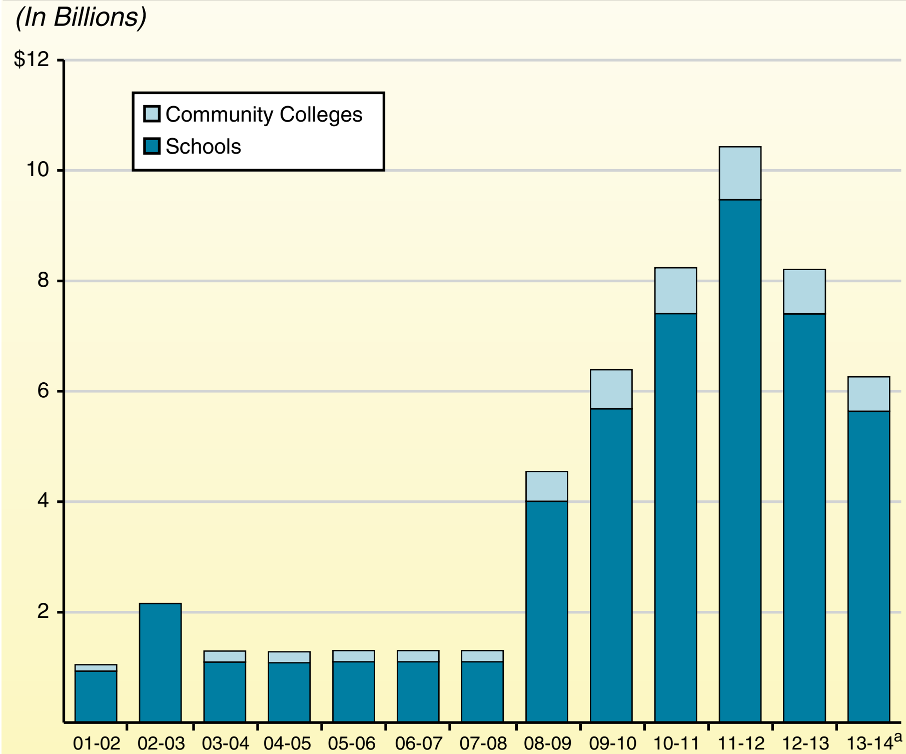
(In Millions)

Obligation	Paid Within Annual Proposition 98 Appropriation?	2013-14	2014-15	2015-16	2016-17	Total Payments Over Period[a]
Payment deferrals	Yes	$1,950	$2,986	$3,137	$132	$8,205
Mandates	No	—	—	—	1,666	1,666
Emergency Repair Program	No	—	—	—	452	452
Quality Education Investment Act	No	—	247	—	—	247
Fiscal-Year Totals		**$1,950**	**$3,233**	**$3,137**	**$2,250**	**$10,570**

[a] By the end of the period, all obligations would be retired, except for mandates, which would have $2.3 billion in still outstanding obligations.

Figure 5

Late Payments to Schools and Colleges Begin to Decline



a Reflects Governor's proposal.

Governor's Balanced Approach Reasonable

Governor's Plan Reasonable. Over the next several years, as state General Fund revenue growth results in additional Proposition 98 resources, the Legislature will want to weigh the trade-offs between building up ongoing base support and retiring outstanding one-time obligations. Although no one right mix of spending exists, we think the Governor's generally balanced approach is reasonable. Using such an approach would allow the state to retire most school and community college obligations by 2016-17—prior to the expiration of Proposition 30's personal income tax increases—while also dedicating a substantial portion of Proposition 98 funding for ongoing programs.

Dedicate Unanticipated Proposition 98 Increases to One-Time Obligations. As we discuss earlier in the report, General Fund revenue estimates could be subject to significant swings over the next several years, largely due to volatility in the earnings of high-income taxpayers. These changes in General Fund revenues can result in significant midyear changes to the Proposition 98 minimum guarantee. Over the next several years, if the state receives unanticipated revenues that increase the minimum guarantee midyear, we recommend the Legislature dedicate these additional resources to accelerating the pay down of its one-time education obligations. This would allow the state to more quickly retire its obligations without affecting the amount of ongoing programmatic funding it provides to school districts and community colleges.

PROPOSITION 98 ADJUSTMENTS FOR PROPERTY TAX SHIFTS

The Governor makes several adjustments to the minimum guarantee to reflect the shift of RDA revenues to school districts and community colleges. Below, we: (1) provide an overview of how

LPT shifts can affect the Proposition 98 minimum guarantee, (2) discuss how the dissolution of RDAs is affecting schools and colleges, (3) describe the Governor's approach to making related Proposition 98 adjustments, and (4) provide short- and long-term recommendations for making these RDA-related adjustments.

Background

Addressing the Effect of LPT Shifts on the Minimum Guarantee. Over the past two decades, the state has made numerous shifts in the allocation of property taxes among cities, counties, special districts, school districts, and community college districts. In some years, these shifts can unintentionally increase or decrease the Proposition 98 minimum guarantee. To ensure that these shifts have no effect on the total amount of funding schools and colleges receive, the state "rebenches" the Proposition 98 minimum guarantee. (The state also has rebenched the minimum guarantee when certain programs have been shifted into or out of Proposition 98. No program rebenchings, however, are proposed for the budget year.)

State Rebenches by Adjusting "Test 1" Factor. The Proposition 98 minimum guarantee is determined by one of three formulas, commonly called tests. Each of these tests is calculated using a somewhat different set of inputs. Test 1 requires the state to provide roughly 40 percent of General Fund revenues to Proposition 98 programs. When Test 1 is operative, schools and colleges effectively receive LPT revenues on top of their General Fund allocation. Thus, when Test 1 is operative, changes to LPT revenues affect total Proposition 98 funding. To ensure that policy-driven property tax shifts do not affect total Proposition 98 funding in these years, the state adjusts the specific percentage of General Fund revenues used in making the Test 1 calculation (this is commonly referred to as "rebenching the Test 1 factor"). Because the rebenching only affects the Test 1 factor, the state's minimum guarantee is not always directly affected by the adjustment. In some cases, for example, Test 2 or Test 3 would be operative even if the Test 1 factor were not adjusted. (The Test 2 and Test 3 calculations are not affected by changes in property taxes, so no rebenching adjustments are needed for these tests.) In other cases, however, Test 1 would be operative with or without the adjustment. In these cases, rebenching has a direct effect on the minimum guarantee.

State Has Rebenched in Various Situations. The state has rebenched the Test 1 factor due to various property tax shifts over the past 20 years. In some instances, the state has rebenched to achieve General Fund savings. For example, in 1993-94, the state required cities, counties, and special districts to permanently shift $2.6 billion in property tax revenues to schools and community colleges. To ensure the shift in revenue provided state savings and did not increase total Proposition 98 funding, the state reduced the Test 1 factor. In other instances, the state has rebenched to avoid possible reductions to Proposition 98 funding. In 2004-05, for example, the state temporarily shifted roughly $1 billion in property tax revenues from schools and colleges to cities and counties as part of a complicated transfer associated with paying off the state's Economic Recovery Bonds. To ensure the shift did not reduce total school and college funding, the state increased the Test 1 factor. Because the shift is temporary (it will likely expire in 2017), the state will rebench again when the transfer ends.

Dissolution of RDAs Shifts LPT Revenues to Schools and Colleges. In recent years, schools and colleges have been affected by LPT shifts related to RDAs. The state authorized local agencies to create RDAs in 1945 to address urban blight in certain "project areas." When an RDA project area was created, most of the growth in property tax revenue from the project area was distributed to the city or county's RDA as "tax increment revenues" instead of being distributed as general purpose revenues to other local agencies serving the area. In 2011-12, RDAs statewide received roughly $5 billion in tax increment revenues. As a result of legislation adopted in 2011, all RDAs statewide were dissolved on February 1, 2012. In most cases, the city or county that created the RDA is managing its dissolution as a successor agency. The successor agencies are required to use tax revenues previously provided to RDAs to continue to pay the former RDA's outstanding financial obligations. After these obligations are paid, the remaining revenues—known as residual RDA revenues—are distributed based on existing property tax allocation laws to cities, counties, special districts, schools, and colleges. Successor agencies also are required to allocate former RDA cash assets to local agencies serving the area. When all RDA debts have been repaid, tax increment revenues no longer will be separated from other property tax revenues and instead be distributed to local agencies using existing property tax allocations. Once all shifts have been completed, schools and community colleges are expected to receive a total of roughly $2.5 billion in additional property tax revenues.

State Rebenches for Redevelopment-Related Revenues in 2011-12 and 2012-13. The minimum guarantee in 2011-12 and 2012-13 was rebenched to account for the shift of property tax revenues to schools and colleges from the dissolution of RDAs. Given both 2011-12 and 2012-13 are Test 1 years, this adjustment is allowing the state to achieve dollar-for-dollar General Fund savings for the transfers of ongoing residual RDA property tax receipts and one-time RDA cash assets. The *2012-13 Budget Act* assumed school districts and community colleges would receive $1.7 billion from residual RDA revenues and $1.5 billion from cash assets in 2011-12 and 2012-13, for total General Fund savings of $3.2 billion.

Redevelopment Revenues Face Significant Uncertainty. For a number of reasons, the amount of revenue shifted to schools and colleges from RDAs in the near term is subject to a substantial amount of uncertainty. Several key steps in the dissolution process have yet to occur, resulting in little reliable information on a large category of former RDA assets. Some RDA successor agencies also have not met anticipated timelines for performing certain procedures or have disputed Department of Finance findings regarding the availability of assets for distribution to schools, colleges, and other local governments. A number of pending lawsuits regarding RDA dissolution also could affect savings. In the long run, as RDA obligations are repaid and more funds are transferred to local agencies, the amount of revenues for schools and community colleges will increase. Due to these uncertainties, however, any estimates of RDA-related revenue for the next several years likely will change significantly as updated information becomes available.

Governor's Proposal

Reduces RDA Savings Estimates by One-Third. The Governor's budget reduces RDA revenue estimates by roughly one-third from the amounts assumed in the *2012-13 Budget Act*. As Figure 6 (see next page) shows, estimates of RDA-related revenues for 2012-13 decreased by $1.1 billion. For 2013-14, estimates of redevelopment-related revenues decreased by $494 million.

Updates One Rebenching but Locks in Another. As part of his budget package, the Governor updates the 2011-12 and 2012-13 rebenching adjustments to reflect the revised estimates of one-time RDA cash assets and ongoing residual RDA revenues. For 2013-14, the Governor also updates his RDA cash asset rebenching to reflect new revenue estimates but does not update the rebenching for ongoing residual RDA revenues, effectively locking in the rebenching adjustment at the 2012-13 level, regardless of actual RDA revenues transferred moving forward.

Concerns With Permanent Rebenching

RDA Estimates Too Uncertain to Make Rebenching Permanent. Given the uncertainty regarding redevelopment receipts over the next several years, the Governor's proposal to lock in the associated rebenching adjustment is premature. Over the next several years, schools and colleges are expected to receive substantially more property tax revenues as RDA debts are repaid. If the state locks in its rebenching adjustment at 2012-13 levels, the Test 1 calculation would not be properly adjusted to ensure that RDA revenues have no fiscal effect on schools and colleges. This approach also would result in higher state costs in future years.

Recommend Different Approach

Recommend Annually Updating Rebenching Adjustment in Near Term. Given the uncertainty of redevelopment revenues, we recommend the Legislature update its rebenching, as needed, to account for the increase in revenues transferred to schools. This approach would ensure Proposition 98 funding reflects more accurately the sizeable shift of LPT receipts to schools that is expected to occur over the next several years. It also would generate an associated reduction in state General Fund costs.

Adopt Different Long-Term Solution. To rebench accurately for RDA dissolution, the state must calculate the resulting increase in property tax revenues for schools and colleges. In the initial years after RDA dissolution, the state easily can calculate this effect based on the amount of residual RDA revenues annually transferred to schools and community colleges by the county auditor, as county auditors are required to keep separate accounting of tax revenues formerly transferred to RDAs. In future years, however, when RDA debts are fully repaid, schools and community colleges will not receive these funds as residual RDA revenues. Instead, they will receive these revenues along with all other property tax receipts, making it virtually impossible for the state to calculate the net benefits of RDA dissolution. To avoid these issues, we recommend the Legislature adopt a different long-term rebenching approach. One

Figure 6

Lower Estimates of Redevelopment-Related Transfers to Schools and Colleges

(In Millions)

	2012-13 Budget Act	*2013-14 Governor's Budget*	Difference
2011-12			
Ongoing residual	$113	$147	$34
Cash assets	—	—	—
Totals	**$113**	**$147**	**$34**
2012-13			
Ongoing residual	$1,676	$784	-$893
Cash assets	1,479	1,302	-177
Totals	**$3,155**	**$2,086**	**-$1,070**
2013-14			
Ongoing residual	$1,011	$559	-$452
Cash assets	600	558	-42
Totals	**$1,611**	**$1,117**	**-$494**
Totals Through 2013-14			
Ongoing residual	$2,800	$1,490	-$1,310
Cash assets	2,079	1,860	-219
Totals	**$4,879**	**$3,350**	**-$1,529**

possible approach would lock in the rebenching adjustment when RDA revenues have stabilized (likely within the next decade). Alternatively, the state could create a multiyear rebenching schedule to adjust the Test 1 factor. The schedule would gradually adjust the Test 1 factor to reflect assumptions about the increase in property tax revenues transferred to schools and colleges as RDA obligations are repaid.

PROPOSITION 39 ENERGY PROJECTS

Passed by the voters in November 2012, Proposition 39 increases state corporate tax (CT) revenues and requires for a five-year period, starting in 2013-14, that a portion of these revenues be used to improve energy efficiency and expand the use of alternative energy in public buildings. The Governor's 2013-14 budget counts all Proposition 39 revenues toward the Proposition 98 minimum guarantee and allocates all associated energy-related funding to school and community college districts. Below, we (1) provide an overview of Proposition 39 and its requirements, (2) describe the Governor's proposed treatment of Proposition 39 revenues and the proposed allocation of such revenues, (3) raise many serious concerns with the Governor's approach, and (4) offer an alternative approach.

Background

Proposition 39 Raises Additional State Revenues and Designates Half for Energy Projects. Proposition 39 requires most multistate businesses to determine their California taxable income using a single sales factor method. (Previously, state law allowed such businesses to pick one of two different methods to determine the amount of taxable income associated with California and taxable by the state.) This change has the effect of increasing state CT revenue. For a five-year period (2013-14 through 2017-18), the proposition requires that half of the annual revenue raised from the measure—up to $550 million—be transferred to a new Clean Energy Job Creation Fund to support projects intended to improve energy efficiency and expand the use of alternative energy. Specifically, the measure requires that such funds maximize energy and job benefits by supporting (1) eligible projects at public schools, colleges, universities, and other public buildings and (2) public-private partnerships and workforce training related to energy efficiency and alternative energy. Proposition 39 also requires that funded programs be coordinated with CEC and the California Public Utilities Commission (CPUC) to avoid duplication and leverage existing energy efficiency and alternative energy efforts. In addition, the proposition states that the funding be appropriated only to agencies with established expertise in managing energy projects and programs.

Proposition 39 Revenues Can Increase Proposition 98 Minimum Guarantee. Because the Proposition 98 minimum guarantee can grow with increases in state General Fund revenues (including those collected from state corporate income taxes), the revenues generated by Proposition 39 can increase the state's Proposition 98 funding requirements.

Existing State Energy Efficiency and Alternative Energy Programs. Currently, California maintains over a dozen major programs (such as Bright Schools and the Energy Conservation Program) that are intended to support the development of energy efficiency and alternative energy in the state. (For a more detailed description of these programs, please see our recent report, *Energy Efficiency and Alternative Energy Programs.*) Over the past 10 to 15 years, the state has spent a combined total of roughly $15 billion on such efforts. The various energy programs are administered by multiple state departments, including CEC and CPUC, as well as the state's investor-owned utilities (IOUs). Funding from these programs have been allocated to various entities, including many schools and community college districts. In determining which specific projects to fund, the CEC and the IOUs provide energy audits to evaluate what types of upgrades would result in the most cost-effective energy savings. These programs also provide financing options for these upgrades.

Governor's Proposal

Counts All Proposition 39 Revenue in Proposition 98 Calculation. The administration projects that Proposition 39 will increase state revenue by $440 million in 2012-13 and $900 million in 2013-14. The Governor's budget plan includes all revenue raised by Proposition 39 in the Proposition 98 calculation, which has the effect of increasing the minimum guarantee by $426 million in 2012-13 and an additional $94 million (for a total increase of $520 million) in 2013-14. In both 2012-13 and 2013-14, the Governor proposes to fund Proposition 98 at his estimate of the minimum guarantee.

Designates All $450 Million for School and Community College Energy Projects. The Governor proposes to allocate all Proposition 39 energy-related funding over the next five years exclusively to school and community college districts ($450 million in 2013-14 and an estimated $550 million annually for the next four years). For 2013-14, the Governor's budget proposes to provide school districts with $400.5 million and community college districts with $49.5 million. The Governor proposes to classify this spending as Proposition 98 expenditures that count toward meeting the minimum guarantee. The administration proposes to appropriate the funding for school districts to the California Department of Education (CDE) and the funding for community colleges to the CCC Chancellor's Office. The budget also proposes to provide CDE with one permanent position ($109,000) to help implement and oversee the Proposition 39 program. The Governor proposes no additional positions for the CCC Chancellor's Office for the administration of Proposition 39.

Allocates Funds on Per-Student Basis. The administration's proposal would require that CDE and the Chancellor's Office allocate funding to districts on a per-student basis. In 2013-14, school districts and community college districts would receive $67 and $45 per student, respectively. The CDE and Chancellor's Office would issue guidelines for prioritizing the use of the funds. The administration notes that CDE and the Chancellor's Office could consult with CEC and CPUC in developing these guidelines. Upon project completion, school districts and community college districts would report their project expenditure information to CDE and the Chancellor's Office, respectively.

Serious Concerns With Governor's Proposal

We have many serious concerns with the Governor's Proposition 39 proposal. Figure 7 summarizes these concerns, which we discuss in more detail below.

Varies Significantly From Our Longstanding View of Proposition 98. As described above, the Governor counts all Proposition 39 revenue, including the revenue required to be spent on energy-related projects, toward the Proposition 98 calculation. This is a serious departure from our longstanding view, which we developed over many years with guidance from Legislative Counsel, of how revenues are to be treated for the purposes of Proposition 98. It also is directly contrary to what the voters were told in the official voter guide as to how the revenues would be treated. Based on our view, revenues are to be excluded from the Proposition 98 calculation if the Legislature cannot use them for general purposes—typically due to restrictions created by a voter-approved initiative or constitutional amendment. The voter guide reflected this longstanding interpretation by indicating that funds required to be used for energy-related projects would be excluded from the Proposition 98 calculation. Had the Governor used the approach described in the voter guide, the minimum guarantee would be roughly $260 million lower in 2013-14 than the amount specified in his budget proposal. (This approach would have no effect on the calculation of the 2012-13 minimum guarantee.)

Could Lead to Greater Manipulation of the Minimum Guarantee. The Governor's approach assumes that all tax revenues deposited directly into the General Fund must be included in the Proposition 98 calculation, whereas any tax revenues deposited directly into a special fund must be excluded from the calculation. This approach easily could result in greater manipulation of the Proposition 98 minimum guarantee. The state could, for example, require that all sales tax revenues be deposited directly into a special fund rather than the General Fund, thereby excluding the revenues from the Proposition 98 calculation. These types of accounting shifts could undermine the meaningfulness of the guarantee and render it effectively useless in setting a minimum funding requirement for schools and community colleges. By focusing on allowable uses of funds, not whether the funds were deposited into this or that account, our view would prevent such manipulation. Under our view, revenues are excluded from the Proposition 98 calculation only if they are clearly removed from the Legislature's control (typically by constitutional or voter-approved action).

Excludes Many Eligible Projects. By dedicating all of the Proposition 39 energy-related funding over the five-year period to school and community college districts, the Governor's approach excludes consideration of other eligible projects that potentially could achieve a greater level of energy benefits. For example, large public hospitals that operate 24 hours a day, 7 days a week generally have a relatively large energy load. In contrast, schools typically are open for only part of the day and generally either closed or partially closed in the summer months.

Fails to Account for Energy Consumption Differences. A building's energy consumption is largely affected by the climate in which it is located. For example, facilities located in cold

Figure 7

LAO Concerns With Governor's Proposition 39 Proposal

✓ **Questionable Treatment of Proposition 39 Revenues**
- Varies from our longstanding view of Proposition 98.
- Could lead to greater manipulation of the minimum guarantee.

✓ **Governor's Proposed Allocation Method Limits Benefits**
- Excludes many eligible projects.
- Fails to account for energy consumption differences.
- Allocates funding inefficiently.
- May not guarantee return on investment.
- Does not account for significant past investments in K-14 facilities.
- Fails to sufficiently leverage existing programs and experience.

climates will use more energy for heating, while facilities located in temperate climates generally use less energy for heating and cooling. These climate differences significantly impact what types of energy efficiency retrofits and upgrades will be most effective at reducing a particular facility's energy consumption. All other factors being equal, conducting an energy efficiency upgrade on a facility that requires relatively more energy (versus a facility that uses less energy) will result in greater energy benefits. In addition, the size, design, and age of a facility affects its energy consumption. By providing funding to every school district and community college district on a per-student basis, the Governor's proposal ignores these important factors and effectively limits the potential energy benefits that otherwise could be achieved with the Proposition 39 funding.

Allocates Funding Inefficiently. By distributing funding to districts on an annual, per-student basis, the Governor's approach also likely would result in some school districts lacking enough funding to implement major energy-efficiency improvements in the first year of the program. For example, under the proposal, a small school district having 100 students would receive $6,700 in Proposition 39 funds in 2013-14. Such a small sum is unlikely to be sufficient to undertake comprehensive improvements for a facility. Given that the state has many small school districts (about 10 percent of districts have fewer than 100 students), this problem would be notable. To mitigate this concern, the Governor indicates that districts could carry over funding throughout the program's five-year life to increase the total resources available for a project. This approach, however, would result in funds potentially remaining idle for several years instead of being used in a way that would immediately begin to achieve benefits.

May Not Guarantee Return on Investment. Proposition 39 requires that the total benefits of each project be greater than total costs over time. For energy efficiency projects, it can take several years before enough energy savings accumulate to offset the upfront investment. For example, replacing an outdated heating and cooling system with an energy-efficient model would likely require a significant upfront investment and take several years for the project's savings to outweigh this investment. Under the Governor's proposal, it is unclear what requirements would be put in place to ensure that facilities upgraded with Proposition 39 funds remain in use long enough for the benefits to outweigh the costs. This is a particular concern for the nearly half of school districts with declining enrollment. Given the corresponding reductions in need for space, these districts might close or sell facilities that had been improved with Proposition 39 funds prior to a project's benefits outweighing its costs.

Does Not Account for Significant Past Investments in K-14 Facilities. Since 2002, voters have approved about $29 billion in state bonds and about $71 billion in local bonds for school facilities. Nearly all of the state bonds (and likely most of the local bonds) relate to new construction and modernization, with about $100 million of the state bonds specifically dedicated to green schools. During the same time, voters have approved about $3 billion in state bonds and about $24 billion in local bonds for facility improvements at the state's community colleges. In addition, many schools and community colleges have received funding from the energy efficiency programs administered by CEC and the state's IOUs. As a result of the decade-long $127 billion investment in K-14 facilities, as well as these other energy-specific programs, many school and community college buildings throughout the state have been newly built or modernized. As the state's building codes incorporate a large number of energy efficiency provisions, many of these facilities are already very energy efficient. The Governor's proposal, however, does not take into account the above state and local investments in energy-efficient facilities when allocating the Proposition 39 funds.

Fails to Sufficiently Leverage Existing Programs and Experience. The Governor's proposal also does not take advantage of the state's existing knowledge and administrative infrastructure regarding energy efficiency. For example, many of the state's energy efficiency programs include some evaluation of a facility's energy usage (such as from the energy audits that are provided through CEC and the IOUs) to ensure that the most cost-effective energy projects are funded. In addition, because the proposed budget would appropriate the funding to CDE and the Chancellor's Office, the Governor's proposal might not meet Proposition 39's requirement that monies from the Clean Energy Job Creation Fund be appropriated only to agencies with established expertise in managing energy projects and programs. As a result of not coordinating Proposition 39 funding with the state's other energy efficiency activities and not appropriating the funding to agencies with established expertise, the Governor's approach makes comparing effectiveness across programs and evaluating the relative benefits of projects from a statewide basis difficult. (As we discussed in our recent report on energy programs, we believe a comprehensive strategy is needed for the state to meet its energy efficiency and alternative energy objectives.)

LAO Alternative

In view of the above concerns, we recommend an alternative treatment of Proposition 39 revenues for purposes of calculating the Proposition 98 minimum guarantee. In addition, we outline a specific set of recommendations that would help maximize the potential benefits of this new funding.

Exclude Energy-Related Funding From Proposition 98 Minimum Guarantee. Consistent with our view of how revenues are to be treated for the purposes of calculating the minimum guarantee, we recommend the Legislature exclude from the Proposition 98 calculation all Proposition 39 revenues required to be used on energy-related projects. Based on the administration's revenue estimates, this approach would reduce the minimum guarantee by roughly $260 million. In addition, we recommend the Legislature reclassify the $450 million to be spent on energy-related projects as a non-Proposition 98 expenditure (though the state still could choose to spend these monies on schools and community colleges).

Alternative Increases Proposition 98 Operational Support by $190 Million. As Figure 8 (see next page) shows, adopting our recommended approach would result in $190 million in additional operational Proposition 98 support for schools and community colleges. This amount is the net effect of two factors. On the one hand, by excluding some Proposition 39 revenue from the Proposition 98 calculation, the minimum guarantee falls by $260 million in 2013-14. On the other hand, by not using Proposition 98 funding for school energy projects, spending falls by $450 million relative to the Governor's budget plan. Thus, maintaining spending at the revised minimum guarantee would result in an additional $190 million in operational funding. Under this approach, the $450 million still needs to be used for energy-related projects, and it could be used for schools and community colleges to the extent the basic provisions of Proposition 39 are met. From the state's perspective, this approach increases total state costs by $190 million and, thus, could result in reduced spending on non-Proposition 98 General Fund programs.

Process for Allocating Funding Should Maximize Benefits. In order to ensure that the state meets the requirements of Proposition 39 and maximizes energy and job benefits, we recommend the Legislature adopt a different approach than that proposed by the Governor. Specifically, we recommend that it:

- ***Designate CEC as Lead Agency for Proposition 39 Energy Funds.*** We recommend the Legislature designate the CEC (whose primary responsibility is energy planning) as the lead agency for administering—in consultation with the CPUC and other experienced entities—the energy funds authorized in Proposition 39. This would help ensure that the relative benefits of each project can be considered from a statewide perspective.

- ***Use Competitive Grant Process Open to All Public Agencies.*** We also recommend the Legislature direct CEC to develop and implement a competitive grant process in which *all* public agencies could apply for Proposition 39 funding on a project-by-project basis. In order to ensure that the state maximizes energy benefits, this competitive process should consider and weigh all factors that affect energy consumption. The CEC could create a tiered system that categorizes facilities based on a high-, medium-, and low-energy intensity or need. Based on that categorization, funding should be provided to facilities with the greatest relative need in coordination with other existing energy programs.

- ***Require Applicants to Provide Certain Energy-Related Information.*** To qualify for grant funding and assist CEC in evaluating potential projects, we recommend that applicants first have an energy audit to identify the cost-effective energy efficiency upgrades that could be made, similar to the types of audits currently provided through CEC and the IOUs. As part of the application, facilities also should provide information regarding the climate zone, size, design, and age of a building.

We recognize that the Legislature may be interested in allocating all or a portion of the Proposition 39 energy funding to support energy projects at schools and community colleges. To the extent the Legislature chooses to prioritize such

Figure 8

Fiscal Effects of LAO Approach

(In Millions)

	Governor	LAO	Difference
Proposition 98 Funding:			
Operational funding for schools and community colleges	$55,750	$55,940	$190
Energy project funding, only schools and community colleges	450	—	-450
Subtotals, Proposition 98	($56,200)	($55,940)	(-$260)
Non-Proposition 98 Funding:			
Energy project funding, all allowable projects including schools and community colleges	—	$450	$450
Total Spending	**$56,200**	**$56,390**	**$190**

projects, we believe that our recommended process would be a more effective approach in meeting the goals of Proposition 39 than allocating funds to school and community college districts on a per-student basis as proposed by the Governor.

EDUCATION MANDATES

The Governor's budget includes several proposals involving education mandates. Most notably, the Governor proposes to add two large mandates and $100 million to the mandates block grant for schools. In addition, he proposes to modify the state requirements for a special education mandate to align them more closely with federal requirements. The Governor's budget also newly suspends six education mandates and includes funding for a new mandate related to pupil suspensions and expulsions. Below, we (1) provide some background on education mandates, (2) describe and asses the Governor's mandate proposals, and (3) make various related recommendations.

Mandate Reimbursement System Has Serious Flaws

Five Major Problems With Mandate Reimbursements. In 1979, voters passed Proposition 4, which added a requirement to the California Constitution that local governments—including school and community college districts—be reimbursed for new programs or higher levels of service the state imposes on them. Afterwards, the state created an elaborate legal and administrative process for determining whether new requirements constitute mandates and reimbursing associated mandate claims. Over the years, our office has identified numerous problems with this system. Specifically, we have found that (1) many mandates do not serve a compelling purpose, (2) mandated costs are often higher than expected, (3) reimbursement rates vary greatly by district, (4) the reimbursement process rewards inefficiency, and (5) the reimbursement process ignores program effectiveness.

Block Grant Alternative Created Last Year

Block Grant Intended to Address Some of the Problems With Reimbursement System. To address some of the problems identified above, the Legislature and Governor created a block grant as an alternative method of reimbursing school and community college districts. Instead of submitting detailed claims listing how much time and money was spent on mandated activities, districts now can choose to receive funding through the block grant. As listed in Figure 9 (see next page), the state included 43 mandates (and $167 million) in the block grant for schools and 17 mandates (and $33 million) for community colleges. Block grant funding is allocated to participating local educational agencies (LEAs) on a per-student basis that varies by type of LEA, as different mandates apply to each type. Charter schools receive $14 per student, while school and community college districts receive $28 per student. The COEs receive $28 for each student they serve directly, plus an additional $1 for each student within the county. (The $1 add-on for COEs is intended to cover mandated costs largely associated with oversight activities, such as reviewing district budgets.) Due to concerns regarding the state's constitutional obligation to reimburse districts for mandated costs, the state also retained the existing mandates claiming process for districts not opting into the block grant.

Block Grant Participation Relatively High in First Year of Program. As shown in Figure 10, most school districts and COEs and virtually all charter schools and community college districts opted to participate in the block grant. These LEAs represent 86 percent of K-12 students and 96 percent of community college students. Charter schools likely opted in at such high rates because they have been deemed ineligible for mandate reimbursements through the claims process. The lower participation rate for school districts and COEs could be due to various reasons. Some might have continued claiming for reimbursements because they calculated that they could receive more money that way (because of very high claiming costs compared to others due to differences in salaries

Figure 9

Mandates Included in Block Grants

2012-13

Schools Block Grant

Absentee Ballots	Juvenile Court Notices II
Academic Performance Index	Law Enforcement Agency Notification[c]
Agency Fee Arrangements	Mandate Reimbursement Process I and II
AIDS Prevention/Instruction	Notification of Truancy
Annual Parent Notification[a]	Open Meetings/Brown Act Reform
CalSTRS Service Credit	Physical Performance Tests
Caregiver Affidavits	Prevailing Wage Rate
Charter Schools I, II, and III	Pupil Expulsion Appeals
Child Abuse and Neglect Reporting	Pupil Expulsions
COE Fiscal Accountability Reporting	Pupil Health Screenings
Collective Bargaining	Pupil Promotion and Retention
Comprehensive School Safety Plans	Pupil Safety Notices
Criminal Background Checks I and II	Pupil Suspensions
Differential Pay and Reemployment	School Accountability Report Cards
Expulsion of Pupil: Transcript Cost for Appeals	School District Fiscal Accountability Reporting
Financial and Compliance Audits	School District Reorganization
Habitual Truants	Student Records
High School Exit Examination	Teacher Notification: Pupil Suspensions/Expulsions[d]
Immunization Records[b]	The Stull Act
Interdistrict Attendance Permits	Threats Against Peace Officers
Intradistrict Attendance	

Community Colleges Block Grant

Absentee Ballots	Mandate Reimbursement Process I and II
Agency Fee Arrangements	Minimum Conditions for State Aid
Cal Grants	Open Meetings/Brown Act Reform
CalSTRS Service Credit	Prevailing Wage Rate
Collective Bargaining	Reporting Improper Governmental Activities
Community College Construction	Sex Offenders: Disclosure by Law Enforcement
Discrimination Complaint Procedures	Threats Against Peace Officers
Enrollment Fee Collection and Waivers	Tuition Fee Waivers
Health Fee Elimination	

a Includes Schoolsite Discipline Rules and Alternative Schools.
b Includes Immunization Records—Hepatitis B.
c Includes Missing Children Reports.
d Includes Pupil Discipline Records.
CalSTRS = California State Teachers' Retirement System; and COE = county office of education.

and staffing). Other districts and COEs might not have participated due to transitional issues, such as terminating contracts with companies that had been providing reimbursement services for them.

Block Grant Left Some Issues Unanswered. Moving forward, the state left unanswered how to include new mandates in the block grant. Specifically, the state did not address at what point in the mandate determination process a new mandate would be included in the block grant. The state also did not address how much funding to provide for new mandates. (Though the block grant in 2012-13 provided levels of funding that were roughly similar to how much schools and community colleges had been claiming for the included mandates, the amounts were not directly tied to claims costs.) Additionally, the state did not address whether adjustments would be made to the block grant in the future to account for any changes in costs (such as for inflation).

Graduation Requirements Mandate Not Included in Block Grant

Science Courses Required to Graduate From High School. In 1983, the state added greater specificity to high school graduation requirements, including a provision requiring two years of science (as well as three years of English, three years of social science, two years of mathematics, two years of physical education, and one year of visual or performing arts or foreign language). Though none of the other 12 high school graduation requirements became state reimbursable mandates, the Commission on State Mandates (CSM)—the quasi-judicial body that makes mandate determinations—determined the *second* year of science to be a mandate. Specifically, CSM found that district costs could increase to (1) remodel or acquire new space for additional science courses, and (2) staff and supply equipment for them. At the same time, CSM found that offsetting savings could result from reductions in non-science courses and any other funds districts receive to pay for the mandate could be applied as offsets. Based on a sample of districts, CSM estimated costs for the mandate would be a few million dollars annually.

Several Lawsuits Over Graduation Requirements Mandate. After districts began claiming reimbursements, the state became involved in several lawsuits over many years regarding the mandate. In one case, the courts limited the state's ability to apply offsetting savings from reductions in non-science courses by essentially requiring the state to find direct evidence that the additional science course led to a reduction in other courses. Two additional lawsuits still remain unresolved. In the first case, the state is suing CSM over the specific reimbursement methodology it adopted to calculate the costs of the mandate. The state believes the methodology adopted by CSM does not meet statutory requirements. The methodology also significantly increases state costs—both prospectively and retrospectively. In the second case, school districts

Figure 10

Most Local Educational Agencies (LEAs) Opted Into Mandates Block Grants

2012-13

	Number in Block Grant	Total	Percent in Block Grant	Corresponding ADA[a]
Community colleges	67	72	93%	96%
Charter schools	877	946	93	91
School districts	634	943	67	86
County offices	35	58	60	87

[a] Reflects average daily attendance (ADA) for K-12 LEAs. For community colleges, reflects full-time equivalent students.

are suing the state regarding whether revenue limits are an allowable offset for covering science teacher salary costs. The Legislature amended state law to require this offset a few years ago. (School districts recently amended this second lawsuit to include a charge that the schools mandate block grant itself was illegal. Given the amendment, the suit essentially restarts a process that can take several years to complete.)

Significant Uncertainty Over Reimbursable Costs of Graduation Requirements Mandate. Currently, districts are claiming $265 million annually for the Graduation Requirements mandate (more than what they claim for all other mandates combined). These costs, however, are based on the reimbursement methodology that the state believes to be flawed. The costs also have not been offset with revenue limits as required under state law. (The CSM has not yet included the revenue limits offset in its reimbursement guidelines due to the pending litigation.) If the state succeeds in having the reimbursement methodology changed and the revenue limits offset applied, reimbursable claims would be significantly less than what districts are now claiming. Due to this uncertainty, the state neither included the mandate in the block grant last year nor provided any funding for reimbursement claims.

Special Education Mandate Also Not Included in Block Grant

Mandate Requires Planning and Other Activities for Certain SWDs. In 1990, the Legislature enacted a statute directing the Superintendent of Public Instruction and the State Board of Education (SBE) to implement regulations for how districts should respond when a student with a disability exhibits behavioral problems. The SBE subsequently adopted regulations requiring (1) a "functional analysis assessment" of the student's behavior, (2) the development of a positive BIP, (3) the development of emergency intervention procedures, and (4) a few other related activities. The regulations also prohibited certain types of interventions (such as seclusion and restraints). After these regulations were issued, CSM found these activities to be a reimbursable mandate.

Also Significant Uncertainty Over Costs for BIP Mandate. The BIP mandate was not included in the block grant last year nor was any money provided for reimbursement claims since districts are not yet filing for reimbursement. Though the mandate dates back over two decades, various legal challenges and settlement negotiations delayed CSM's adoption of reimbursement guidelines until just last month. At this time, it is still unclear how much districts will claim for the mandate. Based on the reimbursement guidelines adopted by CSM, statewide claims could total $65 million annually. The reimbursement guidelines require that these claims be offset, however, by special education funding specifically designated in state law for the BIP mandate. Enough special education funding is available to offset virtually all claims. Uncertainty regarding the offset exists, however, because the state is currently being sued in court over it as part of the same lawsuit regarding the offset for the Graduation Requirements mandate.

Governor's Mandate Proposals

Adds Two Mandates and $100 Million to Block Grant. The Governor proposes to include both the second science course and BIP mandates in the block grant for schools. He further proposes to increase the block grant by a total of $100 million to account for the addition of the two mandates. Given the Governor has a separate proposal that would reduce BIP costs significantly (as discussed below), it appears that most of this $100 million augmentation would relate to the second science course mandate. The increase to the block grant would result in a corresponding increase in the per-student rate for school districts and COEs from $28 to $47 and for charter schools from $14 to $23.

Modifies Requirements for BIP. The Governor also proposes to modify several of the state's BIP requirements to make them less prescriptive. For example, districts no longer would be required to use specific assessments and specific behavioral interventions. This would make state BIP requirements conform with current federal BIP requirements, thereby eliminating associated state reimbursable mandate costs. The Governor's proposal, however, retains a few state requirements in excess of federal requirements. For example, state requirements would continue to prohibit certain types of interventions as well as prescribe certain activities related to emergency interventions. As a result of these changes, the Governor estimates BIP mandate costs would drop to $7 million annually.

Suspends Six Additional Mandates. The Governor's budget continues to suspend the same education mandates in 2013-14 that were suspended in 2012-13. He further proposes to suspend six additional education mandates to conform with the approach taken on these mandates for local governments. Figure 11 provides a description of these mandates, their current status, and the Governor's proposed changes for 2013-14.

Includes Funding for Claims for New Pupil Suspension/Expulsion Mandate. Lastly, the Governor's budget provides funding for a new mandate related to pupil suspensions and expulsions. (The Governor does not identify any changes to the block grant related to the mandate.)

Figure 11

Governor Proposes to Suspend Six Mandates That Apply to Local Educational Agencies (LEAs)

	Included in Block Grant?		Suspended for Local Governments?	
Mandate	2012-13 Budget	Governor's Proposal	2012-13 Budget	Governor's Proposal
Absentee Ballots. Requires that absentee ballots be provided to any eligible voter upon request.	Yes	No	Yes	Yes
Brendon Maguire Act. Requires a special election (or the reopening of nomination filings) when a candidate for office dies within a specified time prior to an election.	No[a]	No	Yes	Yes
California Public Records Act. Requires the disclosure of agency records to the public upon request. Also requires agencies to assist the public with their requests.	No[b]	No	No	Yes
Mandate Reimbursement Process I and II: Requires reimbursement for the costs of (1) filing initial mandate test claims, if found to be a mandate, and (2) filing annual mandate reimbursement claims.	Yes	No	Yes	Yes
Open Meetings/Brown Act Reform. Requires local governing boards to post meeting agendas and perform other activities related to board meetings.	Yes	No	Yes	Yes
Sex Offenders: Disclosure by Law Enforcement Officers. Requires law enforcement to obtain, maintain, and verify certain specific information about sex offenders.	Yes	No	Yes	Yes

[a] Excluded because no claims have ever been filed by LEAs.
[b] Excluded because it had not yet finished the mandate determination process.

This mandate relates to an existing mandate requiring districts to suspend or expel students for committing certain offenses. The reimbursable costs are largely attributable to expulsion and suspension hearings, including appeals. The new mandate pertains largely to offenses not included within the purview of the original mandate. For example, the new mandate includes the requirement that a school board expel a student who brandishes a knife at another person.

Assessment of Governor's Proposals

Block Grant Increase Could Be Significantly More or Less Than Claims for Science Course and BIP Mandates. Given the uncertainty regarding the costs of the Graduation Requirements and BIP mandates, it is difficult to assess whether $100 million is an appropriate amount to add to the block grant. On the one hand, if the state were to lose all the various lawsuits involving these mandates, then the claims for the two mandates combined could be over $300 million annually. On the other hand, if the state were to prevail in court, then claims for the two mandates likely would be almost entirely offset with Proposition 98 funding. From a state perspective, this means that the block grant augmentation potentially is too large and the state might be "overpaying." From a district perspective, this means that the block grant augmentation potentially is too small. In that case, some districts might view this as a disincentive to participate in the block grant.

Graduation Requirements Mandate Also Raises Serious Distributional Concerns. Because the mandates block grant is distributed on a uniform per-student basis, districts that serve different grade spans receive the same rate. For example, an elementary district receives the same $28 per-student rate as a high school district. The Graduation Requirements mandate raises serious distributional concerns since the mandate is so costly and applies only to high schools. We estimate about $63 million of the proposed increase for the mandate would be distributed to districts for students not in high school. In effect, many districts would receive a substantial amount for a mandate that does not apply to them. These distributional issues would alter the incentives districts have to participate in the block grant (either on a continuing basis or for the first time).

Current Law Approach to Offset Costs Reasonable. While we understand the Governor's desire to address the two mandate's costs, we think the existing offset language for both mandates already provides a reasonable approach. Notably, the state has been successful in the past using offsets for several other education and local government mandates. Moreover, in the case of BIP, CSM has already included the offset in its guidelines for reimbursements. Though CSM has not yet included the offset for Graduation Requirements, we believe a compelling case can be made to consider revenue limits an offset for this mandate for the following reasons.

- ***The State Did Not Require Districts to Lengthen School Day.*** When the state added specificity to high school graduation requirements in 1983, the Legislature did not believe costs would increase notably, as no change had been made to the length of the school day. Furthermore, virtually all local teacher contracts do not pay science teachers higher salaries than other teachers, such that a district could not reasonably make a claim that the second science course resulted in higher compensation costs. Though the state's ability to automatically apply offsetting savings by assuming reductions in non-science courses has been limited by the courts, the courts noted that offsetting savings could exist.

- ***Revenue Limits Pay for Teacher Salaries and Other Graduation Requirements.*** Revenue limit funding is the state program most closely aligned with paying teacher compensation, with revenue limit funding covering the vast majority of teacher compensation costs. In addition, the state effectively uses revenue limit funding to cover all the other high school graduation requirements that it established at the same time as the second science course requirement. This funding is available for districts to cover costs for the second science course.

Aligning State and Federal BIP Requirements Would Increase Flexibility and Reduce Costs. The Governor's proposal to better align state and federal BIP requirements has several positive features. First, the proposal recognizes that since the state enacted its BIP requirements over 20 years ago, many changes have been made to federal law that strengthen protections for all SWDs. As a result, the requirements in state law provide relatively few additional benefits. Moreover, state law is more prescriptive in terms of the types of assessments and BIPs that districts must develop, whereas federal law allows for a broader spectrum of options. At the same time, the Governor's proposal retains a few key state requirements that offer stronger protections than federal law, such as the prohibition on using emergency interventions that involve physical discomfort. Finally, the Governor's proposal has the advantage that it would significantly reduce the associated mandate costs.

Some Education Mandates Proposed for Suspension Similar to Local Government Mandate . . . Among the six mandates the Governor proposes to suspend, four (Brendon Maguire Act, Absentee Ballots, California Public Records Act, and Sex Offenders: Disclosure by Law Enforcement Officers) relate closely to the equivalent local government mandates. To the extent applicable, the state generally applies the same policy across local government agencies; otherwise, the state could adopt conflicting policies across different sectors of government. Absent a clear rationale for treating agencies differently, similar treatment ensures consistency in policy.

. . . But Others Have Education-Specific Considerations. The remaining two mandates have certain aspects unique to schools and community colleges. For the Mandate Reimbursement Process mandate, schools and community colleges have the option to participate in the block grant instead of filing claims for reimbursement. Therefore, suspending this mandate for LEAs would provide an even greater incentive for them to participate in the block grant instead of filing claims. For the Open Meetings/Brown Act Reform mandate, Proposition 30 (passed by the voters at the November 2012 election) eliminated the state's obligation to pay for this mandate but did not eliminate the requirement that local agencies perform the activities. This has different implications for LEAs compared to other local governments. This is because the state is not required to suspend a mandate for LEAs in order to avoid paying down prior-year claims, as it is required to do for local governments.

Several Considerations Regarding Pupil Suspensions/Expulsions Mandate. The CSM estimates that this mandate will cost a little over $1 million annually. On the one hand, it seems likely that districts would perform the mandated activities even if they were not required to do so under state law. For example, a student brandishing a knife at others would most likely be expelled by a school board. On the other hand, the mandate relates to pupil safety, which we believe generally provides a strong justification for retaining a state-mandated activity. Moreover, the mandate is closely related to an existing mandate that has been active for many years and was included in the block grant last year.

Recommendations

Reject Adding Graduation Requirements and BIP to the Block Grant. While we appreciate the Governor's attempt to try to address the costs of these two mandates, we recommend the Legislature reject his proposal to include them in the block grant since (1) considerable uncertainty remains regarding whether their cost will be much higher or much lower than the proposed $100 million augmentation, and (2) funding for the second science course mandate largely would be associated with non-high school students, to whom the mandate does not apply.

Consider Strengthening Offset for Graduation Requirements Mandate. Though we think the existing statutory provision offsetting the costs of the science mandate is appropriate for the reasons discussed earlier, the state could strengthen the language going forward. Specifically, the state could designate that first call on the future increases in per-student funding for high school students that would occur under the Governor's proposed K-12 funding formula is for the science mandate.

Adopt Proposed Statutory Changes for BIP. We recommend the Legislature adopt the Governor's proposal to align state BIP requirements more closely with federal requirements. This approach would provide districts with additional flexibility in addressing behavioral problems while at the same time maintain certain stronger student protections not included in federal law. Moreover, though state costs for the BIP mandate are subject to considerable uncertainty due to ongoing litigation, the proposal would reduce state costs for the mandate in the event the state loses in court.

Take Mixed Approach on Proposed Mandate Suspensions. Given their similarity to corresponding local government mandates, we recommend conforming to the actions taken for local governments for the Absentee Ballots, Brendon Maguire Act, California Public Records Act mandates, and Sex Offenders: Disclosure by Law Enforcement Officers. We recommend suspending the Mandate Reimbursement Process since it would provide an additional incentive for LEAs to participate in the block grant. For the Open Meetings/Brown Act Reform mandate, we recommend rejecting the proposal to suspend it but adopt the proposal to remove it from the block grant, given the changes made by Proposition 30 that eliminated the state's reimbursement obligation.

Place New Pupil Suspension/Expulsions Mandate in School Block Grant. We recommend the Legislature place the new mandate in the block grant since the mandate is intended to protect public safety. This action is consistent with last year when the Legislature placed the similar existing mandate in the block grant.

Budget Effects of LAO Recommendations. Our recommendations have two main budgetary implications. First, rejecting the Governor's proposal to add $100 million to the block grant means that this money would be available for other purposes within Proposition 98. We discuss how these funds could be used as part of the alternative Proposition 98 package laid out later in this report. Second, our approach on suspending certain mandates and placing the new pupil suspension/expulsions mandate within the block grant for schools would have partly offsetting fiscal implications, with the savings from suspending the mandates greater than the increased cost of adding the pupil suspensions/expulsions mandate. The net associated savings, however, would be small. For community colleges, we estimate the savings from the suspensions also would be minor. Given the fiscal effects are small, we recommend not making any adjustments to the block grants at this time.

SPECIAL EDUCATION

The Governor's budget includes two notable changes to the way the state funds services for SWDs. Specifically, the Governor proposes to (1) modify the state's formula for allocating special education funds and (2) consolidate funding currently provided for some specific special education activities. Below, we provide an overview of the state's current approach to funding special education, describe the Governor's proposed changes, assess the strengths and weaknesses of the Governor's proposals, and offer recommendations for how the state could improve its approach to funding special education services.

Background

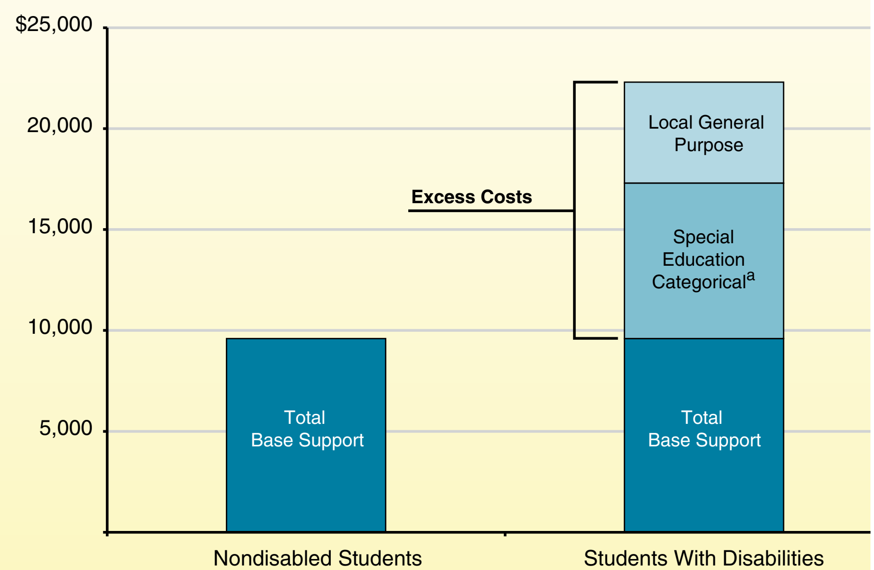
Federal Law Requires School Districts to Provide Special Services to SWDs. Federal law requires public schools to make special efforts to educate students who have disabilities. Specifically, the federal Individuals with Disabilities Education Act (IDEA) requires that LEAs provide "specially defined instruction, and related services, at no cost to parents, to meet the unique needs of a child with a disability." Once schools have determined that a SWD requires additional educational support, they develop an Individual Education Program (IEP) for the student that documents which special education services the school will provide. (Throughout this section, we use the term SWD to refer to students who have formally qualified to receive special education services.)

Special Education Services Supported by Categorical Funds. Billions of dollars are allocated to LEAs for the basic educational components—including teachers, instructional materials, and academic support—provided to *all* students, including SWDs. As shown in Figure 12 the average costs of educating a SWD, however, are more than double those of a mainstream student—approximately $22,300 compared to $9,600. To the degree SWDs require additional services beyond

Figure 12

Special Education Categorical Funds Support Much of the "Excess Costs" of Educating Students With Disabilities

Statewide Average Spending Per Pupil, 2010-11



[a] Includes state funding, a relatively small amount of local property tax revenue, and federal funds.

what mainstream students receive, LEAs receive special education categorical funds that cover much of the "excess costs." (These categorical funds are comprised of state, LPT, and federal monies.) Because special education categorical funds typically are not sufficient to cover the costs of all IEP-required services, LEAs spend from their local general purpose funds to make up the difference. In 2010-11, categorical funding covered 61 percent of special education excess costs. The remainder of our discussion focuses on these categorical funds.

Funds Allocated to Special Education Local Plan Areas (SELPAs), Not Directly to LEAs. Because economies of scale often improve both programmatic outcomes and cost-effectiveness, the state distributes special education categorical funds to 127 SELPAs (rather than to the approximately 1,000 LEAs in the state). Most SELPAs are collaborative consortia of nearby districts, COEs, and charter schools, although some large districts have formed their own SELPAs, and three SELPAs consist of only charter schools. (Additionally, one unique SELPA consists solely of court schools in Los Angeles County.) Single-district SELPAs typically receive funding directly from the state and offer or contract for special education services on their own. In contrast, consortia SELPAs work internally to decide how best to divvy up special education funding for all the SWDs in their region. In most cases, consortia SELPA members opt to reserve some funding at the SELPA level to operate some shared, regionalized services, then distribute the remainder to LEA members to serve most of their own SWDs locally.

Most Funds Allocated to SELPAs Based on Overall Student Population, Not Number of SWDs. Prior to 1998, California distributed special education funds using a "cost-based" model—essentially funding individual SELPAs based on the costs they incurred serving SWDs. Beginning in 1998-99, California switched to a "census-based" approach for distributing most special education funds. This methodology allocates special education funds to SELPAs based on *total* ADA, regardless of SWD counts or the SELPA's special education expenditures. The census-based funding approach implicitly assumes that SWDs—and associated special education costs—are spread fairly evenly throughout the overall student population.

Funds Allocated Using AB 602 Formula. California's census-based formula for distributing special education categorical funds to SELPAs commonly is referred to as the "AB 602" formula after the authorizing legislation. The AB 602 formula incorporates (1) state categorical monies, (2) a relatively small amount of LPT revenues that flow through the state's categorical program, and (3) federal IDEA funds. In 2012-13, the state allocated about $2.9 billion in state and LPT funds and $1 billion in IDEA monies through the AB 602 formula. The amount of AB 602 funding each SELPA receives from each source varies based on four key factors: (1) historical AB 602 per-pupil rates, (2) total ADA, (3) federal allocation formulas, and (4) historical LPT revenue allocations. Figure 13 illustrates the basic process for determining each SELPA's AB 602 allocation.

AB 602 Funding Rates Vary Across SELPAs. The first step in determining a SELPA's AB 602 allocation is identifying its unique per-pupil funding rate. When the state first transitioned to the AB 602 formula in 1998-99, each SELPA's per-pupil rate was derived based on how much it had received under the old cost-based special education funding model. Because SELPAs had structured services in varying ways—including some that hired more special education staff and opted for more costly student placements—there was some discrepancy amongst these rates. While the state made some investments in equalizing

AB 602 rates over the ensuing years, large discrepancies remain. Individual SELPA per-ADA rates range from about $570 to about $1,090, with a statewide weighted average rate of about $660. As shown in Figure 14 (see next page), the majority of pupils—about 60 percent—attend LEAs that receive between $630 and $659 per ADA.

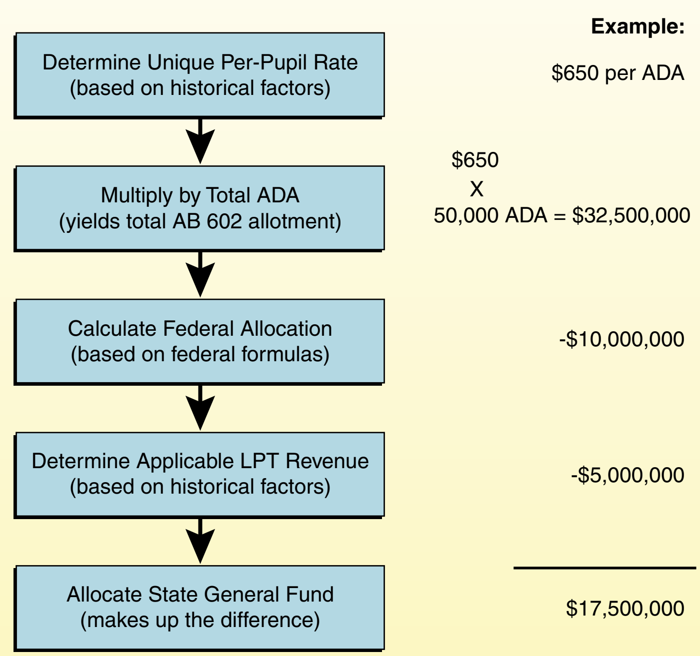
Total AB 602 Allocation Calculated by Multiplying Per-Pupil Rate by Total ADA. While some additional calculations are made for SELPAs that have gained or lost ADA since the prior year, the second step in determining each SELPA's AB 602 allocation is to multiply each SELPA's unique per-pupil funding rate by its total ADA. In the illustration displayed in Figure 13, the rate ($650 per ADA) multiplied by total ADA (50,000) yields an AB 602 funding total of $32.5 million.

Federal Fund Allotments Based on IDEA Formulas. The third step in calculating each SELPA's AB 602 allocation is determining how much federal funding it will receive based on a set of IDEA formulas. Each SELPA's specific federal fund allotment is calculated based on three factors: (1) a "population amount" based on total SELPA enrollment, (2) a "base amount" related to how many SWDs the SELPA served in 1999, and (3) a "poverty amount" based on the number of students in the SELPA receiving free or reduced price meals. The bulk of federal funds are allocated based on the census-based "population" component, providing all SELPAs the same per-pupil rate ($99 in 2011-12). The other two components of the formula differ across SELPAs based on historical conditions and student characteristics. Consequently, the overall amount of federal special education funds each SELPA receives per pupil also varies. In 2011-12, individual SELPAs' IDEA funding ranged from a per-ADA high of $248 to a low of $104, with a statewide weighted average rate of about $175.

Amount of LPT Revenues Used for Special Education Partially Based on Historical Allocation Patterns. The fourth step in calculating a SELPA's AB 602 allocation is determining how much LPT revenue it will receive for special education. The amount each SELPA receives varies based on local property wealth and the LPT

Figure 13

Basic Process for Determining Each SELPA's AB 602 Allocation



SELPA = Special Education Local Plan Area; ADA = average daily attendance; and LPT = local property tax allocation for special education in the mid-1970's. (Legislation implementing Proposition 13 in 1978 essentially locked in place the allocation shares that local jurisdictions had used in 1977.) Some SELPAs located in areas of high property wealth also receive additional LPT revenues known as "excess ERAF" (Education Revenue Augmentation Fund). The LPT revenues, however, do not increase a SELPA's overall AB 602 allocation, but rather serve as an offset to how much state General Fund the SELPA ultimately receives. In 2011-12, just over half of the state's 127 SELPAs received some amount of LPT revenues for special education. For the 74 SELPAs receiving LPT revenue, funding rates varied from a per-ADA high of $700 to a low of $17, with a statewide weighted average rate of about $110.

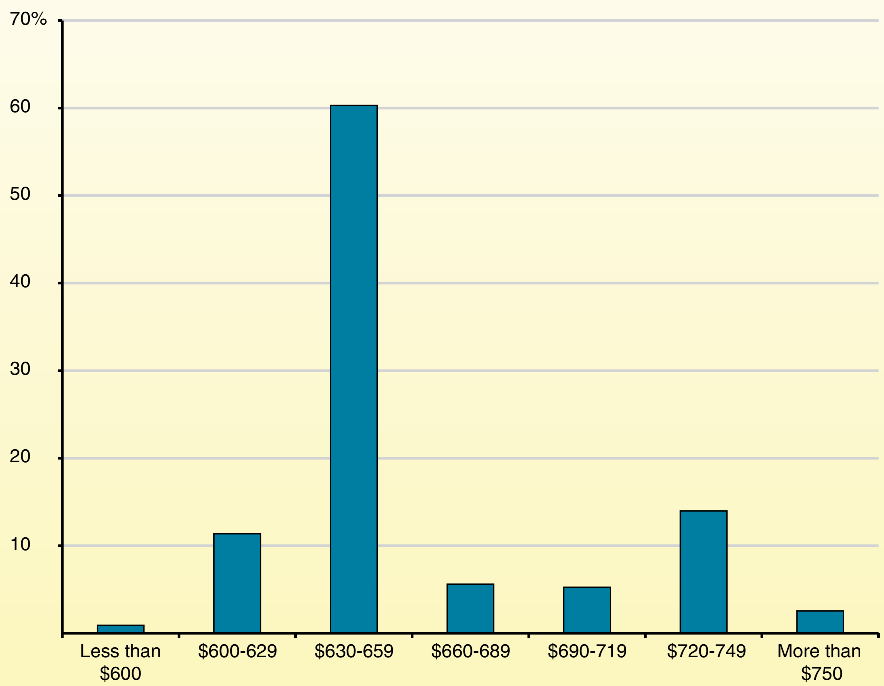
State General Fund Makes Up Difference After Other Funds Are Applied. The fifth and final step in calculating a SELPA's AB 602 allocation is to determine how much the state General Fund will contribute. The state provides sufficient funds to "make up the difference" after accounting for the SELPA's federal funds and LPT revenues. In the illustration shown in Figure 13 the state General Fund contributes just over half of the SELPA's overall AB 602 funding.

Modification to State Allocation Formula Has Led to Complications. The state's AB 602 formula originally was designed to be relatively straightforward—blending federal, LPT, and state funds interchangeably to fund a total SELPA amount. The funding calculation grew more complicated in 2005-06, however, when the state responded to changes in federal law by modifying how the formula operates in some situations. Specifically, federal law now prohibits a state from using federal funds to pay for COLAs or growth adjustments that are required by *state* law. Consequently, the state now goes through a complex annual calculation for SELPAs that grow or decline in ADA from one year to the next. Specifically, the state provides a funding rate of $465 per ADA—referred to as the "Statewide Target Rate" (STR)—to fund *new* SELPA ADA and to compute COLAs. (Please see nearby box for more discussion of the STR.) The state, however, uses a SELPA's unique blended rate (state plus federal funds, averaging roughly $660 per ADA) to fund *existing* ADA and apply reductions when

Figure 14

Special Education Per-Pupil Funding Rates Vary

Percent of Statewide Average Daily Attendance, 2011-12



a SELPA declines in ADA. This discrepancy has led to a gradual "ratcheting down" of funding rates in some SELPAs. Additionally, the state made other modifications (also due to changes in federal law) that resulted in complicated calculations to ensure year-to-year increases in federal funds are treated separately from all other AB 602 adjustments.

Somewhat Different Approach Used to Fund Charter-Only SELPAs. The state funds the three charter-only SELPAs somewhat differently from the process described above, in that the state and federal funding formulas operate completely separate. In contrast to traditional SELPAs, how much charter SELPAs receive in federal funding pursuant to the IDEA formulas is not used as an offset in calculating how much they receive in state aid, and the blended state and federal per-pupil funding approach is never used. Each year, the state calculates how much state General Fund to provide to charter SELPAs based on the uniform STR of $465 per ADA. This same STR is used as the basis for (1) adding funding if the SELPA grows in ADA, (2) providing a COLA, and (3) decreasing funding if the SELPA declines in ADA. Any federal funds the charter SELPAs receive pursuant to the IDEA formulas are in addition to this state AB 602 allocation. (Because LPT revenues are allocated based on historical county patterns and charter SELPAs are relatively new entities, they do not receive LPT revenues for special education.)

The Statewide Target Rate (STR)

The STR Originally Intended to Help Equalize AB 602 Rates to Statewide Average. To address funding disparities in per-pupil rates across Special Education Local Plan Areas (SELPAs), the state designed the AB 602 formula with a component that would slowly equalize rates to the STR. The STR was designed to reflect the statewide average rate in 1997, adjusted for cost-of-living adjustments (COLAs), if provided. Each time a SELPA grew in average daily attendance (ADA), the new ADA was funded at the STR, not the SELPA's unique per-pupil rate. For SELPAs with unique rates below the STR, this had the effect of gradually increasing their overall per-pupil rates towards the STR. (For example, if a SELPA had 100 students funded at an AB 602 rate of $575 per ADA and grew by 10 students funded at an STR of $600, the next year its unique AB 602 base rate would be $577 per ADA.) For SELPAs with unique rates above the STR, this had the effect of gradually decreasing their overall per-pupil rates towards the STR. (For example, if a SELPA had 100 students funded at an AB 602 rate of $625 per ADA and grew by 10 students funded at an STR of $600, the next year its unique AB 602 rate would be $622 per ADA.)

AB 602 Modification Reduced STR, Disrupted Equalization Efforts. When the state modified the AB 602 formula in 2005 in response to changes in federal law, it calculated a new STR by removing the average amount of per-pupil federal funds SELPAs received. Because federal funds have not been removed from funding rates for all components of the AB 602 calculation, the STR no longer functions as a method of equalizing all SELPA rates to a statewide average. Rather, because all SELPAs' unique blended state and federal AB 602 rates are above the new STR, the STR now has the effect of ratcheting *down* funding rates for essentially *all* growing SELPAs, not just those funded above the statewide average. Since 2007-08 (the last year the state provided a COLA), the STR has been set at $465.

Dedicated Special Education Grants for Specific Purposes. In addition to their annual AB 602 allotment, SELPAs receive allocations of state and federal funding for more specific purposes. As described in Figure 15, some of these special education categorical programs are available to all SELPAs, whereas participation for others is limited based on specific eligibility criteria or historical factors. In addition to the grants displayed in the figure, some LEAs receive funding through the state's Home-to-School Transportation program to support IEP-required busing for SWDs.

Federal and State Funds Also Support State-Level Initiatives. In addition to the grants listed in Figure 15, state and federal funds are used for various initiatives designed to support

Figure 15

Some Special Education Funding Is Provided to SELPAs for Specific Purposes

2012-13 (In Millions)

Program	Description	State	Federal	Totals
Mental health services	Allocated to all SELPAs to provide educationally necessary mental health services to SWDs.	$348.2	$69.0	$417.2
Out-of-Home Care	Allocated to those SELPAs whose regions contain LCIs, based on the assumption that LCIs will have higher rates of children qualifying for special education services.	158.1	—	158.1
Preschool services	Allocated to some SELPAs to provide services to SWDs ages three through five.	—[a]	102.0	102.0
Infant services	Allocated to some SELPAs to provide services to SWDs ages birth through two.	73.2	14.4	87.6[b]
Program specialists and regionalized services	Allocated to all SELPAs to provide regionalized services. Includes additional funds ($2.7 million) provided to small SELPAs that contain fewer than 15,000 students.	91.4	—	91.4
WorkAbility I LEA Project	Allocated to some SELPAs to provide SWDs with vocational training and job placement.	29.5	—	29.5
WorkAbility I Vocational Education Project	Allocated to some SELPAs to provide SWDs with vocational training and job placement.	10.1	—	10.1
LID equipment	Allocated to all SELPAs to purchase materials and equipment for students with LIDs.	13.2	—	13.2
LID services	Allocated to all SELPAs to provide specialized services to students with LIDs.	1.7	—	1.7
LID ROCPs	Allocated to LEAs that run vocational programs for high schoolers with LIDs.	5.3	—	5.3
Extraordinary cost pool	Available for SELPAs that face extraordinary costs due to students placed in nonpublic schools.	3.0	—	3.0
Extraordinary cost pool for mental health	Available for very small SELPAs that face extraordinary costs due to student placements related to mental health needs.	3.0	—	3.0
Staff development	Allocated to all SELPAs to train and prepare staff and parents that work with SWDs.	2.5	—	2.5
Other	Three small grants provided to certain SELPAs for specific purposes.	1.7	0.3	2.0
Totals		**$740.8**	**$185.7**	**$926.4**

[a] Many SELPAs also use some of their base AB 602 funds to provide preschool services to SWDs, however, specific expenditure data are not available.

[b] An additional $37 million in federal Individuals with Disabilities Education Act Part C funding and $238 million in state funding is allocated to Regional Centers to provide services to infants with developmental delays.

SELPA = Special Education Local Plan Area; SWDs = students with disabilities; LCI = licensed children's institution; LEA = local educational agency; and LID = low-incidence disability; and ROCP = Regional Occipational Center or Program..

and improve the state's special education delivery system. In particular, the *2012-13 Budget Act* included $4.5 million ($3.4 million in federal funds and $1.1 million in state funds) to provide special education-related professional development and technical assistance activities to LEAs around the state. The CDE contracted with Napa COE to run these activities through the California Services for Technical Assistance and Training (CalSTAT) project. Additionally, the budget provided $200,000 for CDE to research cross-cultural assessments. (These funds relate to a 1979 court case that required the state to develop methods other than intelligence quotient tests for assessing learning disabilities, particularly for African-American students.)

Governor's Proposals

The Governor's budget includes two notable changes to the way the state funds special education. Specifically, he proposes (1) changing how SELPAs' AB 602 rates are calculated and (2) combining eight special education categorical grants in various ways.

Removes Federal Funds From State's AB 602 Formula. The Governor proposes to delink the federal and state special education allocation formulas completely. Under this approach, a SELPA's IDEA funds no longer would serve as an offset to its state allocation. Instead, each SELPA's state AB 602 allocation would be calculated independently based on a *state-only* per-ADA rate. (Under the Governor's proposal, a SELPA's LPT revenues would continue to count as a contributing revenue to make up this state allotment.) Because the new per-ADA rates would be derived by subtracting federal funds from SELPAs' *blended* AB 602 rates—which differ based on historical factors—the new rates also would vary across SELPAs. Separately, each SELPA would continue to receive federal allocation pursuant to the IDEA formulas. This approach would treat all SELPAs similarly to how charter-only SELPAs are funded under current law.

Rolls Two Special Education Grants Into the AB 602 Formula. As displayed in the top row of Figure 16 (see next page), the Governor proposes to consolidate two grants—Program Specialists and Regionalized Services (PSRS) and staff development—into the AB 602 base. Currently, roughly $90 million in PSRS funds are set aside for regional SELPA activities. Small SELPAs located in less populous areas of the state receive $2.7 million in supplemental PSRS funding. Additionally, SELPAs currently receive $2.5 million specifically to conduct staff and parent training activities. The Governor's proposal would change current law by allowing all associated funds to be used for any special education purpose, at the discretion of the SELPAs' LEA members. The SELPAs could choose to continue dedicating the same amount for regional and staff development activities or allocate a share of these funds to member LEAs to help cover the costs of IEP-required student services. Currently, PSRS funds are allocated on a per-ADA basis, but at historical and slightly different per-pupil rates—similar to AB 602. The staff development grant currently is allocated on a per-SWD basis, so adding it to the AB 602 ADA-based formula would represent a change in how future funds are distributed.

Consolidates Six Grants Into Three. Figure 16 also shows how the Governor would consolidate six special education grants into three larger grants. Specifically, he proposes to:

- ***Combine Two WorkAbility Grants.*** The proposal would consolidate two discrete grants supporting WorkAbility, a vocational education program that serves SWDs in middle and high schools. The proposal would not alter the allowable uses or current recipients of the funds, as the two grants already are administered as one program.

- ***Combine Two Low-Incidence Disabilities (LID) Grants.*** The proposal would combine discrete grants for LID specialized services and LID equipment and materials. (LIDs are defined as hearing impairments, vision impairments, and severe orthopedic impairments.) The proposed change would allow SELPAs to use the combined funds on any mix of services or equipment costs, provided the funds still were targeted for students with LIDs.

- ***Merge Assessment Research Grant Into Technical Assistance Grant.*** The proposal would eliminate the grant currently dedicated to researching how best to assess students from different cultural backgrounds, and shift the funding to increase a grant that CDE currently uses for CalSTAT statewide technical assistance activities. The proposal would leave it to CDE's discretion whether to require CalSTAT to dedicate a share of the funding for activities related to cross-cultural assessments, or to allow the funds to be repurposed for other activities.

Governor's Proposals Improve System, but Could Go Further

We believe the Governor's proposed changes to special education funding would lead to notable improvements in the system, yet do not go far enough towards addressing existing problems.

Proposed Change Would Make State's Allocation Formula Simpler and More Rational . . . The Governor's proposal to fully remove federal funds from the state's special education allocation formula would simplify a system that has grown exceedingly complicated since 2005. Modifying the state's allocation formula in this way would create a consistent, rational funding policy for growing and declining ADA, as well as avoid complications in years when federal

Figure 16

Governor Proposes to Consolidate Some Special Education Grants

2013-14 Proposed Amounts (2012-13 Amounts Adjusted for Growth and COLA)

Proposed Changes	Affected Grants	Programmatic and Distributional Effects
Add two grants to AB 602 formula	• Program specialists and regionalized services (PSRS) ($90.3 million) and supplement for small SELPAs ($2.7 million). • Staff development ($2.5 million).	Would allow SELPAs to use funds for any special education purpose, rather than restricting for regionalized activities and staff training. Would not change distribution of PSRS funds, but would distribute staff development funds based on ADA rather than counts of SWDs.
Combine two WorkAbility grants for vocational education activities	• WorkAbility I LEA Project ($29.5 million). • WorkAbility I Vocational Education Project ($10.3 million).	Would not have any programmatic or distributional effects.
Combine two grants for serving students with LIDs	• LID equipment ($13.4 million). • LID services ($1.7 million).	Would allow SELPAs to change mix of spending between services and equipment for students with LIDs. Likely would not have any distributional effect.
Combine two grants used for statewide activities	• Statewide training and technical assistance ($1.1 million). • Development of cross-cultural assessments ($200,000).	Could increase technical assistance activities (currently run out of Napa COE) by $200,000. Could change nature of activities related to cross-cultural assessments.

COLA = cost-of-living adjustment; SELPA = Special Education Local Plan Area; ADA = average daily attendance; SWDs = students with disabilities; LEA = local educational agency; LID = low-incidence disability; and COE = county office of education.

funds increase. Moreover, simplifying the current formulas would help policy makers and the public better understand special education funding policies. Developing such an understanding could, in turn, facilitate future efforts to assess and address needed improvements to those policies.

. . . But Maintain Unjustified Differences Across SELPAs' AB 602 Funding Rates. Through his Local Control Funding Formula (LCFF), the Governor proposes to gradually equalize general purpose and other categorical funding rates across school districts. In contrast, the Governor has no proposal to address existing differences in special education funding rates. While the proposal to remove federal funds from the AB 602 calculation would clarify each SELPA's state funding rate, it would not make significant progress towards eliminating the disparities among those rates. No policy rationale exists for these disparities, and leaving them in place means that SELPAs with historically lower per-pupil rates receive less state funding to meet the same responsibilities as those with historically higher rates.

Proposed Consolidations of Special Education Grants Would Somewhat Increase Local Flexibility . . . We believe the Governor's proposal to roll two stand-alone special education grants into the AB 602 formula is a good first step towards increasing SELPAs' flexibility. Currently, the PSRS and staff development grants fund activities that *all* SELPAs must perform. As such, allocating the funds on an equal per-ADA basis and allowing SELPAs to determine how much to spend on these activities, weighed against other special education priorities, makes sense. Moreover, this particular component of the proposal is consistent with the Governor's overall K-12 funding approach that removes most spending requirements, including those related to staff development. Consolidating funds for researching cross-cultural assessments into more broad statewide capacity-building efforts also seems reasonable.

. . . But Miss Opportunity to Have Greater Impact. Unlike his broader approach to restructuring K-12 funding, the Governor proposes to maintain numerous discrete special education grants and requirements. We believe many of these spending restrictions lead to inefficiencies and constrain SELPAs' abilities to prioritize local needs. To begin with, two of the grant consolidations the Governor proposes would have only minimal effects. Combining the two LID grants would make relatively minor changes to existing spending parameters. Because the two WorkAbility programs essentially already are jointly administered, their consolidation would not result in *any* increased spending discretion at the local level. This program seems particularly worthy of more substantive reform. Federal law requires all LEAs to offer activities designed to help high school SWDs transition to adult life, but only a small percentage of LEAs receive additional WorkAbility funding to do so, and those that do must conduct a prescribed set of vocational education activities at a relatively high per-student cost. Moreover, the Governor's proposal misses opportunities to consolidate other special education grants and reduce associated spending restrictions. For example, in a given year a particular SELPA may have fewer SWDs requiring mental health services and more who require speech and language therapies—but currently each SELPA receives a funding allocation that remains fixed and restricted only for providing mental health services.

Recommendations

As detailed below, we recommend the Legislature build upon the Governor's proposals but also make a couple of additional improvements.

Adopt Governor's Proposal to Fully Delink State and Federal Allocation Formulas. Because it would make the state's special education funding approach simpler, more rational, and more understandable, we recommend the Legislature adopt the Governor's proposal to remove federal funds from the state AB 602 formula.

Provide Additional Funds to Equalize AB 602 Funding Rates in Tandem With LCFF Rates. We recommend the state adopt a plan for equalizing special education funding rates that is aligned with whatever approach it adopts for equalizing general education rates. For example, in 2013-14, the Governor proposes to provide about 10 percent of the funding needed for districts to reach their new per-pupil target rates under his proposed LCFF formula. Should the Legislature choose to adopt this approach, we recommend the 2013-14 budget also provide about 10 percent of the funds necessary to equalize AB 602 rates. We recommend similar alignment between general education and special education equalization efforts in future years. We recommend adopting a target AB 602 rate at the level where 90 percent of ADA in the state receives the same rate—$535. (The state has used the 90th percentile target to equalize revenue limits in the past.) We estimate equalizing to this target rate would cost approximately $300 million. As such, we recommend the Legislature increase special education funding by $30 million—or about 10 percent of the total equalization cost—in 2013-14.

Update STR to Reflect New Equalization Target. In addition to providing funds to equalize AB 602 rates, we recommend updating the STR from $465 (which reflects an outdated statewide average rate) to $535 (which represents the rate for the 90th percentile of ADA). Under this approach, all new SELPA ADA would be funded at $535. (The SELPAs would continue to experience funding reductions for declines in ADA based on their unique AB 602 state rate.) This would ensure the STR operates as it was originally envisioned when the AB 602 formula was designed—to gradually increase overall per-pupil rates for SELPAs funded below the equalization target and gradually decrease overall rates for SELPAs funded above the target. In contrast, leaving the STR at $465—as proposed by the Governor—effectively would establish a much lower equalization target. Figure 17 illustrates the differences in AB 602 calculations and the STR under the various models we have discussed.

Maximize Flexibility by Consolidating Additional Special Education Categorical Programs. To empower local SELPAs with additional flexibility over how best to serve their SWDs, we recommend the Legislature adopt a more expansive approach to streamlining special education funding than that proposed by the Governor. Our approach, displayed in Figure 18 (see page 40), is consistent with our recommendations—and the Governor's proposals—for increasing local discretion over other K-12 funds. In addition to adopting the Governor's proposed grant consolidations, we recommend the following changes:

- ***Add Mental Health Funding to AB 602 Base Grant.*** All SELPAs are required to provide IEP-related mental health services, and the associated funding already is allocated on a per-ADA basis. As such, our recommendation to consolidate this grant into the SELPA's base funding would not change any SELPA's allocation. Rather, the change would provide SELPAs with greater discretion to target special education funds for the needs of their local SWDs (whose mental health needs may change from year-to-year).

- ***Continue Providing Additional Funding for Small SELPAs.*** While we recommend adopting the Governor's proposal to roll the PSRS grant into the AB 602 base, we recommend continuing to provide some additional funding to exceptionally small, geographically isolated SELPAs that cannot take advantage of economies of scale.

- ***Combine WorkAbility Grants into "Transition Services" Funding Supplement, Allocate to All SELPAs.*** As discussed earlier, the Governor's proposed consolidation of the two WorkAbility grants would have virtually no effect on the existing program. Maintaining this categorical program, with its specific requirements and uneven statewide participation rates, seems counter to the restructuring approach the Governor is applying to K-12 education. We recommend adopting a more consistent approach, which would increase local flexibility and equalize funding across all SELPAs serving high school SWDs. Under this approach, the funds would be allocated based on a SELPA's ADA in grades 9-12 and could be used to provide any transition service for SWDs in those grades. (Transition services is an area where the state has been flagged by federal review as needing improvement.) Because reallocating these funds across all SELPAs would decrease per-pupil rates compared to the existing grants, the Legislature could consider increasing funding for this new grant in the future should it wish to enable SELPAs to continue offering WorkAbility-like services.

Figure 17

Illustration of Four AB 602 Funding Models[a]

Per-Pupil Funding Rates for:	Existing ADA	New ADA	Lost ADA	Effects
Original Model (1998-2005)	**$660** SELPA's unique blended rate	**+$600** Blended STR	**-$660** SELPA's unique blended rate	Uses blended rate for both growing and declining SELPAs. Equalizes to blended STR.
Current Model (2006-Present)	**$660** SELPA's unique blended rate	**+$465** State STR[b]	**-$660** SELPA's unique blended rate	Uses state rate for growing SELPAs and blended rate for declining SELPAs. Ratchets down per-pupil rates for growing SELPAs.
Governor's Proposed Model	**$475** SELPA's unique state rate	**+$465** State STR	**-$475** SELPA's unique state rate	Uses state rate for both growing and declining SELPAs similarly. Equalizes per-pupil rates down to low STR.
LAO Recommended Model	**$475** SELPA's unique state rate	**+$535** Updated state STR	**-$475** SELPA's unique state rate	Uses state rate for both growing and declining SELPAs similarly. Equalizes per-pupil rates to 90th percentile.

[a] Simplified display with illustrative rates.

[b] Funded with a combination of state and federal funds. In all other cases shown, "state" is funded only with state funds (and "blended" is funded with a combination of state and federal funds).

ADA average daily attendance; SELPAs = Special Education Local Plan Area; and STR = Statewide Target Rates.

- ***Add LID ROCP Funding to LID Block Grant.*** The state currently provides funding for students with LIDs to participate in ROCPs. The per-pupil rates are quite high ($6,199 per visually impaired ADA, $3,549 per deaf ADA, and $1,964 per orthopedically impaired ADA) because these students require more intensive assistance. Given all other state funding for ROCP has been subject to categorical flexibility since 2009 and the Governor is proposing to permanently eliminate ROCP programmatic requirements and funding, continuing to earmark funds for SWDs to participate in this specific program seems illogical. Instead, we recommend combining the funds with the other two LID grants and distributing the funds on an equal rate for each student with a LID. Under this approach, educators can dedicate the funds to the most appropriate educational program for the student—be it an ROCP-like program, other CTE program, or other activity.

- ***Combine Two Extraordinary Cost Pools (ECPs).*** The state currently maintains two

Figure 18

LAO Alternative for Consolidating Special Education Grants

2013-14 Proposed Amounts

Affected Grants	Governor's Proposal	LAO Recommendation
Changes to Base Funding		
• Program specialists and regionalized services (PSRS) ($90.3 million) and supplement for small SELPAs ($2.7 million) • Staff development ($2.5 million) • Mental health funding ($426 milllion)	Adds PSRS and staff development to AB 602 base funding. No proposed change for mental health funding.	Adopt Governor's proposal, but also add mental health funding to AB 602 base. Continue providing some supplemental AB 602 funding for small SELPAs.
Transition Services		
• WorkAbility I LEA Project ($29.5 million) • WorkAbility I Vocational Education Project ($10.3 million)	Combines, does not change allocation or program requirements.	Combine into new "Transition Services" funding supplement, remove specific program requirements, change distribution to allocate equal amount per ADA in grades 9-12.
LID Programs		
• LID materials ($13.4 million) • LID services ($1.7 million) • LID ROCP ($5.3 million)	Combines LID materials and services. No proposed change for LID ROCP.	Adopt Governor's proposal, but also combine LID ROCP funding into new "LID Block Grant," remove ROCP-related requirements.
Statewide Activities		
• Statewide training and technical assistance ($1.1 million) • Cross-cultural assessments ($200,000)	Combines.	Adopt Governor's proposal.
Extraordinary Cost Pools		
• For NPS placements ($3 million) • For NPS placements (mental health) ($3 million)	None.	Combine, adopt uniform set of eligibility criteria for subsidizing high-cost student placements.

SELPAs = Special Education Local Plan Area; LEA = local educational agency; LID = low-incidence disability; ROCP = Regional Occupational Center or Program; and NPS = nonpublic school.

ECPs with similar but distinct eligibility criteria. Individual SELPAs can apply for a share of these funds if they experience exceptionally high costs associated with placing students in specialized schools. The Governor did not propose changes to this structure; however, we believe streamlining the application and approval process would maximize effective use of these funds. Specifically, we recommend combining the two pools and applying one uniform set of eligibility criteria.

ADULT EDUCATION

The Governor's budget proposes a number of changes to adult education in California. In particular, the Governor proposes to (1) eliminate school districts' adult education categorical program and consolidate all associated annual funding into his new K-12 funding formula, (2) create a new $300 million CCC categorical program for adult education, and (3) shift school districts' apprenticeship categorical funds to a new CCC apprenticeship categorical program. Below, we provide background on the state's adult education system, describe the Governor's proposals, provide an assessment of these proposals, and offer an alternative package of recommendations for improving adult education.

Background

Adult Education Has Multiple Purposes and Providers. In contrast to collegiate (postsecondary) education, the primary purpose of adult education is to provide persons 18 years and older with the precollegiate-level knowledge and skills they need to participate in civic life and the workforce. Under state law, adult education also can serve various other purposes, including offering enrichment classes to older adults and providing instruction on effective parenting techniques. Adult schools, which are operated by school districts, and community colleges are the main providers of adult education in California.

Community Colleges Can Offer Adult Education on "Credit" or "Noncredit" Basis. Figure 19 (see next page) shows that both adult schools and community colleges are authorized to offer courses in each of ten instructional areas. The figure also shows that, in six of these ten categories, community colleges can offer instruction on a credit or noncredit basis. For example, community colleges can choose to offer English as a second language (ESL) and "health and safety" instruction (which consists largely of exercise and fitness classes) as either credit or noncredit. In addition, community colleges offer a number of noncredit vocational courses and certificate programs (such as certified nurse assisting, culinary arts, and welding) whose content is very similar or identical to credit instruction.

Adult Schools Historically Funded Through a Categorical Program. Prior to 2008-09, the state provided funding for adult schools through a categorical program that provided a uniform per-student funding rate ($2,645 per ADA in 2007-08). In early 2009, the Legislature removed the categorical program requirements and allowed school districts to use adult education funding (along with funding associated with many other categorical programs) for any educational purpose. (This flexibility is currently authorized through 2014-15.) Based on our survey of school districts, only between 40 percent to 50 percent of the $635 million nominally provided in annual

Proposition 98 adult education funds likely is now being spent on adult education. Given the current funding rules, school districts effectively determine their own per-student funding rate.

CCC Adult Education Funded Through Apportionments. In contrast, community colleges receive general-purpose apportionment monies to fund instruction, with colleges independently deciding the mix of credit and noncredit instruction they deem appropriate. Current law establishes one funding rate for credit instruction and two funding rates for noncredit instruction. The funding rates are as follows:

- ***Credit.*** In 2012-13, the funding rate for each full-time equivalent (FTE) student in credit coursework is $4,565. Colleges receive this funding rate regardless of whether the instruction is collegiate or precollegiate/adult education.

- ***"Enhanced" Noncredit.*** Chapter 631, Statutes of 2006 (SB 361, Scott), established an enhanced funding rate for noncredit instruction in elementary and secondary education, ESL, and vocational instruction. In 2012-13, this rate is $3,232 per FTE student.

- ***Regular Noncredit.*** All other noncredit courses (such as home economics) receive $2,745 per-FTE student.

We estimate that in 2011-12, community colleges spent approximately $1.4 billion in apportionments on adult education coursework—about $1.2 billion for credit instruction and about $200 million for noncredit instruction.

Estimate Over 1.5 Million Students Served in 2009-10. Though enrollment data have been incomplete since categorical flexibility was adopted in 2009, we estimate adult schools and community colleges provided adult education instruction to at least 1.5 million students (headcount) in 2009-10, which translates into about 550,000 FTE students. Figure 20 shows that the CCC system provides the largest share of adult education in the state, primarily through its credit program.

Student Outcomes Comparable at Adult Schools and CCC Noncredit. While the state lacks a single data system that allows for comprehensive comparisons between adult schools and community colleges, a recent study by Comprehensive Adult Student Assessment Systems (CASAS) can supply insights into comparative student outcomes. Data from CASAS indicate that students in adult schools

Figure 19

Adult Education Includes a Wide Array of Instructional Areas

Instructional Area	Adult Schools	CCC Noncredit	CCC Credit
Adults with disabilities	X	X	X
Apprenticeship	X	X	X
Vocational education[a]	X	X	X
Immigrant education (citizenship and workforce preparation)	X	X	
Elementary and secondary education	X	X	X
English as a second language	X	X	X
Health and safety[b]	X	X	X
Home economics	X	X	
Older adults	X	X	
Parenting	X	X	

[a] Also referred to in statute as career technical education.
[b] Includes exercise and fitness classes.

and CCC noncredit programs generally have similar demographic characteristics (such as age, gender, and ethnicity) and perform nearly equal. For example, between 2005-06 and 2008-09, about half of the students in each segment's cohort advanced at least one instructional level, with another 40 percent of students showing learning gains within the same instructional level. About 10 percent of students in each segment did not demonstrate any notable progress.

Separate Pot of Funding Linked to Apprenticeship Programs. Schools districts and community colleges also each receive a relatively small amount of state funding for apprenticeship programs—a type of adult education instruction related to job training. In 2012-13, school districts are receiving $15.7 million and community colleges are receiving $7.2 million in associated funding. Under current law, school districts must use their apprenticeship categorical funds only for related instruction. In contrast, under current law, CCC's apprenticeship categorical program is part of a larger "flex item," which allows districts to transfer apprenticeship funds to any other categorical program (such as facilities maintenance or transfer education programs).

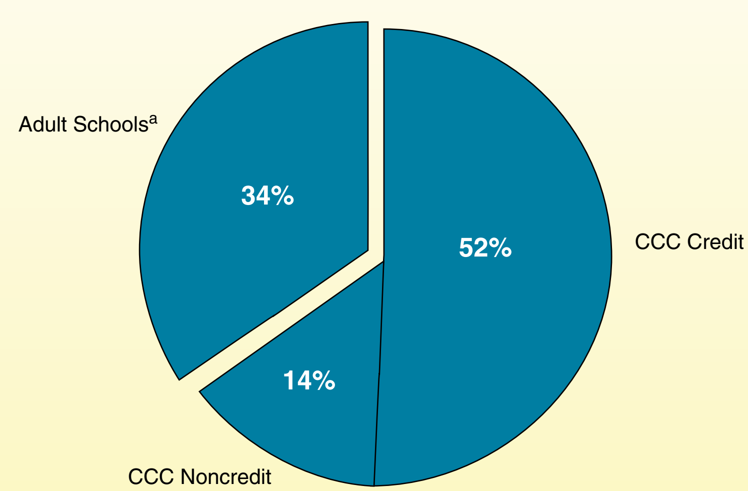
CDE Administers Federal Adult Education Program. A primary source of federal funding for adult education is the Workforce Investment Act (WIA). In 2011-12, the state was allotted a total of $91 million in WIA funding to support ESL and adult elementary and secondary programs—the instructional areas authorized under the act. A total of 169 adult schools and 17 community colleges (along with 38 other providers such as county libraries) received WIA funding. The CDE administers the federal program on behalf of the state.

Adult Education Suffers From a Number of Problems. In a recent report, *Restructuring California's Adult Education System* (December 2012), we identified a number of major problems and challenges with adult education. Specifically, our report found the current system of adult education to have: (1) an overly broad mission; (2) unclear delineations between adult education and collegiate studies at CCC; (3) inconsistent and conflicting state-level policies at adult schools and CCC (concerning funding, faculty qualifications, fees, and student placement tests); (4) widespread lack of coordination among providers; and (5) limited student data, which makes oversight difficult.

Figure 20

Community College Credit Instruction Accounts for Large Share of Adult Education

Full-Time Equivalent Students in Adult Education Courses, 2009-10



[a] Total is somewhat understated because not all adult schools reported enrollment data for 2009-10.

Governor's Proposal

The Governor's budget would make a number of changes to adult education, as described below.

Folds School District Adult Education Categorical Funds Into K-12 Funding Formula. For the budget year, the Governor proposes to eliminate school districts' adult education categorical program and consolidate all associated annual funding ($635 million Proposition 98 General Fund) into his proposed K-12 funding formula. Though there would no longer be any state requirements pertaining to adult schools, school districts would be permitted to continue operating adult schools (using general-purpose state funds, federal WIA funds, and fee revenue).

Creates a New $300 Million CCC Categorical Program for Adult Education. The Governor then provides a base Proposition 98 General Fund augmentation of $300 million to create a new adult education categorical program within CCC's budget. These new funds would be distributed to CCC districts using a formula based on the total number of students they served in the prior fiscal year (adult education as well as collegiate instruction). The administration also would change current law by not providing a specific per-student rate for instruction using these categorical program funds; rather, the CCC Chancellor's Office would have the authority to set the funding rate. The Governor's plan would allow community colleges to use these monies to provide instruction directly or contract with school districts (through their adult schools) to provide instruction. The administration has indicated that it will evaluate the need for funding increases in future budgets.

Limits CCC Apportionments to Credit Instruction Only. The Governor further proposes to restrict CCC apportionments to credit instruction. The approximately $200 million currently spent on noncredit instruction would remain in CCC's apportionments and would be available to colleges to provide credit instruction. Since the Governor does not propose to make any changes to what constitutes credit instruction, however, community colleges still would be permitted to use apportionments to provide adult education by offering such instruction on a credit basis.

Shifts School Districts' Apprenticeship Categorical Funds to CCC. The Governor also proposes to shift funding from schools districts' apprenticeship categorical program into a new CCC apprenticeship categorical program (which, unlike CCC's current apprenticeship categorical program, could be spent only on apprenticeship instruction). The administration indicates that school districts, however, would continue to be permitted to administer apprenticeship programs. The administration has not yet clarified how school districts would be funded for these activities.

Focuses Adult Education on Core Mission for CCC. Under the Governor's proposal, state support for adult education at the community colleges would be narrowed from ten instructional areas to six instructional areas, with four areas (health and safety, home economics, older adults, and parenting) eliminated. (While they would not be able to claim apportionments for instruction in these four areas, community colleges still could provide opportunities for students to take these classes—as many already do—through "community services education," which are fully supported by student fees.) By contrast, school districts would continue to be permitted to use their state funding to offer whichever adult education courses they so choose.

Does Not Propose to Change WIA Administrator. The Governor proposes for CDE to retain responsibility for administrating the WIA program on behalf of the state.

Governor's Plan Has Major Problems

Given adult education's numerous and significant challenges, we believe the Governor should be commended for identifying adult education as a high priority to address. We also find merit with his proposal to focus state support on CCC adult education programs that advance the core goals of civic engagement and workforce training. We think the Governor's overall approach for adult education, however, has serious shortcomings, as discussed below.

Many Community Colleges Would Face Significant Challenges in Assuming New Responsibilities for Adult Education. Under the Governor's plan, school districts would be permitted to provide adult education. By permanently eliminating adult schools' dedicated funding stream and repealing all associated statute relating to adult education, however, a number of school districts likely would discontinue offering adult education. To the extent this were to happen, responsibility for providing adult education would fall to community colleges. Yet, as discussed in our December report, community colleges vary significantly in terms of the amount and type of adult education they offer and the extent to which they consider adult education to be part of their educational mission. While all community colleges offer at least some adult education instruction, the vast majority focus on remedial math and English courses for students seeking a college degree, rather than literacy, high school diploma, and other programs designed for less-advanced students. As such, a number of community colleges likely would face significant challenges in expanding their mission to administer programs and serve students with whom they have had very limited familiarity and experience to date.

If Adult Schools Continue to Operate on Their Own, Longstanding Problems Would Remain. Though adult schools and community colleges generally cover the same geographic areas, over time state policies have created two markedly different systems for the two providers. As a result, there is a notable lack of consistent standards for providers, faculty, and students. For example, students in a similar vocational training program (such as medical assisting) may be required to pay anywhere from no enrollment fees to thousands of dollars depending on whether they enroll at an adult school or community college. Moreover, as our December report found, adult schools and community colleges often work independently from one another at the local level. This lack of coordination results in fragmented pathways for students seeking to transition from adult education to collegiate studies. To the extent that certain school districts chose to continue funding adult education, we are concerned that the Governor's proposal would do nothing to address these outstanding problems.

Governor's Proposal Would Do Nothing to Address Irrational Funding Structure for Adult Education. As discussed in our December report, funding levels for adult education are inconsistent and lack a rational policy basis. Since flexibility was enacted, per-student funding rates for adult schools have varied by school district. And, despite containing content that is often very similar or even identical, adult education courses at CCC are funded at different rates depending on whether a college decides to offer them on a credit or noncredit basis. The Governor's proposal does nothing to address these discrepancies. That is, because he does not propose to distinguish between collegiate education and adult education, community colleges would continue to be permitted to offer approximately $1.2 billion of adult education on a credit basis (through apportionments) while providing other adult education instruction through a categorical program at a funding rate to be determined by the CCC Chancellor's Office. Figure 21 shows how adult education could continue to be funded at different rates depending on which provider—adult schools or CCC—offered such instruction and whether the courses were offered by CCC on a credit or noncredit basis.

Fewer Students Likely Served in Adult Education. The exact effect of the Governor's proposal on adult education enrollment levels is not possible to determine, as school districts and community colleges could respond in various ways. We believe, however, that the Governor's proposal could result in between 30,000 to 50,000 fewer FTE students served statewide in the budget year as compared with the current year. This estimate is based on three factors: (1) school districts likely would serve fewer adult students given all associated state funding would be permanently folded into the K-12 funding formula, (2) shifting all existing CCC noncredit apportionment funding to the higher credit rate also would result in notably fewer students served, and (3) these drops would be only somewhat offset by the students served through the new CCC adult education categorical program.

Proposed Method of Allocation Would Not Address Local Service Disparities. As discussed in our December report, after multiple years of budget cuts and categorical flexibility, considerable variation exists at the local level in terms of the availability of adult education instruction. For example, some adults live in areas of the state in which adult schools still offer literacy and high school diploma programs, while others live in areas in which school districts have significantly reduced such instruction (or closed their adult school altogether). By proposing to allocate the $300 million in new monies to community college districts based on the total number of CCC students they served in the prior year, the Governor would not provide any assurance that adult education funding is aligned with relative program need.

Ongoing Data Problems Are Not Addressed. The December report also found that data on adult education are generally poor. For example, ever since school districts were permitted to spend adult education categorical funds on other educational purposes, the state has been unable to identify the number of students served and the amount spent annually on adult education. In addition, only a handful of community colleges report to the CCC Chancellor's Office the number of noncredit certificates (such as skills certificates) earned by students. Another notable problem is that adult schools' and CCC's data systems are not coordinated because they use different student identification numbers. As a result, tracking student transfers from adult schools to CCC (or other postsecondary institutions) is very difficult. Because of these data gaps, the public's ability to hold providers accountable for performance is significantly impaired. The Governor's proposal fails to address this issue, however, as there would be no requirement (or incentive) for providers to begin reporting even these basic enrollment, funding, and outcomes data.

Figure 21

Governor's Proposal Would Not Address Inconsistent Funding Policies for Adult Education

Per-Student Funding Rates

	2012-13	Governor's Proposal
Instruction at adult schools	Determined by each district	Determined by each district
CCC credit adult education	$4,565	$4,565
CCC noncredit adult education	$3,232	Determined by CCCCO

CCCCO = California Community College Chancellor's Office.

Proposal to Shift Apprenticeship Funds to CCC Has Problems. Like other types of adult education, school districts and community colleges share responsibility for providing apprenticeship instruction. Employers provide on-the-job training to apprentices (and pay their wages and benefits) and enter into partnerships with individual educational providers for formal classroom instruction. Though proposed trailer bill language would allow school districts to continue operating apprenticeship programs, the administration has not determined whether they would be eligible to access categorical program funds. To the extent school districts were excluded from this funding, the Governor would effectively limit the options that employers have to enter into such agreements. It is unclear why this would be advantageous either to employers or students. Moreover, it is unclear to us why the Governor would create a second apprenticeship categorical program for CCC given his stated intent to streamline funding for education.

No Justification for Different Treatment of State-Supported Instructional Areas. Under the Governor's proposal, both adult schools and community colleges would continue to be allowed to use state funding for adult education. Yet, community colleges would be restricted to using their state support for core instructional areas (such as literacy programs) while adult schools would be permitted to offer various noncore programs (such as home economics and fitness courses for older adults) using state funding. We do not understand the policy rationale for treating these providers differently as regards to the type of subsidized instruction they can provide.

LAO Recommendations

In light of the above assessment, we recommend the Legislature take a number of actions to improve adult education in California. Because we find that adult schools and community colleges each have comparative advantages for delivering adult education, we recommend an alternative approach from the Governor's that builds upon the strengths of each provider and creates the foundation for a more focused, rational, collaborative, responsive, and accountable system.

Focus on Core Adult Education Mission. We recommend the Legislature approve the Governor's proposal for CCC to focus state support on six instructional areas. We also recommend the Legislature focus on the same six instructional areas for adult schools.

Clearly Delineate Precollegiate and Collegiate Education at CCC. We recommend the Legislature work with the administration to develop consistent delineations of noncredit and credit instruction at the community colleges. To the extent precollegiate-level coursework is shifted from credit to noncredit, districts would be eligible for less apportionment funding. The Legislature could decide to keep CCC funding at the same level, however, which would allow community colleges to accommodate additional students (either in adult education or collegiate courses).

Resolve Inconsistent and Conflicting Adult Education Policies. To further achieve consistency of standards for adult schools and community colleges, we recommend the Legislature and Governor address policy differences concerning (1) faculty qualification requirements, (2) fees, and (3) student placement tests. Specifically, we recommend the Legislature amend statute so that faculty no longer need a teaching credential to serve as an instructor at an adult school. By aligning policy for adult schools with that of the community colleges, instructors could readily teach adult education courses with both providers. In addition, we recommend the Legislature consider levying a modest enrollment fee (such as $25 per course) for students in adult schools and noncredit CCC programs. We also recommend the Legislature amend statute to allow CCC faculty to place students into adult education courses based on assessment results (as faculty at adult schools currently are permitted to do) and require that adult schools use only assessment instruments that have been evaluated and approved for placement purposes (as community colleges are required to do).

Reject Governor's Categorical Program Proposals. We recommend the Legislature reject the Governor's proposals to (1) eliminate school districts' adult education categorical program, (2) create a new $300 million CCC adult education categorical program, (3) allow the CCC Chancellor's Office to determine the per-student rate for funds in the categorical program, and (4) allocate categorical funds to community colleges on a formula basis. Instead, we recommend the Legislature (1) restore adult education as a stand-alone categorical program for school districts, (2) provide up to $300 million for the reconstituted program, (3) provide adult schools with the same noncredit funding rate that community colleges receive, and (4) allocate funds to school districts based on the amount of General Fund monies they are currently spending on adult education.

Recommend Allocating Future Resources in Ways That Promote Both Access and Success. To foster more cooperation among providers and make the adult education system more responsive to local needs, in future years we recommend the Legislature: (1) allocate base adult education funds to providers on a combination of enrollment and performance, (2) make new funding available on a regional basis based on relative program need, and (3) promote collaboration among providers by adopting common course numbering for adult education.

Reject Transfer of Apprenticeship Funds to CCC. We also recommend the Legislature reject the Governor's proposal to shift funds from school districts' apprenticeship categorical program to a new categorical program within CCC's budget. Instead, we recommend that school districts' apprenticeship categorical funds be shifted to and consolidated within the reconstituted adult education categorical program we recommend above (resulting in a total of $315.7 million in funding for the categorical program). This would give school districts more flexibility to determine the appropriate mix of adult education programs they offer.

Improve Data State Receives. To improve public oversight of adult education going forward, we recommend the state begin collecting consistent data from adult schools and CCC. Such data would include enrollment levels, student learning gains in ESL and elementary and secondary education courses, and vocational certificates earned by students. Lastly, we recommend the Legislature promote a coordinated data system by clarifying its intent that adult schools and CCC use common student identification numbers.

COMPARING GOVERNOR'S PLAN AND LAO RECOMMENDATIONS

Below, we summarize the major fiscal differences between the Governor's Proposition 98 budget plan and the LAO recommendations we discuss throughout this report. Although we recommend the Legislature use the Governor's basic budget approach and generally dedicate newly available Proposition 98 funding for paying down deferrals and transitioning to a new school funding formula, we have some recommendations that differ from the Governor's specific proposals. Figure 22 summarizes these major differences.

LAO Recommendations Free Up More Than $300 Million Proposition 98 Funding. Most notably, we recommend a different treatment of Proposition 39 revenues and expenditures. As we discussed earlier, although this treatment reduces the minimum guarantee by $260 million, it frees up $190 million in Proposition 98 monies that can be used for operational purposes. In addition, we recommend rejecting the Governor's proposal to add the Graduation Requirements and BIP mandates to the schools mandates block grant, thereby freeing up $100 million. We also recommend rejecting the Governor's proposal to provide $16.9 million to CCC for various technology projects. We believe most of the Governor's associated objectives could be achieved largely within existing resources, though we note, given available funding, the Legislature could provide one of the higher education segments with $1 million to administer a competitive grant program to redesign and share more online courses, particularly courses commonly required for degrees. (Online education is discussed in our companion report, *The 2013-14 Budget: Analysis of Higher Education Budget*.) Altogether these recommendations free up more than $300 million in Proposition 98 operational funding.

Figure 22

Major Differences Between Governor's Proposition 98 Budget and LAO Recommendations

Issue	Governor's Proposal	LAO Recommendation
Treatment of Proposition 39 revenues	Includes all Proposition 39 revenues in the Proposition 98 calculation.	Excludes $450 million in Proposition 39 revenues set aside for energy efficiency projects from the Proposition 98 calculation.
Energy efficiency projects	Provides $450 million to schools and community colleges on a per-student basis for energy efficiency projects. Counts these expenditures towards the Proposition 98 minimum guarantee.	Provides $450 million to California Energy Commission to allocate funds on a competitive basis among all public agencies. Excludes these expenditures from the Proposition 98 minimum guarantee.
Adult education	Provides $300 million to create a new CCC adult education categorical program.	Restructures adult education system in an alternative way that provides for greater transparency, consistency, coordination, and accountability.
CCC general purpose funds	Provides an unallocated $197 million for priorities to be determined by CCC Chancellor's Office.	Designates additional funding for existing obligations, including paying down CCC deferrals. If further funding provided, links with specified objectives, including meeting enrollment and performance expectations.
K-12 mandates	Provides $100 million to add Graduation Requirements and Behavior Intervention Plans (BIP) to mandates block grant.	Does not add $100 million to block grant. Strengthens offset language for Graduation Requirements mandate. Makes statutory changes to BIP mandate to align better with federal law.
Special education equalization	No proposal.	Provides $30 million to equalize special education funding rates.
CCC technology initiatives	Provides $16.9 million (unspecified mix of ongoing and one time) to (1) develop 250 new online courses, (2) adopt a common learning management system (LMS), and (3) expand credit-by-examination options.	Provides $1 million in one time, non-Proposition 98 funds to modify existing online courses for use by faculty across the state. Encourages CCC to adopt a common LMS using existing resources. Withholds recommendation on credit-by-examination proposal pending more information.

Freed-Up Funds Offset by $30 Million Recommended Increase in Special Education Funding. As discussed in more detail in the "Special Education" section of this report, we recommend the Legislature provide $30 million to equalize AB 602 per-pupil funding rates. Taken together, our recommendations would free up a net of more than $275 million in Proposition 98 funds.

Adult Education Recommendation Differs in Many Ways From Governor's Proposal. As we discuss in the "Adult Education" section of this report, we recommend the Legislature reject the Governor's approach to "Adult Education" restructuring. We lay out an alternative approach under which the state would spend roughly the same total amount for adult education. Compared to the Governor's budget, however, our alternative likely would serve additional adult students at lower cost. Under our alternative, both school district-run adult schools and CCC would be funded directly to provide adult education, and the same rules would apply to them. Perhaps most notably from a fiscal perspective, our alternative would fund virtually all adult education at the enhanced noncredit adult education rate (which is lower than the CCC credit rate but higher than the 2007-08 adult school rate). Our alternative also would take a considerable amount of CCC credit instruction that in practice is adult education and officially reclassify it as noncredit adult education. These changes would free up considerable CCC funding that could be used to serve additional CCC students (either in adult education or collegiate courses)—resulting in more students served at a lower cost.

A Few Other Recommendations Have No Net Effect on Proposition 98 Spending. A few of our other recommendations also differ from the Governor's proposals but do not result in additional Proposition 98 costs or savings. Most notably, for special education, we recommend the Legislature consolidate a few additional programs not included in the Governor's consolidation package. Specifically, we recommend the Legislature add student mental health funding to AB 602 base funding allocations, add another program to a consolidated grant for students with LIDs, and consolidate the state's two extraordinary cost pools (for which the Governor has no proposal). Regarding transitional services for high school age SWDs, we recommend an approach that uses the same amount of funding but allocates in a manner allowing a greater number of SELPAs to provide such services. Taken together, our more extensive set of special education recommendations would provide SELPAs with greater flexibility in meeting the needs of SWDs at no additional cost. Apart from the Graduation Requirements and BIP mandates, our other mandate recommendations also vary somewhat from the Governor's proposals. In particular, we recommend adding one new mandate (Pupil Suspensions and Expulsions II) to the schools block grant and suspending one fewer mandate (Open Meetings/Brown Act Reform) compared to the Governor's plan. Given the minor fiscal effect associated with all these differences, we recommend no corresponding change in total funding for the schools block grant.

Base Augmentations for CCC Could Be Decided Within Context of Broader Higher Education Budget Plan. We recommend the Legislature reject the Governor's proposal to provide CCC with an unallocated $197 million base augmentation. Instead, we recommend the Legislature make its spending decisions within the context of the higher education budget package. If additional funding is available, we recommend the Legislature first address existing obligations, such as paying down CCC deferrals, and then linking any further funding to enrollment and performance targets.

Recommend Waiting Until May to Build Proposition 98 Budget Package. Because of the significant uncertainty regarding General Fund revenues in both 2012-13 and 2013-14, developing a specific Proposition 98 spending plan may be premature until additional revenue information is available in May. As we discussed earlier, higher General Fund revenues in 2012-13 would result in a roughly dollar-for-dollar increase in the minimum guarantee. The 2013-14 minimum guarantee also could change significantly compared to the Governor's estimates. Both changes could affect the Legislature's specific spending decisions for each year. Regardless of the specific amounts appropriated in each year, we recommend the Legislature maintain the same basic priorities set by the Governor: paying down one-time obligations and providing funds to transition to a new funding formula.

SUMMARY OF LAO RECOMMENDATIONS

✓ ***Paying Down Outstanding Obligations.*** Recommend a generally balanced multiyear budget approach similar to the Governor's plan that simultaneously pays down outstanding obligations and builds up base support. As part of this approach, recommend eliminating school and community college payment deferrals by 2016-17—prior to the expiration of Proposition 30's personal income tax increases.

✓ ***Timing.*** Recommend waiting until May to finalize the Proposition 98 budget package given significant uncertainty in General Fund revenues in 2012-13 and 2013-14 and the potentially large corresponding swings in the Proposition 98 minimum guarantee.

✓ ***Redevelopment-Related Rebenching.*** Recommend annually updating redevelopment-related rebenching adjustments until revenues begin to stabilize.

✓ ***Proposition 39.*** Reject Governor's proposal. Recommend the Legislature instead:

- Exclude Proposition 39 energy-related funds from Proposition 98 calculation and do not count Proposition 39 expenditures toward minimum guarantee.
- Charge California Energy Commission (CEC) with administering a competitive grant process under which all eligible public entities (including schools and community colleges) could apply for funds.
- Require CEC to develop grant evaluation process that takes into account facility needs and requires applicants to submit certain energy audit data.

✓ ***Mandates.*** Take the following mixed approach on Governor's mandates proposals:

- Reject proposal to add $100 million and two mandates—Graduation Requirements and Behavioral Intervention Plans (BIP)—to mandates block grant for schools. Consider requiring that future funding increases provided under the proposed K-12 funding formula be used to offset teacher salary costs for Graduation Requirements mandate.
- Adopt proposed modifications to BIP mandate to align state requirements more closely with federal requirements.
- Adopt proposal to fund new mandate related to pupil suspensions and expulsions. Include this mandate in the schools block grant.
- Adopt proposal to suspend five mandates. Reject proposal to suspend one mandate related to public meeting requirements.

✓ ***Special Education.*** Adopt more expansive version of Governor's two proposals. Specifically:

- Adopt Governor's proposal to fully delink state and federal special education allocation formulas, but also (1) provide $30 million to equalize per-pupil funding rates in tandem with equalizing general education per-pupil rates, and (2) change the Statewide Target Rate to reflect the current 90th percentile (the rate at which 90 percent of students are funded at the same rate, with the remaining 10 percent funded at higher rates).
- Instead of Governor's proposal to consolidate 8 special education categorical grants into 4 larger grants, provide greater flexibility by consolidating 12 grants into 5 larger grants with broader spending parameters.

✓ ***Adult Education.*** Reject all but one of the Governor's adult education proposals. Specifically, recommend the Legislature:

- Approve the Governor's proposal to reduce the number of CCC's authorized state-supported instructional programs from ten to six. Focus state support on the same six instructional areas for adult schools.
- Resolve inconsistent and conflicting policies regarding faculty qualifications, student assessment, and fees at adult schools and community colleges. Also, provide a clear and consistent distinction at CCC between adult education and collegiate instruction.
- Restore adult education as a stand-alone categorical program for school districts. Provide up to $300 million for the reconstituted program. Allocate these funds to school districts based on the amount of General Fund monies they are currently spending on adult education. Provide adult schools with the same noncredit funding rate that community colleges receive. Also, consolidate school districts' apprenticeship categorical funds within school districts' reconstituted adult education categorical program.
- Gradually reallocate providers' base budgets on basis of both enrollment and performance. Allocate new funds for adult education based on regional needs.
- Promote coordination by adopting common course numbering for adult education. Also, promote a linked data system for adult schools and CCC.

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SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, March 14, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

Item	Department	Page
6440	**University of California**	
6600	**Hastings College of the Law**	
6610	**California State University**	

Proposed "Vote Only" Item

Proposed "Vote Discussion" Items

6600 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

Item 1: State Cash Management Related Language

Governor's Budget Proposal. The January budget requests a combination of budget bill provisional language (both UC and CSU) and budget trailer bill language (CSU only) related to the state's cash management needs.

- ✓ The budget bill provisional language ensures the continuation of smoothing of payments to UC and CSU that have been carried out the last three years. The continuation of this policy would smooth payments over ten months with the remaining amount owed remitted in the final two months of the year.
- ✓ The budget trailer bill language authorizes DOF to defer up to $250 million of CSU's annual GF appropriation, payable in May or June of the same year. The CSU deferral has been included in a separate cashflow budget trailer bill in previous years.
- ✓ The January budget proposes no change to the existing statutory $500 million within-the-year deferral to UC, payable in May or June of the same year.

Background. These proposals are part of a larger state cash management strategy and are necessary to cover the low points in the state's cash position. While no new education or other payment deferrals are incorporated in the January budget, which is due to the improvement in the cash status, the proposed budget anticipates engaging in internal and external borrowing.

The state's receipts and disbursements of cash occur unevenly throughout the fiscal year, with typical low points occurring in July, October, and November. As a consequence, the GF borrows for cashflow purposes in most years, even though each budget is balanced when enacted, and funds are repaid within the fiscal year. Maintaining an adequate cash balance allows the state to pay its bills in a timely fashion. Interest is paid on both internal borrowing (such as cashflow loans from special funds) and for external borrowing (such as Revenue Anticipation Notes). Another cash management tool of the state is the State Agency Investment Fund, which attracts deposits from entities not otherwise required to deposit funds with the state. During 2012-13, there were deposits totaling approximately $1.7 billion combined into this fund from UC and CSU.

Staff Comment. The Administration's cash management strategy, as it pertains to UC and CSU, simply memorializes current practices. Neither segment has expressed concern with the proposed budget bill provisional and/or budget trailer bill language.

Staff Recommendation. Approve the budget bill provisional and trailer bill language.

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6600 HASTINGS COLLEGE OF THE LAW
6610 CALIFORNIA STATE UNIVERSITY

Item 2: Performance Expectations and Annual Base Budget Increases

Governor's Budget Proposal. The main component of the Governor's multi-year budget plan for UC, CSU, and Hastings is annual unallocated base GF increases for the segments. UC and CSU would receive $125.1 million GF each; Hastings would receive $392,000 GF. The Governor loosely links these base increases with an expectation the segments improve their performance but does not link them to enrollment expectations. The four areas of improved performance are:

- ✓ Increased graduation and completion rates;
- ✓ Increased CCC transfer students enrolled at UC and CSU;
- ✓ Decreased time-to-degree; and
- ✓ Increased credit and basic skills course completion.

The Governor's plan also provides the segments with more autonomy in funding debt service, earmarks funding for several technology-related initiatives, caps the number of state-subsidized college units, changes how the state funds retirement costs at CSU, changes to active employee health premiums at CSU, and freezes tuition levels. All of these items, except for those related to capital outlay and debt service/restructuring which will be heard at the Subcommittee's April 25 hearing, are in this agenda.

LAO Analysis. The Governor provides substantial unallocated base funding increases to the institutions, with only a vague connection to undefined performance expectations. Rather than encouraging the segments to address state-identified problems and priorities, the Governor's approach gives the segments much broader authority to pursue their top priorities. For example, the segments might decide to focus on more research, their law and medical schools, or administrative support, even if at the expense of broader public interests. Moreover, based on the segments' own budget plans, the segments likely would use augmentations primarily for employee compensation. As a result, the augmentations would increase the cost per student. Given the almost complete removal of funding requirements and the associated weakening of the incentives segments have to focus on broader public interests, the Governor's approach could end up exacerbating existing problems rather than improving the system.

LAO Recommendation. Reject the Governor's unallocated base increases, as they would be very unlikely to promote systemic change, and the approach of providing equal dollar amounts to each segment irrespective of its needs. Instead, the Legislature should allocate any new funding to meet the state's highest priorities. If more funding is provided than needed to meet existing funding obligations, including for debt service and retirement, the Legislature should link the additional funding with an expectation that the segments develop and implement strategies to improve legislatively specified student outcomes and meet identified cost-containment goals. Broad consensus already exists on some key outcome goals, including improving student persistence, transfer, and graduation; reducing costs; and maintaining quality. Moreover, the Legislature last year passed legislation (SB 721) outlining a process that would enable the state to measure progress and promote improvement in these areas through budget and policy decisions.

Building on this foundation, the Governor and Legislature could establish specific improvement targets and a system for reporting on the segments' performance relative to these targets. The Legislature should also establish enrollment targets (discussed in detail in the next item in this agenda) to ensure that student outcome improvements do not come at the expense of existing student access. These performance and enrollment targets would send a clear signal to the segments regarding the state's priorities and expectations. Compared with unallocated increases of seemingly arbitrary amounts, this approach would be far more likely to result in improved performance of the higher education system.

Staff Comment. Broadly speaking, the multi-year budget plan does not include any specific goals or targets to hold the segments accountable. The plan also effectively decreases legislative oversight and removes key budget tools that the Legislature uses to guide higher education agencies and shifts that authority and autonomy to the segments and/or Administration. This approach raises two broad questions for the Legislature to consider: (1) what is the Legislature's role in the multi-year budget plan; and (2) where is the linkage to a defined accountability framework?

These two questions were discussed in detail by the full budget committee at its February 14, 2013, hearing. At that hearing, the Administration testified that it was beginning to lay out what the system of performance expectations for the four identified priorities would look like, including how to evaluate performance towards achieving goals. The Administration indicated that in the "next couple of weeks" it would be ready to engage the Legislature in the details, including a discussion of the Legislature's role. At the time of the writing of this agenda, the Administration is still developing its proposal and further information will be forthcoming at a future date.

On a bipartisan basis, the Legislature has been developing, supporting, and refining proposals to create greater accountability for higher education since 2002. These actions respond to a stated need for a public agenda and improved oversight of the higher education segments. Being clearer about the goals and the measures will also highlight and drive the budget and policy decisions necessary to support the state's higher education system in meeting the state's goals.

SB 195 (Liu) is the most recent iteration of this effort. It is a reintroduction of Senate Bill 721 (2012), which is described above in the LAO recommendation. SB 721 was approved by wide margins in both houses of the Legislature. It was subsequently vetoed by the Governor due to process-orientated concerns about the leadership of the working group established to identify the metrics that will measure progress towards the identified goals. SB 195 addresses this process concern by requiring the Governor's Office of Planning and Research (as opposed to the LAO) to convene the working group.

It is a positive development that the Governor is focusing on higher education, looking to improve outcomes, and identifying priorities such as reduced time-to-degree and increased graduations. However, without any specifics in the budget, or a linkage to a defined framework of broader policy goals developed in partnership with the Legislature and a system for reporting on the segments' performance relative to those targets housed in statute, the multi-year budget plan is incomplete.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the following questions of the Administration, UC, CSU, and Hastings:

1. DOF, what is the timeframe for when the Legislature will receive details about the "system of performance expectations" for the four identified priorities included in the January budget?
2. DOF, what is the Administration's view of the Legislature's role in this process?
3. The segments all report that their governing boards will be considering revised budgets based on the proposed $125.1 million increase (each for UC and CSU) and the $392,000 increase for Hastings. The amount of "revision" necessary depends on the segment; i.e., UC and CSU governing boards adopted 2013-14 budgets totaling $584 million and $370 million, respectively.
   a. UC and CSU, what is the status of the budgetary revision process for your respective segment?
   b. Hastings, the proposed increase of $392,000 is $63,000 short of what is required solely for increased costs for employer retirement contributions in 2013-14. How will your governing board address this?

Staff Recommendation. Staff recommends that this issue be held open, pending receipt of: (1) further information from the Administration about the system of performance expectations; (2) further consideration of SB 195; and (3) the May Revision.

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Item 3: Budgetary Controls – Earmarks and Enrollment Targets

Governor's Budget Proposals. The January budget contains no earmarks of UC's and CSU's GF appropriations, except for new ones to address the Governor's priority; i.e., $10 million provided to each segment to increase the number of courses available through the use of technology.

The January budget also does not include enrollment targets for either UC or CSU; rather, the Budget Summary states that "*enrollment based funding does not promote innovation and efficiency or improve graduation rates. It does not focus on critical outcomes, affordability, timely completion rates, and quality programs. Instead, it builds on the existing institutional infrastructure, allowing public universities and colleges to continue to deliver education in the high-cost, traditional model*."

Background. The UC and CSU are governed by independent boards that make various decisions about how the universities will spend their resources, including the number of faculty, executives, and other employees on the payroll and those employees' salary and benefits; student tuition levels; and the amount of tuition revenue redirected to financial aid, among other fiscal decisions. Further, UC has constitutional autonomy afforded by the California Constitution, under which the Regents have "*full powers of organization and governance*" subject only to very specific areas of legislative control, such as budget act appropriations.

Given that significant budget authority has been delegated to UC and CSU, the Legislature has historically relied on two primary budgetary control levers or "tools," earmarks and enrollment targets, to ensure that state funds are spent in a manner consistent with the Legislature's intent and that access is maintained. The use of these tools has also ensured a clear public record and transparency of key budget priorities.

With regard to earmarks, typically the annual budget act includes a number of conditions on UC's and CSU's GF appropriations. These earmarks have varied over the years in keeping with the Legislature's and Governor's particular concerns at the time and have covered such programs as nursing and medicine, AIDS research, and science and math teaching initiatives. Due to the Governor's vetoes, the Budget Act of 2012, for the first time, included minimal earmarks in UC's and CSU's budgets. Figure 1 on the next page details the earmarks included in the Budget Act of 2011.

Figure 1 – Budget Act of 2011, UC and CSU GF Earmarks (dollars in millions)

UC		CSU	
Separately Scheduled General Fund Appropriations		Separately Scheduled General Fund Appropriations	
$8.7	Charles R. Drew Medical Program	$3.0	Assembly, Senate, Executive, & Judicial Fellows Programs
$9.2	AIDS research	$65.5	Lease-purchase bond debt service
$52.2	Student Financial Aid		
$3.2	San Diego Supercomputer Center		
$5.0	Subject Matter Projects		
$15.0	UC Merced		
$202.2	Lease-purchase bond debt service		
$4.8	Cal Institutes for Science & Innovation		
Provisional Language		Provisional Language	
$2.8	Energy service contracts	$2.7	Science and Math Teacher Initiative
$1.9	COSMOS	$0.6	Entry-level master's degree nursing programs
$1.1	Science and Math Teacher Initiative	$1.7	Entry-level master's degree nursing programs
$2.0	PRIME	$0.4	Baccalaureate degree nursing programs
$1.7	nursing enrollment increase	$3.6	Baccalaureate degree nursing programs
$3.0	2/12/09 MOU for service employees	$33.8	Student financial aid
		$0.35	Txfr to Affordable Student Housing Revolving Fund

Source: Legislative Analyst's Office

In the interim, i.e., post the 2012 Budget Act vetoes of nearly every earmark, informal "side agreements" with UC have ensured continued funding for many of the earmarked programs at the designated levels. However, this approach provides no public transparency or accountability.

With regard to enrollment targets, historically UC's and CSU's budget have been tied to a specified enrollment target. To the extent that the segments failed to meet those targets, the state funding associated with the missing enrollment reverted to the GF. Beginning with the Budget Act of 2011, enrollment targets have been included in both the budget bill and/or in statute but without any penalty should UC or CSU fail to meet its target in recognition of the overall reductions to their budgets.

Staff Comment. Absent the use of earmarks and enrollment targets, it is unclear what, if any, levers or tools would remain that are as effective and would ensure that state funds are spent in a manner consistent with the Legislature's intent.

The earmarks in question, excluding those related to lease-revenue bond debt costs, represented roughly two to five percent, respectively, of UC's and CSU's GF appropriation in 2012-13. As such, it is arguable that these earmarks "constrain" the segments; rather, they represent a fair balance between legislative priorities and budgetary flexibility for UC and CSU. The inclusion of earmarks in the budget bill also provides a clear public record of budgetary allocations and expectations. The Governor's approach effectively eliminates this budgetary tool for Legislative priorities, but creates a new earmark for his priority related to technology.

Enrollment levels are irrefutably a fundamental building block of higher education budgets. The number of students enrolled is a direct measurement of the "access" provided to higher education. Further, enrollment levels are a central cost driver for the segments and drive other costs, such as state financial aid. For these reasons, enrollment targets have been a major legislative concern.

With no target, as proposed by the Governor, UC and CSU will be empowered to make their own decisions about how many students to enroll with the funding available to them in 2013-14. For example, they could significantly reduce the number of students served, thus raising the amount of funding available per student. Or they could reduce the number of undergraduates served, and use the funding to add a smaller number of higher-cost graduate students. Enrollment decisions have implications not just for educating students, but they also have a profound effect on the level of access provided at each segment. For these reasons, the LAO recommends the Legislature reject any proposal to eliminate enrollment targets.

Shifting control over spending priorities away from the Legislature, as the January budget proposes, raises serious questions given that the universities and colleges are statewide, public institutions. The LAO advised at the February 14, 2013, full committee hearing on the Governor's Multi-Year Budget Plan for Higher Education that the Legislature should be very cautious about ceding its authority to make key high level decisions about the $4.5-plus billion GF that is spent each year on UC and CSU.

In reviewing these proposals, the Subcommittee may also wish to consider the broader question about accountability. As discussed in the preceding item, in the absence of any specifics in the budget, or a linkage to a defined framework of broader policy goals developed in partnership with the Legislature and a system for reporting on the segments' performance relative to those targets housed in statute (such as in SB 195 [Liu]), it is premature to consider ceding further legislative authority.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, LAO, UC, and CSU the following questions:

1. DOF, does the Administration see the inconsistency in the budget containing no legislative earmarks but including one for the Governor's priority?
2. LAO, what are your recommendations here? Should the budget contain earmarks? If so, on what basis should potential earmarks be evaluated?
3. DOF, with no enrollment target, what assurances does the Legislature have that UC and CSU will continue to serve all students eligible for their institutions under the Master Plan? What recourse is available if the segments fail to do so?
4. LAO, how would you propose to adjust UC and CSU enrollment targets given the increased funding each would receive in 2013-14 under the multi-year plan?
5. UC and CSU, where are you in the Fall 2013 admission process; how does the number of eligible applicants compare with this time last year?
6. UC and CSU, what are recent trends in the percentage of enrollment going to graduate students? To non-resident students?
7. UC and CSU, what are your projections about spring semester transfer admissions in the 2014 and 2015 academic years?
8. UC, in recent years you have expanded non-resident admissions, asserting that there is excess capacity because the state has not funded enrollment growth. If the multi-year plan is adopted, and state funding is no longer tied to enrollment, how will that strategy work going forward; e.g., how will UC determine that it has met California's needs versus having "excess" capacity that can be made available to non-residents?

Staff Recommendation. Direct staff to develop a package of UC and CSU earmarks for selected programs, and the LAO to report back to the Subcommittee by May 1, 2013, its recommendations for 2013-14 enrollment targets for UC and CSU. State that it is the intent of the Subcommittee to adopt both earmarks and enrollment targets for UC and CSU in the 2013-14 budget at a future hearing.

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Item 4: Total Cost of Education Reporting Language

Governor's Budget Proposal. The January budget requests budget trailer bill language requiring both UC and CSU to report biennially to the Legislature and DOF, beginning October 1, 2014, on the total costs of education, on a systemwide and a campus-by-campus basis, segregated by undergraduate instruction, graduate instruction, and research activities. Further, the proposed language requires the costs be reported by fund source, including: (1) state GF; (2) systemwide tuition and fees; (3) nonresident tuition and fees and other student fees; and (4) all other sources of income. Finally, the language states that, for purposes of the report, undergraduate and graduate research for which a student earns credit toward their degree program shall be included under instructional costs.

Staff Comment. By adopting this trailer bill language, the Subcommittee will ensure that it (as well as DOF and the LAO) receives, on a biennial basis beginning in Fall 2014, detailed information about the total costs of education at UC and CSU. This information is crucial to the Legislature's work to continue making key high level decisions about these statewide, public institutions. Delaying the first report until October 2014 also allows UC and CSU ample time to plan and prepare for this new reporting requirement.

As the Subcommittee may also recall, the Budget Act of 2012 included Supplemental Report Language (SRL) following up on State Audit Report 2012-105 that required UC to report to the Legislature: (1) the recommendations of the systemwide working group established to examine variations in funding across the system, and (2) how much GF and tuition each campus spends per type of student (undergraduate, graduate, and health sciences). UC reported on the first component but said it could not on the second because there was no correlation between marginal cost funding per student provided by the state and what a given campus might be allocated for each type of student. It is correct that the marginal cost amount is one rate that the system receives, while the actual money flowing from the UC Office of the President to each particular campus per FTES varies. That was the whole point of the Audit report and the SRL.

In considering this request, the Subcommittee may wish to consider several clarifications to the language. First, depending on how UC and CSU each interpret their "costs of education," there are several components to "educational and general" costs that could be left out. Additionally, greater clarity could be provided to the final sentence of the language, as it is somewhat unclear what is being requested. It appears the basic intent is to ensure that, when a faculty member is allocating his/her time, the amount of time spent supervising students conducting research *for credit* would be counted as an instructional cost as opposed to a research cost. If so, the language could be improved to provide greater clarity.

Staff Recommendation. Adopt placeholder budget trailer bill language, including potential clarifications as noted in the staff comment.

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Item 5: Expanding the Availability of Courses through Use of Technology

Governor's Budget Proposal. The January budget earmarks $10 million each for UC and CSU to expand the availability of courses through the use of technology. Budget bill provisional language specifies that:

- ✓ The funding is for high-demand courses that fill quickly and are required for many different degrees;
- ✓ Development of new courses that can serve greater numbers of students while providing equal or better learning experiences is a priority;
- ✓ The online courses are available systemwide regardless of a student's "home" campus; and
- ✓ Tuition fees will be the same as for regular courses.

The Governor's proposal also: (1) *encourages* UC and CSU to collaborate with the community colleges and each other to offer online courses that will be available to students between the three segments as well; (2) *states intent* that the funds will not be used to support or enhance the self-support elements of their current online efforts, in particular CSU Online and UC Online; and (3) *expects* the segments to report on how the funds have been allocated.

Background. While the state's colleges and universities have been providing distance education for decades through university extension programs, *online instruction for credit towards undergraduate and graduate degrees* has become a much more prominent part of postsecondary education in recent years. At the same time, debates have been sparked about quality assurances. Recent media reports have been focused on the rapid rise of MOOCs (massive open online courses), which are online courses aimed at large-scale participation and open access via the web. Though the design of and participation in a MOOC may be similar to college or university courses, MOOCs typically do not offer credits awarded to paying students at schools. However, that aspect is changing as universities here, and nationally, are now examining opportunities to use the MOOC platform for credit instruction, including the recently announced pilot at San Jose State University using a MOOC platform for introductory and remedial classes.

UC reports that systemwide there are 225 fully online courses that can count toward UC undergraduate degree programs, 116 offered through typical undergraduate offerings and 109 available for credit through UC Extension. In addition, there are 110 graduate online courses and three online masters programs, with several more going through the approval process. Each UC campus either has completed, or is in the process of developing, a strategic plan for online education.

CSU reports that its campuses offer over 15,000 online and hybrid courses and 84 hybrid and online degree programs. Online courses are available at all 23 campuses. The CSU system maintains an updated database of all campus online and hybrid degree programs and uses this site to market said programs. System efforts have also focused on facilitating a coordinated effort to purchase, develop, implement, and support learning management systems, which are the tools by which these courses are developed.

LAO Analysis. There is no justification for earmarking $10 million each for UC and CSU for the development of additional online courses. Each year the state provides funds to UC and CSU to support their operational costs. The segments use these monies to pay faculty to develop and deliver instructional content, and campuses generally decide on their own whether that content is offered through face-to-face or online courses. The segments have chosen to use their general purpose monies to fund a considerable amount of online education. It is unclear why the segments require ongoing augmentations to develop more online courses. However, there are significant opportunities for the segments to share more of their current inventory of online courses. This lack of sharing across campuses and segments has several disadvantages, including duplicative spending of state resources and forgone opportunities to share thoughtful coursework with other educators.

LAO Recommendation. A more cost-effective approach than the Governor's would be for faculty to make their content available to colleagues for reuse. To facilitate sharing, the Legislature should provide one of the segments with a small portion of one-time funding to administer a competitive grant program that would provide grants to faculty (from any of the segments) to modify, as needed, their existing online curricula (or, to the extent a need is identified by the Academic Senates of the three segments, to create a new online course). To assure quality, courses would be reviewed by other faculty in the field. Assuming an average grant amount of $20,000, a $1 million augmentation would fund the modification or development of 50 open online courses.

As part of his online initiative, the Governor also has expressed an interest in increasing opportunities for students to enroll in online courses offered at other campuses, though he does not provide the segments with specific direction as to how to achieve this goal. The state should address this issue, as the current cross-campus enrollment process is disjointed and overly cumbersome for students. Currently, the segments are investigating new systems to facilitate a more streamlined process of cross-campus enrollment in online courses. To better assess the potential of these projects for streamlining online pathways, the Legislature should ask the segments to provide updates at spring budget hearings on their implementation plans and estimated costs.

Staff Comment. If the investment bears fruit as the Administration envisions, the net result will be increased productivity and lower cost per degree for students and the state, as well as increased access for other students. However, it is not clear that enough structure is being provided to UC and CSU to ensure that the investment will bear fruit. For instance, the Administration does not require either UC or CSU to submit a proposed expenditure plan for the $10 million; rather, the budget bill language described above is the only guidance provided. This creates a significant amount of flexibility for UC and CSU, but raises concerns about whether the funds will be spent in a manner that will produce desired outcomes. To this point, UC and CSU each respond with different visions of how they are currently planning to use the $10 million earmark:

- UC indicates that it plans to hold an all-university working meeting this month to consider how best to move forward with enhancing online education at UC. The meeting will guide how the available funds can best be used and the Request for Proposals selection process. Topics to be discussed at the meeting include: (a) how best to develop online curriculum; (b) how to stimulate additional course development both at the campus level and through UC Online Education; (c) how to use faculty oversight to ensure quality is maintained; and (d) what incentives could be used to encourage faculty participation.

- CSU indicates that it is planning a multi-pronged approach to address the various types of bottlenecks experienced across the system and will use technology to: (a) re-design courses with high failure rates, thus reducing the seats needed for students repeating the course and allow students a faster path toward graduation; (b) scale-up best practices in the use of hybrid teaching (combining elements of online and in-person instruction), web-based "virtual laboratories", open source and electronic textbook use, and online teaching; and (c) upgrade student systems to provide support through electronic advising, optimized scheduling, and clearer degree pathways for all students. CSU also indicates that it plans to have campuses respond to a Request for Proposals detailing their plan for addressing bottlenecks and improving academic student services.

When comparing these proposals side-by-side, it is evident that CSU is farther along in the development process. CSU's proposal additionally contains elements of a student services component, while that component remains unanswered as yet by UC. Significantly, UC and CSU are also both not yet able to ensure that online courses are available systemwide regardless of a student's "home" campus, which is one of the requirements of the Governor's proposal:

- UC indicates that while it is feasible for a student to enroll in courses from campuses other than his/her home campus, using a process called "simultaneous enrollment," it is a relatively inefficient and time-consuming process. An initiative is underway to develop a technological intercampus communications structure that will streamline the method of enrollment for students across campuses, as well as facilitate the process by which non-home campus courses are approved by faculty to count toward major and GE requirements.
- CSU indicates that it is in the process of developing this capability, based on successful cross-registration protocols developed as part of the implementing the Early Start Initiative (ESI), which enables students to take summer remediation offered at a campus close to home even if the campus is not the student's freshman "destination" campus.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, UC, and CSU the following questions:

1. DOF, how will the Administration determine if the funding was used as intended? What metrics will be used, such as increased access or lowered cost, and how will they be measured? Is the Administration concerned about supplantion?
2. DOF, the Administration's approach is largely by "silo," in that UC and CSU each receive funding but cross segmental coordination is not required but encouraged. Why this approach; i.e., should the focus of these funds be for the development of courses that can be made available to matriculated students at each of three public segments, and in areas defined as transferable lower division courses?
3. UC and CSU, please briefly summarize how your current credit online course offerings focus on the high demand courses the Governor is targeting. Are these courses defined as transferable lower division courses?
4. UC and CSU, what has your current online instruction for credit towards a degree effort shown as to which students are likely to succeed online?

5. UC and CSU, what is your implementation timeline generally for your online proposal and specifically for cross campus enrollment? What is the estimated cost to develop the cross campus enrollment capability?
6. UC and CSU, please expand on the student services components of your respective approaches.

Staff Recommendation. Hold this item open, including the budget bill provisional language earmarking the funding, pending receipt of the May Revision.

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Item 6: Unit Caps on State-Subsidized Courses

Governor's Budget Proposal. The January budget proposes budget trailer bill language to cap the number of units the state would subsidize per student at UC and CSU. Under the proposal, students taking units in excess of the cap generally would be required to pay the full cost of instruction.

- ✓ In 2013-14 and 2014-15, the limit would be 150 percent of degree requirements, which equates to 270 quarter-units at UC and 180 semester-units at CSU. The limit would be reduced in 2015-16 and ongoing to the equivalent of about one extra year of full-time attendance, or 125 percent of degree requirements.
- ✓ The following course units are specifically excluded from counting against the unit cap: (1) remedial courses; (2) advanced placement or international baccalaureate units that were obtained while in high school or another secondary school program; and (3) dual enrollment, college-level units obtained by the student prior to receiving a high school diploma.
- ✓ The UC and CSU governing boards would be required to adopt guidelines and criteria for granting waivers on a case-by-case basis to students who exceed the allowed cap "due to factors beyond their control" and allow these students to continue to only pay state-supported systemwide tuition and fees.
- ✓ The unit cap applies to all students, including those attending and enrolled prior to 2013-14. The unit cap is also a "lifetime proposal;" i.e., it applies to former students who might be returning to college later in life. Once a student exceeds the unit cap (and is not grated a waiver), that student will have to pay the full costs of those additional courses.

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Background. Currently there are no state level limits on the number of units the state subsidizes per student.

SB 1440 (2010) improved the efficiency of transfer from CCC to CSU by requiring community colleges to create two-year (60 unit) degrees (known as "associate degrees for transfer") that are fully transferrable to CSU. A student who earns such a degree is automatically eligible to transfer to the CSU system as an upper–division (junior) student in a bachelor's degree program. Though these students are not guaranteed admission to a particular CSU campus or into a particular degree program, SB 1440 gives them priority admission to a CSU program that is "similar" to the student's CCC major or area of emphasis, as determined by the CSU campus to which the student is admitted. Once admitted, SB 1440 students need only to complete two additional years (60 units) of coursework to earn a bachelor's degree. By guaranteeing full credit for courses taken at the CCC and limiting the number of additional units students may be required to complete, SB 1440 also reduces excess unit–taking.

UC reports several campus-specific efforts to reduce excess course-taking and improve on-time graduation rates. For instance, UCLA pioneered "Challenge 45" whereby the campus asked all of the departments in Letters and Sciences to see if they could reduce upper division BA/BS degree requirements to 45 units. More than 2/3rds of the departments responded and now have major requirements at or much closer to 45 units. Many campuses are also using degree audit systems which allow advisors and departments to identify students who are missing required courses. Finally, a number of majors at all the campuses are re-ordering sequences and prerequisites so students do not get too far into majors before attempting difficult courses result in them changing majors and having to take extra courses.

CSU has also engaged in a variety of efforts to reduce excess course-taking and improve on-time graduation rates. CSU campuses have adopted strategies to improve course availability, including block scheduling (assigning a fixed course schedule to entering freshmen) and “four-year pledge programs” (which guarantee to full–time students who follow a specified academic plan that they will be able to get the necessary classes to complete a degree within four years). In January 2013, the CSU Board of Trustees adopted a policy capping the number of units that campus programs may require for a bachelor’s degree to 120, with limited exceptions. Currently about 20 percent of CSU bachelor’s degree programs require more than 120 units. In addition, last fall, CSU administration proposed three new incentive fees to be assessed on: (1) excess units (similar to the Governor’s proposal); (2) high unit load in a given term; and (3) course repeats. Discussion of these three proposals has been deferred to a future board meeting, but all three proposals would reduce excess unit–taking by students.

If in place in Fall 2013 as proposed by the Governor, a unit cap of 150 percent would impact about 2,200 students at UC. Most of these students are multiple, physical science, or engineering/computer science majors. CSU reports a similar number, or 2,100 students impacted by a 150 unit cap, which represents 1.5 percent of current seniors. A unit cap of 125 percent would impact about an additional 6,700 students at UC. CSU reports that 10,700 students, or 7.5 percent of seniors, would be impacted by a unit cap of 125 percent.

LAO Analysis. If they work as intended, caps on state-subsidized units encourage students to seek academic advising and develop academic plans in their first year of college. Unit caps also discourage repeated changes of major and other student choices that result in excess unit-taking yet still providing some room for students to explore other subjects and add new skills. By promoting more efficient course-taking, unit caps likely would reduce costs and improve on-time graduation rates. In addition, unit caps could improve campus practices that contribute to excess unit-taking. The proposed policy would create pressure for campuses to enhance academic advising and ensure availability of required courses. It also would focus attention on course articulation. Campuses also would need to track student progress toward degrees under the proposed policy, providing valuable information for course scheduling as well as student advising.

LAO Recommendation. Because it creates positive incentives for students and motivates institutions to improve the efficiency of their academic programs, the Legislature should adopt a cap on the number of state-subsidized units students can accrue with the following specific provisions: (1) exclude from the cap units earned through other agencies, by internal evaluation, and for unsubsidized courses as long as they do not contribute to FTE student counts; (2) prohibit students from being allowed additional state-subsidized units for double majors; (3) cap the number of failed and dropped courses the state subsidizes; (4) provide additional guidance regarding waivers to avoid an excessive number of appeals; and (5) delay implementation until 2015-16 to provide adequate notice to students and permit the segments to develop systems to identify and monitor excess units as students enroll.

Staff Comment. The cap is intended to create an incentive for students to shorten their time-to-degree, reduce costs for the state, and increase access to more courses for other students. This is a legitimate goal, but ignores some of the realities of the current situation, including most prominently the severe capacity issues brought on in large part by state level budgetary reductions. Students should be able to take appropriate courses and earn degrees in a timely fashion, but there needs to be shared responsibility for doing so. As noted in the LAO analysis, campuses would need to enhance academic advising and ensure availability of required courses. The Governor's proposal also would focus attention on course articulation. Yet, the Governor's proposal contains no requirements or expectations of the segments for any of these student services, but does create a hard penalty for students. It also changes the rules of the game midcourse for all students currently enrolled, which raises a question of fairness.

Neither segment has carried out a systematic analysis to determine to what extent "factors beyond a student's control" have contributed to high numbers of units taken by some students. Given this, and the fact that CSU begins early registration this month for Fall 2013 enrollment, it is highly questionable that either governing board could adopt the guidelines and criteria for granting waivers on a case-by-case basis by the start of the upcoming fall term as proposed by the Governor.

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, UC, and CSU the following questions:

1. DOF, doesn't this proposal ignore the realities of the current situation including the severe capacity issues brought on in large part by state level budgetary reductions; e.g., does the Administration know how many students that would be above the cap in 2013-14 are in that situation <u>not</u> due to "factors beyond their control"?
    a. UC and CSU, what other situations would be considered factors beyond a student's control? For instance, would it include inconsistent transfer requirements and requirements of particular majors?
2. Students should be able to take appropriate courses and earn degrees in a timely fashion, but there needs to be shared responsibility for doing so. DOF, why is the only measureable component of the multi-year budget plan with specific penalties directed at students?
3. UC or CSU, have you modeled how many students that would be above the cap in 2013-14 are in that situation <u>not</u> due to "factors beyond their control"?
4. UC and CSU, is it feasible to expect that your respective governing boards could develop waiver policies and have them in place for the 2013-14 academic term?

Staff Recommendation. Reject the budget trailer bill language.

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Item 7: Employer Pension Contributions

Governor's Budget Request. The January budget provides a $51.4 million GF increase to fund the annual increase in costs for CSU's required employer pension contribution to the California Public Employees Retirement System (CalPERS). In future years, and under proposed budget bill provisional and trailer bill language, CSU will continue to receive annual GF adjustments based on the 2012-13 payroll level; however, if CSU chooses to increase payroll expenditures above that level, CSU would be responsible for the associated pension costs.

For 2013-14, UC has identified additional retirement costs of $67 million, due to an increase in employer contribution rates and an increase in payroll. Hastings has identified $455,000 in additional costs. The January budget does not identify any funding for these costs. UC could cover them, however, with a portion of the proposed base budget augmentation; Hastings could cover all but $63,000 of its costs with its proposed base budget augmentation.

Background. CSU employees are members of CalPERS, the same retirement system to which most state employees belong. Unlike most other state employees, the state does not collectively bargain with CSU employees. Funding for the CalPERS system comes from both employer and employee contributions. CSU's employees currently contribute either five or eight percent, depending on classification (most other state employees contribute eight to eleven percent, depending on bargaining unit, and will all contribute 50 percent of the normal cost of their pension per Chapter 296, the Public Employee Pension Reform Act of 2012). Each year, as is the case with other state departments, CSU's employer contributions to CalPERS are charged against its main GF appropriation; the employer contribution is based on a percent of employee salaries and wages that is determined by CalPERS. The budget annually adjusts CSU's main appropriation to reflect any estimated changes in the employer contribution. CSU's base 2012-13 budget of $1.9 billion contains $460 million for this purpose.

UC (and Hastings) employees are members of the University of California Retirement Plan (UCRP). UCRP is separate from CalPERS and under the control of UC. UC not only controls its pension costs but also sets benefits levels for its employees. Prior to 1990, the state adjusted UC's GF appropriation to reflect increases and decreases in the employer's share of retirement contributions for state-funded UC employees. Starting in 1990, however, UC halted both employer and employee contributions because the pension plan had become "super-funded." This funding "holiday" lasted nearly 20 years until the plan's assets had declined considerably and contributions once again became necessary. In April 2010, both UC and its employees resumed contributions to the plan. The Budget Act of 2012 provided $89 million to UC, and nearly $900,000 to Hastings, specifically to cover increased retirement costs.

Hastings funds the employer's share for its employees by making direct remittance to UC. Hastings does not commingle funds as it is entirely separate from UC. The amount that Hastings pays each year to UCRP is based on the annual payroll assessment rates as determined by the Regents. In this sense, Hastings is positioned similarly to CSU and its relationship with CalPERS.

LAO Recommendation. The Legislature should adopt the CSU proposal.

In deciding how best to address UC's retirement costs, the Legislature has three main issues to keep in mind: (1) cost control because UC, unlike other state agencies, administers its own retirement plan; (2) payment obligation, as the state is not legally obligated to provide funding for UC's retirement costs; and (3) transparency for the state, because identifying retirement costs would prevent UC from asserting in the future that it did not receive funding for this purpose. For these reasons, the Legislature should specify that $67 million of UC's proposed 2013-14 base budget increase is for pension costs. For Hastings, the Legislature should increase the Governor's proposed base augmentation from $392,000 to $455,000 and designate the full amount for retirement. In addition, and consistent with the approach taken in the Budget Act of 2012, the Legislature should include language in the budget bill reiterating that the state is not obligated to provide any additional funding for this purpose moving forward. Such language is intended to reinforce that the state is not liable for these costs.

The Legislature may want to consider the universities' retirement costs in light of this legislation. This consideration would be useful since UC was specifically exempt from Chapter 296, while the applicability of some provisions to CSU is still being determined. In the future, the Legislature could consider providing the universities with funding for retirement costs comparable with costs incurred by other public employers. Under this approach, the universities would be responsible for any costs beyond that level. Alternatively, the Legislature could consider encouraging the universities to change their retirement plans to conform to other public employers by linking such changes with their state appropriation.

Staff Comment. CSU has requested a modification to the Administration's proposal to instead use the 2013-14 payroll level as the base year. CSU is concerned that the 2012-13 payroll level is artificially low; CSU points to the fact that it is down 3,000 employees since the 2007-08 fiscal year. Setting aside the issue of which base year is used, staff finds that the overall concept has merit. Absent the Governor's proposal, the alternative is that the state's budget will continue to bear these costs yet have no control over the salary/benefits and resulting pension costs (above the base year expenditure level) that CSU negotiates with its employees.

With regard to UC and Hastings, the LAO raises a legitimate point. It is not an option for UC and Hastings to make the required employer contribution to UCRP; the reality is that this requirement is first call on the budget each year. Designating a portion of the base budget augmentation (or in the case of Hastings, designating all of the base budget augmentation) for UCRP, will improve budget transparency.

Staff Recommendation. Approve the CSU proposal in concept, withholding determination of the "base year" pending receipt of further information from the Administration. Pending receipt of the May Revision, hold open the LAO recommendations to: (a) designate $67 million of the $125.1 million UC base budget augmentation for UCRP and (b) increase Hasting's base budget augmentation by $63,000 GF, to a total of $455,000, and designate all the funding for UCRP.

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Item 8: CSU Health Care Plan Premium Rates Trailer Bill Language

Governor's Budget Proposal. The January budget proposes budget trailer bill language to provide CSU with the same statutory authority to negotiate or set employee health care plan premium rates that is provided to the California Department of Human Resources (CalHR) for other state employees.

The language does not specify what the CSU employer contribution rate should be; rather, it provides that it cannot be less than an amount equal to 80 percent of the weighted average of the total premium cost of the four health care plans with the highest enrollment of state employees and 80 percent of the weighted average of the additional premium cost for dependents (80/80 level).

By specifying that this item of compensation be negotiated through collective bargaining like other compensation issues, the language would allow the CSU to impose changes to health care plan premium rates as part of a last, best, final offer.

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Background. State law in effect since 1991 specifies that CalHR shall establish employer contribution amounts for health care plan premium rates for: (1) non-represented state employees through administrative action and (2) represented state employees through the collective bargaining process. State law allows that changes to these rates can be imposed as part of a last, best, final offer. At present, state payments for health care plan premium rates are at the 80/80 level; a minority of state employees in selected bargaining units are at an 85/80 level. This translates to most state employees contributing roughly 20 percent of the health care plan premium costs for themselves (and any dependents).

CSU is governed by law that predates the above and sets a "default" requirement that CSU health care plan premium rate payments for employees equal 100/90, whereby CSU is paying 100 percent of the weighted premium cost for employees and 90 percent for any dependents. This section may be superseded by negotiated bargaining agreements, but in the absence of such agreements, the default formula prevails. Finally, if the provisions of the negotiated bargaining agreement require the expenditure of funds, the provisions may not become effective unless approved by the Legislature.

In 2012-13, CSU will spend an estimated $355 million on active employee health premium rates.

A similar proposal was included as part of the 2012-13 May Revision but was not part of the final budget. Last year concerns were raised about timeliness given that CSU was actively bargaining with the majority of its represented employees. At present, all of CSU's bargaining units are under contract until June 30, 2014.

Staff Comment. The Governor is raising a legitimate point about providing CSU with the same tools as CalHR to better manage and negotiate the entirety of its personnel costs, including employee health care plan premium rates. However, at a basic level, the statutory changes effectively provide CSU as an employer with greater leverage at the bargaining table. It could be argued that allowing imposition of terms, including for health care plan premium rates, provides an incentive for good faith bargaining. However, CSU reports that it has never put this request (to change the 100/90 contribution share) on the bargaining table. How then in considering this proposed trailer bill language can the Legislature be certain that existing law actually precludes CSU from negotiating this issue with its represented employees when CSU has never in fact attempted to bargain this issue?

The Administration does not budget any savings from this proposal, either in 2013-14 or in 2014-15.

Staff Recommendation. Reject the budget trailer bill language.

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Item 9: Multi-Year Freeze of Tuition Fee Levels

Governor's Budget Proposal. The January budget expects UC and CSU to maintain current tuition and fee levels for the next four years. As a result, tuition fee levels would remain flat for a six-year period (2011-12 through 2016-17).

Background. The Maddy-Dills Act previously required higher education fees to be: (1) gradual, moderate and predictable; (2) limited increases to not more than ten percent a year; and (3) fixed at least ten months prior to the fall term in which they were to become effective. The policy also required sufficient financial aid to offset fee increases. However, even with this policy, when the state faced serious budgetary challenges the statute was "not withstood" in order to provide the institutions some flexibility in dealing with the lack of state GF support. In 1996, the Act was allowed to sunset and, since that time, the state has had no long-term policy in statute to set fees.

In the absence of a statutory policy, and while there is an implicit policy whereby students and the state are expected to share educational costs, the relative proportions have become dependent on the state's fiscal situation. As a result, fees have increased steeply during difficult budget years and then gradually declined when the state's fiscal situation improved and more GF support could be provided to UC and CSU.

Chapter 620 (2012) pertains to fees at UC and CSU. It does not contain a fee policy; rather, it focuses on the process by which fee increases are considered by UC and CSU in an effort to ensure transparency and accountability around the costs of educating students and the uses of student fee revenues.

LAO Analysis. The full tuition level currently reflects about 55 percent of education costs at UC and 46 percent at CSU. Because of financial aid, however, fewer than half of students pay the full tuition rate. After accounting for state and institutional financial aid, the average net amount paid by students currently covers about 30 percent of education-related spending at the universities. When federal and private grants are included, the student shares are even lower. These shares are very low compared with other states.

The Governor's proposal would extend for four more years UC and CSU tuition levels that already have been in place for two years (2011-12 and 2012-13). While this would help current students, it likely would increase volatility for future students. Extended tuition freezes have been followed by periods of high annual tuition increases. The proposal also would have the negative near-term effect of reducing the incentive students and their families have to hold higher education institutions accountable for keeping costs low and maintaining quality. Given the important role of tuition in higher education budgets, a relatively low share of cost now borne by students and their families, and likely negative consequences of an extended tuition freeze, there is not a strong justification for having the state bear all higher education cost increases for the next four years.

LAO Recommendation. An extended tuition freeze would not be in the public's best longer-term interests. Instead of an extended tuition freeze, the Legislature should adopt a policy that bases tuition and fee charges at each of the public higher education segments on a share of educational costs. Such a policy would provide a rational basis for fee levels and a simple mechanism for annually adjusting them. It would recognize explicitly the partnership between students and the public. It also would strengthen accountability by giving students and their families an incentive to hold institutions accountable for keeping costs low and maintaining quality. Though such a policy would depend on the state providing its share of funding, it would be more likely than the Governor's proposal to result in moderate, gradual, and predictable tuition increases over time.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the Administration, UC, CSU, and Hastings the following questions:

1. DOF, what is your response to the LAO's recommendations, including adoption of a policy that bases tuition and fee charges at each of the public higher education segments on a share of educational costs?
2. DOF, what is your response to the LAO concern that a tuition freeze would likely increase tuition fee volatility for future students?
3. Hastings, what are the budgetary impacts of a tuition freeze at your institution?
4. UC and CSU, what are the components of a sound long-term policy on tuition fees?

Staff Recommendation. This is an informational item.

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Item 10: CCC Transfer Enrollments at UC and CSU

Background. The 1960 Master Plan for Higher Education includes a number of policies for ensuring college access to the state's public higher education segments. A key provision is the transfer function, which gives state residents an opportunity to begin their postsecondary studies at CCC and eventually move to the UC or CSU to earn a bachelor's degree. Unfortunately, the transfer process from CCC to the public universities has never worked as well as intended. For years, the Legislature has sought to make improvements. Despite these efforts, transfer students still must often navigate a complex maze of requirements that vary across campuses. This can make it very difficult for students to transfer successfully.

In an attempt to fundamentally reform the state's major transfer pathway (from CCC to CSU), AB 2302 and SB 1440 (2010) were enacted into law. SB 1440 requires community colleges to develop two-year (60 unit) associate degrees that are completely transferrable to CSU. Students who earn such a degree are guaranteed admission in the CSU system, and would be required only to complete two additional years (an additional 60 units) of coursework to earn a bachelor's degree. AB 2302 further clarifies that students who pursue the transfer pathway established by SB 1440 will be granted admission priority over all other students and requests that UC participate in the new transfer pathway.

In its spring 2012 report on the implementation of SB 1440, the LAO found that while notable progress has been made on multiple fronts, the results fall short of the legislation's intent. The report made a number of recommendations to the Legislature to provide additional guidance and statutory clarification to CCC and CSU on their responsibilities, as well as continued oversight to track their progress.

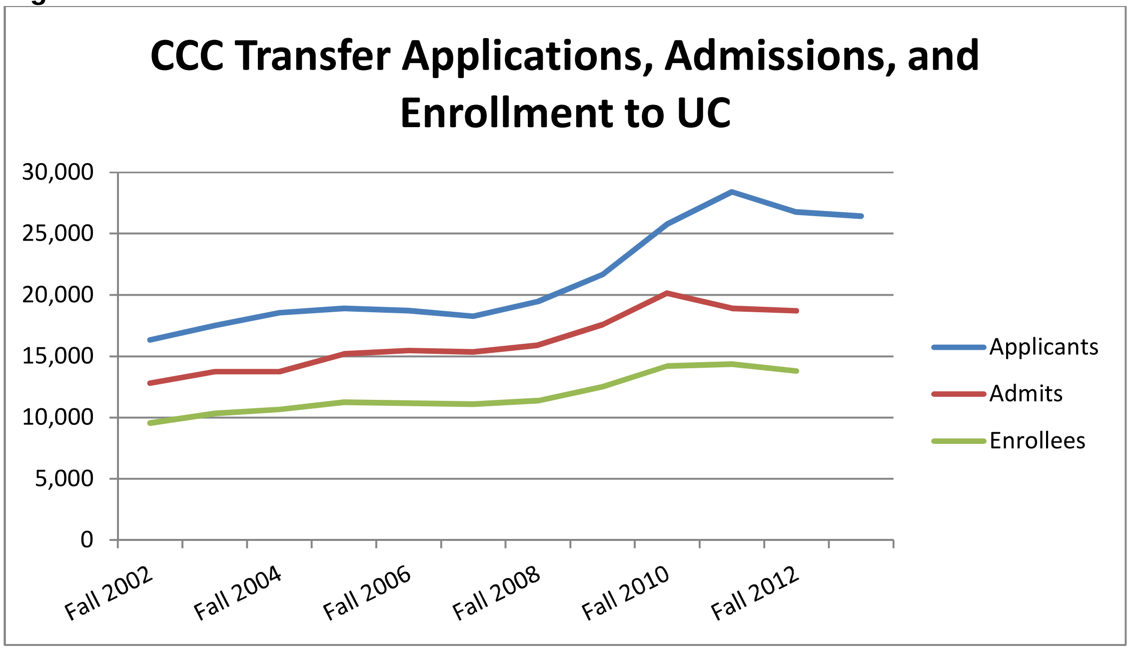
In January 2012, UC submitted its required report under AB 2302. UC reported the following, "*given the specialized nature of UC's degrees, the rigor of the upper-division coursework, and the way in which degree requirements are tied closely to individual campus research priorities, the University's participation in the associate degree pathway will differ in some significant ways from the way in which the CSU will participate. Namely, while UC is aiming to guarantee a comprehensive review for admission to transfer students who have completed associate degrees for transfer in similar majors, it will not be able to guarantee selection for admission. Furthermore, it will not be able to guarantee that students will be able to graduate within 60 units after transfer in all majors on all campuses*."

CSU reports that for Fall 2013, unduplicated applications for transfers total 112,013, a 15.5 percent increase over Fall 2012. This high increase is, in part, attributable to the near-closure of transfer applications for Spring 2013. For Spring 2013, only nine CSU campuses were open for transfer applications, and these were limited to SB 1440 applications.

With regard to fall semester transfer admissions, UC reports in Fall 2011, 28,412 students applied for transfer admission to UC, and 14,360 students enrolled. In Fall

2012, of 26,772 applicants for transfer application, approximately 13,800 enrolled. In Fall 2013, 26,423 students applied for transfer admission to UC. With regard to winter and spring semesters transfer admissions, UC reports that since 2010 the only UC campus that has been open for admission is UC Merced; therefore, the numbers are small and are projected to remain so into the future. In the Winter 2011 and Spring 2012 terms, of 597 transfer applicants to UC, 353 enrolled. Figure 2 below displays UC applications, admissions, and enrollment of CCC transfer students.

Figure 2



Source: UC

Staff Comment. As evidenced by both the Master Plan and AB 2302 and SB 1440, as well as numerous other bills through the years, the transfer function remains a critical priority for the state. It also links directly to the January budget, as one of the four performance expectations proposed by the Governor is increased CCC transfer students enrolled at UC and CSU. The Legislature also has before it SB 440, which is intended to advance the recommendations contained in the LAO's spring 2012 report on the implementation of SB 1440.

By way of explanation for the recent trends as displayed in Figure 2, UC reports that there has been a decline in applications from California resident CCC transfer students (six percent decrease in Fall 2012 and one percent decrease in Fall 2013). UC is working with the CCC Chancellor's Office to explain these decreases. One possible explanation is that the last time UC saw a decline in applications from transfers in the mid-2000s was due to a "pipeline" issue, i.e., students were unable to get the classes required for transfer. Given budget cuts at the CCCs, this may well be the case, although the CSU actually saw an increase in applications during this same time period. The CCC Chancellor's Office also reports that its number of transfer ready students has increased each year since 2011-12. UC offers a second theory, in that in both 2010 and 2011 the numbers were anomalously high and that the drops in 2012 and 2013 are a "correction;" e.g., because of transfer enrollment constrictions at CSU in Spring 2010 and the aforementioned closing of UC campuses to winter/spring transfers after 2009, there was a subsequent spike in the number of applications to UC, which has now self-corrected to normal levels.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask UC and CSU the following questions:

1. UC and CSU, what do you see as your institutional responsibility for CCC transfer?
2. UC and CSU, are CCC transfers evenly spaced across campuses or are they focused at "less desirable" campuses? Are CCC transfer students being displaced by admission of other groups of students?
3. CSU, the LAO's 2012 report highlighted that some of your campuses are not meeting the SB 1440 vision. How is this being addressed and how is the system ensuring a consistent policy and approach across all of its campuses?
4. CSU, what other changes outside of SB 1440 have you done internally to improve transfer function?
5. The point of SB 1440/AB 2302 was to create clear pathways for students. UC reports that it offers students a "guarantee of comprehensive review for admission" but this is not a guarantee of admission. How is UC participating in the new transfer pathway and reducing confusing pathways for students; i.e., what changes have you made internally to improve the transfer function?

Staff Recommendation. This is an informational item.

6440 UNIVERSITY OF CALIFORNIA
6600 HASTINGS COLLEGE OF THE LAW
6610 CALIFORNIA STATE UNIVERSITY

Item 11: Federal Sequestration: Higher Education Impacts

Background. The federal sequester is automatic, across-the-board, spending reductions on many federal programs, intended to ensure $1.2 trillion deficit reduction over 10 years. Generally speaking, the reductions are half from defense and half from non-defense programs. The first set of reductions took effect March 1, 2013, impacting mostly federal discretionary spending ($71 billion in cuts) and some mandatory programs ($14 billion in cuts). Certain programs were exempted from the sequester, including entitlements and Pell grants for college students, among others.

Due to the sequester, all federally-funded education programs (other than Pell grants) are subject to an automatic across-the-board reduction of roughly 5.3 percent. Students will also see an increase in the origination fee charged for new federal student loans taken after July 1, 2013. Additional reductions to education programs (including Pell grants) will likely occur in Fiscal Years 2014 through 2021 due to stringent “caps” on so-called discretionary-funded programs, which include all education programs (other than student loans).

Staff Comment. The full impacts of the March 1 reductions are not yet known. CSU estimated federal funding reductions in excess of $22 million for FY 2013. Important programs subject to the cuts include campus-based aid programs; aid to minority-serving institutions; TRIO and GEAR UP. Examples include: (1) Supplemental Educational Opportunity Grants and Work-Study will lose up to $1.5 million, eliminating awards for more than 1,400 students; (2) TRIO and GEAR UP will be cut by a combined $2.1 million, curtailing services to approximately 3,300 students; and (3) funding for improving teacher quality and reforming teacher preparation will be cut almost $500,000, slowing the pace of improvement and innovation. UC will also be impacted by reductions in these same campus-based aid programs, expecting “severe” cuts but did not offer a dollar estimate of the impact.

With regard to federal research spending, UC estimates that more than $335 million in federal support for UC research would be lost in FY 2013, with additional deep cuts anticipated in the subsequent fiscal years, 2014 through 2021. UC researchers are among the nation’s leading recipients of funding from the National Institutes of Health (NIH), National Science Foundation (NSF), Department of Agriculture (USDA), NASA, Department of Defense, and Department of Energy and other research agencies, all of which are subject to sequestration. Funding cuts ranging from 8.2 to 9.4 percent in the first year will disrupt UC researchers’ ability to contribute scientific discoveries and innovations, and damage job creation and economic recovery in our state and nation. For CSU, examples include a $2.6 million reduction from NSF; a $5.6 million reduction from NIH; and $841,000 from USDA.

Subcommittee Questions. The Subcommittee may wish to ask UC, CSU, Hastings, and DOF for updated reports about the impact of the federal sequester.

Staff Recommendation. This is an informational item.

Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, March 21, 2013
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultant: Kim Connor

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ISSUE 1. LAO Report on Special Education

DESCRIPTION: The LAO will present highlights from its recent report entitled **Overview of Special Education in California.** Published in January 2013, this report provides a "primer" on special education programs that support our state's students with disabilities. The LAO will also provide highlights from one of its recent budget publications – **The 2013-14 Budget -- Proposition 98 Education Analysis** – that describes funding for special education programs in our state. Both of these publications provide useful background for the Subcommittee in considering upcoming issues in this agenda.

LAO Report -- Overview of Special Education in California. The Executive Summary of the LAO overview report is included below. [Highlights added for key terms and figures.]

Special education is the "catch–all" term that encompasses the specialized services that schools provide for disabled students. This report provides a comprehensive review of special education—conveying information on applicable laws, affected students, services, funding, and student outcomes.

- **Public Schools Must Provide Special Support for Disabled Students.** Federal law requires schools to provide "specially defined instruction, and related services, at no cost to parents, to meet the unique needs of a child with a disability." The law requires schools to provide disabled students with these special supports from **age 3 until age 22**, or until they graduate from high school, whichever happens first. These services are in addition to what a nondisabled student receives.
- **About One in Ten California Students Receives Special Education Services.** About **686,000 students with disabilities (SWDs)** receive special education services in California, comprising about **10 percent of the state's public school enrollment**. Specific learning disabilities—including dyslexia—are the most common diagnoses requiring special education services (affecting about 4 percent of all K–12 students), followed by speech and language impairments. While the overall prevalence of students with autism and chronic health problems still is relatively rare (each affecting 1 percent or less of all public school students), the number of students diagnosed with these disabilities has increased notably over the past decade.
- **Special Education Services Vary Based on Individual Student Needs.** Federal law only requires schools to provide special education services to students with diagnosed disabilities that interfere with their educational attainment. To determine a student's need and eligibility for special education, schools must conduct a formal evaluation process. If schools determine that general education programs cannot adequately meet a disabled student's needs, they develop **Individualized Education Programs (IEPs)** to define the additional services the school will provide. Each student's IEP differs based on his or her particular disability and needs. Specialized academic instruction is the most common service that schools provide. This category includes any kind of specific practice that adapts the content, methodology, or delivery of instruction to help SWDs access the general curriculum. Other

commonly provided services include speech and language assistance and various types of therapies for physical and psychological needs that may be impeding a SWD's educational attainment. Although federal law encourages schools to educate disabled students in mainstream settings, most (about three–quarters) of special education services are delivered in settings other than regular classrooms.

- **In General, the State Uses a Regional Structure to Organize Special Education.** Because economies of scale often improve both programmatic outcomes and cost–effectiveness, special education funding and some services are administered regionally by **127 Special Education Local Plan Areas (SELPAs)** rather than by the approximately 1,000 school districts in the state. Most SELPAs are collaborative consortia of nearby districts, county offices of education (COEs), and charter schools, although some large districts have formed their own independent SELPAs, and three SELPAs consist of only charter schools.

- **The Excess Costs Associated With Providing Special Education Services Are Supported by Federal, State, and Local Funds.** Schools receive billions of dollars to provide a basic educational program—including teachers, instructional materials, academic support, and enrichment activities—for all students, including SWDs. **The average annual costs of educating a SWD, however, are more than double those of a mainstream student—approximately $22,300 compared to $9,600.** (It is important to note that most SWDs require less severe, less costly services, whereas some students require intensive interventions that cost notably more than $22,300 per year.) Schools receive categorical funds to cover a portion of these additional, or "excess costs," associated with addressing students' disabilities. Because federal and state special education funds typically are not sufficient to cover the costs of all IEP–required services, however, schools spend from their local unrestricted general funds to make up the difference. In 2010–11, special education expenditures totaled **$8.6 billion**. State special education categorical funds covered the largest share of these costs (43 percent), combined with spending from local general purpose funds (39 percent) and federal special education funds (18 percent). Over the past several years, a combination of increasing special education costs and relatively flat state and federal special education funding has resulted in local budgets covering an increasing share of these costs.

- **Special Education Funds Allocated to SELPAs Based on Overall Student Population, Not Number of Disabled Students**. California relies primarily on a "census–based" funding methodology that allocates special education funds to SELPAs based on the total number of students attending, regardless of students' disability status. This funding model implicitly assumes that SWDs—and associated special education costs—are relatively equally distributed among the general student population and across the state. The amount of per–pupil funding each SELPA receives varies based on historical factors. In 2011–12, the weighted statewide average per–pupil rate was **$645 per student** (including both state and federal funds). After receiving its allocation, each SELPA develops a local plan for how to allocate funds to the school districts and charter schools in its region based on how it has chosen to organize special education services for SWDs.

ISSUE 1.   LAO Report on Special Education

- **Mixed Academic Outcomes for Disabled Students.** Some performance indicators suggest SWDs generally are performing well, whereas other indicators are less encouraging. For example, performance on standardized tests (including those specifically designed for SWDs) has improved over the past several years, but a majority of SWDs still fail to meet state and federal achievement expectations. As SWDs near the end of their time receiving special education services, data show that about 60 percent of SWDs graduate on time with a high school diploma and about two–thirds of SWDs are engaged productively after high school (with about half enrolled in an institute of higher education and 15 percent competitively employed within one year after high school).

LAO Report: The 2013-14 Budget -- Proposition 98 Education Analysis. Excerpts from the LAO report are provided below. These excerpts provide an overview of the state's current approach to funding special education.

- **Federal Law Requires School Districts to Provide Special Services to SWDs.** Federal law requires public schools to make special efforts to educate students who have disabilities. Specifically, the federal Individuals with Disabilities Education Act (IDEA) requires that LEAs provide "specially defined instruction, and related services, at no cost to parents, to meet the unique needs of a child with a disability." Once schools have determined that a SWD requires additional educational support, they develop an Individual Education Program (IEP) for the student that documents which special education services the school will provide.
- **Special Education Services Supported by Categorical Funds.** Billions of dollars are allocated to LEAs for the basic educational components—including teachers, instructional materials, and academic support—provided to all students, including SWDs**.** The average costs of educating a SWD, however, are more than double those of a mainstream student—approximately $22,300 compared to $9,600. To the degree SWDs require additional services beyond what mainstream students receive, LEAs receive special education categorical funds that cover much of the "excess costs." (These categorical funds are comprised of state, LPT, and federal monies.) Because special education categorical funds typically are not sufficient to cover the costs of all IEP–required services, LEAs spend from their local general purpose funds to make up the difference. In 2010–11, categorical funding covered 61 percent of special education excess costs. The remainder of our discussion focuses on these categorical funds.

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- **Funds Allocated to Special Education Local Plan Areas (SELPAs), Not Directly to Local Education Agencies (LEAs).** Because economies of scale often improve both programmatic outcomes and cost–effectiveness, the state distributes special education categorical funds to 127 SELPAs (rather than to the approximately 1,000 LEAs in the state). Most SELPAs are collaborative consortia of nearby districts, COEs, and charter schools, although some large districts have formed their own SELPAs, and three SELPAs consist of only charter schools. (Additionally, one unique SELPA consists solely of court schools in Los Angeles County.) Single–district SELPAs typically receive funding directly from the state and offer or contract for special education services on their own. In contrast, consortia SELPAs work internally to decide how best to divvy up special education funding for all the SWDs in their region. In most cases, consortia SELPA members opt to reserve some funding at the SELPA level to operate some shared, regionalized services, then distribute the remainder to LEA members to serve most of their own SWDs locally.

- **Most Funds Allocated to SELPAs Based on Overall Student Population, Not Number of SWDs**. Prior to 1998, California distributed special education funds using a "cost–based" model—essentially funding individual SELPAs based on the costs they incurred serving SWDs. Beginning in 1998–99, California switched to a "census–based" approach for distributing most special education funds. This methodology allocates special education funds to SELPAs based on total ADA, regardless of SWD counts or the SELPA's special education expenditures. The census–based funding approach implicitly assumes that SWDs—and associated special education costs—are spread fairly evenly throughout the overall student population.

- **Funds Allocated Using AB 602 Formula.** California's census–based formula for distributing special education categorical funds to SELPAs commonly is referred to as the "AB 602" formula after the authorizing legislation. The AB 602 formula incorporates (1) state categorical monies, (2) a relatively small amount of LPT revenues that flow through the state's categorical program, and (3) federal IDEA funds. In 2012–13, the state allocated about $2.9 billion in state and LPT funds and $1 billion in IDEA monies through the AB 602 formula.

  The amount of AB 602 funding each SELPA receives from each source varies based on four key factors: (1) historical AB 602 per–pupil rates, (2) total ADA, (3) federal allocation formulas, and (4) historical LPT revenue allocations.

- **Somewhat Different Approach Used to Fund Charter–Only SELPAs.** The state funds the three charter–only SELPAs somewhat differently from the process described above, in that the state and federal funding formulas operate completely separate. In contrast to traditional SELPAs, how much charter SELPAs receive in federal funding pursuant to the IDEA formulas is not used as an offset in calculating how much they receive in state aid, and the blended state and federal per–pupil funding approach is never used.

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Each year, the state calculates how much state General Fund to provide to charter SELPAs based on the uniform STR of $465 per ADA. This same STR is used as the basis for (1) adding funding if the SELPA grows in ADA, (2) providing a COLA, and (3) decreasing funding if the SELPA declines in ADA. Any federal funds the charter SELPAs receive pursuant to the IDEA formulas are in addition to this state AB 602 allocation. (Because LPT revenues are allocated based on historical county patterns and charter SELPAs are relatively new entities, they do not receive LPT revenues for special education.)

SUGGESTED QUESTIONS:

1. **LAO: Expenditures & Costs.** Your overview report finds the average cost of educating a student with disabilities is more than double those of a mainstream student -- approximately $22,300 compared to $9,600.

    a. What are the excess costs of special education? How have excess costs been affected by recent revenue limit and categorical reductions?

    b. What are the "misconceptions" with excess costs you identify in your report?

    c. While special education is not included in the Governor's proposed Local Control Funding Formula, how will additional base and supplemental funding proposed by the Governor affect students with disabilities? How will it affect excess costs?

2. **LAO: Student Outcomes.** Your overview report presents state level outcome data for students with disabilities in public schools compared to other students.

    a. How many students with disabilities are reaching proficiency or above on statewide assessments?

    b. How many students with disabilities are passing the CAHSEE by end of 12^{th} grade?

    c. How many students are graduating from high school with a diploma?

    d. How many students are transitioning to college or career activities?

    e. What does the research suggest about improving outcomes for students with disabilities?

3. **LAO: State & Federal Accountability.** The LAO overview report finds that 52 percent of schools statewide met their Academic Performance Index (API) growth targets for students with disabilities compared to 67 percent for students overall in 2011-12. However, your report indicates that "these statistics exclude about half of the state's LEAs (for AYP) and almost 90 percent of schools (for AYP and API), as their populations for students with disabilities are deemed too small to report as discrete groups for accountability calculations." What do large "subgroup sizes" mean for students with disabilities within our state and federal accountability systems?

ISSUE 2. Special Education – Separation of State and Federal Funding

DESCRIPTION: The Governor proposes to separate state and federal funding within the special education funding formula in 2013-14 in order to address some funding inequities and to make funding simpler and more transparent.

BACKGROUND: The current special education formula was created by AB 602 (Chapter 854, Statutes of 1997). The AB 602 formula incorporates (1) state categorical funds, (2) a relatively small amount of local property tax (LPT) revenues that flow through the state's categorical program, and (3) federal funds authorized under the Individuals with Disabilities Education Act (IDEA).

In 2012–13, the state allocated about **$2.9 billion** in state and LPT funds and **$1 billion** in IDEA monies through the AB 602 formula.

Funding is allocated to 127 Special Education Local Planning Areas (SELPAs). The amount of AB 602 funding each SELPA receives from each source varies based on four key factors: (1) historical AB 602 per–pupil rates, (2) total ADA, (3) federal allocation formulas, and (4) historical LPT revenue allocations. In 2011–12, the weighted statewide average per–pupil rate was **$645 per student** (including both state and federal funds).

After receiving its allocation, each SELPA develops a local plan for how to allocate funds to the school districts and charter schools in its region based on how it has chosen to organize special education services for SWDs.

Current Problems with the AB 602 Formula: The LAO recent publication – Proposition 98 Analysis – identifies two major problems with the AB 602 funding formula:

1. **Modification to State Allocation Formula Has Led to Complications.** The state's AB 602 formula originally was designed to be relatively straightforward—blending federal, LPT, and state funds interchangeably to fund a total SELPA amount. The funding calculation grew more complicated in 2005–06, however, when the state responded to changes in federal law by modifying how the formula operates in some situations. Specifically, federal law now prohibits a state from using federal funds to pay for COLAs or growth adjustments that are required by state law.

   Consequently, the state now goes through a complex annual calculation for SELPAs that grow or decline in ADA from one year to the next. Specifically, the state provides a funding rate of $465 per ADA—referred to as the "Statewide Target Rate" (STR)—to fund new SELPA ADA and to compute COLAs. The state, however, uses a SELPA's unique blended rate (state plus federal funds, averaging roughly $660 per ADA) to fund existing ADA and apply reductions when a SELPA declines in ADA. This discrepancy has led to a gradual "ratcheting down" of funding rates in some SELPAs. Additionally, the state made other modifications (also due to changes in federal law) that resulted in complicated calculations to ensure year–to–year increases in federal funds are treated separately from all other AB 602 adjustments.

ISSUE 2. Special Education – Separation of State and Federal Funding

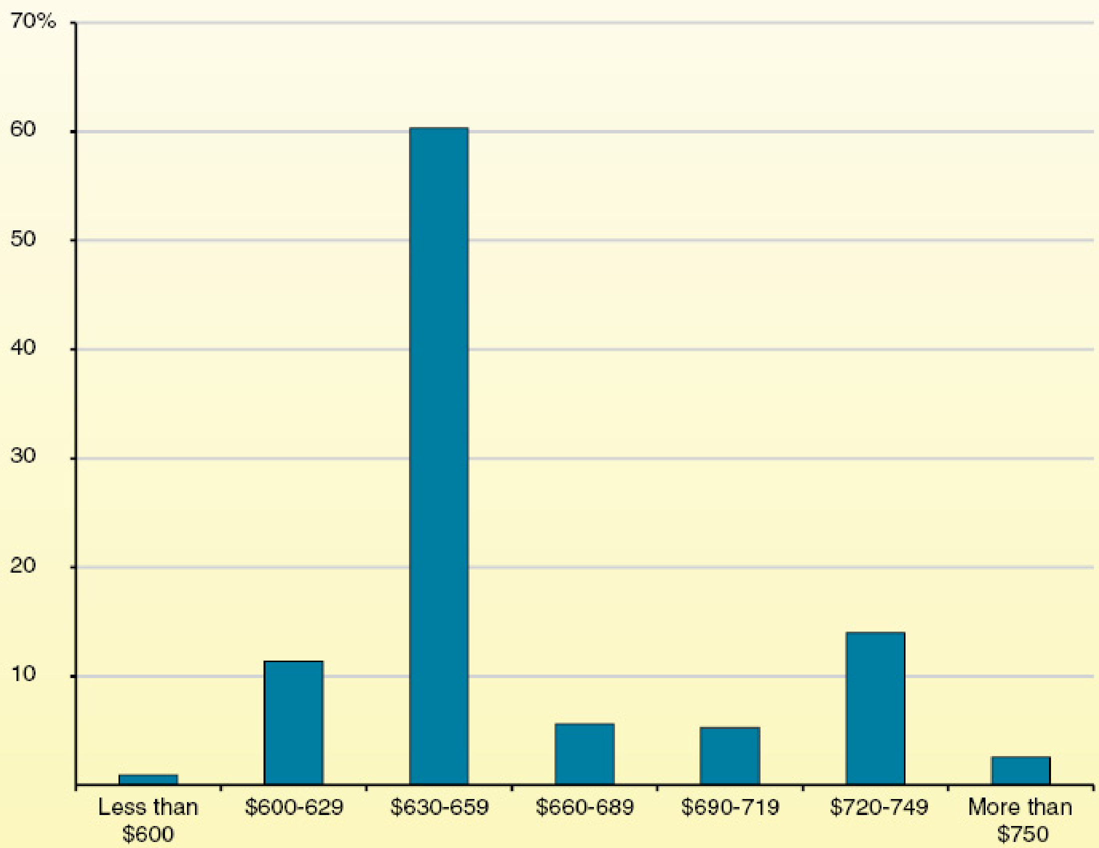
2. **AB 602 Funding Rates Vary Across SELPAs.** When the state first transitioned to the AB 602 formula in 1998–99, each SELPA's per–pupil rate was derived based on how much it had received under the old cost–based special education funding model. Because SELPAs had structured services in varying ways—including some that hired more special education staff and opted for more costly student placements—there was some discrepancy amongst these rates.

   While the state made some investments in equalizing AB 602 rates over the ensuing years, large discrepancies remain. Individual SELPA per–ADA rates range from about $570 to about $1,090, with a statewide weighted average rate of about $660. As shown in the LAOP figure below, the majority of pupils—about 60 percent—attend LEAs that receive between $630 and $659 per ADA.

Figure 14

Special Education Per-Pupil Funding Rates Vary

Percent of Statewide Average Daily Attendance, 2011-12



Source: Legislative Analyst's Office.

ISSUE 2. Special Education – Separation of State and Federal Funding

GOVERNOR'S BUDGET PROPOSAL: According to the Administration, the special education funding formula has become unnecessarily complicated over time with certain formula components creating funding inequities among special education local planning areas.

To address these issues, the Governor proposes to eliminate the integration of federal funds in the state's AB 602 formula calculation and treat state and federal funding streams separately for funding purposes beginning in 2013-14. In so doing, the Governor proposes to:

- ✓ Delink state and federal funding by removing about **$1.0 billion** in federal IDEA funds from the AB 602 formula and allocating these funds to SELPAs based upon federal formulas.
- ✓ Revise the state AB 602 funding formula to SELPAs to reflect remaining state and local property tax funds. The Governor would reduce the existing per- pupil AB 602 funding rates for SELPAs to reflect the removal of federal funds.

Per the Administration, the changes proposed by the Governor will not affect funding set aside for realignment of mental health services for special education students implemented last year. More specifically the Governor continues **$357 million** in Proposition 98 General Fund and **$69 million** in federal funds for this purpose in 2013-14.

In addition, the Governor's proposal would not change funding allocations for charter school SELPAs. Instead, with the removal of federal funds from the AB 602 formula, charter and non-charter SELPAs would be treated similarly.

LAO COMMENTS:

- **Proposed Change Would Make State's Allocation Formula Simpler and More Rational.** The Governor's proposal to fully remove federal funds from the state's special education allocation formula would simplify a system that has grown exceedingly complicated since 2005. Modifying the state's allocation formula in this way would create a consistent, rational funding policy for growing and declining ADA, as well as avoid complications in years when federal funds increase. Moreover, simplifying the current formulas would help policy makers and the public better understand special education funding policies. Developing such an understanding could, in turn, facilitate future efforts to assess and address needed improvements to those policies.

ISSUE 2. Special Education – Separation of State and Federal Funding

- **Governor's Proposal Maintains Unjustified Differences Across SELPAs' AB 602 Funding Rates.** Through his Local Control Funding Formula (LCFF), the Governor proposes to gradually equalize general purpose and other categorical funding rates across school districts. In contrast, the Governor has no proposal to address existing differences in special education funding rates. While the proposal to remove federal funds from the AB 602 calculation would clarify each SELPA's state funding rate, it would not make significant progress towards eliminating the disparities among those rates. No policy rationale exists for these disparities, and leaving them in place means that SELPAs with historically lower per–pupil rates receive less state funding to meet the same responsibilities as those with historically higher rates.

LAO RECOMMENDATIONS: The LAO recommends the Legislature build upon the Governor's proposals, but also make a couple of additional improvements**,** as detailed below:

1. **Adopt Governor's Proposal to Fully Delink State and Federal Allocation Formulas.** Because it would make the state's special education funding approach simpler, more rational, and more understandable, the LAO recommends that the Legislature adopt the Governor's proposal to remove federal funds from the state AB 602 formula.

2. **Provide Additional Funds to Equalize AB 602 Funding Rates in Tandem With LCFF Rates.** The LAO recommends the state adopt a plan for equalizing special education funding rates that is aligned with whatever approach it adopts for equalizing general education rates. For example, in 2013–14, the Governor proposes to provide about 10 percent of the funding needed for districts to reach their new per–pupil target rates under his proposed LCFF formula. Should the Legislature choose to adopt this approach, the LAO recommends the 2013–14 budget also provide about 10 percent of the funds necessary to equalize AB 602 rates. The LAO recommends similar alignment between general education and special education equalization efforts in future years. The LAO recommends adopting a target AB 602 rate at the level where 90 percent of ADA in the state receives the same rate --$535. (The state has used the 90th percentile target to equalize revenue limits in the past.) The LAO estimates equalizing to this target rate would cost approximately **$300 million**. As such, the LAO recommends that the Legislature increase special education funding by **$30 million**—or about 10 percent of the total equalization cost—in 2013–14.

3. **Update STR to Reflect New Equalization Target.** In addition to providing funds to equalize AB 602 rates, the LAO recommends updating the State Target Rate (STR) from $465 (which reflects an outdated statewide average rate) to $535 (which represents the rate for the 90th percentile of ADA). Under this approach, all new SELPA ADA would be funded at $535. (The SELPAs would continue to experience funding reductions for declines in ADA based on their unique AB 602 state rate.) This would ensure the STR operates as it was originally envisioned when the AB 602 formula was designed—to gradually increase overall per-pupil rates for SELPAs funded below the equalization target and gradually decrease overall rates for SELPAs funded above the target. In contrast, leaving the STR at $465—as proposed by the Governor—effectively would establish a much lower equalization target.

ISSUE 2. Special Education – Separation of State and Federal Funding

STAFF COMMENTS:

- **Governor's Proposal to Delink State and Federal Funds Fixes Addresses Unintended Problems in Recent Years**. Changes to the AB 602 formula needed to conform to new federal laws in 2005-06 created some new problems for SELPAs. Specifically, the bifurcation of funding for growth and cost-of-living adjustments distorted the funding rates for purposes of growing and declining SELPAs. Under the Governor's proposal, SELPAs grow and decline reflecting state funding rates, instead of "blended" state and federal funded rates under current law.
- **Opportunity to Update STR as a Part of Delinking State and Federal Funds.** The Governor calculates the new State Target Rate by simply subtracting federal funds from SELPAs' blended AB 602 rates. While this calculation is fairly straightforward, the resulting State Target Rate is about $10 per ADA below the new statewide average. For growing SELPAs, this will equalize per pupil rates down to this lower State Target Rate. (Declining SELPAs would lose funding based upon their unique state funding rates.)
- **Very Small Costs Associated with Updating State Target Rate to Statewide Average.** Raising the State Target Rate of **$465 per ADA** to the statewide average of **$475 per ADA**, results in a $10 per ADA increase for growing SELPAs. The Department of Education estimates additional Proposition 98 costs of **$1.2 million** associated with this proposal. Staff recommends that this small, additional cost be covered in 2013-14 and beyond. Due to other offsetting budget adjustments, additional funding may not be required beyond currently proposed levels in 2013-14.
- **Failure to Equalize Special Education Funding Will Continue Serious Inequities for SELPAs Statewide.** AB 602 funding reforms enacted in the late 1990s commenced a process of addressing significant, historical inequities in special education funding among SELPAs statewide. Given the extent of these inequities, AB 602 set its goals on bringing all SELPAs to the statewide average funding rate at that time. Recent changes in the formula have distorted achievement of that goal. Large unjustified funding variations remain among SELPAs. Per the LAO, per–ADA funding rates for SELPAs range from about **$570** to about **$1,090**, with a current statewide weighted average rate of about **$660.**
- **Special Education Equalization Consistent with Governor's School Finance Restructuring Proposal.** The Governor's Local Control Funding Formula (LCFF) proposes to gradually equalize state revenue limits and most state categorical funding for school districts statewide. While special education is not included in the Governor's LCFF proposal, there is no policy or fiscal reason for leaving special education out of the equalization process. Special education is one of the state's largest categorical programs. Historical funding disparities for SELPAs are significant in size and impact. There is no policy or fiscal reason for not addressing these inequities as a part of the Governor's overall plan. In fact, failure to address these inequities will undermine the Governor's goals to achieve greater equity in funding for our school finance system.

ISSUE 2. Special Education – Separation of State and Federal Funding

STAFF RECOMMENDATIONS:

Staff recommends the following Subcommittee actions:

1. Approve the Governor's proposal to delink state and federal funding, but modify to establish a new State Target Rate based upon recalculation of a new statewide average rate once federal funds are removed. (This proposal could include costs of $1.2 million; however, it is unclear at this time whether this will result in an actual increase in the Governor's budget for special education. If so, any such appropriation can be considered by the Subcommittee at May Revise.)

Staff further recommends that the Subcommittee:

- Consider adopting the LAO's equalization proposal as a part of the Proposition 98 package at May Revise. [Under the LAO proposal, special education funding equalization (to the 90th percentile) would be adopted and aligned with whatever approach is adopted at May Revise for equalizing general education funding rates.]

SUGGESTED QUESTIONS:

1. What are the benefits of delinking state and federal special education funding within AB 602 per the Governor's formula? Are there any negative consequences to delinking?
2. What are the costs of recalculating the AB 602 State Target Rate to reflect the updated statewide average rate after removing federal funds from the formula?
3. What are the Administration's thoughts about recalculating the AB 602 State Target Rate under the Governor's Proposal t?
4. What is the impact of different funding rates for SELPAs – which commonly range between $100 and $150 dollars per ADA? Is it correct to assume that SELPAs with 50,000 ADA could currently experience a $5-$7.5 million per year difference in funding due to funding rate variations?

ISSUE 3. Special Education - Program Consolidations

DESCRIPTION: The Governor proposes to consolidate a number of separate special education programs in 2013-14 in order to provide greater efficiencies and improve flexibility so that funding can better meet student needs.

BACKGROUND: In addition to their AB 602 formula allocations, SELPAs statewide receive a total of $**926.4 million** in funding for separate special education programs and calculations in 2012-13. Of this amount, **$740.8 million** is currently derived from state funding and **$185.7 million** from federal funding.

While not appropriated to SELPAs, some school districts and county offices of education receive state funding $181.9 million through the Home-to-School Transportation program that is directed specifically to transportation for severely disabled students and orthopedically impaired students.

GOVERNOR'S BUDGET PROPOSAL: According to the Administration, a number of special program add-ons created over the years have resulted in both inefficiencies and a lack of flexibility at the local level. To address these issues, the Governor proposes to consolidate funding for a total of eight existing special education programs described below.

1. **Rolls Two Special Education Grants Into the AB 602 Formula.** The Governor proposes to consolidate two grants -- Program Specialists and Regionalized Services (PSRS) and Staff Development -- into the AB 602 base. The Governor's proposal would allow SELPAs – and their member districts -- to use these funds for any special education purpose.

   Per the LAO, roughly **$90 million** in PSRS funds are currently set aside for regional SELPA activities and a **$2.7 million** supplement for small SELPAs located in less populous areas of the state. In addition, SELPAs currently receive **$2.5 million** specifically to conduct staff and parent training activities.

   Consolidated funds would be allocated to SELPAs based upon the AB 602 ADA formula. PSRS funds are currently allocated on a per-ADA basis -- similar to AB 602. Staff development grants are currently allocated on a per-SWD basis.

2. **Consolidates Six Grants Into Three.** The Governor also proposes to consolidate six special education grants into three larger grants, as follows:

   - **Combine Two WorkAbility Grants.** The proposal would consolidate two discrete grants supporting WorkAbility, a vocational education program that serves SWDs in middle and high schools. The two current programs include the WorkAbility I LEA Project currently funded at **$29.5 million** and the WorkAbility I Vocational Education Project funded at $**10.3 million** annually. The proposal would not alter the allowable uses or current recipients of the funds, as the two grants already are administered as one program.

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- **Combine Two Low-Incidence Disabilities Grants.** The proposal would combine two separate grants specifically directed exclusively for students with low-incidence disabilities -- equipment and materials currently funded at **$13.4 million** and specialized services currently funded at **$1.7 million** annually. Low incidence disabilities are defined as hearing impairments, vision impairments, and severe orthopedic impairments. The proposed change would allow SELPAs to use the combined funds on any mix of services or equipment costs, provided the funds still were targeted for students with these low incidence disabilities.

- **Merge Assessment Research Grant Into Technical Assistance Grant.** The proposal would eliminate the **$200,000** annual grant currently dedicated to researching how best to assess students from different cultural backgrounds, and shift the funding to increase a **$1.1 million** state grant that the California Department of Education (CDE) currently uses for California Services for Technical Assistance and Training (CalSTAT) statewide technical assistance activities. The proposal would leave it to CDE's discretion whether to require CalSTAT to dedicate a share of the funding for activities related to cross–cultural assessments, or to allow the funds to be repurposed for other activities.

LAO RECOMMENDATIONS:

1. The LAO recommends substantial approval of the following Governor's proposals:

    - **Roll Two Stand Alone Programs into AB 602, But Continue Providing Additional Funding for Small SELPAs** The LAO believes the Governor's proposal to roll the Program Specialists and Regionalized Services (PSRS) funds ($90 million) and Staff Development Grant funds ($2.5 million) into the AB 602 formula is a good first step towards increasing SELPAs' flexibility.

      However, the LAO recommends one modification to continue **$2.7 million** in PSRS funding for exceptionally small, geographically isolated SELPAs that cannot take advantage of economies of scale.

      Per the LAO, PSRS and Staff Development grants currently fund activities that all SELPAs must perform. As such, allocating the funds on an equal per-ADA basis and allowing SELPAs to determine how much to spend on these activities, weighed against other special education priorities, makes sense. According to the LAO, this particular component of the proposal is consistent with the Governor's overall K-12 funding approach that removes most spending requirements, including those related to staff development.

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- **Consolidation of Statewide Activity Funds.** The Governor's proposal to merge state Cross Cultural Assessments into a broader statewide capacity-building effort also seems reasonable to the LAO.

  The 2012-13 budget provides $4.5 million ($3.4 million in federal funds and $1.1 million in state funds) to provide special education–related professional development and technical assistance activities to LEAs around the state. (The CDE currently contracts with Napa County Office of Education (COE) to run these activities through the California Services for Technical Assistance and Training (CalSTAT) project.)

  Under the Governor's proposal, the $200,000 for cross cultural would be added to these statewide technical assistance activities. As background, the LAO notes that the funding for cross-cultural assessments relates to a 1979 court case that required the state to develop methods other than intelligence quotient tests for assessing learning disabilities, particularly for African–American students.

2. LAO provides the following recommendations which build upon the Governor's proposals:

- **Combine WorkAbility Grants into "Transition Services" Funding Supplement, Allocate to All SELPAs.** Per the LAO, the Governor's proposed consolidation of the two WorkAbility grants into a single **$39.8 million** grant would have virtually no effect on the existing program. Maintaining this categorical program, with its specific requirements and uneven statewide participation rates, seems counter to the restructuring approach the Governor is applying to K–12 education.

  The LAO recommends adopting a more consistent approach, which would increase local flexibility and equalize funding across all SELPAs serving high school SWDs. Under this approach, the funds would be allocated based on a SELPA's ADA in grades 9–12 and could be used to provide any transition service for SWDs in those grades. (Per the LAO, Transition services is an area where the state has been flagged by federal review as needing improvement.)

  Because reallocating these funds across all SELPAs would decrease per–pupil rates compared to the existing grants, the LAO suggests that the Legislature could consider increasing funding for this new grant in the future should it wish to enable SELPAs to continue offering WorkAbility–like services.

- **Add Low-Incidence Disability ROC/P Funding to Low-Incidence Disability Block Grant.** The state currently provides funding for students with low-incidence disabilities (LIDs) to participate in ROC/Ps. The per–pupil rates are quite high ($6,199 per visually impaired ADA, $3,549 per deaf ADA, and $1,964 per orthopedically impaired ADA) because these students require more intensive assistance.

Given all other state funding for ROC/P has been subject to categorical flexibility since 2009 and the Governor is proposing to permanently eliminate ROC/P programmatic requirements and funding, continuing to earmark funds for SWDs to participate in this specific program seems illogical.

Instead, the LAO recommends combining **$5.3 million** in LID ROC/P funds with the **$15.1 million** for the other two LID grants proposed for consolidation by the Governor and distributing the funds on an equal rate for each student with a LID. Under this approach, educators can dedicate the funds to the most appropriate educational program for the student—be it an ROC/P–like program, other CTE program, or other activity.

3. **Maximize Flexibility by Consolidating Additional Special Education Categorical Programs.** To empower local SELPAs with additional flexibility over how best to serve their SWDs, the LAO recommends the Legislature adopt a more expansive approach to streamlining special education funding than that proposed by the Governor. The LAO believes this approach is consistent with its recommendations—and the Governor's proposals—for increasing local discretion over other K–12 funds. In addition to adopting the Governor's proposed grant consolidations, the LAO recommends the following changes:

    - **Add Mental Health Funding to AB 602 Base Grant.** All SELPAs are required to provide IEP–related mental health services, and the associated funding already is allocated on a per–ADA basis. As such, the LAO recommends consolidating this grant into the SELPA's base funding would not change any SELPA's allocation. Rather, the change would provide SELPAs with greater discretion to target special education funds for the needs of their local SWDs (whose mental health needs may change from year–to–year).

    - **Combine Two Extraordinary Cost Pools (ECPs).** The state currently maintains two ECPs with similar, but distinct eligibility criteria. One ECP program covers the costs of non-public school placements in general and is funded at **$3 million**; the other ECP program covers mental health related non-public school placements and is currently funded at **$3 million** annually. Individual SELPAs can apply for a share of these funds if they experience exceptionally high costs associated with placing students in specialized schools. The Governor did not propose changes to this structure; however, the LAO believes streamlining the application and approval process would maximize effective use of these funds. Specifically, the LAO recommends combining the two pools and applying one uniform set of eligibility criteria.

ISSUE 3. Special Education - Program Consolidations

STAFF COMMENTS:

- **Governor's & LAO Proposals Provide Opportunity to Simplify and Equalize Special Education Funding Consistent with Governor's General School Finance Restructuring Goals**. Historically, special education programs are inequitable and notoriously complicated. In addition, many programs are outdated and therefore have become overly restrictive. As noted by the LAO, current special education spending restrictions lead to inefficiencies and constrain SELPAs' abilities to meet student needs.

  The Governor proposals take important, initial steps to consolidate several discrete special education programs in order to equalize funding for special education and provides greater flexibility for meeting student needs. The LAO offers additional proposals which build upon the Governor's proposals. All together, these changes start to make special education funding easier to understand and as a result could increase engagement for students and parents, educators, and state policymakers. Building more equitable and needs-based funding systems are major goals behind the Governor's new Local Control Funding Formula – and reflected in several of the Administration and LAO proposals for special education.

- **Continuation of Set-Asides for Mental Health Funding Needed Until Transition Complete**. Heading into the third year of transition, the Governor's 2013-14 budget continues to set-aside funding for realignment of mental health services for special education students – a major transition process that commenced in 2011-12. More specifically the Governor continues **$357 million** in Proposition 98 General Fund and **$69 million** in federal funds for this purpose in 2013-14. The LAO recommends consolidating these funds into the base funding for SELPAs to give SELPAs greater discretion to target special education funds based upon student needs. For example, with additional flexibility, SELPAs might be able to boost other special education and related services to prevent the need for more intensive and costly mental health services. SELPAs that invest more in early interventions may need to set-aside less funding for mental health services. However, staff believes it is important to continue set-asides for mental health services within the AB 602 formula until transition is complete.

- **Not Clear About Basis for Separate Special Education Allocation for Home-to-School Transportation Program.** Since the 1992–93 fiscal year, the Home-to-School Transportation categorical program funding has been split between general home-to-school and special education transportation. (Special education transportation is defined as transportation for severely disabled and orthopedically impaired (SD/OI) students.) All subsequent allocations of HTS funding have been based on the amount eligible districts received in 1992-93.

ISSUE 3. Special Education - Program Consolidations

STAFF RECOMMENDATIONS:

Staff recommends the following Subcommittee actions:

1. Approve the Governor's proposal to add Program Specialists and Regional Services and Staff Development Grant funds into the AB 602 formula, with one modification (per the LAO) to continue a $2.7 million set-aside for small SELPAs.
2. Approve the Governor's proposal to merge the Cross-Cultural Assessments Grant into the Statewide Training and Technical Assistance grant.
3. Approve the Governor's proposal to consolidate two WorkAbility grant programs into one funding stream.
4. Approve Governor's proposal to combine two programs for students with low-incidence disabilities.
5. Adopt LAO proposal to combine two separate extraordinary cost pools and adopt a uniform set of eligibility criteria for subsidizing high-cost student placements, with modification to assure coverage for mental health services.

Staff further recommends that:

- Staff work with DOF and CDE to consider the LAO proposal to change the combined program from a competitive grant based program to a new more flexible Transition Services funding supplement for all SELPAs based upon ADA for students in grades 9-12.
- Staff work with the DOF and CDE to further consider the LAO recommendation to add low-incidence funding for ROC/P programs into this consolidated grant at May Revise.

SUGGESTED QUESTIONS:

1. What special education transition issues have been raised as a part of recent reviews by the U.S. Department of Education?
2. How much funding within the state's Home-to-School Transportation program is set aside for students with disabilities? Why was funding separated out in the early 1990's? How many school districts and county offices receive this funding?

ISSUE 4. Education Mandates – Block Grant Funding

DESCRIPTION: The Governor proposes an additional **$100 million** in Proposition 98 funding in 2013-14 for the mandates block grant. The Governor would remove five mandates from the block grant and include two additional programs – Behavioral Intervention Plans and Graduation Requirements.

BACKGROUND: The LAO offers the following background information from its **2013-14 Budget Analysis – Proposition 98 Analysis,** which details recent mandate budget reforms for K-12 schools and community colleges. Most notably, the LAO provides a description and update of the mandate block grants created for K-14 education in the 2012-13 budget.

Block Grant Alternative Created Last Year

- **Block Grant Intended to Address Some of the Problems With Reimbursement System**. To address some of the problems identified above, the Legislature and Governor created a block grant as an alternative method of reimbursing school and community college districts. Instead of submitting detailed claims listing how much time and money was spent on mandated activities, districts now can choose to receive funding through the block grant. The state included 43 mandates (and $167 million) in the block grant for schools and 17 mandates (and $33 million) for community colleges.
- Block grant funding is allocated to participating local educational agencies (LEAs) on a per–student basis that varies by type of LEA, as different mandates apply to each type. Charter schools receive $14 per student, while school and community college districts receive $28 per student. County offices of education (COEs) receive $28 for each student they serve directly, plus an additional $1 for each student within the county. (The $1 add–on for COEs is intended to cover mandated costs largely associated with oversight activities, such as reviewing district budgets.) Due to concerns regarding the state's constitutional obligation to reimburse districts for mandated costs, the state also retained the existing mandates claiming process for districts not opting into the block grant.
- **Block Grant Participation Relatively High in First Year of Program.** As shown in the figure below, most school districts and COEs and virtually all charter schools and community college districts opted to participate in the block grant. These LEAs represent 86 percent of K–12 students and 96 percent of community college students. Charter schools likely opted in at such high rates because they have been deemed ineligible for mandate reimbursements through the claims process. The lower participation rate for school districts and COEs could be due to various reasons. Some might have continued claiming for reimbursements because they calculated that they could receive more money that way (because of very high claiming costs compared to others due to differences in salaries and staffing). Other districts and COEs might not have participated due to transitional issues, such as terminating contracts with companies that had been providing reimbursement services for them.

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Most Local Educational Agencies (LEAs) Opted Into Mandates Block Grants
2012–13

	Number in Block Grant	Total	Percent in Block Grant	Corresponding ADA[a]
Community colleges	67	72	93%	96%
Charter schools	877	946	93	91
School districts	634	943	67	86
County offices	35	58	60	87

[a] Reflects average daily attendance (ADA) for K–12 LEAs. For community colleges, reflects full–time equivalent students.

- **Block Grant Left Some Issues Unanswered.** Moving forward, the state left unanswered how to include new mandates in the block grant. Specifically, the state did not address at what point in the mandate determination process a new mandate would be included in the block grant. The state also did not address how much funding to provide for new mandates. (Though the block grant in 2012–13 provided levels of funding that were roughly similar to how much schools and community colleges had been claiming for the included mandates, the amounts were not directly tied to claims costs.) Additionally, the state did not address whether adjustments would be made to the block grant in the future to account for any changes in costs (such as for inflation).

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes additional funding and statutory changes related to two education mandates outside of the K-12 mandate block grant.

1. **Increase Mandate Block Grant Funding.** The Governor provides an additional **$100 million** for the K-12 Mandate Block Grant, which will increase Proposition 98 funding for the K-12 Mandate Block Grant from $167 million in 2012-13 to $267 million in 2013-14.

   The Governor would remove five mandates from the K-12 block grant. School districts submitted approximately $20 million in claims for these mandates in 2010-11, the latest year for which complete data is available.

   The Governor proposes to include two mandate programs that were not included last year – Behavioral Intervention Plans (BIP) and Graduation Requirements.

   The cost estimate recently adopted by the Commission on State Mandates places the costs of the BIP mandate at about **$65 million** per year. As a result of these statutory modifications proposed by the Governor, the Administration estimates that BIP mandate costs would drop to about **$7 million** annually.

Per the Administration, the remaining funds would cover the costs of the Science Graduation Requirements mandate.

2. **Modification of the Behavioral Intervention Plans Program.** The Governor also proposes to restructure the BIP program to align it with federal requirements and eliminate almost all reimbursable costs for this program. In so doing, the Governor proposes trailer bill language intended to modify the BIP mandate to continue protections for students with disabilities while eliminating most costs. More specifically, the Governor proposes language to:
   - Eliminate current regulations that require the use of specific behavior assessments and specific behavioral intervention plans.
   - Eliminate specific personnel and training requirements of current regulations
   - Continue in statute student protections currently in state regulations that prohibit specific interventions that would cause pain, discomfort, ridicule, humiliation, or trauma and that guide the use of prone containment. [Electric shock was added to the list of prohibitions.]
   - Continue in statute current regulations that guide the use of emergency interventions and emergency reports.
   - Continue language in current law that offsets any state mandate costs within special education appropriations.

3. **No Changes to Science Graduation Requirement Proposed – But Governor's Proposes Elimination of Offset Language if New Funding Formula.** The Governor does not propose any changes to modify the Graduation Requirements program requirements, as is the case for the BIP mandate.

   As a part of trailer bill language for the new Local Control Funding Formula (LCFF), the Governor proposes to eliminate current statute that would be make any costs for the science graduation requirement offsetting to current revenue limits. Such language is necessary because revenue limits are eliminated and replaced by the new formula. The Governor has not offered other trailer bill language trailer bill language to replace this language if the LCFF is adopted.

ISSUE 4. Education Mandates – Block Grant Funding

LAO BACKGROUND

Graduation Requirements

Science Courses Required to Graduate From High School. In 1983, the state added greater specificity to high school graduation requirements, including a provision requiring two years of science (as well as three years of English, three years of social science, two years of mathematics, two years of physical education, and one year of visual or performing arts or foreign language). Though none of the other 12 high school graduation requirements became state reimbursable mandates, the Commission on State Mandates (CSM)—the quasi–judicial body that makes mandate determinations—determined the *second* year of science to be a mandate. Specifically, CSM found that district costs could increase to (1) remodel or acquire new space for additional science courses, and (2) staff and supply equipment for them. At the same time, CSM found that offsetting savings could result from reductions in non–science courses and any other funds districts receive to pay for the mandate could be applied as offsets. Based on a sample of districts, CSM estimated costs for the mandate would be a few million dollars annually.

Several Lawsuits Over Graduation Requirements Mandate. After districts began claiming reimbursements, the state became involved in several lawsuits over many years regarding the mandate. In one case, the courts limited the state's ability to apply offsetting savings from reductions in non–science courses by essentially requiring the state to find direct evidence that the additional science course led to a reduction in other courses. Two additional lawsuits still remain unresolved. In the first case, the state is suing CSM over the specific reimbursement methodology it adopted to calculate the costs of the mandate. The state believes the methodology adopted by CSM does not meet statutory requirements. The methodology also significantly increases state costs—both prospectively and retrospectively. In the second case, school districts are suing the state regarding whether revenue limits are an allowable offset for covering science teacher salary costs. The Legislature amended state law to require this offset a few years ago. (School districts recently amended this second lawsuit to include a charge that the schools mandate block grant itself was illegal. Given the amendment, the suit essentially restarts a process that can take several years to complete.)

Significant Uncertainty Over Reimbursable Costs of Graduation Requirements Mandate. Currently, districts are claiming $265 million annually for the Graduation Requirements mandate (more than what they claim for all other mandates combined). These costs, however, are based on the reimbursement methodology that the state believes to be flawed. The costs also have not been offset with revenue limits as required under state law. (The CSM has not yet included the revenue limits offset in its reimbursement guidelines due to the pending litigation.) If the state succeeds in having the reimbursement methodology changed and the revenue limits offset applied, reimbursable claims would be significantly less than what districts are now claiming. Due to this uncertainty, the state neither included the mandate in the block grant last year nor provided any funding for reimbursement claims.

ISSUE 4. Education Mandates – Block Grant Funding

Behavioral Intervention Plan Mandate.

Mandate Requires Planning and Other Activities for Certain SWDs. In 1990, the Legislature enacted a statute directing the Superintendent of Public Instruction and the State Board of Education (SBE) to implement regulations for how districts should respond when a student with a disability exhibits behavioral problems. The SBE subsequently adopted regulations requiring (1) a "functional analysis assessment" of the student's behavior, (2) the development of a positive BIP, (3) the development of emergency intervention procedures, and (4) a few other related activities. The regulations also prohibited certain types of interventions (such as seclusion and restraints). After these regulations were issued, CSM found these activities to be a reimbursable mandate.

Also Significant Uncertainty Over Costs for BIP Mandate. The BIP mandate was not included in the block grant last year nor was any money provided for reimbursement claims since districts are not yet filing for reimbursement. Though the mandate dates back over two decades, various legal challenges and settlement negotiations delayed CSM's adoption of reimbursement guidelines until just last month. At this time, it is still unclear how much districts will claim for the mandate. Based on the reimbursement guidelines adopted by CSM, statewide claims could total $65 million annually. The reimbursement guidelines require that these claims be offset, however, by special education funding specifically designated in state law for the BIP mandate. Enough special education funding is available to offset virtually all claims. Uncertainty regarding the offset exists, however, because the state is currently being sued in court over it as part of the same lawsuit regarding the offset for the Graduation Requirements mandate.

LAO ANALYSIS

- **Block Grant Increase Could Be Significantly More or Less Than Claims for Science Course and BIP Mandates.** Given the uncertainty regarding the costs of the Graduation Requirements and BIP mandates, it is difficult to assess whether $100 million is an appropriate amount to add to the block grant. On the one hand, if the state were to lose all the various lawsuits involving these mandates, then the claims for the two mandates combined could be over $300 million annually. On the other hand, if the state were to prevail in court, then claims for the two mandates likely would be almost entirely offset with Proposition 98 funding. From a state perspective, this means that the block grant augmentation potentially is too large and the state might be "overpaying." From a district perspective, this means that the block grant augmentation potentially is too small. In that case, some districts might view this as a disincentive to participate in the block grant.

ISSUE 4. Education Mandates – Block Grant Funding

- **Graduation Requirements Mandate Also Raises Serious Distributional Concerns.** Because the mandates block grant is distributed on a uniform per–student basis, districts that serve different grade spans receive the same rate. For example, an elementary district receives the same $28 per–student rate as a high school district. The Graduation Requirements mandate raises serious distributional concerns since the mandate is so costly and applies only to high schools. The LAO estimates that $63 million of the proposed increase for the mandate would be distributed to districts for students not in high school. In effect, many districts would receive a substantial amount for a mandate that does not apply to them. These distributional issues would alter the incentives districts have to participate in the block grant (either on a continuing basis or for the first time).

- **Current Law Approach to Offset Costs Reasonable.** While we understand the Governor's desire to address the two mandate's costs, we think the existing offset language for both mandates already provides a reasonable approach. Notably, the state has been successful in the past using offsets for several other education and local government mandates. Moreover, in the case of BIP, CSM has already included the offset in its guidelines for reimbursements. Though CSM has not yet included the offset for Graduation Requirements, we believe a compelling case can be made to consider revenue limits an offset for this mandate for the following reasons.

- **The State Did Not Require Districts to Lengthen School Day.** When the state added specificity to high school graduation requirements in 1983, the Legislature did not believe costs would increase notably, as no change had been made to the length of the school day. Furthermore, virtually all local teacher contracts do not pay science teachers higher salaries than other teachers, such that a district could not reasonably make a claim that the second science course resulted in higher compensation costs. Though the state's ability to automatically apply offsetting savings by assuming reductions in non–science courses has been limited by the courts, the courts noted that offsetting savings could exist.

- **Revenue Limits Pay for Teacher Salaries and Other Graduation Requirements.** Revenue limit funding is the state program most closely aligned with paying teacher compensation, with revenue limit funding covering the vast majority of teacher compensation costs. In addition, the state effectively uses revenue limit funding to cover all the other high school graduation requirements that it established at the same time as the second science course requirement. This funding is available for districts to cover costs for the second science course.

ISSUE 4. Education Mandates – Block Grant Funding

- **Aligning State and Federal BIP Requirements Would Increase Flexibility and Reduce Costs.** The Governor's proposal to better align state and federal BIP requirements has several positive features. First, the proposal recognizes that since the state enacted its BIP requirements over 20 years ago, many changes have been made to federal law that strengthen protections for all SWDs. As a result, the requirements in state law provide relatively few additional benefits. Moreover, state law is more prescriptive in terms of the types of assessments and BIPs that districts must develop, whereas federal law allows for a broader spectrum of options. At the same time, the Governor's proposal retains a few key state requirements that offer stronger protections than federal law, such as the prohibition on using emergency interventions that involve physical discomfort. Finally, the Governor's proposal has the advantage that it would significantly reduce the associated mandate costs.

LAO RECOMMENDATIONS:

1. **Reject Adding Graduation Requirements and BIP to the Block Grant.** While the LAO appreciates the Governor's attempt to try to address the costs of these two mandates, the LAO recommends the Legislature reject his proposal to include them in the block grant since (1) considerable uncertainty remains regarding whether their cost will be much higher or much lower than the proposed $100 million augmentation, and (2) funding for the second science course mandate largely would be associated with non–high school students, to whom the mandate does not apply.
2. **Consider Strengthening Offset for Graduation Requirements Mandate.** Though the LAO thinks the existing statutory provision offsetting the costs of the science mandate is appropriate, the LAO believes the state could strengthen the language going forward. Specifically, the state could designate that first call on the future increases in per–student funding for high school students that would occur under the Governor's proposed K–12 funding formula is for the science mandate.
3. **Adopt Proposed Statutory Changes for BIP.** The LAO recommends the Legislature adopt the Governor's proposal to align state BIP requirements more closely with federal requirements. This approach would provide districts with additional flexibility in addressing behavioral problems while at the same time maintain certain stronger student protections not included in federal law. Moreover, though state costs for the BIP mandate are subject to considerable uncertainty due to ongoing litigation, the proposal would reduce state costs for the mandate in the event the state loses in court.

ISSUE 4.	Education Mandates – Block Grant Funding

STAFF COMMENTS:

- **Governor's Intent to Continue Important Education Mandate Reforms Commendable – But Adding the Science Graduation Requirement to the Mandate Block Grant Does Not Seem Like the Way to Go.** Staff commends the Administration for their continued efforts to address two expensive mandates that are not included in the K-12 mandate block grant. Significant financing reforms – most notably mandate block grants – have been enacted in recent years. These reforms were the result of initiatives from the Administration – and considerable support from the LAO. That said, staff does not support providing an additional $100 million to the block grant to support the Science Graduation Requirement per the Governor's proposal. This is a controversial and expensive mandate. Per the LAO, districts are claiming **$265 million** annually for the Graduation Requirements mandate – more than the entire amount of the current K-12 block grant. The K-12 mandate block grant is experiencing strong initial success. Staff is concerned that adding the Science Graduation Requirement mandate could undermine this success. As a result, staff recommends working with DOF and LAO on other alternatives at May Revise.

- **Commission on State Mandates Decision on BIP Mandate.** The Commission on State Mandates acted in January 2013 to adopt reimbursement guidelines for the BIP mandate. For prior-year claims only, the Commission adopted a Reasonable Reimbursement Methodology (RRM) proposed by the claimants. This RRM was based upon cost estimates from a selected sample of self-reported data from SELPAs identified by the claimants. Cost estimates from the sample included significant outlier costs – that do not appear to have been fully explained by the claimants or excluded by the calculations. Based on the RRM adopted by the Commission, statewide claims for the BIP mandate for prior years is estimated at over **$1 billion**. While the Department of Finance raised serious questions about the representative nature of the claimant's proposed RRM methodology and its ability to accurately represent the cost of the program, the Commission expressed concern it would be too burdensome and difficult to require districts to submit actual claims for prior years dating back to 1993. At the same time, the Commission did agree with some of the concerns expressed by the Department of Finance about the RRM. For this reason, the Commission is requiring districts to submit actual claims for current and future years.

STAFF RECOMMENDATIONS:

Staff recommends the following Subcommittee actions:

1. Approve the Governor's proposal to modify the BIP mandate, with changes to (1) add statute to restate the federal mandate; and (2) add legislative intent language to reflect federal statute. (Both of these revisions restore language included in AB 1476, as passed by the Senate on August 24, 2012.)

ISSUE 4. Education Mandates – Block Grant Funding

2. Approve **$230,000** in one-time federal special education carryover funds to Department of Education in order to provide technical assistance and monitoring to local educational agencies related to the provision of positive behavior intervention services. (This provision was also included in AB 1476, as passed by the Senate on August 26, 2012).

Staff further recommends that the Subcommittee:

- Hold open any action on the Governor's proposal to add $100 million for the Behavioral Intervention Plan and Science Graduation Requirements mandates. Direct staff to work with DOF and LAO on alternative options to address funding for these two mandates. Staff recommends that any action on these items be taken at May Revise as part of the overall Proposition 98 package.
- Consider the LAO recommendation to strengthen the offsetting language in current law for the Science Graduation Requirement and align any changes to reflect decisions on the K-12 school finance structure at May Revise.
- Direct staff to work with local government budget staff, DOF and LAO to explore options for strengthening statutes guiding the utilization of Reasonable Reimbursement Methodology by the Commission on State Mandates.

SUGGESTED QUESTIONS:

1. DOF: Does the Administration have concerns that adding the Graduation Mandate to the block grant – without knowing if it is a mandate and not knowing the costs – could undermine the success of the block grant?
2. CDE: Can the Department provide an update on school district and charter school participation rates in the mandate block grant?
3. DOF: Has the Administration requested that the Commission on State Mandates reconsider the Open Meetings Act mandate to reflect changes in Proposition 30? When does DOF plan to make this request?

ISSUE 5. Education Mandates – New and Suspended Mandates

DESCRIPTION: The Governor proposes to suspend six additional education mandates – to conform to the approach taken on these mandates for local governments. Most of these mandates apply to both K-12 schools and community colleges. The Governor also proposes to provide reimbursement claims for one additional K-12 education mandate in the budget.

BACKGROUND:

The 2013-14 budget bill - as proposed by the Governor - includes the following items for funding K-14 education mandates.

Agency/Item	Purpose	Dollar Amount
K-12 Education		
6110-295-0001	List of 41 education mandates and appropriation for reimbursements claims for activities performed in 2011-12	$ 41,000
6110-296-0001	Mandate Block Grant for activities performed in 2013-14	266,609,000*
6110-403	List of mandates suspended in 2013-14	NA
Community Colleges		
6870-295-0001	List of 18 education mandates and appropriation for reimbursements claims for activities performed in 2011-12	17,000
6870-296-0001	Mandate Block Grant for activities performed in 2013-14	33,338,000
6870-296-0001	List of mandates suspended in 2013-14	NA

*Includes an $100 million augmentation to the Mandate Block Grant.

In addition, the Governor proposes trailer bill language to amend Government Code sections related to mandate block grants and mandate suspensions as they related to his budget proposals.

GOVERNOR'S BUDGET PROPOSALS

1. **Suspends Six Additional Mandates.** The Governor's budget continues to suspend the same education mandates in 2013–14 that were suspended in 2012–13. The Governor further proposes to suspend six additional education mandates in 2013-14, to conform to the approach taken on these mandates for local governments. Five of these six mandates apply to K-12 schools and community colleges, and one mandate applies only to the community colleges, as listed below:

ISSUE 5. Education Mandates – New and Suspended Mandates

K-14 Education:

- **Absentee Ballots.** Requires that absentee ballots be provided to any eligible voter upon request.
- **Brendon Maguire Act.** Requires a special election (or the reopening of nomination filings) when a candidate for office dies within a specified time prior to an election.
- **California Public Records Act.** Requires the disclosure of agency records to the public upon request. Also requires agencies to assist the public with their requests.
- **Mandate Reimbursement Process I and II:** Requires reimbursement for the costs of (1) filing initial mandate test claims, if found to be a mandate, and (2) filing annual mandate reimbursement claims.
- **Open Meetings/Brown Act Reform.** Requires local governing boards to post meeting agendas and perform other activities related to board meetings.

Community Colleges:

- **Sex Offenders: Disclosure by Law Enforcement Officers.** Requires law enforcement to obtain, maintain, and verify certain specific information about sex offenders.

2. **Includes Funding for Claims for New K-12 Pupil Suspension/Expulsion Mandate.** The Governor recognizes a new K-12 mandate related to pupil suspensions and expulsions in the 2013-13 budget. More specifically, the Governor adds this mandate to the budget bill item that lists of mandates eligible to receive funding for mandate reimbursement claims. However, the Governor does not propose to add this mandate to the block grant related to the mandate.

   This mandate relates to an existing mandate requiring districts to suspend or expel students for committing certain offenses. The reimbursable costs are largely attributable to expulsion and suspension hearings, including appeals. The new mandate pertains largely to offenses not included within the purview of the original mandate. For example, the new mandate includes the requirement that a school board expel a student who brandishes a knife at another person.

ISSUE 5. Education Mandates – New and Suspended Mandates

LAO RECOMMENDATIONS.

1. **Mixed Approach on Mandate Suspensions**.

   - ✓ The LAO recommends conforming to the approach taken by the local government subcommittee on four of the six education mandates recommended for suspension by the Governor given their similarity to corresponding local government mandates. These four mandates include: three K-14 education mandates -- Absentee Ballots, Brendon Maguire Act, Public Records Act -- and one community college mandate -- Sex Offenders: Disclosure by Law Enforcement Officers.

     The LAO recommends suspending the Mandate Reimbursement Process is that it would also provide an additional incentive for school districts and community colleges to participate in the block grant.

   - ✓ The LAO recommends rejecting the Governor's proposal to suspend the Open Meetings/Brown Act Reform mandate, but recommends adopting a proposal to remove it from the block grant, given the changes made by Proposition 30 that eliminated the state's reimbursement obligation for this mandate.

2. **Recast the Public Records Act Mandate (CPRA).** The LAO recommends the Legislature recast the CPRA mandate provisions as optional best practices—eliminating the state's responsibility to reimburse school districts, community college districts, and local governments for these activities. Under the LAO approach, each year a local government would be required to either: (1) comply with the best practices or (2) announce at its first regularly scheduled public meeting that the local government will not meet the best practices. Per the LAO, this approach would facilitate discussions between local government officials and residents about the costs and benefits of improved public access to local government records.

3. **Place New Pupil Suspension/Expulsions Mandate in School Block Grant.** The LAO recommends that the Legislature place the new mandate in the block grant – instead of adding it to the funded mandates list per the Governor-- since the mandate is intended to protect public safety. This action is consistent with last year when the Legislature placed the similar existing mandate in the block grant.

ISSUE 5. Education Mandates – New and Suspended Mandates

STAFF COMMENTS:

- **Should New Pupil Suspensions/Expulsions Be Included in Mandate Block Grant Instead?** The mandate relates to pupil safety, which provides strong justification for retaining as a state–mandated activity. The Governor proposes to fund this mandate through the regular claims reimbursement process. The mandate is closely related to an existing mandate that has been active for many years and was included in the block grant last year; however the Governor does not propose to add this to the block grant. The Commission on State Mandates estimates that this mandate will cost a little over **$1 million** annually.
- **California Public Records Act (CPRA) Mandate.** The Governor proposes to suspend this mandate for local governments and K-14 education agencies. The LAO recommends to recast this mandate – making it optional best practice – for local governments and K-14 agencies. Staff does not support either of these recommendations – since the mandate provides access to public documents**.** Additionally, since the Commission on State Mandates has not yet issued a statewide cost estimate, the annual state cost of funding the CPRA mandate is uncertain. It may be premature to address this mandate in the budget this year.

STAFF RECOMMENDATIONS:

Staff recommends the following Subcommittee actions:

1. Suspend four mandates proposed by the Governor that have also been suspended for local government agencies, including three K-14 education mandates and one community college mandate as follows:
   - Absentee Ballots (K-14)
   - Brendon Maguire Act (K-14)
   - Mandate Reimbursements I & II (K-14)
   - Sex Offenders: Disclosure by Law Enforcement Officers (Community Colleges)

2. Reject the Governor's proposal to suspend the Open Meeting/Brown Act Reform mandate for K-14 education – as recommended by the LAO -- since Proposition 30 eliminated the state's reimbursement obligation for school districts and other local agencies.

Staff further recommends that the Subcommittee:

- Hold open action on the Governor's proposal to suspend the Public Records Act mandate for K-14 education. Direct staff to work with DOF on alternatives to suspension. This new mandate is not suspended for local government agencies in 2012-13.

- Hold open action on Governor's proposal to add new Pupil Suspension/Expulsion mandate to budget. Direct staff to work with DOF and LAO to develop funding options.

ISSUE 5. Education Mandates – New and Suspended Mandates

SUGGESTED QUESTIONS:

1. DOF: What guidelines is the Administration using for handling new mandates under the new block grant system?
2. DOF: How is the Administration deciding which new mandates should be added to the block grant and/or which should be subject to the traditional claims reimbursement process?
3. DOF/LAO: How many new K-14 education mandates are in the Commission of State Mandates pipeline? Is there any preliminary evidence that the new mandate block grant is slowing demand?

ISSUE 6. Charter Schools – LAO Update

DESCRIPTION: The LAO will provide some basic information on charter schools and funding in California, as background for the evaluating the Governor's charter school budget proposals on the Subcommittee hearing agenda today. In so doing, the LAO will highlight finding from their January 2012 entitled ***Comparing Funding for Charter Schools and Their School District Peers.***

GENERAL BACKGROUND:

Under current law, charter schools are public schools – covering any combination of grades Kindergarten through 12 – that are initiated by parents, teachers, or community members through a charter petition, which is typically presented to and approved by a local school district governing board.

Current law also grants chartering authority to county boards of education and to the State Board of Education under certain circumstances, such as the appeal of a petition's denial by a school district governing board or the direct approval of countywide benefit or statewide benefit charter schools.

The specific goals and operating procedures for a charter school are detailed in the "charter" agreement between the authorizing entity and the school's organizers. While charter schools are free from many of the state statutes and regulations that apply to school districts, they are subject to the following conditions, as identified by the California Department of Education (CDE):

- An existing private school may not be converted to a charter school.
- A charter school must be nonsectarian.
- A charter school may not discriminate, nor can it charge tuition.
- No pupil can be required to attend a charter school, nor can teachers be required to work in a charter school.
- A charter school must have highly qualified, credentialed teachers in all core subjects.
- Charter schools must admit all students who wish to attend the school; however, if the number of students exceeds the school's capacity, attendance shall be determined by a public random drawing. Certain attendance preferences are available under state law.

According to CDE, there are currently about **1,054 charter schools** and **8 all-charter districts** operating in California. As reflected by the following table, charter schools have been growing by about 100 schools annually over the last couple of years. Nearly **470,718 pupils** now attend charter schools, which equates to about **7.57 percent** of the public school pupil population statewide.

ISSUE 6. Charter Schools – LAO Update

	2010-11		**2011-12**		**2012-13**	
	Number	**Funded ADA****	**Number**	**Funded ADA****	**Numbers**	**Funded ADA****
Charter Schools	902	343,070	975	393,732	1,054	448,937
Charter Districts*	8	6,992	8	7,032	8	7,173
TOTAL, Charters	**910**	**350,062**	**983**	**400,754**	**1,062**	**456,110**

*Charter district average daily attendance (ADA) included both block grant and revenue limit ADA.
**Numbers are from principal apportionment system and may not exactly match other sources.

As last reported, CDE identifies the following characteristics for individual charter schools statewide:

- Approximately **82.5 percent are start-up schools**, and the remainder are conversions of pre-existing public schools.
- Approximately **77.4 percent are classroom–based or site-based**, and the remainder are either partially or exclusively non-classroom based (independent study).
- Approximately **70 percent are directly funded** (i.e., have a separate account in the county treasury), and the remaining 30 percent are locally funded (i.e., are included in the budget of the chartering authority).

BACKGROUND: There are several state and federal resources that help charter schools obtain school facilities, which are listed below. **Some of these programs are the subject of proposals included later in this agenda.** These programs use different approaches to assist charter schools with their facility needs, including loan, grants, and statutory requirements.

State Programs.

Charter School Revolving Loan Fund. The Charter School Revolving Loan Fund (CSRLF), established in statute and created in the State Treasury, provides low-interest loans of up to **$250,000** to new, non-conversion charter schools to provide startup and initial operating capital to assist schools in establishing charter school operations. Specifically, the loan helps meet the objectives established in a school's charter, such as leasing facilities, making necessary improvements to facilities, purchasing instructional materials and equipment, and expanding programs.

SB 1759, Chapter 586, Statutes of 2000, established the **Charter School Security Fund (CSSF)** to deposit interest payments on loans made to charter schools from the CSRLF. Funds deposited into the CSSF are made available to the CSRLF to cover defaulted loans. The law requires the DOF to monitor the adequacy of the fund and report annually to the Legislature on the need, if any, to adjust the terms of the CSRLF and the Security Fund.

ISSUE 6. Charter Schools – LAO Update

Charter School Facility Grant Program. The Charter School Facility Grant Program was established by SB 740, (Chapter 892; Statutes of 2001) as a non-competitive grant program to provides assistance with facilities rent and lease expenditures for charter schools that meet specific eligibility criteria. The program is targeted to schools and communities with high proportions of economically disadvantaged students. Eligible applicants must have at least 70 percent of students enrolled at the charter school who are eligible for free or reduced-price meals or the charter school must be physically located in an elementary school attendance area where at least 70 percent of students enrolled are eligible for free or reduced-price meals. The charter school must also give a preference in admissions to students who reside in the elementary school attendance area. Eligible charter schools are funded $750 per unit of classroom-based average daily attends, up to 75 percent of its annual facilities rent and lease costs for the school.

Proposition 39. Proposition 39, which passed in November 2000 and went into effect in 2003, requires school districts to provide to each charter school having a projected average daily attendance of at least 80 or more students from that district with **"facilities sufficient to accommodate the charter school's needs.**" Districts can provide charter schools with existing facilities; use discretionary funds; or use other revenues, such as local school bonds, to satisfy this requirement. The school district may charge the charter school a pro rata share of the district's facilities costs which are paid with unrestricted general fund revenues, based upon the ratio of space the charter school uses divided by the total space of the district.

Charter School Facilities Program (Bond Program). In 2002, AB 14 created the Charter School Facilities Program (CSFP). This program is jointly administered by the California School Finance Authority (CSFA) and Office of Public School Construction (OPSC). Through the passage of Propositions 47, 55 and 1D, **$900 million** has been made available for the new construction of charter school facilities or the rehabilitation of existing school district facilities for charter schools that provide site based instruction. The CSFP funds 50 percent of project costs as a grant, and the charter school is responsible for paying the 50 percent balance either through a lump sum payment or through payments due on a long-term lease obligation. The school district in which the project is located retains ownership of the project for the benefit of the public education system. To qualify for funding, a charter school must be deemed financially sound by the CSFA.

ISSUE 6. Charter Schools – LAO Update

Federal Programs

State Charter School Facilities Incentive Grants Program. This is a federal program administered by CSFA through the State Treasurers Office. The program provides two five-year funding rounds of **$49.3 million and $46.1 million**, respectively, to assist California charter schools in meeting their facility needs. Charter schools may apply for this program along with the Charter School Facility Grant program; however, charter schools that receive grant funds authorized under either of those two programs may not receive funding in excess of 75 percent of annual lease costs through either program, or in combination with either program, for any one school year. Charters must meet a number of criteria including: being in good standing with the charter authorizer; have provided at least one school year of instruction; and provide at least eighty percent of the instructional time at the school site with an average daily attendance rate of at least eighty percent based on the school's most recent state attendance reports.

Qualified School Construction Bonds. This federal program allows charter schools to issue tax-advantaged bonds. The program, which is administered by CSFA, was first established under the federal ARRA program.

Credit Enhancement Program. This federal program increases credit-worthiness by making debt payments if a school defaults. The program is administered by CSFA.

Public Charter School Grant Program (PCSGP). This federal program – administered by the Department of Education -- provides start up and dissemination grants to new charter schools. More specifically, the federal program provides both planning and implementation grants and dissemination grants of up to $575,000 for new charter schools. Dissemination grants provide funding to allow disseminate best practices likely to significantly improve academic achievement in California's K-12 public education system. Grants are intended to provide startup and initial operating capital to assist schools in establishing high quality, high performing charter school operations.

STAFF COMMENTS: This is an informational item. While the remaining Subcommittee agenda today covers a number of individual charter school issues proposed by the Governor, staff notes that the Governor's major school finance restructuring proposal – the Local Control Funding Formula – includes charter schools in substantial, new ways. In addition, the new K-12 Mandate Block Grant – established in the current year – also benefits charter schools.

ISSUE 6. Charter Schools – LAO Update

SUGGESTED QUESTIONS:

1. DOF/LAO: What are the benefits of the Governor's proposed Local Control Funding Formula for charter schools? How do these benefits compare to the benefits from the Governor's other charter school budget proposals that will be discussed in the agenda today?
2. LAO: What funding disparities were identified by your report on charter schools and students?
3. DOF/LAO: How does the K-12 Mandate Block Grant change funding access for charter schools?
4. LAO/LAO: Have charter schools been able to access school facility bond funds?

ISSUE 7. Charter Schools -- Education Funding for Non-Classroom Based Instruction

DESCRIPTION: The Governor proposes trailer bill language to revise the current law funding determination process for non-classroom-based instruction to streamline the process. Specifically, the Governor's proposal limits the determination process to the first and third year of a charter school's operation.

BACKGROUND: Current law regulates the provision of funding to charter schools that provide instruction in non-classroom based settings.

Non Classroom Based Instruction Defined. Under current law, non-classroom based instruction includes, but is not limited to, independent study, home study, work study, and distance and computer-based instruction.

Non-classroom based schools differ from traditional schools in that they generally deliver instruction outside the confines of the classroom setting. Non-classroom based instruction may encompass homeschooling and various forms of independent study, including computer-based instruction using software modules and teacher-directed distance learning. Non-classroom based schools tend to serve somewhat different students from those found in other schools—that is, students seeking personalized instruction and a pace tailored to their needs.

Number of Non-Classroom Based Schools. According to the California Department of Education (CDE), most of the more than 1,062 charter schools receive full funding -- 100 percent of pupil average daily attendance (ADA). However, through a "determination" process administered by CDE and the State Board of Education, a limited number of charter schools statewide receive less than full funding based due to exclusions of their non-classroom based ADA. Per CDE, a total of 210 charter schools were operating under funding "determinations". These schools are referred to as non-classroom based schools and are either partially or exclusively non-classroom based (independent study) settings.

Of the 210 non-classroom based charter schools, only 11 schools receive less than full funding, as indicated in the table below, and most student ADA for non-classroom based charter schools is funded. An estimated 114,986 student ADA (97.6 percent) for non-classroom based charter schools is being funded in 2012-13; only 2,795 student ADA (2.4 percent) is not being funded.

	2010-11	**2011-12**	**2012-13**
Non-Classroom Based Charter Schools – Funded & Non-Funded ADA	Student ADA	Student ADA	Student ADA
Reported ADA	**--**	**109,989**	**114,986**
Funded ADA	**--**	**107,090**	**112,191**
ADA Not Funded	**2,781**	**2,899**	**2,795**
Number of non-classroom based schools	***213***	***216***	***210***
Schools funded at 100 percent	***200***	***205***	***199***
Schools funded at less than 100 percent	***13***	***11***	***11***

ISSUE 7. Charter Schools -- Education Funding for Non-Classroom Based Instruction

In 2011-12, a total of 79 non-classroom based charter schools applied for 100 percent funding per CDE. All but two charter schools were approved for full funding, and the remaining two charter schools are still under review by the State Board.

SB 740 Determination Process. As enacted, SB 740 (Chapter 892; Statutes of 2001) strengthened state oversight of non-classroom based charter schools and implemented state funding reductions for schools failing to meet specific standards. In order for a charter school to receive 100 percent ADA funding the school must meet the following conditions:

- Ensure the charter school's pupils are engaged in educational activities required of those pupils, and the pupils are under the immediate supervision and control of an employee of the charter school who is authorized to provide instruction to the pupils.
- Provide at least 80 percent of the instructional time at the school site.
- The charter school-site must be a facility that is used principally for classroom instruction.
- The charter school requires its pupils to be in attendance at the school site at least 80 percent of the minimum instructional time required for pupils.

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes trailer bill language to modify the annual funding determination process for non-classroom-based instruction by limiting it to the <u>first</u> and <u>third</u> years of operation for charter schools that maintain specific minimum standards. Thereafter, charter schools would <u>not</u> be required to submit further funding determinations unless one of the following conditions exists:

1. The charter school receives a notice to cure for financial issues.
2. The charter school receives an intent to revoke the charter.
3. The charter school receives an apportionment significant audit exception.
4. The charter school initiates a request for an additional funding determination for the purpose of seeking a change to its current funding level.

Under current law and regulations, most non-classroom based charter schools are required to submit funding determinations to the State Board of Education every two years. (Non-classroom based charter schools with an Academic Performance Index rank of 6 or higher are required to submit funding determinations every five years.)

According to the Administration, this change will reduce workload for staff at the California Department of Education, State Board of Education, charter schools and charter authorizers. In addition, the Administration believes this change will equalize funding disparities between charter schools that offer non-classroom-based instruction and school districts that offer independent study instruction.

ISSUE 7. Charter Schools -- Education Funding for Non-Classroom Based Instruction

LAO COMMENTS & RECOMMENDATIONS:

- **Reject Governor's Proposal.** The Governor's proposal would continue a process for charter schools during their initial years of operation that includes restrictions on programmatic flexibility, penalties for small changes in spending, and unclear effects of mitigating circumstances. Moreover, charter schools in operation more than three years would receive little oversight, even if the charter school changed its structure or enrollment significantly. For these reasons, the LAO recommends rejecting the Governor's proposal.

- **Refine Funding Determination Process.** The LAO recommends that the Legislature continue to use a funding determination process but make several changes. Specifically, the LAO recommends that the Legislature:

  - ✓ Eliminate the requirement that at least 40 percent of state and federal revenue be spent on certificated staff salary and benefits. Also eliminate the student-teacher ratio requirement.
  - ✓ Retain the existing requirement for spending on instruction and related services.
  - ✓ Provide general guidelines for the types of mitigating circumstances that would be accepted by SBE, such as unanticipated non-instructional costs, major one-time costs for technology or infrastructure, and funds set aside to protect the school from possible midyear budget reductions. Specify how those circumstances would affect the calculations used to determine the charter school's funding level.
  - ✓ Establish graduated funding reductions, such that a charter's funding reduction is proportional to the extent the spending threshold is missed.
  - ✓ Retain the requirements that schools receive a new funding determination every two to five years.

Given that most aspects of the funding determination process are contained in SBE regulations, the LAO recommends further that the Legislature change state law and direct SBE to adopt new conforming regulations.

STAFF RECOMMENDATION: Staff recommends that the Subcommittee hold this issue open for further evaluation and to consider the LAO alternative.

SUGGESTED QUESTIONS:

1. DOF: What are the problems with the current determination process that the Administration is trying to address or streamline?

ISSUE 7. Charter Schools -- Education Funding for Non-Classroom Based Instruction

2. DOF: To his credit, the Governor has developed an alternative to complete elimination of the funding determination process proposed last year. Does the Administration have any concerns about the loss of less frequent determinations?
3. DOF: The Administration believes the Governor's proposal will equalize funding disparities between charter schools that offer non-classroom-based instruction and school districts that offer independent study instruction. Can the Administration provide more detail about this comparison?
4. DOF: What are the costs of providing full funding to about eleven charter schools not receiving full funding, per the Governor's proposal?
5. CDE: What is the audit process for non-classroom based charter schools approved for funding? How often are these charter schools audited?
6. CDE: What are the Department's thoughts about the Governor's proposal and LAO alternative?

ISSUE 8. Charter Schools – Charter School Facilities Grant Program

DESCRIPTION: The Governor proposes several changes to the Charter School Facilities Grant program beginning in 2013-14. First, the Governor proposes to transfer administration of the program from the Department of Education to the California School Finance Authority, with the State Treasurer's Office. Second, the Governor proposes to expand program eligibility to charter schools with non-classroom-based instruction, instead of limiting funding to classroom-based instruction. Last, the Governor proposes to make changes to expedite program funding payments to charter schools.

BACKGROUND: The Charter School Facility Grant Program was established by SB 740, (Chapter 892; Statutes of 2001) as a non-competitive grant program to provide assistance with facilities rent and lease expenditures for charter schools that meet specific eligibility criteria.

Specifically, the Charter School Facility Grant Program is targeted to schools and communities with high proportions of economically disadvantaged students. Eligible applicants must have at least 70 percent of students enrolled at the charter school who are eligible for free or reduced-price meals or the charter school must be physically located in an elementary school attendance area where at least 70 percent of students enrolled are eligible for free or reduced-price meals. The charter school must also give a preference in admissions to students who reside in the elementary school attendance area.

The charter schools are funded at $750 per unit of classroom-based average daily attendance or up to 75 percent of its annual facilities rent and lease costs for the school, whichever is lower. Under current law, if funds appropriated in the budget are insufficient to fully fund these amounts, the Department of Education shall apportion available funds on a pro-rata basis.

Historically, the program was structured to reimburse eligible charter schools for their prior year facilities rent and lease expenditures. In 2009-10, the program was converted from a reimbursement-based to a grant-based program.

Funding History. The enacting legislation stated the Legislature's intent to appropriate $10 million for the program for three years -- 2001-02, 2002-03, and 2003-04. However, funding for the program was extended annually through the budget act after the three year time limit.

Funds for this program increased substantially with the transfer of funds from the phase out of the Multi-track Year-Round Education (MTYRE) Operational Grant Program. Chapter 271 (2008) required all funds appropriated for the MTYRE program in 2007-08 – a total of $97 million -- to be transferred to the Charter School Facility Grant Program a rate of 20 percent each year. The 2012-13 budget makes the final transfer payment of $15 million from MTYRE program to the Charter School Facility Grant program

Beginning in 2008-09, the Charter School Facility Grant Program was subject to across-the-board categorical reductions for most state categorical programs. Under current law, these reductions will remain in place through 2014-15 – a total of seven years.

ISSUE 8. Charter Schools – Charter School Facilities Grant Program

With the final MTYRE funding transfer, total funding for the Charter School Facility Grant program grew to **$114.8 million** in 2012-13. However, due to across-the-board reductions currently in place for most categorical programs, the 2012-13 budget appropriates a total of **$92.0 million** for the Charter School Facility Grant program.

GOVERNOR'S BUDGET PROPOSALS: According to the Governor's proposed changes to the Charter School Facilities Grant program are intended to equalize funding disparities between charter schools that offer non-classroom based instruction and school districts that offer independent study instruction, as well as provide much needed cash flow relief to charter schools through the earlier apportionment schedule, as follows:

1. **Program Transfer**. The Governor proposes to transfer **$92.0 million** in Proposition 98 funding from the Department of Education for the California School Finance Authority to reflect the program shift. Trailer bill language specifies that this amount shall be considered the base level of funding for the program in subsequent fiscal years.

   In addition, the Governor proposes to shift **$175,000** in General Fund (Non-98) and **2.0 positions** from CDE to CSFA to support the program transfer in 2013-14 and beyond. However, it should be noted these state operations funds and positions are also intended to cover the shift of the Charter School Revolving Loan Fund program from CDE to CSFA, also proposed by the Governor. (See Agenda Issue #9.)

2. **Coverage for Non-Classroom Based Instruction.** The Governor's budget proposes trailer bill language to repeal provisions of current law which prohibit Charter School Facility Grant funding for units of average daily attendance (ADA) generated through non-classroom based instruction. Instead, proposed language disallows apportionments for "non-instructional facilities operated by non-classroom based charter schools", but allows apportionments for "portions of a charter school's facilities that are used to provide direct instruction and instructional support to pupils enrolled in the school".

3. **Apportionment Schedule.** The Governor proposes trailer bill language to require the CSFA to apportion CSFG funding by August 31, of each fiscal year or 30 days after the enactment of the annual budget act, whichever is later. Current law requires CDE to apportion funding by October 1st of each fiscal year.

   The Governor's proposal further requires that August apportionments be based upon prior year data on pupil eligibility for free and reduced price meals for the schoolsite and prior year rent or lease costs provided by the charter school to determine eligibility for the grant program until current year data or actual rent or lease costs become known or until June 30 of each fiscal year.

ISSUE 8. Charter Schools – Charter School Facilities Grant Program

If this data is not available, the Governor's language directs CSFA to use estimates provided by the charter school so the total rent and lease costs do not exceed the school's total advanced apportionment funding.

The Governor proposes these changes to expedite the apportionment schedule for the CSFG program to address delays in payments to charter schools

LAO COMMENTS & RECOMMENDATIONS:

- **Program Transfer.** The LAO recommends support of the Governor's proposal.
- **Program Payments Schedule.** The LAO recommends support of the Governor's proposal.
- **Non-Classroom ADA.** The LAO suggests that the Legislature consider an alternative mechanism for expanding the facility grant program to include non-classroom based charter schools. The LAO will provide additional detail on their recommendation at the hearing.

RECENT LEGISLATION:

- **SB 645 (Simitian). 2011-12 Session.** This 2011 measure addressed a number of charter school issues, including authorizing Charter School Facility Grant program funds to be apportioned to charter schools providing non-classroom based instruction, if the charter school operates facilities that provide direct instruction/support to pupils enrolled at the school and meets all of the other existing eligibility requirements. **Status:** Held in Assembly Appropriations.

- **Transfer of Grant Program to CSFA Appears Reasonable – If Parties Are Amenable.**

STAFF COMMENTS:

- **More Information is Needed on Costs of Existing Program.**

- **More Information is Needed on the Impact of Expanding CSFG Eligibility to Non-Classroom Based Charter Schools.** How many new schools will be eligible? How much additional ADA will result? What are the costs.

STAFF RECOMMENDATIONS:

Staff recommends the following actions:

1. Approve Governor's proposal to transfer the Charter Schools Facilities Grant program to the California School Finance Authority.

ISSUE 8. Charter Schools – Charter School Facilities Grant Program

2. Approve Governor's proposal to transfer 2.0 positions and funding from the Department of Education to the California School Finance Authority to support the transfer of the Charter School Facilities Grant program. Staff will work with DOF, LAO, CDE and CSFA to determine if any staffing adjustments are needed at May Revise.
3. Approve the Governor's proposal to expedite the payment schedule for the Charter Schools Facilities Grant program, with modification recommended by LAO to specify full, annual payment schedule in statute.
4. Hold open the Governor's proposal on non-classroom based instruction open until May Revise in order to further evaluate the costs of the proposal and available funding, and to explore LAO recommendations more fully.

SUGGESTED QUESTIONS:

1. DOF: Given the nature of non-classroom ADA – which presumably does not require school facilities - why is there a need to provide additional facilities funding for these pupils?
2. CDE: What is the current annual cost of the Charter School Facility Grant Program and how does it compare to the amount of funding appropriated for the program?
3. DOF: What are the costs of adding non-classroom ADA to the Charter School Facility Grant program per the Governor's proposal? Will additional costs be covered within current appropriation levels?
4. DOF: What will the impact of ADA expansion be for charter schools currently served by the program?
5. CDE: Please describe the apportionment schedule for the Charter School Facility Grant program and indicate how it compares to allocations for most other school programs.
6. CDE/CSFA: Is the Governor's proposal to make first grant payments by August 31st each year achievable for all charter schools, including schools new to the program?

ISSUE 9. Charter Schools -- Charter School Revolving Loan Program

DESCRIPTION: The Governor proposes to shift administration of the Charter School Revolving Loan Fund program from the California Department of Education to the California School Finance Authority in the State Treasurer's Office beginning in 2013-14.

BACKGROUND: The Charter School Revolving Loan Fund (CSRLF), as established in statute and created in the State Treasury. The CSRLF is comprised of federal funds obtained by the state for charter schools, interest from loans issued to charter schools, and any other funds appropriated or transferred to the fund through the annual budget process. Statute also establishes the Charter School Security Fund (CSSF), which consists of revenue from interest payments on loans

Administration of Loan Program. The CSRLF program is administered by the California Department of Education (CDE). As such, CDE is authorized to provide loans to non-conversion charter schools of up to $250,000 – over the lifetime of the charter school -- to provide startup and initial operating capital in order to assist schools in establishing charter school operations. Loans shall be used only to meet the purposes of the charter grant. Priority for loans is given to new, non-conversion charter schools. Typically loans cover costs associated with leasing facilities, making necessary facility improvements, purchasing instructional materials and equipment, and expanding programs.

CDE may consider the following when determining whether to approve a school's loan application:

- soundness of the charter school's financial business plans;
- availability of other sources of funding for the charter school;
- geographic distribution of loans made from the Charter School Revolving Loan Fund;
- impact that receipt of these funds will have on the charter school's receipt of other private and public financing;
- plans for creative uses of the funds received, such as loan guarantees or other types of credit enhancements;
- financial needs of the charter school; and,
- start-up costs for new charter schools, which is a priority for loans.

Loan Terms: CSRLF loans must be repaid within five years, beginning with the first fiscal year after receipt of the loan. Loans shall be made at the interest rate earned by the money in the Pooled Money Investment Account (PMIA) as of the date of disbursement of the funds to the charter school. In the case of default of a loan made directly to a charter school, the charter school is liable for repayment of the loan.

Loan Requests & Criteria: A loan request must be submitted by the school district or county office of education that authorized the charter jointly with the charter school or a charter school directly if the charter school is incorporated (charter schools that are incorporated have the option to apply directly or jointly with the chartering entity).

ISSUE 9. Charter Schools -- Charter School Revolving Loan Program

Loan Deposits. Under current law (EC Section 41367), funds in the CSSF shall be available for deposit into the CSRLF, in case of default on any loan made from the CSRLF. Until amended by the 2012-13 budget, the statute was silent regarding the transfer process and no transfer had been made from the Charter School Security Fund (CSSF) to the CSRLF. The new statute provides specific authority to transfer funds from the CSSF to the CSRLF.

Fund Balance. Under current law, the Department of Education is required to provide a detailed fund condition statement for the CSRLF and CSSF by October 1st of each year. According to the Department, the current balance for the CSFRL is **$8.9 million** and the current balance of the CSSF is **$4.3 million**.

California School Finance Authority (CSFA). The CSFA was created in 1985 to oversee the statewide system for the sale of revenue bonds to reconstruct, remodel or replace existing school buildings, acquire new school sites and buildings to be made available to public school districts (K-12) and community colleges, and to assist school districts by providing access to financing for working capital and capital improvements.

Over the last 25 years, the CSFA has developed a number of school facilities financing programs and most recently is focused on assisting charter schools to meet their facility needs. The CSFA is a three-member board comprised of the State Treasurer, the Superintendent of Public Instruction, and the Director of the DOF, and is administered within the Office of the State Treasurer.

Current law authorizes the CSFA to issue lease-revenue bonds for the purpose of financing working capital for school districts, county offices of education, community college districts, and charter schools. This working capital is available to be used by these educational entities to pay maintenance or operating expenses incurred in connection with the ownership or operation of an educational facility, that could include reserves for maintenance or operating expenses, interest for up to two years on any working capital loan, reserves for debt service and any other financing costs, payments for the rent or lease of an educational facility.

GOVERNOR'S BUDGET PROPOSAL: The Governor's Budget proposes trailer bill language to transfer administration of the CSRLF from the California Department of Education to the California School Finance Authority in the State Treasurer's Office beginning in 2013-14. The Administration states that CSFA already administers similar programs. Per the Administration, the proposed shift is intended to improve the efficiency of charter school program administration and disbursement of funds to local charter schools.

The Governor proposes to shift **$175,000** in General Fund (Non-98) and **2.0 positions** from CDE to CSFA to support the program transfer in 2013-14 and beyond. However, it should be noted these state operations funds and positions are also intended to cover the shift of the Charter School Facility Grant program from CDE to CSFA, also proposed by the Governor. (See Agenda Issue #8.)

ISSUE 9. Charter Schools -- Charter School Revolving Loan Program

LAO COMMENTS & RECOMMENDATIONS:

- The LAO supports approval of the Governor's proposal to transfer administration of the Charter School Revolving Fund to the CSFA in 2013-14.

STAFF COMMENTS:

- **Charter Schools Loan Default Rate is Problematic.** The LAO has raised concerns about the current imbalance of the Charter School Revolving Fund due to a high loan default rate and the small amount of revenues available to offset loan defaults. Funds generated from interest payment on loans are supposed to offset the losses the state incurs when a charter school cannot repay its loan (or closes and the state cannot recover associated funds). According to CDE, the primary reason for loan default is the closure of some charter schools. As of last year, the LAO reported the Revolving Fund has accumulated $5.7 million in losses from the default of 38 charter school loans.
- **2012-13 Budget Language.** As background, trailer bill language adopted in 2012-13 requires the CDE to monitor the adequacy of the amount of funds in the Charter School Revolving Loan Fund and report annually to the DOF and the Controller on the need, if any, to transfer funds from the Charter School Security Fund to the Charter School Revolving Loan Fund. This new statute is intended to ensure that the interest payments collected in the Security Fund can be transferred to the Revolving Loan Fund as the original law intended.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee take the following action:

1. Approve the Governor's budget proposal.

SUGGESTED QUESTIONS:

1. DOF: Why does the Administration propose to transfer the Revolving Loan Program?
2. DOF: Will the transfer achieve efficiencies and/or better align programs?
3. DOF: Does the Administration believe the CSFA would be in a better position to improve the loan balance and make the fund self-sustaining? Will CSFA be in any better position to recoup funds from charter schools that default?
4. CDE: What are the Department of Education's thoughts about the proposed transfer?
5. CSFA: What are the Treasurer's Office thoughts about the proposed transfer?

ISSUE 10. Charter Schools – Access to Surplus District Property

DESCRIPTION: The Governor proposes to extend for five years provisions of current law that require school districts with surplus property to sell those resources first to charter schools before selling those assets to other entities or disposing of them. The Governor also proposes to permanently extend rules that provide exceptions on the use of proceeds from the sale of surplus property.

BACKGROUND:

2012-13 Budget. The 2012-13 budget included trailer bill language to require a school district seeking to sell or lease surplus property to first offer the property to any interested charter school. The real property sold or leased must be used by the charter school for direct instruction or instructional support. The new statute is operative for the 2012-13 only, and is limited to surplus property identified after July 2, 2012.

GOVERNOR'S BUDGET PROPOSALS:

The Governor's budget includes two provisions related to the sale and lease of surplus property, and the use of proceeds from these sales, as follows:

1. **Extends Requirement to Offer Surplus Property to Charter Schools for Five Years.** The Governor proposes to extend for an additional five years the requirement that school districts give charter schools first call on purchase or lease of surplus property. Under current law, this requirement is operative through June 30, 2013. The Governor's proposal would sunset on June 30, 2018.

2. **Permanently Extends Exceptions for Use of Proceeds From Locally Purchased Property Sales.** The Governor proposes to eliminate the January 1, 2014 expiration date on the rules pertaining to the sale of surplus property financed entirely with local funds. As a result, districts would continue to be able to use proceeds from the sale of these properties for one-time operating expenses <u>permanently</u> without forfeiting eligibility for new construction or modernization funding through the School Facilities Program. Districts would continue to forfeit eligibility for hardship funding through the School Facilities Program and Deferred Maintenance Programs.

ISSUE 10. Charter Schools – Access to Surplus District Property

LAO COMMENTS & RECOMMENDATIONS:

- **Modify Proposal to Provide Charter Schools First Call on Surplus Property.** The LAO recommends that the Legislature adopt the Governor's proposal to provide charter schools first call on surplus property, but with some key modifications. Specifically, the LAO recommend that the state:

  - ✓ Require the charter school to use the purchased or leased property for instructional activities or support.

  - ✓ Require that before the property may be sold or used for any other purpose, it must be offered for sale or lease to the school district that provided the property, followed by any interested charter schools. Require that if one of these interested charter schools obtains the property, it is likewise bound by these terms. (If the school district and other charter schools decline the offer to purchase or lease, the property could be sold or leased to another entity or used for any purpose.)

  - ✓ Limit the price paid by a school district to reacquire property it provided to a charter school to the price paid by the charter school, adjusted for inflation and the cost of any construction that has occurred (or 5 percent of this amount for an annual lease). Establish similar limits if the property is sold or leased to another charter school.

  - ✓ Require charter schools to use proceeds from the sale or lease of surplus property for capital outlay or maintenance costs (with the same exceptions as provided to school districts).
  - ✓ Require charter schools to maintain Field Act compliance for all buildings obtained from a school district that are compliant on the date the charter school takes possession.

- **Reject Governor's Proposal to Make Permanent Certain Exceptions for Use of Proceeds From Surplus Property Sales.** The LAO recommends that the Legislature reject the Governor's proposal to make permanent certain rules regarding the use of proceeds from the sale of surplus property purchased entirely with local funds. Districts still would be allowed, under existing law, to sell surplus property and use the proceeds for one-time general purposes. Districts would have to consider this option carefully, however, since they would forfeit their eligibility for state construction and modernization funds for at least five years. In the LAO's view, this higher stakes trade-off better protects the state from providing future facility funding to a school district that has recently sold property and used the proceeds for non-facility purposes.

ISSUE 10. Charter Schools – Access to Surplus District Property

RELATED LEGISLATION:

- **AB 2434 (Block). 2011-12 Session.** Existing law authorizes a school district that meets prescribed requirements to deposit the proceeds from the sale of surplus school property, together with any personal property located on that property, purchased entirely with local funds, into the general fund of the school district and to use those proceeds for any one-time general fund purpose. This flexibility is currently granted to school districts through January 1, 2014. This bill would extend the operation of this provision to January 1, 2019. **Status: Held in Assembly Appropriations.**

STAFF COMMENTS:

- **Few, If Any, Charters Have Been Able to Buy or Lease Surplus Property in 2012-13.** According to DOF, few – if any – charter schools have been able to buy or lease surplus property or facilities due to the one-year timeframe under current law. Extending the program five years provides a reasonable timeframe to give charter schools a real chance to participate.

STAFF RECOMMENDATION: Staff recommends the Subcommittee take the following action.

1. Approve the LAO alternative.

SUGGESTED QUESTIONS:

1. DOF: Under the Governor's proposal, are charter schools required to provide maintenance and upkeep of any property purchased or leased from school districts?
2. DOF: Under the Governor's proposal, what happens to purchased or leased property if a charter school closes its operations?
3. DOF: Does the Governor's proposal change how the sale of surplus property affects district eligibility for state bond funding?

ISSUE 11. Charter Schools – Other Issues

DESCRIPTION: The Governor proposes three additional fiscal and policy changes for charter schools. These separate proposals are presented in the items below.

Item 1. County-Wide Benefit Charter School Petitions

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes new statute to allow county-wide benefit charter petitions to designate multiple sites as individual schools for purposes of compliance monitoring, data reporting and collection, student performance data, oversight, and apportionment.

Under current law, county-wide benefit charters – with approval from their charter authorizers – can request school site designations for multiple school sites from the Department of Education. The Governor's proposal would allow county-wide benefit charters – with approval from their charter authorizers – to make this designation.

Per the Governor, this language would allow county-wide benefit charter schools with multiple sites to be treated the same as state-wide benefit charter schools with regard to designation of individual schools.

LAO COMMENTS & RECOMMENDATION

The LAO recommends adopting the Governor's proposal to authorize separate tracking of countywide charter schools' individual sites. Although countywide charter schools are operated by a single entity, individual sites may serve different grade spans or student populations. Different sites also could be more or less effective than other sites. As such, a countywide charter school may want each site to be tracked separately for accountability purposes and be able to apply directly for funding for each site. Although certain countywide charter schools could receive additional funding from SGP or RLF due to the proposal, the LAO thinks this is reasonable given that start-up costs are typically incurred on a per-site basis. Since SGP is federally funded and RLF consists of a fixed pool of state funds, additional funding applications are unlikely to increase state General Fund costs.

STAFF COMMENTS: The Governor's proposal appears to conform treatment for county-wide benefit chart school site designations with the practice for statewide benefit charter designation.

STAFF RECOMMENDATION: Staff recommends that the Subcommittee take the following <u>action</u>:

1. <u>Approve</u> the Governor's budget proposal.

ISSUE 11. Charter Schools – Other Issues

SUGGESTED QUESTIONS:

1. CDE: What is the process for establishing school sites for county-wide benefit charters with multiple sites?
2. CDE: Do you think statute is unclear with regard to determination of school sites for county wide benefit charters with multiple sites? For statewide-benefit charter schools?
3. CDE: Can the Department of Education grant requests from county-wide charters for school site designation? In other words, can CDE grant requests for CDS codes?

Item 2. Delegation of State Board Oversight

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes changes to existing statute to allow the State Board of Education -- by mutual agreement -- to delegate its oversight responsibilities for a charter school it has approved to any local educational agency.

Under current law, the State Board has the authority to delegate oversight responsibility for charter schools it has approved, but can only delegate to a local educational agency in the county where the charter school is located or to the governing board of the school district that first denied the petition.

According to the Administration, this language is necessary because it is difficult for the State Board to identify local agencies willing to provide oversight of State Board approved charter schools in all the counties where these approved charters are located.

Additionally, the Administration believes it is not reasonable to have local agencies that denied the original petition conduct oversight of the state approved charter school.

LAO COMMENTS & RECOMMENDATION

The LAO recommends adopting the Governor's proposal to allow SBE to delegate oversight to any LEA in the state. For charter schools located in smaller counties, the options for delegating oversight within the county may be very limited. By allowing SBE to delegate oversight to a capable school district or county office outside of the county, the proposal would help ensure that every charter school receives quality oversight. Given that oversight is currently managed by CDE—which is located a considerable distance from some of the schools it oversees—the entity selected as the oversight authority under the Governor's proposal likely would not be located further away from the charter school.

ISSUE 11. Charter Schools – Other Issues

STAFF RECOMMENDATIONS: Staff recommends the Subcommittee take the following action.

1. Approve the Governor's budget proposal.

Item 3. Multi-Track Attendance Accounting

GOVERNOR'S BUDGET PROPOSAL: The Governor proposes changes to existing statute to specify the conditions under which charter schools can receive attendance funding for students on multi-track school calendars.

The Governor's proposal is intended to regulate multi-track attendance funding for charter schools through statute – instead of through State Board waivers to streamline the process.

LAO COMMENTS & RECOMMENDATION: The LAO supports the Governor's proposal. The LAO views this proposal as technical.

STAFF COMMENTS:

- **Governor's Proposal Intended to Regulate Multi-Track Attendance through Statute & Reduce State Board Waivers.** The Department of Education has received 38 multi-track waiver requests in the last three years. All of these requests have been approved by the State Board of Education, typically on consent a vote.

- **CDE Amendments Reflect Conditions for State Board Waivers**. CDE recommends that the Administration consider language that reflects the current requirements utilized by the State Board of Education in granting waivers for charter schools with multi-track attendance.

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee take the following action:

1. Approve the Governor's proposal with amendments suggested by CDE placeholder language.

SUGGESTED QUESTIONS:

1. DOF: Is the Administration okay with the CDE alternative language?

Senate Budget and Fiscal Review—Mark Leno, Chair

Joint Subcommittee Hearing Agenda

Subcommittee #1 on Education
Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Subcommittee #2 on Resources, Environmental Protection, Energy, and Transportation
Senator Jim Beall, Chair
Senator Hannah-Beth Jackson
Senator Jim Nielsen

Thursday, April 4, 2013
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

Consultants: Kim Connor, Catherine Freeman, and Kris Kuzmich

PROPOSITION 39

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) 651-1505. Requests should be made one week in advance whenever possible.

GENERAL BACKGROUND

Proposition 39 Raises Additional State Revenues and Designates Half the Funding for Energy Projects. Proposition 39, the California Clean Energy Jobs Act of 2012, requires most multistate businesses to determine their California taxable income using a single sales factor method. (Previously, state law allowed such businesses to pick one of two different methods to determine the amount of taxable income associated with California and taxable by the state.) This change has the effect of increasing state corporate tax revenue.

For a five-year period (2013-14 through 2017-18), Proposition 39 requires that half of the annual revenue raised from the measure, up to $550 million, be transferred to a new Clean Energy Job Creation Fund to support projects intended to improve energy efficiency and expand the use of alternative energy (Proposition 39 text below).

> "*The sum of five hundred fifty million dollars ($550,000,000) shall be transferred from the General Fund to the Job Creation Fund in fiscal years 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18. Moneys in the fund shall be available for appropriation for the purpose of funding projects that create jobs in California improving energy efficiency and expanding clean energy generation*."

Proposition 39 specifically requires that the funds maximize energy and job benefits by supporting:

- ✓ Energy efficiency retrofits and alternative energy projects in public schools, colleges, universities, and other public facilities;
- ✓ Financial and technical assistance for energy retrofits; and
- ✓ Job training and workforce development programs related to energy efficiency and alternative energy.

Proposition 39 also requires that funded programs be coordinated with the California Energy Commission (CEC) and California Public Utilities Commission (CPUC) in order to avoid duplication and leverage existing energy efficiency and alternative energy efforts.

In addition, Proposition 39 states that the funding is to be appropriated only to agencies with established expertise in managing energy projects and programs.

Proposition 39 Affects School Funding by Raising Proposition 98 Minimum Guarantee. Proposition 98, passed by voters in 1988 and modified in 1990, requires a minimum level of state and local funding each year for school and community college districts. This funding level is commonly known as the Proposition 98 minimum guarantee. Though the Legislature can suspend the guarantee and fund at a lower level, it typically decides to provide funding equal to or greater than the guarantee. The Proposition 98 guarantee can grow with increases in state GF revenues (including those collected from state corporate income taxes). Accordingly, the revenues raised by Proposition 39 can affect the state's Proposition 98 funding requirements.

Existing State Energy Efficiency and Alternative Energy Programs. In general, energy efficiency refers to the installation of energy-efficient technologies or measures that are designed to reduce energy usage and eliminate energy losses in buildings. Thus, energy efficiency incentive programs aim to reduce energy usage while maintaining a comparable level of service, thereby saving energy consumers money on their utility bills. In comparison, alternative energy refers to energy that comes from "renewable" sources, meaning sources that are not finite and do not use up natural resources like more traditional forms of energy that rely on fossil fuels. Currently, California maintains over a dozen major programs that are intended to support the development of energy efficiency and alternative energy in the state. Over the past 10 to 15 years, the state has spent a combined total of roughly $15 billion on such efforts.

Most Programs Maintained by CEC and CPUC. The various energy efficiency and alternative energy programs are administered by multiple state departments, including CEC and CPUC. Energy efficiency upgrades and retrofits have been supported through programs at the CEC (such as Bright Schools and the Energy Conservation Program), as well as through programs directed by the CPUC and administered by the state's investor-owned utilities (IOUs) (such as appliance rebate programs). Funding from these programs has been allocated to various entities, including many school and community college districts. In determining which projects to fund, the CEC and the IOUs provide energy audits to evaluate what types of upgrades would result in the most cost-effective energy savings; these programs also provide financing options for these upgrades.

ISSUE 1: GOVERNOR'S PROPOSITION 39 PROPOSAL

Panelists: Department of Finance
California Department of Education
California Community College Chancellor's Office

Proposal Summary: The Administration projects that Proposition 39 will increase state revenue by $440 million in 2012-13 and $900 million in 2013-14. The Governor's budget proposal includes all revenue raised by Proposition 39 in calculating Proposition 98 funding, which has the effect of increasing the minimum guarantee by $426 million in 2012-13 and **$520 million** in 2013-14. The Governor appropriates **$450 million** of this Proposition 98 funding in 2013-14 for a K-14 education energy efficiency program in order to satisfy the energy efficiency requirements of Proposition 39 that commence in that year. Of this amount, the Governor appropriates **$400.5 million** to the California Department of Education (CDE) for allocation to K-12 school districts, charter schools and county offices of education and **$49.5 million** to the California Community Colleges Chancellor's Office (CCCCO) for allocation to community college districts. The Governor requires CDE and CCCCO to allocate these funds on a per student basis.

2012-13 Funding. The budget includes a $426 million increase in the Proposition 98 minimum guarantee for K-12 schools and community colleges as a result of new revenues generated by Proposition 39 in 2012-13. The budget does not direct these funds for any specific purpose.

The budget does not propose any funding for an energy efficiency program in 2012-13 since Proposition 39 does not require establishment of such a program until 2013-14.

The budget assumes $440 million in total Proposition 39 revenues in 2012-13, of which $426 million is appropriated for Proposition 98 pursuant to Test 1 calculations utilized by the Administration. The remaining $14 million in Proposition 39 revenues provides General Fund savings in 2012-13.

2013-14 Funding. The budget provides a $520 million increase in the Proposition 98 minimum guarantee for K-12 schools and community colleges as a result of new revenue generated by Proposition 39 in 2013-014.

The budget proposes to allocate all energy efficiency funding required by Proposition 39 <u>within</u> the $520 million in Proposition 98 funding provided under the Governor's proposal. Specifically, the budget proposes to expend $450 million of the $520 million in Proposition 98 funds to establish a new Energy Efficiency Program for K-12 schools and community colleges in 2013-14.

Of the $450 million proposed for the Energy Efficiency Program in 2013-14, $400.5 million (89 percent) is appropriated for K-12 school districts, charter schools, and county offices of education and $49.5 million (11 percent) is appropriated for community college districts. The Department of Education and the Community College Chancellor's Office would be responsible for allocating funding on a per student basis within their respective systems.

The budget estimates $900 million in total Proposition 39 revenues in 2013-14. Under the Governor's calculations, which assume Test 3 factors applied to total estimated Proposition 39 revenues, the Proposition 98 minimum guarantee increases by $520 million in 2013-14. The budget proposes $380 million in remaining revenues as General Fund savings in 2013-14.

2014-15 through 2017-18 Funding. The Governor proposes to continue energy efficiency funding for K-12 schools and community colleges at $500 million for four additional years, from 2014-15 through 2017-18. This assumes $1.0 billion in total Proposition 39 revenues, with half provided for energy efficiency per the proposition during this timeframe. (The Governor's proposal is limited to these four years, since Proposition 39 does not require energy efficiency funding beyond 2017-18.)

Parameters of the Proposition 39 Energy Efficiency Investment Program. Under the Governor's proposal, CDE and the CCCCO would issue guidelines for prioritizing the use of the funds. The CDE and the CCCCO are required to consult with CEC and CPUC in developing these guidelines. At a minimum, the guidance is required to reflect the state's energy "loading order," and further specify that school and community college districts give consideration to all of the following in the planning and design of their local projects:

- ✓ Each project should be focused on in-state job creation and energy benefits;
- ✓ Each project should be cost effective, with total benefits exceeding project cost over time;
- ✓ Each project should include documentation on project specifications, costs, and projected energy savings; and
- ✓ Eligible projects may include technical assistance costs associated with the identification, evaluation, and implementation of projects.

The state's energy "loading order" guides the state's energy policies and decisions according to the following order of priority: (1) decreasing electricity demand by increasing energy efficiency; (2) responding to energy demand by reducing energy usage during peak hours; (3) meeting new energy generation needs with renewable resources; and (4) meeting new energy generation needs with clean fossil-fueled generation.

School and community college districts would also be encouraged to partner as practicable with the California Conservation Corps and local community conservation corps programs in the design and implementation of local projects.

CDE and CCCCO State Operations. The Governor's budget proposes to provide CDE with one permanent position ($109,000) to help implement and oversee the Proposition

39 program. The Governor proposes no additional positions for the CCCCO for the administration of Proposition 39.

Accountability Requirements. Upon project completion, school and community college districts are required to report by October 1 of the subsequent fiscal year their project expenditure information to CDE and the CCCCO, respectively. The CDE and CCCCO would then compile these reports and transmit the information to the Citizens Oversight Board by November 1 of each year for its review and evaluation. Proposition 39 funding received by school and community college districts would also be subject to annual financial audits as required under current law.

ISSUE 2: LAO'S ALTERNATIVE PROPOSITION 39 PROPOSAL

Panelist: Legislative Analyst's Office

Proposal Summary: The LAO's alternative proposes that all the Proposition 39 revenues required to be used on energy-related projects be excluded from the Proposition 98 calculation and not count spending from these revenues as Proposition 98 expenditures. In addition, the LAO proposes that the CEC should instead administer a competitive grant process in which all public agencies, including school and community college districts, could apply and receive funding based on identified facility needs.

Exclude Energy-Related Funding From Proposition 98 Minimum Guarantee. The LAO alternative excludes from the Proposition 98 calculation all Proposition 39 revenues required to be used on energy-related projects. This approach is consistent with the LAO's view of how revenues are to be treated for the purposes of calculating the minimum guarantee. This approach would reduce the minimum guarantee by roughly $260 million. Additionally, the $450 million to be spent on energy-related projects should be reclassified as a non-Proposition 98 expenditure (though the state still could choose to spend these monies on school and community college districts).

Alternative Increases Proposition 98 Operational Support by $190 Million. The LAO alternative would result in $190 million in additional operational Proposition 98 support for schools and community colleges. This amount is the net effect of two factors. On the one hand, by excluding Proposition 39 revenue from the Proposition 98 calculation, the minimum guarantee falls by $260 million in 2013-14. On the other hand, by not using Proposition 98 funding for school energy projects, spending falls by $450 million relative to the Governor's budget plan. Thus, maintaining spending at the revised minimum guarantee would result in an additional $190 million in operational funding. Under this approach, the $450 million still needs to be used for energy-related projects, and it could be used for schools and community colleges to the extent the basic provisions of Proposition 39 are met. From the state's perspective, this approach increases total state costs by $190 million and, thus, could result in reduced spending on non-Proposition 98 General Fund programs.

Allocation via a Competitive Grant Process Led by the CEC. To ensure that the state meets the requirements of Proposition 39 and maximizes energy and job benefits, the LAO alternative designates the CEC as the lead agency, in consultation with the CPUC and other experienced entities, for Proposition 39 Energy Funds. The CEC would be directed to develop and implement a competitive grant process in which all public agencies could apply for Proposition 39 funding on a project-by-project basis. In order to ensure that the state maximizes energy benefits, this competitive process should consider and weigh all factors that affect energy consumption. The LAO notes that the CEC could create a tiered system that categorizes facilities based on a high-, medium-, and low-energy intensity or need. Based on that categorization, funding should be provided to facilities with the greatest relative need in coordination with other existing energy efficiency programs.

Require Applicants to Provide Certain Energy-Related Information. To qualify for grant funding and assist CEC in evaluating potential projects, the LAO alternative would require applicants to first have an energy audit to identify the cost-effective energy efficiency upgrades that could be made, similar to the types of audits currently provided through the CEC and the IOUs. As part of the application, facilities should also provide information regarding the climate zone, size, design, and age of a building.

ISSUE 3: TREATMENT OF PROPOSITION 39 REVENUES IN CALCULATING THE PROPOSITION 98 MINIMUM GUARANTEE

Panelists: Department of Finance
Legislative Analyst's Office

Issue Description: The Governor and the LAO treat Proposition 39 revenues very differently for purposes of calculating the Proposition 98 minimum guarantee. In so doing, the Governor and LAO take very different approaches to the expenditure of Proposition 39 revenues in the overall budget architecture beginning in 2013-14.

Comparison of the Governor and LAO Approaches:

Governor's Approach. According to the Department of Finance (DOF), unless expressly excluded, all proceeds from taxes deposited in the General Fund are used in the calculation of the Proposition 98 minimum guarantee. Therefore, the Governor's budget proposal includes all of the **estimated $900 million** raised by Proposition 39 in the calculation of the Proposition 98 minimum guarantee. This treatment has the effect of increasing the minimum guarantee by **$520 million** in 2013-14. The Governor counts **$450 million** of this Proposition 98 funding in satisfaction of the energy efficiency funding required by Proposition 39, eliminating any need for Non-Proposition 98 funding for this purpose. Therefore, the remaining **$260 million** in Proposition 39 revenues provide savings in the form of General Fund offsets in 2013-14.

LAO Alternative Approach. According to the LAO, revenues are to be excluded from the Proposition 98 calculation if the Legislature cannot use them for general purposes, typically due to restrictions created by a voter approved initiative or constitutional amendment. Therefore, the LAO excludes $450 million required to be used for energy related projects under Proposition 39 from the Proposition 98 calculation. Applying the Proposition 98 calculation to the remaining $450 million provides $260 million in Proposition 98 funding in 2013-14. This is $260 million less than the $520 million in Proposition 98 funding provided by the Governor.

In addition, the LAO would also reclassify the $450 million that must be spent on energy related projects as Non-Proposition 98 expenditures, but assumes the state could still choose to spend these funds on K-12 schools and community colleges.

Overall, the LAO approach would result in an additional $190 million in Proposition 39 expenditures for K-12 schools and community colleges in 2013-14. This would reduce state savings by the same amount necessitating new non-Proposition 98 General Fund reductions of $190 million in 2013-14.

Figure 1 below displays the impact of the different approaches taken by the Governor and LAO in the treatment of Proposition 39 revenues for purposes of calculating Proposition 98 funding and expending Proposition 39 funds.

Figure 1: Summary Impact of Different Treatment of Proposition 39 Revenues in Calculating the Proposition 98 Guarantee

2013-14 (In thousands)	Governor	LAO	Difference
Proposition 98 Funding			
Operational funding for schools and community colleges	$55,750	$55,940	$190
Energy project funding, only schools and community colleges	450	0	-450
Subtotals, Proposition 98	*($56,200)*	*($55,940)*	*(-$260)*
Non-Proposition 98 Funding			
Energy project funding, all allowable projects including schools and community colleges	0	$450	$450
Total Spending	**$56,200**	**$56,390**	**$190**

Source: LAO

LAO Concerns with Governor's Approach:

- **Varies Significantly From LAO's Longstanding View of Proposition 98**. The Governor applies all revenue raised by Proposition 39 – including the revenue required to be spent on energy-related projects – toward the Proposition 98 calculation. Per the LAO, the Governor's treatment of these revenues is a serious departure from its longstanding view, developed over many years with guidance from Legislative Counsel, of how revenues are to be treated for the purposes of Proposition 98. Per the LAO, the Proposition 39 voter guide reflected this interpretation by indicating that funds required to be used for energy-related projects would be *excluded* from the Proposition 98 calculation.

- **Could Lead to Greater Manipulation of the Minimum Guarantee.** The Governor's approach assumes that all tax revenues deposited directly into the General Fund *must* be included in the Proposition 98 calculation, whereas any tax revenues deposited directly into a special fund must be excluded from the calculation. The LAO argues that the Governor's approach could lead to greater manipulation of the minimum guarantee by opening the door to all types of accounting shifts. The LAO notes that the state could, for example, require that all sales tax revenues be deposited directly into a special fund rather than the General Fund, thereby excluding the revenues from the Proposition 98 calculation. Per the LAO, this type of a shift could undermine the meaningfulness of the guarantee and render it effectively useless in setting a minimum funding requirement. The LAO believes that Proposition 98 minimum funding calculations should not rely on what fund they are deposited into, but on their use. In the LAO's view, revenues are excluded if they are clearly removed from the Legislature's control – typically by constitutional or voter-approved action.

Subcommittee Questions: Based on the above comments, the Subcommittees may wish to ask the following questions of DOF and LAO:

1. **Major Reasons for Differences**. Clearly, the Administration and LAO have two different interpretations of how to calculate Proposition 98 funding from state Proposition 39 revenues. What are the fundamental reasons behind each interpretation?

2. **Historical Examples.** What other examples can both DOF and LAO point to that support their interpretation of how Proposition 39 revenues should be treated for purposes of calculating the Proposition 98 minimum guarantee?

3. **Future Implications.** What are the future implications of the Governor's treatment of Proposition 39 revenues for purposes of calculating Proposition 98? What are the future implications for the LAO's approach?

4. **State General Fund Savings.** The LAO approach would increase operational funding for K-14 education by $190 million, which would necessitate Non-Proposition General Fund reductions of an equal amount in 2013-14? Does the LAO have recommendations for achieving these savings?

Staff Recommendation. Hold this issue open.

ISSUE 4: ENERGY EFFICIENCY PROGRAM PARAMETERS

Panelists: Department of Finance
Legislative Analyst's Office
California Department of Education
California Community Colleges Chancellor's Office

Issue Description: The DOF and LAO offer two different proposals to comply with energy efficiency requirements outlined in Proposition 39 for expenditure of those revenues, as displayed in Figure 2 below.

Figure 2: Summary of DOF and LAO Proposition 39 Energy Efficiency Proposals

Proposition 39 Terms	DOF Proposal	LAO Alternative
Control Entity	CDE and CCCCO.	CEC, in consultation with the CPUC and other experienced entities.
Allocation Method	Per-student basis.	Competitive grants.
Eligible Recipients	School and community college districts.	All public agencies.
CEC and CPUC Coordination	CDE and CCCCO are required to consult with both entities in the development of guidelines prioritizing use of the funds.	CEC is lead agency in consultation with CPUC.
Energy Efficiency Retrofits and Alternative Energy Projects Specifics *Leverage Existing Energy Efficiency Efforts*	Guidelines will reflect the state's energy "loading order," and require further specifications for project planning and design, including each project be: (a) focused on energy benefits; (b) cost effective, with total benefits exceeding project cost over time; and (c) include documentation on project specifications, costs, and projected energy savings.	Competitive process should consider and weigh all factors that affect energy consumption. The CEC could create a tiered system that categorizes facilities based on a high-, medium-, and low-energy intensity or need, whereby funding should be provided to facilities with the greatest relative need in coordination with other existing energy efficiency programs.

Figure 2: Summary of DOF and LAO Proposition 39 Energy Efficiency Proposals, continued

Proposition 39 Terms	DOF Proposal	LAO Alternative
Job Training/Workforce Development Specifics	Each project should be focused on in-state job creation. Encourages coordination with California Conservation Corps.	Unclear.
Technical Assistance for Energy Retrofits Allowed	Yes.	Unclear.
Control Entity Established Expertise in Managing Energy Projects and Programs	Unclear.	Yes.
Reporting	Upon project completion, school and community college districts report by October 1 of the subsequent fiscal year their project expenditure information to CDE and the CCCCO, respectively.	Unclear.
Audits	Expenditure of these funds would be subject to existing annual school and community college district financial audits as required under current law.	Applicants required to first have an energy audit to identify the cost-effective energy efficiency upgrades that could be made. As part of the application, facilities should also provide information regarding the climate zone, size, design, and age of a building.
State Operations Staffing Resources	$109,000 and one position to CDE; no additional resources for the CCCCO.	Unclear.

Subcommittee Questions: The Subcommittees may wish to ask the following questions of DOF, LAO, CDE, and CCCCO:

1. **Per-Student Versus Energy-Based Allocations.** The allocation of Proposition 39 funds to K-12 school districts, charter schools, county offices of education, and community college districts on a per student basis ensures that all districts receive funding, but it could be at the exclusion of other eligible projects that potentially could achieve a greater level of energy benefit.

    a. What are other benefits/trade-offs of providing Proposition 39 revenues on a per student basis?

    b. Has the Administration assessed whether the per student allocation results in funds flowing to districts that may not have as pressing energy retrofit needs as other districts might have? Do charter schools have the same needs as K-12 school districts and county offices of education?

    c. The Governor's proposal has been criticized that it does not take into account energy consumption differences; i.e., the need for energy efficiency projects varies by district, with the need depending on the size, age, and climate zone of the facilities in each district. Why aren't these factors included in the Governor's proposal?

2. **Focus on K-14 Education; Other Higher Education Segments Excluded**. The Administration identifies K-12 school facilities as the single largest capital outlay investment made by the state since the mid-1990s. (The LAO reports that since 1998 the state has invested more than $30 billion in school bond funding to modernize and construct K-12 facilities.) The state has also made significant capital outlay investment in higher education facilities. (According to the LAO, the state has spent an estimated $10.1 billion on higher education infrastructure in the last ten years.)

    a. Why does the Governor's proposal exclude the UC and CSU systems?

    b. Are the UC and CSU systems just as well positioned to undertake projects that would reduce their current utility requirements and expand the use of renewable energy resources?

    c. Would it be possible to include the UC and CSU systems in the Governor's plan and still maintain a substantial focus on K-12 schools and community colleges?

3. **Energy Needs of Other Public Facilities Not Included.** Per Proposition 39, Clean Energy Job Creation Funds shall be available for projects that create jobs in California improving energy efficiency and expanding clear energy generation including all of the following: public schools, universities and colleges, and other public buildings and facilities.

a. What savings could be achieved by expanding the Governor's proposal to include other state facilities, especially 24-hour facilities such as state hospitals?

b. Did the Governor consider savings associated with municipal facilities, including 24-hour facilities?

4. **Consistency of Proposals with Intent of Proposition 39.**

a. Proposition 39 requires that monies from the Clean Energy Job Creation Fund be appropriated only to agencies with established expertise in managing energy projects and programs. Under the Governor's proposal, how do the Department of Education and the Chancellor's Office comply with this requirement?

b. Proposition 39 states that projects must be selected based on the number of in-state jobs they would create and their energy benefits. How does the Administration's proposal comply with this requirement? How does the LAO alternative comply with this requirement?

c. How does each proposal respond to the requirement that the total benefits of each project be greater than total costs over time; i.e., what requirements would be in place to ensure that facilities upgraded with Proposition 39 funds remain in use long enough for the benefits to outweigh the costs?

d. Both proposals focus on energy efficiency. Proposition 39 allows for energy upgrades (such as solar panel installation) that may, in some cases, have more long term financial savings. Are these options allowable under the Governor's proposal or the LAO alternative?

e. How does each proposal incorporate the California Conservation Corps and other existing workforce development programs to train and employ disadvantaged youth, veterans, and others on energy efficiency and clean energy projects?

5. **Timetable for Proposals.** Under both proposals, how quickly will the funding flow?

a. What is the timeline for grant guidelines development and finalization?

b. What is the timeline for project start and completion?

c. What is the timeline for reporting to be completed?

6. **Smaller K-12 School Districts**. How does the Administration respond to the concern that smaller school districts may carry funds over during the five-year life of the program (to increase the total resources available for a project), effectively

preventing use of the funds to immediately achieve benefits intended by Proposition 39. Does this concern argue for a minimum grant size for smaller school districts?

7. **Accountability.** Under the Governor's proposal, school and community college districts are required to report project expenditure information to CDE and the CCCCO, respectively by October 1st of the following fiscal year. The CDE and CCCCO would then compile these reports and transmit the information to the Citizens Oversight Board by November 1 of each year for its review and evaluation. Proposition 39 funding received by school and community college districts would also be subject to annual financial audits as required under current law.

    a. What accountability provisions, including reporting, are included in the LAO proposal?

8. **State Operations – Staffing.**

    a. Why does the Administration propose staffing resources only for the Department of Education and not for the community colleges Chancellor's Office?

    b. Under the LAO alternative, will the California Energy Commission need additional staffing resources to implement the competitive grant program?

9. **State & Local Savings.** California's K-12 system includes 962 districts and 9,895 schools, and it serves 6.2 million students. It has been reported that schools account for nearly 12 percent of commercial energy consumption, and the 2011 General Fund expenditures for utility bills at California public schools exceeded $1 billion – more than was spent on school books and supplies, combined.

    a. Has the Administration modeled the potential savings to local school and community college district budgets under the Governor's proposal?

    b. Under Proposition 98, will local savings from the Governor's proposal produce savings for the state?

    c. Under the LAO proposal, the state would lose $190 million in General Fund savings compared to the Governor's proposal. Could any of these additional costs be offset by other state savings in the short-term or long-term? For example, if energy efficiency funding were also provided for the CSU and UC systems, could these investments result in the need for less funding?

Staff Recommendation. Hold this issue open.

Senate Budget and Fiscal Review—Mark Leno, Chair

Joint Subcommittee Hearing Agenda

Subcommittee #1 on Education
Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Subcommittee #2 on Resources, Environmental Protection, Energy, and Transportation
Senator Jim Beall, Chair
Senator Hannah-Beth Jackson
Senator Jim Nielsen

Thursday, April 4, 2013
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

Consultants: Kim Connor, Catherine Freeman, and Kris Kuzmich

PROPOSITION 39

OUTCOME: ALL ISSUES HELD OPEN.

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) 651-1505. Requests should be made one week in advance whenever possible.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, April 11, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

Consultant: Kris Kuzmich

PART A

6870 CALIFORNIA COMMUNITY COLLEGES

Item 1:	Elimination of the Community College Fund for Instructional Improvement

Governor's Budget Proposal. The January budget proposes budget trailer bill language to repeal statute authorizing the Community College Fund for Instructional Improvement and sweep the remaining fund balance of $863,000 to the GF.

Background. The Fund for Instructional Improvement (FII) was established in 1977 to support alternative educational programs and services within the community colleges, including, among others, programs addressing special learning needs of educationally disadvantaged students, bringing visiting scholars to local districts, and instruction involving internships and experiential learning opportunities. It consists of a revolving loan program and a competitive grant program. Since its creation, the FII has made available a total of $31.6 million in grants and loans to carry out the purposes of the original legislation. In 2004, due to the state budget constraints, the grant category was zeroed out; no state funding has been provided since.

The Chancellor's Office reports that the FII has not been used in recent years due to the lack of availability of grant funds. Historically speaking, the grant and loan funds were used together. Loan funds were used to purchase equipment in conjunction with grant projects due to a Title 5 prohibition on the use of grant funds to purchase equipment. Without any grant funds available since 2004, the combination of grant/loan applications vanished.

The Chancellor's Office reports that the FII contains $800,000 in loan funds and $200,000 in unexpended previous grant funds.

Staff Comment. The FII appears to have served its purpose during its operation; however, it has effectively been suspended since 2004. In the ensuing years, the conversation has evolved. For instance, there is the work of the Student Success Task Force to improve student outcomes, which resulted in 22 specific recommendations to be accomplished through regulatory changes, system-wide administrative policies, local best practices, and legislation. Additionally, the Legislature has enacted several pieces of legislation specifying a number of priorities to fund once new resources become available, such as a common assessment instrument for incoming students, additional academic counselors to help students identify and make progress toward their educational goals, and a system for electronic student transcripts to improve campus record-keeping and efficiencies. As such, staff finds no compelling reason to continue the FFI.

Staff Recommendation. Approve budget trailer bill language to repeal the Community College Fund for Instructional Improvement and sweep the fund balance of $863,000 to the GF.

VOTE:

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Item 2: Budget Protections for Estimates of RDA- and Proposition 30-related Revenues

Governor's Budget Proposal. The January budget proposes budget trailer bill language to ensure that the CCC budget is held harmless and provided with a GF backfill should revenues related to either Proposition 30 [Education Protection Account (EPA) Funds] or the dissolution of Redevelopment Agencies (RDA) be less than estimated in 2013-14. With regard to EPA Funds, the language also applies to 2012-13.

Background. Apportionment funding, which districts use for general purposes, comes from three main sources: (1) enrollment fee revenues; (2) local property taxes; and (3) the GF, with local property taxes and the GF accounting for CCC funding under Proposition 98. The enacted budget assumes a specified amount of fees and property taxes that will be collected and retained by districts that year. The assumption about fee revenue is based on estimates of the number of students who will pay fees and the number of students who, because of their financial need, will receive a Board of Governor's (BOG) Fee Waiver. Based on these estimates, the enacted budget provides the necessary GF support to meet the system's apportionment amount.

Generally speaking, when systemwide fee revenues or local property tax receipts fall short, the total amount of apportionment funding available to districts that year similarly falls short. Unlike K-12, there is no automatic mechanism to backfill a community college shortfall. Therefore, the system must contend with lower total funding that year unless the Legislature and Governor decide to provide a GF backfill.

The Budget Act of 2012 provided for the first time a partial "backfill" to the CCC budget. Budget trailer bill language was adopted to ensure that the CCC budget is held harmless and provided with a GF backfill should offsetting local property taxes available to districts due to the dissolution of RDAs not materialize in both 2011-12 and 2012-13.

Staff Comment. Given the continued "unwinding" of RDA and resulting uncertainties about local property tax estimates, providing continued protection to the community college budget is warranted.

With the passage of Proposition 30, an additional EPA revenue-related uncertainty has emerged that warrants similar legislative consideration. With regard to timing, it is also worth noting that Proposition 30 created a cash flow problem in 2012-13 due to the fact that funds will not be transferred until June 2013, so districts will have to "front" cash to operate their programs. In 2013-14 (and future years), EPA funding will be provided on a quarterly basis, which is only a minor change to cash flow (districts currently receive most of their state funding through smooth monthly payments).

Staff Recommendation. Approve placeholder budget trailer bill language to provide a backfill of EPA Funds in both 2012-13 and 2013-14, and of RDA revenues in 2013-14.

VOTE:

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Item 3: Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations

Governor's Budget Proposal. Under the January budget, the CCC would receive a $197 million increase in base apportionment funding, with the allocation methodology to be determined by the BOG. This is roughly a five percent increase over 2012-13; the CCC budget is expected to then grow significantly over the subsequent three years of the four year multi-year budget plan. This funding is linked to an expectation that the CCC will improve their performance in the following four areas:

- ✓ Increased graduation and completion rates;
- ✓ Increased CCC transfer students enrolled at UC and CSU;
- ✓ Decreased time-to-degree; and
- ✓ Increased credit and basic skills course completion.

Details regarding what the system of performance expectations for the four identified priorities would look like, including how to evaluate performance towards achieving goals, remain outstanding. The Administration's current focus is UC and CSU; however, the overall intent is to have the performance improvements also apply to the CCC. At the time of the writing of this agenda, the Administration is still developing its proposal for UC and CSU and indicates that further information will be forthcoming at a future date.

Background. Multi-year "funding agreements," or "compacts" as they have been previously called, are not a new idea. Similar agreements between prior administrations and UC and CSU generally took the form of uncodified agreements between the Governor and the university systems. The Legislature was not a party to those earlier agreements. However, in the case of the CCC, a funding agreement is a new idea, as prior agreements *did not* include the CCC.

The state provides two primary types of funding to the CCC system: (1) apportionments, which are intended to fund basic operating costs (such as employee compensation, utilities, and supplies); and (2) categorical programs, which collectively support a wide range of supplemental activities that the state views as critical statewide priorities, including child care, support services for underprepared students, and financial aid advising, among others. The January budget proposes approximately $5.68 billion in apportionment funding and $408 million in categorical funding for the CCC in 2013-14.

The per full-time equivalent student (FTES) rates have been frozen since 2007-08, the last year a cost-of-living adjustment (COLA) was provided. The current rates are as follows: (1) $4,565 for credit FTES; (2) $3,232 for enhanced non-credit FTES, also known as Career Development and College Preparation; and (3) $2,745 for non-credit FTES. The January budget proposes a *K-12* COLA of 1.65 percent. If applied to the community colleges, a 1.65 percent COLA would translate to $91 million of the $179 million base apportionment increase.

Item 3: Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations, Continued

The Budget Act of 2009 reduced ongoing Proposition 98 GF support for categorical programs by $263 million (about 37 percent). To help districts better accommodate the reduction, the Budget Act of 2009 combined over half of CCC categorical programs into a "flex" item. Through 2014-15, districts are permitted to use funds from categorical programs in the flex item for any categorical purpose. By contrast, funding for categorical programs that are excluded from the flex item must continue to be spent on specific associated statutory and regulatory requirements.

LAO Comments/Recommendations. It is unclear whether the Governor's approach would ensure that the state's highest CCC priorities would be addressed. For instance, the Legislature has enacted several pieces of legislation specifying a number of priorities to fund once new resources become available, such as a common assessment instrument for incoming students, additional academic counselors, and a system for electronic student transcripts to improve campus record-keeping and efficiencies. In addition, the state has a number of outstanding CCC-related liabilities, including over $300 million that is owed for past mandate claims.

If more funding is provided than needed to meet existing funding obligations, the Legislature should link the additional funding with an expectation that the community college develop and implement strategies to improve legislatively specified student outcomes and meet identified cost-containment goals. Broad consensus already exists on some key outcome goals, including improving student persistence, transfer, and graduation; reducing costs; and maintaining quality. Moreover, the Legislature last year passed legislation (SB 721) outlining a process that would enable the state to measure progress and promote improvement in these areas through budget and policy decisions. Building on this foundation, the Governor and Legislature could establish specific improvement targets and a system for reporting on the segments' performance relative to these targets.

The Governor also proposes to continue to fund CCC districts based on enrollment (though he proposes to change the way enrollment is calculated, as discussed in Item 6). Despite keeping CCC base funding linked with enrollment, the Governor does not require the CCC to serve additional students in 2013-14 with the proposed base augmentation. The Legislature should establish enrollment targets for the CCC to ensure that student outcome improvements do not come at the expense of existing student access. These performance and enrollment targets would send a clear signal regarding the state's priorities and expectations.

Staff Comment. Unlike other state funds in the CCC budget, the January budget would allow the BOG to make its own decision about how the base apportionment increase would be distributed and for what purpose. This is a broad departure from past practice, whereby the Legislature made the decision in the annual budget act; i.e., any increase in

Item 3: *Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations, Continued*

base funding was provided for a specific purpose, such as for growth (unfunded FTES) or a COLA (increase in the per FTES amount).

With regard to the performance expectations, SB 195 (Liu) is the most recent iteration of this effort described by the LAO to create greater accountability for higher education. It is a positive development that the Governor is focusing on higher education, looking to improve outcomes, and identifying priorities such as reduced time-to-degree and increased graduations. However, without any specifics in the budget, or a linkage to a defined framework of broader policy goals developed in partnership with the Legislature and a system for reporting on the segments' performance relative to those targets housed in statute, the Governor's multi-year budget plan is incomplete.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the following questions of DOF and the Chancellor's Office:

1. DOF, what is the timeframe for when the Legislature will receive details about the "system of performance expectations" for the four identified priorities included in the January budget?

2. DOF, how does the Administration's approach ensure that the state's highest priorities for the CCC would be addressed?

3. Is the Chancellor's Office developing a proposal for the expenditure of the increase in base apportionment funding?

    a. What are the potential components of such a plan beyond generalities about a balanced plan to restore access, fund growth, and improve student success?

Staff Recommendation. Hold this item open pending receipt of the May Revision, further information from the Administration about the system of performance expectations, and further consideration of SB 195.

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Item 4: Buydown of Existing Deferrals

Governor's Budget Proposal. The January budget proposes $179 million to buy down existing deferrals. This would lower total system deferrals to $622 million; the remaining deferred funding would be paid down by the 2016-17 fiscal year. The level of deferral "buy down" is consistent with, and proportional to, the payment of deferred funding in K-12 education; e.g., roughly a 50-50 split of new funding versus deferral buydown.

Background. The state currently has four large outstanding one-time obligations relating to schools and community colleges. The largest outstanding obligation involves deferred payments. The state also has a large backlog of unpaid mandate claims. The other two obligations, for the Emergency Repair Program (K-12 only) and Quality Education Investment Act (QEIA) (K-14), are connected with lawsuits.

The state relied heavily on deferrals during difficult fiscal times. The first Proposition 98 deferrals were adopted in 2001-02, when $1.1 billion in K-12 payments were deferred from late June 2002 to early July 2002. This delay, while only a few weeks, allowed the state to achieve one-time savings by reducing Proposition 98 GF spending in 2001-02. Schools continued to operate a larger program using cash reserves. In 2008-09, facing an even larger budgetary shortfall, the state delayed $3.2 billion in Proposition 98 payments to achieve one-time GF savings. The state adopted additional deferrals in each of the next three years. By 2011-12, a total of $10.4 billion in annual Proposition 98 payments were paid late (roughly 21 percent of total Proposition 98 support).

The Budget Act of 2012 began reducing the amount of deferred payments by providing $2.2 billion to pay down Proposition 98 deferrals, with $2.1 billion of that amount for K-12 schools and $159 million for community colleges.

LAO Comment. Over the next several years, as state GF revenue growth results in additional Proposition 98 resources, the Legislature will want to weigh the trade-offs between building up ongoing base support and retiring outstanding one-time obligations. Although no one right mix of spending exists, the Governor's generally balanced approach is reasonable. Using such an approach would allow the state to retire most school and CCC obligations by 2016-17, prior to the expiration of Proposition 30's personal income tax increases, while also dedicating a substantial portion of Proposition 98 funding for ongoing programs.

Staff Comment. From a fiscal and policy standpoint, it is prudent to reduce these inter-year deferrals, as they remain outstanding obligations on the state's books. Deferrals also come with borrowing costs for districts, in order to address cash flow concerns caused by the delayed state payments.

Staff Recommendation. Hold this item open pending receipt of the May Revision.

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Item 5: Expanding the Availability of Courses Through Use of Technology

Background. The Chancellor's Office reports that currently roughly ten percent of all courses systemwide are delivered via distance education (DE). While there is still vast untapped potential in this educational model, the Chancellor's Office notes that future growth has been limited for the following reasons: (1) distance education requires a large, up-front technology investment by a local campus and community colleges are also unable to support 24/7 technical support to these local enterprises; (2) insufficient student support systems exist to ensure success in the online environment; (3) instructional design is often not at a level to deliver information in a clear and engaging manner; (4) there is not a single, uniform DE experience in the California Community College system; and (5) there is not a single source of all available online courses or programs and students must "shop" all 112 campuses individually to find them.

Similar to UC and CSU, the CCC does not currently have a seamless efficient process available to students for cross campus enrollment in distance education courses. Currently CCC students who identify a course of interest at another college in the system have to apply for admission at that college, receive a new student identification number and password, and register for the class. Students also are responsible for transferring credits earned from the course back to the home campus.

Governor's Budget Proposal. To expand the number of courses available to matriculated CCC students through the use of technology, the January budget provides a separate augmentation of $16.9 million Proposition 98 GF which is earmarked in the budget bill. A required expenditure plan that was developed by the Chancellor's Office and approved by the Administration was submitted to the subcommittee on March 26, 2013. Figure 1 below summarizes the CCC Online Initiative expenditure plan, followed by narrative descriptions of each component.

Figure 1: California Community College Online Initiative

Subcomponents of Plan	One-Time Expenditures 2013-14	Ongoing Annual Expenditures 2014-15 and Beyond
Common Learning Management System	$12,900,000	$7,250,000
Centralized 24/7 Support	500,000	500,000
Course Development Activities	1,000,000	750,000
Credit by Exam Enterprise	1,000,000	500,000
Professional Development Activities	1,000,000	5,000,000
California Virtual Campus Portal	500,000	500,000
Total	**$16,900,000**	**$10,000,000**

Common Learning Management System (LMS). Currently each institution individually selects and operates course management systems, duplicating administrative and support costs, foregoing possible economies of scale for purchasing, and creating a very non-

Item 5: Expanding the Availability of Courses Through Use of Technology, Continued

uniform student experience. This component seeks to bid out for the purchase and maintenance of a single LMS to service the entire system, thus dramatically reducing local costs and support burden, providing for a higher-quality learning management system environment that is customized specifically for the CCC using criteria developed by CCC faculty, all while providing a common learning "look and feel" for all students statewide. Ideally this system would be flexible enough to offer MOOCs (massive open online courses), traditional online, and on campus hybrid courses.

Centralized 24/7 Support. In support of the common LMS, a centralized technology support function/call center will be operated 24/7/365. Currently, CCC campuses have little ability to handle this level of support for distance education, which negatively impacts student retention.

Course Development Activities. This component will focus on SB 1440 (Chapter 428; 2010) transfer degree courses/programs and expanding Basic Skills course availability.

- With regard to SB 1440, an inventory of SB 1440 courses will be developed, including the option to complete a SB 1440 degree fully online. The courses will be offered by a consortium of existing CCC campuses, with students statewide being able to supplant their schedules in this delivery mode.

- With regard to Basic Skills, high-quality courses focused on Math and English remediation will be developed and made available for students in an online environment. More than 70 percent of students entering the community colleges are unprepared for college level work; an estimated 650,000 students took night courses at the community colleges demonstrating the need for flexibility in course scheduling. Distance education offers one possible option for creating the scheduling flexibility needed by the community college student.

Credit by Exam Enterprise. Campuses already have the option of allowing students to challenge a course based on prior learning experience. Under this component, an expanded credit by exam enterprise would be developed to allow California students to test for many common courses needed for degree attainment (including many core SB 1440 courses) and submit information from a variety of sources to be evaluated for college credit. This credit would be transcriptable to all community colleges, CSU, UC, and, in most cases, also accepted at private institutions throughout the state.

Professional Development Activities. This component will focus on expansion of a single distance education portal and further integration of existing education technology infrastructure. With regard to the portal, this component would establish an integrated course design and staff development function that any faculty member statewide can utilize to create engaging and effective courseware. This will also help ensure a standard of quality across the system for the students in distance education courses delivered in

Item 5: Expanding the Availability of Courses Through Use of Technology, Continued

this consortium. Further integration into existing technology infrastructure will result in the creation of two new categories of Online Teaching Certifications that will be available to ensure that faculty are prepared to operate effectively in the distance education environment.

California Virtual Campus Portal. This component will create a robust course catalog encompassing all campuses under a single distance education umbrella/portal. Using the existing California Virtual Campus domain (www.cvc.edu), the Chancellor's Office would build out a "gateway" portal where all students can access these courses, while allowing all campuses to leverage the centralized resources at www.cvc.edu for their own local distance education enterprises. This component will also result in the coordination of existing distance education services in support of the initiative.

Staff Comment. If the investment bears fruit as the Administration envisions, the net result will be increased productivity and lower cost per degree for students and the state, as well as increased access for other students. Unlike the subcommittee's consideration of the Governor's online education proposals for UC and CSU, the CCC online initiative expenditure plan is both comprehensive and detailed.

However, given the relatively recent date of submittal of the plan to the Legislature, subcommittee staff and the LAO have not had sufficient time for analysis. For instance, while the LAO has previously expressed support for a LMS, the LAO has recommended against providing a funding augmentation because the Chancellor's Office has estimated that colleges could save roughly $100,000 each per year if they were to leverage economies of scale this way. Yet the plan before the subcommittee would allocate 75 percent of the total funding available in 2013-14 for this purpose.

The LAO has also raised a number of questions for the Chancellor's Office about the plan. These questions include: (1) why the one-time costs of the LMS are higher in year one as compared to the out-years; (2) if the 24/7 support includes such activities as tutoring, how this can be accomplished with only $500,000 in funding; and (3) detail of any plan to roll out the common assessment mentioned in the plan summary but is not included in the detailed component descriptions. Staff also notes that the *January Budget Summary* stated that the Governor's proposal would result in increased "*student access to 250 new courses delivered through technology*," yet that target is not specifically defined in the plan.

Given these outstanding questions, the subcommittee may wish to consider delaying action on this item until such time as a full analysis has been completed and all outstanding questions answered.

Staff Recommendation. Hold this item open, including the budget bill provisional language earmarking the funding, to allow time for further analysis of the expenditure plan.

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Item 6: Changes to Census Accounting Practices

Governor's Budget Proposal. The January budget proposes trailer bill language to institute a five-year phase-in of funding apportionments on completion rather than on census date enrollment. The BOG will determine how to phase in the change and requires that by 2017-18, 100 percent of FTES will be computed based on the number of students enrolled at the end of the term. Any enrollment monies that districts "lose" due to this policy change would be transferred to district categorical programs that fund student support services. After an unspecified number of years (to be determined by the BOG), funds would be redirected away from districts that fail to increase completion rates over a reasonable time period.

Background. Currently, the annual budget drives statutory formulas and calculations which result in enrollment targets for each of the state's 72 community college districts. The amount of apportionment funding received by each district depends on the number of students it enrolls, up to (but generally not beyond) that enrollment target. The "census date" currently is in the third or fourth week of each semester. Although not specifically included in the annual budget act, an overall enrollment target for the entire system is calculated by DOF.

LAO Recommendation. The Legislature should reject the Governor's proposal to change the census date. The Legislature could achieve the overarching objective of improving college and student outcomes by developing a more robust funding model that balances student access (enrollment) with student success (as measured by specific performance indicators). In effect, a disconnect exists today between the state's message to CCC and its funding mechanism which values both access and achievement but only get compensated for successfully providing access.

Staff Comment. This proposal is intended to apportion funding by focusing on completion at the end of the term, thereby incentivizing districts to focus on outcomes. While the Governor raises a fair point about the benefit of moving to a funding model that is more outcome-oriented, legitimate concerns can be raised about unintended consequences in the classroom, such as grade inflation or reductions in course rigor. The LAO has also noted that by redirecting any "lost" funds to a district's categorical program, the budget presupposes that students do not complete their coursework because of inadequate support services. This may be a contributing factor, but it ignores the many other factors that could be at play such as a poorly designed or taught course. The LAO has suggested the Legislature consider changes to the funding model that would place greater emphasis on more meaningful outcomes, such as rewarding colleges for student learning gains and program completions (such as obtaining a degree or skills certificate) rather than course completion.

Given that the Student Success Task Force (SSTF) considered and rejected a similar proposal, the Subcommittee should consider the interaction of this proposal with the

Item 6: Changes to Census Accounting Practices, Continued

work of the SSTF which is already underway and could accomplish the same goal. For instance, the SSTF's approach was to encourage student success and completion through a number of cross-cutting initiatives. There are initiatives that provide incentives for students to complete courses and other initiatives that encourage colleges to support students in those efforts. These initiatives include more counseling and educational planning, enrollment prioritization, enhancement of professional development and course scheduling to align course offerings with educational planning. Additionally, the SSTF recommended a student success scorecard, which was released on April 9, 2013, so that communities can better assess the performance of colleges in meeting key success goals.

Staff Recommendation. Reject the budget trailer bill language; continue to support implementation of the recommendations of the Student Success Task Force.

VOTE:

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Item 7: Unit Cap on State-Subsidized Courses

Governor's Budget Proposal. The January budget proposes budget trailer bill language to cap the number of units the state would subsidize per student at the CCC, as follows:

- ✓ Starting in 2013-14, CCC students will be limited to 90 state-subsidized semester credit units (150 percent of the standard required to earn an associate's degree or credits for transfer).
- ✓ The following course units are specifically excluded from counting against the cap: (1) remedial courses; (2) advanced placement or international baccalaureate units that were obtained while in high school or another secondary school program; and (3) dual enrollment, college-level units obtained by the student prior to receiving a high school diploma.
- ✓ The BOG is required to adopt guidelines and criteria for granting waivers on a case-by-case basis to students who exceed the allowed cap "*due to factors beyond their control*."
- ✓ Any student granted a waiver will continue to pay state-supported systemwide tuition and fees, however districts would be ineligible to receive state apportionments for those classes. Students above the cap and not granted a waiver will be required to pay nonresident tuition.
- ✓ The unit cap applies to all students, including those attending and enrolled prior to 2013-14.

The Administration does not budget any savings from this proposal.

Background. In 2010-11 (the most recent data available), roughly 84,000 CCC students, representing roughly four percent of total enrollment, had earned 90 units or more.

In recent years, the BOG has adopted several regulations intended to reduce excess course-taking by students. In July 2011, the BOG approved a regulation that limits the number of times CCC are eligible to receive state support for students who fail to pass a course (or enroll but then drop the course). In July 2012, the BOG adopted regulations that prohibit districts from receiving state support for student re-enrollments in certain "activity" courses (such as physical education). The BOG also has adopted a regulation that establishes a systemwide enrollment policy. Under the new regulation, which goes into effect in fall 2014, community colleges are no longer permitted to give enrollment priority to students who have accumulated 100 or more degree-applicable CCC units.

SB 1440 (2010) improved the efficiency of transfer from CCC to CSU by requiring CCC to create two-year (60 unit) degrees (known as "associate degrees for transfer") that are fully transferrable to CSU. A student who earns such a degree is automatically eligible to transfer to the CSU system as an upper–division (junior) student in a bachelor's degree program. Though these students are not guaranteed admission to a particular CSU campus or into a particular degree program, SB 1440 gives them priority admission to a CSU program that is "similar" to the student's CCC major or area of emphasis, as

Item 7: Unit Cap on State-Subsidized Courses, Continued

determined by the CSU campus to which the student is admitted. Once admitted, SB 1440 students need only to complete two additional years (60 units) of coursework to earn a bachelor's degree. By guaranteeing full credit for courses taken at the CCC and limiting the number of additional units students may be required to complete, SB 1440 also reduces excess unit-taking.

LAO Recommendation. Because it creates positive incentives for students and motivates institutions to improve the efficiency of their academic programs, the Legislature should adopt a cap on the number of state-subsidized units students can accrue with the following specific provisions: (1) exclude from the cap units earned through other agencies, by internal evaluation, and for unsubsidized courses as long as they do not contribute to FTE student counts; (2) prohibit students from being allowed additional state-subsidized units for double majors; (3) cap the number of failed and dropped courses the state subsidizes; (4) provide additional guidance regarding waivers to avoid an excessive number of appeals; and (5) delay implementation until 2015-16 to provide adequate notice to students and permit the segments to develop systems to identify and monitor excess units as students enroll.

Staff Comment. The cap is intended to create an incentive for students to shorten their time-to-degree, reduce costs for the state, and increase access for other students. This is a worthwhile goal, but ignores some of the realities of the current situation, including the severe capacity issues brought on by state level budgetary reductions. Students should be able to take appropriate courses and earn degrees in a timely fashion, but there needs to be shared responsibility for doing so. For instance, campuses would need to enhance academic advising and ensure availability of required courses. Yet, the Governor's proposal contains no requirements or expectations of the CCC for any of these student services, but does create a hard penalty for students. It also changes the rules of the game midcourse for all students currently enrolled, which raises a question of fairness.

The Chancellor's Office has also not carried out a systematic analysis to determine to what extent "*factors beyond a student's control*" have contributed to high numbers of units taken by some students. Given this, it is highly questionable that the BOG could adopt the guidelines and criteria for granting waivers on a case-by-case basis by the start of the upcoming fall term as proposed by the Governor.

This proposal also intersects with the work of the Student Success Task Force, including the recently adopted enrollment priorities and the maximum unit BOG fee waiver cap. Both of these policy changes address the Administration's core concern that students may not have sufficient incentive to complete their program in an efficient manner; i.e., these students may take more courses than necessary, creating a bottleneck at the college.

Staff Recommendation. Reject the budget trailer bill language; continue to support implementation of the recommendations of the Student Success Task Force.

VOTE:

6870 CALIFORNIA COMMUNITY COLLEGES

Item 8: Community College Financial Aid Program Changes

Governor's Budget Proposal. The January budget proposes trailer bill language to implement two changes to CCC financial aid programs, as follows:

- ✓ Require all students seeking financial aid, including BOG Fee Waivers, to fill out a Free Application for Federal Student Aid (FAFSA) form; and
- ✓ Require campuses to take both student and parent income into account when determining certain students' eligibility for a BOG fee waiver.

Background. The BOG Fee Waiver program waives enrollment fees for CCC students who demonstrate financial need. The cost of the program, which is covered by Proposition 98 GF monies, has grown rapidly in recent years with waiver costs projected to total $782.6 million in 2012-13. Under current law and regulation, there are three means of eligibility: (1) Part A, if students or their parents receive cash assistance from other need-based programs (such as CalWORKs); (2) Part B, if a student's or his/her family adjusted gross income is at or below 150 percent of the federal poverty level; and (3) Part C, if students have any financial need (cost of attendance exceeds their federally determined family contribution by $1,104 or more; $1,104 is the amount of annual fees charged to a full-time student taking 24 units).

Students can apply for a fee waiver by completing: (1) the FAFSA or (2) for Part A and B waivers, the BOG Fee Waiver application. Verification policies differ by which type of fee waiver is sought. For instance, under Part A, appropriate documentation includes copies of a student's benefits check. Under Part B, Chancellor's Office guidelines give districts flexibility to determine what "documentation" means; acceptable methods include verifying tax records or "self-certification," whereby students are taken at their word about their or their family's income level. All students signing the BOG Fee Waiver application form, as well as the FAFSA, do so under penalty of perjury.

The Chancellor's Office indicates that 80 percent of students currently receiving aid filled out a FAFSA. The remaining 20 percent received a fee waiver through the BOG Fee Waiver application because their income was below the federal poverty guidelines or they received public assistance; included in that 20 percent are also students who are not eligible for federal financial aid and therefore would not fill out a FAFSA.

In determining dependent students' eligibility for a Part B waiver, current Chancellor's Office guidelines require campuses to consider only the parents' income. This deviates from federal financial aid policies for dependent students, which includes both the parents' and students' income for purposes of determining financial need.

Anecdotal information gathered by the Chancellor's Office suggests that at least ten percent of fee waiver recipients who qualify under the state's current definition of independent but will not be able to meet the federal criteria and will therefore lose BOG

Item 8: Community College Financial Aid Program Changes, Continued

Fee Waiver eligibility. In some cases, loss of eligibility will result from parental income being too high for the student to qualify, but in more cases the loss will occur because parents are unwilling to provide the information or students are unable or unwilling to ask parents who may not have provided any housing or support since the student turned 18. Further, the Chancellor's Office reports that Extended Opportunity Programs and Services (EOPS) offices rely on the classification of a student as either a Part A or Part B fee waiver recipient. Requiring parental income for calculation of eligibility for the fee waiver would result in an unknown number of students who would lose EOPS eligibility for the reasons listed above.

LAO Recommendation. The Legislature should approve the Governor's proposals related to the FAFSA and to require the community colleges to count dependent students' income for purposes of determining eligibility for a BOG fee waiver.

Staff Comment. In recent years there has been a number of policy bills introduced pertaining to CCC financial aid programs. With regard to the FAFSA, these bills were intended to address the same goal the Governor identifies for his budget proposal – namely, to ensure that all financially needy students gain access to the full spectrum of allowable federal and state aid. However, the bills differ in that they did not *require* completion of a FAFSA but rather *authorized* the use a FAFSA, or they proposed carefully designed pilot projects in support of the general goal. These bills have been vetoed. The last iteration was AB 91 (2011), which was vetoed by Governor Brown because the proposed pilot project was "*a matter that each community college can handle on its own.*"

Examining the two budget proposals within the context of the recent legislation, it appears that while there are differences in approach, all efforts intend to address the same goal. One of the benefits of the pilot project is it would provide some analysis of the roughly 20 percent of students who do not currently fill out a FAFSA. Given this, and the fact a pilot project bill has been reintroduced (AB 606), it would appear the appropriate venue for these proposals is the policy process. Such a venue would allow for all considerations about changes in financial aid policy to be fully vetted. For instance, the Chancellor's Office reports that central to its outreach and in-reach messaging over the last ten years has been a focus on the FAFSA and the alternative BOG Fee Waiver form. To change that approach without any lead or preparation time, such as late as July after passage of the budget, would likely result in the potential for significant delays and misunderstanding for students both in school and those attempting to get into school.

Staff Recommendation. Reject the budget trailer bill language.

VOTE:

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Item 9: Economic and Workforce Development Program Expenditure Plan

Governor's Budget Proposal. The January budget proposes placeholder budget bill provisional language conditioning expenditure of $22.9 million in Economic and Workforce Development (EWD) program funds until the Chancellor's Office submits, by July 1, 2013, a proposed expenditure plan to DOF for approval.

Background. The EWD Program was codified in statute in 1991. This action formalized earlier efforts, dating from 1986, to coordinate statewide technical training and programs for small business and economic development. In 1996, economic development became part of the statutory mission of the CCC. EWD funds are issued through a competitive grant process. Some grants support a rapid response to industry needs, whereas others build longer-term capacity in the field to work with employers. The impact of the EWD funding in 2011-12 included: 929 people received jobs; 9,475 jobs retained; 2,388 businesses served; 7,409 industry certifications; 710 internships; and 77 apprenticeships.

Chapter 361 (Statutes of 2012) reauthorized the EWD program, for the period beginning January 1, 2013, through to January 1, 2018, and otherwise recast and revised the program. The revised program is intended to improve the functions of the EWD program in three primary ways: (1) making the program more nimble and better able to respond to changing economic conditions; (2) making the program more accountable for investments and performance by strengthening the evaluation framework for EWD grants and programs; and (3) encouraging better integration and communication of EWD programs with Career Technical Education (CTE) programs.

Staff Comment. The EWD program is a well-regarded program and the revisions contained in Chapter 361 will serve to further improve the program. Due to the timing and effective date of Chapter 361, it was not possible for the January budget to contain revised budget bill language providing for aligned EWD expenditures. However, the placeholder language is unacceptable because it precludes the Legislature from having any input in the expenditure plan. The Chancellor's Office has indicated that it plans to work with DOF to draft budget language for the EWD program in accordance with Chapter 361. At the writing of this agenda, the timeline for receipt of that language is uncertain.

Subcommittee Question. The key question before the subcommittee is what is the timeline for the Chancellor's Office to finalize the EWD program expenditure plan; i.e., when can the Legislature expect receipt of the expenditure plan?

Staff Recommendation. Hold this item open, including expenditure of the $22.9 million in EWD funds, pending receipt of an expenditure plan.

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Item 10: Enrollment Prioritization for Students Receiving CalWORKs

Budget Issue. The Budget Act of 2012 made significant changes to CalWORKs welfare-to-work rules, including the creation of a 24-month time limit with more flexible welfare-to-work activities, including education, before it has been reached and stricter requirements afterward (up to 48 total months).

On March 21, 2013, Subcommittee No. 3 reviewed the implementation of these changes, focusing on whether the new flexibilities could be undermined if students receiving CalWORKs cannot access necessary CCC classes during the narrower 24-month time limit. Subcommittee No. 3 acted to coordinate with this subcommittee to determine if a statutory change to ensure priority enrollment for CCC students receiving CalWORKs is appropriate.

Background. In 2012, the BOG adopted enrollment priority regulations which are required to be fully implemented by fall 2014. Under the regulations, veterans, active duty military, and current and former foster youth are in the first level, consistent with current law. The second level of priority registration is for Extended Opportunity Programs and Services (EOPS) and Disabled Students Programs and Services (DSPS) students. The third level is continuing students not on academic probation and first time students. In all cases, a student has to complete orientation and assessment, and develop a student education plan, to receive priority for enrollment. The regulations allow districts the discretion to collapse the first two levels if the statutorily protected groups are not disadvantaged in the process and a district determines it has the capacity to do so.

Based on 2010-11 enrollment (the most recent year available), approximately 11,000 students receiving CalWORKs already have priority for enrollment because they also participate in the EOPS or DSPS programs. Another 29,000 (or one percent of students) do not currently benefit from priority for enrollment. It would be this universe of students that would be served by providing priority for enrollment standing similar to that provided for EOPS and DSPS students.

Staff Comment. The Chancellor's Office raises a general concern about precedent and whether other groups facing time constraints, such as student athletes, would also request to be added to the enrollment priorities. Staff also notes that if "priority" is granted too widely it effectively results in no prioritization. However, Subcommittee No. 3's concern here is legitimate; namely, the flexibilities with respect to educational opportunities become a hollow opportunity if students receiving CalWORKs cannot access community college classes during the new and narrower 24-month time clock. In this vein, making this statutory change could be viewed as a technical and conforming change to the broader changes made to the CalWORKs program in the Budget Act of 2012.

Staff Recommendation. Hold this item open pending further discussions with Subcommittee No. 3 and the Administration.

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Item 11: Community Colleges Degree Offerings

Background. Existing law establishes the Master Plan for Higher Education, differentiating the functions of the public postsecondary segments. With a wide range of educational offerings, the community colleges provide workforce training, basic courses in English and math, certificate and degree programs, and preparation for transfer to four-year institutions. The community colleges, however, do not offer four-year degree programs or instruction beyond the second year of college.

Other States. In December 2012, Michigan granted its community colleges the legal authority to confer baccalaureate degrees, becoming the 21st state to do so. That figure has jumped from 11 states just eight years ago.

According to a 2010 report from the American Association of State Colleges and Universities (AASCU), community colleges typically add baccalaureate programs in locations where nearby four-year colleges either do not exist or cannot meet demand. The AASCU's research found 465 baccalaureate programs at community colleges around the country. Given the recent action in Michigan, it is likely that number has increased since the report was published in 2010. AASCU also found that a smattering of community colleges have fully transformed into four-year institutions, including the University of Arkansas at Fort Smith, Utah Valley University, and West Virginia University at Parkersburg.

Another analysis of states with community college baccalaureate degree programs found the primary reasons for offering these programs are to address workforce needs, respond to economic pressures from employers, increase access to populations underserved by traditional baccalaureate degree-granting institutions, and maintain college affordability.

Existing Partnerships. Authorized in 2005, the CCC Baccalaureate Partnership Program (Program) was established for the purpose of offering baccalaureate degree programs on participating CCC campuses. The Program authorizes the Chancellor's Office to award annually two grants, not to exceed $50,000 each, to a collaborative, consisting of at least one CCC and at least one baccalaureate-degree granting institution, formed for the purpose of offering a baccalaureate degree program at participating CCC. Current examples of these partnerships include: (1) Cañada College partners with SFSU and CSU East Bay to provide bachelor's degrees at the University Center located on the Cañada College campus in Child and Adolescent Development, Nursing, and Health Sciences; (2) The city of Stockton receives baccalaureate-level instruction provided by CSU Stanislaus at an off-campus site in Stockton; and (3) CSU Fullerton maintains a branch campus in El Toro, serving approximately 1,140 full-time equivalent students annually.

Staff Comment. Legitimate concerns have been raised about access to four-year degrees and the price of that education exceedingly slipping out of the grasp of younger

Item 11: Community Colleges Degree Offerings, Continued

generations. Allowing the CCC to offer baccalaureate degrees could be one way to help improve retention and graduation rates, while providing otherwise place-bound students an opportunity to get a high-quality education close to home.

However, allowing the CCC to offer baccalaureate degrees represents a significant expansion of the CCC mission, with an unknown impact on the ability of CCC to complete its *existing* missions. As reported by the Institute for Higher Education Leadership & Policy, of the 60 percent of CCC students seeking a degree or certificate, only about one-fourth succeed in transferring to a university and/or earning an associate's degree or certificate within six years. In recent budget acts, the Legislature has declared intent that the CCC implement workload reductions (a decrease in funded FTES) in courses and programs outside of those needed for students to achieve their basic skills, workforce training, or transfer goals, consistent with the primary missions of the CCC.

This “mission” concern is exacerbated by significant budget reductions since 2007-08, with the CCC asserting during budget debates that they do not receive adequate funding for their *existing* responsibilities and student enrollment levels. This dynamic will begin to be addressed given the passage of Proposition 30 and projections of increased revenue to the system over the next several fiscal years. However, the depth and breadth of reductions to *existing* programs and enrollment levels raise feasibility questions about the community colleges expanding into degree offerings beyond the second year of college.

Subcommittee Questions. Based on the above comments, the subcommittee may wish to ask the following questions of the Chancellor’s Office, LAO, and DOF:

1. To what extent has private post-secondary institutional enrollment increased in recent years due to the public institutions inability to meet the growing demands of the job market?
2. This is not a new issue; since at least the early 2000s, there have been bills introduced to authorize community college districts to offer baccalaureate degrees. The most recent iterations of this effort have focused on authorization of a pilot to allow selected districts to offer baccalaureate degrees. Has the Chancellor’s Office studied the pilot concept or otherwise examined the process by which such a pilot could be implemented?
3. Is the Chancellor’s Office aware of any studies of CCC capacity to offer bachelor's degrees?
4. What studies or analysis has been undertaken of the “lessons learned” from grants provided since 2005 under the CCC Baccalaureate Partnership Program?
    a. Has the Chancellor’s Office examined the potential of expanding the existing CCC Baccalaureate Partnership Program?

Staff Recommendation. This is an informational item.

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Item 12: Federal Sequestration – Community College Impacts

Background. The federal sequester is automatic, across-the-board, spending reductions on many federal programs, intended to ensure $1.2 trillion deficit reduction over 10 years. Generally speaking, the reductions are half from defense and half from non-defense programs. The first set of reductions took effect March 1, 2013, impacting mostly federal discretionary spending ($71 billion in cuts) and some mandatory programs ($14 billion in cuts). Certain programs were exempted from the sequester, including entitlements and Pell grants for college students, among others.

Due to the sequester, all federally-funded education programs (other than Pell grants) are subject to an automatic across-the-board reduction of roughly 5.3 percent. Students will also see an increase in the origination fee charged for new federal student loans taken after July 1, 2013. Additional reductions to education programs (including Pell grants) will likely occur in Fiscal Years 2014 through 2021 due to stringent “caps” on so-called discretionary-funded programs, which include all education programs (other than student loans).

Staff Comment. The full impacts of the March 1 reductions are not yet known.

The Chancellor’s Office currently estimates that Carl D. Perkins/VTEA (vocational education) funds will be reduced by eight percent in 2013-14 and another seven percent in 2014-15. Funding for 2012-13 was $124,509,075; funding for 2013-14 is $113,966,121, a reduction of $10,542,954. This funding level represents the total allocation to the California Department of Education and the Chancellor’s Office. The split of the funding between the two entities will be determined in the next couple of weeks, and each community college will then be notified of their actual award. The split is based upon an enrollment formula and historically is close to 50/50.

Information on other federal funding will be provided at the hearing if it becomes available.

Staff Recommendation. This is an informational item.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, April 11, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

Consultant: Kris Kuzmich

PART A

OUTCOMES

Item	Department	Page
6870	**California Community Colleges (CCC)**	

Proposed "Vote Only" Items

Item 1 Elimination of the Community College Fund for Instructional Improvement 2

Budget trailer bill language to repeal the Community College Fund for Instructional Improvement and sweep the fund balance of $863,000 to the GF approved by a vote of 3-0.

Item 2 Budget Protections for Estimates of RDA- and Proposition 30-related Revenues 3

Placeholder budget trailer bill language to provide a backfill of EPA Funds in both 2012-13 and 2013-14, and of RDA revenues in 2013-14 approved by a vote of 3-0.

Proposed "Vote Discussion" Items

Item 3 Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations 4

Item held open pending receipt of the May Revision, further information from the Administration about the system of performance expectations, and further consideration of SB 195.

Item held open pending receipt of the May Revision.

Item held open, including the budget bill provisional language earmarking the funding, to allow time for further analysis of the expenditure plan.

Budget trailer bill language to change census accounting practices rejected by a vote of 2-1, with Senator Wyland voting no.

Budget trailer bill language to establish a unit cap on state-subsidized courses rejected by a vote of 2-1, with Senator Wyland voting no.

A. Budget trailer bill language to require all students seeking financial aid, including BOG Fee Waivers, to fill out a Free Application for Federal Student Aid (FAFSA) form held open.3

B. Budget trailer bill language to require campuses to take both student and parent income into account when determining certain students' eligibility for a BOG fee waiver rejected by a vote of 2-1, with Senator Wyland voting no.

Item held open, including expenditure of the $22.9 million in EWD funds, pending receipt of an expenditure plan.

Item held open pending further discussions with Subcommittee No. 3 and the Administration.

Informational item.

Informational item.

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) 651-1505. Requests should be made one week in advance whenever possible.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, April 11, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

Consultants: Kim Connor and Kris Kuzmich

PART B
ADULT EDUCATION

ADULT EDUCATION IN CALIFORNIA - GENERAL BACKGROUND

Adult Education's Primary Purpose. The primary purpose of adult education to provide persons 18 years and older with the precollegiate-level knowledge and skills they need to participate in society and the workforce.

The typical types of students served by adult education programs include: (1) immigrants who want to learn English, obtain citizenship, and receive job training; (2) native English speakers who are illiterate or only can read and write simple sentences; (3) high school dropouts who want to earn a diploma for General Educational Development (GED) high school equivalency certificate to increase their employability or attend college; (4) high school graduates who seek to earn a college degree but have not yet fully mastered reading, writing, or math at precollegiate levels; and (5) unemployed persons or unskilled workers earning low wages who seek short-term vocational training to improve their economic conditions. Adult education also serves older adults who want stay active physically and mentally, as well as parents seeking to learn effective techniques for raising their children.

Providers and Students. According to the Legislative Analyst Office (LAO), more than 400 state-funded entities provide adult education, including 112 community colleges and about 300 K-12 adult schools. Data is incomplete, but it is estimated that 1.5 million students (headcount) were served in 2009-10 (latest estimate available). This estimate translates to about 550,000 full-time equivalent (FTE) students. (Data is incomplete because state funding for K-12 adult education programs was made flexible in 2008-09 and school districts are no longer required to report data on students served.)

Of the 1.5 million students served by an adult education program, the LAO estimates that 66 percent (most) are served by community colleges (52 percent credit and 14 percent non-credit) and the remaining 34 percent are served by K-12 adult schools.

System Governance and Coordination. As noted, both K-12 school districts and community college districts currently provide adult education. Adult education is not a "core" mission for either system.

For K-12 school districts, the core statutory and constitutional responsibility is for elementary and secondary education.

For community college districts, the primary mission is to offer academic and vocational education at the lower division level for both recent high school graduates and those returning to school. Another primary mission is to advance the state's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement. In addition, current law provides that essential and important functions include: basic skills instruction, providing English as a second language, adult noncredit instruction, and support services that help students to succeed at the postsecondary level. Finally, community colleges are also authorized to provide community service courses and programs, so long as their provision is compatible with an institution's ability to meet its obligations in its primary missions.

Throughout the adult education program's history, several legislative clarifications have been attempted and lawsuits have been filed, yet today adult education remains a bifurcated responsibility of both K-12 school and community college districts. Therefore, there is a lack of clarity about governance and coordination of adult education. As a result, instructional areas overlap in the two segments.

There are ten state-supported and state-authorized instructional areas, which K-12 and community college districts can both provide: (1) adults with disabilities; (2) apprenticeship; (3) vocational/career technical education; (4) immigrant education in citizenship and workforce preparation; (5) elementary and secondary education; (6) English as a second language; (7) health and safety, including exercise and fitness classes; (8) home economics; (9) older adults; and (10) parenting. Of these ten areas, community colleges provide instruction on both a credit and non-credit basis for the following: (1) adults with disabilities; (2) apprenticeship; (3) vocational education; (4) elementary and secondary education; (5) English as a second language; and (6) health and safety.

Figure 2

Adult Education Includes a Wide Array of Instructional Areas

Instructional Area	Adult Schools	CCC Noncredit	CCC Credit
Adults with disabilities	X	X	X
Apprenticeship	X	X	X
Vocational education[a]	X	X	X
Immigrant education (citizenship and workforce preparation)	X	X	
Elementary and secondary education	X	X	X
English as a second language	X	X	X
Health and safety[b]	X	X	X
Home economics	X	X	
Older adults	X	X	
Parenting	X	X	

[a] Also referred to in statute as career technical education.
[b] Includes exercise and fitness classes.

Overall Funding Levels and Sources. The LAO estimates that more than **$2 billion** in total funding was spent in 2011-12 for adult education programs, of which about **$1.7 billion** supported community colleges and about **$400 million** supported K-12 adult schools. The largest funding sources are state General Fund and local property tax revenues, which together comprise Proposition 98 funding. In addition, this total also includes student fees and federal funds.

State Funding for K-12 Adult Education. Historically, K-12 adult schools were funded based on adult education revenue limits for adult education students in districts participating as of a specific date. Current funding allocations largely reflect whether a district participated in the categorical program in 1979-80 and service levels at that time.

Prior to 2008-09, the state provided funding for adult schools through a categorical program that provided a uniform per-student funding rate, specifically **$2,645** per student based upon average daily attendance (ADA).

Beginning in 2008-09, state funding levels were reduced and a 15 percent across-the-board cut was implemented. This cut deepened to 20 percent in 2009-10 and has remained at that reduced level since then. Also in 2008-09, the state allowed K-12 school districts to "flex" their adult education funding and use it for any purpose. As a result, districts were no longer required to report data on whether funds were expended for adult education, and, if so, how many adults were served.

While actual data is not available, the LAO surveyed K-12 districts and estimated that only between 40 to 50 percent of the **$635 million** provided in Proposition 98 adult education funding in 2011-12 was spent for that purpose. Per the LAO, this equated to about **$400 million** in 2011-12.

Under current law, adult schools are authorized to charge fees for most courses, including English as a second language, citizenship, and vocational education, and other courses such as health and safety. Fees are not permitted for elementary and secondary education. Per statute, fees charged by school districts cannot exceed the costs of providing the course.

State Funding for Community College Adult Education. Within the community colleges, enrollment funding can be used for both credit and noncredit instruction. The funding is allocated on a per-student (FTES) basis. In 2012-13, course rates are as follows:

- **Credit rate**, regardless if coursework is degree applicable or non-degree applicable, of **$4,565**;
- **Regular non-credit rate**, such as for home economics and programs designed for older adults, of **$2,745**; and
- **Enhanced non-credit rate,** for coursework in career development and college preparation, of **$3,232**.

For adult education, credit fees are based upon $46 per unit – the same as for other community college credit classes. Most community college adult education students are enrolled in credit courses.

However, the community colleges are <u>not</u> authorized to charge fees for adult education noncredit courses. Only 14 percent of community college adult education students are estimated to be enrolled in adult education noncredit courses. These adults are concentrated in six districts – Los Angeles, Mt. San Antonio, North Orange, Rancho Santiago, San Diego, and San Francisco.

Similar to K-12 school districts, community college funding has decreased in recent years. This has resulted in smaller adult education programs as many districts have targeted non-credit instruction for a disproportionate share of cuts. Statewide, the number of non-credit FTES served in 2011-12 was about 30 percent lower compared to 2008-09 levels.

The LAO estimates that in 2011-12 community colleges spent approximately **$1.4 billion** in apportionments on adult education coursework – about **$1.2 billion** for credit instruction and about **$200 million** for non-credit instruction.

Federal Funding of Adult Education. The primary source of federal funds is Workforce Investment Act (WIA) Title II funds, of which the state received **$91 million** in 2011-12. Per the LAO, these funds are utilized to support instruction in adult elementary education, adult secondary education, and English as a second language. A total of 169 K-12 adult schools ($59 million), 17 community colleges with non-credit programs ($13 million), and 38 other providers such as libraries and community-based organizations ($7 million) received WIA funding. The remaining $12 million in funding is retained by the California Department of Education (CDE) to administer the program, as well as to support statewide activities such as professional development.

Per the Budget Act of 2012, and beginning with the 2013-14 grant cycle, CDE was required to reopen the WIA Title II grants to new applicants as well as introduce performance measures that track student transitions from adult education to postsecondary studies and the workforce. However, CDE recently informed the Legislature that this change would not occur until the 2014-15 grant cycle. This is due to CDE's implementation of the new National Reporting System (NRS) in 2013-14 which requires classification of student enrollment into one of three categories: (1) GED/high school graduation; (2) employment; or (3) transition to postsecondary education or training. CDE indicates that these NRS changes will allow student outcomes to be reflected more accurately and provide more accountable information on which base the awarding of the WIA grants in 2014-15. The January budget includes language identical to that included in the Budget Act of 2012, except that CDE is required to implement the changes in 2014-15.

In addition to WIA funds, federal Perkins funding also supports vocational programs offered by K-12 adult schools and community colleges. In 2011-12, K-12 adult schools and community colleges received **$8 million** and **$55 million** in Perkins funds, respectively.

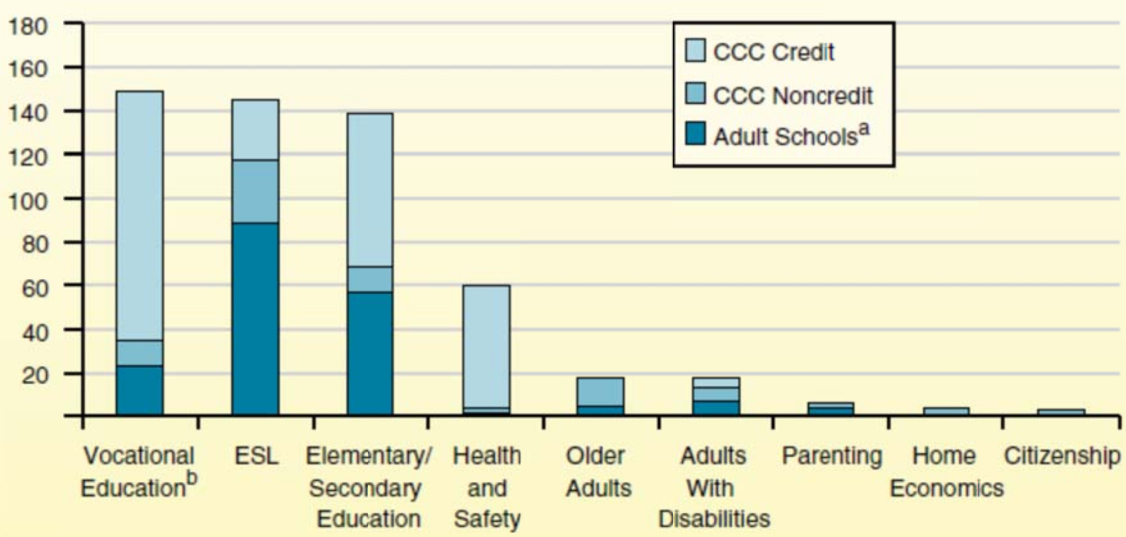
Adult Education Coursework for K-12 Schools and Community Colleges. The LAO table on the next page summarizes adult education coursework for K-12 schools and community colleges in 2009-10 (the latest information available). According to this data, adult schools in the K-12 system are focused on English as a Second Language (ESL) and elementary and secondary education programs, such as literacy programs and high school graduation/diploma programs.

The community colleges focus most on vocational education, elementary and secondary education, and health and safety coursework. While K-12 schools provide more than half, the community colleges also provide a significant portion of ESL coursework.

Figure 4

Adult Education Is Concentrated in Three Instructional Areas

2009-10 Full-Time Equivalent Students (In Thousands)



[a] Totals for adult schools are somewhat understated because not all schools reported enrollment data for 2009-10.

[b] Based on LAO assessment of which credit vocational courses reflect adult education. Totals include apprenticeship.

ESL = English as a second language.

Recent LAO Report Identifies Key Strengths but Many Weaknesses. In its December 5, 2012, report entitled, *"Restructuring California's Adult Education System,"* the LAO found that the state's adult education system possesses some key strengths, including:

- ✓ Two large systems with extensive experience working with adult learners throughout the state;
- ✓ A data system that can measure learning gains for at least some students; and
- ✓ An innovative policy that allocates federal funds to providers based on performance.

However, the LAO review also identified a number of major problems, including:

- ✓ Overly broad mission;

- ✓ Lack of clear delineations between precollegiate (adult education) and collegiate coursework at the CCC;
- ✓ Inconsistent state-level policies;
- ✓ Widespread lack of coordination among providers; and
- ✓ Limited student data, which impairs the public's ability to hold the system accountable for performance.

The LAO also found that, over the past few years, the role of adult education in California has become even more clouded, as the Legislature has allowed K-12 school districts to use Proposition 98 funds that previously have been dedicated to adult education for any educational purpose.

In conclusion, the LAO found that adult education in California is a complex, confusing, and incoherent system in need of a comprehensive restructuring. The LAO's proposal to restructure the adult education system is discussed in the next section of the subcommittee agenda.

ISSUE 1: GOVERNOR'S ADULT EDUCATION PROPOSAL

Panelists: Department of Finance
Legislative Analyst's Office
California Community College Chancellor's Office
California Department of Education

Proposal Summary: The Governor's budget proposes a number of changes to adult education in California beginning in 2013-14. Most notably, the Governor proposes to (1) eliminate the K-12 adult education categorical program and consolidate all associated annual funding into his new K-12 funding formula; (2) appropriate $300 million in new Proposition 98 General Fund to create a new adult education program for adult education within the community colleges; and (3) shift $15.7 million from a K-12 apprenticeship program to a new community college program.

Governor's Budget Proposal. The Governor's January budget proposes an increase of **$315.7 million** in Proposition 98 funding to realign adult education from K-12 education and within the community college system, in order to eliminate the current bifurcated system and create a more accountable and centralized adult education learning system within the community colleges. Major components of the Governor's January budget proposal are outlined below.

- **Folds $635 Million in K-12 Adult Education Categorical Funding into New K-12 Funding Formula.** Most notably, the Governor proposes to eliminate school the K-12 adult education categorical program and consolidate about $635 million in Proposition 98 General Fund into his new Local Control Funding Formula beginning in 2013-14. The Governor proposes to eliminate state requirements for K-12 adult schools, although school districts would be able to continue operating adult schools using general purpose Proposition 98 funding, federal Workforce Investment Funds, and fee revenues.

- **Provides $300 Million in New Funding for Community College Adult Education Categorical Program.** The Governor proposes an additional $300 million is new Proposition 98 funding to community colleges to reconstitute the adult education program within that system beginning in 2013-14.

  Funding would be allocated to community colleges using a formula based upon the total number of students they served in the prior fiscal year. The Governor does not propose a specific rate of funding and instead allows the Chancellor's Office to set the rate.

  Community colleges could provide instruction directly to adult learners or contract with K-12 school district adult schools to provide instruction.

  The budget bill contains placeholder language directing the Chancellor's Office to develop an adult education expenditure plan for submittal to the Department of Finance by July 1, 2013.

The Administration indicates that the adult education funding level will be reassessed in the future based on program participation and effectiveness. Community colleges will also be encouraged to leverage the capacity and expertise currently available at the K-12 adult schools.

- **Limits Community College Apportionments to Credit Instruction Only.** The Governor proposes to restrict community college apportionments to "credit" instruction. The community colleges would retain about $200 million currently expended for "noncredit" instruction; however, funds would be available only for credit instruction.

- **Focuses Adult Education on Core Instructional Areas**: Under the Governor's plan, state adult education funding would be narrowed from the ten existing instructional areas to the following six core instructional areas: (1) vocational education; (2) English as a second language; (3) elementary and secondary education; (4) citizenship; (5) apprenticeship; and (6) adults with disabilities.

  With this restriction, the Governor would refocus funding away from non-mission areas and savings reinvested for additional courses in mission areas such as basic skills and workforce training. If community colleges offer non-mission courses, students will be required to pay the full cost of instruction.

  Under the Governor's plan, K-12 schools would be authorized to use available state funding for any adult education program.

- **Shifts K-12 Apprenticeship Program to Community Colleges**. The Governor also proposes to shift $15.7 million in Proposition 98 funding for an apprenticeship program from the K-12 school system to the community colleges. The program would remain a separate categorical program at the community colleges. The Governor adds provisional language to the community colleges budget that mirrors 2012-13 budget bill provisional language contained in CDE's budget item, including retention of an annual reporting requirement.

LAO Proposal to Restructure the Adult Education System. In its December 5, 2012, report entitled, *"Restructuring California's Adult Education System,"* the LAO recommended a comprehensive restructuring that retained the comparative advantages that K-12 adult schools and community colleges currently have in delivering adult education. Though comparative data on student outcomes are limited, the LAO reported that research suggests that K-12 adult schools and community colleges perform equally well at educating adult learners. Therefore, in proposing a restructuring, the LAO built upon each segment's strengths while also addressing current problems, as summarized on the next page.

Summary of LAO Proposal to Restructure the Adult Education System

Current System	New System Under LAO Proposal
Authorizes ten state-supported instructional programs that serve various purposes.	Focuses on the six instructional programs most closely aligned with adult education's core mission.
Lacks a clear and consistent distinction between adult education and collegiate instruction.	Clearly distinguishes between adult education and collegiate education.
Applies inconsistent and conflicting policies regarding faculty qualifications, fees, and student assessments at adult schools and community colleges.	Applies a consistent set of policies for faculty and students at adult schools and community colleges.
Misses opportunities to create strong collaborations between adult schools and community colleges.	Creates a funding mechanism for adult education that promotes a coordinated system centered on student access and success.
Fails to collect key data needed to fully evaluate the effectiveness of the adult education system.	Collects some data on student enrollment and outcomes for both adult schools and community colleges. Links the respective data systems.

LAO Recommendations. The LAO recommends the Legislature take a number of actions to improve adult education in California. The LAO finds that adult schools and community colleges each have comparative advantages for delivering adult education. For that reason, the LAO recommends an alternative approach from the Governor's that builds upon the strengths of each provider and creates the foundation for a more focused, rational, collaborative, responsive, and accountable system.

- **Focus on Core Adult Education Mission.** The LAO recommends the Legislature approve the Governor's proposal for CCC to focus state support on six instructional areas. The LAO also recommends the Legislature focus on the same six instructional areas for K-12 adult schools.

- **Clearly Delineate Precollegiate and Collegiate Education at CCC.** The LAO recommends the Legislature work with the Administration to develop consistent delineations of noncredit and credit instruction at the community colleges. To the extent precollegiate level coursework is shifted from credit to noncredit, districts would be eligible for less apportionment funding. Per the LAO, the Legislature could decide to keep CCC funding at the same level, however, which would allow community colleges to accommodate additional students (either in adult education or collegiate courses).

- **Resolve Inconsistent and Conflicting Adult Education Policies.** To further achieve consistency of standards for adult schools and community colleges, the LAO recommends the Legislature and Governor address policy differences concerning:

- ✓ **Faculty Qualification Requirements.** Specifically, the LAO recommends the Legislature amend statute so that faculty no longer need a teaching credential to serve as an instructor at an adult school. By aligning policy for adult schools with that of the community colleges, instructors could readily teach adult education courses with both providers.
- ✓ **Adult Education Coursework Fees.** The LAO recommends the Legislature consider levying a modest enrollment fee (such as $25 per course) for students in adult schools and noncredit CCC programs.
- ✓ **Student Placement Tests.** The LAO also recommends the Legislature amend statute to allow CCC faculty to place students into adult education courses based on assessment results (as faculty at K-12 adult schools currently are permitted to do) and require that K-12 adult schools use only assessment instruments that have been evaluated and approved for placement purposes (as community colleges are required to do).

- **Reject Governor's Categorical Program Proposals.** The LAO recommends the Legislature reject the Governor's proposals to: (1) eliminate school districts' adult education categorical program; (2) create a new $300 million CCC adult education categorical program; (3) allow the CCC Chancellor's Office to determine the per-student rate for funds in the categorical program; and (4) allocate categorical funds to community colleges on a formula basis.

  Instead, the LAO recommends the Legislature:

  - ✓ Restore adult education as a stand–alone categorical program for school districts;
  - ✓ Provide up to $300 million for the reconstituted program;
  - ✓ Provide adult schools with the same noncredit funding rate that community colleges receive; and
  - ✓ Allocate funds to school districts based on the amount of General Fund monies they are currently spending on adult education.

- **Recommend Allocating Future Resources in Ways That Promote Both Access and Success.** To foster more cooperation among providers and make the adult education system more responsive to local needs, in future years the LAO recommends the Legislature: (1) allocate base adult education funds to providers on a combination of enrollment and performance; (2) make new funding available on a regional basis based on relative program need; and (3) promote collaboration among providers by adopting common course numbering for adult education.

- **Reject Transfer of Apprenticeship Funds to CCC.** The LAO recommends the Legislature reject the Governor's proposal to shift funds from school districts' apprenticeship categorical program to a new categorical program within CCC's budget. Instead, the LAO recommends that school districts' apprenticeship categorical funds be shifted to and consolidated within the reconstituted adult education categorical program (resulting in a total of $315.7 million in funding for the categorical program). This would give school districts more flexibility to determine the appropriate mix of adult education programs they offer.

- **Improve Data State Receives.** To improve public oversight of adult education going forward, the LAO recommends the state begin collecting consistent data from adult schools and CCC. Such data would include enrollment levels, student learning gains in ESL and elementary and secondary education courses, and vocational certificates earned by students. Lastly, the LAO recommends the Legislature promote a coordinated data system by clarifying its intent that adult schools and CCC use common student identification numbers.

Issues for Consideration. The Governor's overall approach presents a number of questions for the Legislature to consider, as outlined below. That said, the Administration has indicated it is open to considering some of the major elements raised by the LAO's December report on adult education. For that reason, the Administration indicates it is considering revisions for its adult education proposal at May Revise.

Adult Education a Priority in 2013-14 Budget. As emphasized by the recent LAO report, the state's existing adult education system has a number of problems, not the least of which is its bifurcated governance structure between K-12 school districts and community college districts, which results in an inefficient system that is not always structured in the best interests of adult learners.

The Governor should be commended for identifying adult education reform as a high state priority. Under current law, the adult education program is fully flexed within the K-12 system and it appears that school districts have redirected about half of the $635 million in Proposition 98 General Fund to other program priorities. Without any change in law, adult education remains flexed for another two years – through 2014-15.

Two Different Proposals to Restructure Adult Education. Given the LAO proposal described above, the Legislature effectively has before it two different proposals to restructure the state's adult education program. While the proposals share some similarities, such as the definition of "core" instructional areas (discussed below), the plans differ significantly. The Governor's proposal would reconstitute the adult program within the community college system while the LAO's proposal would maintain the program at both K-12 and community college districts, building on each segment's strengths yet with significant policy reforms. The Governor's proposal would allocate funding to community colleges based on existing service levels, while the LAO's proposal includes a dedicated revenue stream that would provide the same funding rate for the same instruction, reward providers for student success, and align future allocations with program need. Aspects of both proposals warrant further consideration by the Legislature.

Both LAO and Governor Refocus Adult Education on Programs within Core Instructional Areas. Both the LAO and Governor's proposals continue funding authority for adult education programs within "core instructional areas" defined to include: vocational education; English as a second language; elementary and secondary education; citizenship; apprenticeship; and, adults with disabilities. As a result, the proposals would continue funding for six programs currently authorized for both K-12 schools and community colleges.

Four adult education programs that do not clearly fit within these core areas are not continued for funding under either proposal. Programs excluded by the plans include: health and safety (including exercise and fitness classes); home economics; older adults; and, parenting classes.

The plans' focus on elementary and secondary education and English as a second language reflects programs also authorized under federal adult education programs (Title II Workforce Investment Act).

Governor's Proposed Funding Allocations within the Community Colleges in Need of Improvement. Community colleges vary significantly in terms of the extent to which they consider adult education to be part of their educational mission. This results in wide variation across the state in terms of the availability of adult education instruction at community colleges. As such, some districts might not be prepared to assume responsibility for adult education programs. Yet the Governor's plan would allocate funds to community colleges based solely on existing service levels. Going forward, this could build a significant inequity into the adult education system. It is also worth noting that, absent specific requirements about the expenditure of the $300 million, the funding could simply support existing service levels at the community colleges as opposed to expanding adult education offerings in the six core instructional areas.

K-12 Adult Education Funding Allocations Very Problematic. Adult education funding allocations within the K-12 system are outdated reflecting historical service levels limited for about one-third of the school districts statewide that participated in the program at a particular point in time. An estimated 375 school districts and county offices of education (out of more than 1,000) are eligible to receive adult education funding. (Under current law, unified and high school districts, as well as county offices of education are eligible for adult education; elementary school districts are not eligible.) However, only 314 school districts and six county offices of education currently receive funding.

Since funding allocations are based upon historical participation levels – not on explicit indicators of adult need – comparisons are difficult. While adult education funding rates are uniform for K-12 adult schools, $2,645 per student ADA, districts are locked into historical participation levels and therefore, by any measure, funding levels and proportions vary enormously among districts.

	Ten Largest School Districts	County	K-12 Pupil ADA	Percent Free/ Reduced Price Lunch Pupils	Percent English Learner Pupils	Adult Education $ 2011-12	Per Pupil Adult Ed $
1	Los Angeles Unified	Los Angeles	560,732	70.91	28.24	163,231,979	291
2	San Diego Unified	San Diego	110,412	58.67	27.27	989,327	9
3	Long Beach Unified	Los Angeles	80,057	68.10	22.32	4,199,714	52
4	Fresno Unified	Fresno	66,573	**81.05**	23.62	10,369,365	156
5	Elk Grove Unified	Sacramento	58,645	63.51	16.31	1,878,941	32
6	Santa Ana Unified	Orange	51,738	**77.78**	53.12	5,950	0.12
7	Corona-Norco Unified	Riverside	50,759	42.57	13.20	1,811,078	36
8	San Francisco Unified	San Francisco	49,068	56.84	30.25	0	0
9	Capistrano Unified	Orange	49,382	23.02	10.55	1,692,344	34
10	San Bernardino City Unified	San Bernardino	48,147	**86.57**	29.83	6,301,977	131

As indicated in the table above, equivalent funding rates per K-12 pupil vary significantly for the ten largest school districts in the state. Using K-12 ADA as a relative measure, per pupil funding rates vary from 12 cents per pupil in Santa Ana Unified to $291 per pupil in Los Angeles Unified School District. (San Francisco Unified receives zero funding because the community colleges is the adult education provider in that city.)

It is also interesting to note that the differences in funding for three school districts with the highest K-12 student poverty rates – Fresno Unified, Santa Ana Unified, San Bernardino Unified.

The list of school districts that receive the largest amount of adult education statewide – above $10 million annually -- is summarized in the following table. The Los Angeles Unified School District is the top earner, accounting for nearly 26 percent of adult education funding statewide; although the district comprises about 9.5 percent of K-12 enrollment statewide. Per pupil funding amounts range from $156 to $1,325 for the nine districts on the highest funded list.

While two of the districts below – Los Angeles Unified and Fresno Unified -- are included among the nine largest schools districts in the state, the remaining seven districts are not. Five of these districts fall in the 30,000 to 42,000 ADA ranges. But the two smallest districts receive funding that equates to very high per pupil amounts: -- Hacienda La Puente Unified with student ADA of 20,174 receives funding that equates to $749 per pupil and El Monte Union High with student ADA of about 9,683 receives funding that equates to $1,325 per pupil.

	Districts with Highest Adult Education Funding	County	K-12 Pupil ADA	Percent Free/ Reduced Price Lunch Pupils	Percent English Learner Pupils	Adult Education $ 2011-12	Per Pupil Adult Ed $
1	Los Angeles Unified	Los Angeles	560,732	70.91	28.24	163,231,979	291
2	Hacienda La Puente Unified	Los Angeles	20,174	74.53	19.19	15,114,338	749
3	Sweetwater Union High	San Diego	38,774	53.69	20.78	14,169,402	365
4	Sacramento City Unified	Sacramento	41,589	68.05	22.65	13,134,632	316
5	El Monte Union High	Los Angeles	9,683	84.21	22.78	12,832,774	1,325
6	Montebello Unified	Los Angeles	30,548	42.81	33.01	12,459,908	407
7	Oakland Unified	Alameda	36,375	62.29	29.46	11,498,823	316
8	Pomona Unified	Los Angeles	26,743	5.64	36.31	10,968,252	410
9	Fresno Unified	Fresno	66,573	81.05	23.62	10,369,365	156

Different Treatment of Apprenticeship Funds under Governor's Plan. Similar to K-12 education, the 2009 budget also provided categorical flexibility for the community colleges. Included in the "flexed" programs is a community college-based apprenticeship program and $7.2 million in funding. Since 2009, roughly $69,000 per year has been transferred out of the apprenticeship program and into other categorical programs. Overall, less than $2 million per year each year has been transferred, out of total funding of roughly $440 million. This outcome could be construed several ways, including: (1) the community college apprenticeship program is critical, so districts have not used the enhanced flexibility; or (2) because the flexibility is temporary, districts have chosen not to exercise the option due to concerns that when the flexibility expires the programs will be reinstituted. It would be difficult to draw the conclusion that flexibility within the community colleges signaled lower priority programs, as so little funding has been transferred with programs. While the Governor's plan continues to flex the $7.2 million for community college apprenticeship programs, the Governor takes a different approach for K-12 apprenticeship funds. Specifically, the Governor proposes to shift $15.7 million in funding from the K-12 Apprenticeship program to community colleges; however, the Governor does not "flex" the program funding. Therefore, when community college flexibility expires in 2014-15, these issues will warrant further consideration by the Legislature.

Administration of Adult Education Programs Continues at Department of Education Under Governor's Plan. The Governor's proposal does not address adult education state operations program administration costs. Even though the budget reconstitutes the adult education program within the community colleges, CDE would retain the roughly 38 positions that currently provide oversight of state K-12 adult education programs, as well as administration of the federal WIA Title II and Perkins adult education. The budget also does not contain any state operations augmentation for the Chancellor's Office to administer the program. These choices warrant further consideration by the Legislature as it considers the budget proposal.

K-12 Adult Education Funding Already Reduced and Redirected to Other Programs Reflecting Lower Priority for Many School Districts. Statutes enacted in 2008-09, granted K-12 school districts the authority to use adult education – and nearly 40 other state categorical funds – for "any education purposes." In other words, districts are not required to use these funds for adult education. Under current law, this funding flexibility will continue through 2014-15.

According to surveys conducted by the LAO, most school districts appear to be utilizing this flexibility for adult education funds. More specifically, 80 percent of school districts last surveyed by the LAO are redirecting funds away from adult education. The LAO estimates that of the $635 million appropriated for adult education in 2012-13, about $400 million (roughly 40 to 50 percent) is being spent for that purpose.

The Administration estimates that school districts are currently expending less than half of the $635 million – about $300 million – for adult education programs in 2012-13.

Despite Consolidation of Administration at Community Colleges, Governor's Proposal Continues Current K-12 Funding Levels for K-12 Adult Education Making Continued Access to K-12 Adult Education Programs Possible. The Governor's proposal does not shift funding the $635 million in existing K-12 adult education funds to community colleges. Instead, the Governor retains these funds in the K-12 system and – along with nearly 50 other state categorical programs – rolls them into a new Local Control Funding Formula. It would be up to K-12 districts to continue programs reflecting local needs and priorities. Understanding current adult education funding is flexed, the Governor's proposal does not represent a big change to current law, which continues through 2014-15. While the Governor plans to eliminate the statutory requirements for adult education, K-12 schools could decide to continue these programs under their own local authority.

Governor Adds New Funding to Reinvest in Adult Education System That Could Support Continuation of Adult Education Now Provided by K-12 Schools. The Governor adds $300 million in new Proposition 98 funding to the community colleges budget for adult education, to reinvest in adult education statewide. The $300 million reflects the Administration's best estimate of current adult education expenditure levels in the K-12 system. The LAO estimates expenditures of $400 million for K-12 adult education. While the Governor's plan consolidates state administration and funding of adult education programs within the community colleges, the plan clearly contemplates community college contracts with some existing K-12 adult education programs statewide.

Governor's Proposal Could Improve Access to Adult Learning Opportunities – Both Career and Higher Education. Adult education programs, as they currently exist, do not fit clearly within the mission of either K-12 schools or community colleges. That said, programs for adult learners could be a closer fit for the community colleges, since – as stated by the Administration – serving adult learners is the system's core function. In addition, community colleges can offer opportunities for connecting adult learners to a full continuum of adult vocational and higher education opportunities.

Loss of physical access (proximity) to K-12 adult education programs in neighborhoods has been raised as a concern with the Governor's proposal. While there are about 300 K-12 adult school sites and 112 community colleges statewide, community colleges also operate 70 official centers and other satellite locations. In addition, both K-12 adult education and community colleges offer classes in a variety of settings – such as school sites, community centers, libraries, churches, storefronts, and job sites – in order to locate programs to best reach adult learners. Additionally, as mentioned earlier, the Governor's proposal contemplates that community colleges could contract with existing K-12 adult education programs.

Governor's Proposal Provides an Opportunity to Adopt Improvements in Adult Education Funding and Accountability -- As Recommended by the LAO. The basic intent of the Governor's proposal is "*to create a more accountable and centralized adult education learning structure.*" The need for consistent data and stronger accountability systems for adult education are much needed.

According to the LAO, the performance-based funding and accountability system utilized by the federal WIA programs in California is commendable. Among several recommendations related to improving adult education funding allocations and accountability, the LAO recommends that adult education funds be based ultimately upon adult need and performance. Under the LAO's long term plan, adult education needs would be determined regionally, utilizing census data such as adults with less than a high school diploma and adults who do not speak English at home, as well as regional unemployment rates, and poverty rates. At this time, the Governor proposes to allocate funding based upon existing delivery patterns at the community colleges.

Governor's Proposal Also Provides an Opportunity to Adopt Consistent Policies on State Faculty Qualifications, Fees, and Assessment – As Also Recommended by the LAO. The Governor proposal states intent to create a more centralized and coordinated adult education system. The Governor's plan to consolidate administration and funding could also include changes to make differing and confusing state adult education policies more consistent. For example, the LAO recommends eliminating the credential requirement for K-12 adult education instructors but not required for community college instructors.

The LAO also recommends changing state law to allow for a modest fee (such as $25 per course) for all adult education courses, to reconcile differing fee structures in place across the state. As indicated by the table below, the state has multiple fee policies for adult education that could be better aligned.

Figure 5

The State Has Multiple Fee Policies for Adult Education

	Adult Schools	CCC Noncredit	CCC Credit
English as a second language	Fee permitted (varies)	No fee permitted	$46/unit
Citizenship	Fee permitted (varies)	No fee permitted	N/A
Elementary and secondary education	No fee permitted	No fee permitted	$46/unit
Vocational education	Fee permitted (varies)	No fee permitted	$46/unit
Other (such as health and safety)	Fee permitted (varies)	No fee permitted	$46/unit

In addition, the LAO recommends that adult schools and community colleges align their different assessment and placement standards and practices to better serve students.

Subcommittee Questions. Based on the above comments, the Subcommittee may wish to ask the following questions of DOF, the Department of Education, and the Chancellor's Office:

1. **Status of Governor's January Proposal**. Does the Administration anticipate fundamental changes it the Governor's proposal at May Revise?

   a. Please explain the elements of the proposal that are likely to change at May Revise.

   b. In particular, is the Administration reconsidering the January proposal to implement funding restrictions on noncredit coursework at the community colleges?

2. **Funding Levels.** Is $300 million a reasonable level of funding for adult education considering the K-12 adult education program was funded at about $760 million in 2007-08, prior to budget reductions?

3. **Funding Share.** What share of Proposition 98 General Fund should be set-aside for adult education compared to other K-12 and community college programs?

4. **Funding Allocations.** In what ways does each of the proposals address funding inequities in the current adult education funding systems?

5. **Adults in Correctional Facilities.** The Governor proposes to eliminate approximately $15 million for a K-12 categorical program that provides adult education coursework for individuals incarcerated in county jails. Would it make more sense to roll this into the adult education program instead?

Staff Recommendation. Hold this issue open pending receipt of the May Revision.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, April 11, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

Consultants: Kim Connor and Kris Kuzmich

PART B
ADULT EDUCATION

OUTCOMES

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6110	**Department of Education**	
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Proposal held open pending receipt of the May Revision.

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) 651-1505. Requests should be made one week in advance whenever possible.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, April 18, 2013
Upon Adjournment of Budget and Fiscal Review
Room 3191, State Capitol

Governor's 2013-14 Budget Proposal: Local Control Funding Formula (LCFF)

Item	**Department**
6110	**Department of Education**

I. Local Superintendent's Panel –Governor's LCFF Proposal:

- Superintendent Bill Kowba, San Diego Unified School District
- Superintendent John P. Collins, Poway Unified School District
- Superintendent Nancy Lynch, Solana Beach Unified School District

II. State Panel -- Key Decisions in Restructuring the K-12 Finance System:

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

III. Public Comment

Attachments:
- Key Decisions in Restructuring the K-12 Finance System, Legislative Analyst's Office Handout
- Summary of LCFF Proposal, Senate Budget and Fiscal Review Committee

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April 18, 2013

Key Decisions in Restructuring the K-12 Finance System

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:

Senate Budget and Fiscal Review Subcommittee No. 1
  On Education

Hon. Marty Block, Chair

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Basic Design Decisions

☑ Decide Basic Finance Structure

- Weighted student formula.
- Block grants.

☑ Establish Base Rates

- Target base rate.
- Grade-span adjustments.

☑ Set Supplemental Rates for Certain Student Groups

- Targeted student groups.
- Identification measures.
- Time limits.
- Rates.

☑ Determine Concentration Funding

- District or school-based funding.
- Concentration thresholds.
- Charter school issues.

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Other Funding Decisions

☑ Decide How to Fund Special Activities

- Class size reduction.
- Career technical education.
- Transportation.
- Facility maintenance.

☑ Decide How to Address Special Characteristics

- Necessary small schools.
- Basic aid districts.
- Regional differences.

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Additional Considerations

☑ Establish Spending Requirements

- District spending plans.
- Supplemental funds for supplemental services.
- List of allowable activities.
- Link to performance.

☑ Devise Way to Monitor Whether Requirements Are Being Met

- Plans, expenditures, and/or outcomes.
- District or school-based.
- Oversight entity.
- Consequences.

☑ Build Transition Plan

- Trade-offs with other K-12 funding priorities.
- Hold harmless provisions.
- Allocation priorities.
- Implementation timeline.

Design Decisions Affect Overall Funding Levels for Individual Districts

☑ Governor's Proposal Would Change Overall Funding Levels

- Current system benefits certain districts based on historical factors.
- Governor's proposal would benefit districts with high proportions of English learner and low-income students.

☑ Changing Design Components Would Change Overall Funding Levels

- Increasing the base rates.
- Decreasing supplemental rates.
- Raising concentration thresholds.
- Including more special activities.
- Adjusting phase-in period.

Major Features of the Governor's Local Control Funding Formula & Appropriations

The Governor proposes an increase of **$1.6 billion** to implement a new **Local Control Funding Formula (LCFF)** for school districts, charter schools, and county offices of education, beginning in 2013-14. The formula would be phased in over a seven-year period, projected to be completed by 2019-20, with an estimated **$15 billion, plus cost-of-living adjustments,** in new Proposition 98 funding for K-12 schools.

The proposed LCFF collapses K-12 revenue limit apportionments and most of the nearly 60 state categorical programs into one formula accompanied by new accountability requirements. Major features of the new formula are summarized below.

Funding Provisions for School Districts and Charter Schools

- **Base Grants.** The new formula establishes a base funding grant "target" for each school district and charter school based upon grade span funding levels multiplied by the number of students – measured by student average daily attendance (ADA), as follows:

  $**6,342** for grades K-3
  $6,437 for grades 4-6
  $6,628 for grades 7-8
  $7,680 for grades 9-12

  The Governor also proposes two special grade span adjustments -- an additional 11.2 percent class size reduction adjustment for grades K-3, and an additional 2.8 percent career technical education adjustment for grades 9-12.[1]

- **Supplemental Grants**. The formula also provides additional funding for educationally disadvantaged pupils based upon a percentage of base grant funding. Specifically, school districts and charter schools receive basic **supplemental grants** equal to **35 percent** in additional base grant funding for low-income students, English-learner students, and students residing in foster care. These are unduplicated; district wide pupil counts so students are not counted more than once. In addition, English-learner students are counted for a maximum of five years, unless they are also counted as low-income or residing in foster care.

  School districts with larger proportions of disadvantaged pupils receive additional **concentration grants**. More precisely, per pupil amounts would increase **another 35 percent** above base grant funding for unduplicated counts of educationally disadvantaged students district wide that exceed 50 percent of the total district enrollment.

[1] Qualifications for additional class size reduction and career technical education adjustments are not fully known at this time. To date, the Administration has indicated that in future years, districts would have to maintain class sizes of 24 or fewer students in order to qualify for K-3 grade span adjustment, unless other agreements were collectively bargained at the local level.

Charter schools are also eligible for concentration grants, but must not exceed the proportion of disadvantaged students for the district in which they are located. If the charter school is located in more than one school district, it cannot exceed the proportion of disadvantaged students in any districts where the charter school is operating.

Supplemental and concentration grant calculations are applied to base grants for each grade span, but do not include special grade span adjustments for class size reduction and career technical education.

- **New Target Funding Levels & Growth.** Under the Governor's plan, a new unique "target" funding grant would be established for school districts and charter schools, reflecting base grants (including basic and special grade span adjustments) and supplemental grants (including concentration grants). In allocating an estimated $15 billion, plus COLA, in new funding over the next seven years, districts would receive the same proportion of new funding. However, districts further below the target level would receive a larger amount of new funds. Districts and charter schools at or above the target level would receive no additional funds.

- **Restoration of Revenue Limit Losses.** The Governor proposes to begin restoration of recent revenue limit reductions and foregone COLAs by eliminating current "deficit factors" and providing $15 billion, plus COLAs, to phase in the new formula by 2019-20. This is accomplished by building the new grade specific base grants on average "undeficited" revenue limit rates in 2012-13. More specifically, base grant targets reflect what average revenue limit rates would be in 2012-13 if the state had restored all reductions and provided foregone COLA funding since 2007-08.

- **Hold Harmless Provisions.** The Governor proposes to hold school districts and charter schools harmless from any loss of per pupil funding beginning in 2013-14. As a result, no school district or charter school will experience a loss in funding below their 2012-13 level as a result of the new formula.

- **Cost-of-Living Adjustments (COLAs).** The Governor's proposes $15 billion to implement the new formula over seven years. This figure would increase based upon annual COLAs, which will be provided to the target grants for each school district and charter school during (and after) this timespan. (The Governor proposes to fund COLAs for categorical programs outside of LCFF that currently are subject to annual adjustments.)

- **Categorical Program "Add-Ons".** The Governor proposes to exclude two of the largest state categorical programs – Targeted Instructional Improvement Grants ($855 million) and Home-to-School Transportation ($491 million) – from the new formula. School districts and county offices of education that currently receive funding for these programs would continue to receive funding as a permanent "add-on" to the LCFF formula. (Charter schools are not eligible for these funds.) The Governor's plan "locks" funding in at existing allocations, but repeals existing program requirements to make funds flexible so school districts and county offices can use funds for any educational purpose. The Governor does not propose to provide COLAs for the Targeted Instructional Improvement Grants and Home-to-School programs.

- **Excluded Programs.** The Governor proposes to exclude a number of on-going programs from the new formula and continue these programs as separate categorical programs in 2013-14. The largest programs include Special Education ($3.7 billion); After School Education and Safety ($547 million); State Preschool ($481 million); Mandates Block Grant ($267 million); and Child Nutrition ($157 million). The Governor also proposes to exclude a few smaller programs that are statewide projects in nature, including the Student Assessment program ($75 million) and American Indian Education Centers and Early Childhood Education Program ($5 million). In addition, the Governor excludes funding for the Quality Education Investment Act ($313 million), which is scheduled to sunset in 2014-15.

- **Necessary Small Schools.** The Governor proposes to continue minimum grant funding – rather than base grants reflecting ADA -- for very small schools, but limits grants to schools in geographically isolated areas.

- **Basic Aid Districts.** The Governor proposes to change how local property tax (LPT) revenue factors into K-12 funding allocations as a part of the new LCFF funding formula. More specifically, the Governor proposes to count LPT revenues as an offsetting fund source for the whole LCFF allocation – both base grant <u>and</u> supplements. However, the Governor holds all districts harmless, including Basic Aid districts, from any loss of funding below the level of funding they received in 2012-13. As a result, Basic Aid districts can permanently retain all state categorical funding they received in 2012-13 and retain LPT revenues that would otherwise be offsetting to their new LCFF funding targets.

- **Flexibility Provisions.** Funding for all of the state programs that will be replaced by the Governor's new formula will be made completely flexible for use by school districts and charter schools in supporting any locally determined educational purpose in 2013-14. As such, the Governor proposes to permanently eliminate most of the programmatic and compliance requirements for programs under the existing finance system. (Many of these current statutory requirements are already suspended as a result of categorical flexibility granted to about 40 state categorical programs from 2008-09 through 2014-15.)

- **Supplemental Funding Requirements.** The Governor's proposal requires districts and charter schools to maintain current (2012-13) funding levels for low-income students, English-learner students, and students residing in foster care until the new LCFF formula is fully funded. This provision is intended to require districts and charters -- as a kind of maintenance of effort requirement -- to continue targeted funding for these students in the midst of new and ongoing programmatic flexibility beginning in 2013-14.

New Local Accountability Plans

In place of current state spending restrictions associated with most categorical programs, the Governor requires each school district, charter school, and county office of education to produce an annual Local Control and Accountability Plan concurrent and aligned with its annual budget and spending plan. Local accountability plans must set annual goals, and address how each agency will use new LCFF funding to improve educational outcomes, more specifically to:

- ✓ Implement Common Core standards.
- ✓ Improve academic achievement and other measures of achievement at the school level and for numerically-significant student subgroups.
- ✓ Improve high school graduation rates, increase attendance rates, and reduce dropout rates.
- ✓ Increase the percentage of students who have completed: A-G requirements for entrance to California's public colleges and universities; Advanced Placement courses; and career-technical education programs.
- ✓ Identify and address the needs of students, and schools predominantly serving students, who meet any of the following definitions: low-income students, English-language learner students, students residing in foster care, and students enrolled in county court schools.
- ✓ Provide basic education conditions for student achievement -- and remedy any deficiencies -- including: qualified teachers; sufficient instructional materials; and safe, clean, and adequate school facilities.
- ✓ Provide meaningful opportunities for parent involvement, including at a minimum, supporting effective school site councils (or other structures at each school) and advisory panels to local governing boards, or creating other processes or structures (such as creating the role of an ombudsman for parents) to address complaints and other issues raised by parents.

School district plans would be reviewed by county offices of education to ensure that each plan includes all the required components and is aligned to the district budget. County office plans would be reviewed by the Superintendent of Public Instruction.

The Governor's local accountability proposal is intended to (1) build upon existing state and federal accountability, auditing, and reporting requirements, and (2) create a stronger link between the local budget process and the decisions local agencies make about their educational programs to improve student achievement.

Funding Provisions for County Offices of Education

The Governor's plan includes a new, separate funding formula for county offices of education as a part of his LCFF plan. The Governor provides a **$28 million** augmentation in 2013-14 to begin implementation of the new formula for county offices. Once fully implemented, the new formula would provide a total of about **$59 million** in additional funding for county offices.

The Governor's county office funding formula shares several general features with the proposed funding formula for school districts and charter schools, but has several distinct features. More specifically, the Governor's plan collapses most existing funding streams for county offices, but re-establishes them within a new, two-part formula, as follows:

Regional Services to Districts. The first part would provide funding for general operations and support for school districts and would be allocated based upon the number of students and number of districts in the county.

- **Base Grant**. Each county office would receive **$655,920**.
- **District-Based Grants.** Each county office would receive an additional grant of **$109,320** for each school district in its county.
- **ADA-Based Grants.** Each county office would receive additional funding based upon countywide ADA: **$70** for the first 30,000 in ADA; **$60** for ADA between 30,000 and 60,000; **$50** for ADA between 60,000 and 140,000; and **$40** for any ADA above 140,000.

County offices would be required to retain some of their fiscal and programmatic (*Williams*) oversight responsibilities, and would have some new responsibilities for overseeing local district accountability plans under the Governor's new LCFF proposal. However, consistent with the Governor's plan for districts and charter schools, county offices would be freed of many current programmatic requirements and could use most of their formula funding for any educational purpose.

Instructional Services for Students in Alternative Education Programs. The second part of the new county office formula would provide a per-student allocation for students educated in county-operated alternative schools. Specifically, the Governor's plan provides funding for students who are: (1) incarcerated, (2) on probation, (3) probation-referred, and (4) mandatorily expelled, as follows:

- **Base Grant**. Provides **$11,045** per ADA.
- **Supplemental Grants**. Provides an additional **35 percent** of county office base grant for unduplicated counts of low-income students, English-learner students, and students residing in foster care. Assumes 100 percent of court school ADA is eligible for supplemental grants.
- **Concentration Grants**. Provides an **additional 35 percent** of county office base grant for unduplicated counts of low-income students, English-learner students, and students residing in foster care that exceed 50 percent of the county office ADA. Assumes 100 percent of court school ADA is eligible for concentration grants.

Similar to school districts and charters schools, the Governor's county office funding formula establishes a new funding base that would be phased in over time. For county offices, this timeframe is estimated to be just a couple of years, rather than the seven years for school districts and charter schools. County offices would also be held harmless from loss of funding below 2012-13 levels. In addition, county offices would receive COLA adjustments annually for formula allocations.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

GOVERNOR'S LOCAL CONTROL FUNDING FORMULA (LCFF) – BACKGROUND AND QUESTIONS ON SELECTED ISSUES FOR FURTHER DISCUSSION

Table of Contents

GOVERNOR'S LOCAL CONTROL FUNDING FORMULA (LCFF) --
SELECTED ISSUES FOR FURTHER DISCUSSION

ISSUE 1. LCFF Funding Estimates

The Department of Finance (DOF) developed LCFF modeling estimates for school districts and charter schools, which are were posted on their website in February. This data is intended to estimate the fiscal impact of the Governor's LCFF proposal on school districts and charter schools beginning in 2013-14 through 2019-20 when full implementation is achieved and targets are met.

The DOF website includes a policy brief which summarizes the LCFF modeling estimates as follows:

- No school district or charter school will receive less than it did in 2012-13. The vast majority of school districts and charter schools (approximately 1,700) will receive moderate to significant funding increases with the implementation of the Local Control Funding Formula (Formula). On a statewide basis, funding levels are projected to grow by approximately $2,700 per-student over the first five years of Formula implementation.

- The Formula will restore the significant funding reductions (known as the deficit factor) made to general purpose school funding (revenue limit) over the last five years. When fully implemented, the Formula will ensure all districts receive a general purpose base grant (basic per-student funding level) that is equivalent to the statewide average from 2007-08. Districts will receive supplemental funding above this amount.

- Districts will receive substantial additional funding based on the number of English learners, students eligible for free and reduced-priced meals, and foster youth they serve. These students account for more than half of current K-12 enrollment. This additional funding, known as supplemental funding and concentration grants, will assist schools in meeting the unique educational needs of these students.

- $7.4 billion in currently deferred payments (shifted from one fiscal year to the next) will be repaid during the transition to the Formula, providing schools with additional cash resources (beyond formula growth) during each year of the Formula's implementation. These funds are not reflected in the district and charter school estimates.

- An additional $15.5 billion in funding, plus annual cost-of-living adjustments, will be provided to school districts and charter schools to implement the Formula over the next several years.

- Approximately 230 school districts and charter schools are estimated to receive little or no additional funding as a result of the Formula. Almost all of those districts and charter schools are basic aid, where local property tax revenues alone are more than sufficient to fund their funding formula entitlement. Others receive necessary small school funding or have unique funding issues that result in them having current funding levels well above what all other schools are receiving. For example:

- Alpine County Unified School District is a basic aid district that has a current estimated average funding level of approximately $20,000 per pupil.
- Laguna Beach Unified School District is a basic aid district that has a current estimated average funding level of approximately $13,000 per pupil.
- Mendocino Unified School District is a basic aid district that has a current estimated average funding level of approximately $14,000 per pupil.

- No basic aid district will receive less in state support than it does today. Basic aid districts will continue to retain local property tax revenues and continue to see their funding rise as property tax revenues increase. In addition, necessary small school funding will continue to be provided to geographically isolated schools under the Formula, and will grow at the same rate as Formula funding does.

At the request of the Assembly Budget Subcommittee #2, the Department of Finance developed funding estimates comparing the Governor's LCFF funding formula to current law funding reflecting Assembly assumptions. This data set was provided to the Assembly Budget Subcommittee for their April 9th hearing. The data set is available on the Assembly Budget website.

Department of Education Funding Formula Projections. The California Department of Education (CDE) has also developed projections of local agency funding under the Governor's LCFF proposal as compared to funding levels under current law. These projections – released in late March – are available on the CDE website. In developing these funding projections, CDE made the following assumptions:

- Current law projections are based on a restoration of deficits including Control Section 12.42 cuts, plus a 2013-14 COLA. The total amount of funding needed to restore funding and provide a COLA for 2013-14 is less than the total amount of the target amounts provided under the LCFF, so around $1,200 per average daily attendance (ADA) was added to each entity's funding level so that totals match LCFF totals statewide.
- County office funds transfers and associated ADA are shown at the district level, to provide a basis for comparison with the LCFF proposal.
- The projections are of state entitlements and do not account for property taxes.

Suggested Questions:

1. CDE. How would CDE summarize the results of their projections for school districts and charter schools?
2. DOF. What's the Department of Finance's assessment of the CDE projections comparing the LCFF to current law?
3. DOF. Do the CDE projections make the same assumptions about COLA over seven years of LCFF implementation? If not, how does this affect the comparisons?
4. DOF. Do the CDE projections make the same assumptions about excess property tax for Basic Aid districts? If not, what affect does this have on the comparisons?

ISSUE 2. LCFF Base Grants & Adjustments

Grade Spans Added by Governor's Latest Proposal Reflect Cost Variances for Elementary, Middle, and High Schools.

Base Grants. The new formula establishes a base funding grant "target" for each school district and charter school based upon grade span funding levels multiplied by the number of students – measured by student average daily attendance (ADA), as follows:

$**6,342** for grades K-3
$6,437 for grades 4-6
$6,628 for grades 7-8
$7,680 for grades 9-12

Base Grant Adjustments. The Governor also proposes two special grade span adjustments, in addition to base grants for grades K-3 and grades 9-12, as follows:

- **Class Size Reduction Adjustment**. The Governor proposes an additional **11.2 percent** class size reduction adjustment for grades K-3. School districts would have to maintain class sizes of 24 or fewer students in order to qualify for K-3 grade span adjustment, unless other agreements were collectively bargained at the local level.

- **Career Technical Education (CTE) Adjustment**. The Governor proposes an additional **2.8 percent** career technical education adjustment for grades 9-12. The grade 9-12 base grant is $7,895 with the adjustment and $7,680 without the adjustment. The Governor does not provide conditions or other details for qualifying for this CTC grade span adjustment. According to the Department of Finance (DOF) the 2.18 percent adjustment simply recognizes funding as a career technical education adjustment and gives districts flexibility on how to spend the funding. According to DOF, 2.18 percent equals about $388 million, and is intended to roughly approximate the $410 million currently appropriated for career technical education categorical programs (most of which is currently subject to categorical flexibility.)

LAO Comments on Grade–Specific Target Base Grants. Per the LAO, the proposed variation across the grade spans is based on the proportional differences in existing charter school base rates. The distinctions are intended to reflect the differential costs of providing education across the various grade levels.

The target rates reflect current statewide average undeficited base rates. That is, the targets reflect what average revenue limit rates would be in 2012–13 if the state restored all reductions from recent years (roughly $630 per pupil) and increased rates for cost–of–living adjustments (COLAs) that school districts did not receive between 2008–09 and 2012–13 (roughly $940 per pupil).

The Governor also proposes to annually adjust these rates by the statutory COLA rate, beginning in 2013–14. (The current estimated COLA rate for 2013–14 is 1.65 percent.) Base rate funds would be allocated based on average daily attendance (ADA) in each grade level.

In addition to the base funding rate districts would receive for each student they serve, the LCFF would provide supplemental funds based on four specific criteria. Specifically, districts would get additional funding for certain student groups, high concentrations of these groups, K–3 students, and high school students.

Governor's Proposal to Include Existing Career Technical Education Programs in LCFF. The Governor proposes to roll three categorical programs into the LCFF. The largest of these programs is Regional Occupational Centers/Programs, which since 2007-08 has been subject to both categorical reductions and flexibility provisions which allow Local Educational Agencies (LEAs) to use funding for any educational purpose. Under current law, these reductions and flexibility continue through 2014-15.

Programs	**2102-13 Appropriation**
	Dollars in Millions
Regional Occupation Centers/Programs	$385
Partnership Academies	21
Agricultural Vocational Education	4
TOTAL	**$410**

The two, smaller remaining programs – Partnership Academies and Agricultural Vocational Education – have been subject to categorical reduction since 2007-08, but have not been subject to categorical flexibility.

Regional Occupational Centers/Programs (ROC/Ps). The Department of Education has provided the following information about ROC/Ps:

LEAs for purposes of the ROC/Ps are defined as a single school district, county office of education, or a Joint Powers Agreement (JPA) of two or more school districts. The State Board of Education has given waivers to some ROCPs allowing them to form outside of the code section description (small single district ROCPs).

There are a total of 74 ROC/Ps that currently receive funding (42 county boards, 26 JPAs, and 6 single districts) including those ROC/Ps that have flexed their funding or have disbanded their ROC/P. These ROC/Ps constitute about 40 percent of statewide enrollment in career technical education programs. To date, and under the flexibility provisions of the past four years, more than 5 ROCPs have flexed their dollars or have dismantled their programs.

ROC/Ps were funded at $525,000,000 in 2007-08. Due to the budget Control Section 12.42 reductions, funding was reduced to $385,000,000 in 2008-09. In addition, the ROC/Ps were subject to categorical flexibility provisions allowing LEAs to use funding for any educational purpose. Under current law, these funding reductions and flexibility provisions will continue another two years – through 2014-15. The Governor proposes to roll $385,000,000 from ROC/Ps into the LCFF in 2013-14.

State ROC/P funding is provided through an "apportionment," based on previously calculated Average Daily Attendance (ADA). ROCP funding is not an entitlement/grant; rather LEAs receive a per pupil funding rate for ROC/Ps.

Historically, these per pupil funding rates were established based upon the revenue limit of the districts that the LEA served. Funding levels were originally established in the early 1970s. As a result, there is an uneven distribution of funds from LEA to LEA on a per pupil basis.

Historically, the Department of Education provided funding based on a capped amount of ADA to each ROCP. Any growth was allocated in an annual budget allocation from CDE and the ROC/Ps that generated excess ADA above their cap were given a piece of the growth dollars, but it was not a significant amount and could not be counted on in their projected budget planning. The ROCPs who did not generate their capped ADA were not paid for those hours and the funds were redistributed to the ROCPs that exceeded their cap for a given year. This redistribution was not permanent because the original ROCP could reclaim the funds if they generated the ADA the second year out. The funds were treated as one time money.

LAO Comments on Grade Span Adjustments. The LAO believes the Governor's proposal adds unnecessary complexity by including the separate K-3 CSR and high school CTE supplements. Per the LAO, the Governor's plan provides grade–span adjusted base funding rates to address differing costs across grades. Applying K–3 and high school supplements in addition to the unique base grants therefore adds complexity to what is an otherwise relatively straightforward formula.

Additionally, because the Governor's proposal does not provide any assurance that the additional funds would be used for their intended purposes, the LAO believes the programmatic rationale for maintaining the two supplements is not particularly compelling. In the case of K–3, given that districts and local bargaining units would be able to jointly determine any class size—even exceeding 24 students—and still receive the proposed K–3 funding supplement, offering this funding outside the K–3 base rate would not necessarily lead to smaller class sizes. In the case of high school, the supplement would not contain any spending requirements to ensure that the funds would be used to provide CTE services.

Suggested Questions:

1. What is the goal of the high school grade span adjustment for career technical education? The Governor appears to be calling out career technical education to special consideration, while also rolling other categorical programs such as ROC/Ps into the Local Control Funding Formula?

2. The CTE adjustment of grades 9-12 is 2.18 percent? What is the per student dollar value of this adjustment? How was the amount derived?

3. The Governor's base grade span rate for grades 9-12 appears to provide an amount similar to the current high school funding rate, but provides about a $1,000 more per student for unified districts. Is any additional funding for unified school districts intended to provide additional funding for career technical education?

4. Would it be better to roll the career technical education adjustment into LCFF per the LAO adjustment? Or should the adjustments be clarified and strengthened?

5. Could the CTE grade span adjustment be used to incentivize stage standards or goals for high quality career technical education such as course access and sequence completion?

6. Could existing career technical education programs – most notably ROC/Ps -- be rolled into the CTE grade span adjustment to protect the state's investments in career technical education?

7. What is the impact of rolling ROC/P programs into the Local Control Funding Formula? How is the Governor's current proposal different than existing categorical flexibility in effect for ROC/P programs?

8. Under the Governor's proposal, is it likely that school districts would continue ROC/P programs for if JPAs and county offices no longer received direct funding for these programs?

9. The Governor requires Local Accountability Plans to increase the percentage of students who have completed college preparation coursework; and students who have completed career technical education programs. How will career technical education programs be defined? How are career technical education outcomes currently measured for purposes of our state's accountability systems?

10. What is the goal of the K-3 class size reduction supplement? Is it better to roll that supplement into the LCFF? Or should it be clarified and strengthened? What is the value of that supplement?

ISSUE 3. Supplemental Funding.

Background on Economic Impact Aid Program. The state currently has a program that serves English learner (EL) and low-income (LI) pupils – the Economic Impact Aid (EIA) program.

The Economic Impact Aid (EIA) program is a state categorical program that provides supplemental services to K-12 pupils designated as English learner (ELs) and/or low income (LI). This program originates from the Chacon-Moscone Bilingual-Bicultural Education Act of 1976 (Act), which was established to provide specialized support services to EL pupils. The Act was later combined with other programs that provided funding to ensure educationally disadvantaged pupils (i.e., LI pupils) also receive support services.

EIA program funding is required to be used in the following manner:

- LI pupils: to provide supplemental support programs and services/activities to assist LI pupils in achieving proficiency in the state academic content standards.
- EL pupils: to provide supplemental support programs and services/activities to assist ELs in achieving proficiency in English and improve their overall academic achievement.

In meeting these requirements, school districts must determine whether they will use their EIA funding all for supplemental services for EL pupils or LI pupils, or a combination of the two. Statute requires districts to provide "programs appropriate to the educational needs of [EL pupils]." According to the Department of Education, about 60 percent of school districts statewide use EIA funds for EL students only.

Current law also provides the State Department of Education (SDE) with the authority to monitor this program.

EIA program funding must be used to provide additional services only to EL and LI pupils in addition to "base" services provided to every student, regardless if they are EL or LI.

Funding. The 2012-13 Budget Act allocated **$944.4 million** General Fund (Proposition 98) for the EIA program. According to the Legislative Analyst's Office, school districts receive an average of $330 per pupil. Charter schools also receive EIA funding. The program was not subject to the 20 percent categorical program reduction pursuant to Control Section 12.42 in the annual budget act nor was program funding made flexible.

School Districts receive funding based on the total number of ELs and LI pupils enrolled. The number of EL pupils is determined through the home language survey, which is distributed to parents each year, and results from the California English Language Development Test, which measures a pupil's English proficiency. The number of LI pupils is based on federal Title I calculations (poor/needy pupils).[1]

Districts receive two EIA apportionments for pupils who are both EL and LI – an average of $700 per student who meets both criteria. In addition, districts whose enrollment is over 50

[1]Title I calculations are not based on individual student-level data; instead, they are based on census data.

percent EL or LI pupils receive a supplemental "concentration" grant. The concentration grant provides one-half (an average of $175) per pupil funding for every EL or LI pupil over the 50 percent threshold. If the pupil is designated as both EL and LI, the allocation is $330 per pupil.

According to the LAO, EIA provides districts with an average of **$350** per EL or LI student, or an average of **$700** for students who meet both criteria. Additional existing categorical programs intended to serve these students provide an average of $75 per EL/LI student. The Governors' new formula rates would range from **$2,220 to $2,688** per EL/LI student, depending upon the grade level.

The LAO has developed the following figure that compares funding provisions for LI and EL students for the Governor's LCFF proposal and under current law. This figure is included in the recent LAO report entitled -- *The 2013-14 Budget: Restructuring the K-12 Funding System:*

Comparing Proposed and Existing Methods of Funding EL and LI Students

- ***Changes Measure of LI.*** For the purposes of calculating the EL/LI funding supplement, the Governor's proposal would count students as LI if they receive a free or reduced price meal. The current Economic Impact Aid (EIA) formula instead uses federal Title I student counts as the measure for funding students from LI families.

- ***Includes Funding for Foster Youth.*** Under the Governor's proposal, supplemental funding for foster youth would be funded through the EL/LI supplement. Currently, special services for foster youth are funded through a separate categorical grant, not through EIA.

- ***Individual Students Generate Only One Supplement.*** The Governor's proposal would count each student who meets more than one of the EL/LI characteristics only once for the purposes of calculating supplemental funding. In contrast, the EIA formula currently provides double funding for EL students who also are from LI families.

- ***Provides Notably More Supplemental Funding.*** The proposed 35 percent supplement would generate notably more funding for most districts than the supplemental funds provided through existing categorical programs. Currently, EIA provides districts with an average of $350 per EL or LI student, or an average of $700 for students who meet both criteria. Additional existing categorical programs intended to serve these students provide an average of $75 per EL/LI student. The new formula rates would range from $2,220 to $2,688 per EL/LI student, depending upon the grade level.

- ***Links Supplement to Level of Funding for General Education.*** The Governor's proposed approach explicitly would link the amount the state provides in supplemental funding to the amount provided for general education services, such that when the base amount increases, so would the supplement. Currently, the amount provided for EIA is not directly connected to how much is provided for other education services.

- ***Institutes Time Limit for EL Funding.*** The Governor's proposal would cap the amount of time an EL student could generate supplemental funds at five years (though districts could decide to continue spending more on the student and the student would continue to generate more funding if also LI). Currently, EL students can generate EIA funding until they are reclassified as being fluent in English, even if this takes 13 years.

- ***Provides More Flexibility Over How Supplemental Funds Could Be Spent.*** The Governor's proposal provides districts with greater discretion over how to use the EL/LI funds compared to current requirements for EIA funds. Districts would be required to use the supplemental funds to meet the needs of their EL/LI student groups, but they would have broad flexibility in doing so. Current law is more stringent, in that the state requires and monitors that districts use EIA funds to provide supplemental services for the targeted student groups beyond what other students receive.

EL = English learner and LI = lower income.

LAO Comments on Supplemental Rates. In an attempt to assess the appropriateness of the Governor's proposed EL/LI supplement, the LAO conducted a review of "weights" used in other states and suggested by relevant academic literature. This research found that the Governor's proposed 35 percent supplement is somewhat high but falls within the range of practices used and mentioned elsewhere. The lack of agreement across states and the literature, however, indicates there is no "perfect" or "correct" amount of funding for EL/LI students. These findings suggest the Legislature reasonably could adopt the Governor's proposed rate *or* opt for a somewhat different rate and still meet the important policy objectives addressed by his proposal.

As a way of background, the LAO provides the following summary about state practices and research regarding funding for EL and LI students from its report -- *The 2013-14 Budget: Restructuring the K-12 Funding System:*

How Much Additional Funding Should the State Provide for English Learners (EL) and Lower Income (LI) Students?

Other States' Supplements Vary Widely. California is not the first state to grapple with how much additional funding to provide for meeting the additional needs of EL/LI students. Our review of the roughly 60 percent of other states that provide such supplements found that funding rates vary notably. States also vary in their approaches to providing supplemental funding, with some taking the "weighted" approach the Governor proposes using in his new formula, and others providing block grants similar to California's existing Economic Impact Aid categorical program. Additionally, most states provide separate supplemental funding streams for EL and LI students rather than a combined supplement to serve both populations as proposed by the Governor. Based on our review, the Governor's proposed supplemental rate (35 percent of the general education rate) is higher than the rate provided for either EL or LI students in most other states. A few states, however, provide notably more for EL–specific supplements.

Research Findings Also Differ Significantly. Our review of academic research on EL/LI students revealed a similar lack of consensus regarding the "right" level of supplemental funding to provide. For example, one California–specific study suggested an additional 23 percent of "base" education funding would be sufficient to support the needs of LI students, but an additional 32 percent would be needed for EL students. Another study (conducted in a different state) found that LI students require twice as much funding as their mainstream peers, and EL students require three times as much.

Supplemental Funding Requirements. The Governor's proposal requires districts and charter schools to maintain current (2012-13) funding levels for low-income students, English-learner students, and students residing in foster care until the new LCFF formula is fully funded. This provision is intended to require districts and charters -- as a kind of maintenance of effort requirement -- to continue targeted funding for these students in the midst of new and ongoing programmatic flexibility beginning in 2013-14.

Suggested Questions:

1. How do base and supplemental funding factors interact within the LCFF? What is the appropriate balance of base funding and supplemental funding – including any concentration factors?

2. Could supplemental concentration factors be more narrowly targeted or eliminated in favor of larger base supplements for all students and supplements for educationally disadvantaged students?

3. What's the rationale for using "unduplicated" student counts for low-income students, English learner students, and students residing in foster care, rather than duplicated counts? What alternatives exist?

4. What is the rationale for limiting English learner supplemental funding to five years? What alternatives exist?

5. What assurances can be built into the Governor's plan to make sure supplemental funding is used to benefit the students who generate the funding, e.g. low-income students, English learner students, and students residing in foster care? For example, the LAO recommends adding supplement, not supplant language, for example, which seems to be the standard of practice for existing categorical programs such as the EIA program?

6. Are there some provisions of current statute authorizing the Economic Impact Aid program that could be continued and expanded within the Governor's accountability framework? For example, could the school-site parent councils be continued?

7. What other options exist to ensure that districts are using supplemental funds to benefit disadvantaged students under the Governor's proposal?

ISSUE 4. Categorical "Add-Ons".

As a part of his new K-12 funding formula, the Governor proposes to exclude two large categorical programs from the new funding formula, and to provide separate funding for these programs beginning in 2013-14. Funding for the Targeted Instructional Improvement Grant (TIIG) and Home-To-School (HTS) programs – would be permanently "added on" to amounts districts receive under the Governor's new formula. Funding would be limited to districts that currently receive funding. These districts would be locked into their existing allocations; however, districts could use all of the "add-on" funding for any education purpose.

The TIIG and HTS programs are two large and very inequitable state categorical programs. In fact, TIIG and HTS may be two of the most inequitable state funding programs. While originally intended as needs-based programs, current funding allocations are highly inequitable reflecting historical funding levels rather than need. Generally, funding is limited to districts that receive funding prohibiting or limiting access for districts that did not already participate. The Governor's plan would lock in these amounts for districts and lock out funding for other districts based upon any reasonable measure of need.

The following background information is provided by the California Department of Education about the TIIG and HTS programs.

A. Targeted Instructional Improvement Grant (TIIG) Program

Background: Targeted Instructional Improvement Grant (TIIG) was originally provided to LEAs to reimburse either court-ordered or voluntary desegregation activities. The amounts eligible for reimbursement were originally determined by the State Controller. LEAs that participated in a court-ordered or voluntary desegregation program received TIIG funding, and are listed in the 2000-01 Budget Act. Of the funds provided, 78.04 percent was for court-ordered desegregation activities and 21.96 percent was for voluntary desegregation activities.

The Supplemental Grants program was established to equalize categorical aid for LEAs that received disproportionately lower amounts of categorical funding, over a three-year period beginning in 1989-90. Districts were given the opportunity to designate which programs – their revenue limit or any of 27 categorical programs – would receive the supplemental funding. After the legislation sunset, the funding continued and LEAs were given additional re-designation opportunities.

TIIG and Supplemental Grant funding were consolidated as the Targeted Instructional Improvement Block Grant (TIIBG) by AB 825 (Chapter 871, Statutes of 2004). An LEA that received funding in 2003–04 for either TIIG or Supplemental Grants received TIIBG. Each LEA's entitlement for TIIBG is based on its proportionate share of funding for TIIG and the Supplemental Grants relative to the statewide total. Of the funds provided in TIIBG, 81.9 percent was attributed to TIIG, and 18.03 percent was attributed to Supplemental Grants.

According to CDE, only two LEAs (Los Angeles Unified School District and San Diego Unified School District) continue to identify TIIBG resources for their transportation activities attributed to desegregation.

Funding Levels & Allocations. The 2012-13 budget appropriated **$855.1 million** in Proposition 98 funding for the TIIG program. This amount reflects the Control Section 12.42 reduction of nearly 20 percent. Without this reduction, TIIG funding would total $1.066 billion in 2012-13.

TIIG is among the nearly 40 categorical programs which have been made flexible since 2008-09, meaning that funding can be used by districts for any educational purpose. In addition, TIIG has also been subject to Control Section 12.42 reductions since that time.

Since 2008-09, school districts have been locked into 2007-08 funding proportions for TIIG. This funding distribution will continue another two years - through 2014-15. Prior to 2008-09, the TIIG program was eligible for annual growth and COLA adjustments.

TIIG funding is allocated to a total **of 543 school districts** in 2012-13, which is about half of the state's school districts. The table below displays funding allocations for the ten districts earning more than $5 million annually from the TIIG program in 2012-13. These ten districts account for **77 percent** of state TIIG funds. However, as indicated by the table, most TIIG funding is consolidated within a few districts.

Targeted Instructional Improvement Grant Funding, 2012-13

	TIIG Funding for Highest Funded Districts	**County**	**K-12 Pupil ADA**	**Percent Free/ Reduced Price Lunch Pupils**	**Percent English Learner Pupils**	**TIIG Funding**	**Per ADA TIIG Funding**
1	Los Angeles Unified	Los Angeles	560,732	70.91	28.24	460,568,614	821.4
2	San Diego Unified	San Diego	110,412	58.67	27.27	64,462,998	583.8
3	San Francisco Unified	San Francisco	49,068	56.84	30.25	38,108,038	776.6
4	San Jose Unified	Santa Clara	30,693	44.07	23.21	30,727,295	**1,001.0**
5	San Bernardino City Unified	San Bernardino	48,147	**86.57**	29.83	16,848,534	350.0
6	Oakland Unified	Alameda	36,375	62.29	29.46	10,094,682	277.5
7	East Side Union High	Santa Clara	23,162	41.92	16.48	7,967,457	344.0
8	Twin Rivers Unified	Sacramento	23,847	**82.21**	24.4	7,695,082	322.7
9	Bakersfield City	Kern	26,027	**84.21**	28.92	6,647,597	255.4
10	Stockton Unified	San Joaquin	33,218	**81.58**	28.35	5,678,159	**170.9**
11	Redwood City Elementary	San Mateo	8,746	58.13	45.45	5,114,330	584.8
	Total, Highest Funded Districts					**653,912,786 (76.5 %)**	
	Total Funding, All Districts					**855,131,000**	

Source: California Department of Education.

LAUSD alone accounts for **54 percent** of TIIG funding, although is accounts for only 9.4 percent of statewide ADA. The top four unified schools districts – Los Angeles, San Diego Unified, Long Beach and Fresno – account for **63 percent** of state TIIG funding in 2012-13.

Funding among the top earning districts varies significantly – from about **$171 to $1,001** per student average daily attendance (ADA) among districts. It is interesting to note among the highest earning districts -- those districts with the highest poverty rates (over 75 percent) -- did not share the highest per ADA funding rates.

The table below displays TIIG funding appropriations for the ten largest school districts in the state in 2012-13. The funding variation for these districts is also quite significant. Three school districts – Fresno, Santa Ana, and Capistrano -- earn less than $75 per student ADA. Notably, Elk Grove earns zero funding. Two unified districts with high poverty rates – Fresno and Santa Ana -- are among these low earners.

Targeted Instructional Improvement Grant Funding, 2012-13

	TIIG Funding for Ten Largest School Districts	**County**	**K-12 Pupil ADA**	**Percent Free/ Reduced Price Lunch Pupils**	**Percent English Learner Pupils**	**TIIG Funding**	**Per ADA TIIG Funding**
1	Los Angeles Unified	Los Angeles	560,732	70.91	28.24	460,568,614	821.4
2	San Diego Unified	San Diego	110,412	58.67	27.27	64,462,998	583.8
3	Long Beach Unified	Los Angeles	80,057	68.10	22.32	9,645,922	120.5
4	Fresno Unified	Fresno	66,573	**81.05**	23.62	4,227,867	63.5
5	Elk Grove Unified	Sacramento	58,645	63.51	16.31	0	0
6	Santa Ana Unified	Orange	51,738	**77.78**	53.12	461,341	8.9
7	Corona-Norco Unified	Riverside	50,759	42.57	13.20	1,449,426	29.0
8	San Francisco Unified	San Francisco	49,068	56.84	30.25	38,096,678	776.6
9	Capistrano Unified	Orange	49,382	23.02	10.55	2,060,505	41.7
10	San Bernardino City Unified	San Bernardino	48,147	**86.57**	29.83	16,843,511	350.0
	Subtotal, Top Ten Districts					597,816,862	
	Top Four					63 %	
	TOTAL Funding, All Districts					855,131,000	

Source: California Department of Education.

LAO Comments: The LAO has concerns about the "particularly antiquated" funding formulas for the TIIG and HTS programs, and therefore does not support the Governor's proposal to exclude these two programs from the new formula.

B. Home-to-School Transportation Program

Pupil Transportation. The Home-to-School (HTS) transportation program was originally a reimbursement-based program. Local Educational Agencies (LEAs) submitted transportation claims for the prior year and were reimbursed for those costs, limited to the funds available in the annual budget act.

Beginning in the 1980s, a base funding amount was established for participating LEAs, and funding was provided to eligible LEAs based on their prior year allocations or approved prior year costs, whichever was less. An LEA could not claim more funding than they received in the prior year, and had to document reimbursable costs of at least the same amount in each subsequent year, with adjustments for growth and/or COLA as provided by the budget act.

- Since the 1992–93 fiscal year, HTS funding has been split between home-to-school and special education transportation. (Special education transportation is defined as transportation for severely disabled and orthopedically impaired (SD/OI) students.) All subsequent allocations of HTS funding have been based on the amount eligible districts received in 1992-93.

- HTS funding has not been one of the "flexed" categoricals, but has been subject to the reductions allocated pursuant to Control Section 12.42. An LEA must still spend its entire entitlement amount, prior to the reduction, to continue receiving that same level of funding.

- Although a LEA's entitlement cannot be increased due to higher expenditures, its entitlement will be reduced if its expenditures do not meet or exceed its prior year entitlement (E.C. 41851(c)). If an LEA does reduce its expenditures, and thus receives a reduction to its entitlement, its entitlement will not go back up, even if the district's expenditures increase.

- Only those LEAs who have continuously participated in the HTS transportation program since the base funding amounts were established in the 1980s are eligible for HTS funding.

Funding Levels and Allocations. The 2012-13 Budget Act appropriated a total of $496 million General Fund (Proposition 98) for school transportation programs, including:

- $491 million is provided for Pupil Transportation, which includes both allocations for home-to-school transportation and allocations for pupils with disabilities, specifically "severely disabled and orthopedically impaired" pupils.
- $5 million is provided for Small Bus Replacement. Only LEAs with average daily attendance of less than 2,501 are eligible to apply. According to CDE, 130-170 applications for funding are received each year and CDE can only fund approximately 32 LEAs.

According to CDE, 915 LEAs (school districts, county offices and joint powers agencies) reported transportation data in 2011-12. (Charter schools are not eligible for HTS transportation funding.) Of this total, 864 LEAs provided home-to-school transportation services at a cost of **$728.6 million**, and 453 LEAs provided severely disabled/orthopedically impaired transportation at a cost of **$579.7 million**. These districts use a mix of HTS funding and general purpose funding to cover their transportation costs. Clearly, HTS transportation expenditures statewide exceed the **$491 million** appropriated for these programs.

The following table shows some of the largest apportionments under the HTS program and compares funding as it equates to per student ADA. As mentioned previously, program funding is based upon historical funding levels, not on specific indicators of transportation need. It is interesting to note the differences in per ADA funding for LEAs receiving the largest amount of HTS transportation funding statewide.

LEAs with Highest HTS Transportation Funding, 2011-12 Expenditure Data					
LEA	**HTST - non SD/OI Apportionment (after CS 12.42 reduction)**	**HTST - SD/OI Apportionment (after CS 12.42 reduction**	**Total HTST Apportionment**	**ADA**	**Per ADA Expenditures**
Los Angeles Unified	36,399,049	41,188,780	77,587,829	560,732	138.4
San Diego Unified	2,476,042	7,083,414	9,559,456	110,412	86.6
Long Beach Unified	4,325,551	704,425	5,029,976	80,057	62.8
Oakland Unified	2,620,655	3,104,307	5,724,962	36,375	157.4
San Juan Unified	2,601,804	2,628,977	5,230,781	39,070	133.9
Stockton Unified	3,481,721	975,632	4,457,353	33,218	134.2
San Francisco COE	761,809	3,644,095	4,405,904	49,068	89.8*
Fresno Unified	3,299,334	1,102,223	4,401,557	66,573	66.1
Lodi Unified	3,064,998	1,131,632	4,196,630	27,361	153.4
Sacramento City Unified	1,174,015	2,941,442	4,115,457	41,589	98.9
San Bernardino City Unified	742,885	2,911,122	3,654,007	48,147	75.9
Pasadena Unified	3,134,794	0	3,134,794	17,852	175.6-
West County Transportation JPA	2,237,348	926,087	3,163,435	NA	NA
Antelope Valley Schools Transportation Agency	1,679,962	1,739,016	3,418,978	NA	NA
Garden Grove Unified	2,172,580	1,158,244	3,330,824	46,770	71.2

Source: California Department of Education.
*****This does not include HTS transportation funding for San Francisco Unified School District.

The table below presents information on apportionments and expenditures for four school districts that receive similar amounts of funding but have very different expenditures.

LEAs with Highest HTS Transportation Funding, 2011-12 Expenditure Data					
LEA	**HTST - non SD/OI Apportionment (after CS 12.42 reduction)**	**HTST - SD/OI Apportionment (after CS 12.42 reduction**	**Total HTST Apportionment**	**Total Expenditures**	**Difference Between Apportionment and Expenditures**
Fresno Unified	3,299,334	1,102,223	4,401,557	13,639,713	-9,238,156
Stockton Unified	3,481,721	975,632	4,457,353	9,255,895	-4,798,542
Sacramento City Unified	1,174,015	2,941,442	4,115,457	13,867,749	-9,752,292
Lodi Unified	3,064,998	1,131,632	4,196,630	5,896,465	-1,699,835

Suggested Questions for Categorical Add-Ons:

1. DOF. What's the purpose of establishing the TIIG and HTS programs as permanent "add- ons" to the proposed Local Control Funding Formula since the funds can be used flexibly – for any educational purpose – per the Governor's proposal?

2. DOF/LAO. Given the formulas are outdated, and allocations are so inequitable among districts, why not roll these programs into the new funding formula.

3. DOF. How would the Local Control Funding Formula change if all current TIIG and HTS funding were rolled into the new formula?

   a. Would districts that currently receive funds keep those dollars in the short-term as hold harmless funding?
   b. Would it reduce funding targets for districts that currently receive funding?
   c. Would it provide additional funding for the formula that would be shared by all districts?

4. LAO/CDE. What other alternatives exist for reallocating TIIG and HTS funding in a more equitable manner based upon student needs?

ISSUE 5. Basic Aid Districts

Background: According to the Legislative Analyst's Office, in most school districts, revenue limit funding is supported by a combination of both local property tax (LPT) revenue and state aid. For some districts, however, the amount of LPT revenue received is high enough to exceed their calculated revenue limit entitlements. These districts are referred to as basic aid or “excess tax” districts. (The term basic aid comes from the requirement that all students receive a minimum level of state aid, defined in the State Constitution as $120 per pupil, regardless of how much LPT revenue their district receives.)

Generally, basic aid districts are found in communities that have (1) historically directed a higher proportion of property taxes to school districts, (2) relatively higher property values, and/or (3) comparatively fewer school-age children. In 2011-12, 126 of the state’s 961 school districts were basic aid. These districts retained the LPT revenue in excess of their revenue limits and could use it for any purpose. The amount of excess tax revenue each basic aid district received in 2011-12 varied substantially, but was typically about $3,000 per pupil. Under current law, basic aid districts do not receive any state aid for their revenue limits, but they do receive state categorical aid similar to other school districts.

Governor LCFF Proposal Modifies State Funding Calculations for Basic Aid Districts. The Governor proposes to change how local property tax (LPT) revenue factors into K-12 funding allocations, which could change whether districts fall into basic aid status. Currently, a district’s LPT allotment serves as an offsetting revenue only for determining how much state aid it will receive for revenue limits, not for categorical aid. The Governor proposes to count LPT revenues as an offsetting fund source for the *whole* LCFF allocation—base grant *and* supplements.

The Governor’s proposal, however, has one notable exemption. All districts (including basic aid districts) would be given the same level of per-pupil state categorical aid they received in 2012-13 into perpetuity. Thus, in the future, a basic aid district with LPT revenue that exceeded its total LCFF grant would maintain this additional LPT revenue and also receive its 2012-13 per-pupil state allocation.

LAO Comments. The LAO believes the Governor’s proposal maintains historical advantages for basic aid districts. Despite an implied intention to remove the historical funding advantages currently benefiting basic aid districts, the “hold harmless” clause included in the Governor’s proposal would preserve a historical artifact in a new system that is intended to reflect updated data. Guaranteeing that all districts would forever receive the same amount of per–pupil state aid as they did in 2012–13 would continue to augment basic aid districts’ per–pupil funding at a level that exceeds that of other districts.

The LAO supports the Governor’s proposal to count LPT revenue towards a district’s *entire* LCFF grant, including both the base and supplemental grants.

However, the LAO does not support the Governor’s proposal to guarantee districts the same level of state aid they received in 2012–13.

Suggested Questions:

1. What effect does the Governor's proposal to count local property tax revenues toward a district's entire grant have on basic aid districts?

2. Does the Governor's proposal narrow the differences in funding between basic aid and non-basic aid districts statewide?

3. How are the funding needs for high- and low-wealth basic aid districts different? Did the Governor consider different approaches for high- and low-wealth basic aid districts?

4. The LAO recommends a modified approach to the Governor's basic aid proposal to prioritize limited state funds for those districts that do not benefit from excess LPT revenue. How would this work? What are the benefits of such an approach? What is the impact on basic aid districts?

ISSUE 6. LCFF Accountability

Governor's Accountability Proposal Focused on Local Accountability Plans. In place of current state spending restrictions associated with most categorical programs, the Governor requires each school district, charter school, and county office of education to produce an annual Local Control and Accountability Plan concurrent and aligned with its annual budget and spending plan. Local accountability plans must set annual goals, and address how each agency will use new LCFF funding to improve educational outcomes, more specifically to:

- ✓ Implement Common Core standards.
- ✓ Improve academic achievement and other measures of achievement at the school level and for numerically-significant student subgroups.
- ✓ Improve high school graduation rates, increase attendance rates, and reduce dropout rates.
- ✓ Increase the percentage of students who have completed: A-G requirements for entrance to California's public colleges and universities; Advanced Placement courses; and career-technical education programs.
- ✓ Identify and address the needs of students, and schools predominantly serving students, who meet any of the following definitions: low-income students, English-language learner students, students residing in foster care, and students enrolled in county court schools.
- ✓ Provide basic education conditions for student achievement -- and remedy any deficiencies -- including: qualified teachers; sufficient instructional materials; and safe, clean, and adequate school facilities.
- ✓ Provide meaningful opportunities for parent involvement, including at a minimum, supporting effective school site councils (or other structures at each school) and advisory panels to local governing boards, or creating other processes or structures (such as creating the role of an ombudsman for parents) to address complaints and other issues raised by parents.

School district plans would be reviewed by county offices of education to ensure that each plan includes all the required components and is aligned to the district budget. County office plans would be reviewed by the Superintendent of Public Instruction.

The Governor's local accountability proposal is intended to (1) build upon existing state and federal accountability, auditing, and reporting requirements, and (2) create a stronger link between the local budget process and the decisions local agencies make about their educational programs to improve student achievement.

Supplemental Funding Requirements. The Governor's proposal requires districts and charter schools to maintain current (2012-13) funding levels for low-income students, English-learner students, and students residing in foster care until the new LCFF formula is fully funded. This provision is intended to require districts and charters -- as a kind of maintenance of effort requirement -- to continue targeted funding for these students in the midst of new and ongoing programmatic flexibility beginning in 2013-14.

Suggested Questions:

1. What are the benefits of the Local Accountability Plan? How can the Governor's Local Accountability Plan be strengthened?

2. It is not clear under the Governor's plan what role the state or counties, if any, would play in monitoring, supporting, and assuring the basic conditions of education and strong academic outcomes for students statewide.

   a. CDE. Could state level monitoring and technical assistance be added to enhance the Governor's plan?
   b. CDE. What are some current state monitoring models that could build on the Governor's local plan proposal?
   c. LAO. What are some options for strengthening county oversight as a part of the Governor's plan?

3. How can parent engagement – one of the Governor's LCFF goals -- be assured and enhanced for low-income students, English learners, and students in foster care?

4. The Governor requires Local Accountability Plans to increase the percentage of students who have completed college preparation coursework; and student who have completed career technical education programs. How will career technical education programs be defined? How are career technical education outcomes currently measured for purposes of our state's accountability systems?

ISSUE 7. Overall Consideration of Governor's LCFF Proposal

LAO Identifies Key Issues for Considering the Governor's LCFF Proposal. In the conclusion of its recent report – The 2013-14 Budget: Restructuring the K-12 Funding System -- the Legislative Analyst's Office outlines the following key issues for the Legislature to keep in mind as it considers how to proceed with the Governor's LCFF proposal:

- **Current System Is Untenable.** How best to improve upon the existing K–12 funding system has been discussed by many groups for many years. We believe, however, that the need for action grows increasingly urgent. Aside from all of the longstanding, underlying problems with the state's categorical programs, changes resulting from the state's decision in 2009 to temporarily remove spending restrictions from about 40 categorical programs have made the current system even more irrational. Specifically, data indicate that most districts have shifted substantial funding away from many "flexed" categorical programs. Additionally, the state has frozen district allocations for these programs at 2008–09 levels, continuing to distribute the same proportion of funds to each district regardless of changes in student enrollments during the ensuing years. These two trends have increasingly disconnected existing funding allocations from the original categorical purposes and student needs for which they were originally intended. Moreover, these changes make the prospect of reestablishing the previous programmatic requirements seem increasingly impractical—yet categorical flexibility provisions currently are scheduled to expire at the end of 2014–15.

- **Projected Growth in Proposition 98 Funding Can Facilitate Transition to New System.** Not only does a strong rationale exist for restructuring the current flawed system, but projected annual growth in the Proposition 98 minimum guarantee for 2013–14 and the ensuing several years provides a unique opportunity to transition to a more rational system without redistributing funding away from any district. The growth in funding can be used to phase in a new formula, restoring recent reductions for the majority of districts and allocating a share of new funds in a way that more closely aligns with current student needs.

- **Governor's Restructuring Approach Is Just One of Several Options.** Adopting the Governor's proposed formula is not the only way to improve the existing K–12 funding system. The Legislature could opt to modify various components of the Governor's proposal—based on our recommendations, or in other ways—or opt for a somewhat different allocation methodology, such as block grants. A wide variety of restructuring approaches still would meet the guiding principles of simplicity, transparency, rationality, and flexibility in K–12 funding.

- **Simplifying a Complex System Will Not Be Simple.** Adopting any large–scale change to K–12 funding will necessitate reconsideration of numerous requirements associated with previous categorical programs. For example, requirements related to how teachers achieve "clear" teaching credentials, which textbooks schools use, and how districts assist students who have not passed the high school exit exam all are linked to current categorical programs. Thus, a myriad of statutory and regulatory changes likely will need to be made as a new funding approach is being developed. The fact that it will be an involved and complex endeavor, however, is not in and of itself a reason to avoid changing the fundamentally flawed existing system.

- **Funding Reform Is Not a Panacea . . .** Regardless of which funding approach the Legislature ultimately adopts, restructuring the state's allocation formulas will not be a panacea for all of the state's K–12 education challenges. Changing the funding system will not guarantee improved student outcomes; providing additional funding for EL/LI students will not automatically lead them to overcome the additional challenges they face; and increasing flexibility will not necessarily translate to improved instruction in all schools. These desired outcomes, however, also are not guaranteed—or uniformly taking place—under the current categorical system. There clearly are other K–12 issues outside the scope of this report that merit additional action, including how to identify and assist struggling schools and districts, develop strong local leaders, and refine accountability systems. Yet the need to address these concerns will exist regardless of whether the state chooses to modify or maintain the existing funding structure.

- **. . . But Improving the State's School Funding System Is Critical.** Restructuring the funding system will be a complex undertaking, and it will not solve every K–12 challenge. Changing the funding approach would, however, improve upon some fundamental problems. We believe that neither the complexities associated with implementing broad–based change nor the need to better develop other areas of the K–12 system should preclude the state from making significant, necessary, and immediate improvements to school funding.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, April 25, 2013
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

Consultant: Kris Kuzmich

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) 651-1505. Requests should be made one week in advance whenever possible.

SUMMARY CHARTS, ITEMS PROPOSED FOR VOTE ONLY

	Entity	Description	Funding	Action
1	California State Library	California Cultural and Historical Endowment Grant Funding	$1.395 million Prop 40 bond funds	Approve
2	California Community Colleges, Local Assistance	Economic and Workforce Development Program Expenditure Plan – Budget Bill Language (see Attachment 1)	BBL	Approve placeholder BBL

	Campus	Description	Phase	Action
	UC Capital Outlay: Continuing Project, Appropriation			
3	Merced	Science and Engineering Building 2	E	Approve
	CSU Capital Outlay: Continuing Projects, Appropriations			
4a	San Jose	Spartan Complex Renovation (Seismic)	E	Approve
4b	Maritime Academy	Physical Education Replacement	E	Approve
4c	Bakersfield	Art Center and Satellite Plant	E	Approve
4d	Fresno	Faculty Office/Laboratory Building	E	Approve
4e	Channel Islands	West Hall	E	Approve
4f	Bakersfield	Dore Theatre	P, WD, & C	Approve
	CCC Capital Outlay: Continuing Project, Appropriation			
5	Solano College, Solano City CCC District	Theater Modernization	P & WD	Approve

E=Equipment; P=Preliminary Plans; WD=Working drawings; C=Construction

Vote:

DESCRIPTIONS OF ITEMS PROPOSED FOR VOTE ONLY

ITEM 1. CSL CALIFORNIA CULTURAL AND HISTORICAL ENDOWMENT GRANT FUNDING

Governor's Budget Request. The January Budget requests an appropriation of $1.395 million (Proposition 40 bond funds) to fund additional cultural and historical resource preservation grants through the California Cultural and Historical Endowment (CCHE). The requested funds represent the unappropriated residual balance of the Proposition 40 sub fund for cultural and historical resource preservation.

Background. The CCHE was established at the California State Library in 2003 (Chapter 1126; Statutes of 2002) to raise the profile and scope of California's historic and cultural preservation program. CCHE is entirely Proposition 40 bond-funded, including both for state operations and the various grant programs it administers. Since its inception in 2003, CCHE has awarded over $122 million in preservation grants to help conserve the tangible aspects of California history.

The requested funds in the January Budget represent the balance of Proposition 40 dollars for cultural and historic resource preservation. Approximately $820,000 of the $1.395 million appropriation would be allocated to an existing wait list of unfunded Round Four Projects; the list consists of three projects in the cities of: (1) Atascadero (Restoration of City Hall - $270,000); (2) Avila Beach (Port San Luis Harbor District, Harford Pier and Warehouse Canopy Restoration - $300,000); and (3) San Francisco (Fort Mason Center, Pier 2 Restoration - $250,000). Using its existing statutory authority, CCHE would engage in a new Request for Proposal process to allocate the remaining $575,000 in grant funds.

CCHE is currently scheduled to formally close in 2015.

ITEM 2. CCC ECONOMIC AND WORKFORCE DEVELOPMENT PROGRAM EXPENDITURE PLAN – R BUDGET BILL LANGUAGE

Summary of Budget Issue. The January Budget proposes budget bill provisional language conditioning expenditure of $22.9 million in Economic and Workforce Development (EWD) program funds until the Chancellor's Office submits, by July 1, 2013, a proposed expenditure plan to DOF for approval. Subcommittee No. 1 heard this item on April 11, 2013, and held the item open, including expenditure of the $22.9 million in EWD funds, pending receipt of an expenditure plan. This action was taken to ensure legislative input into, and approval of, the expenditure plan. An expenditure plan has since been submitted; Attachment 1 to this agenda is the budget bill language that comprises the expenditure plan.

DESCRIPTIONS OF ITEMS PROPOSED FOR VOTE ONLY, Continued

ITEM 3. UC CAPITAL OUTLAY: CONTINUING PROJECT, APPROPRIATION

3. UC Merced Science and Engineering Building 2 - Equipment

Governor's Budget Request. In a Spring Finance Letter, the Governor requests that Item 6440-301-0658 be added in the amount of $375,000, and Item 6440-301-6048 be added in the amount of $3,845,000, to fund the equipment phase for the Merced Campus, Science and Engineering Building 2 project. The project provides instructional and research space for Merced's School of Engineering and Natural Sciences. The project is nearing completion (completion date of May 2014), and $4,220,000 for equipment is needed to ensure that the facility is fully operational when completed.

ITEM 4. CSU CAPITAL OUTLAY: CONTINUING PROJECTS, APPROPRIATIONS

4a. CSU San Jose Spartan Complex Renovation - Equipment

Governor's Budget Request. The January Budget requests $1.428 million for the equipment phase of the Spartan Complex Renovation Project. The project retrofitted the Spartan Complex, including the Uchida Hall/Natatorium, Uchida Hall Annex, Spartan Complex East, and Spartan Complex Central, which is classified with a seismic Level 5 rating. This project meets the current seismic, ADA, and life safety code requirements, as well as replacing the building systems.

4b. CSU Maritime Academy, Physical Education Replacement - Equipment

Governor's Budget Request. The January Budget requests $1.295 million for the equipment phase of the Physical Education Replacement Project. The new facility is 26,500 ASF/38,600 GSF and an outdoor pool to accommodate the physical education classes and the water activities required for licensure by the U.S. Coast Guard.

4c. CSU Bakersfield, Art Center and Satellite Plant - Equipment

Governor's Budget Request. The January Budget requests $533,000 for the equipment phase of the Art Center and Satellite Plant Project. The project resulted in a new art center and satellite mechanical plan, and extension of the campus sewer line.

4d. CSU Fresno, Faculty Office/Laboratory Building - Equipment

Governor's Budget Request. The January Budget requests $383,000 for the equipment phase of the Faculty Office/Laboratory Building Project. The project resulted in the construction a new, two-story facility to house graduate research laboratories, classroom space, and faculty offices for the Colleges of Health and Human Services and Physical Education.

4e. CSU Channel Islands, West Hall – Equipment

4f. CSU Seismic Upgrade Dore Theatre - Preliminary plans, Working Drawings and Construction

Governor's Budget Request. The January Budget contains proposed reversions of $4,190,000 in state General Obligation (GO) bonds that were appropriated in the Budget Act of 2012 as a state match for five life-safety projects at CSU campuses. These projects were proposed to be funded with a combination of GO bonds and federal reimbursements. However, the federal reimbursements did not materialize. In a Spring Finance Letter, the Governor requests that $4,042,000 (of the $4,190,000 in reverting GO bonds) be appropriated for the equipment phase of a continuing capital project so that it can be fully operational when completed, and the design and construction for a new capital project that provides seismic strengthening for an existing campus theatre, as follows:

CSU Channel Islands, West Hall - Equipment. Add Item 6610-301-6048 in the amount of $2,258,000 from the 2006 University Capital Outlay Bond Fund to fund the equipment phase for the West Hall project. The project will provide new space for lecture, laboratory and faculty offices to support various campus programs such as computer science, environmental science, and physics. The Project will be completed by February 2015, but equipment needs to be ordered before the 2014-15 fiscal year to allow sufficient time for procurement and installation of "long lead" time scientific equipment and information technology/telecommunications equipment.

Bakersfield, Seismic Upgrade Dore Theatre - Preliminary Plans, Working Drawings, and Construction. Add Item 6610-301-6048 in the amount of $1,784,000 from the 2006 University Capital Outlay Bond Fund to fund the design and construction phase of the Seismic Upgrade Dore Theatre project. This project will provide strengthening work, such as roof bracing and connections, to support columns and walls of the 32-year old Dore Theatre. The CSU's Seismic Review Board identified this project as a high priority and the Division of State Architect has rated this building as a seismic level six (out of seven), meaning that in a seismic event, the building would incur substantial structural damage with partial collapse likely, with extensive risk to life for the occupants.

DESCRIPTIONS OF ITEMS PROPOSED FOR VOTE ONLY, Continued

ITEM 5. CCC CAPITAL OUTLAY: NEW PROJECT, APPROPRIATION

5. Solano City CCC District, Solano College, Theater Modernization – Preliminary Plans and Working Drawings

Governor's Budget Request. The January Budget requests $1.183 million for preliminary plans and working drawings for a project to modernize the Solano College Theater. The project will renovate, for health and safety reasons, the 20,093 ASF/25,231 GSF building that houses the Music and Theater Arts Programs. The renovation will address severe safety and health, seismic, ADA accessibility, and failing building infrastructure issues that make the existing building nearly uninhabitable. Due to the nature and severity of the issues, an extensive renovation is the only realistic means to address these problems.

The CCC Chancellor's Office estimates that the construction phase of this project would cost $12.5 million, for a total project cost of $13.7 million. The Chancellor's Office has also indicated that the system has enough GO bond funds to complete the construction phase of the project (scheduled to be completed in July 2016).

Item 6: LAO Overview of Infrastructure Planning, Budgeting, and Financing

Panelist: Legislative Analyst's Office

Summary of Agenda Item. In this informational item, the LAO will provide the subcommittee with a brief overview of how the state plans, budgets, and finances infrastructure projects.

The LAO will also discuss how the universities finance non-state infrastructure projects.

This item is intended to provide background information to help the subcommittee understand the current infrastructure budget process for the universities, given that the Governor is proposing to significantly change this process (discussed as Agenda Items 6 and 7).

Staff Recommendation. None; this is an informational item.

Item 7: UC, CSU, and Hastings - Combine Capital and Support Budgets and Change Project Approval Process

Governor's Budget Request. The January budget proposes a different approach to capital outlay for UC, CSU, and Hastings, as follows:

- ✓ *Combine Capital and Support Budgets.* Shifts a total of about $400 million in debt service costs for general obligation (GO) bond-financed capital improvements at UC ($201 million), CSU ($198 million), and Hastings ($1.2 million) into each segment's base budget; makes one last adjustment to UC and CSU budgets for lease-revenue (LR) bond debt service costs and then shifts the total LR debt service funding level of $221 million and $90.5 million, respectively, into each segment's base budget; and proposes no further augmentations or adjustments for either form of debt service payment going forward. Hastings does not currently have any state-issued LR bond debt.

- ✓ *Annual Funding Increases.* Under the Governor's multi-year plan for higher education, UC and CSU are slated to receive roughly five percent increases each year in the first two years of the plan, and then four percent increases each year in the final two years of the plan. Hastings would receive similar annual increases over the life of the plan. These percentage increases would apply to the *combined* capital and support budgets.

- ✓ *Limits on the Use of Combined Budget for Purposes of Capital Outlay.* Proposes budget trailer bill language limiting use of the combined capital-support appropriation to fund pay-as-you go capital outlay projects. The limits are based on the current percent of debt service to the GF support appropriation; those percentages are 15, 12, and 17, for UC, CSU, and Hastings, respectively. Similar percentage limits are also placed on new authority for the segments to pledge their GF appropriation to: (a) issue their own debt for capital projects; and (b) restructure their respective LR bond debt related to their projects (this latter issue is discussed in the next item in this agenda).

- ✓ *Changes to Project Approval Process.* Proposes budget trailer bill language making any new capital expenditures subject to review and approval by the DOF and the Joint Legislative Budget Committee (JLBC), separate from the annual budget process. Projects using state funds would be limited to academic facilities needed for safety, enrollment growth, or modernization purposes, as well as infrastructure projects that support academic programs.

Background. Under current law, the Administration is required to identify statewide infrastructure needs and develop proposals for their funding. Chapter 606 (1999) directs the Governor to annually submit a statewide five-year infrastructure plan and a proposal for its funding. The statewide plan is a consolidation of individual five-year plans developed by state agencies. No Administration has provided a statewide five-year infrastructure plan since the Governor's 2008-09 budget proposal.

Item 7:	*UC, CSU, and Hastings - Combine Capital and Support Budgets and Change Project Approval Process, continued*

This Administration indicates that it intends to release a five-year infrastructure plan this spring, which would outline the Administration's infrastructure priorities for the next five years. Additionally, the *Budget Summary* suggests that the Administration is considering some changes to the state's infrastructure spending practices, including identifying alternatives to limit future bond authorizations backed by the GF, currently the state's main source of infrastructure funding. Some alternatives mentioned include identifying new funding sources and creating new mechanisms to prioritize and limit capital spending.

Historically, the state has provided infrastructure funding for the segments' core academic missions. For CSU and Hastings, this core funding is limited primarily to instructional and administrative space, while the state supports those functions, as well as research space, at UC.

In the last ten years, the LAO reports that the state has spent an estimated $10.1 billion on higher education infrastructure for UC, CSU, and the California Community Colleges. Eighty percent of that support came from GO bonds and an additional 19 percent from LR bonds. Associated higher education debt-service costs more than doubled during this same time period, from about $516 million in 2000-01 to an estimated $1.1 billion in 2010-11. Most of the GO bond spending was from bonds approved by the voters in 1998, 2002, 2004, and 2006. In general, the state provides less funding for higher education projects when the balance of GO bonds is exhausted. In the case of UC and CSU, the state has typically offset some of this reduction by funding some projects with LR bonds. The Legislature has direct control over state-funded projects, whether from GO or LR bonds, because each project is funded through an appropriation in the annual budget act.

Currently, the remaining higher education GO bond authority for UC and CSU is nearly exhausted; Hastings' authority is completed exhausted. As contained in the "vote-only" section in this agenda, the remaining GO bond funds for UC and CSU are being allocated primarily to the final equipment phases of existing projects. Any new GO bond proposal would have to be placed on the ballot and approved by the voters. AB 41 and SB 301, which are currently pending action before policy committees, both propose a Kindergarten-University Public Education Facilities Bond Act of 2014 and authorize an unspecified sum of state general obligation bonds for education facilities.

The spring and fall 2013 LR bond sales will include previously approved and appropriated LR bond-funded projects for UC and CSU, effectively funding the last projects in the LR bond pipeline. There are no other LR bond-funded projects in the pipeline, as this Administration has not advanced any new LR bond-funded projects for either UC or CSU.

The segments have identified significant unmet capital outlay needs both in the long-term and for 2013-14. For 2013-14, both the UC and CSU governing boards adopted extensive state-funded capital outlay programs, with 39 projects totaling $788.5 million and 38 projects totaling $520

Item 7:	*UC, CSU, and Hastings - Combine Capital and Support Budgets and Change Project Approval Process, continued*

million, respectively. The 2013-14 budget request submitted to the Administration was much smaller: UC advanced four projects totaling $75.2 million and CSU advanced 21 projects totaling $390.3 million. Hastings has identified long-term needs of $24 million, of which $22 million is designated as high priority. The highest priorities for each are displayed in Figure 1 below:

Figure 1: Highest Priority 2013-14 Capital Outlay Requests by Segment

Campus	Project	Phase	Amount
UC Merced	Classroom and Academic Office Building	C	$45,144,000
UC Riverside	Batchelor Hall Building Systems Renewal	WD & C	$13,788,000
UC Santa Barbara	Infrastructure Renewal Phase 1	C	$11,990,000
CSU Statewide	Infrastructure Improvements	P, WD, & C	$22,800,000
CSU Pomona	Administration Replacement Facility (Seismic)	P, WD, & C	$76,546,000
Hastings	100 McAllister Tower Classroom Expansion	P, WD, & C	$12,700,000

P=preliminary plans; WD=working drawings; C=construction

Both UC and CSU also have extensive deferred maintenance needs; UC reports $1.1 billion in need, of which $426 million is designated high priority, and CSU reports $1.7 billion in need, of which $462.9 million is designated high priority.

LAO Recommendation. The Administration indicates the motivation for combining the universities' support and capital budgets is to provide the universities with increased flexibility, given limited state funding. However, the Administration has not identified specific problems associated with the current process used to budget the segments' capital projects, nor identified any specific benefits the state might obtain from the proposal. As a result, both the problem the proposal is intended to address, and the benefit that the proposal offers, are difficult to ascertain.

Given the lack of a compelling policy rationale for the proposal, along with the serious concerns regarding the loss of the Legislature's ability to plan and oversee infrastructure projects, the Legislature should reject the Governor's proposal. If the Legislature is interested in developing a new process for funding the segments' capital projects, then it would need to grapple with several fundamental issues. Most importantly, the Legislature would need to: (1) identify the specific problems with the current capital outlay process; and (2) develop a new method for allocating and overseeing funding that addresses these problems. As part of this process, if the Legislature did decide to combine capital and operational funding, then the Legislature would need to assess annual ongoing capital priorities, identify a reasonable initial amount to transfer, decide how to adjust that amount moving forward, and decide whether the segments should be able to pledge their state appropriations to issue debt. Without addressing such fundamental issues, moving to a new process as proposed by the Governor is premature.

Item 7:	*UC, CSU, and Hastings - Combine Capital and Support Budgets and Change Project Approval Process, continued*

Staff Comment. The Governor's approach is a dramatic departure from how UC and CSU (as well as Hastings) capital outlay has been historically addressed. This change is being proposed without any analysis of ongoing needs, not only for capital outlay, but also for deferred maintenance, for building stock constructed primarily in the 1940s, 1950s, and 1960s at existing campuses, and for campuses that might be needed in the future, such as in Chula Vista or the Antelope Valley. Rather, the budget proposal simply presumes the amount of debt service funding related to one fiscal year (2013–14) is an appropriate amount upon which to base ongoing needs, yet offers no evidence to this effect.

To this point, a "point-in-time" approach does not address potential inequities in current debt service funding levels between UC and CSU. Under the Administration's proposal, CSU would have $90.5 million in existing LR bond debt service shifted into its GF appropriation, while UC would have $221 million for the same purpose shifted into its base budget. Although, CSU has twice as many campuses and students as compared to UC, under the Administration's proposal, both UC and CSU are treated the same going forward.

For Hastings, this proposal does not work, due in large part to the relative size of its budget. Hastings' GF appropriation of $9.5 million (includes shift of $1.2 million to support GO debt service) accounts for about 16 percent of its core operating costs, and tuition fee revenue provides about 84 percent. By comparison, for UC and CSU, GF and tuition fee revenue account for close to 50 percent each of core operating costs. Therefore, shifting $1.2 million in GO debt service costs into Hastings' base budget and growing it by the 5-5-4-4 plan, and expecting Hastings to keep tuition fees constant (another component of the Governor's multi-year plan for higher education), results in an inability to address all operating needs, let alone capital needs. The Administration testified at the March 14 hearing that it would consider larger percentage increases (than the 5-4-4-4) in the 2014-15 fiscal year and the following two years to address this concern; the Administration proposes no changes to the 2013-14 budget proposal as it pertains to Hastings.

If the Administration is concerned about overall debt capacity and priorities for state infrastructure spending, and where higher education fits into those priorities, that conversation begins with the five-year infrastructure plan. However, this budget proposal effectively presupposes the outcome of that conversation, as the Administration has decided that higher education can go it alone (albeit with annual increases in base funding for the next four fiscal years). In the absence of a larger conversation about statewide infrastructure needs, or an analysis that shows the provided funding in 2013-14 is the level needed to meet the segments' infrastructure needs today, tomorrow, and into the future, staff finds no justification to change higher education capital outlay practices as proposed by the Governor.

Removing these decisions from the annual budget process is also troubling as it would effectively cede the Legislature's authority to make high level decisions about annual expenditures on higher education, be they for support or capital outlay. Shifting control over

Item 7: UC, CSU, and Hastings - Combine Capital and Support Budgets and Change Project Approval Process, continued

spending priorities away from the Legislature raises serious questions given that the universities are statewide, public institutions.

In considering these issues, the subcommittee must also acknowledge that if it rejects the Governor's proposals, what is the process or means by which the capital needs of UC, CSU, and Hastings will be addressed?

Staff Recommendation. Reject the proposals to combine the segments' capital and support budgets and to change the capital outlay project approval process, including the proposed budget trailer bill language and the conforming changes made to various budget bill items and provisions related to capital outlay. Request that the Administration return with the five-year infrastructure plan, including a proposal to address UC, CSU, and Hastings capital outlay needs, at May Revision.

Vote:

Item 8: UC and CSU - Lease-Revenue Bond Debt Restructuring Proposal

Governor's Budget Request. The January Budget proposes budget trailer bill language to authorize UC and CSU to pledge their GF appropriation to restructure their respective state Public Works Board-issued lease-revenue (LR) bond debt. Under the proposed language, the pledged amount is limited to 15 and 12 percent of the total GF appropriation, respectively, which is the current percent of debt service cost to GF support appropriation for UC and CSU.

The trailer bill language was modified by a Spring Finance Letter to state that DOF approves UC using this new authority to restructure its LR bonds to generate savings sufficient to fund the $45.144 million construction phase of the UC Merced Classroom and Academic Office Building project from its support budget.

The Administration indicates it is proposing the trailer bill language to provide the segments with the authority to refinance debt at better rates and produce budgetary savings.

Background. Debt refunding (or refinancing) allow for issuance of new bonds at a lower interest rate but for the same (or shorter) term in order to realize cash-flow savings, similar to refinancing a home mortgage. The state routinely refinances its debt to take advantage of lower interest rates. In these transactions, the state keeps the same repayment schedule, or shortens it, reducing its interest costs.

Debt restructuring transactions allow for issuance of new bonds with a different debt schedule. Debt restructuring can result in cash flow savings, but also typically means paying more in interest costs. The state does not restructure its debt to longer repayment periods for this reason.

The Public Works Board (PWB) was created by the Legislature to, among other functions, oversee the fiscal matters associated with construction of projects for state agencies. The PWB is also the issuer of LR bonds. The Legislature appropriates funds for capital outlay projects; through review and approval processes, the PWB ensures that capital outlay projects adhere to the Legislature's appropriation intent.

The state currently has about $2.5 billion in outstanding PWB-issued LR bond debt for projects built at UC. For CSU, the state currently has about $1 billion in outstanding PWB-issued LR bond debt. In 2013–14, the state will spend about $221 million and $90.5 million, respectively, to service this debt. Under the budget proposal, UC and CSU would be granted the authority to repay the state's bondholders the $2.5 billion and $1 billion, respectively, owed to them by issuing their own bonds on their own terms.

In response to the Governor's proposal to allow the universities to restructure state infrastructure-related debt, UC has developed two potential restructuring scenarios. (The CSU has not yet presented a proposal.) Under both scenarios, UC would restructure the existing LR debt over a 40-year period. Under the state's current repayment schedule, this debt would be retired fully in half that time. Under UC's first scenario, the restructured debt is entirely fixed rate; under the second, the restructured debt is 70 percent fixed rate, and 30 percent

Item 8: UC and CSU - Lease-Revenue Bond Debt Restructuring Proposal, continued

variable rate. Because UC would extend the repayment period so far into the future, UC estimates it could lower the annual debt service payment by about $80 million a year for ten years under both scenarios. Additional savings under the second scenario include $30 million a year for the next nine years. Under both scenarios, after year 10 and year 19, respectively, the university would begin paying a few million dollars more in debt service annually than under the current repayment schedule. This difference would increase significantly in later years, such that under the first scenario, over the life of the restructured debt, UC estimates it would pay an additional $2.1 billion. In today's dollars, this means the restructuring would cost nearly $400 million. Under the second scenario, the additional cost in today's dollars is $4.3 million.

LAO Analysis. UC asserts that extending the repayment term to 40 years matches the life span of the buildings built with the bonds. By pushing debt out to years in which there otherwise would be no debt service, this approach, however, risks making investments in future facilities more difficult. For example, the university may have difficulty undertaking as many new capital projects 30 years from now, as it otherwise could, because it still would be paying off debt issued over 30 years earlier. Faced with such a situation, UC likely would have to: (1) forgo capital projects it otherwise would have undertaken; (2) redirect funding that otherwise would have gone to support instruction or research; (3) seek additional funding from the state; and/or (4) increase student tuition.

The examples above reflect two scenarios provided by UC as to how it could restructure the state's LR debt. The universities could develop other proposals with different repayment periods and financial assumptions. These other proposals potentially could have lower costs. By definition, however, restructuring typically means extending out debt repayments into the future. As a result, debt restructuring typically means paying more in interest. For this reason, the state does not restructure its debt to longer repayment periods.

LAO Recommendation. Given that restructuring debt would cost more money in the long term and constrain future budget choices, the Legislature should reject the Governor's debt restructuring proposal for the universities. If the Legislature is concerned that the universities would lose the short-term savings associated with the debt restructuring, it could consider other strategies for the universities to increase revenue or reduce costs.

Staff Comment. Debt restructuring is inherently a form of budgetary borrowing, as it effectively removes the connection between the financing and usable life of the asset. It may well free up cash in the short term, but in the longer term debt restructuring requires payment of more interest. For these reasons, this proposal is inconsistent with this Administration's overall message to pay today for today's costs, and not defer or delay those costs into the future and pay more for them.

The stated reasons for this proposal include that it will help the state's financial picture by removing the PWB-issued debt from the state's balance sheet. However, because the universities' ability to refinance the debt is predicated on their being able to pledge their GF appropriation, *funding that is subject to an appropriation in the annual budget act*, it is not clear

Item 8: UC and CSU - Lease-Revenue Bond Debt Restructuring Proposal, continued

how responsibility for this debt would actually be removed from the state's balance sheet. UC has also not confirmed that this shift would not have a material impact on the University's credit ratings or future borrowing capacity.

This proposal also suffers from inadequate analysis or assurance as to the out-year impacts. UC indicates that the rating agencies cannot offer a clear judgment on exactly how they will view this transaction until the final budget language is adopted. Staff respectfully disagrees. The Administration has released budget trailer bill language, drafted by Legislative Counsel, to effectuate this proposal. It would seem this is concrete enough to allow the Administration and UC to obtain verification as to the market impacts of the proposal, prior to asking the Legislature to act on it. Staff is also concerned by the two debt restructuring scenarios presented by UC. The first scenario, which is 100 percent fixed rate, is quite costly. The second scenario, where the debt is 70 percent fixed rate and 30 percent variable rate, is less costly but exponentially more risky as UC would be subject to risk assumptions about variable rate debt. It is also questionable to propose variable rate debt when rates are so low; i.e., rates likely will only go up.

Staff Recommendation. Reject the budget trailer bill language.

Vote:

Item 9: LAO Overview of Recent Changes to the Cal Grant Program

Panelists: **Legislative Analyst's Office**
Department of Finance
California Student Aid Commission

Summary of Budget Issue. The Budget Acts of 2011 and 2012 made significant statutory changes to the Cal Grant program, particularly with regard to eligibility criteria for participating institutions where more than 40 percent of undergraduate students borrow federal student loans, to address concerns about participating institution quality and in order to reduce overall program costs. None of these changes impacted the entitlement aspect of the Cal Grant program. The LAO will present an informational item to the subcommittee as to these statutory changes, which are summarized in Figure 2 below. The LAO will also present to the Subcommittee its findings and recommendations from its recent analysis of these program changes.

Figure 2: Summary of Recent Changes to the Cal Grant Program

Program Change	2013-14 Law	*Prior Law*
Tighter Eligibility Criteria for Participating Institutions	Participating institutions must maintain a maximum cohort default rate (CDR, proportion of former students defaulting on federal student loans) of 15.5 percent and a minimum graduation rate of 30 percent.	*No policy prior to 2011-12, when a CDR of 24.6 percent was instituted.*
Reduction in Award Levels for Non-Public Institutions	Cal Grant A and B new maximum awards will be $9,084 at independent non-profit institutions and WASC-accredited private for-profit institutions, and $4,000 at all other private for-profit institutions.	*Prior to 2012-13, the maximum award levels had been $9,708 for all non-public institutions since 2000 (except for 2004-2006, in which it was reduced to $8,322). In 2012-13, Governor's veto reduced award levels by five percent, to $9,223.*
Renewal Awards at Ineligible Institutions	Cal Grant eligible students attending an ineligible institution will not be able to renew their Cal Grant for the 2013-14 academic year if they choose to remain at that ineligible institution.	*No policy prior to 2011-12, when renewal awards were reduced by 20 percent if a student chose to remain at an ineligible institution.*
Tighter Eligibility Criteria for Renewal Recipients	Cal Grant recipients applying for renewal awards must meet certain financial eligibility criteria.	*Prior to 2011-12, Cal Grant recipients had to demonstrate financial need but not meet these "certain" criteria upon renewal.*

Item 9:	*LAO Overview of Recent Changes to the Cal Grant Program, continued*

Figure 2: Summary of Recent Changes to the Cal Grant Program, Continued

Program Change	2013-14 Law	*Prior Law*
Awards Levels Reduced Through Governor's Veto Action	Through a veto action, the Governor reduced certain Cal Grant awards by five percent ongoing: (1) Cal Grant B access award – $1,473; (2) Cal Grant C tuition and fee award – $2,462; and (3) Cal Grant C book and supply award – $547.	*Prior to 2012-13, Cal Grant B access award had been $1,551; the Cal Grant C tuition award had been $2,592; and the Cal Grant C book and supply award had been $576.*
Community College Transfer	Codified CSAC practice limiting community college transfer entitlement awards to students who attended a CCC in the academic year before transferring to a four-year institution.	*N/A*

LAO's Analysis of the New Eligibility Rules. The recent budget act changes included a requirement that the LAO monitor initial implementation of the changes and analyze the state's other options for measuring institutional quality. In its report issued January 7, 2013, the LAO found that the changes, which primarily affect students at for-profit schools, are generally working as intended but have three notable drawbacks: (1) schools can manipulate the CDR; (2) the rules exempt some institutions without strong justification for doing so; and (3) the standards penalize institutions serving more disadvantaged students.

The LAO recommended exploring alternative student debt measures when the information needed to calculate these measures becomes more readily available and applying the graduation rate requirement to all schools but modifying the measure to track the graduation rate only of Cal Grant recipients. In addition, the LAO recommended taking into consideration a school's student characteristics to avoid creating a disincentive to serve disadvantaged students.

The LAO also raised concerns about the actual implementation of the new standards and made recommendations to address those concerns. More specifically, although CSAC is required by statute to certify institutional eligibility by October 1 each year, the U.S. Department of Education plans to release new graduation rate data later in October. For this reason, the LAO recommended changing the certification deadline to November 1, if the Legislature maintains the current graduation rate measure, as well as clarify that CSAC should use the most recent publicly available data in any form for its certification (discussed further as Agenda Item 9).

The LAO also noted that the recent policy changes, implemented in the middle of Cal Grant award cycles, have left many students with insufficient time to make alternative plans for the coming academic year. Moving forward, the LAO recommended the Legislature avoid making changes to eligibility rules during award cycles already underway, instead making them effective for the next award cycle. Some eligibility changes, such as those requiring consultation on specific metrics to be used, may require even longer implementation lags.

Staff Recommendation. None; this is an informational item.

Item 10: Cal Grant Program Statutory Clean-up

Summary of Budget Issue. The Budget Acts of 2011 and 2012 made significant statutory changes to the Cal Grant program. These changes were primarily focused on refining institutional eligibility based on graduation rates and cohort default rates (CDR) as a measure of quality [Education Code (EC) Section 69432.7 – Attachment 2]. Since the adoption of these statutory changes, three issues have arisen about legislative intent and/or implementation of several subparagraphs of EC 69432.7, as highlighted below.

ISSUE 1. Under current law, the Student Aid Commission (CSAC) is required to certify, by October 1 of each year, the institution's latest three-year CDR and graduation rate, as most recently reported by the United States Department of Education. [EC 69432.7 (l)(3)(A)]

In its January 2013 report, the LAO recommended changing the certification date From October 1 to November 1 to facilitate CSAC’s data collection. The November 1 date better reflects the U.S. Department of Education’s (Department) schedule for posting graduation rates to IPEDS, the Integrated Postsecondary Education Data System. Additionally, the LAO recommended that the Legislature clarify that CSAC should use the most recent publicly available data, published by the Department in any form, for its annual certification. Since the publication of the LAO recommendation, additional developments potentially point to a need to clarify this statute further.

On March 1, 2013, the San Francisco Superior Court officially noticed that it ordered injunctive relief to the Academy of Art University making the Academy eligible for the Cal Grant program in 2012-13 and 2013-14 based on the information available on the College Navigator website in July 2012. Given this action, the subcommittee may wish to consider providing greater specificity in statute as to what graduation rate data (preliminary versus provisional), published by what date, to what site, etc., to avoid further confusion and ensure consistent program administration.

CSAC will be considering the Superior Court ruling at its April 25-26 meeting; it is possible the Commission will make the decision to appeal the ruling. Therefore, the subcommittee should delay any immediate action on this issue.

Staff Recommendation. Hold this issue open pending receipt of additional information from the Administration.

ISSUE 2. As CSAC continues to implement the new Cal Grant institutional eligibility policy, the LAO has raised a concern that the borrower data CSAC used for 2013-14 eligibility is not what EC 69432.7 (l)(3)(H) directs them to use.

Under current law, institutions with 40 percent or fewer undergraduates borrowing federal loans

Item 10:	*Cal Grant Program Statutory Clean-up, continued*

are exempt from the default and graduation rate requirements with statute specifying which borrower data to use:

> EC 69432.7(l)(2)(H) Notwithstanding any other law, the requirements of this paragraph shall not apply to institutions with 40 percent or less of undergraduate students borrowing federal student loans, using information reported to the United States Department of Education for the academic year two years before the year in which the commission is certifying the three-year cohort default rate or graduation rate pursuant to subparagraph (A).

To determine 2013-14 eligibility, CSAC certified the CDR and graduation rates for Cal Grant institutions in fall 2012. However, instead of using 2010-11 data as required, CSAC used 2009-10 data.

The LAO reports that the purpose of the borrowing rate is to identify institutions with a relatively high share of students with loans. Using the most recently available data is good policy, as it provides the most recent snapshot of which institutions have a high share of borrowers. The LAO indicates that an administrative fix should suffice; i.e., because the statute is clear, no legislative action is required. This issue can be resolved by CSAC changing its eligibility determination for 2013-14.

At the time of the writing of this agenda, CSAC had not provided a response to staff's inquiry about whether it would address this issue administratively, as proposed by the LAO.

Staff Recommendation. Hold this issue open pending receipt of additional information from the Administration.

ISSUE 3. Subparagraph (l)(3)(I) of EC 69432.7 was adopted to provide a transition period of five years for an institution with a CDR of less than ten percent and a graduation rate of more than 20 percent (but less than 30 percent), for students taking 150 percent or less of the expected time to complete degree requirements, to remain eligible for initial and renewal Cal Grant awards through the 2016-17 academic year. In 2017-18, that institution would have to have a minimum graduation rate of 30 percent to remain eligible for the Cal Grant program.

As previously noted, in adopting this subparagraph the Legislature intended to provide this "grace" period if the institution *maintained* a CDR of less than ten percent. However, a drafting error resulted in this intent not being clear. CSAC has interpreted statute to mean an institution that meets the requirement *at any time*, gets a pass through to 2016-17 whether or not the institution's CDR remains within the exception window during that time.

Staff Recommendation. Hold this issue open pending receipt of further input from the Administration.

Item 11: Fund Offsets – Temporary Assistance for Needy Families (TANF) and Student Loan Operating Fund (SLOF)

Governor's Budget Proposal. The January Budget proposes two fund offsets, with no programmatic effect on financial aid programs, as follows:

1. Offset $942.9 million in Cal Grant Program GF costs to reflect increased Temporary Assistance to Needy Families (TANF) Program funds available through an interagency agreement with the Department of Social Services. *This is an increase of $139.2 million over the level of offset included in the Budget Act of 2012.*

2. Offset $60 million in Cal Grant Program GF costs due to the availability of surplus funds from the Student Loan Operating Fund (SLOF), which receives proceeds from the federal guaranteed student loan program. *The Budget Act of 2012 included an offset of $84.7 million GF from this same fund source.*

Background. Historically speaking, the Cal Grant program has been funded primarily with GF support. In recent fiscal years, the Administration has proposed fund transfers, with no programmatic effect on financial aid programs. The SLOF offset has been used for a number of years; the Budget Act of 2012 included a TANF offset for the first time. The Governor's January Budget again proposes this approach, utilizing both offsets.

With regard to the TANF funds, the Administration indicates that this shift is an allowable use of TANF funds because support for low-income, unmarried students age 25 or younger could prevent and reduce out-of-wedlock pregnancies, which is one purpose of TANF. The CalWORKs program budget is within the jurisdiction of Subcommittee No. 3.

With regard to the SLOF transfer, the SLOF receives proceeds from the federal guaranteed student loan program. In 2010, the federal government transferred management of this program from CSAC to ECMC, a national loan servicing organization. ECMC has agreed to contribute SLOF support to offset Cal Grant costs for several years. The number and amount of transfers are unspecified and is typically determined by ECMC in May of each year, in consultation with the federal Department of Education. The state budget is adjusted accordingly during the May Revision process.

LAO Recommendation. The Legislature should conform TANF funding for Cal Grants to decisions on CalWORKs. The Legislature should also increase SLOF funding for Cal Grants by $25 million over the Governor's proposed amount for the budget year and reduce General Fund support by the same amount.

Staff Comment. Both of these fund transfers have no programmatic impact on the Cal Grant program.

With regard to the TANF shift, any action by this subcommittee should conform to the action(s) of Subcommittee No. 3, especially given that it has raised concerns about the proposed level of

Item 11: Fund Offsets – Temporary Assistance for Needy Families and Student Loan Operating Fund, continued

the funding swap between TANF and GF resources used for Cal Grants. More specifically, Subcommittee No. 3 is concerned that the swap reduces transparency in budgeting for the core purposes of the programs and results in an artificially higher reliance of CalWORKs on GF expenditures. This significantly higher reliance on the GF is especially problematic for CalWORKs because it is a program that is intended to provide a safety net during times of economic contraction and, as such, may experience necessary growth precisely when GF resources are scarcer.

With regard to the SLOF offset, the final figure of available funds will not be known until shortly after the release of the May Revision. Therefore, the subcommittee may wish to hold this aspect of the offset proposals open, pending ECMC Board action and receipt of updated information from the Administration.

Staff Recommendation. (1) Conform to the action(s) of Subcommittee No. 3 regarding the CalWORKs program and available TANF funds and (2) hold open the SLOF offset, pending receipt of updated information from the Administration at the time of May Revision.

Vote:

Item 12: Federal Sequestration – Financial Aid Program Impacts

Background. The federal sequester is an automatic, across-the-board, spending reduction on many federal programs, intended to ensure a $1.2 trillion deficit reduction over 10 years. Generally speaking, the reductions are half from defense and half from non-defense programs. The first set of reductions took effect March 1, 2013, impacting mostly federal discretionary spending ($71 billion in cuts) and some mandatory programs ($14 billion in cuts). Certain programs were exempted from the sequester, including entitlements and Pell grants for college students, among others.

Due to the sequester, all federally-funded education programs (other than Pell grants) are subject to an automatic across-the-board reduction of roughly 5.3 percent. Students will also see an increase in the origination fee charged for new federal student loans taken after July 1, 2013. Additional reductions to education programs (including Pell grants) will likely occur in Fiscal Years 2014 through 2021 due to stringent "caps" on so-called discretionary-funded programs, which include all education programs (other than student loans).

Staff Comment. The full impacts of the March 1 reductions are not yet known.

The Student Aid Commission reports that the federal College Access Challenge Grant Program (CACGP) is impacted by the sequester. The CACGP is intended to foster partnerships among federal, state, and local governments and philanthropic organizations through matching challenge grants that are aimed at increasing the number of low-income students who are prepared to enter and succeed in postsecondary education.

The CACGP was authorized for a five-year period, through the 2014-15 fiscal year. California receives approximately $14 million, and it is expected that funding will be reduced by an automatic across-the-board reduction of roughly five percent. The Commission will report at the hearing on the impact(s) of this reduction in funding, as well as information on other impacts of the federal sequester.

Staff Recommendation. This is an informational item.

Attachment 1:	California Community College Economic and Workforce Development Program Expenditure Plan – Budget Bill Language

28. Of the funds provided in Schedule (17) for the Economic and Workforce Development Program (EWD), which are pursuant to Part 52.2 (commencing with Section 88600) of Division 7 of Title 3 of the Education Code,
(a) Up to eleven percent may be allocated for state level technical assistance activities in support of the intent of Chapter 361, Statutes of 2012, including statewide network leadership, organizational development, coordination, information and support services, or other program purposes.
(i) Any augmentation to state level activities funding is subject to approval of the Department of Finance, not sooner than 30 days after the notification in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.
(b) All remaining funds shall be allocated for programming that target investment at priority and emergent sectors, including statewide and/or regional centers, hubs, collaborative communities, advisory bodies, and short-term grants. Short-term grants can include industry-driven regional education and training, Responsive Incumbent Worker Training, and Job Development Incentive Training.
(c) Prior to the expenditure of these funds, the Chancellor of the California Community Colleges shall submit a proposed expenditure plan and the rationale therefore, to the Department of Finance for approval. The expenditure plan shall include the following:
(i) A statewide and regional delivery system.
(ii) A targeting of investments to competitive and emergent sectors important to regional economies as well as use of short-term grants to meet employer-driven training needs.
(iii) Program support to increase the impact of college CTE programs (including contextualized CTE programs) on regional economies; statewide accountability data collection and performance evaluation; statewide training, development, and coordination; labor market research; and continuous program improvements.
(d) The following provisions apply to the expenditures of these funds:
(i) Funds applied to performance-based training shall be matched by a minimum of $1 of private business and industry funding for each $1 of state funds. The board of governors shall consider the level of involvement and financial commitments of business and industry in making awards for performance-based training.
(ii) Funds allocated by the Board of Governors of the California Community Colleges under this program may not be used by community college districts to supplant existing contract education offerings. The chancellor shall ensure that funds are spent only for expanded services and shall implement accountability reporting for districts receiving these funds to ensure that training, credit, and noncredit programs remain relevant to business needs.
(iii) Any funds that become available due to savings, discontinuance, or reduction of amounts shall be evaluated against labor market needs and regional economies for reallocation within the economic and workforce development program.
(e) Fiscal agents of program funds intended to serve statewide or regional functions do not have authority to flex program funds. The chancellor's office may adjust allocations, as necessary, to preclude this action.

Attachment 2: Education Code Section 69432.7

69432.7. As used in this chapter, the following terms have the following meanings:

(a) An "academic year" is July 1 to June 30, inclusive. The starting date of a session shall determine the academic year in which it is included.

(b) "Access costs" means living expenses and expenses for transportation, supplies, and books.

(c) "Award year" means one academic year, or the equivalent, of attendance at a qualifying institution.

(d) "College grade point average" and "community college grade point average" mean a grade point average calculated on the basis of all college work completed, except for nontransferable units and courses not counted in the computation for admission to a California public institution of higher education that grants a baccalaureate degree.

(e) "Commission" means the Student Aid Commission.

(f) "Enrollment status" means part- or full-time status.

(1) "Part time," for purposes of Cal Grant eligibility, means 6 to 11 semester units, inclusive, or the equivalent.

(2) "Full time," for purposes of Cal Grant eligibility, means 12 or more semester units or the equivalent.

(g) "Expected family contribution," with respect to an applicant, shall be determined using the federal methodology pursuant to subdivision (a) of Section 69506 (as established by Title IV of the federal Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1070 et seq.)) and applicable rules and regulations adopted by the commission.

(h) "High school grade point average" means a grade point average calculated on a 4.0 scale, using all academic coursework, for the sophomore year, the summer following the sophomore year, the junior year, and the summer following the junior year, excluding physical education, reserve officer training corps (ROTC), and remedial courses, and computed pursuant to regulations of the commission. However, for high school graduates who apply after their senior year, "high school grade point average" includes senior year coursework.

(i) "Instructional program of not less than one academic year" means a program of study that results in the award of an associate or baccalaureate degree or certificate requiring at least 24 semester units or the equivalent, or that results in eligibility for transfer from a community college to a baccalaureate degree program.

(j) "Instructional program of not less than two academic years" means a program of study that results in the award of an associate or baccalaureate degree requiring at least 48 semester units or the equivalent, or that results in eligibility for transfer from a community college to a baccalaureate degree program.

(k) "Maximum household income and asset levels" means the applicable household income and household asset levels for participants, including new applicants and renewing recipients, in the Cal Grant Program, as defined and adopted in regulations by the commission for the 2001-02 academic year, which shall be set pursuant to the following income and asset ceiling amounts:

CAL GRANT PROGRAM INCOME CEILINGS

	Cal Grant A, C, and T	Cal Grant B
Dependent and Independent students with dependents*		
Family Size		
Six or more	$74,100	$40,700
Five	$68,700	$37,700
Four	$64,100	$33,700
Three	$59,000	$30,300
Two	$57,600	$26,900
Independent		
Single, no dependents	$23,500	$23,500
Married	$26,900	$26,900

*Applies to independent students with dependents other than a spouse.

CAL GRANT PROGRAM ASSET CEILINGS

	Cal Grant A, C, and T	Cal Grant B
Dependent**	$49,600	$49,600
Independent	$23,600	$23,600

**Applies to independent students with dependents other than a spouse.

The commission shall annually adjust the maximum household income and asset levels based on the percentage change in the cost of living within the meaning of paragraph (1) of subdivision (e) of Section 8 of Article XIII B of the California Constitution. The maximum household income and asset levels applicable to a renewing recipient shall be the greater of the adjusted maximum household income and asset levels or the maximum household income and asset levels at the time of the renewing recipient's initial Cal Grant award. For a recipient who was initially awarded a Cal Grant for an academic year before the 2011-12 academic year, the maximum household income and asset levels shall be the greater of the adjusted maximum household income and asset levels or the 2010-11 academic year maximum household income and asset levels. An applicant or renewal recipient who qualifies to be considered under the simplified needs test established by federal law for student assistance shall be presumed to meet the asset level test under this section. Prior to disbursing any Cal Grant funds, a qualifying institution shall be obligated, under the terms of its institutional participation agreement with the commission, to resolve any conflicts that may exist in the data the institution possesses relating to that individual.

(l) (1) "Qualifying institution" means an institution that complies with paragraphs (2) and (3) and is any of the following:

(A) A California private or independent postsecondary educational institution that participates in the Pell Grant Program and in at least two of the following federal campus-based student aid programs:

(i) Federal Work-Study.

(ii) Perkins Loan Program.

(iii) Supplemental Educational Opportunity Grant Program.

(B) A nonprofit institution headquartered and operating in California that certifies to the commission that 10 percent of the institution's operating budget, as demonstrated in an audited financial statement, is expended for purposes of institutionally funded student financial aid in the form of grants, that demonstrates to the commission that it has the administrative capacity to administer the funds, that is accredited by the Western Association of Schools and Colleges, and that meets any other state-required criteria adopted by regulation by the commission in consultation with the Department of Finance. A regionally accredited institution that was deemed qualified by the commission to participate in the Cal Grant Program for the 2000-01 academic year shall retain its eligibility as long as it maintains its existing accreditation status.

(C) A California public postsecondary educational institution.

(2) (A) The institution shall provide information on where to access California license examination passage rates for the most recent available year from graduates of its undergraduate programs leading to employment for which passage of a California licensing examination is required, if that data is electronically available through the Internet Web site of a California licensing or regulatory agency. For purposes of this paragraph, "provide" may exclusively include placement of an Internet Web site address labeled as an access point for the data on the passage rates of recent program graduates on the Internet Web site where enrollment information is also located, on an Internet Web site that provides centralized admissions information for postsecondary educational systems with multiple campuses, or on applications for enrollment or other program information distributed to prospective students.

(B) The institution shall be responsible for certifying to the commission compliance with the requirements of subparagraph (A).

(3) (A) The commission shall certify by October 1 of each year the institution's latest three-year cohort default rate and graduation rate as most recently reported by the United States Department of Education.

(B) For purposes of the 2011-12 academic year, an otherwise qualifying institution with a three-year cohort default rate reported by the United States Department of Education that is equal to or greater than 24.6 percent shall be ineligible for initial and renewal Cal Grant awards at the institution, except as provided in subparagraph (F).

(C) For purposes of the 2012-13 academic year, and every academic year thereafter, an otherwise qualifying institution with a three-year cohort default rate that is equal to or greater than 15.5 percent, as certified by the commission on October 1, 2011, and every year thereafter, shall be ineligible for initial and renewal Cal Grant awards at the institution, except as provided in subparagraph (F).

(D) (i) An otherwise qualifying institution that becomes ineligible under this paragraph for initial and renewal Cal Grant awards shall regain its eligibility for the academic year for which it satisfies the requirements established in subparagraph (B), (C), or (G), as applicable.

(ii) If the United States Department of Education corrects or revises an institution's three-year cohort default rate or graduation rate that originally failed to satisfy the requirements established in subparagraph (B), (C), or (G), as applicable, and the correction or revision results in the institution's three-year cohort default rate or graduation rate satisfying those requirements, that institution shall immediately regain its eligibility for the academic year to which the corrected or revised three-year cohort default rate or graduation rate would have been applied.

(E) An otherwise qualifying institution for which no three-year cohort default rate or graduation rate has been reported by the United States Department of Education shall be provisionally eligible to participate in the Cal Grant Program until a three-year cohort default rate or graduation rate has been reported for the institution by the United States Department of Education.

(F) (i) An institution that is ineligible for initial and renewal Cal Grant awards at the institution under subparagraph (B), (C), or (G) shall be eligible for renewal Cal Grant awards for recipients who were enrolled in the ineligible institution during the academic year before the academic year for which the institution is ineligible and who choose to renew their Cal Grant awards to attend the ineligible institution. Cal Grant awards subject to this subparagraph shall be reduced as follows:

(I) The maximum Cal Grant A and B awards specified in the annual Budget Act shall be reduced by 20 percent.

(II) The reductions specified in this subparagraph shall not impact access costs as specified in subdivision (b) of Section 69435.

(ii) This subparagraph shall become inoperative on July 1, 2013.

(G) For purposes of the 2012-13 academic year, and every academic year thereafter, an otherwise qualifying institution with a graduation rate of 30 percent or less for students taking 150 percent or less of the expected time to complete degree requirements, as reported by the United States Department of Education and as certified by the commission, pursuant to subparagraph (A), shall be ineligible for initial and renewal Cal Grant awards at the institution, except as provided for in subparagraphs (F) and (I).

(H) Notwithstanding any other law, the requirements of this paragraph shall not apply to institutions with 40 percent or less of undergraduate students borrowing federal student loans, using information reported to the United States Department of Education for the academic year two years before the year in which the commission is certifying the three-year cohort default rate or graduation rate pursuant to subparagraph (A).

(I) Notwithstanding subparagraph (G), an otherwise qualifying institution with a three-year cohort default rate that is less than 10 percent and a graduation rate above 20 percent for students taking 150 percent or less of the expected time to complete degree requirements, as certified by the commission pursuant to subparagraph (A), shall remain eligible for initial and renewal Cal Grant awards at the institution through the 2016-17 academic year.

(J) The commission shall do all of the following:

(i) Notify initial Cal Grant recipients seeking to attend, or attending, an institution that is ineligible for initial and renewal Cal Grant awards under subparagraph (C) or (G) that the institution is ineligible for initial Cal Grant awards for the academic year for which the student received an initial Cal Grant award.

(ii) Notify renewal Cal Grant recipients attending an institution that is ineligible for initial and renewal Cal Grant awards at the institution under subparagraph (C) or (G) that the student's Cal Grant award will be reduced by 20 percent, or eliminated, as appropriate, if the student attends the ineligible institution in an academic year in which the institution is ineligible.

(iii) Provide initial and renewal Cal Grant recipients seeking to attend, or attending, an institution that is ineligible for initial and renewal Cal Grant awards at the institution under subparagraph (C) or (G) with a complete list of all California postsecondary educational institutions at which the student would be eligible to
receive an unreduced Cal Grant award.

(K) By January 1, 2013, the Legislative Analyst shall submit to the Legislature a report on the implementation of this paragraph. The report shall be prepared in consultation with the commission, and shall include policy recommendations for appropriate measures of default risk and other direct or indirect measures of quality or effectiveness in educational institutions participating in the Cal Grant Program, and appropriate scores for those measures. It is the intent of the Legislature that appropriate policy and fiscal committees review the requirements of this paragraph and consider changes thereto.

(m) "Satisfactory academic progress" means those criteria required by applicable federal standards published in Title 34 of the Code of Federal Regulations. The commission may adopt regulations defining "satisfactory academic progress" in a manner that is consistent with those federal standards.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, April 25, 2013
9:30 a.m. or upon adjournment of session
Room 3191, State Capitol

Consultant: Kris Kuzmich

OUTCOMES

Item	Department	Page
6120	**California State Library (CSL)**	
6440	**University of California (UC)**	
6600	**Hastings College of the Law (Hastings)**	
6610	**California State University (CSU)**	
6870	**California Community Colleges (CCC)**	
7980	**California Student Aid Commission (CSAC)**	

Proposed Vote Only Items

Item 1 approved by a vote of 2-1, with Senator Wyland voting no.

Items 2 through 5 approved by a vote of 3-0, with Item 2 modified to change the reference in subdivision (a) of the budget bill provisional language for the CCC Economic and Workforce Development Program from "eleven percent" to "ten percent."

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) 651-1505. Requests should be made one week in advance whenever possible.*

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, May 2, 2013
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultants: Keely Bosler & Kim Connor

Public Testimony

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 916-651-1505. Requests should be made one week in advance whenever possible.

6360 Commission on Teacher Credentialing

ISSUE 1: Commission Overview (Information Only)

DESCRIPTION: The Commission on Teacher Credentialing (CTC) will provide background information for the agency, including (1) an update on major activities and workload; (2) conclusion of the 2011 Bureau of State Audit review; and (3) a status report on the special funds administered by the CTC. This information is intended as background for consideration of the Governor's budget proposals in Issue #2 of the Subcommittee agenda.

PANELISTS: Commission on Teacher Credentialing

BACKGROUND:

Major Responsibilities. The CTC is responsible for the following major, state operations activities, which are wholly supported by special funds:

- Issuing credentials, permits, certificates, and waivers to qualified educators;
- Enforcing standards of practice and conduct for licensed educators;
- 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.

In addition, the CTC administers three local assistance programs which are funded with Proposition 98 General Funds and federal reimbursement from the California Department of Education.

Major Activities. The CTC currently processes **208,000 candidate applications** annually for 200 different credential and waiver documents. In addition, the CTC currently administers – largely through contract – a total of **5 different educator exams** for approximately **103,000 educators** annually. In addition, the CTC monitors the assignments of educators and reports the findings to the Legislature.

In addition, the CTC must review and take appropriate action on misconduct cases involving credential holders and applicants resulting from criminal charges, reports of misconduct by local educational agencies, and misconduct disclosed on applications. In 2011-12, the CTC received new reports from all these sources and, upon review, opened 5,376 cases. During 2011-12, the CTC completed disciplinary review for 5,454 cases.

Lastly, the CTC is responsible for accrediting **261 approved sponsors of educator preparation programs,** including largely public and private institutions of higher education and, local educational agencies in California. (Of this total, there are 23 California State University programs; 8 University of California programs; 58 private college and university programs; 172 local educational agency programs; and 3 other sponsors.)

6360 Commission on Teacher Credentialing

ISSUE 1: Commission Overview (Information Only)

Special Funds & Fees. The CTC is a "special fund" agency whose state operations are supported by two special funds -- the Test Development and Administration Account (0408) and the Teacher Credentials Fund (0407). Of the CTC's $18.9 million state operations budget in 2012-13, about 76 percent is supported by credential fees, which are a revenue source for the Teacher Credentials Fund and 22 percent is supported by educator exam fees, which fund the Test Development and Administration Account.

- **Teacher Credentials Fund (Credential Fees).** The Teacher Credentials Fund is generated by fees for issuance of new and renewed credentials and other documents. Current law also requires, as a part of the annual budget review process, the Department of Finance to recommend to the Legislature an appropriate credential fee sufficient to generate revenues necessary to support the operating budget of the Commission plus a prudent reserve of not more than 10 percent. In 2012-13, the credential fee was increased from $55 to $70 due to a projected budget shortfall and drop in credentials. This action restored the fee to the statutory maximum (Education Code §44235). No fee increases are anticipated for 2013-14.

  In 1998-99, the credential fee was reduced in the budget act below statutory levels -- from $70 to $60 -- due to increases in the number of credential applications and resulting surpluses in the Teacher Credentials Fund. At this time, there was increased demand for teachers due to the new K-3 class size reduction program. The $15 loss in fees since 2000-01 equated to an annual loss of approximately $3 million for the CTC. (Every $5 in fees equates to approximately $1 million in revenues.)

  In 2000-01, the fee was dropped further to $55. The volume of credential applications grew substantially from 2000-01. However, as indicated by the following chart, applications began decreasing in 2007-08 as the state economy slowed. In 2011-12, the number of credential applications dropped below 2000-01. The number of credential applications is projected to drop further in 2012-13, but projected to increase in 2013-14.

6360 Commission on Teacher Credentialing

ISSUE 1: Commission Overview (Information Only)

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 Est	2013/14 Est
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153	246,899	232,208	230,559	213,980	222,062
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561	1,287	893	858	686	666
Total	**223,819**	**247,419**	**255,845**	**238,154**	**235,566**	**242,159**	**257,453**	**270,198**	**266,714**	**248,186**	**233,101**	**231,417**	**224,825**	**222,728**
Credential Processing Staff*	**82.1**	**83.2**	**77.4**	**71.2**	**60.6**	**65.2**	**66.8**	**75.9**	**69.1**	**68.9**	**68.4**	**68.4**	**59.9**	**61.4**
**Credential Fees ** **	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$55**	**$70**	**$70**

***Certification Assignment and Waivers Division Staff**
****Individuals applying for a Certification of Clearance and then a first time Credential only pay one fee for the two documents, based on the current credential fee, i.e., $70 credential fee, $35 for Certificate of Clearance, $35 First Time Credential, then at 5 year renewal pay the full fee of $70.**

- **Test Development and Administration Account (Exam Fees).** 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), the Reading Instruction Competence Assessment (RICA), and the California Subject Examination for Teachers (CSET), the California Teachers of English Learners (CTEL), and the California Preliminary Administrative Credential Examination (CPACE).

  The CTC has statutory authority (Education Code §44235.1) for reviewing and approving the examination fee structure, as needed, to ensure that the examination program is self-supporting. To determine fees for these testing programs, CTC staff projects the number of exams – based upon the most recent actual figures - and compares these figures with projected examination program costs.

  In recent years, the number of examinations have been falling in the exam program overall. The CTC projects continuing declines in the number of examinees for the exam program based on the trends identified in the Teacher Supply Report and enrollment data from the various educator preparation programs.

  The CTC has made a number of adjustments in recent years based upon the demand for the various exams, as indicated by the following table. In 2005-06, the CTC raised fees by $6 for all exams, except the CBEST. (Prior to this, fees had not been increased since 2001-02.) However, in 2007-08, the CTC reduced fees for most exams.

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Summary of Fee Adjustments					
Candidate Fee*	**2005-06**	**2007-08**	**2011-12**	**2012-13**	**Change**
CBEST					
CBEST – Paper Based Test	--	-$10.00	--	--	-$10.00
CBEST – Computer Based Test	--	--	-$4.00	+$1.00	-$3.00
RICA					
RICA – Written Examination	+$6.00	-$10.00	+$35.00	+$6.00	+$37.00
RICA – Video Performance Assessment	+$6.00	-$10.00	--	+$41.00	+$37.00
CTEL	--		-$65.00	+$22.00	-$43.00
CSET	+$6.00	-$12.00	-$12.00	+$9.00	-$9.00
CPACE (Replaces the SLLA)	--	--	-$102.00	+$44.00	-$58.00

***No changes in Exam Fees are proposed in 2013-14.**
Source: Commission on Teacher Credentialing.

In January 2011, the CTC reviewed and approved changes in the exam fee structure which resulted in fee adjustments (increases and decreases) that went into effect in 2011-12.

<u>In March 2012, the CTC reviewed and approved additional fee increases for all of its major exams that were approved as a part of the 2012-13 budget. These fee increases achieved $500,000 in new revenues from the Test Development and Administration Account in 2012-13. No exam fee adjustments are anticipated for 2013-14.</u>

Update on Implementation of Bureau of State Audits (BSA) Recommendations. On April 7, 2011 the California State Auditor issued a report entitled *"Despite Delays in Discipline of Teacher Misconduct, the Division of Professional Practices has not Developed an Adequate Strategy or Implemented Processes That Will Safeguard Against Future Backlogs"*.

The Division of Professional Practices conducts investigations of misconduct on behalf of the Committee of Credentials – a commission-appointed body. The committee meets monthly to review allegations of misconduct and, when appropriate, recommends that the commission discipline credential holders or applicants, including revoking or denying credentials when the committee determines holders or applicants are unfit for the duties authorized by the credential.

Overall, the BSA Audit found that the CTC revealed weaknesses in the educator discipline process and in hiring policies and practices. **Key findings** from the audit include the following:

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1. As of the summer of 2009, according to the commission's management, the Division of Professional Practices had accumulated a backlog of 12,600 unprocessed reports of arrest and prosecution (RAP sheets)—almost three times a typical annual workload.

2. The large backlog of unprocessed reports appears to have significantly delayed processing of alleged misconduct by the Division of Professional Practices and potentially allowed educators of questionable character to retain a credential.

3. The Division of Professional Practices has not effectively processed all the reports of arrest and prosecution that it receives. A review of randomly selected reports could not be located within the CTC's database. Further, the division processes reports it no longer needs.

4. To streamline the committee's processing of pending cases, the Division of Professional Practices uses its discretion to close cases or not open cases for which it believes the committee would choose not to recommend disciplinary action against the credential holder. However, the BSA did not believe the committee can lawfully delegate this discretion to the division.

5. The Division of Professional Practices lacks comprehensive written procedures for reviewing reported misconduct and the database it uses for tracking cases of reported misconduct does not always contain complete and accurate information.

6. Familial relationships among commission employees may have a negative impact on employees' perceptions and without a complete set of approved and consistently applied hiring practices, the CTC is vulnerable to allegations of unfair hiring and employment practices.

The BSA Audit made numerous recommendations to the CTC including that it develop and formalize comprehensive procedures for reviews of misconduct and for hiring and employment practices to ensure consistency. The Audit also recommended that the CTC provide training and oversight to ensure that case information on its database is complete, accurate, and consistent. Moreover, the BSA Audit provided specific recommendations for the CTC to revisit its processes for overseeing investigations to adequately address the weaknesses in its processing of reports of misconduct and reduce the time elapsed to perform critical steps in the review process.

Of major importance, the BSA Audit found that the CTC Division of Professional Practices division – which is charged with investigation and discipline of misconduct for credential candidates and holders -- had a cumulative backlog of approximately 12,600 unprocessed reports in the summer of 2009. This backlog largely included Reports of Arrest and Prosecution (RAP) from by the California Department of Justice. The cumulative backlog of RAPs was completely addressed and there is no outstanding backlog of these RAP documents.

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The CTC has addressed the findings and recommendations of the 2011 BSA audit and provided progress updates to the BSA and Legislature, as required. At the September 2012 CTC meeting, the State Auditor announced that the Commission had fully addressed all of the findings and recommendations of the 2011 BSA review.

Status of New School District Misconduct Reports Beginning in 2012. From February 23 to June 30, 2012, the Los Angeles Unified School District (LAUSD) filed over 600 reports of educator misconduct with the CTC. As a result, in 2011-12, the CTC received a total of 765 school district reports, when typically the CTC received 200-250 reports per year from *all* school districts. The Commission redirected three staff to assist with this workload. Of the reports received from LAUSD between February 23 and June 30, 2012, 103 were determined to duplicate earlier LAUSD reports, 165 lacked facts establishing statutory jurisdiction to investigate and were closed, 251 are completed, and 87 are open. Of the 87 open cases, 75 are currently under review by the Committee of Credentials and in 12 cases the investigation has not commenced. To date, 72 of the LAUSD cases resulted in an adverse action taken by the Commission.

Credential Processing within Statutory Timeframes. Provisional language in the annual budget act requires the CTC to submit quarterly reports to the Legislature, the Legislative Analyst's Office and the Department of Finance on the minimum, maximum, and average number of days taken to process the following:

- ✓ Renewal and university-recommended credentials
- ✓ Out-of-state and special education credentials
- ✓ Service credentials and supplemental authorizations
- ✓ Adult and vocational education certificates and child center permits, and
- ✓ Percentage of renewals and new applications completed online

This provisional language was added to the budget in 2004-05 in order to provide updates to the Legislature, the Legislative Analyst's Office, and the Department of Finance on the credential processing time workload. During this time, the credential processing time was at an all-time high of 210 working days to issue a credential. The Commission has been responsive to the request and has provided updates as required.

The CTC eliminated the credentialing backlog in 2007-08 due to substantial efficiencies achieved largely through the conversion of a paper application process to an on-line application process for both credential renewals and some new applications. In addition, past budgets redirected additional staffing resources to address the credentialing backlog. Chapter 133; Statutes of 2007, revised the application processing time from 75-working days to 50-working days, effective January 1, 2008. CTC has continued to maintain this processing within this time limit. According to CTC, approximately 80 percent of applications are being processed on-line within 10 working days. The other 20 percent of applications are processed within the required 50-working day processing time.

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Current Condition of Special Funds. The **Teacher Credentials Fund** (0407) has been experiencing a loss of revenues since 2007-08, which has contributed to a widening gap between annual revenues from credentials and expenditures for credential activities. The **Test Development and Administration Account** (0408) has also experienced declines in revenues in recent years, but has had healthy balances to cover expenditures.

Continuing revenue declines for CTC's two special funds, with some increased expenditure costs, resulted in a budget shortfall in 2011-12 that was addressed through a $1.5 million fund transfer from the Teacher Credentials Fund to the Test Development and Administration Account.

<u>The 2012-13 budget included credential fee and exam fee increases, as well as expenditure reductions, to avert another shortfall in the special funds. As a result, the CTC projects positive fund balances for both the special funds. No fund transfers are anticipated in 2012-13.</u>

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ISSUE 2. GOVERNOR'S BUDGET PROPOSALS

DESCRIPTION: The Governor proposes an increase of **$200,000** in the Teacher Credentials Fund to reflect institution of accreditation fees for new institutional reviews, new educator preparation program reviews, and extraordinary accreditation site visit activities beginning in 2013-14. The Governor also proposes a decrease of **$26.2 million** in General Fund Proposition 98 funds to reflect the consolidation of two categorical programs -- the Alternative Certification Program and Paraprofessional Teacher Training Program -- into the Governor's proposed Local Control Funding Formula beginning in 2013-14.

PANELISTS: Department of Finance
Legislative Analyst's Office
Commission on Teacher Credentialing

GOVERNOR'S BUDGET SUMMARY:

The Governor's budget proposes **$19.5** for the total CTC's budget in 2013-14, providing an overall decrease of **$25.5 million.** This large year-to-year change reflects the Governor proposal to eliminate **$26.2 million** from the General Fund (Proposition 98) to support two local assistance education programs administered by the CTC – the Alternative Certification Program ($21.252 million) and the Paraprofessional Teacher Training Program ($4.939 million). The Governor proposes to roll these funds into the Local Control Funding Formula beginning in 2013-14.

The Alternative Certification and Paraprofessional Teacher Training programs are currently included in the K-12 categorical flexibility program -- authorized through 2014-15 – that allows districts to use these funds for any educational purpose. The CTC does not receive any General Fund support for administration of these programs.

The Governor proposes to continue **$308,000** in reimbursements from the Department of Education for support of the Teacher Misassignment Monitoring Program in 2013-14.

Summary of Expenditures (Dollars in Thousands)	2012-13	2013-14	$ Change	% Change
General Fund, Proposition 98	$26,191	0	-$26,191	0.0
Teacher Credentials Fund	14,437	15,067	630	2.4
Test Development & Adm. Account	4,146	4,169	23	.1
	--	--	--	--
Reimbursements	308	308	0	0.0
Total	**$45,082**	**$19,544**	**-$25,538**	**-97.5**
Full -Time Positions	**149.1**	**151.1**	**2.0**	**0.1**
Authorized Positions	**152.4**	**152.4**	**0.0**	**0.0**

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The Governor proposes **$19.2 million** from the two special funds that support the CTC's state operations in 2013-14, reflecting an overall increase of **$653,000** from 2012-13**.** Specifically, the Governor proposes funding of **$15.1 million** from the Teacher Credentials Fund and **$4.2 million** from the Test Development and Administration Account in 2013-14. The Governor proposes **152.4 authorized positions** for CTC in 2013-14, which reflects no change from 2012-13.

GOVERNOR'S ACCREDITATION FEE PROPOSAL:

The Governor's budget adopts a CTC proposal to institute fees for specified accreditation services beginning in 2013-14 in order to recover some of the costs associated with these services. More specifically, the CTC proposal would assess fees for three categories of accreditation activities:

- ✓ Initial accreditation for new institutions;
- ✓ Review of new educator preparation programs; and
- ✓ Extraordinary accreditation activities for any institutions and programs that do not meet the CTC's standards and therefore require additional visits.

The CTC proposal would assess fees ranging from $500 to $3,000 per review. Fees are intended to cover the non-salary, travel costs for new accreditation reviews and extraordinary accreditation activities. The Governor's budget assumes these new fees would generate additional revenue of **$200,000** in 2013-14.

The Governor proposes trailer bill language to authorize the CTC to assess accreditation fees on teacher preparation programs and institutions. Under the Governor's proposal, the CTC would be required to notify the Legislature and the Department of Finance 30 days prior to establishing or adjusting the fees.

BACKGROUND:

The CTC is responsible for accrediting educator preparation programs and institutions. Currently there are **261 active sponsors of education preparation programs.** All sponsors participate in the CTC's cycle of accreditation activities, which include an on-site visit once during the seven-year cycle. The CTC does not currently levy fees for any accreditation activities.

In 2012-13, the CTC suspended accreditation activities due to budget constraints. The accreditation system was also suspended, from December 2002 through June 2007, due to both declining CTC budgets and because the Commission was developing a revised accreditation system.

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ISSUE 2. GOVERNOR'S BUDGET PROPOSALS

As a result of these suspensions, there is a group of educator preparation institutions that have not hosted a site visit in more than ten years. The CTC believes the lack of on-site visits has allowed some programs to stray from the Commission's standards, as it affects selecting quality instructors and placing intern teachers in appropriate supervised field instruction. As a result, CTC staff is preparing to restart accreditation activities in 2013-14.

2012-13 Budget Actions: The 2012-13 CTC budget included several actions intended to address a projected operating deficit of $5 million for the agency. Specifically, the 2012-13 budget included the following budget changes:

- **Credentialing Fee Increases.** Teacher credentialing fees were increased by $15 -- from $55 to $70 – which will generate an estimated **$3.0 million** in additional revenue for the Teacher Credential Fund in 2012-13.
- **Exam Fee Increases.** Testing fees were increased by five percent in 2012-13, which will generate an estimated **$500,000** in additional revenue for the Test Development and Administration Account.
- **Staff Reductions and Other Savings.** State operations were reduced by **$1.5 million** in 2012-13 as a result of: (1) eliminating 13 positions to reflect streamlining the teacher preparation and credentialing processes and (2) achieving operational savings from reduced information technology costs.

<u>The 2012-13 budget act also included provisional language requiring the CTC to examine further efficiencies and identify additional sources of revenues. The CTC developed the accreditation fee option – currently proposed by the Governor in 2013-14 – in response to this budget provisional language.</u>

Estimated Fund Conditions for 2013-14. The CTC has provided an updated Fund Condition Summary for each of the two special funds. As displayed below, these summaries reflect updated revenue projections (as of April 15, 2013) and the Governor's proposed accreditation fee increase, which has the effect of increasing fee revenues within the Teacher Credentials Fund by $200,000 in 2013-14.

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ISSUE 2. GOVERNOR'S BUDGET PROPOSALS

FUND CONDITION
(As of April 15, 2013)
TEACHER CREDENTIALS FUND (TCF)

	2011-12 (Actual)	2012-13 * (Estimated)	2013-14 (Proposed)	2014-15 (Proposed)
Beginning Balance	$1,820,000	$588,000	$1,778,000	$1,943,000
Revenues	12,066,000	15,258,000	15,299,000	15,299,000
TDAA Transfer	1,500,000	0	0	0
GF Augmentation*	0	-540,000	0	0
Expenditures/ Appropriation	-14,798,000	-14,528,000	-15,134,000	-15,134,000
Ending Balance	**$588,000**	**$778,000**	**$943,000**	**$1,108,000**
Reserve %	*4.0%*	*5.4%*	*6.2%*	*7.3%*

*The General Fund Augmentation authorized by the 2009 -10 Budget Act per Item 6360-011-0407 was not processed by the State Controller's Office (SCO) as of June 30, 2012. As a result, the pending adjustment recorded on the year-end statements reverted $540,000 to the TCF Fund Reserve. As of February 6, 2013, SCO is working on scheduling this adjustment.

As a result of the fund transfer in 2011-12 and budget actions in 2012-13, the Teacher Credentials Fund (TCF) projects a positive fund balance of $778,000 in 2012-13. Assuming the $200,000 in new accreditation fees per the Governor's budget proposal, these fund balances are projected to remain positive at $943,000 in 2013-14 and $1,108,000 in 2014-15. However, reserves are low, 6.2 percent and 7.3 percent respectively in 2013-14 and 2014-15.

For the Test Development and Administration Account, the CTC projects both positive fund balances and healthy reserves of $3,102,000 (74.1 percent) in 2013-14 and $3,378,000 (80.7 percent) in 2014-15.

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ISSUE 2. GOVERNOR'S BUDGET PROPOSALS

FUND CONDITION
(As of April 15, 2013)
TEST DEVELOPMENT AND ADMINISTRATION ACCOUNT (TDAA)

	2011-12 (Actual)	2012-13* (Estimated)	2013-14 (Proposed)	2014-15 (Proposed)
Beginning Balance	$6,882,000	$4,463,000	$2,825,000	$3,102,000
Revenues	3,751,000	4,699,000	4,465,000	4,465,000
TCF Transfer	-1,500,000	0	0	0
GF Augmentation		-2,161,000		
Expenditures/ Appropriation	-4,670,000	-4,177,0000	-4,188,000	-4,188,000
Ending Balance	**$4,463,000**	**$2,825,000**	**$3,102,000**	**$3,378,000**
Reserve %	*95.6%*	*75.0%*	*78.3%*	*84.9%*

*The General Fund augmentation authorized by the 2009-10 Budget Act per Item 6360-011-0408 was not processed by the State Controller's Office (SCO) as of June 30, 2012. As a result, the pending adjustment recorded on the year-end statements reverted $2.160 million to the TDAA Fund Reserve. As of March 6, 2013, the SCO is working on scheduling this adjustment.

LAO COMMENTS AND RECOMMENDATIONS.

Does CTC Have Sufficient Resources to Resume Accreditation Activities? Per the LAO, it is unclear whether CTC will have sufficient resources, even if the CTC's new fee option is adopted, to restart accreditation unless the commission reorders its priorities for the 2013-14 budget. To date, CTC has not explicitly identified the activities it would suspend in 2013-14 in order to be able to restart accreditation activities. If CTC lacks the willingness or ability to redirect resources from other activities to accreditation, then the commission would need to take action to suspend accreditation for an additional year.

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ISSUE 2. GOVERNOR'S BUDGET PROPOSALS

Governor's Proposal Assumes CTC Accreditation Process Is Necessary. By proposing that CTC establish accreditation fees, the Governor's proposal assumes that accreditation is an important state service which should resume. Suspending accreditation multiple times over the last decade without significant negative repercussions suggests, however, that accreditation might not be an essential state activity. Moreover, many institutions are accredited not only by CTC but also by Western Association of Schools and Colleges (WASC) and National Council for the Accreditation of Teacher Education (NCATE), suggesting that state accreditation could be redundant in light of the requirements of other regional and national forms of accreditation. Furthermore, in addition to the accreditation process, CTC evaluates teacher quality through the credentialing process. Thus, under the current system, CTC is evaluating both the inputs (accreditation) and the outputs (credentialing) of teacher preparation. <u>For all these reasons, the LAO recommends the Legislature carefully consider whether CTC accreditation needs to be restarted.</u>

Governor's Proposal Assumes Existing Accreditation Process Is Well Designed. The Governor's fee proposal also assumes that the current accreditation system is designed as cost-effectively as possible. The LAO is concerned, however, that the current process remains heavily input-based—requiring a significant amount of CTC staff time to conduct extensive interviews and document reviews. The LAO is also concerned that the existing accreditation process provides little publicly accessible information about the quality of teacher preparation institutions and programs—particularly on key performance measures such as subsequent teacher employment and retention. In addition, the LAO is concerned that the existing accreditation system does not sufficiently target CTC services to those teacher preparation institutions and programs that show signs of poor performance.

<u>If the Legislature were to determine that CTC accreditation is a vital state service, the LAO recommends the Legislature consider various modifications to the state accreditation process to make it more cost effective, including annual reviews of a relatively small set of meaningful performance data and more targeted interaction with poor performers.</u>

Governor's Proposal Helps Address Budget Shortfall . . . If accreditation activities are resumed and the accreditation process is redesigned to be as cost-effective as possible, then the LAO thinks the Governor's proposal to raise fees to cover associated accreditation costs is reasonable. Allowing CTC to raise new revenue through accreditation fees would put CTC in a more viable funding position and help it address its ongoing budget challenges.

. . **But Does Not Cover the Entire Cost.** The Governor's proposal, however, does not allow CTC to recover the entire cost of its accreditation activities per the LAO. That is, the proposed fees would cover only travel costs, not the ongoing accreditation activities of CTC staff. The LAO does not see a rationale for raising fees to cover only a portion of the cost. Moreover, in the case of CTC's credentialing and test-related activities, fees are set such that they cover the entire cost of associated activities. For these reasons, the LAO recommends the Legislature authorize CTC to set fee levels sufficient to cover the entire cost of required accreditation activities.

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ISSUE 2. GOVERNOR'S BUDGET PROPOSALS

STAFF COMMENTS:

- **Fund Conditions Positive; No Fund Transfers Proposed in Short Term.** The Test Development and Administration Account projects positive and healthy, growing balances in 2012-13, 2013-14, and 2014-15. For example, the Test Development and Administration Account is projected to end the 2013-14 and 2014-15 fiscal years with reserves of **78.3 percent** and **84.9 percent** respectively.

  The Teacher Credentials Fund projects a positive balance in 2012-13. Assuming an additional $200,000 in fee revenues from the Governor's accreditation proposal, the Teacher Credentials Fund would end the 2013-14 and 2014-15 years with positive balances. While positive, fund balances in 2013-14 and 2014-15 are small, equating to reserves of **6.2 percent** and **7.3 percent** respectively. However, without the additional $200,000 in accreditation fees proposed by the Governor, the Teacher Credentials Fund would face a structural imbalance in 2013-14 and 2014-15.

  The CTC does not anticipate the need for any fund transfers in 2013-14. The Governor's budget continues annual budget bill language that allows the Department of Finance to authorize a fund transfer from the Test Development and Administration Account due to an operating deficit in the Teacher Credentials Fund. The Department of Finance must notify the Joint Legislative Budget Committee of its intent to authorize the fund transfer.

SUGGESTED QUESTIONS:

1. **Fund Conditions and Budget Outlook**. How do DOF and CTC assess the current special fund conditions? Have structural fund imbalances been achieved? While the funds project positive balances, how prudent are these balances? What do these fund condition statements indicate for the CTC budget in the coming years?

2. **Accreditation Fee Proposal.**

   a. Why did the CTC suspend accreditation site visit activities in the current year? What is the impact?

   b. Why were accreditation activities suspended during the 2002 to 2007 period? What is known about the impact of suspension during that period?

   c. Given recent suspensions, does CTC believe that accreditation is an essential state activity? The LAO questions whether accreditation is an essential activity for the state.

d. Does CTC have the resources to resume accreditation site visit activities in the budget year, especially since the $200,000 in new revenues under the CTC option only covers some travels costs and not the full costs of accreditation. How will CTC restart these activities with only partial funding?

e. If accreditation activities are resumed in the budget year, why doesn't the CTC assess fees to cover the full costs of accreditation activities? Did the CTC consider this option?

3. **Impact of Fee Increases**. What impact have current year increases in credential and exam fees had on the CTC's budget? Will additional fee increases be necessary in the near future?

4. **Credential Fee Authority**. Per current law, the Commission has authority to set exam fees, but not credential fees. What is the history for this different authority? Has the CTC ever considered a price inflator for credential fees to reflect annual cost increases for the statutory fees?

5. **Impact of Position Reductions**. What impact has the elimination of 13 positions ($1.0 million) in the current budget had on the CTC's core functions? How did CTC allocate these reductions?

6. **Future Workload Efficiencies**. Does CTC see potential for future staff and operations savings from workload reductions or efficiencies?

7. **New Discipline Cases from School Districts**.

   a. How is the Division of Professional Practices handling new discipline cases sent by LAUSD and other districts starting in 2012?
   b. How many cases were ultimately received from LAUSD? How many cases were received from other school districts?
   c. How involved were these cases? For example, how many of these cases merited further action – beyond an initial review?
   d. Does the CTC believe there is ongoing workload associated with these cases, or is this more of a short-term workload issue?

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ISSUE 2. GOVERNOR'S BUDGET PROPOSALS

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee take the following actions:

1. Adopt the Governor's trailer bill language to allow the Commission on Teacher Credentialing to charge fees for accrediting teacher preparation institutions and programs.
2. Direct CTC to develop additional options for stabilizing the Teacher Credentials Fund. Require CTC to report back to the Administration and Legislature with these options no later than November 1, 2013.
3. Conform consolidation of $26.2 million in General Fund Proposition 98 funding for the Alternative Credentialing Program and Paraprofessional Teacher Training Program with action on the Governor's Local Control Funding Formula.

6110 Department of Education

ISSUE 3.	CHILD CARE OVERVIEW

PANELISTS: **Rachel Ehlers, Legislative Analyst's Office**
Parent

ISSUE 4.	GOVERNOR'S CHILD CARE PROPOSALS

PANELISTS: **Rachel Ehlers, Legislative Analyst's Office**
Matthew Saha, Department of Finance
Erin Gabel, Department of Education

Background. The child care and early childhood education programs funded by the State are generally capped programs. This means that funding is not provided for every qualifying family or child, but instead funding is provided for a fixed amount of slots or vouchers. The exception is the CalWORKs child care program (Stages 1 and 2), which are entitlement programs in statute.

In general, Stage 1 child care is provided to families on cash assistance until they are "stabilized". After families are stabilized they are transferred to Stage 2, where they are entitled to child care while on aid and for two additional years after they leave aid. Stage 3 has been for those families that have exhausted their Stage 2 entitlement.

Historically caseload projections have generally been funded for Stages 1, 2, and 3 in their entirety – even though, technically speaking, Stage 3 is not an entitlement or caseload driven program. There has been considerable turmoil in the Stage 3 program since Governor Schwarzenegger first vetoed all of the funding for Stage 3 in 2010. In 2011 the program was effectively capped and the California Department of Education (CDE) was required to provide instructions to the field on how to dis-enroll families. In the current fiscal year the State Assembly has provided $13.5 million from their administrative budget to ensure all eligible families are covered in the Stage 3 program.

In 2012 funding for the State Preschool program and the General Child Care Programs were consolidated so that all funding for the part-day/part-year state preschool program is now budgeted under the State Preschool, which is funded from within the Proposition 98 guarantee. The remaining funding in the General Child Care program supports the wrap-around care required for working parents.

Also in 2012 the Governor proposed a significant consolidation and realignment of the vast majority of the child care programs to the counties. This reorganization was not approved.

6110 Department of Education

ISSUE 4. GOVERNOR'S CHILD CARE PROPOSALS

Governor's Budget. The Governor's budget proposal includes **$1.7 billion ($791 million General Fund)** for all the child care programs (not including part-day part-year state preschool). Funding for each child care program is listed below.

Table 1: Child Care Budget Summary (in Millions)

	2011-12	2012-13	2013-14	Change from 2012-13	
Child Care	Actual	Revised	Proposed	Amount	Percent
CalWORKs Stage 1	$309	$390	$417	$27	6.92%
CalWORKs Stage 2	442	419	398	-21	-5.01%
CalWORKs Stage 3	152	162	173	11	6.79%
General Child Care	675	465	465	0	0.00%
Alternative Payment	213	174	174	0	0.00%
Other	30	28	27	-1	-3.57%
Total	$1,821	$1,638	$1,654	$16	0.98%
Funding					
General Fund (non-Proposition 98)	1,059	779	791	12	1.54%
Other State Funds	8	14	0	-14	-100.00%
Federal					
CCDF	533	549	536	-13	-2.37%
TANF	297	372	398	26	6.99%

The funding listed above will support approximately 212,000 slots in the programs as described in the following chart. This is about the same level of slots that were provided in the current year. CalWORKs Stage 1 and Stage 2 are both entitlement programs and the caseload will be updated in the May Revision.

6110 Department of Education

ISSUE 4. GOVERNOR'S CHILD CARE PROPOSALS

	2011-12	2012-13	2013-14	Change from 2012-13	
Child Care	Actual	Revised	Proposed	Amount	Percent
CalWORKs Stage 1	37,838	43,232	45,109	1,877	4.34%
CalWORKs Stage 2	67,547	64,627	59,440	-5,187	-8.03%
CalWORKs Stage 3	26,095	27,231	28,616	1,385	5.09%
General Child Care	72,244	46,816	46,791	-25	-0.05%
Alternative Payment	35,532	28,944	28,930	-14	-0.05%
Migrant	3,000	2,732	2,731	-1	-0.04%
Handicapped	184	168	168	0	0.00%
Total	242,440	213,750	211,785	-1,965	-0.92%

The Governor's budget proposal states that "the current subsidized child care system is fragmented by design". The budget documents also point out that the various programs operate under different rules and administrative structures that suggest potential efficiencies can be gained through closer examination of the system. The Governor's budget indicates that the Department of Social Services will convene stakeholder group meetings to assess the current child care structure and opportunities for streamlining and other improvements.

Also, the Governor's budget indicates that child care may be part of a much larger conversation related to health care reform and the state-based Medicaid expansion. However, no specific changes to the state-local relationship in the funding and delivery of health care were proposed in the January budget.

CalWORKs Caseload Reflect 2012 Program Changes. There were significant policy changes in 2012 related to the CalWORKs program. The Administration's caseload estimate for Stage 1 reflects the projected effects of the state phasing out short-term work exemption policies that curbed caseload rates in recent years. The Stage 2 caseload is expected to decrease due to a large cohort of families projected to "time out" of the CalWORKs program. However, the LAO notes that these projections do not account for midyear "diversion" cases where county welfare agencies can place eligible children back into Stage 2 for up to 24 months when no funded slot is available in Stage 3. Therefore, the Stage 2 projections may currently be understated.

6110 Department of Education

ISSUE 4. GOVERNOR'S CHILD CARE PROPOSALS

CalWORKs Stage 3 Caseload Boosted by Assembly in Current Year. In the 2012-13 budget deliberations most child care programs were reduced by nine percent across-the-board, including the Stage 3 program, which was reduced by $14 million. Subsequent to the passage of the budget, the Assembly added $13.5 million in one-time money from their administrative budget to supplement the funding provided for Stage 3. This action enabled additional families to retain child care slots in the current year and according to the LAO likely increased Stage 3 caseloads for the budget year beyond what the Governor assumed in his January budget. (The bulk of the allocation by the Assembly was made after the Governor's budget was released.) The LAO finds that the Legislature is now faced with either (1) backfilling the one-time funds in the budget year or (2) not backfilling the one-time funds, which could require disenrolling some families in the budget year.

Non-CalWORKs Program Caseload Adjusted Downward Slightly Despite Large Demand. Non-CalWORKs child care programs are capped programs and are not adjusted for caseload. However, historically, the caseload has been adjusted based on projected changes in the overall population of California children under the age of 5. This adjustment is intended to account for potential changes in demand for slots in these programs. In the budget year the population under the age of five is projected to decline very slightly by 0.05 percent and the Governor proposes a commensurate reduction of $333,000 in non-Proposition 98 funds. While the Governor's population adjustment reflects current law, the LAO finds the underlying assumptions less applicable in the current context of the large unmet need for subsidized child care across the state. Since 2008-09, child care programs have been reduced by $985 million or over 30 percent and one quarter of the slots have been eliminated over the past five years.

Stakeholder Group Never Convened. The stakeholder group mentioned in the Governor's January budget has never been convened. Staff understands that this stakeholder group was intended to address administrative issues related to the management of the different child care programs and attempt to harmonize some of the differences that exist.

Staff understands that a new stakeholder group is being convened by the Superintendent of Public Instruction to address many issues, including creating cross-program enrollment, making changes to eligibility reporting, consolidating contracts, and many other issues.

Staff finds that the current child care system is fragmented and in some places in the state difficult to navigate from a consumer's perspective. Consolidation of contracts and some programs could greatly improve the overall efficacy in reaching eligible families and connecting them to the program that best meets their needs. Staff finds that the administrative streamlining being suggested as topics for discussion by the workgroup important work that could lead to a less bureaucratic and more effective child care system.

6110 Department of Education

ISSUE 4.	GOVERNOR'S CHILD CARE PROPOSALS

Suggested Question:

1. CDE. Please report on your stakeholder workgroup and planned activities.

Staff Recommendation.

- Hold CalWORKs caseload open pending receipt of May Revision.
- Reject Governor's small reduction to the non-CalWORKs child care programs pending receipt of May Revision and additional adjustments to the growth in the 0-4 population.

6110 Department of Education

ISSUE 5.	GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL

DESCRIPTION: The Governor's budget proposes a small adjustment to the State Preschool program in order to reflect projected changes in the overall state population of children under age five in 2013-14. This adjustment results in a minor decrease for the State Preschool program of **$242,000** in General Fund, Proposition 98 funding and 65 preschool slots in 2013-14. The LAO will present a proposal to utilize Proposition 98 growth to begin restoration of the State Preschool program – similar to the Governor's approach for other Proposition 98 programs beginning in 2013-14.

PANELISTS: Legislative Analyst's Office
Department of Finance
Department of Education

BACKGROUND: The California State Preschool Program provides center-based, early childhood education programs to low-income children, generally ages three and four years. The Department of Education administers the State Preschool Program through direct state contracts with local providers.

Until recently, all funding for this program came from Proposition 98 funds. However, in 2011-12, most all funding for child care and development programs – except some part-day/part-year preschool funding -- was shifted to state General Fund.

In 2012-13, an additional **$164 million** in part-day/part-year preschool funding that remained in General Child Care Programs was shifted back to Proposition 98 funding. As a result, the 2012-13 provides a total of **$481 million** in Proposition 98 funding for part-day/part-year preschool programs.

State Preschool Budget Summary

Dollars In Millions	**2011-12 Actual**	**2012-13 Revised**	**2014-15 Proposed**	**Change $**	**Change %**
Expenditures					
State Preschool Program*	$368	$481	$481	--**	--***
Funding Source					
General Fund (Proposition 98)	$368	$481	$481	--**	--***
Preschool Slots	**97,741**	**129,126**	**129,061**	**-65**	**--*** **

*Reflects change beginning in 2012-13 to provide $164 million for preschool slots within part-day State Preschool program rather than within General Child Care program.
** Reflects a reduction of less than $1 million.
*** Reflects a reduction of 0.05 percent.

6110 Department of Education

ISSUE 5. GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL

GOVERNOR'S BUDGET PROPOSAL – PRESCHOOL POPULATION ADJUSTMENT:

The Governor's budget proposes to adjust funding for the State Preschool program in order to reflect projected changes in the overall state population of children under age five in 2013-14. This adjustment results in a minor decrease for the State Preschool program of **$242,000** in General Fund, Proposition 98 funding in 2013-14. The Administration projects this funding reduction will result in a decrease of roughly 65 slots in the State Preschool program.

The Governor's adjustments for child care and preschool programs reflect statutory provisions and the Administration's caseload estimates. For 2013-14, the Administration projects the state's population of children under age five will decline very slightly—by 0.05 percent.

LAO Comments.

- **Background on Annual Statutory Adjustments**. According to the LAO, the state does typically make annual adjustments to existing funding levels for the State Preschool and non-CalWORKs child care programs based on projected changes in the overall population of California children under age five. These adjustments are intended to account for potential changes in demand for slots in these programs.

- The LAO further notes that in contrast to CalWORKs child care programs, which the state traditionally funds based on projections of total eligible caseload, the state typically does not provide sufficient funding to accommodate all eligible participants in the State Preschool program or other non-CalWORKs child care programs (General Child Care, Alternative Payment, and migrant child care). <u>As such, waiting lists exist for these programs</u>.

- **Questionable Rationale for Decreasing Funding State Preschool Programs.** The Governor's proposed minor population reductions for State Preschool programs reflect current law. The underlying assumption behind the adjustments, however, seems less applicable in the context of the large unmet need for preschool across the state. Given the thousands of children on waiting lists for slots in these programs, a slightly declining child population likely will not noticeably decrease demand for existing slots. The LAO similarly questions the Governor's rationale for decreasing non-CalWORKS child care programs to reflect current law population adjustments given significant reductions in child care programs since 2008-09.

6110 Department of Education

ISSUE 5. GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL

LAO Recommendation.

- **Reject Small Proposed Reductions for State Preschool Programs.** Given existing waiting lists, the LAO recommends rejecting the Governor's proposal to reduce funding for State Preschool programs by $242,000 in 2013-14. (As indicated in the previous item, the LAO similarly recommends rejecting the Governor's proposal to reduce funding for non-CalWORKs child care by $330,000 in 2013-14.)

LAO PROPOSAL -- PRESCHOOL RESTORATION

Background: The State Preschool program has experienced significant reductions in recent years, due to the state budget shortfalls. Reductions for the part-day/part-year program are estimated at about $120 million since 2008-09.

While the Governor proposes to begin restorations to other Proposition 98 programs in 2013-14, the Governor does not apply any Proposition 98 increases to the State Preschool program.

Per the LAO, the Governor's proposed approach for funding the State Preschool program mirrors that for the non-CalWORKs child care programs. However, since the State Preschool program is funded with Proposition 98 monies, the LAO believes the Legislature has an opportunity to consider adopting a different approach without putting additional pressure on the state General Fund. This is because the Proposition 98 minimum guarantee is projected to increase by $2.7 billion in 2013-14.

The Governor proposes to use these additional Proposition 98 funds to augment funding levels and provide COLAs for most K-12 and community college programs. More specifically, under the Governor's Local Control Funding Formula proposal, most K-12 programs would be merged into a new funding formula, and COLAs and increases would be applied to the new formula.

The State Preschool program is one of the few Proposition 98-funded programs the Governor does not propose to increase in 2013-14, despite the fact that it has experienced larger funding reductions than most other Proposition 98-funded programs in recent years.

The LAO notes that while the state did provide funding for a new Transitional Kindergarten program for four-year olds beginning in 2012-13, this program was not designed to accommodate children displaced by reductions to the State Preschool program. Specifically, Transitional Kindergarten is not targeted for children from low-income families and will ultimately serve only children born between September and December who previously would have been eligible for traditional kindergarten.

6110 Department of Education

ISSUE 5. GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL

LAO Recommendation:

- **For State Preschool Program, Use Portion of Proposition 98 Growth to Fund Additional Slots.** The LAO recommends the Legislature allocate a share of the projected increase in the Proposition 98 minimum guarantee to fund additional preschool slots.

  The State Preschool program experienced disproportionately large funding reductions in recent years compared to other Proposition 98 programs. In addition, increasing funding would treat preschool comparably to other Proposition 98 programs, most of which the Governor proposes to increase.

  Assuming the Legislature ultimately adopts the same Proposition 98 spending level as the Governor, spending more on preschool would require spending less on other Proposition 98 activities compared to the Governor's proposals.

  Given the Proposition 98 minimum guarantee likely will change at the May Revision, the LAO recommends that the Legislature wait to determine how much additional preschool funding to provide within the context of its overall Proposition 98 package.

  Staff Comments: According to the Department of Education, the part-day/part-year preschool program has lost an estimated **$~~171.2~~ $120 million** in program cuts that began after 2009-10.

DOF APRIL LETTER REQUESTS

Budget Bill Language Adjustments

1. State Preschool Program – Require the Department to Update the State Preschool Program Contract (Issue 924).

Requests that provisional language be added to this item as follows to require the CDE to update the contractor funding terms and conditions to accurately reflect statute governing the California State Preschool Program. Currently, the contract fails to provide a clear distinction between the State Preschool Program and wraparound child care services.

> X. The State Department of Education shall submit the California State Preschool Program funding terms and conditions and program requirements update prior to the issuance of the State Preschool Program contracts or the disbursement of funds in 2013-14. The Department of Finance will review and approve the funding terms and conditions prior to issuance of these contracts or disbursement of funds.

6110 Department of Education

ISSUE 5. GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL

Staff Comments: The 2012-13 budget shifted $164 million in part-day/part-year State Preschool program appropriations back into General Fund, Proposition 98 funding. The Department of Finance wants to provide assurances that all such funding is used for the purpose of part-day/part-year State Preschool services.

<u>Budget Trailer Bill Adjustments</u>.

2. **Trailer Bill Language -- Require the Department of Education to Report State Preschool Fee Data.**

Requests that trailer bill language be adopted to require the California Department of Education to report the fees collected from families who have enrolled children in the State Preschool Program.

The Budget Act of 2012 required the CDE to collect fees from families who enrolled their children in state preschool. However, while the fees are being collected, the CDE does not isolate and cannot accurately report the amount of fees collected for this program. As a result, the Governor proposes the following language:

Section 8239 of the Education Code is amended to add subdivision (f) as follows:

> "8239. The Superintendent shall encourage state preschool program applicants or contracting agencies to offer full-day services through a combination of part-day preschool slots and wraparound general child care and development programs. In order to facilitate a full-day of services, all of the following shall apply:
>
> (a) Part-day preschool programs provided pursuant to this section shall operate between 175 and 180 days.
>
> (b) Wraparound general child care and development programs provided pursuant to this section may operate a minimum of 246 days per year unless the child development contract specified a lower minimum days of operation. Part-day general child care and development programs may operate a full-day for the remainder of the year after the completion of the preschool program.
>
> (c) Part-day preschool services combined with wraparound child care services shall be reimbursed at no more than the full-day standard reimbursement rate for general child care programs with adjustment factors, pursuant to Section 8265 and as determined in the annual Budget Act.
>
> (d) Three- and four-year-old children are eligible for wraparound child care services to supplement the part-day California state preschool program if the family meets at least one of the criteria specified in paragraph (1) of subdivision (a) of Section 8263, and the parents meet at least one of the criteria specified in paragraph (2) of subdivision (a) of Section 8263.

ISSUE 5.	GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL

(e) Fees shall be assessed and collected for families with children in part-day preschool programs, or families receiving wraparound child care services, or both, pursuant to subdivisions (g) and (h) of Section 8263.

<u>(f) The Superintendent shall report the fees collected from families who have enrolled children in the California state preschool program to the Department of Finance. The report shall distinguish between fees exclusively collected for part-day preschool programs and fees exclusively collected for wrap-around child care services. The report shall be provided annually by October 1.</u>

~~(f)~~<u>(g)</u> For purposes of this section, "wraparound child care services" and "wraparound general child care and development programs" mean services provided for the remaining portion of the day or remainder of the year following the completion of part-day preschool services that are necessary to meet the child care needs of parents eligible pursuant to subdivision (a) of Section 8263. These services shall be provided consistent with the general child care and development
programs provided pursuant to Article 8 (commencing with Section 8240).

Staff Comments: The 2012-13 budget authorized family fees for the part-day/part-year State Preschool program. Trailer bill language adopted in 2012-13 requires fees to be assessed and collected for families with children in part-day/part-year preschool programs. Under previous law, fees were only authorized for families with children in full-day or "wraparound" care.

STAFF RECOMMENDATIONS:

Staff recommends that the Subcommittee take the following <u>actions:</u>

1. Hold open DOF April Letter (Issue 924) to add provisional language regarding CDE child care contracts. This language may not be needed since activities are currently underway to address this issue in the current fiscal year.
2. Approve DOF April Letter proposal to add trailer bill to require CDE to report data on preschool fees.
3. Reject Governor's small reduction to the State Preschool Program to reflect statewide population estimates, thereby restoring $245,000 in General Fund (Proposition 98) to hold the State Preschool Program at current-year levels.

Staff further recommends that the Subcommittee:

- At May Revise, begin a process of restoring about $~~171.2~~ $120 million in Proposition 98 funding for the State Preschool (part-day/part-year) program that has been eliminated since 2008-09. As recommended by the LAO, the Subcommittee could phase in restorations over the a multi-year year period, thereby conforming to the Governor's approach for restoring reductions for some K-12 programs included in the Local Control Funding Formula.

6110 Department of Education

ISSUE 6.	**CHILD CARE – FEDERAL FUNDS**

Background. The federal Child Care and Development Fund (CCDF) is the main child development block grant provided to states by the federal government for the support of child care services to families who meet certain income and need criteria. The federal government requires that at least four percent of the block grant be used for activities to improve the quality of child care. Another portion – not to exceed five percent of the block grant amount – is used to pay for costs of administering CCDF. The State is required to submit a plan every two years detailing how the quality improvement funds will be allocated and expended. The California Department of Education (CDE) last submitted a plan to the federal government in May of 2011. This plan covers the period October 1, 2011 through September 30, 2013. The CDE has prepared a new two-year plan that will be submitted to the federal government and guide expenditures for a two-year period starting October 1, 2013.

There are several major categories of funding for the quality improvement projects under the current plan and the proposed plan. Each of the categories is supported by multiple projects and grants. The major categories are as follows:

- Support for the Resource and Referral Network and Agencies.
- Support for the Local Child Care and Development Planning Councils.
- License Enforcement for Child Care Programs.
- Training and Professional Development for Early Child Care Professionals.
- Grants, stipends, and other financial incentives to encourage professional development and licensure.
- Early childhood education curriculum development.

In addition to the CCDF, the State applied and received a $53 million Race to the Top (RTT) Early Learning Challenge Grant in 2012. The grant will be used to develop locally-based quality rating systems for child care and development programs. This grant will be expended over four years. The Legislature requested regular reporting on the expenditure of this grant with the first report due to the Legislature on March 1, 2013.

Governor's Budget. The Governor's budget includes $70.3 million in CCDF to support quality activities in the budget year. This is more than the four percent required by the federal government.

April Finance Letter - CCDF. The Governor has submitted a technical April Finance letter to request that Item 6110-194-0890 be increased by **$1,587,000** to reflect the availability of one-time federal CCDF carryover funds to improve the quality of child care.

6110 Department of Education

ISSUE 6.	CHILD CARE – FEDERAL FUNDS

April Finance Letter - RTT. The Governor has submitted technical adjustments to state support and local assistance related to the RTT Early Learning Challenge (ELC) Grant. Specifically the April Letter requests that Item 6110-001-0890 be increased by **$3,875,000** and Item 6110-200-0890 be decreased by **$209,000** to more accurately reflect actual and projected expenditures for the federal RTT-ELC. This is necessary because without updating the budget of the grant, there is potential for further programmatic delays. It is further requested that Item 6110-001-0001 and 6110-200-0890 be amended to conform to this action.

Sequestration. The federal government and the debate in the US Congress over sequestration continue to pose an uncertainty relating to the CCDF. The CDE reports that the most recent information from the federal government suggests that the state could receive $6 million fewer dollars in the current state fiscal year and $15.8 million fewer in the state budget year. The CDE indicates that it regularly has at least $6 million in unspent contracts that would revert and could be used to make up the difference in the current fiscal year. However, for the budget year, the Subcommittee may want to consider an adjustment in the budget year to ensure that there is not a built in deficiency budgeted for the 2013-14 fiscal year.

More than 4 Percent Provided for Quality. Staff finds that the Governor's budget proposal would provide more than four percent of the CCDF for quality projects. The Legislature may wish to consider reducing the quality projects, especially if the CCDF is reduced in order to prioritize funding for child care slots. The amount over the required four percent is around $5 million and $6.5 million if one-time funds are also included.

New CCDF Quality Plan Has New Goals, but Planned Activities Largely Unchanged. Staff finds that the CDE has updated the CCDF quality goals from its last submission and the goals are generally more outcome oriented. The federal government is now requiring that performance outcomes be tracked for the investments made with the quality dollars. This is a change from current practice. While staff finds that some work has been done by CDE to update the quality goals, very little work has been done to change the mix of activities being funded with the quality dollars. It remains difficult to map all of the activities that the CDE proposes to fund to the new goals.

6110 Department of Education

ISSUE 6. CHILD CARE – FEDERAL FUNDS

Report to the Legislature on the RTT Grant Past Due. Staff finds that the first report to the Legislature on the implementation of the RTT Early Learning Challenge Grant has not been submitted. This report was due to the Legislature on March 1. Given the significant size of this grant from the federal government ($53 million) the Legislature was interested in regular status reports of work being performed on this grant last year when it was approved through the budget process. The CDE has indicated that the federal government has recently announced an additional allocation will be made to our RTT Early Learning Challenge Grant application.

Questions:

- **CDE/DOF**. The budget has not been adjusted to account for sequestration. Are there plans to update this at May Revision?

- **CDE/DOF** - Why is more than four percent being provided for quality projects?

- **CDE**. Goals have been updated for the CCDF quality plan. Why have the activities that support this plan remained unchanged?

Staff Recommendation. Staff recommends that the Subcommittee take the following actions:

- Approve technical April Finance Letter on the Child Care Development Block Grant.
- Hold open April Finance Letter adjustment in the Race to the Top Early Learning Challenge Grant - pending receipt of report and additional explanation for the adjustment.

6110 Department of Education

ISSUE 7.	DOF APRIL LETTER: VARIOUS K-12 STATE OPERATIONS AND LOCAL ASSISTANCE ADJUSTMENTS (Vote Only)

DESCRIPTION: The Governor proposes the following adjustments to various K-12 state operations (support) and local assistance budget items for the Department of Education in 2013-14. As proposed by the Department of Finance (DOF) April Letter, these adjustments either update federal budget appropriations so they match the latest estimates, or make other corrections to the budget. These adjustments are considered technical – given they are consistent with current programs. There is no known opposition to these adjustments.

Federal Funds Adjustments

1. **Public Charter Schools Grant Program (PCSGP) – State Operations - Technical Adjustment to Add Carryover Funds (Issue 437).**

Requests that Item 6110-001-0890 be increased by $825,000 and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover funds for the PCSPG. The PCSGP provides competitive grant awards of up to $575,000 to newly-approved charter schools for planning and initial implementation. As part of the 2010 federal grant application, the California Department of Education (CDE) agreed to contract for an independent evaluation to measure the effectiveness of the PCSGP and to increase charter school technical assistance. These activities were previously funded by the Budget Acts of 2011 and 2012. However, due to concerns stemming from a reduction in the federal grant award and a change in the CDE contracting process, the CDE was unable to enter into contracts and fulfill its commitments. This request will allow the CDE to fulfill its stated activities from the 2010 federal grant application.

It is further requested that provisional language be added to Item 6110-001-0890 as follows to conform to this action:

> X. Of the funds appropriated in this item, $825,000 is available on a one-time basis for the State Department of Education to contract for the independent evaluation of the Public Charter Schools Grant Program and for the development of charter school technical assistance contracts.

6110 Department of Education

ISSUE 7.	DOF APRIL LETTER: VARIOUS K-12 STATE OPERATIONS AND LOCAL ASSISTANCE ADJUSTMENTS (Vote Only)

2. Special Education Compliance Monitoring – Local Assistance - Technical Adjustment to Update Provisional Language (Issue 773).

Requests that that Provision 4 of Item 6110-161-0890 be amended as follows to reflect current federal terminology. With the reauthorization of the federal Individuals with Disabilities Education Act and the development of the State Performance Plan and Annual Performance Report indicators, reference to "key performance indicators" is obsolete.

> "4. Of the funds appropriated in this item, $1,420,000 is available for local assistance grants to monitor local educational agency compliance with state and federal laws and regulations governing special education. This funding level is to be used to continue the facilitated reviews and, to the extent consistent with ~~key performance indicators~~ <u>State Performance Plan/Annual Performance Report indicators</u> developed by the State Department of Education, these activities shall focus on local educational agencies identified by the United States Department of Education's Office of Special Education Programs."

General Fund and Other Adjustments

3. State Support Programs - State Operations – Technical Adjustment to Shift Funding between Budget Schedules (Issue 436).

Requests that Schedule (2) of Item 6110-001-0001 be decreased by $959,000 and that Schedule (3) of Item 6110-001-0001 be increased by $959,000 to accurately reflect program funding. This technical adjustment would address a discrepancy that largely resulted from removing current year one-time funding from the incorrect schedule/program when preparing the Governor's Budget. This adjustment would have no effect on the total amount budgeted in the item.

6110 Department of Education

ISSUE 7.	DOF APRIL LETTER: VARIOUS K-12 STATE OPERATIONS AND LOCAL ASSISTANCE ADJUSTMENTS (Vote Only)

4. Career Technical Education (CTE) Program – Local Assistance - Technical Adjustment to Add Carryover Funds (Issue 241).

Requests that Item 6110-170-0001 be amended by increasing reimbursements by <u>$503,000</u> ~~$491,000~~ to reflect one-time reimbursement carryover funds for the CTE Program. Specifically, the funds would be used to conduct additional University of California Curriculum Integration Institutes, develop a professional development component in conjunction with the California Subject Matter Projects, and expand delivery of the New Teacher Workshops and Leadership Development Institute.

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

> X. Of the funds appropriated in this item, <u>$503,000</u> ~~$491,000~~ reflects one-time reimbursement carryover funds to support the existing program.

<u>STAFF RECOMMENDATION (VOTE ONLY)</u>: Staff recommends approval of all of DOF April Letter issues listed above (Items #1-4). No issues have been raised for any of these items.

SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, May 2, 2013
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

Consultants: Keely Bosler & Kim Connor

OUTCOMES

ISSUE 2.	GOVERNOR'S BUDGET PROPOSALS

6360 Commission on Teacher Credentialing

STAFF RECOMMENDATIONS: Staff recommends that the Subcommittee take the following actions:

1. Adopt the Governor's trailer bill language to allow the Commission on Teacher Credentialing to charge fees for accrediting teacher preparation institutions and programs.
2. Direct CTC to develop additional options for stabilizing the Teacher Credentials Fund. Require CTC to report back to the Administration and Legislature with these options no later than November 1, 2013.
3. Conform consolidation of $26.2 million in General Fund Proposition 98 funding for the Alternative Credentialing Program and Paraprofessional Teacher Training Program with action on the Governor's Local Control Funding Formula.

ACTION: Approved staff recommendations. Vote: 2-0. (Wyland absent.)

ISSUE 5 ISSUE 6	GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL & CHILD CARE – FEDERAL FUNDS

6110 Department of Education

Staff Recommendations. Staff recommends that the Subcommittee take the following actions:

- Approve technical April Finance Letter on the Child Care Development Block Grant.
- Approve DOF April Letter proposal to add trailer bill to require CDE to report data on preschool fees.
- At May Revise, begin a process of restoring about $120 million in Proposition 98 funding for the State Preschool (part-day/part-year) program that has been eliminated since 2008-09. As recommended by the LAO, the Subcommittee could phase in restorations over the a multi-year year period, thereby conforming to the Governor's approach for restoring reductions for some K-12 programs included in the Local Control Funding Formula.

ACTION: Approval of staff recommendations failed passage. Vote: 1-0. (Wright and Wyland absent.)

ISSUE 7.	DOF APRIL LETTER: VARIOUS K-12 STATE OPERATIONS AND LOCAL ASSISTANCE ADJUSTMENTS (Vote Only)

6110 Department of Education

STAFF RECOMMENDATION (VOTE ONLY): Staff recommends approval of all of DOF April Letter issues listed above (Items #1-4).

ACTION: Approved staff recommendations. VOTE: 2-0. (Wyland absent.)

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Roderick D. Wright
Senator Mark Wyland

Thursday, May 9, 2013
9:30 a.m. or Upon Adjournment of Floor Session
Room 3191, State Capitol

PART A

Consultant: Keely Martin Bosler

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.

6600 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

Item 1: Multi-Year Budget Plan and Performance Measures

Panel #1: **Department of Finance**
Legislative Analyst's Office

Panel #2: **University of California**
California State University

Previous Full Budget Committee and Subcommittee Meetings. On February 14 and March 14, respectively, the full Senate Budget Committee and Subcommittee #1 met to review the Governor's multi-year budget plans for the UC and CSU. The Governor's January proposal links base increases of $125.1 million General Fund for each segment to the following requirements: (1) no increases in systemwide resident tuition fees through 2016-17; (2) achieving targets for unspecified performance measures. The Governor also designated $10 million of each segment's base increase for expanding course availability through technology, and left all other spending decisions—including enrollment levels—to the segments.

Updated April Proposal from Governor. The Governor's January budget proposal, related to performance measures, was generally lacking in detail. In late April, the Governor released additional details related to the targets and performance metrics and the overarching goals of the Governor's multiyear plan for UC and CSU.

The ***overarching goals*** of the Governor's multi-year plan for *UC and CSU* are:

- ✓ Increase the rate and number of students who receive degrees from the universities, or those who complete certificates at the CCC and/or transfer to four-year institutions.
- ✓ Shorten the average time it takes for students to earn their degrees, so that they can graduate sooner, enter the workforce sooner, and incur less student debt to get their degree. This will also open up more slots for the segments to enroll more students, thus increasing access.
- ✓ Keep college accessible to low-income students, and increase the number of low-income students who complete college.
- ✓ Control the cost of higher education so that it stays affordable for students and the state. Increase the efficiency of higher education so that student tuition is not a "balancer" to cover perpetually rising costs.

For the following seven ***performance measurements***, *UC and CSU* must increase their performance annually by specific targets and by a total of 10 percent during the four-year period of the multi-year plan:

1. Four-year graduation rates for incoming freshman;

2. Two-year graduation rates for community college transfers;
3. Number of community college transfer students enrolled;
4. Number of first-time freshmen completing degrees;
5. Number of transfer students completing degrees;
6. Number of Pell Grant recipients completing degrees; and,
7. Undergraduate degree completions per 100 full-time equivalent students.

For 2013-14, *UC and CSU* would receive the five percent augmentation in funding under the proposal if they individually provide 2011-12 academic year data on the seven performance measurements by September 1, 2013. This data (2011-12) would be then used as the base year to which future performance would be compared. In subsequent years, the Administration proposes to provide the scheduled funding increase in the Governor's January budget, but require UC and CSU to submit performance data in March of each year for the preceding academic year. If UC or CSU does not meet its target for the year, funding would be reduced at the May Revise. Each of the seven targets is equally weighted; thus, if UC or CSU meets only 6 of the 7 benchmarks for the year, it would receive 14 percent less than the overall increase.

In addition, the Administration indicates that *UC and CSU* can receive ***partial funding*** if they fail to hit a target but have shown some improvement since the year before, and the segment can recoup the total amount of funding lost in a previous year if it meets the following year's target.

Under the Governor's April proposal, enrollment decisions largely would be left up to UC and CSU, though the proposal requires that the universities at least maintain current enrollment levels in order to qualify for the budget augmentations.

LAO Finds Governor's Plan a Good First Step. The LAO finds that the Governor's performance measure proposal is a good first step, but needs more work. The LAO finds that the Governor's plan does contain some of the best practices identified by performance funding experts, including rewarding improvement and prioritizing outcomes for underrepresented groups. However, the LAO finds that the plan could be improved if the following issues were addressed:

- It is not aligned with broader state goals. Ideally, the plan would spring from one or more broad goals, for example, increasing educational attainment such that 55 percent of the adult population has a postsecondary degree or credential by 2025.
- It does not address actual learning outcomes or specific workforce and civic needs. For example, it does not distinguish among degrees in different fields or contain measures of quality.
- It was not developed in conjunction with institutional leaders and faculty, legislative partners, and other stakeholders.
- It affects only new funding provided over the four-year period. When no base funding has been at risk, prior performance funding models have disappeared as soon as new funding evaporated.

- By applying the same measures and the same percentage improvement targets for UC and CSU, the plan does not adequately take into account differences in institutional mission or existing differences in institutional performance.

Furthermore, the LAO notes the following additional concerns.

- Multi-year compacts initiated by governors over the last couple of decades have never been fully implemented, due to changes in the state's budget condition. The LAO finds that linking base funding to performance outcomes would be more likely to ensure performance outcomes.
- The Governor's proposed extended tuition freeze is misguided and that California's universities are still relatively affordable when compared to like-higher education institutions. Moreover, the Governor's proposal places more emphasis on not raising tuition because the consequence for doing so in any year would be forfeiting all augmentations received since 2013-14. In contrast, less severe consequences are attached to the performance measures because only one year's augmentation would be at risk and the segments could potentially earn the augmentation back in a subsequent year.
- Overall the targeted improvement levels are weak and most likely the relationship between funding and outcomes is not proportional, and some of the proposed targets are inappropriate. For example, expecting CSU to improve four-year graduation rates for first-time, full-time freshmen by only 1.4 percentage points over four years reflects extremely low expectations, even after taking into consideration the proportion of part-time and underprepared students attending CSU. A more thoughtful approach to setting targets would involve examining recent trends for the segments and their comparison institutions, and using that information to inform decisions about the segments' targets. Using this approach, a plan likely would not apply the same percentage improvement for the two segments, particularly on every performance measure.

Staff Comment. On a bipartisan basis, the Legislature has been developing, supporting, and refining proposals to create greater accountability for higher education since 2002. These actions respond to a stated need for a public agenda and improved oversight of the higher education segments. Being clearer about the goals and the measures will also highlight and drive the budget and policy decisions necessary to support the state's higher education system in meeting the state's goals.

SB 195 (Liu) is the most recent iteration of this effort. It is a reintroduction of Senate Bill 721 (2012) that outlined a process that would enable the state to measure progress and promote improvement in these areas through budget and policy decisions. SB 721 was approved by wide margins in both houses of the Legislature. It was subsequently vetoed by the Governor due to process-orientated concerns about the leadership of the working group established to identify the metrics that will measure progress towards the identified goals. SB 195 addresses this process concern by requiring an educational administrative agency designated by the Governor (as opposed to the LAO) to convene the working group.

Staff finds that the additional detail put forward by the Governor related to performance outcomes is overall in line with earlier efforts by the Legislature to define outcomes and performance measures. As the LAO indicates above, more could be done to further refine the Governor's proposal, but it is a good first step in making the UC and CSU systems more responsive and focused on outcomes.

Staff Recommendation. No action on this item is recommended today ahead of the Governor's May Revision, which is expected to be released on May 14, 2013.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, May 9, 2013
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

PART B

Consultant: Kim Connor

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 916-651-1505. Requests should be made one week in advance whenever possible.

6110 Department of Education

ISSUE 1. School Cafeteria Funds -- Senate Office of Oversight & Outcome Report

DESCRIPTION: The Department of Education will respond to findings and recommendations from the recent report on School Cafeteria Funds published by the Senate Office (Senate Office) of Oversight and Outcomes in February, 2013.

PANELISTS: Department of Education
Legislative Analyst's Office
Department of Finance

SENATE REPORT – SUMMARY OF FINDINGS & RECOMMENDATIONS.

Background: The Senate Office report provides the following background:

"The National School Lunch Program (NSLP) subsidizes 80 percent of the 3 million lunches served on average every day in California's public schools. The U.S. Department of Agriculture (USDA), which administers the lunch program, also pays for school breakfast, snack, afterschool and summer meal programs.

For the 2012-13 school year, the federal government pays up to $2.94 for each free lunch and $1.85 for each free breakfast served. In California, the state also helps, providing 22 cents for each free and reduced-price lunch or breakfast. The subsidies, however, were never intended to cover the full cost of providing school meals.

Statewide, the federal lunch and breakfast funding, including commodities, totals more than $2 billion a year. The state adds another $145 million a year. For Los Angeles Unified, the nation's second largest school district, the federal subsidy alone amounted to nearly $250 million in fiscal year 2010-11.

To qualify for free meals, students must be from families with incomes at or below 130 percent of the federal poverty level. For a family of four, that threshold is $29,965 for the 2012-13 school year (the federal poverty level is $23,050 for a family of four). For reduced-price meals, the eligibility line is raised to 185 percent of the federal poverty level, or $42,643 for a family of four."

ISSUE 1. School Cafeteria Funds -- Senate Office of Oversight & Outcome Report

Findings:

The Senate Office report identifies a number of “oversight gaps” as highlighted below:

According to the report, as a result of uncovered misuse in recent years, “CDE has ordered eight school districts to repay nearly **$170 million** to student meal programs. Perhaps more troubling, department officials candidly acknowledge they have no idea how big the problem may be and fear they may have uncovered only a hint of the ongoing abuse.”

States must pay federal government if funding cannot be recouped. As highlighted by the report, “if the state fails to force repayment of misappropriations or refunds due from food service accounts, the federal government collects the unpaid amount from CDE. Over the past two decades, the department has had to pay the USDA more than **$3 million** that it could not recoup from food service accounts. Those bad debts often involved agencies, such as child or adult care centers, which had gone out of business.”

“State and federal subsidies are paid as reimbursements for meals served. So, all eligible students who line up for lunch or breakfast at school are fed. But cafeteria fund diversions contributed to conditions that discouraged the target population – poor, often hungry students – from seeking free or reduced-price meals, school officials said.” Discouraging conditions cited in the report include reliance on processed foods instead of fresh foods, and limited the length of meal periods.

The Senate Office report also provides an overview of cafeteria fund misuse, highlighted below:

The misappropriations cited in the report were not found to be “diversions for personal gain” but rather funds directed to cover a greater share of personnel, utility and other costs. That said, funds used to buy lawn sprinklers and salaries of employees at a district television station were deemed “clearly improper” by the report.

In another case cited by the report, the district inflated subsidized meal counts. While meal subsidies increased by over 50 percent for that district, the change was not picked up by state reviewers, since the increase occurred just after the five year review.

The report points out that CDE – as the “steward” of USDA’s subsidized meal programs has “fewer than 60 field examiners to monitor nearly 3,000 school districts and other agencies that serve meals. According to the report, the department has not “completed all of the reviews required in any single year since 2001. Moreover, the field examiners that CDE sends in are nutritionists, not accountants or field specialists, and they rarely take more than a cursory look at the books.”

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Per the report, CDE's conducts reviews under a five-year review cycle, per federal law; however, federal rules require districts to maintain records for only three years, unless they are in the process of correcting previous violations. Per the report, the "three-year limit on records retention has given districts two years during every five-year cycle in which they can be fairly certain no one from the state will ask to see their cafeteria books. That two-year gap will be closed when the new three-year review cycle takes effect this year, or in 2014."

The Senate Office report identified two state statutes that were in conflict with federal law but have remained on the books. More specifically, Education Code Section 38092 permits cafeteria fund revenue sharing with associated student bodies. Federal regulations no longer permit such revenue sharing with student groups. In addition, Education Code Section 38102 authorizes districts to establish cafeteria equipment funds with reserves from their meal programs. The USDA does not recognize such accounts and strictly limits cafeteria fund surpluses to three months average expenditures of the program.

The report finds that state and federal audit guides provide "no guidance on what may and may not be charged to cafeteria funds, something CDE has attempted to remedy without success. Federal rules limit surpluses to three months average expenditures.

Recommendations. The Senate Office report states that "during the research for the report weaknesses and gaps in the oversight system for student meal funds were acknowledged by officials at the California Department of Education, who monitor subsidized meal programs for the federal government, as well as school administrators who must comply with the rules. Enforcement appears to be difficult for all involved and the temptation to use restricted meal funds for other pressing needs can be great."

The following recommendations were provided by the Senate Office report:

- The California Department of Education should conduct an assessment of its food services workload and staffing needs and request sufficient federal funding to hire enough personnel to carry out the state's oversight responsibilities.

- The state Education Audit Appeals Panel should include in the state audit guide for K-12 local education agencies clear and comprehensive guidance on what school districts may and may not do with funds in cafeteria accounts. The Education Audit Appeals Panel should require annual audits to review cafeteria fund expenditures for compliance with state and federal rules.

- The state Department of Education should prepare simplified guidelines, such as those included in the Los Angeles Unified School District settlement agreement with the state, that address most of the common acceptable and unacceptable charges to cafeteria accounts.

- The state Department of Education should announce and publicize enforcement actions for misappropriation of cafeteria funds, to create an ongoing discussion of the rules and to encourage compliance.

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• The Legislature should consider extending the three-year requirement to maintain financial records to perhaps five or 10 years to discourage creative accounting. Many records now are prepared electronically and can easily and inexpensively be stored electronically.

• The Legislature should consider adopting legislation that mirrors federal regulations and guidance to prohibit charges to cafeteria funds for expenses incurred in prior years, and any recouping of direct or indirect charges that were never charged during the appropriate fiscal year.

• The Legislature should consider requiring school districts to give food service directors access to all financial records involving student nutrition programs.

• The Legislature should consider repealing sections of the Education Code that conflict with federal law or regulations. Those sections include:

  - ✓ EC Section 38102, which authorizes the establishment of cafeteria equipment accounts which the USDA does not permit and which some school districts use to hide money.

  - ✓ EC Section 38092, which authorizes cafeteria fund revenue sharing with associated student bodies. Federal law does not permit such revenue sharing.

• The Legislature should consider eliminating or extending the Jan. 1, 2015, sunset date in EC Section 35400 for Los Angeles Unified's Office of Inspector General. The OIG documented LAUSD's decade-long misappropriation of cafeteria funds and has amassed an impressive body of work since it was established in response to outrage over the district's attempt to build a new downtown school o expensive property that later turned out to be contaminated.

RELATED LEGISLATION:

SB 302 (Cannella). This bill implements various recommendations contained in a recent Senate Office of Research report regarding school cafeteria funds, including the requirements that cafeteria funds be audited and that the Education Audit Appeals Panel revise the audit guide to include guidance on what school districts may or may not do with a cafeteria fund. This bill also proposes to extend the sunset date of the Los Angeles Unified School District's Office of the Inspector General (OIG) by ten years from January 1, 2015, to January 1, 2025. **Status:** Senate Appropriations Committee.

AB 626 (Skinner). Makes numerous changes to current law related to school nutrition, mostly to conform to the federal Healthy Hunger-Free Kids Act of 2010. Includes several statutory changes recommended by the Senate Office report. **Status:** Assembly Appropriations Committee.

ISSUE 1. School Cafeteria Funds -- Senate Office of Oversight & Outcome Report

STAFF COMMENTS:

- **Recent Cases of School Districts with Cafeteria Fund Issues Handled by CDE.** Over the last ten years, CDE has handled 17 school district cases involving Cafeteria Fund non-compliance issues. Some of these same cases were identified by the Senate Office report. Sixteen of the cases involved mishandling of Cafeteria Funds. Another district case – Oxnard Union High – involved fraudulent meal claims. Of the 17 district cases, 11 are closed. Six district cases remain open, including: Alvord Unified, Los Angeles Unified, San Diego Unified, Santa Ana Unified, Grossmont Union High, and Sweetwater Union High.

- **Districts Ordered to Repay Federal Meal Funds.** Over the last ten years, CDE has assessed repayment of meal funds totaling **$189.6 million** for 17 schools districts with Cafeteria Fund compliance issues. This includes both open and closed cases. A list of the districts, repayment amounts assess, and status of cases is provided in the table below:

District	REPAYMENT	STATUS
Alvord Unified	10,000,000	Open
Los Angeles Unified	158,000,000	Open
San Diego Unified	4,472,562	Open
Santa Ana Unified	2,398,716	Open
Grossmont Union High	Undetermined	Open
Sweetwater Union High	316,068	Open
Baldwin Park Unified	1,400,000	Closed with continued monitoring.
Fresno Unified	2,024,787	Closed with continued monitoring
Lemoore Union Elementary	550,975	Closed with continued monitoring
Long Beach Unified	3,862,992	Closed with continued monitoring
Centinela Valley Union High	502,364	Closed
Compton Unified	4,647	Closed
Merced City Unified	3,565	Closed
Hesperia Unified	3,374	Closed
Newark Unified	83,716	Closed
San Francisco Unified	368,736	Closed
Oxnard Union High*	5,600,000*	Closed

*In 2008, the CDE received a whistle blower complaint alleging Oxnard Union High School District was submitting fraudulent School Nutrition Program reimbursement claims (over-claiming reimbursements for meals not served). The CDE referred the matter to the USDA's Office of Inspector General for investigation. USDA instructed CDE to take fiscal action against Oxnard going back to fiscal year 2005 -06. In September 2010, CDE billed Oxnard $5.6 million in overpayments from July 2005 through June 2008. As of August 31, 2012, Oxnard Union High School District paid the balance of the $5.6 million in overpayments.

- **Staffing Levels.** CDE has a total of 58 authorized positions to conduct monitoring reviews in 2012-13. (These staff are currently responsible for conducting reviews nutrition program and financial reviews of 3,000 local agencies over five year period.) These 58 staff include an additional ten positions authorized in 2011-12 to reflect additional workload associated with implementation of the federal Healthy, Hunger Free Kids Act of 2010. All of these positions are supported with federal child nutrition funds. The department reports it is strengthening training to improve the financial components of local reviews.

ISSUE 1. School Cafeteria Funds -- Senate Office of Oversight & Outcome Report

- **Staffing Assessment to Reflect Federal Change to a Three Year Review Cycle.** New federal regulations associated with the Healthy, Hunger Free Kids Act, require that states change from a five-year to a three-year review cycle. This change takes effect on July 1, 2013. The Senate Office report saw potential for a 40 percent increase in the department's local monitoring workload as a result of the more frequent reviews. The Department did not request additional staff in 2013-14 for this purpose, and plans instead to train temporary staff to conduct additional reviews in 2013-14. However, the department is currently conducting a staffing assessment to inform a budget request for 2014-15. The results of that assessment should be available in the next few months. The department's preliminary assessment is that it may need an additional 10 to 15 positions on an ongoing basis to meet current and new workload demands.

- **Elimination of Conflicting Education Codes.** The Department of Education has identified two state statutes that are in conflict with federal law guiding nutrition programs. The Senate Office study recommends these sections be eliminated. These two changes are currently contained in SB 302 (Cannella) and AB 626 (Skinner). Staff recommends that in furtherance of the federal child nutrition appropriations that these two code sections be repealed in the budget trailer bill, so they can take effect immediately with the budget. These two sections include:

  ✓ <u>Education Code Section 38092</u>. This section permits cafeteria fund revenue sharing with associated student bodies. Federal regulations no longer permit such revenue sharing with student groups.

  ✓ <u>Education Code Section 38102</u>. Authorizes districts to establish cafeteria equipment funds with reserves from their meal programs. The USDA does not recognize such accounts and strictly limits cafeteria fund surpluses to a total of three months average expenditures for the program.

ISSUE 1. School Cafeteria Funds -- Senate Office of Oversight & Outcome Report

SUGGESTED QUESTIONS:

State and Federal Compliance.

1. What specific steps has CDE taken to investigate reports of non-compliance by specific local educational agencies in the Senate report, as well as additional cases identified by the department?

2. What has CDE done to respond to findings in the Senate report?

3. How serious were the issues of misuse raised by the Senate report?

4. The Senate report indicates that abuse of funds may be widespread among LEAs.

    a. Has the Department investigated this allegation? If so, what process has the department utilized for the investigation?
    b. What were the findings of the investigation?
    c. How much funding could be at stake if misuse is more widespread?

5. What is CDE's role in enforcing federal laws on the misuse of federal child nutrition funds?

6. Given prominent examples of misuse in the Senate report, how will CDE be monitoring use of nutrition funds moving forward? How will department auditors be utilized in the future?

Staffing.

1. What are the departments staffing standards for local reviews? Assuming 3,000 agencies over the current five-year review cycle equates to 600 reviews per year. With 58 staff, that equates to about ten reviews per position per year, is that correct? Does the department believe it is currently understaffed to cover all LEAs over the current five-year cycle?

2. Can the department assure that most of the 58 monitoring positions are filled? How many of these positions are vacant?

3. Are all local five-year reviews current or are there any backlogs? If there are backlogs, how many backlogs exist and when will they be brought up to date?

4. How is the department going about assessing new staffing needs to transition to the new three-year review cycle required by federal law in July 2013?

5. Per the Senate report, the department has returned $3 million in the last two decades to the federal government for failure to collect misused funds from school districts. What was the fund source for these repayments? Why was the department unable to collect repayments from districts in these cases?

ISSUE 1. School Cafeteria Funds -- Senate Office of Oversight & Outcome Report

District Support.

1. What has the department learned about <u>why</u> local educational agencies were misusing funds? Did the department determine that local educational agencies intended to misuse funds? Or were local educational agencies (LEAs) unaware about or confused by federal requirements? Were there other reasons?

2. Has the Department issued any new guidance to the field in the form of management bulletins or other advisories that restate federal law since release of the Senate Office report?

3. Has the Department utilized webinars or other activities to better train LEAs statewide?

4. Has the Department attempted to convene LEAs to determine the source of non-compliance and useful solutions?

STAFF RECOMMENDATIONS:

Staff recommends that the Subcommittee take the following <u>actions</u>:

1. Adopt budget provisional language requiring the Department of Education to report to the legislative budget subcommittees by October 1, 2013, on the outcomes of a staff assessment to determine staffing requirements for implementing more frequent reviews (every three years instead of every five years) of child nutrition programs pursuant to changes in federal law.

2. Adopt budget trailer bill language to eliminate two Education Code provisions that have been identified by the California Department of Education as directly conflicting with federal law. These changes are needed to conform state law to federal law and to eliminate any misunderstandings by local educational agencies. These provisions need to take place immediately to accompany any federal funds appropriated in the 2013-14 budget act. [These two changes are currently contained in SB 302 (Cannella) and AB 626 (Skinner).]

Staff further recommends that the Subcommittee:

- Direct staff to explore options for requesting an audit review of the federal child nutrition program by the State Auditor, Bureau of State Audits, in order to assess the misuse of funds by local agencies. This audit would provide critical information for the department's staffing assessment so that the state may assure fully compliant federal programs.

6110 Department of Education

ISSUE 2.	Migrant Education Program – General Background (Information Only)

DESCRIPTION: The Legislative's Analyst's Office will provide a brief overview of the Migrant Education Program (MEP) as background to Issue 4 in the Subcommittee agenda.

PANELISTS: **Legislative Analyst's Office**

BACKGROUND: The federally-funded Migrant Education Program (MEP) provides migratory students with additional supplemental instruction, English language development, and instructional materials. The purpose of the federal Migrant Education Program is to assist states to:

1. Support high-quality and comprehensive educational programs for migratory children to help reduce the educational disruptions and other problems that result from repeated moves;
2. Ensure that migratory children who move among the States are not penalized in any manner by disparities among the States in curriculum, graduation requirements, and State academic content and student academic achievement standards;
3. Ensure that migratory children are provided with appropriate educational services (including supportive services) that address their special needs in a coordinated and efficient manner;
4. Ensure that migratory children receive full and appropriate opportunities to meet the same challenging State academic content and student academic achievement standards that all children are expected to meet;
5. Design programs to help migratory children overcome educational disruption, cultural and language barriers, social isolation, various health-related problems, and other factors that inhibit the ability of migrant children to do well in school, and to prepare them to make a successful transition to post-secondary education or employment; and
6. Ensure migratory children benefit from State and local systemic reforms.

Additionally, state statute requires the State Superintendent of Public Instruction to identify and recruit parents of identified migratory students for local parent advisory councils to participate in local-level MEP planning, operation, and evaluation.

ISSUE 2. Migrant Education Program – General Background (Information Only)

Migrant Students. California has the largest MEP enrollment in the nation with 136,467 migratory children reported for the most recent (2010-11) category 1 child count. This is a decrease of 20,673 (15 percent) from the 2009-10 child count of 176,001.

According to the California Department of Education (CDE), the reasons for the decrease in MEP enrollment include the overall economic downturn with high unemployment and high cost of living in the State; reduced agricultural activity due to drought and land development; and enhanced border control. CDE stated that 56 percent of MEP students make intrastate qualifying moves; 28 percent move between California and Mexico; and 16 percent move to or from other states.

Migrant Education Funding. The 2010-11 budget appropriates **$135.0 million** for the federal Migrant Education Program grant. According to CDE, the state sets aside **$1.3 million** (one percent) of the total grant for State Administration; **$114.6 million** (85 percent) for Local Assistance to the Migrant Education Program regions; and **$18.6 million** (14 percent) for State-Level Activities.

The **$18.6 million** for State-Level Activities includes various statewide service contracts, including:

- **$7.1 million** for Mini-Corp (services for undergraduate students);
- **$6.0 million** for Migrant Education School Readiness Program; and
- **$5.5 million** for other statewide programs including but not limited to identification and recruitment, data collection, summer institutes, and the Statewide Parent Advisory Council (SPAC).

Program and Service Delivery. California's Migrant Education Program is organized as a regional service system comprised of **23 regions** that include 14 county offices of education and nine direct funded districts (LEAs). These 23 regions serve migratory children enrolled in approximately one-half of the state's public schools in 568 of the 1,059 LEAs in the State. CDE uses <u>four</u> service delivery models under this system:

ISSUE 2. Migrant Education Program – General Background (Information Only)

1. **Centralized Region Model.** Region is responsible for all funds and provides all services to several districts;
2. **Direct Funded Districts Model**. Region is a single district (LEA);
3. **District Reimbursement Model.** Region funds districts (LEAs), which provide services through district service agreements (DSAs); district is responsible for funds and for providing services;
4. **Mixed Model.** Region provides services to some districts (as in Centralized Region Model) and reimburses other districts using DSAs. (Under this model, a region may also fund a consortium of small districts that elect one district to serve as their fiscal agent and provide services through the consortium.) The Mixed Model is the most common model for the 14 regions headed by county offices of education.

CDE subgrants MEP funds to its regions through the regional application review process. Regions distribute DSAs to districts with migrant populations and approve DSAs (using a checklist provided by CDE) in time for the region to submit its regional application and DSAs (including budgets) to CDE by May 31 each year. CDE uses this process to provide administrative oversight and monitoring, coordination, and technical assistance to its 23 regions. Regional directors coordinate and collaborate with one another (and with CDE) through the Regional Directors Council.

Recent Federal Audits and Resulting Corrective Actions.

In 2005 the U.S. Department of Education, Office of Migrant Education (OME) conducted a Federal Program Review (audit) of California's Migrant Education Program. This review resulted in a number of corrective actions. <u>Most notably, OME found that CDE had not adequately responded to three substantive concerns about its operation of the Migrant Education Program and placed special conditions on the state's 2011-12 federal grant.</u>

In July 2011, the U.S. Department of Education conducted a Targeted Desk Review (audit), whereby OME visited CDE to conduct a focused review of "program operations" for the Migrant Education Program. The Targeted Desk Review was initiated, in part, because CDE had not completed responses to the 2005 Program Review.

CDE received the findings of the OME Targeted Desk Review in 2011, which also reflect corrective actions from the 2005 Program Review. According to CDE, the OME review identified: deficiencies in analysis, review and reporting by the State Parent Advisory Council (SPAC); identification and recruitment of migrant students and families; and fiscal oversight of the 23 regions. According to CDE, some of the federal findings "were egregious and required additional investigation." <u>In response to the OME findings, CDE prepared a corrective action plan, which was transmitted to the federal government in January 2012.</u>

ISSUE 2. Migrant Education Program – General Background (Information Only)

CDE's response to these corrective actions is still underway and formed the basis of the independent audit of the federal Migrant Education Program required by the 2012-13 budget act, as discussed in depth in Issue #3 of the Subcommittee agenda.

LAO Report on Migrant Education. In 2006, the LAO published a report on the federal Migrant Education Program, which included a comprehensive set of recommended reforms.

As a part of the report, the LAO report identified four major concerns with the MEP funding model, as follows:

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

In response, the LAO report made recommendations to the Legislature that address three major areas: (1) funding and service delivery model; (2) data system; and (3) carryover funding process. Specific recommendations include:

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

6110 California Department of Education

ISSUE 3. Migrant Education Program – Bureau of State Audit Review

DESCRIPTION: The California State Auditor (State Auditor) will present findings and recommendations from their March 2012 audit report concerning administration of the federal Migrant Education Program by the California Department of Education. The Legislature directed the State Auditor to conduct an independent audit of state and local implementation of this program in the 2012-13 budget act, which appropriated up to $600,000 in one-time federal Migrant Education funding for the audit.

PANELISTS: California State Auditor
California Department of Education
Department of Finance
Legislative Analyst's Office

BACKGROUND ON AUDIT REQUEST. In response to outstanding federal findings and corrective actions placed upon California's federal Migrant Education Program (MEP) grant in both 2011 and 2012, the 2012-13 Budget Act provided **$600,000** in one-time federal Title I – Part C (Migrant Education) carryover funds for the Bureau of State Audits to conduct an independent audit of state and local implementation of the federal MEP. [1] The provisional budget bill language required that the audit include the following:

1. A detailed audit of expenditures, fiscal practices, and fiscal oversight at the CDE and in a sample of local Migrant Education Program regions to determine whether there is compliance with applicable state and federal laws, regulations, and administrative policies.

2. A detailed audit of the State Parent Advisory Council (SPAC) makeup and activities at the state level and in a sample of local Migrant Education Program regions to determine whether there is compliance with applicable state and federal laws, regulations, and administrative policies, and to assess whether the state appropriately supports and engages migrant parents.

3. A detailed review of how effectively the state organizes and implements migrant education services at both the state and local levels, which includes alignment between program goals and program activities, outcomes from state-level contracts, effectiveness of data collection structures and internal operations, and the efficacy of the existing regional service delivery structure.

4. Recommendations for how the state may address audit findings related to the topics specified.

[1] Chapters 21 and 29, Statutes of 2012. Item 6110-001-0890, Provision 35.

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AUDIT REPORT – SUMMARY OF FINDINGS AND RECOMMENDATIONS. On February 28, 2013 the California State Auditor, Bureau of State Audits (BSA) released the audit report for the federal MEP required by the 2012-13 budget act. The report is entitled **California Department of Education -- Despite Some Improvements, Oversight of the Migrant Education Program Remains Inadequate.** The audit report "Summary" is presented in full below.

Results in Brief

Despite recent efforts to improve its oversight of the federally funded migrant education program (migrant program), the California Department of Education (Education) has not provided adequate guidance to the regional offices that administer the migrant program's services. Instead, it has relied largely on the judgment of regional administrators and its individual program staff when making decisions about allowable expenses and financial codes used to categorize these expenses. This lack of formal guidance has created inconsistencies and controversy regarding allowable expenses as well as wide variation in how the migrant program regions classify expenses. As a result, Education's recent calculations of regional administrative costs were flawed and inaccurate. These calculations, as well as recent decisions related to vehicle purchases, have continued to sow discord between Education and the regions. Because of a lack of trust, Education also has had difficulty making productive use of a state parent council whose purpose is to advise and assist the migrant program. Partly because of its past inaction and lack of communication, Education now faces numerous grant conditions and reporting requirements imposed by the federal agency overseeing the migrant program.

The migrant program, which is fully funded by the federal government, provides supplemental education services to migrant children. Children can receive migrant program services if they or their parents or guardians are migrant workers in the agriculture or fishing industries and their families have moved in the last three years for the purpose of finding temporary or seasonal employment. Education receives over $130 million each year to carry out the migrant program. The purpose of the funding is to help migrant children achieve academically despite disruptions caused by repeated moves. Federal law and regulations broadly outline allowable activities and services, depending largely on state educational agencies to define more detailed program guidelines. However, Education has not clearly defined what is necessary and reasonable for a variety of expenditure categories. As a result, expenditures for items such as food, vehicles, and even instruction in music are areas of judgment that can lead to disagreements between Education and the migrant program's regions.

Despite the lack of robust guidance, most of the expenditures we reviewed at eight migrant program regions appear allowable and reasonable. In a review of 320 randomly selected expenditures totaling $12.6 million in migrant program funds, we found six instances for which we question whether the expenditures were allowable or reasonable uses of migrant funds. These six expenditures total roughly $14,800. Half of these expenditures relate to food purchased for a parent conference Education sponsored annually; these food costs totaled $100 per day for each attendee. Also, we observed food costs for a parent meeting in one region that totaled almost $33 per person for breakfast and lunch. The costs were higher than what we would consider reasonable, using the federal per diem rates as our comparison. We questioned the remaining two expenditures because they did not relate directly to migrant students or their identified needs. Further, as part of our review of internal controls and regional applications for funds, we found other questionable expenditures that were not in our sample.

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For example, we found that in one region a former regional director entered into contracts with janitorial and catering companies that she or her then-husband owned. The payments made to these companies totaled approximately $144,000.

Education presented flawed, unreliable calculations to the federal government regarding the amount of funding spent on administrative costs in its migrant program regions. In response to federal concerns, in January 2011 Education created direct service and administrative cost categories that had not existed before that time. Then, using data from prior fiscal years, Education sorted regional expenditures into these categories retroactively. However, Education did not explain these categories to the regions before 2011. Because Education did not direct the regions to use certain codes for administrative or direct service costs only, some regions charged administrative expenditures to codes that Education later determined were direct service codes. Similarly, some regions charged service-related costs to codes that Education later labeled administrative. Because Education retroactively used codes that did not align with the regions' underlying expenditures, its calculations were unreliable. Even so, the results fed perceptions that regional administrative costs were too high.

Additionally, Education has had internal difficulties that could affect its oversight of the migrant program. Over the past four years, Education's migrant program office has faced a turnover rate that is double the national average for turnover in state and local governments. As a result, staff who have been with the migrant program for a short time have been assigned critical tasks. Further, Education has a fractured relationship with some of its migrant program regions. Regional directors for the migrant program (regional directors) have expressed frustration that Education did not consult them before presenting administrative cost calculations to the federal government. The director for the statewide migrant program agreed that discussions between Education and some regional directors remain unproductive.

Finally, Education has not completed an evaluation of the statewide effectiveness of the migrant program and is hampered from doing so by limited data on program performance. Education has only a draft copy of an evaluation of the statewide migrant program, and the draft report indicates that Education cannot effectively measure about half of the program's target outcomes. The data collected about the migrant program are likely insufficient to thoroughly evaluate the program because only summary-level information about services is collected. Therefore, Education faces challenges in assessing the link between services provided and academic achievement. For example, Education's migrant database records a one-day reading program and a 14-week reading program identically under the same reading services category. Because of its data limitations, Education cannot effectively evaluate the services it provides through statewide contracts or the regional structure used to carry out the migrant program.

Recommendations

To minimize the potential for disagreement over allowable migrant program costs, Education should better define the criteria by which it will consider program costs allowable and include those criteria in the migrant program fiscal handbook it provides to the regions.

To address problems with its methodology for calculating administrative costs, Education should do the following:

- Review the regions' current use of accounting codes to identify the areas in which regions differ in accounting for similar migrant program costs.
- Provide regions with more specific direction about how to charge these expenses.

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• Revise its list of accounting codes that it considers administrative in light of its review of regional coding.

To determine if the migrant program is effective, Education should finalize its current evaluation of the program and begin developing the capacity to annually produce a more robust evaluation of the program.

To address a lack of detailed migrant program service and outcome data, Education should either expand the capabilities of its existing statewide databases or implement additional systems that would allow regions to capture more detailed data about migrant students

Agency Comments

Education generally agreed with the report recommendations but took exception to a recommendation that it essentially reverse its previous decision to disallow a vehicle purchase at the San Joaquin County Office of Education (San Joaquin). Because we did not make specific recommendations to seven regions we visited, they did not need to respond in writing to the audit report. However, we made recommendations to one of the regions—San Joaquin—resulting from a particular conflict of interest, and the region agreed that it would implement them.

Department Response to Migrant Education Audit. The BSA audit report includes a formal response from CDE, which include the following overall comments from the department:

- Education disagrees with the BSA's narrow interpretation of the scope of work and does not believe it complies with the intent of the Legislature in authorizing this audit.

- The report highlights some important challenges but its characterization of these problems lacks context. For example, CDE expressed concerns that the BSA report did not provide an accurate depiction of the working relationship between CDE and the SPAC and lacked recommendations to help CDE with this relationship.

- Education is disappointed that large portions of the report are dedicated to citing problems without recommending corresponding solutions. For example, the report makes no recommendations regarding how to decrease staff turnover or improve the working relationship with the SPAC and regional directors.

As a part of its formal response, CDE states the department is committed to improving and expanding service to migrant students in California. CDE further states that the department has taken many steps to strengthen the operations of its program office and its oversight of migrant regions. In October 2011, CDE reorganized its operations to increase the Migrant Education Office as a priority within the division. In 2012, CDE created the Migrant Education Intervention Team, scheduled to complete its work in December 2013.

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Federal Grant Conditions. In summarizing the Office of Migrant Education (OME) 2011 review of California's MEP, the BSA audit reports that OME felt one of the reasons for the review was CDE's failure to respond to its requests for information on what CDE was doing to respond to allegations regarding the State Parent Advisory Council (SPAC). Per BSA, OME stated that it had notified CDE of allegations of impropriety and mismanagement on the SPAC in March 2010 and was unsatisfied with CDE's response and communications regarding this issue.

According to a recent Bureau of State Audit report, most of the concerns raised by the 2011 review were the result of inaction or lack of communication by CDE in response to requests from OME. While some concerns appear to have been resolved, other concerns formed the basis for special conditions imposed on CDE's 2011 federal grant. For the 2012 federal grant, OME continued several previous grant conditions and placed an additional grant condition on CDE, in response to concerns regarding the alleged conduct of MEP staff at the regional and statewide level. These current conditions – which reflect federal finding since 2006 -- are summarized in the BSA audit report, as follows:

1. **State Parent Advisory Council**. Education is required to report regularly to the federal Office of Migrant Education (OME) regarding its efforts to address these issues and to implement corrective actions. OME will remove the grant condition when Education establishes that it has implemented all appropriate corrective actions.*

2. **Regional Fiscal Review.** Education is required to submit a signed certification by the state superintendent of public instruction (state superintendent) that all expenses approved in the 2012–13 regional applications are both necessary and reasonable. No later than March 15, 2013, Education is required to provide a complete and accurate report on the administrative costs of its sub-grantees. OME will remove the grant condition when Education establishes that it has implemented all appropriate corrective actions.*

3. **Eligibility Reinterviews.** Education is required to report regularly to OME regarding its efforts to address these issues and to implement corrective actions. OME will remove the grant condition when Education establishes that it has implemented all appropriate corrective actions.*

4. **Migrant Staff Conduct**. Education was required to submit a final report regarding its investigation of the complaints against state and regional migrant program staff by August 15, 2012.*

5. **Subgrant Process.** Education was required to submit a copy of its written procedures for reviewing and approving work performed by its contractor with respect to the factors Education uses in its migrant program subgrant allocation process and to document that it has carried out these procedures.

**This required action is the result of Education's 2012 grant conditions.*

6. **Federal Reporting.** Education was required to submit a written statement from the migrant program director that explains the scope of the problems and that addresses the federal concerns, including a plan to implement corrective actions.

7. **Special Tests and Provisions.** Education was required to submit written assurance that the migrant program director will review Education's statements in the performance report about its quality control processes and will ensure that these statements are accurate before it submits the performance report to the U.S. Department of Education.

8. **Subrecipient Monitoring**. Education was required to submit evidence that it implemented corrective actions on these issues.

Each grant condition requires CDE to provide reports to OME on its efforts to address problems raised in past reviews. OME stated that failure to respond satisfactorily to the conditions could result in further administrative action.

STAFF COMMENTS:

CDE Budget Request for May Revise. CDE has submitted a Budget Change Proposal (BCP) to the Department of Finance for consideration in the Governor's May Revision. More specifically, CDE is requesting **$443,000** in ongoing Title I, Part C state level activity funding and **three positions.** These funds would be redirected from current state level activity contracts.

Per CDE, adding three permanent positions will allow the department to provide better oversight of the MEP as a whole, and ensure regions serve the needs of migrant students. More specifically, the proposal is intended to:

- improve CDE's identification and recruitment of migrant students,
- provide for accurate collection, management and reporting of student data to the U.S. Department of Education,
- ensure districts have accurate achievement data of their migrant population, and
- provide critical management and support for the State Parent Advisory Council (SPAC).

Per CDE, audit recommendations from both the State Auditor and the federal OME require the department to provide more direct state level activities. Currently, many state level activities are provided by contractors.

CDE believes the three additional positions will allow the department to address high-priority, long-term needs, bring the MEP into compliance with federal law, and resolve long-standing audit findings. CDE states that many of these federal audit findings have remained unresolved for many years, leading OME to increase its oversight of California's program in recent years. Per CDE, OME has imposed multiple conditions on the CDE's migrant education grant, and has warned repeatedly that it might request the federal Office of the Inspector General to review or take over the administration of California's migrant education program.

ISSUE 3. Migrant Education Program – Bureau of State Audit Review

SUGGESTED QUESTIONS:

1. **BSA.** How serious are the longstanding federal audit issues for California? By following the BSA recommendations, is resolution of these issues within reach for the department?

2. **CDE.** What progress has been made to date by the department in implementing the recommendations of the BSA audit report?

3. **CDE.** What is the timeframe for addressing BSA findings and recommendations, and for resolving longstanding federal audit issues? Please specify how the new positions will achieve these goals.

4. **CDE.** Do the BSA findings and recommendations lend general support to ideas included in the 2006 LAO report on migrant education, such as shifting to a more district based model, enhancing data systems, etc.?

STAFF RECOMMENDATION: Information only. No action required.

6110 Department of Education

ISSUE 4. Fiscal Status of School Districts – Presentation from Fiscal Crisis and Management Assistance Team

DESCRIPTION: The Fiscal Crisis and Management Assistance Team (FCMAT) will provide a presentation on the financial status of local education agencies, including an update on the number of these agencies with negative and qualified certifications on the latest financial status reports.

PANELIST: **Joel Montero, Chief Executive Officer, Fiscal Crisis & Management Assistance Team**

BACKGROUND:

Interim Financial Status Reports. Current law requires local educational agencies (LEAs) -- school districts and county offices of education -- 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.

LEA Certification. 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 is assigned when an LEA will meet its financial obligations for the current and two subsequent fiscal years.
- A qualified certification is assigned when an LEA may not meet its financial obligations for the current and two subsequent fiscal years.
- A negative certification is assigned when an LEA will be unable to meet their financial obligations in the current year or in the subsequent fiscal year.

First Interim Report. The First Interim report, the most recent available, was published by CDE in February 2013 and identified seven school districts with negative certifications. The First Interim Report reflects data generated by LEAs in Fall 2012, prior to release of the Governor's January 2012-13 budget, which includes substantial mid-year trigger cuts if the Governor's proposed November ballot initiative is not passed by statewide voters. The seven school districts with negative certifications at First Interim in 2012-13, as listed below, will not be able to meet their financial obligations for 2012-13 or 2013-14.

ISSUE 4. Fiscal Status of School Districts – Presentation from Fiscal Crisis and Management Assistance Team

Negative Certifications, First Interim Report, 2012-13

	District	County	Budget ($)
1	Inglewood Unified	Los Angeles	118.3 million
2	Walnut Valley Unified	Los Angeles	111.3 million
3	Cotati-Rohnert Park Unified	Sonoma	48.2 million
4	Victor Valley Union High	San Bernardino	33.4 million
5	South Monterey County Joint Union High*	Monterey	17.2 million
6	Wilsona Unified	Los Angeles	12.7 million
7	Denair Unified	Stanislaus	9.7 million

*Formerly King City Joint Union High School District.

The First Interim report also identified 117 school districts and one county office of education with qualified certifications. (Attachment A provides a complete list of LEAs with negative or qualified certifications for the First Interim Report for 2012-13.) These LEAs with qualified certifications may not be able to meet their financial obligations for 2012-13, 2013-14, or 2014-15.

A comparison of First Interim certifications over the last twenty years indicates that the number of districts with qualified and negative status districts has been climbing since 2008-09 coinciding with the downturn in the state economy and the beginning of reductions in education programs.

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Summary of Negative and Qualified Certifications For Local Educational Agencies

Fiscal Year	Negative Certifications First Interim (1)	Negative Certifications Second Interim (1)	Negative Certifications Fiscal Year Totals (3)	Qualified Certifications First Interim (2)	Qualified Certifications Second Interim (2)	Qualified Certifications Fiscal Year Totals (3)
1991-92	1	3	3	19	21	27
1992-93	2	5	5	18	17	23
1993-94	3	5	6	24	22	33
1994-95	2	1	2	57	55	66 (6)
1995-96	1	1	2	12	17	21
1996-97	0	0	0	11	18	22
1997-98	0	1	1	12	7	15
1998-99	1	1	1	13	14	20
1999-00	2	6	6	13	20	27
2000-01	2	4	4	24	19	33
2001-02	8	6	8	32	35	48
2002-03	5	8	8	39	56	67
2003-04	7	9	10	50	36	60
2004-05	10	14	15	54	48	70
2005-06	5	4	5	32	29	41
2006-07	3	5	5	19	19	22
2007-08	7	14	15	29	109	122
2008-09	16	19	23	74	89	119
2009-10	12	14	18	114	160	190
2010-11	13	13	15	97	130	148
2011-12	7	12		120	176	

Source: California Department of Education

Notes:
(1) A negative certification is assigned to a school district or county office of education that *will not* meet its financial obligation for the remainder of the current year or subsequent year.
(2) A qualified certification is assigned to a school district or county office of education that *may not* meet its financial obligations for the current year or two subsequent years.
(3) Fiscal Year Totals for negative and qualified certifications are unduplicated, not cumulative.
(4) 1994-95 qualified certifications include all 27 school districts in Orange County and the Orange County Office of Education which were certified as qualified based on the uncertainty surrounding the Orange County bankruptcy.

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Preliminary FCMAT Reports for Second Interim. According to FCMAT, the Second Interim Report for 2012-13 will provide a more complete assessment of school district financial status and the number of districts on the negative and qualified list will probably increase when published by June or July. FCMAT will provide preliminary Second Interim information to the Subcommittee.

State Emergency Loans. 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 (SPI) shall assume all the legal rights, duties, and powers of the governing board of the district.
- The SPI shall appoint an administrator to act on behalf of the SPI.
- The school district governing board shall be advisory only and report to the state administrator.
- The authority of the SPI and state administrator shall continue until certain conditions are met. At that time, the SPI 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 SPI 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 SPI 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 SPI has determined that the district's future compliance with the fiscal plan approved for the district is probable.

State Emergency Loan Recipients. Eight school districts have sought emergency loans from the state since 1990. (Attachment B summarizes the amounts of these emergency loans, interest rates on loans, and the status of repayments.) Four of these districts: Coachella Valley Unified, Compton Unified, Emery Unified, and West Fresno Elementary, have paid off their loans. Four districts have continuing state emergency loans: Oakland Unified, Richmond/West Contra Costa Unified, South Monterey County Joint Union High (formerly King City Joint Union High), and Vallejo City Unified. Of the four districts with continuing emergency loans from the state, two remain on the negative list at First Interim 2011-12: South Monterey County Joint Union High and Vallejo City Unified.

ISSUE 4. Fiscal Status of School Districts – Presentation from Fiscal Crisis and Management Assistance Team

STAFF COMMENTS:

- **Inglewood Unified School District Required Emergency Loan Last Year.** As enacted, in September 2012, SB 533/Wright (Chapter 325, Statutes of 2012) appropriates **$29 million** for an emergency loan to the Inglewood Unified School District (IUSD) and authorizes an **additional $26 million** of lease financing through the California Infrastructure and Economic Development Bank (I-Bank). It also requires the Superintendent of Public Instruction (SPI) to assume all the rights, duties, and powers of the governing board of IUSD and, in consultation with the Los Angeles County Superintendent of Schools, appoint an administrator to serve in the district, as specified.

- **No Other Districts Have Required Loans During Downturn**. Despite the fiscal challenges and uncertainty faced by school districts following the recent economic downturn, no school district other than Inglewood Unified had required an emergency loan as a result of recent budget reductions. South Monterey County Joint Union High (formerly King City Joint Union High School District), the last school district to receive an emergency loan, required a loan in 2009 (SB 130/Chapter 20, Statutes of 2009) based on fiscal problems that were in place prior to major budget reductions.

- **Legislative Review of Qualifying Districts**. Statute added by AB 1200 (Chapter 1213; Statutes of 1991) states intent that the legislative budget subcommittees annually conduct a review of each qualifying school district. Specifically, Education Code 41326 (i) states the following:

  It is the intent of the Legislature that the legislative budget subcommittees, annually conduct a review of each qualifying school district that includes an evaluation of the financial condition of the district, the impact of the recovery plans upon the district's educational program, and the efforts made by the state-appointed administrator to obtain input from the community and the governing board of the district.

ISSUE 4. Fiscal Status of School Districts – Presentation from Fiscal Crisis and Management Assistance Team

SUGGESTED QUESTIONS:

General

1. What is the primary focus of FCMAT as they work with districts in the current fiscal climate? What are the measures or factors used by FCMAT to assess fiscal solvency?

2. Are there any districts that are of particular concern? Any that may need emergency funding from the state and, if so, what is the potential impact on the state General Fund?

3. Can you describe the most common problems faced by school districts on the negative list?

4. Has categorical flexibility helped LEAs balance their budgets?

5. What trends are you seeing in enrollment? How is declining enrollment affecting district budgeting?

Governor's School Finance Reforms

1. How are school districts building their budgets for 2013-14 given uncertainty about the Governor's proposed Local Control Funding Formula?

Emergency Loans

1. Why is it important for LEAs to avoid state emergency loans? Where does the financial burden fall for state emergency loans – on LEAs or the state?

2. Why are the interest rates for districts with emergency loans so different?

3. Are you aware of any other LEAs that may be facing financial insolvency and requiring a state emergency loan?

Deferrals

1. How are payment deferrals affecting LEAs, especially in light of ongoing intra-year and inter-year deferrals?

2. How important is it to continue reductions of ongoing payment deferrals in 2013-14, as proposed by the Governor?

ISSUE 4. Fiscal Status of School Districts – Presentation from Fiscal Crisis and Management Assistance Team

Inglewood Unified School District Emergency Loan

1. What is the fiscal status of the Inglewood School District? How much has the district borrowed against the loan to date? What is the status of the State Administrator?

STAFF RECOMMENDATION: Information item only. No action required.

6110 Department of Education

ISSUE 5. Independent Study & Online, Technology-Based Instruction – Governor's Budget Proposal

DESCRIPTION: The Governor proposes trailer bill language as a part of the 2012-13 budget to enable school districts to offer asynchronous, online courses through a streamlined and outcome-focused independent study agreement.

PANELISTS: Department of Finance
Legislative Analyst's Office
Department of Education

BACKGROUND:

California schools are funded on the basis of average daily attendance (ADA), based on the average amount of time a pupil attends class under the immediate supervision of a certificated employee. This is also sometimes referred to as "seat time".

School districts, county offices of education, and charter schools are able to provide online courses to pupils and generate ADA in the following ways:

1) By providing online instruction in a classroom setting under the immediate supervision of a certificated employee.

2) As a supplement to traditional classroom-based instruction. Under this scenario, pupils generate full ADA funding for meeting the minimum instructional requirements associated with classroom-based programs, and the online coursework is provided in addition to the pupils' classroom instruction.

3) Through a part-time independent study (IS) program (i.e., the pupil may be taking regular classroom courses and one or two IS program courses online) or a full-time IS program. Pupils enrolled in an IS program complete academic work on their own time under a written learning contract. The work students complete is equated to an equivalent number of classroom hours. These "equivalent hours" generate revenue limit funding, similar to the ADA of a student in a classroom-based program.

4) Starting in 2015-16, pupils in grades 9-12 that are under the immediate supervision and control of a certificated employee of the school district or county office of education who is delivering synchronous, online instruction will also generate ADA for revenue limit funding purposes.

ISSUE 5. Independent Study & Online, Technology-Based Instruction – Governor's Budget Proposal

GOVERNOR'S BUDGET PROPOSAL.

Summary of Proposal. The Governor proposes trailer bill language as a part of the 2012-13 budget to enable school districts to offer asynchronous, online courses through a streamlined and outcome-focused independent study agreement. Per the Governor's Budget Summary, these changes are intended to remove impediments to greater instructional flexibility. Asynchronous instruction does not require the simultaneous participation of all students and instructors, and per the Governor thereby increases flexibility in the delivery of instruction.

In order to hold asynchronous instruction accountable, the Governor proposes a more refined independent study contract focused on specific measurable student outcomes, and teacher validation of those outcomes, that will be used as the basis for whether schools receive funding for offering these courses. Per the Governor, under such a revised contract, schools will be held accountable for student achievement, rather than process requirements.

Specifics of Governor's Proposal. The Governor proposes modifying existing law related to technology-based instruction by (1) reworking the rules for synchronous instruction, (2) establishing a new set of rules for asynchronous instruction, and (3) eliminating many of the procedural requirements associated with independent study. A description of these modifications is summarized below:

- **Independent Study**. The Governor also proposes budget trailer bill language to simplify independent study programs and remove several of the requirements associated with independent study. Specifically, the Governor would make the following changes:

  - ✓ Eliminate pupil/teacher ratio requirements, similar to the proposal for synchronous instruction.

  - ✓ Remove the requirement that funding for independent study programs be linked to the "time value" of the work that students complete.

  - ✓ Require schools to develop measures of "satisfactory academic progress" for their students. Schools would be required to reevaluate the participation of any students not meeting these locally defined measures.

ISSUE 5. Independent Study & Online, Technology-Based Instruction – Governor's Budget Proposal

- ✓ Simplify independent study contracts. Under current law, each student in independent study must work under an individual contract detailing the procedure for submitting assignments, the method of evaluating work, the resources available to the student, and the number of allowable missed assignments. The Governor proposes instead that independent study contracts contain provisions for "periodic contact" between the teacher and the student and describe the accountability measures and assessments used to evaluate the student. The Governor would also permit independent study contracts to last for up to one year (rather than the current limit of one semester), and allow these contracts to be stored electronically (rather than in written form.)

- **<u>Synchronous Online Education</u>**. Synchronous, online instruction occurs when students and teachers interact over the internet in real time. Last year, AB 644 (Blumenfield), Chapter 579 allowed for this type of online instruction to generate ADA for purposes of revenue limit funding (rather than through independent study). <u>The Governor's proposed trailer bill language would make changes to this law as follows:</u>

  - ✓ Explicitly authorizes charter schools to offer synchronous online courses. (Current law is silent as to the ability of charter schools to offer synchronous online instruction.)
  - ✓ Eliminates pupil/teacher ratio requirements. (Current law requires school districts and country offices to ensure that the ratio of students to teachers in synchronous programs is no higher than the ratio of students to teachers present in other educational programs operated by the school district or county office.)
  - ✓ Allows statewide testing results for online pupils to be disaggregated for the purpose of comparing to regular classroom courses.
  - ✓ Requires governing boards to approve synchronous courses as being as rigorous as a classroom-based course, and meet or exceed all relevant state content standards.
  - ✓ Renames "synchronous online instruction" to "technology based synchronous instruction." The Governor's proposal would explicitly define "technology based synchronous instruction" to mean "a class or course in which the pupil and the certificated employee who is providing instruction are online at the same time through the use of electronic means, including but not limited to, and the use of real-time, Internet-based collaborative software that combines audio, video, file sharing, and other forms of interaction."
  - ✓ Moves the implementation date up from 2014-15 to 2013-14 and deletes the sunset date of July 1, 2019.

- **<u>Asynchronous Online Education</u>.** This type of course allows the teacher and pupil to be online at different times. Currently, districts offering asynchronous online education must claim ADA through the independent study process. According to the Administration, "independent study programs, while providing freedom from the traditional classroom-based setting, still mandate the same pupil-to-teacher ratios as regular classroom instruction and focus heavily on process compliance with independent study agreements, which are contracts with students that govern the goals and expectations for this type of instruction."

ISSUE 5. Independent Study & Online, Technology-Based Instruction – Governor's Budget Proposal

The Governor's proposed trailer bill would create a new mechanism for allowing pupils to generate ADA for asynchronous technology-based education by allowing LEAs to offer courses through "a streamlined and outcome-focused independent study agreement." The proposal requires students to show "satisfactory educational progress". This may include a number of factors such as testing, completion of assignments, working groups or other "indicators" that the student is learning concepts. Ultimately, this "progress" would be defined at the local school board level.

Key Features of the Governor's Budget Proposal. The LAO has summarized below key features of the statutory changes proposed by the Governor:

1. **Replaces Time Value Requirement With "Satisfactory Educational Progress."** The Governor proposes to provide IS programs with substantially more flexibility than they receive under current law. Most notably, the Governor proposes to eliminate the requirement that supervising teachers equate student work products to an equivalent time value. Instead, teachers would determine if students are making satisfactory educational progress toward a set of locally defined educational outcomes. Satisfactory progress would be measured by factors such as the student's performance on statewide tests, completion of assignments, participation in required activities, and other indicators determined by the supervising teacher. An IS program would be required to reevaluate the participation of any student who does not make satisfactory progress. (The Governor's proposal does not specify how student participation or student outcomes would translate into funding rates.) As under current law, IS programs would be required to offer the same curriculum as offered in classroom-based programs.

2. **Removes Student-Teacher Ratio Requirement.** The Governor also proposes to remove the student-teacher ratio requirement for IS programs. The IS students, however, still would be required to work under the general supervision of a credentialed teacher.

3. **Simplifies Rules for Independent Study Contracts**. The Governor also proposes several changes to simplify the student contracts that govern participation in IS programs. Specifically, his proposal eliminates the requirement that IS contracts explicitly describe the procedure for submitting assignments, the method of evaluating work, the resources available to the student, and the number of allowable missed assignments. Instead, IS contracts would be required to include provisions for "periodic contact" between the teacher and the student and to describe the accountability measures and assessments used to evaluate the student. An IS contract could last up to one year (rather than one semester) and could be stored electronically (rather than in written form).

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4. **Authorizes Asynchronous Instruction Separately From IS.** Separate from his proposed changes to IS, the Governor would also create a set of rules authorizing "technology-based, asynchronous instruction" for grades 9-12. Although the Governor would treat this type of coursework separately from IS, the structure of IS and asynchronous instruction would be very similar. For example, asynchronous instruction would require students to have individual learning contracts that contain provisions for periodic contact between teachers and students, as well as requirements for students to make satisfactory educational progress. Similar to his proposal for traditional IS, the Governor would include no time value or student-teacher ratio requirement. As with IS, a specific funding mechanism is not provided. Unlike IS programs, however, asynchronous instruction would not be subject to the various other requirements established for IS (including age and geographic limitations).

LAO COMMENTS: The LAO thinks that the Governor's proposal to eliminate most IS process-based requirements and shift focus to outcome measures is a positive step. Such an approach places more state and local attention on student learning, provides greater flexibility for instructional programs, and avoids overly burdensome administrative requirements.

The LAO, however, has several concerns with the proposal. The Governor's approach does not incorporate many of the requirements established for IS into his proposal for asynchronous instruction, and does not clearly specify how funding would be generated for IS and asynchronous programs. The LAO is also concerned that the Governor's proposal does not directly link student funding with outcomes and has a vague definition of satisfactory educational progress. These problems could result in less rigorous IS and asynchronous programs.

The LAO discusses these concerns in more detail below.

- **Lacks Clear Funding Mechanism.** The Governor's proposal does clearly define how IS and asynchronous programs would generate state funding for the students they serve. Under current law, funding for classroom-based programs is tied to daily student attendance, and IS programs borrow from this framework by equating work products to hours of classroom instruction. The Governor's proposal indicates that students participating in IS or asynchronous instruction "shall be included" in computing average daily attendance, provided the students make satisfactory academic progress. There is no specific mechanism, however, for determining a per-pupil funding rate or equating participation to days of attendance. This could create ambiguous funding rules for IS and asynchronous programs. For example, it is not clear how the state would fund students who take part of their classes through IS or asynchronous programs and their remaining coursework through classroom-based instruction.

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- **Does Not Make Funding Contingent on Educational Progress.** The Governor's proposal would require IS programs to develop student outcomes and reconsider the participation of students who are not making satisfactory educational progress towards meeting those outcomes. The proposal does not, however, explicitly link funding to student performance. Until the student was removed from the program, an IS student not achieving satisfactory academic progress still would generate funding. By not tying funding explicitly to outcomes, the proposal misses an opportunity to create stronger incentives for IS programs to focus on student learning.

- **Satisfactory Educational Progress Too Broadly Defined.** The Governor's proposal encourages IS and asynchronous programs to focus on student learning, but leaves schools to define what constitutes satisfactory educational progress. The LAO is also concerned that without clear state guidance on the definition of satisfactory educational progress, the state would find it virtually impossible to ensure IS and asynchronous programs maintain high-quality, academically rigorous expectations for all students. Existing provisions of state law require IS coursework to be as rigorous as classroom-based instruction, but few mechanisms currently exist to enforce this standard. The removal of most input-based requirements makes the absence of these enforcement mechanisms of even greater concern.

- **Missing Requirements for Asynchronous Instruction.** The LAO is concerned that certain restrictions currently applicable to IS programs would not apply to asynchronous instruction. The Governor's proposal, for example, includes no age limitations for asynchronous instruction. The proposal also permits schools to enroll any students who are California residents for asynchronous instruction, regardless of their county of residence. Given the similarity between these two programs, the LAO sees no rationale for applying certain restrictions to IS but not to asynchronous instruction.

- **Additional Time May Be Needed for Implementation.** The Governor's proposal would require major changes at the state and local level. The state would need to develop new rules for counting students in IS and asynchronous programs and auditing compliance with those rules. In addition, schools offering IS programs would need to revise their programs to focus on locally determined academic outcomes rather than the time value of a student's work. Given both the state and local IS programs would need to make substantial changes, it likely would not be feasible to implement all of the Governor's proposed changes by the start of the 2013-14 school year.

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LAO RECOMMENDATIONS:

The LAO believes the Governor's proposals to remove many of the input-based requirements (including the student-teacher ratio, time value rules, and high-level of detail in IS contracts) are reasonable, especially when coupled with a stronger emphasis on student outcomes. The LAO recommends adopting the Governor's basic framework. However, the LAO recommends the Legislature <u>modify</u> the Governor's proposal to:

(1) require students enrolled in an asynchronous course to be part of an IS program,
(2) explicitly link funding rates to achieving student learning outcomes,
(3) require measures of satisfactory educational progress be aligned with the state content standards, (4) delay implementation of the proposed changes until 2014-15, and
(5) retain the option for programs to use existing IS rules for the next few years.

The LAO provides more details on each of these modifications below.

Require Students Enrolled in an Asynchronous Course Be Part of an IS Program. The Governor's proposal for asynchronous instruction has many similarities to his IS proposal but lacks the age limit and other requirements that currently apply to IS. To address this issue, the LAO recommends the Legislature require students enrolled in an asynchronous course also be part of an IS program. This would provide a consistent set of rules across both types of programs and simplify the procedures for tracking student attendance. By making asynchronous instruction a part of IS, the LAO's remaining IS recommendations also would apply to asynchronous instruction.

Explicitly Link Funding to Student Learning Outcomes. The LAO recommends the Legislature explicitly link IS funding to student success by making IS funding contingent on students meeting the educational outcomes established for each course. For example, the state could establish a per-course funding rate and provide funding when students successfully complete a summative examination associated with each course. This change both would establish a clear funding mechanism and make funding contingent on students making educational progress.

Require Rigorous Content-Aligned Measures and External Review of Outcome Measures. To ensure IS programs are rigorous, the LAO recommends the Legislature require locally determined outcome measures be directly linked to the state's content standards. The LAO further recommends the Legislature establish a process for the external review of these measures. For example, the state could require all IS measures of satisfactory progress be approved by COEs or the Superintendent of Public Instruction. Alternatively, the state could establish basic statutory criteria for IS programs to use when selecting outcome measures and require compliance with those criteria be part of the annual audit process. (The administration indicates that it intends to adopt some provisions for auditing through procedural changes to the state audit guide, but we recommend the Legislature be explicit and place basic guidelines for auditing or other external review in statute.)

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Delay Full Implementation Until 2014-15 and Retain Option to Use Existing IS Rules During the Next Few Years. Given the number of changes contained in the Governor's proposal, the LAO recommends delaying full implementation of the new IS rules until 2014-15. The LAO recommends using 2013-14 as a planning year to develop associated regulations and disseminate information to schools.

The LAO also recommends allowing schools to continue operating under the existing IS structure for the next few years. This would allow IS programs to gain some experience with the new outcome-based approach. Allowing a period in which both input-based and outcome-based IS programs could operate also would allow the Legislature to assess and compare the two models. After a few years of implementation, the Legislature could determine whether the new IS approach was successful and could replace existing input-based IS programs.

RECENT LEGISLATION.

2013-14 Legislation.

- **SB 714 (Block).** Allows school districts, county offices of education, or charter schools to claim state apportionment funding for three consecutive years for asynchronous attendance of pupils in "online educational learning programs." Online educational learning programs may include one online course, multiple online courses, or a combination of online coursework and classroom-based coursework**. Status:** Senate Appropriations Committee.

- **AB 342 (Blumenfield).** Modifies existing law related to synchronous instruction and independent study. **Status**: Assembly Appropriations Committee.

Prior Legislation.

- **AB 644 (Blumenfield).** Authorizes a school district or county office of education to claim attendance for pupils in grades 9 to 12, taking online synchronous courses, toward average daily attendance (ADA) for the purpose of calculating revenue limit funding, as specified**. Status:** Chapter 579; Statutes of 2012.

ISSUE 5. Independent Study & Online, Technology-Based Instruction – Governor’s Budget Proposal

STAFF COMMENTS:

CDE Concerns. The California Department of Education has the following concerns with the Governor's proposal.

Synchronous Online Education:

- **Implementation Timeline**. The CDE is concerned with implementing these changes starting in 2013-14 and prefer delayed implementation (existing law starts implementation in 2015-16).

- **Inclusion of Charter Schools.** CDE is concerned that students in charter schools could generate full ADA for students that participate in just one class. Further, it is not clear if participation in synchronous online education is considered classroom or non-classroom based instruction. To the extent it is considered non-classroom based, it conflicts with Title 5, which requires Independent Study attendance accounting to be used for non-classroom based instruction. There are also concerns with pupil residency and claiming apportionment funding.

Asynchronous Online Education:

- **Time Value Equivalents**. There is no provision for establishing a time value for the purposes of configuring students minimum day for compliance with compulsory education as well as how to calculate ADA.

- **Age Limits**. Allows traditional schools to enroll anyone, regardless of age.

- **Attendance Accounting.** Allows traditional and charter schools to generate perfect attendance for pupils enrolled in even just one asynchronous technology based class.

- **Inclusion of Charter Schools.** CDE has similar concerns with charter schools and synchronous education (see above).

ISSUE 5. Independent Study & Online, Technology-Based Instruction – Governor's Budget Proposal

SUGGESTED QUESTIONS:

1. **State Funding.** How would independent study and asynchronous instruction generate state funding for students under the Governor's proposals?

2. **Measurement of Student Progress.** How would the Governor's proposal define "satisfactory educational progress"?

3. **Age Limits.** What are the age limits under the Governor's asynchronous instruction proposals? How do they compare to age limits for independent study?

4. **Residency Requirements.** What are the residency requirements under the Governor's proposals? How do they compare with residency requirements for attendance in asynchronous instruction and independent study?

5. **Relationship to Adult Education.** Would the Governor's proposal allow adult education students to access K-12 coursework and programs?

6. **Relationship to Local Control Funding Formula.** Since the focus of the Governor's proposal will ultimately affect how attendance is measured for purposes of apportionment funding.

    a. How would the Governor's proposal work under the Local Control funding Formula? Would pupil attendance be used for basic grants and supplements?
    b. How would the Governor's proposal interact with changes in charter school funding as a part of the Local Control Funding Formula?

7. **Delay in Implementation.** Given the major changes associated with the Governor's proposals, is the Administration open to waiting another year to make these changes?

STAFF RECOMMENDATION: Hold open.

6110 Department of Education

ISSUE 6. STATE OPERATIONS – GOVERNOR'S BUDGET PROPOSALS

DESCRIPTION: The Governor proposes a number of adjustments for California Department of Education headquarters staff and expenses that have not already been heard by the Subcommittee. These proposed adjustments primarily involve staffing increases in 2013-14 to implement several statutes enacted in 2012.

PANELISTS: Department of Finance
Department of Education
Legislative Analyst's Office

BACKGROUND: Funding and authorized positions for the California Department of Education are summarized by the table below.

California Department of Education Authorized Positions and State Operations Funding			
			Proposed
	2011–12	**2012–13**	**2013–14**
Authorized Positions			
Headquarters	1,486.80	1,469.30	1,470.30
State Special Schools	1,008.40	948.10	948.10
Total	2,495.20	2,417.40	2,418.40
Funding			
CDE Headquarters			
General Fund	39,853,000	40,569,000	41,536,000
Federal Fund	150,187,000	160,893,000	158,031,000
Other (Restricted)	31,632,000	31,565,000	31,652,000
Total	**221,672,000**	**233,027,000**	**231,219,000**
Percent General Fund	18%	17%	18%
Percent Federal	68%	69%	68%
CDE State Special Schools			
Proposition 98 GF	47,497,000	47,249,000	49,430,000
Non-Proposition 98 GF	41,345,000	40,046,000	42,950,000
Federal Fund	0	0	0
Other	10,395,000	12,217,000	10,475,000
Total	**99,237,000**	**99,512,000**	**102,855,000**
CDE Headquarters & State Special Schools			
General Fund	128,695,000	127,864,000	133,916,000
Federal Fund	150,187,000	160,893,000	158,031,000
Other	42,027,000	43,782,000	42,127,000
Total	**320,909,000**	**332,539,000**	**334,074,000**

Except for 2013-14, data are current-year estimates (middle column) from the Governor's Budget.

ISSUE 6. STATE OPERATIONS – GOVERNOR'S BUDGET PROPOSALS

Most CDE staff are employed at the department's headquarters in Sacramento to administer state education programs and provide program support to local educational agencies. Remaining staff are employed at the State Special Schools (including State Diagnostic Centers) that provide direct instruction and support services to attending students.

BACKGROUND:

Recent Budget Reductions for Department State Operations. The Department of Education has experienced a variety of reductions to state operations – staffing and operating expenses -- since 2008-09. Most of these reductions are ongoing. In addition, the department is currently experiencing employee furloughs, although these furloughs are not currently proposed to continue for state agencies in 2013-14.

- **State Operations Reductions Beginning in 2009-10.** An Executive Order was issued by Governor Schwarzenegger to all state agencies effective in 2009-10 implementing a reduction equivalent to a three day per month furlough. Agencies headed by Constitutional Officers – such as CDE -- were exempt from the Executive Order, but received an equivalent reduction to their State Operations funding beginning in 2009-10. This veto resulted in a permanent reduction of **$17.4 million** (across all fund sources), which the CDE mitigated through workload reductions associated with Categorical Flexibility. While other departments were restored when the three-day-per-month furloughs were lifted, the CDE was not. Over the two year period, the CDE experienced a reduction of 62 positions and **$20 million** (all funds) in funding.

- **Additional Staff Reductions Associated with Categorical Flexibility Beginning in 2010-12.** SBX3 4 (Chapter 12; Third Extraordinary Session, Statutes 2009) granted LEAs the authority to use funding received for approximately 40 categorical programs for any educational purpose for a five year period beginning in 2008-09 and ending in 2012-13. (Subsequent legislation extended this flexibility through 2014-15.) This "categorical flexibility" freed LEAs from certain programmatic and fiscal restrictions and thus, to some degree the CDE's role in monitoring and providing technical assistance for programs falling under categorical flexibility was eliminated. In 2010-11, as a result of categorical flexibility, state operations funding for the CDE was reduced by **$2.6 million** (General Fund) and 22 positions.

- **Operational Efficiency Reductions Beginning in 2011-12.** The Department of Education received an "operation efficiency" reduction of **$3.369 million** (General Fund) pursuant to Control Section 3.91 of the 2011-12 budget act. Operation efficiency reductions were applied to all state agency budgets and constitute <u>ongoing</u> cuts. The Department was required to submit an operation efficiency reduction plan to the Department of Finance to implement the reduction. The Department's plan included a **$1.5 million** (4.3 percent) reduction for the State Special Schools in 2011-12.

ISSUE 6. STATE OPERATIONS – GOVERNOR'S BUDGET PROPOSALS

Staff Furloughs in 2012-13 and Selected Prior Years. CDE received a department-wide reduction of **$9.18 million** (all funds) as a result of one day per month Personal Leave Program (PLP) for all employees (including **$3.39 million** for the State Special Schools) in 2012-13. The Governor does not propose to continue the PLP program for state agencies in 2013-14. CDE received a similar PLP reduction that began in November 2010 and extended through October 2011 and was equivalent to a **$11.023 million** reduction (all funds).

Per the Department, the impact of state imposed PLP on CDE's State Operations has resulted in delayed response time to the field and stakeholder groups as well as delays in the department's internal administrative processes. As also noted in an LAO report regarding the impact of furloughs for state agencies, the CDE reports that the department has seen an increase in leave balances resulting from employees taking one day off per month that could otherwise be charged to accrued leave balances.

GOVERNOR'S BUDGET – CDE STAFFING AND EXPENDITURE PROPOSALS. The Governor's January 10 budget proposes the following adjustments for the Department of Education:

General Fund (Non-Proposition 98) Adjustments.

1. **Revision of Academic Performance Index. Requests $217,000** in state General Fund and **2.0 positions** to redesign the state's Academic Performance Index (API). This redesign will include a broader measure of school outcomes and success by including additional indicators in the API in addition to assessment results pursuant to SB 1458/Steinberg (Chapter 577, Statutes of 2012) in 2013-14. The bill will require the development of new student performance measures -- such as college going rates and career outcomes -- as well as new sources of data.

   Staff Comments: The Governor proposes 2.0 ongoing positions beginning in 2013-14 for redesign workload that will last three years and for production of reports that will be completed by October 2013. Staff notes that while limited-term positions are not typically established for three-year time periods, these 2.0 positions should not be considered ongoing, and any ongoing need should be reconsidered before the positions are continued in 2016-17.

2. **Pupil Fee Complaint Process.** Requests **$109,000** in State General Fund and **1.0 position** to implement the requirements of AB 1578/Lara (Chapter 776, Statutes of 2012) beginning in 2013-14. This measure authorizes a complaint of noncompliance with the prohibition against pupil fees to be filed with the principal of a school under the existing Uniform Complaint Procedures process and authorizes a complainant who is not satisfied with the decision of the school to appeal the decision to the CDE. The bill further requires CDE, commencing in 2014-15 and every three years thereafter, to develop and distribute guidance regarding pupil fees and make it available on its Internet Web site.

ISSUE 6. CDE STATE OPERATIONS – GOVERNOR'S BUDGET PROPOSALS

Other Fund Adjustments:

3. **Fee Reimbursements for Adoption of Instructional Materials for Mathematics.** Requests **$350,000** in fee reimbursement authority to cover the costs of a new statewide mathematics instructional materials adoption beginning in 2012-13 and continuing through 2013-14 pursuant to AB 1246/Brownley (Chapter 668, Statutes of 2012). The 2008-09 budget suspended all statewide instructional materials adoptions due to the state budget shortfall. In 2009-10, $705,000 in state General Fund support for the state Instructional Materials Commission was eliminated through a budget veto. AB 1246 authorizes a new statewide mathematics adoption and authorizes the state to assess a one-time fee payment from participating publishers and manufacturers to offset the costs of this adoption process.

Other State Operations Requests Covered in Previous Hearings.

- **Energy Efficiency Program Authorized by Proposition 39.** Requests **$109,000** in General Fund (Non-98) and **1.0 position** to implement an Energy Efficiency Program for the K-12 schools. The Energy Efficiency Program is authorized by Proposition 39 – as approved by statewide voters in November 2012. The Governor proposes to provide $400.5 million for a five year Energy Efficiency Program to K-12 schools beginning in 2013-14. The Governor also proposes $49.5 million for a five year Energy Efficiency Program for community colleges beginning in 2013-14. (See Issue #1 - April 4, 2013, Subcommittee Agenda.)

- **Charter School Program Shifts.** Request to shift **$175,000** in General Fund (Non-98) and **2.0 positions** from CDE to California School Finance Authority in the State Treasurer's Office to support the transfer of two charter school programs beginning in 2013-14. The two programs include the Charter School Facility Grant program and the Charter School Revolving Loan Fund program. (See Issues #8 and #9 – March 21, 2013 Subcommittee Agenda.)

CDE STATE OPERATIONS PRIORITIES: There are a number of state operations requests that the CDE submitted to the DOF that were not approved by the Governor in the January budget or not included in the April Finance Letter. The department will provide information to the Subcommittee on those items that they designate as the highest priority.

ISSUE 7. STATE OPERATIONS – GOVERNOR'S BUDGET PROPOSALS

STAFF COMMENTS:

- **CDE Priority – General Fund (Non-98) Restoration to the State Special Schools.** The department requests a General Fund (Non-98) increase to restore the **$1.8 million** reduction to the State Special Schools in 2012-13. This reduction was on top of a **$1.5 million** General Fund (Non-98) ongoing "operational efficiency" reduction assessed in 2011-12. The department received a total operational efficiency reduction of $3.4 million in 2011-12 and assessed $1.5 million of this amount to the State Special Schools.

  Staff believes restoration of funding for the State Special Schools is in keeping with restorations for other programs per the Governor's Local Control Funding Formula. However, staff does not support restoration with General Fund (Non-98) dollars. A number of other funding options exist, that staff believes should be explored first, including:

  - ✓ Identification of available federal special education carryover funds that could be used to backfill the Governor's proposed reductions in 2012-13.
  - ✓ Assessment of local educational agency reimbursements for pupils attending the State Special Schools and options for increasing those charges.
  - ✓ Evaluation of alternative savings for the state diagnostic centers, including an increase in the charges to local educational agencies for providing these state assessments.
  - ✓ Review of state laws and policies to explore consolidating state funding for the State Special Schools within Proposition 98 and eliminating Non-98 General Funds.

- **State Special Schools – Proposition 39 Funding.** As enacted by voters in November 2012, Proposition 39 authorizes energy efficiency for public schools, universities and colleges, and other public buildings and facilities. The Governor's proposes to allocate $450 million in energy efficiency funding to (1) K-12 schools districts, county offices of education and charter schools, and (2) community college districts. Funds would be allocated annually for five years beginning in 2013-14. However, <u>according to the Department of Finance, the Governor's proposal does not explicitly include the State Special Schools.</u>

  Staff suggests any funding provided by the Legislature to K-12 schools for purposes of energy efficiency funding pursuant to Proposition 39 should include the State Special Schools. The State Special Schools have not been eligible for state general obligation bonds nor do they have authority to issue local general bonds to finance energy efficiency projects. <u>As residential facilities, the State Special Schools operate 24 hours a day, 5 days a week during the school year. The State Special Schools has requested state General Funds for energy efficiency projects in the past and could likely benefit from these funds.</u>

ISSUE 6. STATE OPERATIONS – GOVERNOR'S BUDGET PROPOSALS

STAFF RECOMMENDATION: Staff recommends that the Subcommittee delay approval of the Governor's proposals for CDE state operations items #1-3 (as listed on previous page) until after May Revise to coordinate with actions for General Fund Proposition 98 local assistance programs and actions on federal programs.

Attachment A

First Interim Status Report FY 2012-13

First Interim Status Report, FY 2012-13

Listing of local educational agencies receiving negative and qualified certifications for fiscal year 2012-13 first interim.

List of Negative and Qualified Certifications
Local Educational Agencies
2012-13 First Interim Report

NEGATIVE CERTIFICATION

A negative certification is assigned to a local educational agency when it is determined that, based upon current projections, the local educational agency will not meet its financial obligations for fiscal year 2012-13 or 2013-14.

Number	County	Local Educational Agency	Total Budget ($) in millions
1	Los Angeles	Inglewood Unified	118.3
2	Los Angeles	Walnut Valley Unified	111.3
3	Los Angeles	Wilsona Elementary	12.7
4	Monterey	South Monterey County Joint Union High	17.2
5	San Bernardino	Victor Valley Union High	33.4
6	Sonoma	Cotati-Rohnert Park Unified	48.2
7	Stanislaus	Denair Unified	9.7

QUALIFIED CERTIFICATION

A qualified certification is assigned to a local educational agency when it is determined that, based upon current projections, the local educational agency may not meet its financial obligations for fiscal year 2012-13, 2013-14, or 2014-15.

Number	County	Local Educational Agency	Total Budget ($) in millions
1	Alameda	Oakland Unified	413.9
2	Amador	Amador County Office of Education	9.6
3	Amador	Amador County Unified	29.2
4	Butte	Chico Unified	102.2
5	Butte	Durham Unified	8.6
6	Butte	Oroville City Elementary	21.6
7	Calaveras	Calaveras Unified	28.3
8	Contra Costa	John Swett Unified	14.8
9	Contra Costa	Mt. Diablo Unified	284.5
10	Humboldt	Fortuna Union Elementary	10.1
11	Imperial	Imperial Unified	24.1
12	Kern	Taft City	18.6

13	Lake	Upper Lake Union Elementary	3.1
14	Lassen	Janesville Union Elementary	2.6
15	Los Angeles	Antelope Valley Joint Union High	218.1
16	Los Angeles	Azusa Unified	92.2
17	Los Angeles	Bassett Unified	42.5
18	Los Angeles	Burbank Unified	119.1
19	Los Angeles	Compton Unified	232.6
20	Los Angeles	Eastside Union Elementary	25.3
21	Los Angeles	El Monte Union High	101.2
22	Los Angeles	Garvey Elementary	44.0
23	Los Angeles	Lennox	52.0
24	Los Angeles	Los Angeles Unified	5,976.6
25	Los Angeles	Palmdale Elementary	171.9
26	Los Angeles	Paramount Unified	129.2
27	Los Angeles	Pasadena Unified	184.4
28	Los Angeles	Pomona Unified	243.8
29	Los Angeles	Rosemead Elementary	23.6
30	Los Angeles	Saugus Union Elementary	76.7
31	Madera	Chawanakee Unified	8.8
32	Madera	Yosemite Unified	17.6
33	Mariposa	Mariposa County Unified	17.1
34	Mendocino	Willits Unified	16.2
35	Nevada	Pleasant Ridge Union Elementary	11.3
36	Orange	Anaheim City	158.5
37	Orange	Buena Park Elementary	42.0
38	Orange	Capistrano Unified	362.8
39	Orange	Fullerton Joint Union High	134.8
40	Orange	Garden Grove Unified	432.5
41	Orange	La Habra City Elementary	41.9
42	Orange	Ocean View	73.0
43	Orange	Placentia-Yorba Linda Unified	199.0
44	Orange	Santa Ana Unified	498.4
45	Orange	Westminster Elementary	77.0
46	Placer	Placer Hills Union Elementary	5.9
47	Riverside	Banning Unified	35.8
48	Riverside	Coachella Valley Unified	171.9
49	Riverside	Desert Sands Unified	231.0
50	Riverside	Hemet Unified	179.5
51	Riverside	Jurupa Unified	159.0
52	Riverside	Lake Elsinore Unified	164.8
53	Riverside	Menifee Union Elementary	62.4
54	Riverside	Murrieta Valley Unified	160.1
55	Riverside	Palo Verde Unified	30.4
56	Riverside	Perris Union High	77.8
57	Riverside	Temecula Valley Unified	199.2
58	Riverside	Val Verde Unified	168.1
59	Sacramento	Center Joint Unified	34.6

60	Sacramento	Elk Grove Unified	491.4
61	Sacramento	Folsom-Cordova Unified	139.3
62	Sacramento	Galt Joint Union High	19.1
63	Sacramento	Natomas Unified	72.7
64	Sacramento	Robla Elementary	16.6
65	Sacramento	Sacramento City Unified	389.9
66	Sacramento	San Juan Unified	332.2
67	San Benito	Southside Elementary	1.5
68	San Bernardino	Adelanto Elementary	58.8
69	San Bernardino	Bear Valley Unified	15.0
70	San Bernardino	Colton Joint Unified	183.9
71	San Bernardino	Lucerne Valley Unified	9.0
72	San Bernardino	Mountain View Elementary	17.4
73	San Bernardino	Rim of the World Unified	83.3
74	San Bernardino	Upland Unified	91.0
75	San Bernardino	Yucaipa-Calimesa Joint Unified	67.8
76	San Diego	Alpine Union Elementary	14.3
77	San Diego	Borrego Springs Unified	5.6
78	San Diego	Carlsbad Unified	78.2
79	San Diego	Fallbrook Union High	27.8
80	San Diego	Ramona City Unified	49.0
81	San Diego	San Diego Unified	1,098.3
82	San Diego	San Marcos Unified	146.0
83	San Diego	San Ysidro Elementary	41.9
84	San Diego	Vallecitos Elementary	2.1
85	San Luis Obispo	Atascadero Unified	38.2
86	San Luis Obispo	Paso Robles Joint Unified	53.0
87	San Luis Obispo	San Miguel Joint Union	5.1
88	San Luis Obispo	Shandon Joint Unified	3.6
89	San Mateo	Bayshore Elementary	3.5
90	San Mateo	San Bruno Park Elementary	25.3
91	Santa Clara	Alum Rock Union Elementary	107.5
92	Santa Clara	Evergreen Elementary	98.5
93	Santa Clara	Franklin-McKinley Elementary	75.3
94	Santa Clara	Gilroy Unified	83.3
95	Santa Cruz	Santa Cruz City Elementary	64.7
96	Santa Cruz	Santa Cruz City High	*
97	Shasta	Anderson Union High	15.7
98	Shasta	Cascade Union Elementary	11.5
99	Shasta	Cottonwood Union Elementary	6.8
100	Shasta	North Cow Creek Elementary	1.8
101	Sierra	Sierra-Plumas Joint Unified	5.5
102	Solano	Dixon Unified	26.6
103	Solano	Travis Unified	39.2
104	Sonoma	Geyserville Unified	3.1
105	Sonoma	West Sonoma County Union High	21.3
106	Sonoma	Wright Elementary	12.5

107	Stanislaus	Knights Ferry Elementary	1.1
108	Stanislaus	Riverbank Unified	23.3
109	Stanislaus	Stanislaus Union Elementary	24.2
110	Stanislaus	Waterford Unified	17.7
111	Tehama	Los Molinos Unified	5.3
112	Tehama	Manton Joint Union Elementary	0.5
113	Tehama	Plum Valley Elementary	0.4
114	Tulare	Hot Springs Elementary	0.4
115	Tuolumne	Sonora Union High	11.4
116	Ventura	Simi Valley Unified	152.1
117	Yuba	Wheatland Union High	6.1

* Santa Cruz City Elementary and Santa Cruz City High School Districts are two districts with joint administration and fiscal reporting. The amount shown in the column is the combined budget.

California Department of Education
1430 N Street
Sacramento, CA 95814

Attachment B

CA State Emergency Loans To School Districts

1991-2012

CALIFORNIA STATE EMERGENCY LOANS TO SCHOOL DISTRICTS, 1991 to 2012

March 1, 2013

District	Tenure of State Administrators and State Trustees	Legal Authority (in addition to AB 1200)	Date of Issue	Amount of State Loan	Interest Rate	Date/Amount of I –Bank Refinance & Remaining General Fund Loan	Outstanding Balance of I-Bank and General Fund Loans	Amount of Annual Loan Payment; Due Date	Amount Paid By District Including Principal & Interest	Pay Off Date
Inglewood Unified	Administrator 10/3/12 – Present	SB 533 Ch 325/12	11/15/12 11/30/12 2/13/13	$ 7,000,000 $12,000,000 $10,000,000 ($55 million authorized)	.349%	Not yet refinanced by I-bank.	$29,000,000 as of 3/1/13	To be determined after I-bank refinance.	$0	November 2033
South Monterey County Joint Union High (formerly King City Joint Union High)	Administrator 7/23/09 – Present	SB 130 Ch 20/09	7/22/09 3/11/10 4/14/10	$2,000,000 $3,000,000 $8,000,000 $13,000,000	5.44%	4/14/10 I-Bank refinanced $5 million GF loan, plus provided additional $8 million (total I-bank loan of $14,395,000 including principal, accrued interest, and expenses)	$13,605,000 as of 8/15/12 (Bond debt service payments due February and August each year, through 2029.)	I-Bank: $1.2 million total due during the period July through October, 2010-2028.	$2,508,481	October 2028 I-bank
Vallejo City Unified	Administrator 6/22/04 – Present Trustee 7/13/07 - Present	SB 1190, Ch 53/04	6/23/04 8/13/07	$50,000,000 $10,000,000 $60,000,000	1.500%	12/1/05 $20,642,992 refinanced by sale of I-Bank bonds of $21,205,000 (principal and accrued interest) $25,000,000 – GF $10,000,000 - GF	$39,437,747 as of 7/1/12	I-Bank: $1.3 million total due during the period July through January, 2006-2024; GF: $1.6 million due each June, 2007 – 2024; GF: $670,797 due each August, 2008- 2024	$25,849,759	January 2024 I-bank 8/13/24 GF
Oakland Unified	Administrator 6/16/03 – 6/28/09 Trustee 7/1/08 - Present	SB 39, Ch 14/03	6/4/03 6/28/06	$65,000,000 $35,000,000 $100,000,000	1.778%	12/1/05 $50,830,859 refinanced by sale of I-Bank bonds of $59,565,000 (principal and accrued interest) $35,000,000 – GF	$64,323,590 as of 7/1/12	I-Bank: $3.8 million total due during the period July through January, 2006-2023; GF: $2.1 million due each June, 2007-2026	$47,584,224	January 2023 I-bank 6/29/26 GF
West Fresno Elementary	Administrator 3/19/03 – 6/30/11 Trustee 8/26/08 – 12/4/09	AB 38, Ch 1/03	12/29/03	$1,300,000 ($2,000,000 authorized)	1.93%	N/a	-0-	N/a	$1,425,773	12/31/10 GF
Emery Unified	Administrator 8/7/01-6/30/04; Trustee 7/1/04 – 7/29/11	AB 96, Ch 135/01	9/21/01	$1,300,000 ($2,300,000 authorized)	4.19%	N/a	-0-	N/a	$1,742,501	6/20/11 GF
Compton Unified	Administrators 7/93-12/10/01 Trustee 12/11/01-6/2/03	AB 657, Ch 78/93 AB 1708, Ch 924/93	7/19/93 10/14/93 6/29/94	$3,500,000 7,000,000 9,451,259 $19,951,259	4.40% 4.313% 4.387%	N/a	-0-	N/a	$24,358,061	6/30/01 GF
Coachella Valley Unified	Administrators 5/26/92-9/30/96 Trustee 10/1/96-12/20/01	SB 1278, Ch 59/92	6/16/92 1/26/93	$5,130,708 2,169,292 $7,300,000	5.338% 4.493%	N/a	-0-	N/a	$9,271,830	12/20/01 GF
West Contra Costa Unified (formerly Richmond Unified)	Pre-AB 1200 Trustee 7/1/90 – 5/1/91; Administrator 5/2/91-5/3/92; Trustee 5/4/92-5/31/12	AB 1202, Ch 171/90 Superior Court Order	8/1/90 1/1/91 7/1/91	$2,000,000 7,525,000 19,000,000 $28,525,000	1.532% 2004 refi rate	12/1/05 $15,475,263 refinanced by sale of $15,735,000 in I-Bank bonds (principal plus accrued interest)	-0-	N/a	$47,688,620	5/30/12 I-bank

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 1 on Education

Subcommittee No. 1
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, May 9, 2013
9:30 a.m. or
Upon Adjournment of Session
Room 3191, State Capitol

PART B

Consultant: Kim Connor

OUTCOMES

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 916-651-1505. Requests should be made one week in advance whenever possible.

ISSUE 1. School Cafeteria Funds -- Senate Office of Oversight & Outcome Report

STAFF RECOMMENDATIONS:

Staff recommends that the Subcommittee take the following actions:

1. Adopt budget provisional language requiring the Department of Education to report to the legislative budget subcommittees, Department of Finance, and Legislative Analyst's Office by October 1, 2013, on the outcomes of a staff assessment to determine staffing requirements for implementing more frequent reviews of child nutrition programs pursuant to changes in federal law. The assessment shall also include results from the upcoming review of 30 districts by the department.

2. Adopt budget trailer bill language to eliminate two Education Code provisions that have been identified by the California Department of Education as directly conflicting with federal law. These changes are needed to conform state law to federal law and to eliminate any misunderstandings by local educational agencies. These provisions need to take place immediately to accompany any federal funds appropriated in the 2013-14 budget act.

   Staff further recommends that the Subcommittee:

- Direct staff to explore options for requesting an audit review of the federal child nutrition program by the State Auditor, Bureau of State Audits, in order to assess the misuse of funds by local agencies.

ACTION: Approved staff recommendations. Vote: 2-0. (Wyland absent)

VOTE ONLY: Issues 5 & 6, May 2, 2013 Agenda.
ISSUE 5 GOVERNOR'S STATE PRESCHOOL PROGRAM PROPOSAL &
ISSUE 6 CHILD CARE – FEDERAL FUNDS

Staff Recommendations. Staff recommends that the Subcommittee take the following actions:

- Approve technical April Finance Letter on the Child Care Development Block Grant.
- Approve DOF April Letter proposal to add trailer bill to require CDE to report data on preschool fees.
- At May Revise, begin a process of restoring about $120 million in Proposition 98 funding for the State Preschool (part-day/part-year) program that has been eliminated since 2008-09. As recommended by the LAO, the Subcommittee could phase in restorations over the a multi-year year period, thereby conforming to the Governor's approach for restoring reductions for some K-12 programs included in the Local Control Funding Formula.

ACTION: Approved staff recommendations. Vote: 2-0. (Wyland absent)

Senate Budget and Fiscal Review—Mark Leno, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Tuesday, May 21, 2013
1:30 p.m.
Room 3191, State Capitol

MAY REVISE OVERVIEW HEARING:
PROPOSITION 98 & K-14 EDUCATION ISSUES

Consultants: Keely Bosler & Kim Connor

Public Comment

6110 California Department of Education
6870 California Community Colleges

Issue 1:	**PROPOSITION 98 OVERVIEW**

Panelists: Department of Finance
Legislative Analyst's Office
Department of Education
Community College Chancellor's Office

GOVERNOR'S MAY REVISION PROPOSALS.

Proposition 98 Funding Overall – K-14 Education:

- **Current Year – Proposition 98 Funding Increases by $2.9 Billion.** The Governor proposes total Proposition 98 spending of **$56.5 billion** in 2012-13 for K-14 education, which reflects the estimated minimum guarantee at May Revise. Due to changes in General Fund revenues, the Proposition 98 funding level is **$2.9 billion** higher than the estimate of the minimum funding guarantee in January. The guarantee increases by $1.1 billion, as a result of higher total 2012-13 General Fund revenues. The guarantee also increases by $1.8 billion due, to a higher maintenance factor payment. This higher payment is driven by higher year-to-year growth in General Fund revenues. The year-to-year growth increases significantly, relative to the January estimates because (1) 2011-12 General Fund revenues *decrease* by $300 million and (2) 2012-13 General Fund revenues *increase* by $2.9 billion.

- **Budget Year – Proposition 98 Funding Decreases by $941 Million.** The Governor proposes Proposition 98 funding of **$55.3 billion** for K-14 education in 2013-14, which reflects the estimated minimum guarantee at May Revise. This reflects a decrease of **$941 million** from the minimum guarantee level in January. The reduction in the guarantee is primarily driven by decreases in 2013-14 General Fund revenue estimates, which are $1.8 billion lower than January levels.

Inter-Year Payment Deferrals – K-14 Education: The Governor's May Revise accelerates and increases inter-year payment deferrals for both K-12 schools and the community colleges. Overall, the May Revision retires an additional **$760 million** in deferrals in the current and budget years, relative to the January budget ($4.2 billion total deferral payments in January, $4.9 billion in the May Revision), as follows:

- **Current Year – Additional Deferral Paydowns.** Pays down **$1.8 billion** in additional deferrals for K-14 education ($1.6 billion for K-12 education and $180 million for community colleges), for a total paydown of **$4.0 billion i**n 2012-13.
- **Budget Year – Reduction in Deferral Paydowns.** Reduces deferral paydowns by **$1 billion** for K-14 education ($909 million K-12 education and $115 million community colleges), for a total K-14 budget year paydown of **$920 million** in 2013-14.

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Issue 1: PROPOSITION 98 OVERVIEW

Ongoing K-14 deferrals – utilized to mitigate programmatic reductions for K-12 schools and community colleges – reached an all-time high of **$10.4 billion** in 2011-12. The 2012-13 budget act reduced K-14 deferrals to **$8.2 billion**. The Governor's May Revise will further reduce K-14 deferrals to a total of **$5.5 billion** in 2013-14.

Other Major K-12 Education Proposals.

- **Additional Funding for Local Control Funding Formula .** The May Revision proposes an additional **$240 million** for implementing the LCFF, bringing total 2013–14 funding for LCFF implementation up to $1.9 billion. The Governor also makes various modifications, mostly relating to the proposed funding supplement for English learners and low–income students. Additionally, the Governor proposes to strengthen academic accountability by developing a tiered intervention system through which county superintendents, the Fiscal Crisis and Management Assistance Team and the Superintendent of Public Instruction could intervene in districts failing to meet academic performance targets.

- **Special Education Backfill.** The Governor proposes **$60 million** in Proposition 98 funding to backfill the loss of federal special education funding, due to the sequestration reduction effective in 2013-14. These new funds will be allocated to Special Education Local Planning Areas (SELPAs), based on the AB 602 funding formula.

Other Major Community College Proposals.

- **Apportionment Adjustments.** The May Revision rescinds the Governor's January proposal to provide an unallocated base increase to CCC of $197 million. Instead, the May Revise provides **$226.9 million** additional Proposition 98 General Fund to be allocated as follows: **$87.5 million** for a cost-of-living adjustment; **$89.4 million** for growth and to restore access; and **$50 million** for student support services, as detailed in the Student Success Act of 2012. Enrollment growth and the cost-of-living adjustment each represent base increases of 1.6 percent. [Note: The Governor's May Revise proposals for Community College apportionments are discussed separately in Issue #3 of the Subcommittee agenda.)

- **Adult Education.** The January budget proposed to restructure and increase funding for the adult education system, currently administered by CCC and K-12 school districts, by setting aside $300 million Proposition 98 General Fund in 2013-14 for adult education. The May Revision withdraws this proposal and maintains the status quo for two years, and proposes the development of regional adult education consortia, supported with additional dedicated adult education funding. This includes $30 million in 2013-14 for two-year planning grants, and $500 million in 2015-16 to support the regional consortia of community college districts and school districts. Funding would be prioritized to core areas of instruction. [Note: The Governor's May Revise proposal for Adult Education is discussed separately in Issue #2 of this agenda.)

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Issue 1: PROPOSITION 98 OVERVIEW

LAO COMMENTS/RECOMMENDATIONS:

- **Mix of One–Time and Ongoing Spending Reasonable.** The LAO believes the May Revision approach of using new one–time 2012–13 funds for one–time initiatives (including the acceleration of deferral pay downs) is prudent. The LAO also thinks the May Revision 2013–14 approach of dedicating about one–quarter of new resources to paying down deferrals, and the remainder to building up ongoing programmatic spending, is reasonable. Although the Governor dedicates a smaller share of new resources in 2013–14 to paying down existing obligations under the May Revision, compared to the January plan, the May Revision pays down more deferrals across the two–year period. Though the state will face a somewhat greater challenge in 2014–15 in finding available resources to continue paying down deferrals given this approach, the amount of total outstanding deferrals will be lower by $760 million moving into 2014–15.

- **One–Time Common Core Implementation Initiative Raises Important Issues to Consider.** According to the LAO, the Legislature has several important issues to consider regarding how best to spend an additional $1 billion in one–time funding. The Legislature faces significant trade–offs in deciding whether to use the funding for Common Core implementation or other existing one–time obligations. According to the LAO, if the Legislature were to deem Common Core implementation the highest of these priorities, it then would want to consider both how much to provide and what requirements, if any, to link with the funding. As part of this decision making, the Legislature would want to consider the amount of existing local, state, and federal resources that can be used to cover Common Core implementation costs, such that the additional amount of state resources provided could cover, otherwise unaddressed, implementation costs.

- **Special Education Backfill Proposal Is Reasonable.** The LAO believes the Governor's proposal to increase Proposition 98 spending for special education is reasonable. Though the state is not obligated to backfill this cut in federal funding, school districts are required by federal law to provide special education services, and a reduction in federal funding would likely lead to an increase in the amount of local general purpose funds school districts would have to dedicate for these services. This likely would exacerbate a recent trend in which school districts appear to be bearing a greater share of special education costs, as growth in state categorical and federal IDEA funds have not been keeping pace with growth in special education costs over the last several years.

- **Proposed Community College Base Augmentations Have Merit.** In their analysis of the Governor's January proposal to provide an unallocated increase to CCC, the LAO voiced serious concern that such an approach would provide no assurance that the Legislature's priorities would be met. According to the LAO, the May Revision addresses this concern by funding specific and high legislative priorities, such as access (enrollment) and student support services. As such, the LAO recommends the Legislature approve the administration's May Revision proposal.

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Issue 1: PROPOSITION 98 OVERVIEW

- **General Fund Proposition 98 Costs Higher Than Estimated in May Revision.** The Governor's May Revision fails to recognize additional General Fund Proposition 98 costs related to the allocation of Education Protection Account (EPA) funds. Proposition 30 requires that each school district receive at least $200 in EPA funds per student, and each community college district receives at least $100 per FTE student. For most districts, EPA funds will be used to pay for costs that otherwise would have been paid with state General Fund dollars. As a result, those EPA allocations will not increase state costs. Some districts, however, do not receive base state funding because associated costs can be met entirely with their local property tax revenues. For these districts--known as basic aid districts--EPA allocations will result in higher state costs. The May Revision does not account for these costs. The LAO estimates the annual cost in 2012–13 and 2013–14 at $68 million ($62 million for school districts and $6 million for community college districts). The LAO recommends the Legislature include these costs in building its Proposition 98 budget package, and reduce spending in other Proposition 98 programs, to maintain spending at the minimum guarantee in both 2012–13 and 2013–14.

LAO COMMENTS ON OVERALL PROPOSITION 98 REVENUES AND EXPENDITURES.

1. ***Due to Maintenance Factor Application, Additional Revenues Provide Little Net Benefit to State's Bottom Line.*** Under the Governor's current maintenance factor, schools and community colleges benefit significantly from improvements in General Fund revenues, but the rest of the budget benefits little. Such a maintenance factor limits Legislature's ability to build reserves or fund non-Proposition 98 programs.

2. ***LAO Alternative Maintenance Factor Approach Would Free Up At Least $2.9 Billion.*** If the Legislature took the LAO alternative maintenance factor approach, no additional current-year funding to schools would be necessary (saving $2.9 billion). In 2013-14, the Legislature would have more of this funding available to meet its priorities (including building a reserve, funding non-school programs, or further augmenting school programs).

3. ***Adopting LAO Revenue Estimates Increases Minimum Guarantee, Provides Some Funding for Other Programs.*** The LAO forecasts $3.2 billion in additional General Fund revenues in 2011-12, 2012-13, and 2013-14 combined. Under the LAO revenue forecast, the minimum guarantee would increase $900 million in 2012-13 and $1.6 billion in 2013-14. Roughly $700 million would be available for increasing the reserve or funding other programs.

4. ***If Using Higher Revenues, Many Reasons to Adopt Cautious Approach.*** Given the uncertainty and volatility of revenues, the Legislature may want to build a higher reserve if using higher revenue estimates. The Legislature also may want to be cautious in building up ongoing Proposition 98 programs to avoid having to make midyear programmatic cuts if higher revenues do not materialize.

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Issue 1:	PROPOSITION 98 OVERVIEW

SUGGESTED QUESTIONS: Several issues covered in this agenda item, will be discussed further in upcoming agenda items. Staff suggests the following questions for those issues not being discussed later in the agenda.

1. The Governor's May Revise revenue estimates result in an additional $2.9 billion in Proposition 98 funding in 2011-12 and a decrease of in Proposition 98 funding of nearly $1 billion in 2012-13. What are the factors associated with these adjustments which increase Proposition 98 funding in the current year but decrease Proposition 98 funding in the budget year?

2. What effect does the Governor's maintenance factor approach have on the Proposition 98 minimum guarantee in 2012-13? What is the ongoing effect on Proposition 98 funding?

3. The LAO estimates higher Proposition 98 funding levels based upon their May Revise revenue forecast. How much additional funding would be available for Proposition 98 in the current year and budget year under the LAO's revenue estimate?

4. The Governor continues his attention to reducing ongoing, inter-year payment deferrals for K-12 schools and community colleges at May Revise. What are the benefits of reducing deferrals to K-12 schools and community colleges? While the Governor's plan reduces deferrals for K-12 schools and community colleges to $5.5 billion in 2013-14 – nearly half of 2011-12 level of $10.4 billion – what is the ongoing hardship for K-12 local educational agencies and community college districts?

5. The Governor's proposes $61 million to backfill the loss of federal special education funds in 2013-14 resulting from recent federal sequestration reductions. This amount includes $2.1 million for infant and preschool programs. Is the backfill necessary for the Governor's bifurcation proposal? How will backfill funds be allocated? Does the Governor backfill sequestration cuts for other federal education programs?

6110 California Department of Education
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Issue 2:	**ADULT EDUCATION**

Panelists: Department of Finance
Legislative Analyst's Office
Department of Education
Community College Chancellor's Office

GOVERNOR'S MAY REVISION PROPOSALS:

Governor Offers New Adult Education Program Proposal.
The Governor's May Revise rescinds the January proposal that would have provided community colleges with **$300 million** in base funding for adult education in 2013-14. Instead, the Governor proposes to provide **$30 million** in 2013-14 for community colleges and school districts (through their adult schools), to create joint plans for serving adult learners in their area. The Governor proposes both budget bill language and education trailer bill language to implement the new proposal.

Under the May Revise proposal, $30 million in Proposition 98 funds are appropriated to the community colleges in 2013-14 for adult education planning grants. These funds will be distributed to regional consortia of community colleges and school districts. Grant awards will be selected by the California Community Colleges Chancellor's Office and the California Department of Education.

The regional consortia will create a plan to serve adults in the region. Providers would have two years to form regional consortia and develop plans for coordinating and integrating services. Regional consortia participants could include local correctional facilities, other public entities, and community-based organizations.

Beginning in 2015-16, the Administration proposes to provide **$500 million** in Proposition 98 funding for a new **Adult Education Partnership Program,** which will provide funding to the regional consortia to deliver adult education. This new funding will be appropriated to the Chancellor's Office. In order to be funded, regional consortia shall include, at a minimum, one community college district and one school district. The community college shall act as the fiscal agent for the grant.

6110 California Department of Education
6870 California Community Colleges

Issue 2: ADULT EDUCATION

Each regional consortium shall create a plan to serve adults in their region, which shall include, at a minimum:

- Current levels and types of adult education programs within their region, including correctional education, and including credit, noncredit, and enhanced noncredit adult education coursework.
- Current need for adult education programs within their region.
- Plans for parties that make up the consortium to integrate their existing programs.
- Plans to address the gap identified between services levels and identified needs.
- Plans to integrate existing programs with funding received from the Adult Education Partnership Program.

The California Community College Chancellor's Office and the State Department of Education may identify additional items consortia must include in the plan.

Consistent with his approach in January, the Governor limits funding for the Adult Education Partnership Program to five "core instruction areas", including:

- adult elementary and secondary education,
- vocational training,
- English as a second language,
- adults with disabilities, and
- citizenship.

The funding rate for the regional consortia will be based on the career development college preparation rate (enhanced non-credit rate) of **$3,232** per full-time equivalent student. This rate would be subject to annual cost-of-living adjustments.

Of the funds made available for the Adult Education Partnership Program, a minimum of two-thirds of the total shall be restricted to existing providers in the regional consortia, if they maintain their 2012-13 levels of state funded spending for adult education and correctional education in 2013-14 and 2014-15.

6110 California Department of Education
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Issue 2: ADULT EDUCATION

Governor Maintains January Proposal to Shift School Districts Apprenticeship Categorical Funds to CCC Budget.

The Governor continues his January proposal to shift $15 million in Proposition 98 funding for the Apprenticeship Program from the Department of Education to the community colleges. However, the May Revision makes some changes to allow school districts to use shifted apprenticeship funds for their own existing programs. The May Revision also removes the current community colleges apprenticeship program from categorical flexibility, thereby reestablishing the program as a restricted categorical program.

Governor Continues January Proposal for Correctional Education, But Appears to Build Program into New Adult Education Program Moving Forward.

The Governor's January budget proposes to eliminate approximately **$15 million** for a K-12 categorical program that provides adult education coursework for individuals incarcerated in county jails in 2013-14. These funds would be rolled into the Local Control Funding Formula. The May Revision does not change this proposal, however the Governor's proposed trailer bill language builds correctional education into the new Adult Education Partnership Program.

LAO COMMENTS/RECOMMENDATIONS

Promising Plan for Adult Education. The LAO believes the May Revision adult education proposal is much better than the Governor's January proposal. By proposing a regional delivery model, the new plan would create a strong incentive for adult education providers to leverage their relative strengths and improve collaboration. By conditioning the bulk of new base funding on providers maintaining at least their current level of service, the May Revision also would create an incentive for providers to continue offering adult education programs in 2013–14 and 2014–15.

The LAO thinks the two–year planning time frame is reasonable. During this preparation period, providers would have an opportunity to identify program needs and create aligned curricula. At the same time, the Legislature, Chancellor's Office and the Department of Education could be addressing state-level issues in support of the regional consortia, such as developing a common course numbering system for adult education and deciding on the amount of funds each region would be eligible to apply for beginning in 2015–16.

While the LAO agrees with the overall approach proposed by the Governor, the LAO recommends the Legislature provide more flexibility for providers to organize themselves (for example, by allowing the Chancellor's Office to pass through funds to school districts if they are interested in being a consortium's fiscal agent).

6110 California Department of Education
6870 California Community Colleges

Issue 2: ADULT EDUCATION

SUGGESTED QUESTIONS:

1. The Governor's proposal states intent to build adult education funding and program aligned to adult education needs and outcomes? How is this achieved in the Governor's proposal?

2. The Governor's proposal creates a new regional structure of for adult education built upon partnerships among community college, K-12 and other providers. How will regions be defined for ? How many regions will result? What other providers are envisioned?

3. How will the $30 million in planning funds be allocated to the regions? Will allocations to the regions assure a more equitable statewide distribution of funding based upon need?

4. Since much of the $500 million new funding in 2014-15 is dependent upon spending in 2012-13, will that exclude areas of the state that have not received state funding in the past?

5. Under the Governor's plan, the funding rate for the new Adult Education Partnership Program would be based upon the community college enhanced non-credit rate, which is currently $3,232 per full-time equivalent student. In contrast, prior to flexibility, the K-12 adult education rate was $2,645 per student, as measured by average daily attendance. What is the Governor's rationale for selecting the enhanced non-credit rate for funding the new program?

6. Fees have been an important component to many K-12 adult education programs. How will the new program address differences in fee policies between K-12 adult schools and community colleges?

7. The Governor's new proposal limits Adult Education Partnership Program funding to five core instructional areas. Will community colleges and K-12 adult schools have the authority to continue other adult education programs through fees and other discretionary Proposition 98 funding, if they choose?

6870 California Community Colleges

Issue 3:	Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations – May Revision Update

Panelists: Department of Finance
Legislative Analyst's Office
Community College Chancellor's Office

Previous Subcommittee Hearing. At the April 11 hearing, the January budget proposal for the CCC was heard in this subcommittee. In January the Governor proposed that CCC receive a $197 million increase in base apportionment funding, with the allocation methodology to be determined by the Board of Governors. This was roughly a five percent increase over 2012-13. This funding was proposed to be linked to an expectation that the CCC improve their performance in the following four areas:

- ✓ Increased graduation and completion rates;
- ✓ Increased CCC transfer students enrolled at UC and CSU;
- ✓ Decreased time-to-degree; and
- ✓ Increased credit and basic skills course completion.

GOVERNOR'S MAY REVISION PROPOSAL:

May Revision. The May Revise substitutes the unallocated base CCC increases the Governor proposed in January, for targeted augmentations. The May Revision allocates these funds, as follows: $87.5 million for a cost-of-living adjustment (an increase of 1.57 percent); $89.4 million for enrollment growth (an increase of 1.63 percent); and $50 million to the Student Success and Support categorical that funds counseling and other support activities associated with student success. Combined these adjustments reflect $227 million in funding for the CCCs, or an increase of $30 million over the January 10 Proposition 98 General Fund proposed for 2013-14.

The Administration is not proposing performance measures for the CCCs and has indicated that it will continue to work on this issue over the next year. Furthermore, the May Revision provides that, of the $50 million targeted for student support activities, up to $7 million may be used by the Chancellor's Office for the development of E-Transcript and E-Planning tools.

LAO COMMENTS/RECOMMENDATIONS:

LAO Comments. The LAO recommends approval of the Administration's May Revision proposal around CCC base apportionment.

Staff Comments. Staff finds that the May Revision has put forward a thoughtful plan for apportioning the growth funds allocated to the community college system. However, staff finds that this plan is missing restorations in two other key areas related to serving the students with disabilities population and the economically disadvantaged student population.

6870 California Community Colleges

Issue 3:	Multi-Year Budget Plan – Base Apportionment Increases and Performance Expectations – May Revision Update

Both the Disabled Student Program and Services (DSPS) and the Extended Opportunity Programs and Services (EOPS) categorical programs were reduced significantly during the difficult budget years since 2008-09. While the CCCs have done a significant amount through their Student Success Taskforce to refocus existing resources on better serving their student population, including disabled and economically disadvantaged students, there are additional supports beyond those identified in the Student Success and Support categorical program, that are important to the overall success of disabled and economically disadvantaged students.

Specifically, students with disabilities often require specialized services, such as sign language interpreters and alternative media, to access education and these services must be provided in a timely manner so the student can be successful in completing coursework. Furthermore, the EOPS program has historically provided tutoring, textbook vouchers, computer loans and other support services outside of traditional counseling. These services further promote success of economically disadvantaged populations seeking education within the community colleges. Given this, staff finds that additional investments in DSPS and EOPS are warranted to complement the investments made in the Student Success and Support categorical which is the foundation to student supports at the CCCs.

Staff Recommendation. Staff recommends that the Subcommittee direct staff to develop a plan that includes additional funding for the DSPS and EOPS categorical programs.

SUGGESTED QUESTIONS:

6870 California Community Colleges

Issue 4: Pay Down of Existing Deferrals – May Revision Update

Panelists: Department of Finance
Legislative Analyst's Office
Community College Chancellor's Office

Previous Subcommittee Hearing. At the April 11 hearing, the January budget proposal considered this item. In January, the Governor proposed $179 million to pay down existing deferrals in the budget year. This would have lowered total system deferrals to $622 million; the remaining deferred funding would be paid down by the 2016-17 fiscal year. The level of deferral "pay down" was consistent with, and proportional to, the payment of deferred funding in K-12 education; e.g., roughly a 50-50 split of new funding versus deferral pay down.

GOVERNOR'S MAY REVISION PROPOSAL:

May Revision. In January, the deferral pay down amount for 2012-13 (the current year) was $159.9 million; and the proposed pay down amount for 2013-14 was $179 million. The May Revision proposes to use the current year increase in Proposition 98 obligations to pay down an additional $179.9 million in deferrals (a total deferral pay down in 2012-13 of almost $340 million).

The May Revision proposes to reduce the deferral pay down in the budget year by $115 million, reflecting reduced estimates of Proposition 98 expenditures in the budget year. Overall, the May Revision reduces the CCC system-wide deferral to $557.5 million. The payment of deferrals is consistent with, and proportional to, the payments in K-12 education.

LAO COMMENTS/RECOMMENDATIONS:

LAO Comment. The LAO finds that the Governor's May Revision approach of dedicating about one-quarter of new resources to paying down deferrals in the budget year is reasonable.

Staff Comment. From a fiscal and policy standpoint, it is prudent to reduce these inter-year deferrals, as they remain outstanding obligations on the state's books. Deferrals also come with borrowing costs for districts, and may result in cash flow concerns caused by the delayed state payments.

6110 California Department of Education

Issue 5.	**COMMON CORE STANDARDS IMPLEMENTATION**

Panelists: Department of Finance
Legislative Analyst's Office
Department of Education

GOVERNOR'S MAY REVISION PROPOSAL

In August 2010, the State Board of Education revised the state's existing academic standards in English language arts and mathematics to align with the Common Core State Standards developed by the National Governor's Association and Council of Chief State School Officers.

In response, the Governor proposes $**1 billion** in one-time Proposition 98 funding for school districts, charter schools, and county offices of education, for the purpose of implementing these State Board adopted "Common Core" academic content standards in 2013-14.

Funding is allocated to these local educational agencies "not sooner than September 16, 2013", and is available over a two year period.

Per the Governor, the $1 billion, one-time, investment allows local educational agencies to make significant one-time investments in professional development, instructional materials, and technology necessary to implement Common Core standards.

Common Core standards, for purposes of the Governor's proposal, are defined as academic content standards adopted by the State Board of Education pursuant to Education Code Sections 60605.8, 60605.10, and 60605.11. The statutory provisions cover content standards for both: English language arts (ELA) and (2) mathematics.

The $1 billion is apportioned to local educational agencies on the basis of average daily attendance (ADA) and provides an average of $170 per pupil, outside of the Local Control Funding Formula.

Funding shall be expended by local educational agencies based upon a plan approved by its governing board or body. The governing board or body shall hold a public hearing on the plan prior to adoption of the plan in a public meeting.

The Governor proposes trailer bill language to appropriate the $1 billion in one-time funding. While funds are appropriated in 2013-14, these one-time funds are attributable to the 2012-13 fiscal year for purposes of meeting the Proposition 98 minimum funding guarantee.

6110 California Department of Education

Issue 5. COMMON CORE STANDARDS IMPLEMENTATION

LAO COMMENTS/RECOMMENDATIONS

One–Time Common Core Implementation Initiative Raises Important Issues to Consider. According to the LAO, the Legislature has several important issues to consider regarding how best to spend an additional $1 billion in one–time funding.

The Legislature faces significant trade–offs in deciding whether to use the funding for Common Core implementation or other existing one–time obligations. For example, the Legislature could use the funds to pay down additional deferrals, pay outstanding mandate claims, retire more of the Emergency Repair Program obligation (an obligation relating to a legal settlement), or fund other activities, such as facility maintenance, that have been reduced significantly over the past several years.

According to the LAO, if the Legislature were to deem Common Core implementation the highest of these priorities, it then would want to consider both how much to provide and what requirements, if any, to link with the funding.

As part of this decision making, the Legislature would want to consider the amount of existing local, state, and federal resources that can be used to cover Common Core implementation costs, such that the additional amount of state resources provided could cover otherwise unaddressed implementation costs.

SUGGESTED QUESTIONS:

1. What are the Administration's cost estimates for implementation of Common Core standards by school districts, charter schools, and county offices of education? Are the costs for all these entities the same?

2. The Governor's proposal allocates funding based upon average daily attendance (ADA). Would it be better to allocate these funds based upon enrollment?

3. The Governor's proposal funds implementation of ELA and math standards. Does this set a precedent for funding implementation of common core standards adopted in other subject areas?

4. The Governor's proposal broadly defines the uses of the $1 billion to include: "instructional materials, professional development, and technology necessary to implement" Common Core academic content standards. What assurances does the state have that these funds will be utilized by local educational agencies to provide support implementation of Common Core standards for all students, such as English learners and students with disabilities?

5. Is professional development intended to be limited to teachers only, or could it also include training for administrators and classified staff?

6. Why are the three State Special Schools excluded from the allocation formula?

6110 California Department of Education

Issue 6.	LOCAL CONTROL FUNDING FORMULA

Panelists: Department of Finance
Legislative Analyst's Office
Department of Education

GOVERNOR'S MAY REVISION PROPOSAL.

Increased Funding. The Governor's May Revise provides an additional **$240 million** in Proposition 98 funding, above the January budget, to increase base resources for the **Local Control Funding Formula (LCFF)** in 2013-14. The Governor's proposal brings total new funding for LCFF to **$1.9 billion** in 2013-14, the first year of implementation.

Of the $240 million increase proposed by the Governor, **$236 million** is provided for school districts and charter schools and **$4 million** is provided for county offices of education in 2013-14.

Continued Property Tax Offsets for County Offices of Education. The May Revision proposes trailer bill language to ensure local property tax revenues, that currently fund regional occupational centers and programs, are included as part of a county office of education's 2012-13 state aid received through categorical programs, as replaced by the Local Control Funding Formula.

Formula-Related Modifications. The Governor proposes the following changes to supplemental and concentration funding under the LCFF:

- Require county offices of education to review school district English learner, free and reduced-price meal eligible student, and foster child data, and require this data to be subject to audit as part of each local educational agencies annual financial and compliance audit.

- Ensure that all local educational agencies report current English learner, free and reduced-price meal eligible student, and foster child data within the California Longitudinal Pupil Achievement Data System.

- Use a three-year rolling average percentage of English learners, free and reduced-price meal eligible students, and foster children for purposes of computing the supplemental and concentration grants; in order to prevent dramatic fluctuations in the data.

- Allow local educational agencies to receive supplemental and concentration grant funding for each English learner for up to seven years, instead of five years.

- Provide regional occupation centers and programs and home-to-school transportation joint powers authorities with continued funding for two years.

- Specify that funding for Local Control Funding Formula cost-of-living adjustments and transition funding are subject to an annual appropriation in the Budget, and clarify that base funding levels, as adjusted for average daily attendance, are continuously appropriated.

6110 California Department of Education

Issue 6. LOCAL CONTROL FUNDING FORMULA

Expanded Accountability Features. The Governor's May Revise greatly expands the accountability provisions of the LCFF proposal. More specifically, the May Revise proposes to:

- Require local education agencies to spend, for the primary benefit of English learners and students designated fluent-English proficient, free and reduced-price meal eligible students, and foster children, a minimum level of funding, based on the amount they spent for these students during 2012-13.

  Further, upon full implementation of the Local Control Funding Formula, require local agencies to spend for the primary benefit of these students at least as much as they receive from the base, supplemental, and concentration grants generated by English learners, free and reduced-price meal eligible students, and foster children.

- Require expenditures of supplemental and concentration funds to be proportional to the number of English learners, free and reduced-price meal eligible students, and foster children at each school site.

- Allow the State Board of Education to provide direction to the Superintendent of Public Instruction to intervene, in place of the county superintendent, in a district which is failing to meet academic achievement targets.

  For school districts that fail to meet academic achievement targets set by the State Board of Education for two out of three years, the county superintendent may disapprove local plans that are not likely to improve student achievement; and, in limited cases where a Fiscal Crisis and Management Assistance Team review deems necessary, a county superintendent may make changes to a district's plan or overturn decisions made by the district governing board.

- Allow the State Board of Education to provide direction to the Superintendent of Public Instruction to intervene, in place of the county superintendent, in a district which is failing to meet academic achievement targets.

- Add students residing in foster care as an identified demographic subgroup, for purposes of the Academic Performance Index and ensuring districts continue to spend. Reduce the minimum subgroup size for demographic subgroups, for purposes of the Academic Performance Index to 30 pupils.

6110 California Department of Education

Issue 6.	LOCAL CONTROL FUNDING FORMULA

LAO COMMENTS/RECOMMENDATIONS

- **Overall LCFF Framework Remains Sound.** The LAO continues to believe that the overarching structure of the Governor's LCFF proposal is sound and recommends the Legislature adopt some variant of it.

  The LAO believes most of the specific formula-related modifications to the LCFF, proposed in the May Revision, are reasonable; but likely would have only a minor effect on districts and their funding allotments. In a few cases (such as the new requirements related to school–site expenditures), the LAO is concerned that the modifications in the May Revision could limit districts' flexibility and increase their administrative burden.

  The Governor's May Revision proposal, relating to academic accountability under the LCFF; seems generally reasonable to the LAO in that it attempts to outline certain steps county superintendents, FCMAT, and the SPI can take to intervene in struggling districts. According to the LAO, this proposal somewhat parallels existing practices for holding districts fiscally accountable. The LAO has some concerns, however, regarding the current capacity of the county superintendents, FCMAT, and the SPI to perform these duties effectively. As the Governor proposes to begin implementing the new system in 2015–16, the LAO thinks the Legislature could take some more time to consider the specific roles of each identified agency and then, accordingly, build their capacity to advise, support, and intervene in struggling districts.

- **Recommend Governor's County Office Proposal Be Postponed One Year.** As described in their January report, the LAO has serious concerns with the Governor's proposal for COEs. Specifically, the proposal: (1) increases funding for regional services while reducing the responsibilities of COEs, (2) compounds the existing lack of accountability over how COEs spend regional funding, and (3) increases alternative education funding by up to $7,000 per student without clear justification. Given these concerns and the short amount of time remaining this budget season to address them, the LAO recommends the Legislature retain the existing COE funding formulas in 2013–14 and refine the Governor's proposal during the upcoming year. This alternative would allow the state additional time to consider carefully what activities should be required of all COEs and develop an appropriate funding rate for those activities beginning in 2014–15. If the Legislature were to adopt this recommendation, $32 million would be freed up for other Proposition 98 purposes in 2013–14.

6110 California Department of Education

Issue 6. LOCAL CONTROL FUNDING FORMULA

SUGGESTED QUESTIONS:

1. The Governor's May Revise greatly expands the accountability provisions of the LCFF proposal, and initiates new programmatic accountability requirements that do not exist within the current categorical funding systems. What are the most important new provisions and how do they work together?

2. What is the timetable for implementation of the new accountability provisions proposed by the Governor? Will they accompany new funding in 2013-14?

3. The Governor's May Revise provides new assurances that supplemental and concentration funding be expended to provide "primary benefit" for the students generating those funds. How does the Administration define primary benefit?

4. The LAO recommended that language be added to the Governor's January proposal to assure that LCFF funding "supplements", and does not supplant, existing funding for low-income students, English learner students, and student residing in foster care. The Administration appeared open to this LAO recommendation previously. Why was this language not included in the Governor's May Revise?

5. The May Revise includes annual audit provisions related to LCFF. Can the Administration describe these new features and what assurances can they provide, given the broad flexibility inherent in the LCFF?

6. The Governor's May Revise provides a new model for state level oversight and intervention of local academic programs, that appears to build upon the effective fiscal oversight model the state has developed with the Fiscal Crisis and Management Assistance Team. What is the Administration's vision for this new program oversight model?

7. The Governor's May Revise includes several new provisions that, for the first time, recognize students residing in foster care within the state's accountability systems, as well as within the new Local Control Funding Formula. Can the Administration describe some of these new features and how they interact to the benefit of students in foster care?

Senate Budget and Fiscal Review—Mark Leno, Chair
SUBCOMMITTEE NO. 1 on Education

<u>Subcommittee No. 1</u>
Chair, Marty Block
Member, Roderick Wright
Member, Mark Wyland

Thursday, May 213, 2013
11:00 a.m.
Room 3191, State Capitol
Consultant: Kim Connor

MAY REVISE AND OPEN ISSUES

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 916-651-1505. Requests should be made one week in advance whenever possible.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
	I. CHARTER SCHOOLS						
1	Language	*January Budget.* Charter Schools Facilities Block Grant Funding for Non- Classroom Based Charter Schools. Language.	The Governor proposes trailer bill language to expand program eligibility to charter schools with non-classroom-based instruction, instead of limiting funding to classroom-based instruction.	Approve LAO alternative to: (1) allow funding for facilities at non-classroom based charter schools at lower rate of $425 per pupil. (2) Require non-classroom based schools applying for facility grant funds to provide additional information regarding their instructional programs.	TBL		Issue previously heard on March 21 and held open.
2	Language	*January Budget.* Charter School Funding Determinations for Non-Classroom Based Instruction. Language	The Governor proposes trailer bill language to revise the current law funding determination process for non-classroom-based instruction to streamline the process. Specifically, the Governor's proposal limits the determination process to the first and third year of a charter school's operation.	Approve LAO alternative.	TBL		Issue previously heard on March 21 and held open.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
3	0985-001-0001	*May Revise*. Charter Schools Facilities Block Grant Program Transfer - One-Time Funding. (Issue 001)	Provides $105,000 in General Funds on a one-time basis to facilities the transfer of the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority (CSFA). Of this amount, $15,000 would be provided for administrative support and $90,000 for consulting services to allow CSFA to review the existing revolving loan fund portfolio and implement loan underwriting criteria.	Conform to action taken in Subcommittee #4.	BBL	$105	Subcommittee approved the program transfers on March 21.
4	0985-001-0001	*May Revise*. Charter Schools Facilities Block Grant Program Transfer. Language.	Proposes to (1) allow the California School Finance Authority (CSFA) to apportion Charter School Facilities Grant Program (CSFGP) funds by October 1st in 2013-14 and by August 31st in subsequent fiscal years; and (2) to establish the CSFA as the senior creditor for purposes of satisfying audit findings for CSFGP beginning in 2013-14.	Conform to action taken in Subcommittee #4.	TBL		

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
	II. SPECIAL EDUCATION						
1	6110-161-0890	*May Revise*. Federal Special Education Funds Adjustment. Federal Individuals with Disabilities Education Act (IDEA) Funds. (Issue 794)	Requests a decreased of $11,095,000 ~~$4,747,000 in~~ in federal special education funds to align to the anticipated federal Individuals with Disabilities Education Act Part B grant award.	Approve		-11,095	
2	6110-161-0890	*May Revise*. Federal Special Education Carryover Funds. Federal Individuals with Disabilities Education Act (IDEA) Funds. (Issue 793)	Requests an increase of $4,708,000 to reflect one-time federal Individuals with Disabilities Education Act (IDEA) carryover funds. The Administration proposes to use the carryover funds for the following purposes: $840,000 for the IDEA Part B 611 grant; $1,800,000 to restore the non-Proposition 98 reduction to the State Special Schools ; $1,374,000 for other state-level activities; $374,000 for the IDEA Part B 619 grant; and $320,000 for the State Personnel Development Grant.	Approve $4.7 million in carryover funds, with the following changes: (1) increase funding to LEAs to $1.984 million. (2) Reduce funding for state-level activities to $230,000 for BIP per earlier Subcommittee action; (3) Strike reference to the sequester reduction in provisional language for Personnel Development Grant.		4,708	On March 21 the Subcommittee approved $230,000 in one-time federal IDEA carryover funds to CDE to provide technical assistance and monitoring to local educational agencies related to the provision of positive behavior intervention services.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
3	6110-161-0001 6110-488	*May Revise.* Reappropriation of One-Time Funds for Special Education. Proposition 98 GF. Local Assistance. (Issues 009 and 784)	Requests a net decrease if $22,480,000 Proposition 98 General Fund to reflect a reappropriation of $29,305,000 in one-time Proposition 98 General Fund savings for special education activities to offset the reduction in ongoing funds. This amount would be in addition to the one-time funding of $10,379,000 included in the Governor's Budget, for a total of $39,684,000. This action also corrects an under funding of $6,825,000 for special education in the Governor's Budget. This amount would be in addition to the one-time funding of $10,379,000 included in the Governor's Budget, for a total of $39,684,000. This action also corrects an under funding of $6,825,000 for special education in the Governor's Budget.	Approve. Conform to reappropriations to final P-98 Package.		(22,480)	
4	6110-161-0001	*May Revise.* Special Education Cost of Living and Property Tax Adjustments. Proposition 98 GF. Local Assistance. (Issues 785, 786, and 796)	Requests that this item be decreased by $59,011,000 Proposition 98 General Fund. This adjustment includes a decrease of $59,931,000 to reflect increased offsetting property tax revenues; an increase of $3,778,000 to reflect growth in average daily attendance estimates; and a decrease of $2,858,000 to reflect a decrease in the cost-of-living adjustment.	Approve		(59,011)	

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
5	6110-161-0001	*May Revise* . Block Grant for Pupils with Low Incidence Disabilities. Proposition 98 GF. Local Assistance. (Issue 790)	The Governor's January budget proposed consolidation of two programs for students with low incidence disabilities -- equipment and materials, and specialized services -- into a new block grant. The May Revise requests that Regional Occupational Centers/Programs (ROC/Ps) for students with low incidence disabilities be added to the block grant. Funding from ROC/P program is added to the block grant, as adjusted to reflect actual expenditures for the program.	Approve	BBL TBL		Subcommittee approved consolidation of two programs into the block grant on March 21. The LAO recommended adding ROC/Ps to the block grant.
6	6110-161-0001	*May Revise.* Consolidation of Extraordinary Costs Pools. Proposition 98 Fund. Local Assistance. (Issue 791)	Request BBL to combine the two extraordinary cost pools associated with nonpublic, nonsectarian schools and educationally related mental health services. The LAO recommended combining these two costs pools and adopting a uniform set of eligibility criteria for subsidizing high-cost student placements.	Approve CDE language with DOF edits.	BBL		Subcommittee approved LAO recommendation to combine the two extraordinary cost pools on March 21 with modification to assure coverage for mental health services.
7	6110-005-0001	*May Revise.* State Special Schools. Federal Reimbursements. State Support. (Issue 774)	It is requested that this item be increased by $1.8 million in reimbursements to restore a reduction to State Special Schools with one-time federal Individuals with Disabilities Education Act carryover funds.	Approve		1,800	

#	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
8	Language	*May Revise*. Special Education Maintenance of Effort Requirement. Local Assistance.	Requests trailer bill language be adopted to specify that $45,618,000 provided in the Budget Act of 2011 fully funds the maintenance of effort for fiscal year 2008-09 in the amount of $8,954,000, and fully funds the maintenance of effort for fiscal year 2009-10 in the amount of $36,664,000.	Approve	TBL		
9	6110-161-0001	*May Revise* . Update Statewide Target Rate for Special Education Funding Formula. Proposition 98 . Local Assistance. (Issue 792)	Requests an increase of $1,333,000 to update the statewide target rate to reflect the average special education local plan area base per-pupil rate at the 50th percentile after removing federal funds from the special education formula. It is also requested that trailer bill language be adopted to implement this change.	Approve a total of $4.7 million to reflect more updated calculations from CDE and to reflect equalization to statewide average.	TBL		Subcommittee approved updated statewide target rate on March 21, but help open additional funding.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
	III. MANDATES						
1	6110-296-0001 6110-295-0001	*January Budget.* K-12 Mandates Block Grant Funding. Local Assistance.	Governor proposes an additional $100 million to cover the Graduation Requirement and Behavior Intervention Plan mandates within the K-12 Mandates Block Grant.	Approve with intent to send to Conference Committee.	BBL TBL		Issue heard on March 21 and held open.
2	Language	*May Revise.* Pupil Suspension/ Expulsion Mandate - Add to Block Grant. Local Assistance.	Governor proposes to add the Pupil Suspension/Expulsion mandate to the K-12 Mandate Block Grant.	Approve	TBL		Governor's January budget proposes to suspend the mandate. That issue heard on March 21 and held open. New mandate.
3	Language	*May Revise.* Oral Health Assessments Mandate - Add to Block Grant. Local Assistance.	Governor proposes to add the Oral Health Assessments mandate to the K-12 Mandate Block Grant and the K-12 Mandates Claims item.	Reject .	TBL		New Issue.
4	Language	*May Revise .* Mandates Block Grant Reporting Language. Local Assistance.	Governor proposes to: (1) change the deadline by which school districts, county offices of education and charter schools are required to submit letters to participate in the block grant from September 30 to August 30. (2) change the deadline by which CDE is required to submit a report about grant participation from September 9 to November 1.	Approve	TBL		New Issue- Language.
5	6110-001-0001	*January Budget.* Mandate Suspension. Language.	Governor proposes to suspend the Public Records Act mandate.	Reject .	TBL		Issue heard on March 21 and held open. Staff directed to work on alternative to suspension. This was not suspended by local government agencies.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
6	TBL	*Legislative Proposal:* Revisions to RRM Language.	Revise current law to specify that the Commission on State Mandates must utilize actual cost estimates in making mandate cost determinations under the Reasonable Reimbursement Methodology.	Adopt placeholder TBL.	TBL		Issue heard on March 21 and staff directed to develop options for strengthening statutes guiding the utilization of Reasonable Reimbursement Methodology by the Commission on State Mandates.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
	IV. CDE STATE OPERATIONS						
1	6110-001-0001	*January Budget*. Revision of Academic Performance Index. General Fund (Non-98). State Support.	**Requests $217,000** in state General Fund and **2.0 positions** to redesign the state's Academic Performance Index (API). This redesign will include a broader measure of school outcomes and success by including additional indicators in the API in addition to assessment results pursuant to SB 1458/Steinberg (Chapter 577, Statutes of 2012) in 2013-14. The bill will require the development of new student performance measures -- such as college going rates and career outcomes -- as well as new sources of data.	Approve			Issue previously heard on May 9 and held open.
2	6110-001-0001	*January Budget* . Pupil Complain Process. General Fund (Non-98). State Support.	Requests **$109,000** in State General Fund and **1.0 position** to implement the requirements of AB 1578/Lara (Chapter 776, Statutes of 2012) beginning in 2013-14. This measure authorizes a complaint of noncompliance with the prohibition against pupil fees to be filed with the principal of a school under the existing Uniform Complaint Procedures process and authorizes a complainant who is not satisfied with the decision of the school to appeal the decision to the CDE. The bill further requires CDE, commencing in 2014-15 and every three years thereafter, to develop and distribute guidance regarding pupil fees and make it available on its Internet Web site.	Approve			Issue previously heard on May 9 and held open.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
3	6110-001-0001	*January Budget.* Fee Reimbursements for Adoption of Instructional Materials for Mathematics.	Requests **$350,000** in fee reimbursement authority to cover the costs of a new statewide mathematics instructional materials adoption beginning in 2012-13 and continuing through 2013-14 pursuant to AB 1246/Brownley (Chapter 668, Statutes of 2012). The 2008-09 budget suspended all statewide instructional materials adoptions due to the state budget shortfall. In 2009-10, $705,000 in state General Fund support for the state Instructional Materials Commission was eliminated through a budget veto. AB 1246 authorizes a new statewide mathematics adoption and authorizes the state to assess a one-time fee payment from participating publishers and manufacturers to offset the costs of this adoption process.	Approve proposal but authorize $530,815 to reflect latest reimbursement estimate.		181	New Issue. CDE now estimates reimbursements of $530,815 which updates the January budget estimate of $350,000. DOF approves.
4	6110-001-0001	*May Revise.* One-time Funds for Instructional Quality Commission. General Fund (Non-98) State Support. (Issue 242)	Requests that Schedule (2) of this item be increased by $233,000 one-time General Fund to support activities of the Instructional Quality Commission in 2013-14. The Commission is required to complete reviews of curriculum frameworks for English language arts and mathematics in 2013-14. Although one-time funding is requested for the activities required of the Instructional Quality Commission in 2013-14, DOF will work with CDE and the State Board of Education when developing the 2014-15 Governor's Budget to evaluate the funding needs of the Instructional Quality Commission in 2014-15 and future years.	Approve with language change to specify that funding be used for purposes of meeting deadlines pursuant to Education Code Section 60207.	BBL	233	

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
5	6110-003-0001 6110-001-0890	*May Revise*. Update of the Standardized Account Code Structure (SACS) System. General Fund (Non-98). State Support. (Issue 601)	Requests that Provision 2 of this item be amended to authorize DOF to augment this item to fund first-year Standardized Account Code Structure system replacement project costs should necessary project replacement costs materialize in 2013 14. The California Technology Agency (CTA) estimates system replacement will begin in April of 2014, subject to the selection of a vendor, the finalization of estimated project costs, the approval of a special project report by the CTA, and the approval of funding for the project by DOF.	Approve up to $3.6 million in 2013-14 per CDE request, including $2.5 million in GF and $1.1 million in federal carryover funds (Title I and Special Education). Funding is subject to approval of a special project report by CTA and approval of funding by DOF.	BBL	3,600	New issue. Recommendation intended to send this issue to Conference Committee.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
	V. SCHOOL CAFETERIA FUNDS						
1	6110-001-0001	*Legislative Proposal:* BSA Audit of Local Cafeteria Funds, State Operations	Requests $1.2 million in one-time federal child nutrition funds be appropriated to the California Department of Education for a review of the federal child nutrition program by the State Auditor, Bureau of State Audits, in order to assess the misuse of funds by local agencies. This audit responds to findings and recommendations from the recent report on School Cafeteria Funds published by the Senate Office (Senate Office) of Oversight and Outcomes in February, 2013.	Approve $1.2 million in one-time federal Child Nutrition funds to CDE for the purpose of a Bureau of State Audit report on the use of School Cafeteria Funds by local educational agencies.			Issue heard on May 9. Staff directed to explore options having the Bureau of State Audits conduct a review of school cafeteria funds by local educational agencies.

#	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
	VI. OTHER						
1	6110-001-0980	*January Budget:* Administrator Training Program. Federal Title II - Improving Teacher Quality Funds, Local Assistance.	Governor's January budget proposes to shift $1.3 million in Title II funds from Administrator Training Program to the California Subject Matter Projects (CSMP) at the University of California.	Approve Governor transfer proposal. Adopt BBL recommended by LAO requiring UC to submit a CSMP budget plan to the Legislature and Administration by November 1, 2013.			Item not previously heard. LAO recommends approval of Governor's budget proposal.
2	6110-140-0001 6110-488	*Legislative Proposal.* Shift Student Friendly Service Project to Community Colleges. Proposition 98 GF. Local Assistance.	Shift $500,000 in Proposition 98 funds currently appropriated to the Department of Education for Student Friendly Services college planning and guidance project from the Department of Education to the California Community Colleges. The budget has provided $500,000 annually in for the Student Friendly Services Project since 2000. The project develops, maintains, and updates the CaliforniaColleges.edu.website, which provides an online college and career planning tool for students, parents, teachers, and counselors.	Approve shift of $500,000 in ongoing Proposition 98 funding for transfer of the Student Friendly Services college planning and guidance project to the California Community Colleges.			New Issue. Program shift supported by CDE, community colleges, CSU, and UC.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
4	6110-113-0001	*May Revise.* Student Assessments. Proposition 98 GF. Local Assistance. (Issues 244 and 246)	Requests that Schedule (2) of this item be increased by $18,000 Proposition 98 General Fund to conform to the reduction in federal Title VI funds for student assessments. It is also requested that provisional language be added as follows to require expenditure of the funds in Schedule (2) for the Standardized Testing and Reporting program be contingent upon passage of legislation related to statewide assessments in 2014-15.	Reject. (Send to Conference Committee)		18	
5	6110-113-0890	*May Revise.* Federal Student Assessment Adjustments. Federal Funds. Local Assistance. (Issues 203, 246, and 247)	It is requested that: (1) Schedule (2) be decreased by $18,000 to reflect a decrease of $2,036,000 in the federal grant award and the availability of $2,018,000 in one-time carryover funds. (2) BBL be added to Schedule (2) for the Standardized Testing and Reporting program making funding contingent upon passage of legislation related to statewide assessments in fiscal year 2014-15. (3) BBL be added to allow the CDE to use any savings identified within Schedule (3) to continue developing a new English language proficiency assessment contingent upon approval of the State Board of Education. (4) TBL be adopted relative to activities related to the development of statewide English language proficiency initial screener and summative assessments aligned to the English language development standards adopted by the State Board of Education.	Reject. (Send to Conference Committee)		(18)	

#	Item	Issue	Description
			VII. VOTE ONLY
			FEDERAL FUNDS ADJUSTMENTS
1	6110-001-0001 6110-001-0890	May Revise. Supplemental Instructional Materials for Mathematics. Federal Title I Funds. State Support. (Issue 218)	(Issue 218) It is requested that Item 6110-001-0890 be increased by $144,000 federal Title I funds and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover for the SDE to complete a review of supplemental instructional materials for mathematics. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $144,000 is provided in one-time federal Title I carryover funds for the State Department of Education to complete its review of supplemental instructional materials for mathematics.
2	6110-112-0890	May Revise. Charter School Grants. Federal Charter School Grant Program. Local Assistance. (Issue 442)	(Issue 442) It is requested that this item be increased by $1,314,000 Federal Trust Fund to align to the available federal grant award for the PCSGP. The PCSGP awards planning and implementation grants up to $575,000 to new charter schools as well as grants to disseminate charter school best practices.
3	6110-119-0890	May Revise. Supplemental Instruction for Incarcerated Youth and Adults. Federal Title I Negelected and Delinquent Program. Local Assistance. (Issue 204)	(Issue 204) It is requested that this item be decreased by $168,000 federal Title I, Part D, Neglected and Delinquent Program funds to align to the available federal grant award. This program provides supplemental instruction, including math and literacy activities, to children and youth in state institutions for juveniles and in adult correctional institutions to ensure that these youth make successful transitions to school or employment.

#	Item	Issue	Description
			VII. VOTE ONLY
4	6110-125-0890	May Revise. Migrant Education & English Acquisition Funding. Federal Title I Migrant Education and Title III English Acquisition Program. Local Assistance. (Issues 205 and 206)	(Issues 205 and 206) It is requested that Schedule (1) of this item be increased by $1,924,000 federal Title I Migrant Education Program funds to reflect $2,196,000 in one-time carryover funds and a decrease of $272,000 to align to the federal grant award. Local educational agencies (LEAs) use these funds for educational support services to meet the needs of highly-mobile children. It is also requested that Schedule (2) of this item be increased by $3,833,000 federal Title III English Language Acquisition funds to reflect available one-time carryover funds. LEAs use these funds for services to help students attain English proficiency and meet grade level academic standards. Of this amount, it is requested that $1.2 million be provided to LEAs who missed the application deadline for Title III subgrants but provided supplemental services to English learners and immigrant students in 2012-13. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (1), $2,196,000 is provided in one-time federal Title I carryover funds to support the existing program. X. Of the funds appropriated in Schedule (2), $3,833,000 is provided in one-time federal Title III carryover funds to support the existing program. Of this amount, $1,200,000 may be used for grants to
5	6110-134-0890	May Revise. School Improvement Funds. Federal Title I School Improvement Grant Program. Local Assistance. (Issue 207)	(Issue 207) It is requested that Schedule (3) of this item be increased by $614,000 federal Title I funds to reflect an increase in the federal grant award. SDE awards school improvement grants to LEAs with the persistently lowest-achieving Title I schools to implement evidence-based strategies for improving student achievement.

#	Item	Issue	Description
			VII. VOTE ONLY
6	6110-134-0890	May Revise. Basic Formula Grants. Title I Elementary and Secondary Education Act Program. Local Assistance. (Issue 208)	(Issue 208) It is requested that Schedule (4) of this item be increased by $23,022,000 federal Title I funds for the Title I Basic Elementary and Secondary Education Act to reflect $3,298,000 in one-time carryover funds and an increase of $19,724,000 to align to the federal grant award. LEAs use these funds to support services that assist low-achieving students enrolled in the highest poverty schools. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (4), $3,298,000 is provided in one-time federal Title I Basic Program carryover funds to support the existing program.
7	6110-134-0890	May Revise. Corrective Action Grants for Local Educational Agencies. Federal Title I Set-Aside Funds. Local Assistance. (Issue 243)	(Issue 243) It is requested that Schedule (2) of this item be decreased by $33,529,000 federal Title I Set Aside funds to align to estimated program costs. It is also requested that Schedule (4) of this item be increased by $33,529,000 to provide additional funding to LEAs who may be facing reductions due to federal sequestration. The program provides funding for technical assistance to LEAs entering federal Corrective Action. Eighty-six LEAs are expected to be eligible for the program in the budget year, at a cost of approximately $31 million. The funding requested for the Corrective Action program is based on the State Board of Education's past practices. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (4), $33,529,000 is provided in one-time Title I Set Aside funds for allocation to all Title I local educational agencies and schools using the state's standard distribution methodology for the federal Title I, Part A Basic Program.
8	6110-136-0890	May Revise. Support Services for Homeless Youth. Federal Title I McKinney-Vento Fund. Local Assistance. (Issue 209)	(Issue 209) It is requested that Schedule (1) of this item be increased by $376,000 federal Title I McKinney-Vento Homeless Children Education funds to reflect $396,000 in one time carryover funds and a decrease of $20,000 to align to the federal grant award. LEAs use these funds to provide services to homeless children. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (1), $396,000 is provided in one-time federal Title I funds to support the existing program.

#	Item	Issue	Description
			VII. VOTE ONLY
9	6110-137-0890	May Revise. Local Assistance. (Issue 237)	(Issue 237) It is requested that this item be increased by $38,000 federal Title VI, Part C, Rural and Low-Income School Program funds to reflect $46,000 in one-time carryover funds and a decrease of $8,000 to align to the federal grant award. This program provides financial assistance to rural districts to help them meet federal accountability requirements and to conduct activities of the federal Elementary and Secondary Education Act program. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $46,000 is provided in one-time federal Title VI funds to support the existing program.
10	6110-156-0890	May Revise. Local Assistance. (Issue 270)	(Issue 270) It is requested that this item be increased by $8,644,000 federal Title II funds for the Adult Education Program to reflect $9.5 million in one-time carryover funds and a decrease of $856,000 to align to the federal grant award. This program provides resources to support the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $9,500,000 is provided in one-time carryover funds to support the existing program.
11	6110-161-0890	May Revise. Special Education. Federal Individuals with Disabilities Education Act (IDEA). Local Assistance. (Issue 794)	(Issue 794) It is requested that this item be decreased by $4,747,000 in federal federal special education funds to align to the anticipated federal Individuals with Disabilities Education Act Part B grant award.

#	Item	Issue	Description
VII. VOTE ONLY			
12	6110-166-0890	May Revise. Vocational Education. Federal Title I Vocational Education Funds. Local Assistance. (Issue 271)	(Issue 271)—It is requested that this item be increased by $6,595,000 federal Title I funds for the Vocational Education Program to reflect $6,443,000 in one-time carryover funds and an increase of $152,000 to align to the federal grant award. This program develops the academic, vocational, and technical skill of students in high school, community colleges, and regional occupational centers and programs. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $6,443,000 is provided in one-time carryover funds to support the existing program.
13	6110-183-0890	May Revise. Safe and Supportive Schools Program. Federal Safe and Drug Free School Funds. Local Assistance. (Issue 686)	(Issue 686) It is requested that this item be increased by $17,000 Federal Trust Fund to reflect $444,000 in one-time carryover funds and a $427,000 decrease to align to the federal grant award. The Safe and Supportive Schools program supports statewide measurement of school climate and helps participating high schools improve conditions such as school safety, bullying, and substance abuse. It is further requested that provisional language be added as follows to conform to this action: 2. Of the funds appropriated in this item, $444,000 is provided in one-time carryover funds to support the existing program.
14	6110-193-0890	May Revise. Math and Science Grants. Federal Math and Science Partnership Program. Local Assistance. (Issue 272)	(Issue 272) It is requested that this item be increased by $2.5 million federal Title II funds to reflect one-time carryover funds. The Mathematics and Science Partnership Program provides competitive grants to partnerships of low-performing schools and institutions of higher education to provide staff development and curriculum support to 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, $2,500,000 is provided in one-time carryover funds to support the existing program.

#	Item	Issue	Description
VII. VOTE ONLY			
15	6110-195-0890	May Revise. Professional Development Grants. Federal Title II Improving Teacher Quality Grant Program. Local Assistance. (Issues 273 and 274)	(Issues 273 and 274) It is requested that Schedule (1) of this item be increased by $1,010,000 federal Title II funds to reflect $369,000 in one-time carryover funds and an increase of $641,000 to align to the federal grant award. The Improving Teacher Quality Grant Program provides funds to LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers. It is also requested that Schedule (2) of this item be increased by $235,000 federal Title II funds to reflect one-time carryover funds. The Improving Teacher Quality State Level Activities provides funds for the University of California Subject Matter Projects to provide statewide teacher professional development. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (1), $369,000 is provided in one-time carryover for Improving Teacher Quality Local Grants. None of these funds shall be used for additional indirect administrative costs. X. Of the funds appropriated in Schedule (2), $235,000 is provided in one-time carryover for transfer to
16	6110-201-0890	May Revise. Child Nutrition Program. Federal School Meal Program. Local Assistance. (Issue 688)	(Issue 688) It is requested that Schedule (1) of this item be increased by $372,700,000 Federal Trust Fund due to the anticipated increase in meals served through the Child Nutrition Program. Sponsors of this federal entitlement program include public and private nonprofit schools; local, municipal, county, or tribal governments; residential camps; and private nonprofit organizations.
17	6110-240-0890	May Revise. Advanced Placement (AP) Funding. Federal AP Fee Waiver Program. Local Assistance. (Issue 687)	(Issue 687) It is requested that this item be increased by $1,554,000 Federal Trust Fund to align to the federal grant award. The AP Fee Waiver program reimburses school districts for specified costs of AP, International Baccalaureate, and Cambridge test fees paid on behalf of eligible students. These programs allow students to pursue college-level course work while still in secondary school.

#	Item	Issue	Description
VII. VOTE ONLY			
	GENERAL FUND ADJUSTMENTS		
18	6110-140-0001 6110-140-0891 6110-488	*May Revise.* California Student Information Services (CSIS). Local Assistance. (Issue 684 and 685)	(Issues 684 and 685) It is requested that Item 6110-140-0349 be decreased by $48,000 ETF and that Schedule (2) of Item 6110 140 0001 be amended to align the appropriation to available funds for CSIS operations. This decrease in funding is a result of lower than expected apportionment-significant audit findings. It is also requested that Provision 3 of Item 6110-488 be amended, as specified on Attachment I, and non Budget Act Item 6110-602-0001 be increased to reappropriate $48,000 in one time Proposition 98 General Fund savings for CSIS operations to offset the reduction in ETF in Item 6110-140-0001. This amount would be in addition to the one-time funding of $5,499,000 included in the Governor's Budget, for a total of $5,547,000. It is further requested that provisional language in Item 6110-140-0001 be amended as follows to conform to this action: "2. The funds appropriated in Schedule (2) and ~~$5,499,000~~ $5,547,000 reappropriated in Provision 3 of Item 6110-488 for a total of $5,808,000 shall be for allocation to the Fiscal Crisis and Management Assistance Team for California School Information Services (CSIS), pursuant to the memorandum of understanding with the California Department of Education in support of the California Longitudinal Pupil Achievement Data System (CALPADS)."
19	6110-150-0001	*May Revise.* American Indian Early Childhood Education Program. Local Assistance. (Issue 240)	(Issue 240) It is requested that this item be decreased by $1,000 Proposition 98 General Fund to reflect the revised cost-of-living adjustment applied to the American Indian Early Childhood Education Program. This program provides competitive grants for programs that increase academic achievement and self-esteem for American Indian students in pre-kindergarten through grade four. It is further requested that provisional language be amended as follows to conform to this action: "1. Of the funds appropriated in this item, ~~$9,000~~ $8,000 is to reflect a cost-of-living adjustment."

#	Item	Issue	Description
			VII. VOTE ONLY
	6110-151-0001	*May Revise.* American Indian Centers. Local Assistance. (Issue 241)	(Issue 241) It is requested that this item be decreased by $3,000 Proposition 98 General Fund to reflect the revised cost-of-living adjustment applied to grants for the American Indian Education Centers. It is further requested that provisional language be amended as follows to conform to this action: "1. Of the funds appropriated in this item, ~~$65,000~~ $62,000 is to reflect a cost-of-living adjustment."
20	6110-203-0001	*May Revise.* Child Nutrition Cost of Living Adjustment. Local Assistance. (Issue 680)	(Issue 680)—It is requested that this item be decreased by $105,000 Proposition 98 General Fund to reflect the revised cost-of-living adjustment applied to the per-meal reimbursement rates for the state child nutrition program at public school districts and Proposition 98-eligible child care centers and homes. It is further requested that provisional language be amended as follows to conform to this action: "5. Of the funds appropriated in this item, ~~$2,543,000~~ $2,438,000 is to reflect a cost-of-living adjustment."
21	6110-203-0001	May Revise. Child Nutrition Growth. Local Assistance. (Issue 681)	(Issue 681) It is requested that this item be increased by $1,163,000 Proposition 98 General Fund to reflect the revised estimate of meals served through the state child nutrition program at public school districts and Proposition 98-eligible child care centers and homes. The resulting appropriation would fully fund, at the specified rates, all meals projected to be served in 2013 14. It is further requested that provisional language be amended as follows to conform to this action: "6. The funds appropriated in this item reflect a growth adjustment of ~~-$2,494,000~~ -$1,331,00 due to a decrease in the projected number of meals served."

#	Item	Issue	Description
			VII. VOTE ONLY
22	6110-203-0001	May Revise. Child Nutrition Meal Rates. Local Assistance. (Issue 682)	(Issue 682) It is requested that provisional language be amended to reflect the reimbursement rates for meals served through the state child nutrition program at public school districts and Proposition 98-eligible child care centers and homes. The rate received by schools is currently specified in statute, which must be amended when a cost-of-living adjustment is provided. Trailer bill language proposed in the Governor's Budget would require that rates be referenced in budget bill language instead, where they will be updated to conform to the rates used to arrive at the appropriation for estimated meals to be served. It is requested that provisional language be amended as follows to conform to this action: "2. Funds designated for child nutrition programs in this item shall be allocated ~~in accordance with Section 49536 of the Education Code; however, the~~ using the following rates: $0.2229 per meal for meals served in schools and $0.1660 per meal for meals served in child care centers and homes. The allocation shall be based not on all meals served, but on the number of meals that are served and that qualify as free or reduced-price meals in accordance with Sections 49501, 49550, and 49552 of the
23	6110-203-0001	May Revise. Adults in Correctional Education. Local Assistance. (Issue 275)	(Issue 275) It is requested that Provision 5 of Item 6110-488 be added, as specified on Attachment I, and non-Budget Act Item 6110-602-0001 be increased to reappropriate $14,967,000 in one-time Proposition 98 General Fund savings for the Adults in Correctional Facilities Program. Specifically, these funds are to reimburse program providers for 2012-13 activities related to services provided pursuant to Item 6110-158-0001 of the Budget Act of 2012.

CALIFORNIA DEPARTMENT OF EDUCATION

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	I. CHARTER SCHOOLS **ACTION: Approve Staff Recommendations for Issues 1 & 2. Vote : 3-0.**						
1	Language	*January Budget*. Charter Schools Facilities Block Grant Funding for Non- Classroom Based Charter Schools. Language.	The Governor proposes trailer bill language to expand program eligibility to charter schools with non-classroom-based instruction, instead of limiting funding to classroom-based instruction.	Approve LAO alternative to: (1) allow funding for facilities at non-classroom based charter schools at lower rate of $425 per pupil. (2) Require non-classroom based schools applying for facility grant funds to provide additional information regarding their instructional programs.	TBL		Issue previously heard on March 21 and held open.
2	0985-001-0001	*January Budget*. Charter School Funding Determinations for Non-Classroom Based Instruction. Language	The Governor proposes trailer bill language to revise the current law funding determination process for non-classroom-based instruction to streamline the process. Specifically, the Governor's proposal limits the determination process to the first and third year of a charter school's operation.	Approve LAO alternative.	TBL		Issue previously heard on March 21 and held open.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
3	0985-001-0001	*May Revise*. Charter Schools Facilities Block Grant Program Transfer - One-Time Funding. (Issue 001)	Provides $105,000 in General Funds on a one-time basis to facilities the transfer of the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority (CSFA). Of this amount, $15,000 would be provided for administrative support and $90,000 for consulting services to allow CSFA to review the existing revolving loan fund portfolio and implement loan underwriting criteria.	Conform to action taken in Subcommittee #4.	BBL	$105	Subcommittee approved the program transfers on March 21.
4	0985-001-0001	*May Revise*. Charter Schools Facilities Block Grant Program Transfer. Language.	Proposes to (1) allow the California School Finance Authority (CSFA) to apportion Charter School Facilities Grant Program (CSFGP) funds by October 1st in 2013-14 and by August 31st in subsequent fiscal years; and (2) to establish the CSFA as the senior creditor for purposes of satisfying audit findings for CSFGP beginning in 2013-14.	Conform to action taken in Subcommittee #4.	TBL		

#	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
			II. SPECIAL EDUCATION **ACTION: Approve staff recommendations for Issues 1-9, with modification for Issue 5 to add language to assure to first call on funding for career education and services for amount of ROC/P programs. Vote: 3-0**				
1	6110-161-0890	*May Revise.* Federal Special Education Funds Adjustment. Federal Individuals with Disabilities Education Act (IDEA) Funds. (Issue 794)	Requests a decreased of $11,095,000 ~~$4,747,000 i~~n federal special education funds to align to the anticipated federal Individuals with Disabilities Education Act Part B grant award.	Approve		-11,095	

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
2	6110-161-0001 6110-488	*May Revise*. Federal Special Education Carryover Funds. Federal Individuals with Disabilities Education Act (IDEA) Funds. (Issue 793)	Requests an increase of $4,708,000 to reflect one-time federal Individuals with Disabilities Education Act (IDEA) carryover funds. The Administration proposes to use the carryover funds for the following purposes: $840,000 for the IDEA Part B 611 grant; $1,800,000 to restore the non-Proposition 98 reduction to the State Special Schools ; $1,374,000 for other state-level activities; $374,000 for the IDEA Part B 619 grant; and $320,000 for the State Personnel Development Grant.	Approve $4.7 million in carryover funds, with the following changes: (1) increase funding to LEAs to $1.984 million. (2) Reduce funding for state-level activities to $230,000 for BIP per earlier Subcommittee action; (3) Strike reference to the sequester reduction in provisional language for Personnel Development Grant.		4,708	On March 21 the Subcommittee approved $230,000 in one-time federal IDEA carryover funds to CDE to provide technical assistance and monitoring to local educational agencies related to the provision of positive behavior intervention services.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
3	6110-161-0001	*May Revise*. Reappropriation of One-Time Funds for Special Education. Proposition 98 GF. Local Assistance. (Issues 009 and 784)	Requests a net decrease if $22,480,000 Proposition 98 General Fund to reflect a reappropriation of $29,305,000 in one-time Proposition 98 General Fund savings for special education activities to offset the reduction in ongoing funds. This amount would be in addition to the one-time funding of $10,379,000 included in the Governor's Budget, for a total of $39,684,000. This action also corrects an under funding of $6,825,000 for special education in the Governor's Budget. This amount would be in addition to the one-time funding of $10,379,000 included in the Governor's Budget, for a total of $39,684,000. This action also corrects an under funding of $6,825,000 for special education in the Governor's Budget.	Approve. Conform to reappropriations to final P-98 Package.		(22,480)	
4	6110-161-0001	*May Revise*. Special Education Cost of Living and Property Tax Adjustments. Proposition 98 GF. Local Assistance. (Issues 785, 786, and 796)	Requests that this item be decreased by $59,011,000 Proposition 98 General Fund. This adjustment includes a decrease of $59,931,000 to reflect increased offsetting property tax revenues; an increase of $3,778,000 to reflect growth in average daily attendance estimates; and a decrease of $2,858,000 to reflect a decrease in the cost-of-living adjustment.	Approve		(59,011)	

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
5	6110-161-0001	*May Revise* . Block Grant for Pupils with Low Incidence Disabilities. Proposition 98 GF. Local Assistance. (Issue 790)	The Governor's January budget proposed consolidation of two programs for students with low incidence disabilities -- equipment and materials, and specialized services -- into a new block grant. The May Revise requests that Regional Occupational Centers/Programs (ROC/Ps) for students with low incidence disabilities be added to the block grant. Funding from ROC/P program is added to the block grant, as adjusted to reflect actual expenditures for the program.	Approve	BBL TBL		Subcommittee approved consolidation of two programs into the block grant on March 21. The LAO recommended adding ROC/Ps to the block grant.
6	6110-005-0001	*May Revise.* Consolidation of Extraordinary Costs Pools. Proposition 98 Fund. Local Assistance. (Issue 791)	Request BBL to combine the two extraordinary cost pools associated with nonpublic, nonsectarian schools and educationally related mental health services. The LAO recommended combining these two costs pools and adopting a uniform set of eligibility criteria for subsidizing high-cost student placements.	Approve CDE language with DOF edits.	BBL		Subcommittee approved LAO recommendation to combine the two extraordinary cost pools on March 21 with modification to assure coverage for mental health services.
7	Language	*May Revise.* State Special Schools. Federal Reimbursements. State Support. (Issue 774)	It is requested that this item be increased by $1.8 million in reimbursements to restore a reduction to State Special Schools with one-time federal Individuals with Disabilities Education Act carryover funds.	Approve		1,800	

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
8	6110-161-0001	*May Revise*. Special Education Maintenance of Effort Requirement. Local Assistance.	Requests trailer bill language be adopted to specify that $45,618,000 provided in the Budget Act of 2011 fully funds the maintenance of effort for fiscal year 2008-09 in the amount of $8,954,000, and fully funds the maintenance of effort for fiscal year 2009-10 in the amount of $36,664,000.	Approve	TBL		
9	6110-161-0001	*May Revise* . Update Statewide Target Rate for Special Education Funding Formula. Proposition 98 . Local Assistance. (Issue 792)	Requests an increase of $1,333,000 to update the statewide target rate to reflect the average special education local plan area base per-pupil rate at the 50th percentile after removing federal funds from the special education formula. It is also requested that trailer bill language be adopted to implement this change.	Approve a total of $4.7 million to reflect more updated calculations from CDE and to reflect equalization to statewide average.	TBL		Subcommittee approved updated statewide target rate on March 21, but help open additional funding.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
			III. MANDATES ACTIONS: (1) Approve staff recommendation for Issues 1, 2, 4-6. Vote: 3-0. (2) Approve staff recommendation for Issue 3. Vote: 2-1				
1	6110-296-0001 6110-295-0001	*January Budget.* K-12 Mandates Block Grant Funding. Local Assistance.	Governor proposes an additional $100 million to cover the Graduation Requirement and Behavior Intervention Plan mandates within the K-12 Mandates Block Grant.	Approve with intent to send to Conference Committee.	BBL TBL		Issue heard on March 21 and held open.
2	Language	*May Revise.* Pupil Suspension/ Expulsion Mandate - Add to Block Grant. Local Assistance.	Governor proposes to add the Pupil Suspension/Expulsion mandate to the K-12 Mandate Block Grant.	Approve	TBL		Governor's January budget proposes to suspend the mandate. That issue heard on March 21 and held open. New mandate.
3	Language	*May Revise.* Oral Health Assessments Mandate - Add to Block Grant. Local Assistance.	Governor proposes to add the Oral Health Assessments mandate to the K-12 Mandate Block Grant and the K-12 Mandates Claims item.	Reject .	TBL		New Issue.
4	6110-001-0001	*May Revise* . Mandates Block Grant Reporting Language. Local Assistance.	Governor proposes to: (1) change the deadline by which school districts, county offices of education and charter schools are required to submit letters to participate in the block grant from September 30 to August 30. (2) change the deadline by which CDE is required to submit a report about grant participation from September 9 to November 1.	Approve	TBL		New Issue- Language.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
5	TBL	*January Budget.* Mandate Suspension. Language.	Governor proposes to suspend the Public Records Act mandate.	Reject .	TBL		Issue heard on March 21 and held open. Staff directed to work on alternative to suspension. This was not suspended by local government agencies.
6		*Legislative Proposal:* Revisions to RRM Language.	Revise current law to specify that the Commission on State Mandates must utilize actual cost estimates in making mandate cost determinations under the Reasonable Reimbursement Methodology.	Adopt placeholder TBL.	TBL		Issue heard on March 21 and staff directed to develop options for strengthening statutes guiding the utilization of Reasonable Reimbursement Methodology by the Commission on State Mandates.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
			IV. CDE STATE OPERATIONS **ACTION:** **(1) Approve staff recommendations for Issues 1-5. Vote: 3-0.** **(2) Approve CDE request to add $63,000 and 0.5 position for English learner study. Vote: 3-0.**				
1	6110-001-0001	*January Budget*. Revision of Academic Performance Index. General Fund (Non-98). State Support.	**Requests $217,000** in state General Fund and **2.0 positions** to redesign the state's Academic Performance Index (API). This redesign will include a broader measure of school outcomes and success by including additional indicators in the API in addition to assessment results pursuant to SB 1458/Steinberg (Chapter 577, Statutes of 2012) in 2013-14. The bill will require the development of new student performance measures -- such as college going rates and career outcomes -- as well as new sources of data.	Approve			Issue previously heard on May 9 and held open.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
2	6110-001-0001	*January Budget* . Pupil Complain Process. General Fund (Non-98). State Support.	Requests **$109,000** in State General Fund and **1.0 position** to implement the requirements of AB 1578/Lara (Chapter 776, Statutes of 2012) beginning in 2013-14. This measure authorizes a complaint of noncompliance with the prohibition against pupil fees to be filed with the principal of a school under the existing Uniform Complaint Procedures process and authorizes a complainant who is not satisfied with the decision of the school to appeal the decision to the CDE. The bill further requires CDE, commencing in 2014-15 and every three years thereafter, to develop and distribute guidance regarding pupil fees and make it available on its Internet Web site.	Approve			Issue previously heard on May 9 and held open.
3	6110-001-0001	*January Budget.* Fee Reimbursements for Adoption of Instructional Materials for Mathematics.	Requests **$350,000** in fee reimbursement authority to cover the costs of a new statewide mathematics instructional materials adoption beginning in 2012-13 and continuing through 2013-14 pursuant to AB 1246/Brownley (Chapter 668, Statutes of 2012). The 2008-09 budget suspended all statewide instructional materials adoptions due to the state budget shortfall. In 2009-10, $705,000 in state General Fund support for the state Instructional Materials Commission was eliminated through a budget veto. AB 1246 authorizes a new statewide mathematics adoption and authorizes the state to assess a one-time fee payment from participating publishers and manufacturers to offset the costs of this adoption process.	Approve proposal but authorize $530,815 to reflect latest reimbursement estimate.		181	New Issue. CDE now estimates reimbursements of $530,815 which updates the January budget estimate of $350,000. DOF approves.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
4	6110-003-0001 6110-001-0890	*May Revise*. One-time Funds for Instructional Quality Commission. General Fund (Non-98) State Support. (Issue 242)	Requests that Schedule (2) of this item be increased by $233,000 one-time General Fund to support activities of the Instructional Quality Commission in 2013-14. The Commission is required to complete reviews of curriculum frameworks for English language arts and mathematics in 2013-14. Although one-time funding is requested for the activities required of the Instructional Quality Commission in 2013-14, DOF will work with CDE and the State Board of Education when developing the 2014-15 Governor's Budget to evaluate the funding needs of the Instructional Quality Commission in 2014-15 and future years.	Approve with language change to specify that funding be used for purposes of meeting deadlines pursuant to Education Code Section 60207.	BBL	233	
5	6110-003-0001 6110-001-089**0**	*May Revise*. Update of the Standardized Account Code Structure (SACS) System. General Fund (Non-98). State Support. (Issue 601)	Requests that Provision 2 of this item be amended to authorize DOF to augment this item to fund first-year Standardized Account Code Structure system replacement project costs should necessary project replacement costs materialize in 2013 14. The California Technology Agency (CTA) estimates system replacement will begin in April of 2014, subject to the selection of a vendor, the finalization of estimated project costs, the approval of a special project report by the CTA, and the approval of funding for the project by DOF.	Approve up to $3.6 million in 2013-14 per CDE request, including $2.5 million in GF and $1.1 million in federal carryover funds (Title I and Special Education). Funding is subject to approval of a special project report by CTA and approval of funding by DOF.	BBL	3,600	New issue. Recommendation intended to send this issue to Conference Committee.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
			V. SCHOOL CAFETERIA FUNDS **ACTION: Approve staff recommendation. Vote: 3-0.**				
1	6110-001-0001	*Legislative Proposal:* BSA Audit of Local Cafeteria Funds, State Operations	Requests $1.2 million in one-time federal child nutrition funds be appropriated to the California Department of Education for a review of the federal child nutrition program by the State Auditor, Bureau of State Audits, in order to assess the misuse of funds by local agencies. This audit responds to findings and recommendations from the recent report on School Cafeteria Funds published by the Senate Office (Senate Office) of Oversight and Outcomes in February, 2013.	Approve ~~$1.2~~ $1.4 million in one-time federal Child Nutrition funds to CDE for the purpose of a Bureau of State Audit report on the use of School Cafeteria Funds by local educational agencies.			Issue heard on May 9. Staff directed to explore options having the Bureau of State Audits conduct a review of school cafeteria funds by local educational agencies.

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA DEPARTMENT OF EDUCATION						
	6110-001-0980		**VI. OTHER** **ACTION: Approve staff recommendation for Issues 1-4. Vote: 3-0.**				
1	6110-140-0001 6110-488	*January Budget:* Administrator Training Program. Federal Title II - Improving Teacher Quality Funds, Local Assistance.	Governor's January budget proposes to shift $1.3 million in Title II funds from Administrator Training Program to the California Subject Matter Projects (CSMP) at the University of California.	Approve Governor transfer proposal. Adopt BBL recommended by LAO requiring UC to submit a CSMP budget plan to the Legislature and Administration by November 1, 2013.			Item not previously heard. LAO recommends approval of Governor's budget proposal.
2	6110-113-0001	*Legislative Proposal.* Shift Student Friendly Service Project to Community Colleges. Proposition 98 GF. Local Assistance.	Shift $500,000 in Proposition 98 funds currently appropriated to the Department of Education for Student Friendly Services college planning and guidance project from the Department of Education to the California Community Colleges. The budget has provided $500,000 annually in for the Student Friendly Services Project since 2000. The project develops, maintains, and updates the CaliforniaColleges.edu.website, which provides an online college and career planning tool for students, parents, teachers, and counselors.	Approve shift of $500,000 in ongoing Proposition 98 funding for transfer of the Student Friendly Services college planning and guidance project to the California Community Colleges.			New Issue. Program shift supported by CDE, community colleges, CSU, and UC.

	CALIFORNIA DEPARTMENT OF EDUCATION						
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
3	6110-113-0890	*May Revise*. Student Assessments. Proposition 98 GF. Local Assistance. (Issues 244 and 246)	Requests that Schedule (2) of this item be increased by $18,000 Proposition 98 General Fund to conform to the reduction in federal Title VI funds for student assessments. It is also requested that provisional language be added as follows to require expenditure of the funds in Schedule (2) for the Standardized Testing and Reporting program be contingent upon passage of legislation related to statewide assessments in 2014-15.	Reject. (Send to Conference Committee)		18	
4		*May Revise*. Federal Student Assessment Adjustments. Federal Funds. Local Assistance. (Issues 203, 246, and 247)	It is requested that: (1) Schedule (2) be decreased by $18,000 to reflect a decrease of $2,036,000 in the federal grant award and the availability of $2,018,000 in one-time carryover funds. (2) BBL be added to Schedule (2) for the Standardized Testing and Reporting program making funding contingent upon passage of legislation related to statewide assessments in fiscal year 2014-15. (3) BBL be added to allow the CDE to use any savings identified within Schedule (3) to continue developing a new English language proficiency assessment contingent upon approval of the State Board of Education. (4) TBL be adopted relative to activities related to the development of statewide English language proficiency initial screener and summative assessments aligned to the English language development standards adopted by the State Board of Education.	~~Reject.~~ Conform to action in Local Government budget subcommittee. (Send to Conference Committee)		(18)	

#	Item	Issue	Description
VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**			
FEDERAL FUNDS ADJUSTMENTS			
1	6110-001-0001 6110-001-0890	May Revise. Supplemental Instructional Materials for Mathematics. Federal Title I Funds. State Support. (Issue 218)	(Issue 218) It is requested that Item 6110-001-0890 be increased by $144,000 federal Title I funds and that Item 6110-001-0001 be amended to reflect the availability of one-time carryover for the SDE to complete a review of supplemental instructional materials for mathematics. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $144,000 is provided in one-time federal Title I carryover funds for the State Department of Education to complete its review of supplemental instructional materials for mathematics.
2	6110-112-0890	May Revise. Charter School Grants. Federal Charter School Grant Program. Local Assistance. (Issue 442)	(Issue 442) It is requested that this item be increased by $1,314,000 Federal Trust Fund to align to the available federal grant award for the PCSGP. The PCSGP awards planning and implementation grants up to $575,000 to new charter schools as well as grants to disseminate charter school best practices.
3	6110-119-0890	May Revise. Supplemental Instruction for Incarcerated Youth and Adults. Federal Title I Negelected and Delinquent Program. Local Assistance. (Issue 204)	(Issue 204) It is requested that this item be decreased by $168,000 federal Title I, Part D, Neglected and Delinquent Program funds to align to the available federal grant award. This program provides supplemental instruction, including math and literacy activities, to children and youth in state institutions for juveniles and in adult correctional institutions to ensure that these youth make successful transitions to school or employment.

#	Item	Issue	Description
			VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**
4	6110-125-0890	May Revise. Migrant Education & English Acquisition Funding. Federal Title I Migrant Education and Title III English Acquisition Program. Local Assistance. (Issues 205 and 206)	(Issues 205 and 206) It is requested that Schedule (1) of this item be increased by $1,924,000 federal Title I Migrant Education Program funds to reflect $2,196,000 in one-time carryover funds and a decrease of $272,000 to align to the federal grant award. Local educational agencies (LEAs) use these funds for educational support services to meet the needs of highly-mobile children. It is also requested that Schedule (2) of this item be increased by $3,833,000 federal Title III English Language Acquisition funds to reflect available one-time carryover funds. LEAs use these funds for services to help students attain English proficiency and meet grade level academic standards. Of this amount, it is requested that $1.2 million be provided to LEAs who missed the application deadline for Title III subgrants but provided supplemental services to English learners and immigrant students in 2012-13. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (1), $2,196,000 is provided in one-time federal Title I carryover funds to support the existing program. X. Of the funds appropriated in Schedule (2), $3,833,000 is provided in one-time federal Title III carryover funds to support the existing program. Of this amount, $1,200,000 may be used for grants
5	6110-134-0890	May Revise. School Improvement Funds. Federal Title I School Improvement Grant Program. Local Assistance. (Issue 207)	(Issue 207) It is requested that Schedule (3) of this item be increased by $614,000 federal Title I funds to reflect an increase in the federal grant award. SDE awards school improvement grants to LEAs with the persistently lowest-achieving Title I schools to implement evidence-based strategies for improving student achievement.

#	Item	Issue	Description
			VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**
6	6110-134-0890	May Revise. Basic Formula Grants. Title I Elementary and Secondary Education Act Program. Local Assistance. (Issue 208)	(Issue 208) It is requested that Schedule (4) of this item be increased by $23,022,000 federal Title I funds for the Title I Basic Elementary and Secondary Education Act to reflect $3,298,000 in one-time carryover funds and an increase of $19,724,000 to align to the federal grant award. LEAs use these funds to support services that assist low-achieving students enrolled in the highest poverty schools. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (4), $3,298,000 is provided in one-time federal Title I Basic Program carryover funds to support the existing program.
7	6110-134-0890	May Revise. Corrective Action Grants for Local Educational Agencies. Federal Title I Set-Aside Funds. Local Assistance. (Issue 243)	(Issue 243) It is requested that Schedule (2) of this item be decreased by $33,529,000 federal Title I Set Aside funds to align to estimated program costs. It is also requested that Schedule (4) of this item be increased by $33,529,000 to provide additional funding to LEAs who may be facing reductions due to federal sequestration. The program provides funding for technical assistance to LEAs entering federal Corrective Action. Eighty-six LEAs are expected to be eligible for the program in the budget year, at a cost of approximately $31 million. The funding requested for the Corrective Action program is based on the State Board of Education’s past practices. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (4), $33,529,000 is provided in one-time Title I Set Aside funds for allocation to all Title I local educational agencies and schools using the state’s standard distribution methodology for the federal Title I, Part A Basic Program.
8	6110-136-0890	May Revise. Support Services for Homeless Youth. Federal Title I McKinney-Vento Fund. Local Assistance. (Issue 209)	(Issue 209) It is requested that Schedule (1) of this item be increased by $376,000 federal Title I McKinney-Vento Homeless Children Education funds to reflect $396,000 in one time carryover funds and a decrease of $20,000 to align to the federal grant award. LEAs use these funds to provide services to homeless children. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (1), $396,000 is provided in one-time federal Title I funds to support the existing program.

#	Item	Issue	Description
VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**			
9	6110-137-0890	May Revise. Local Assistance. (Issue 237)	(Issue 237) It is requested that this item be increased by $38,000 federal Title VI, Part C, Rural and Low-Income School Program funds to reflect $46,000 in one-time carryover funds and a decrease of $8,000 to align to the federal grant award. This program provides financial assistance to rural districts to help them meet federal accountability requirements and to conduct activities of the federal Elementary and Secondary Education Act program. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $46,000 is provided in one-time federal Title VI funds to support the existing program.
10	6110-156-0890	May Revise. Local Assistance. (Issue 270)	(Issue 270) It is requested that this item be increased by $8,644,000 federal Title II funds for the Adult Education Program to reflect $9.5 million in one-time carryover funds and a decrease of $856,000 to align to the federal grant award. This program provides resources to support the Adult Basic Education, English as a Second Language, and Adult Secondary Education programs. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $9,500,000 is provided in one-time carryover funds to support the existing program.
~~11~~	~~6110-161-0890~~	~~May Revise. Special Education. Federal Individuals with Disabilities Education Act (IDEA). Local Assistance. (Issue 794)~~	~~(Issue 794) It is requested that this item be decreased by $4,747,000 in federal federal special education funds to align to the anticipated federal Individuals with Disabilities Education Act Part B grant award.~~

#	Item	Issue	Description
VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**			
12	6110-166-0890	May Revise. Vocational Education. Federal Title I Vocational Education Funds. Local Assistance. (Issue 271)	(Issue 271)—It is requested that this item be increased by $6,595,000 federal Title I funds for the Vocational Education Program to reflect $6,443,000 in one-time carryover funds and an increase of $152,000 to align to the federal grant award. This program develops the academic, vocational, and technical skill of students in high school, community colleges, and regional occupational centers and programs. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in this item, $6,443,000 is provided in one-time carryover funds to support the existing program.
13	6110-183-0890	May Revise. Safe and Supportive Schools Program. Federal Safe and Drug Free School Funds. Local Assistance. (Issue 686)	(Issue 686) It is requested that this item be increased by $17,000 Federal Trust Fund to reflect $444,000 in one-time carryover funds and a $427,000 decrease to align to the federal grant award. The Safe and Supportive Schools program supports statewide measurement of school climate and helps participating high schools improve conditions such as school safety, bullying, and substance abuse. It is further requested that provisional language be added as follows to conform to this action: 2. Of the funds appropriated in this item, $444,000 is provided in one-time carryover funds to support the existing program.
14	6110-193-0890	May Revise. Math and Science Grants. Federal Math and Science Partnership Program. Local Assistance. (Issue 272)	(Issue 272) It is requested that this item be increased by $2.5 million federal Title II funds to reflect one-time carryover funds. The Mathematics and Science Partnership Program provides competitive grants to partnerships of low-performing schools and institutions of higher education to provide staff development and curriculum support to 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, $2,500,000 is provided in one-time carryover funds to support the existing program.

#	Item	Issue	Description
			VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**
15	6110-195-0890	May Revise. Professional Development Grants. Federal Title II Improving Teacher Quality Grant Program. Local Assistance. (Issues 273 and 274)	(Issues 273 and 274) It is requested that Schedule (1) of this item be increased by $1,010,000 federal Title II funds to reflect $369,000 in one-time carryover funds and an increase of $641,000 to align to the federal grant award. The Improving Teacher Quality Grant Program provides funds to LEAs on a formula basis for professional development activities focused on preparing, training, and recruiting highly-qualified teachers. It is also requested that Schedule (2) of this item be increased by $235,000 federal Title II funds to reflect one-time carryover funds. The Improving Teacher Quality State Level Activities provides funds for the University of California Subject Matter Projects to provide statewide teacher professional development. It is further requested that provisional language be added as follows to conform to this action: X. Of the funds appropriated in Schedule (1), $369,000 is provided in one-time carryover for Improving Teacher Quality Local Grants. None of these funds shall be used for additional indirect administrative costs. X. Of the funds appropriated in Schedule (2), $235,000 is provided in one-time carryover for transfer
16	6110-201-0890	May Revise. Child Nutrition Program. Federal School Meal Program. Local Assistance. (Issue 688)	(Issue 688) It is requested that Schedule (1) of this item be increased by $372,700,000 Federal Trust Fund due to the anticipated increase in meals served through the Child Nutrition Program. Sponsors of this federal entitlement program include public and private nonprofit schools; local, municipal, county, or tribal governments; residential camps; and private nonprofit organizations.
17	6110-240-0890	May Revise. Advanced Placement (AP) Funding. Federal AP Fee Waiver Program. Local Assistance. (Issue 687)	(Issue 687) It is requested that this item be increased by $1,554,000 Federal Trust Fund to align to the federal grant award. The AP Fee Waiver program reimburses school districts for specified costs of AP, International Baccalaureate, and Cambridge test fees paid on behalf of eligible students. These programs allow students to pursue college-level course work while still in secondary school.

#	Item	Issue	Description
VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**			
	GENERAL FUND ADJUSTMENTS		
18	6110-140-0001 6110-140-0891 6110-488	*May Revise.* California Student Information Services (CSIS). Local Assistance. (Issue 684 and 685)	(Issues 684 and 685) It is requested that Item 6110-140-0349 be decreased by $48,000 ETF and that Schedule (2) of Item 6110 140 0001 be amended to align the appropriation to available funds for CSIS operations. This decrease in funding is a result of lower than expected apportionment-significant audit findings. It is also requested that Provision 3 of Item 6110-488 be amended, as specified on Attachment I, and non Budget Act Item 6110-602-0001 be increased to reappropriate $48,000 in one time Proposition 98 General Fund savings for CSIS operations to offset the reduction in ETF in Item 6110-140-0001. This amount would be in addition to the one-time funding of $5,499,000 included in the Governor's Budget, for a total of $5,547,000. It is further requested that provisional language in Item 6110-140-0001 be amended as follows to conform to this action: "2. The funds appropriated in Schedule (2) and ~~$5,499,000~~ $5,547,000 reappropriated in Provision 3 of Item 6110-488 for a total of $5,808,000 shall be for allocation to the Fiscal Crisis and Management Assistance Team for California School Information Services (CSIS), pursuant to the memorandum of understanding with the California Department of Education in support of the California Longitudinal Pupil Achievement Data System (CALPADS)."
19	6110-150-0001	*May Revise.* American Indian Early Childhood Education Program. Local Assistance. (Issue 240)	(Issue 240) It is requested that this item be decreased by $1,000 Proposition 98 General Fund to reflect the revised cost-of-living adjustment applied to the American Indian Early Childhood Education Program. This program provides competitive grants for programs that increase academic achievement and self-esteem for American Indian students in pre-kindergarten through grade four. It is further requested that provisional language be amended as follows to conform to this action: "1. Of the funds appropriated in this item, ~~$9,000~~ $8,000 is to reflect a cost-of-living adjustment."

#	Item	Issue	Description
VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**			
	6110-151-0001	*May Revise.* American Indian Centers. Local Assistance. (Issue 241)	(Issue 241) It is requested that this item be decreased by $3,000 Proposition 98 General Fund to reflect the revised cost-of-living adjustment applied to grants for the American Indian Education Centers. It is further requested that provisional language be amended as follows to conform to this action: "1. Of the funds appropriated in this item, ~~$65,000~~ $62,000 is to reflect a cost-of-living adjustment."
20	6110-203-0001	*May Revise.* Child Nutrition Cost of Living Adjustment. Local Assistance. (Issue 680)	(Issue 680)—It is requested that this item be decreased by $105,000 Proposition 98 General Fund to reflect the revised cost-of-living adjustment applied to the per-meal reimbursement rates for the state child nutrition program at public school districts and Proposition 98-eligible child care centers and homes. It is further requested that provisional language be amended as follows to conform to this action: "5. Of the funds appropriated in this item, ~~$2,543,000~~ $2,438,000 is to reflect a cost-of-living adjustment."
21	6110-203-0001	May Revise. Child Nutrition Growth. Local Assistance. (Issue 681)	(Issue 681) It is requested that this item be increased by $1,163,000 Proposition 98 General Fund to reflect the revised estimate of meals served through the state child nutrition program at public school districts and Proposition 98-eligible child care centers and homes. The resulting appropriation would fully fund, at the specified rates, all meals projected to be served in 2013 14. It is further requested that provisional language be amended as follows to conform to this action: "6. The funds appropriated in this item reflect a growth adjustment of ~~-$2,494,000~~ -$1,331,00 due to a decrease in the projected number of meals served."

#	Item	Issue	Description
			VII. VOTE ONLY **ACTION: Approve Issues 1-23, excluding issue 11. Vote: 3-0.**
22	6110-203-0001	May Revise. Child Nutrition Meal Rates. Local Assistance. (Issue 682)	(Issue 682) It is requested that provisional language be amended to reflect the reimbursement rates for meals served through the state child nutrition program at public school districts and Proposition 98-eligible child care centers and homes. The rate received by schools is currently specified in statute, which must be amended when a cost-of-living adjustment is provided. Trailer bill language proposed in the Governor's Budget would require that rates be referenced in budget bill language instead, where they will be updated to conform to the rates used to arrive at the appropriation for estimated meals to be served. It is requested that provisional language be amended as follows to conform to this action: "2. Funds designated for child nutrition programs in this item shall be allocated ~~in accordance with Section 49536 of the Education Code; however, the~~ <u>using the following rates: $0.2229 per meal for meals served in schools and $0.1660 per meal for meals served in child care centers and homes. The</u> allocation shall be based not on all meals served, but on the number of meals that are served and that qualify as free or reduced-price meals in accordance with Sections 49501, 49550, and 49552 of the
23	6110-203-0001	May Revise. Adults in Correctional Education. Local Assistance. (Issue 275)	(Issue 275) It is requested that Provision 5 of Item 6110-488 be added, as specified on Attachment I, and non-Budget Act Item 6110-602-0001 be increased to reappropriate $14,967,000 in one-time Proposition 98 General Fund savings for the Adults in Correctional Facilities Program. Specifically, these funds are to reimburse program providers for 2012-13 activities related to services provided pursuant to Item 6110-158-0001 of the Budget Act of 2012.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Mark Wyland
Senator Roderick Wright

Thursday, May 23, 2013
11:00 a.m.
Room 3191, State Capitol

PART B: CHILD CARE AND PRESCHOOL: 2013-14 BUDGET MAY REVISION AND OPEN ISSUES

Page

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) 651-1505. Requests should be made one week in advance whenever possible.

Item 1 – CalWORKs Child Care

Previous Subcommittee Meeting. On May 2, 2013, this Subcommittee heard an overview of the Governor's child care proposals. At this hearing the Subcommittee heard that county welfare agencies had made decisions that resulted in increased caseload and costs in CalWORKs Stage 2 child care in the current fiscal year. It is estimated that 1,200 cases were diverted from CalWORKs Stage 3 to CalWORKs Stage 2 in the current fiscal year. It was also reported that the Assembly had put forward $13.5 million of their budget on a one-time budget to augment CalWORKs Stage 3 in the current year. As background, CalWORKs Stages 1 and 2 are entitlement for families on aid and for up to two additional years after the family leaves aid. CalWORKs Stage 3 is for families that have exhausted their Stage 2 entitlement.

May Revision. The Governor's May Revision includes several proposals related to CalWORKs child care.

- **Caseload.** Reduce caseload in CalWORKs Stage 2 by $511,000 and CalWORKs Stage 3 by $15.1 million. (Issue 931)
- **Increased Federal Funds.** Apply $7.1 million in one-time carryover federal funds and $11.2 million in ongoing federal funds to offset General Fund spending on CalWORKs Stage 3.
- **Federal Sequestration.** After the onetime upward adjustments in federal funds referenced above the Governor would propose to reduce Stage 3 by approximately $14.5 million based on the expected federal sequestration reduction of $15.9 million expected for the budget year. The remaining $1.4 million in federal sequestration would be allocated to reduce quality activities.
- **Realignment.** As part of the health care reform proposal and funding swap, funding for Stage 2 and Stage 3 would shift from the state to counties over a three year period. In 2013-14 and 2014-15, the state would continue to run the programs but counties would assume a growing share of the costs, likely through an MOU arrangement. Upon full implementation, counties would locally fund and administer all CalWORKs related child care. This proposal has no impact on non-CalWORKs child care programs which would remain funded and administered by the state.

Item 1 – CalWORKs Child Care

LAO Recommendation. The LAO has several recommendations related to the CalWORKS child care program. The recommendations are in the following categories:

- **Caseload.** The LAO finds that the Stage 2 is funded at $59 million more than needed based on anticipated eligible caseload and proposes a commensurate reduction. Furthermore, LAO finds that Stage 3 is funded at $59 million less than is needed to fund anticipated eligible caseload. This shortfall is made up of three components: (1) Administration's caseload estimates are too low ($28.5 million), (2) Administration applies the sequestration cut to Stage 3 ($14.5 million) and (3) Administration does not account for Assembly's current-year one-time backfill of $13.5 million. The LAO recommends adjusting the Stage 3 caseload to accurately reflect anticipated caseload, which would require an increase of $43 million for the budget year. This increase does not include backfilling for the sequestration cuts and the Assembly's one-time funding.
- **Assembly Backfill.** The LAO notes that the Governor vetoed nine percent out of Stage 3 in the current fiscal year and the Assembly provided funds out of their budget to backfill this reduction on a one-time basis. This has resulted in the reduction not being implemented. The LAO notes that the Legislature faces a decision on whether to provide an ongoing backfill to Stage 3 in the budget year.
- **Sequestration.** The LAO recommends BBL directing DOF on how to allocate the sequestration reduction. Specifically, the LAO proposes to first apply the same rate of contract under-earnings in the budget year as was achieved in the current year. Second, the LAO recommends adopting the $1.4 million reduction to quality activities. Third, the LAO recommends spreading the remaining reduction proportionately across all programs, not just CalWORKs Stage 3.
- **Realignment.** The LAO recommends separating the discussion of the financing of health care reform from child care realignment as there are other fiscal realignment mechanisms that can be pursued in the short time we have before the Legislature must pass a budget.

Staff Comments. Staff notes that the Governor's realignment proposal related to CalWORKs child care would require counties to maintain current expenditure levels in the base year. Furthermore, the proposal would potentially provide CalWORKs childcare access to additional growth funds. The two sources of additional monies include growth funds dedicated to 1991 realignment established in 2011 realignment and savings from reduced CalWORKs caseload. Under the Governor's May Revision proposal counties would be given the flexibility to redirect savings from CalWORKs caseload decline (CalWORKs caseload is at a high because of the recession) to augment child care programs. Staff recognizes that there are risks inherent to this proposal for the CalWORKs child care program, but there are also risks in remaining funded by State General Fund.

Item 1 – CalWORKs Child Care

Staff Recommendation. Staff recommends the following:

- Approve LAO adjustments to CalWORKs Stage 2 and Stage 3 child care caseload for overall savings of $16 million.
- Backfill sequestration reduction in CalWORKs Stage 3 net of an estimated amount of unused contracts up to $14.5 million.
- Augment CalWORKs Stage 3 by $15 million GF to maintain funding at approximate current year levels, thereby avoiding further reductions to this program.
- Realignment to be handled by Senate Budget and Fiscal Review Committee on May 24, 2013.

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
1	6110-194-0001	*May Revise.* Child Care Growth, Local Assistance. (Issue 936)	Provides $1,666,000 in GF (Non-98) to reflect a revised growth adjustment of 0.20 percent.	Approve	BBL	1,666	Issue heard on May 2, but held open for May Revise growth updates.
2	6110-194-0890	*May Revision.* Sequestration Quality Dollars.	Reduce Quality Improvement activities by $1.4 million.	Approve.		1,400	The Governor' May Revision leaves decisions about implementation of federal sequestration reductions to DOF -- post budget -- via authority contained in a proposed budget Control Section.
3	6110-200-0890	*May Revise:* Child Care Federal Funds Adjustments, Race to the Top, Early Learning Challenge Grant, Local Assistance. (Issue 934)	Changes the date that the CDE must submit their annual report on the Race to the Top - Early Learning Challenge federal grant to the Legislature and the Administration. The date changes from March 1 to May 1, to align with the availability of federal reporting information.	Approve	BBL		New issue. Language only.

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
4	6110-196-0001	*May Revise:* Preschool Growth Adjustment, Local Assistance. (Issue 937)	Provides $1,204,000 in Prop 98 GF to reflect a revised growth adjustment of 0.20 percent.	Approve	BBL		Issue heard on May 2, but held open for May Revise growth updates.
5	6110-197-0890	*May Revise.* Child Care Federal Funds Adjustments, 21st Century Community Learning Centers Program, Local Assistance. (Issues 943 and 944)	Provides a net increase of $10,828,000 for the federal 21st Century Community Learning Centers Program to reflect the addition of $10,700,00 in one-time carryover funds and an increase of $128,000 to reflect updated federal grant amounts.	Approve	BBL		Carryover funds.
6	6110-001-0890 6110-200-0890	*April Letter:* Child Care Federal Fund Adjustments, Race to the Top, Early Learning Challenge Grant, Local Assistance. (Issues 921 and 922)	Requests that Item 6110-001-0890 be increased by $3,875,000 and Item 6110-200-0890 be decreased by $209,000 to more accurately reflect actual and projected expenditures for the federal Race to the Top (RTT) - Early Learning Challenge grant.	Approve	BBL		Issues heard on May 2, but held open pending receipt of CDE report on the RTT Early Learning Challenge Grant, which was due on March 1, but has not yet been received.

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
7	6110-196-0001	*LAO Proposal:* State Preschool Program Restoration, Local Assistance.	LAO recommends that in 2013-14, the Legislature begin to restore approximately $120 million in recent Proposition 98 GF cuts to the State Preschool Program. This program provides preschool funding to low-income 3 and 4 year olds. The LAO's preschool recommendation aligns to the Governor's LCFF proposal which restores reductions for other Proposition 98 programs over a multi year period, with an emphasis on low-income students.	Approve $30 million in Proposition 98 GF to begin multi-year restoration in 2013-14.	BBL	30,000	Staff recommends an initial augmentation of $30 million augmentation in 2013-14, which restores funding lost as a result of the Governor's 2012-13 veto.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Mark Wyland
Senator Roderick Wright

Thursday, May 23, 2013
11:00 a.m.
ACTIONS

PART B: CHILD CARE AND PRESCHOOL: 2013-14 BUDGET MAY REVISION AND OPEN ISSUES

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) 651-1505. Requests should be made one week in advance whenever possible.

Item 1 – CalWORKs Child Care

Action.

1. Approved LAO adjustments to CalWORKs Stage 2 and Stage 3 child care caseload to fund Stage 2 at $339 million and Stage 3 at $200 million.
2. Approved BBL to capture contract under earnings and apply toward sequestration reductions.
3. Approved TBL to extend San Francisco and San Mateo child care pilot programs for one year.

Vote.

- **Item 1 and 2 (3-0), Item 3 (2-0)**

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
1	6110-194-0001	*May Revise*. Child Care Growth, Local Assistance. (Issue 936)	Provides $1,666,000 in GF (Non-98) to reflect a revised growth adjustment of 0.20 percent.	Approve	BBL	1,666	Vote 3-0
2	6110-194-0890	*May Revision*. Sequestration Quality Dollars.	Reduce Quality Improvement activities by $1.4 million.	Approve.		1,400	Vote 3-0
3	6110-200-0890	*May Revise:* Child Care Federal Funds Adjustments, Race to the Top, Early Learning Challenge Grant, Local Assistance. (Issue 934)	Changes the date that the CDE must submit their annual report on the Race to the Top - Early Learning Challenge federal grant to the Legislature and the Administration. The date changes from March 1 to May 1, to align with the availability of federal reporting information.	Approve	BBL		Vote 3-0

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
4	6110-196-0001	*May Revise:* Preschool Growth Adjustment, Local Assistance. (Issue 937)	Provides $1,204,000 in Prop 98 GF to reflect a revised growth adjustment of 0.20 percent.	Approve	BBL		Vote 3-0
5	6110-197-0890	*May Revise.* Child Care Federal Funds Adjustments, 21st Century Community Learning Centers Program, Local Assistance. (Issues 943 and 944)	Provides a net increase of $10,828,000 for the federal 21st Century Community Learning Centers Program to reflect the addition of $10,700,00 in one-time carryover funds and an increase of $128,000 to reflect updated federal grant amounts.	Approve	BBL		Vote 3-0
6	6110-001-0890 6110-200-0890	*April Letter:* Child Care Federal Fund Adjustments, Race to the Top, Early Learning Challenge Grant, Local Assistance. (Issues 921 and 922)	Requests that Item 6110-001-0890 be increased by $3,875,000 and Item 6110-200-0890 be decreased by $209,000 to more accurately reflect actual and projected expenditures for the federal Race to the Top (RTT) - Early Learning Challenge grant.	Approve	BBL		Vote 3-0

MAY REVISE LETTER -- CHILD CARE & STATE PRESCHOOL							
#	**Item**	**Issue**	**Description**	**Staff Recommendation**	**Language**	**(000's) above January Budget**	**Comments**
7	6110-196-0001	*LAO Proposal:* State Preschool Program Restoration, Local Assistance.	LAO recommends that in 2013-14, the Legislature begin to restore approximately $120 million in recent Proposition 98 GF cuts to the State Preschool Program. This program provides preschool funding to low-income 3 and 4 year olds. The LAO's preschool recommendation aligns to the Governor's LCFF proposal which restores reductions for other Proposition 98 programs over a multi year period, with an emphasis on low-income students.	Approve $30 million in Proposition 98 GF to begin multi-year restoration in 2013-14.	BBL	30,000	Vote 2-0 (Wyland)

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Mark Wyland
Senator Roderick Wright

Thursday, May 23, 2013
11:00 a.m.
Room 3191, State Capitol

PART C: HIGHER EDUCATION: 2013-14 BUDGET MAY REVISION AND OPEN ISSUES

Public Comment

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#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
VOTE ONLY							
	CALIFORNIA STATE LIBRARY						
1	6120-011-0001	*May Revision:* Library and Courts Building Relocation (Issue 102)	The May Revision requests $1.6 million GF. This includes $1.5 million one-time for short term costs related to delays in the renovation of the Library and Courts building that require the retention of additional warehouse space. The request also includes $104,000 in ongoing GF for security services and to increase the network bandwidth at the new library and courts building.	Approve.	Yes, BBL.	1,565	No issues have been raised with this request.
2	6120-011-0020	*May Revision:* California State Law Library (Issue 107)	The May Revision proposes to reduce expenditure authority from the California State Law Library Special Account to reflect a trend of lower revenues in this account.	Approve.	No.	-35	The Administration indicates that fewer court transactions have resulted in the lower revenues. No issues have been raised with this request.
3	6120-490	*May Revision*: Reappropriation of Relocation Funds	The May Revision proposes to reappropriate up to $2 million GF to continue to support relocation of the library staff and materials to the newly renovated Library and Courts Building.	Approve.	Yes, BBL.		The Administration indicates that renovation on the new Library and Courts Building has been delayed and a portion of the $4.9 million approved in the current year will not be expended before the end of the fiscal year.

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	UNIVERSITY OF CALIFORNIA						
4	6440-001-0001	*January Budget* : Support, University of California	Augment base budget by $125.1 million and designate $10 million of that total to expand the availability the high-demand courses through the use of technology.	Approve	Yes, BBL (for technology funds)		Issue previously heard on March 14 and held open. (See Technology item for BBL.)
5	6440-001-0001	*Legislative Analyst's Office Recommendation:* UC Retirement Plan Funding	Designate $67 million of the $125.1 million UC base budget augmentation for UCRP and, consistent with the approach in 2012-13, add budget bill language reiterating that the state is not obligated to provide any additional funding for this purpose moving forward. Such language is intended to reinforce that the state is not liable for these costs.	Approve	Yes, BBL.		Issue previously heard on March 14 and held open. See attachment for BBL.
6	6440-001-0001	*January Budget* : Support, University of California	Insert earmarks for various legislative expenditure priorities historically included in the budget bill.	Approve	Yes, BBL.		Issue previously heard on March 14; Subcommittee stated intent to adopt earmarks in the 2013-14 budget. (See attachment for programs earmarked in BBL.)
7	6440-001-0001	*January Budget:* Support, University of California	Technical adjustment to provide $6.414 million GF for retired annuitant dental benefit costs.	Approve	No		
8	6440-001-0001	*May Revise* Support, University of California (Issue 410)	Decrease UC's GO bond debt service payments by $1.35 million, now included in UC's main General Fund item in 2013-14.	Approve	No	-1,352	Technical - continue to reject debt restructuring proposal per action taken at April 25 hearing.
9	6440-001-0001	Legislative Request.	There is a request to earmark $4.8 million for increased costs related to an MOU with Service Unit (SX) if the university reaches a memorandum of understanding with Service Unit (SX).	Approve	Yes, BBL.	0	This budget bill language earmarks $4.8 million only if a memorandum of understanding is reached between the University and Service Unit (SX).

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	HASTINGS COLLEGE OF THE LAW						
10	6600-001-0001	*January Budget* : Support, Hastings College of the Law	Augment base budget by $392,000.	Approve.			Issue previously heard on March 14 and held open.
11	6600-001-0001	*Legislative Analyst's Office Recommendation* : UC Retirement Plan Funding	Increase Hasting's base budget augmentation by $63,000 GF, to a total of $455,000, and designate all the funding for UCRP and, consistent with the approach in 2012-13, add budget bill language reiterating that the state is not obligated to provide any additional funding for this purpose moving forward. Such language is intended to reinforce that the state is not liable for these costs.	Approve.			Issue previously heard on March 14 and held open. See attachment for BBL.
12	6600-001-0001	*January Budget* : Support, Hastings College of the Law	Technical adjustment to provide $56,000 GF for retired annuitant dental benefit costs.	Approve	No		

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA STATE UNIVERSITY						
13	6610-001-0001	*January Budget* : Support, California State University	Augment base budget by $125.1 million and designate $10 million of that total to expand the availability of the high-demand courses through the use of technology.	Approve	Yes, BBL (for technology funds)		Issue previously hearing on March 14 and held open. (See technology item for BBL.)
14	6610-001-0001	*January Budget* : Support, California State University	Insert earmarks for various legislative expenditure priorities historically included in the budget bill.	Approve	Yes, BBL.		Issue previously heard on March 14; Subcommittee stated intent to adopt earmarks in the 2013-14 budget. (See attachment for programs earmarked in BBL.)
15	6610-001-0001	*January Budget* : Support, California State University	Technical adjustment of (-) $473,000 GF for retired annuitant dental.	Approve	No		
16	6610-001-0001	*January Budget* : Support, California State University	CSU will continue to receive annual GF adjustments based on the 2012-13 payroll level for its required CalPERS contribution; however, if CSU chooses to increase payroll expenditures above that level, CSU would be responsible for the associated pension costs.	Approve per legislative modification to make 2013-14 the base year.	Yes, BBL and TBL.		Issue previously heard on March 14 and approved in concept but without defining the base year.
17	6645-001-0001, 6645-001-0950	*May Revise:* CSU retired annuitants	DOF indicates that the dollar amounts will change in late June. Need to revise to conform to actions taken in statewide 9650-001-0001.	Approve.	Yes, BBL.		This item needs to go to conference as the numbers will not be available until early June.
18	6610-001-0001	*May Revise:* Support, California State University (Issue 460)	Decrease CSU's G.O. bond debt service payments by $1.29 million, now included in G.F. item in 2013-14.	Approve.	No	-1,290	Technical - continue to reject debt restructuring proposal per action taken at April 25 hearing.

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA COMMUNITY COLLEGES						
19	6870-	Budget Trailer Bill Language	Technical and conforming change to Budget Act of 2012 reforms to the CalWORKs program, which included the creation of a 24-month time limit with more flexible welfare-to-work activities including education, to adopt budget trailer bill language providing enrollment priority to students receiving CalWORKs to ensure access to community college classes during the new and narrower 24-month time clock.	Approve	Yes, TBL.		Language previously heard and held open on April 11.
20	6870-101-001and 6870-101-0986	*May Revise:* Local Assistance, California Community Colleges (Issue 130)	Decrease by $70.8 million Proposition 98 General Fund to reflect an increase in estimated local property tax revenues. Increase 6870-101-0986 to conform.	Approve	No.	-70,793	Technical update.
21	6870-101-0001 and 6870-601-0992	*May Revise:* Local Assistance, California Community Colleges (Issue 131)	Decrease by $38.9 million Proposition 98 General Fund to reflect an increase in estimated student fee revenue. Increase Item 6870-601-0992 to conform.	Approve	No	-38,910	Technical update.
22	6870-101-0001	*May Revise:* Local Assistance, California Community Colleges (Issues 132 and 133)	Decrease by $598,000 Proposition 98 General Fund due to a decrease in the number of students eligible for the fee waiver program. Decrease the Student Financial Aid Administration Program by $297,000 and decrease the Board Financial Assistance Program by $301,000.	Reject	Yes, BBL	0	Add BBL to notwithstand current law for one year to ensure that there is no reduction made to the financial aid administration program in the budget year.

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA COMMUNITY COLLEGES						
23	6870-101-000; 6870-601-3207; 6870-610-0001; 6870-698-3207	*May Revise:* Local Assistance, California Community Colleges (Issue 171)	Decrease apportionment by $20.4 million to reflect an increase in estimated revenue from the Education Protection Account; increase by like amount to reflect an increase in estimated revenue from the Education Protection Account with additional conforming language.	Approve	No	20,460	Technical update.
24	6870-101-0001	*May Revise:* Local Assistance, California Community Colleges (Issue 181)	Add Desert Community College District Repayment Plan Reporting Provisional Language	Approve	Yes, BBL		The Desert Community College District current owes $6.8 million to the state. This Chancellor is working with the college on a multi-year payment plan.
25	Add 6870-490	*May Revise:* Capital Outlay, California Community Colleges	To reappropriate the balances of the appropriations for the following projects: Item 6870-303-6049 Budget Act of 2007, Los Angeles Community College District, Mission College, Mediate Arts Center Equipment; Item 6870-301-6049, Budget Act of 2007, Barstow Community College District, Barstow College Performing Arts Center; Item 6870-301-6049, Budget Act of 2008, Barstow Community College, Barstow College Wellness Center.	Approve	No.		

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
			CURRENT YEAR CCC				
26	6870-101-0001; 6870-601-3207; 6870-610-0001; 6870-698-3207	*May Revise:* Local Assistance, California Community Colleges (Issue 170)	Decrease Education Protection Account Revenue Estimate and Increase Proposition 98 General Fund Backfill.	Approve.		23,430	Technical update.
27	6870-616-0001	*May Revise:* Local Assistance, California Community Colleges (Issue 175)	Decrease Redevelopment Agency Backfill based on revised increased redevelopment agency revenue estimates.	Approve		-41,209	Technical update.
28	6870-681-0001	*May Revise:* Local Assistance, California Community Colleges (Issue 185)	Restore over-appropriation by $17.9 million Proposition 98 GF to eliminate this item and reflect an increased Proposition 98 Guarantee.	Approve		17,911	Technical update.
29		*May Revision:* Budget Trailer Bill Language, amend Government Code 17581.7	MR would change date by which Community College districts submit letters to participate in the mandates block grant to Aug. 30 (currently Sept. 30); would change the date the Chancellor's Office is required to submit a report about block grant participation to Nov. 1 of the fiscal year in which funding is apportioned.	Approve	TBL		Technical date changes - no material change in mandate block grant program from last year.

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA STUDENT AID COMMISSION						
30	6980-101-0001 6980-601-0001	*January Budget and May Revision:* Local Assistance, California Student Aid Commission (Issue 018)	Governor's Budget proposed a shift of $942.9 million of Cal Grant Program costs from GF to federal Temporary Assistance for Needy Families (TANF) program funds available due to proposed reductions in the CalWORKs program. The May Revision increased by $18.7 million the amount of TANF available as offset for Cal Grant Program costs.	Conforming.	Yes, BBL.	18,696	Item previously heard and held open on April 25.
31	6980-101-0001; 6980-101-0784	*January Budget and May Revision:* Local Assistance, California Student Aid Commission (Issue 016)	The May Revision proposes to decrease GF Cal Grant costs to reflect increased offsetting funding from the Student Loan Operating Fund (SLOF) by $38.1 million and increase by the same amount additional SLOF to offset Cal Grant GF programs costs. Combined the January budget and May Revision provide $98.1 SLOF for a GF savings.	Approve.	No	-38,149	Item previously heard and held open on April 25.

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
32	6980-101-0001	*January Budget and May Revision:* Local Assistance, Cal Grant Program Caseload (Issue 014)	Technical adjustments to increase the 2012-13 budget by $61 million GF to account for revised caseload estimates for the Cal Grant program and increase the 2013-14 program budget by $161 million GF for the same purpose. The May Revision revises caseload in the current year down by $23.6 million for a net increase of $37.4 million in 2012-13. The May Revision further reduces the budget year caseload by $42 million for a net increase of $119.1 million in the budget year.	Approve.	No		The Cal Grant program is an entitlement program. The caseload for this program is updated every May. This item makes the technical adjustments proposed by the Administration to reflect the change in caseload.
	CALIFORNIA STUDENT AID COMMISSION						
33	6980-101-0001	*May Revision* : Local Assistance, Loan Assumption Programs Caseload (Issue 015)	The May Revision reduces funding in the current year by $4 million for the loan assumption programs. Overall, the loan assumption programs are proposed to decrease by $7.6 million for 2012-13. The May Revision further proposes reducing funding for this program in the budget year by $3.3 million. Overall, the budget year estimates for program costs for the loan assumption programs are $8.5 million lower than the current year.	Approve.	No		The Governor effectively halted new education warrants and nursing warrants in the current year when he vetoed provisional language authorizing new warrants in 2012-13. By not issuing any new awards, the loan assumption programs begin to be phased out in the budget year.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ITEM 1: Multi-Year Budget Plan and Performance Metrics

Previous Subcommittee Meeting. At the May 9 meeting of the Subcommittee the Governor's more refined multi-year budget plan and performance measurements proposal was discussed. The Governor's January proposal links base increases of $125.1 million General Fund for each segment each year for the next four years to the following requirements: (1) no increases in systemwide resident tuition fees through 2016-17; (2) achieving targets for unspecified performance measures. The Administration proposed that for the following seven ***performance measurements***, *UC and CSU* must increase their performance annually by specific targets and by a total of 10 percent during the four-year period of the multi-year funding plan:

1. Four-year graduation rates for incoming freshman;
2. Two-year graduation rates for community college transfers;
3. Number of community college transfer students enrolled;
4. Number of first-time freshmen completing degrees;
5. Number of transfer students completing degrees;
6. Number of Pell Grant recipients completing degrees; and,
7. Undergraduate degree completions per 100 full-time equivalent students.

The Administration proposes to tie the funding to the progress on the performance measure starting in 2014-15, but would require UC and CSU to submit performance data starting in March 2014. Furthermore, starting in 2014-15 if UC or CSU does not meet its target for the year, funding would be reduced at the May Revise. Each of the seven targets is equally weighted; thus, if UC or CSU meets only 6 of the 7 benchmarks for the year, it would receive 14 percent less than the overall increase.

May Revise. The Governor has pulled back significantly on what it has requested related to the multi-year budget plan and performance metrics in the May Revision. The Governor now seeks only to establish a common list of performance metrics for reporting purposes. The Governor no longer is pursuing a framework through the budget to link the General Fund augmentations to continual performance at UC and CSU over the four-year period.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ITEM 1: Multi-Year Budget Plan and Performance Metrics

LAO Recommendation on Performance Metrics. The LAO still believes the Governor's proposal is a good start, but would benefit from additional statutory guidance. The LAO proposes a framework that accounts for (1) access, (2) student success, and (3) efficiency. The LAO points out that their suggested framework focuses only on the universities' instruction mission, but moving forward we think it could be expanded to include measures related to research and public service.

<u>Access Measures</u>
(1) Number/Proportion of Transfers
(2) Number/Proportion of Low-Income Students

<u>Student Success Measures</u>
(3) Graduation Rates *
(4) Degree Completions *
(5) First-Years On Track to Degree (i.e. what percent of first years earned a specified number of units)
(6) Employment Outcomes (data may not be available currently)
(7) Learning Outcomes (data may not be available currently)

<u>Efficiency Measures</u>
(8) Spending Per Degree (Core Funds)
(9) Units Per Degree
(10) Degrees Per 100 FTE (Undergraduate)

* Disaggregated by freshman entrants, transfers, graduate students, and low-income status.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ITEM 1: Multi-Year Budget Plan and Performance Metrics

Staff Comment. Staff finds that the Governor's May Revision proposal is more realistic for moving forward on the performance measure aspects of their multi-year funding plan. There are many issues to work out regarding the relative weights of the measures and the performance goals to be set for the segments. Furthermore, there has been significant concern regarding tying the funding augmentations to performance in the short term when the segments are focusing on rebuilding access and addressing issues within each segment that have been left unaddressed because of the state's fiscal shortfalls.

Staff finds that the general framework suggested by the LAO is a good starting point for the conversation regarding performance measures. There is significant work to do and a workgroup such as that created by SB 195 (Liu) will be required to address the relative weights of the measures and the performance goals for each segment along with further refinement of student success measures, especially those related to employment and learning outcomes.

Staff Recommendation. Staff recommends the Subcommittee take the following action:

1. Approve placeholder trailer bill language to establish basic performance measures for annual reporting purposes starting with 2012-13 data to be reported to the Legislature by March 2014. The performance measures shall include, but are not limited to the following metrics:
    1. Number/Proportion of Transfers
    2. Number/Proportion of Low-Income Students
    3. 4 year Graduation Rates for both UC and CSU and 6 year Graduation Rates for CSU (disaggregated by freshman entrants, transfers, graduate students, and low-income status)
    4. Degree Completions (disaggregated by freshman entrants, transfers, graduate students, and low-income status)
    5. First-Years On Track to Degree (i.e. what percent of first years earned a specified number of units)
    6. Spending Per Degree (Core Funds)
    7. Units Per Degree
    8. Degrees Per 100 FTE (Undergraduate)

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES

ITEM 2: Governor's Online Technology Earmarks

Previous Subcommittee Meeting. On March 14 and April 11 the Subcommittee heard the Governor's budget proposal to earmark funding for each segment to expand online education. The Governor proposed earmarking $10 million each for UC and CSU to expand the availability of courses through the use of technology. The Governor proposed a base budget augmentation of $16.9 million for the CCCs to expand online education. The Governor's budget bill provisional language specifies that:

- ✓ The funding is for high-demand courses that fill quickly and are required for many different degrees;
- ✓ Development of new courses that can serve greater numbers of students while providing equal or better learning experiences is a priority;
- ✓ The online courses are available systemwide regardless of a student's "home" campus; and
- ✓ Tuition fees will be the same as for regular courses.

The Governor's proposal also: (1) *encourages* UC and CSU to collaborate with the community colleges and each other to offer online courses that will be available to students between the three segments as well; (2) *states intent* that the funds will not be used to support or enhance the self-support elements of their current online efforts, in particular CSU Online and UC Online; and (3) *expects* the segments to report on how the funds have been allocated.

Further Detail on Planned Expenditures Provided by Higher Education Segments. Since the earlier hearings of this Subcommittee, additional detail has been forwarded by the higher education segments regarding how they will invest their respective funding towards expanding online education. The following are summaries of their respective funding plans:

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6870 CALIFORNIA COMMUNITY COLLEGES

ITEM 2: Governor's Online Technology Earmarks

- **CCC**. The stated goal of the California Community Colleges' (CCC) technology initiative is to increase student access to high quality online courses and to provide alternative ways for students to earn college credit. The CCC's proposal would fund a number of projects, with the majority of funding in the budget year supporting the acquisition of a common learning management system (LMS) for the CCC system. (A LMS allows faculty to post syllabi, instructional content—such as video presentations, assignments, and course material. Students use the LMS to perform functions such as submitting their assignments, taking tests, and participating in online discussions with classmates.) Other proposed projects include (1) the creation of an inventory of online courses that would be offered by a consortium of community colleges and available to students throughout the CCC system, (2) a single online portal for students to find and access such courses, (3) centralized round-the-clock support for online students, (4) additional professional development for faculty teaching online courses, and (5) development of standardized "challenge tests" that would allow students to obtain academic credit for learning outside the traditional classroom setting.

- **CSU**. CSU plans to distribute the technology funds to campuses through a competitive process for four types of activities:
  1. ***Scaling up proven course redesign.*** Campuses that have successfully redesigned courses will mentor other campuses in adopting these course models. In addition, these campuses will provide 2013-14 enrollment slots in 25 to 30 fully online courses that have demonstrated successful outcomes.
  2. ***Advancing other course redesign efforts.*** Campuses will compete for funds to redesign existing courses that have high failure rates. This effort will prioritize 22 types of courses that have been identified as high-demand, low-success courses across the system.
  3. ***Implementing student success programs.*** The goal of this component is to reduce achievement gaps and improve overall student success and graduation rates through high-impact practices and technology solutions.
  4. ***Using technology to improve student advising.*** Campuses will implement automated degree audits, e-advising, and other planning tools for students.

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ITEM 2: Governor's Online Technology Earmarks

The amount allocated to each activity will depend on the proposals the Chancellor's Office receives from campuses. In addition to the $10 million proposed by the Governor for improving instruction through technology, the CSU is allocating $7.2 million of its base augmentation for student success activities. CSU has already initiated the RFP process and is prepared to award grants in July 2013 if funding is approved.

- **UC**. UC proposes to use the $10 million proposed by the Governor for improving instruction through technology to develop a new Innovative Learning Technology Initiative (ILTI). The goal of the initiative is to help undergraduates enroll in courses they need in order to satisfy degree requirements and graduate in a timely manner. UC's plan includes four components:
  1. ***Course Development ($4.6 million to $5.6 million).*** UC plans to develop 150 online and hybrid courses over the next three years. These courses will be credit-bearing and meet general education or major requirements.
  2. ***Technological and Instructional Support ($1 million to $2 million).*** UC plans to make technological support available to faculty developing the hybrid and online courses. Instructional support costs will pay for teaching assistants to teach students taking courses remotely.
  3. ***Cross-Campus Registration and Course Catalog Database ($3 million).*** UC plans to develop a new data "hub" to support cross-campus registration. UC also plans to develop a new searchable database of the new courses.
  4. ***Evaluation. ($0.4 million).*** UC plans to collect data from students and faculty to determine the effectiveness of the new courses.

Staff Comment. Staff finds that since the March 14 and April 11 hearings, the higher education segments further developed their plans for the technology funds in the budget year. Staff finds that the plans are generally geared toward the development of online courses at the UC and CSU and building more system wide infrastructure for the CCCs. Staff finds that online education can play a role in improving the efficiency of the college system by enabling students to access, online, courses that may be impacted at the university they attend. This is only effective when there is a central portal within the university system that the student can access to see what courses are available at which campuses. While online education is not and should not ever replace core instruction at each campus within the state's higher education system, staff finds that it can be used to help improve efficiency and meet unmet needs in some courses.

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ITEM 2: Governor's Online Technology Earmarks

Staff Recommendation. Staff recommends the following:

- Adopt modified BBL to earmark $10 million each for CSU and UC for Online Education and a $16.9 million base augmentation for the CCCs. The modified BBL (see attachment) will do the following:
    1. Ensure the courses mean something in terms of credit and transferability.
    2. Ensure cross-campus enrollment opportunities.
    3. Ensure Legislative notification through JLBC process instead of just DOF sign off on expenditure plans.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ITEM 3: Enrollment Targets

Previous Subcommittee Meeting. On March 14 the Subcommittee expressed intent to adopt a 2013-14 enrollment target and directed the LAO to work on the development of an appropriate target. The Governor has proposed that the segments hold enrollment at current year levels through 2016-17 as a condition of receiving the annual base budget increases. However, the Governor's proposal does not include any controlling language related to their enrollment targets.

LAO Recommendation. The LAO has indicated that it has concerns with the Governor's approach toward enrollment targets. Specifically, the LAO finds that setting enrollment targets is key to ensuring access to the public universities. The LAO has developed enrollment targets for both UC and CSU in a letter addressed to Senator Marty Block dated May 1, 2013. In this letter the LAO recommends that the Legislature set enrollment levels ***at least*** at current-year actual enrollment levels: 211,499 and 342,000 FTES for UC and CSU, respectively. Furthermore, the LAO recommends that the Legislature assess the trade-offs in setting targets ***above*** these levels versus other priorities. Given the Governor's proposed augmentation of $125.1 million for each segment and the LAO's assessment of the universities' unavoidable cost increases in 2013-14 (for things like pensions, healthcare, utilities, etc.), the LAO finds that there are some additional resources left over to increase enrollment by as much as 0.6 percent at UC and 3 percent at CSU.

The LAO indicates that there are tradeoffs to prioritizing enrollment growth over other funding priorities at the universities. For example, to the extent enrollment is funded there will be fewer resources at both UC and CSU for deferred maintenance, compensation increases, and instructional technology and support. There will also be fewer resources available at CSU for student support and UC for faculty staffing.

Staff Comments. Given that this is the first year in several years that both CSU and UC are being augmented, staff finds that there are many priorities that require funding at each higher education segment. Since 2007-08, UC's actual enrollment has increased by 4 percent and CSU's enrollment has declined by 4 percent. The UC system is highly competitive and many qualified applicants are turned away annually. Only in recent years is CSU also impacted and has had to turn away approximately 20,000 qualified applicants annually. Clearly there is additional demand for increased access at both higher education segments.

Staff Recommendation. Staff recommends that the Subcommittee approve BBL to increase UC enrollment by 0.6 percent and CSU enrollment by 3 percent.

6440 UNIVERSITY OF CALIFORNIA

ITEM 4: University of California, Riverside – Medical School

Background. The UC system currently has five medical schools at the following campuses: San Francisco, Irvine, Los Angeles, San Diego, and Davis. The University of California, Riverside has had a longstanding two-year medical education program and its independent four-year school of medicine has received preliminary accreditation from the Liaison Committee on Medical Education, the nationally recognized accrediting body for medical education programs leading to M.D. degrees in the United States and Canada.

Governor's Budget and May Revision. There is no proposal related to this item in the Governor's budget or May Revision.

Staff Comments. Staff finds that California currently lags in the number of medical seats per capita, having just 17.3 seats per 100,000 persons, compared to the United States average of 31.4 seats per 100,000 persons, according to statistics published by the Association of American Medical Colleges. Furthermore, California's supply of primary care physicians is below what is considered sufficient to meet patient needs. In the rapidly growing and ethnically diverse area of inland southern California, the shortage is particularly severe, with just 40 primary care physicians per 100,000 patients, which is far fewer than the recommended range of 60 to 80 primary care physicians per 100,000 patients.

Staff Recommendation. Staff recommends that the Subcommittee adopt the following:

- $15 million augmentation for the UC, Riverside medical school in a separate budget item.
- Budget Bill Language guiding expenditures (see attached)

6870 CALIFORNIA COMMUNITY COLLEGES

ITEM 5: Apportionment of New Revenues

Previous Subcommittee Meeting. Earlier this week we heard testimony on the Governor's May Revision to allocate $227 million in new Proposition 98 funding to the CCCs as follows: $87.5 million for a cost-of-living adjustment (an increase of 1.57 percent); $89.4 million for enrollment growth (an increase of 1.63 percent); and $50 million to the Student Success and Support categorical that funds counseling and other support activities associated with student success. This was a $30 million increase over the funding proposed in January.

Also at this hearing we heard that the LAO has estimated that revenues will be approximately $3.2 billion higher than the Governor has estimated. This results in $2.4 billion in additional Proposition 98 expenditures per the minimum guarantee. We also learned at that hearing and hearings earlier this year that there continues to be great need for additional supports at the community colleges for disabled students and economically disadvantaged students. Furthermore, the committee also reviewed that the Administration had earmarked up to $7 million of the $50 million targeted for student support activities to be used by the Chancellor's Office for the development of E-Transcript and E-Planning tools. Staff notes that the development of a common assessment is also a high priority item for improving student counseling and supports.

Staff Recommendation: Staff recommends the following:

- Approve Governor's May Revision apportionment of Proposition 98 GF revenues for CCCs for COLA ($87.5 million), Growth ($89.4 million) and the student success taskforce categorical ($50 million).
- Approve $50 million in additional Proposition 98 funding in the budget year and allocate as follows: $25 million for the Disabled Student Programs and Services and $25 million for the Extended Opportunity Programs and Services categorical funding.

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ITEM 6: Financial Aid: Board of Governors Fee Waiver Program Reform

Previous Subcommittee Meeting. On April 11 the Subcommittee heard the Governor's proposal to make two changes to the CCC financial aid programs as follows:

1. Require all students seeking financial aid, including BOG Fee Waivers, to fill out a Free Application for Federal Student Aid (FAFSA) form; and
2. Require campuses to take both student and parent income into account when determining certain students' eligibility for a BOG fee waiver.

At this meeting the Subcommittee rejected the second item that would require campuses to take both student and parent income into account for determining students' eligibility for a BOG fee waiver.

May Revision. At the May Revision the Governor responded to concerns raised by their proposal in January and has put forward the following three modifications to their original January proposal. (These amendments do not take into consideration our action to reject a portion of the proposal at the April 11 hearing.) These modifications are as follows:

- The May Revision provides students one academic term to collect all documentation necessary to validate financial need.
- The Board of Governors will be required to establish criteria that provide emancipated students the opportunity to prove that they are living independently of their parents and are financially needy.
- The new policies will commence with the 2014-15 academic year.

The May Revision also includes a technical, formula driven, reduction to financial aid administration of $598,000 due to a decrease in the rate of students who are eligible for the fee waiver program. This proposal includes budget bill language amendments. (Issues 132 and 133.)

LAO Recommendation. The LAO recommended adopting the Governor's January proposal because it would bring CCC policy in line with federal financial aid policy for dependent students, which includes both the parents' and students' income for purposes of determining financial need.

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ITEM 6: Financial Aid: Board of Governors Fee Waiver Program Reform

Staff Comments. In recent years there have been a number of efforts to ensure that all financially needy students gain access to the full spectrum of allowable federal and state aid. Staff finds that the May Revision modification to push off implementation until the 2014-15 fiscal year is an improvement over January as community college financial aid offices would need lead time to change processes and avoid confusion for administrators and students.

Staff Recommendation. Staff recommends that the Subcommittee take the following action:

1. Reject Administration's proposal.
2. Approve alternate TBL – as follows:
   - Beginning July 1, 2014, require students who receive new BOG waivers to file a FAFSA or Dream Act application, whichever is applicable, prior to his/her 2nd term of enrollment, if he/she is eligible, with assistance from the campus financial aid office. Provide colleges the authority to waive this requirement for students who would not benefit from filing a FAFSA or for extenuating circumstances.
3. Reject reduction to financial aid administration, including BBL to notwithstand the provisions of law that requires the adjustment.

6980 CALIFORNIA STUDENT AID COMMISSION

ITEM 7: Reestablish Support Services Previously Provided by Educational Credit Management Corporation

May Revision. The Governor's May Revision provides $610,050 and 7 positions to reestablish business operations and technology services following termination of the contract with Educational Credit Management Corporation (ECMC). The Administration based funding amounts on recent ECMC expenditures for these services, and reduced the amount for each position (but not the standard complement of general expense) by 25 percent to reflect a gradual ramp-up to full staffing in the budget year. The Administration did not include production of outreach materials ($360,000) and support for high school counselor training ($14,000) in its proposal. It did, however, include funds for warehouse storage and shipping of outreach materials. The Administration also included budget bill language requiring Department of Finance approval before CSAC may expend funds.

LAO Recommendation. The LAO recommends approving the May Revision proposal with two modifications: 1) reduce budgeted salary savings; and 2) provide funding for outreach materials. These modifications would add $466,600 to the budget, resulting in a total augmentation of $1,076,650. The LAO finds the following:

- ***Restoration of Services Justified.*** The proposal to reestablish services at CSAC is justified. All of the business and technology services currently provided by ECMC are mission critical.
- ***Annualized Amounts Reasonable.*** Because ECMC has kept track of staff time and costs related to providing these services, the administration has a solid basis for its cost estimates.
- ***Salary Savings Too Large.*** Although it is prudent to assume some level of vacancy savings, the administration's 25 percent reduction is excessive. To minimize down time, the commission will need to have personnel in place to transition many of these services on July 1. Commission staff has indicated that it plans to begin recruitment and interviews in June and have personnel ready to report to work on July 1 if the proposal is approved. The LAO recommends a smaller salary savings factor of 5 percent. This would add $106,600 to the Governor's proposal for Item 6980-001-0001.

6980 CALIFORNIA STUDENT AID COMMISSION

ITEM 7: Reestablish Support Services Previously Provided by Educational Credit Management Corporation

- ***Outreach Materials Needed.*** Financial aid education and outreach are important components of CSAC's mission. The commission has been producing informational materials in partnership with ECMC (and previously with EdFund) for distribution to nearly every high school throughout the state. The primary informational resource is a package consisting of a brochure, a comprehensive student financial aid workbook, and an online high school counselor's guide, all published under the title *Fund Your Future*. Additionally, CSAC has produced printed information about the California Dream Act to help familiarize students, parents, and counselors with this new program. Although CSAC is active in providing information through social media and online materials, the Fund Your Future package (published in both English and Spanish) and Dream Act materials (published in eight languages) remain important print resources for financial aid awareness and education. The LAO recommends that the Legislature add $360,000 to Item 6980-001-0001 for CSAC to continue publishing Fund Your Future and Dream Act materials.
- ***Counselor Training Costs Could Be Absorbed.*** The administration did not propose funding for CSAC to provide information at two annual high school counselor conferences. In recent years, ECMC has provided about $14,000 for outreach and training materials, travel, and rental of rooms and audio-visual equipment for these conferences. The LAO finds that these costs could reasonably be absorbed within CSAC's budget and the externally funded conference budgets.
- ***Department of Finance Approval Unconventional But Does No Harm.*** The administration's proposed approval language is unusual but understandable given that this is the third time the issue of reestablishing shared services is before the legislature. Both earlier times it turned out that EdFund or ECMC agreed to continue providing services and the augmentation was not needed. The proposed language would require DOF approval for CSAC to begin spending funds, but then would provide broad latitude for CSAC to fund "any expenses that may be necessary for the Commission to assume activities previously provided by Educational Credit Management Corporation." Given the history of this item, the LAO finds that this proposal does not appear unreasonable.

Staff Recommendation. Staff recommends that the Subcommittee approve the Governor's May Revision proposal related to CSAC assuming support services previously funded by ECMC as modified by the LAO recommendations above adding $466,000 to the budget.

6980 CALIFORNIA STUDENT AID COMMISSION

ITEM 8: Federal Sequester Implementation

May Revision. The Governor's May Revision includes budget bill language and a control section related to adjusting the budget for federal sequestration cuts that are not yet known. Reductions to the federal College Access Challenge Grant are expected as part of sequestration and will reduce available federal funds for CSAC programs by hundreds of millions. Currently this federal grant provides support for three programs: 1) the Cash for College outreach program, 2) the Cal-SOAP regional consortia, and 3) the Assumption Program of Loans for Education (APLE). Federal funds provided to APLE serve as a direct offset to General Fund (GF) obligations for this program. The Administration has provided budget bill language that would protect the state GF savings related to the APLE program and would therefore require that the sequestration reductions be allocated to the other two outreach related programs.

The May Revision also includes a new Control Section 8.56 that will be used for tracking adjustments related to federal sequestration.

LAO Recommendation. The LAO recommends protecting the General Fund savings related to the APLE program and approving the Governor's May Revision proposal.

Staff Recommendation. Staff recommends that the Subcommittee approve the May Revision proposal.

See item #2 on UC vote only spreadsheet.

6440-001-0001

X. Of the funds appropriated in Schedule (1), $156,582,000 is intended to address a portion of the University of California's (UC) employer pension contribution costs for the University of California Retirement Plan (UCRP). This amount is only intended to help address UC's employer pension costs attributable to state General Fund- and tuition-funded employees. The use of this funding for this purpose in 2013-14 does not constitute an obligation on behalf of the state to provide funding after the 2013-14 fiscal year for any UCRP costs. The amount of state funding for UCRP provided by the state in future budget years, if any, shall be determined annually by the Legislature.

University of California – Technology BBL
California State University
California Community Colleges

See item #2 of the Agenda

6440-001-0001:

6. Of the funds appropriated in Schedule (1), $10,000,000 is provided to increase the number of courses available to undergraduate students enrolled at the University of California **(UC)** through the use of technology, specifically those courses that have the highest demand, fill quickly, and are prerequisites for many different degrees. Priority will be given to developing courses that can serve greater numbers of students while providing equal or better learning experiences. **The university shall ensure that the courses selected for this purpose are articulated across all UC campuses offering undergraduate degree programs and shall additionally ensure that students enrolling and successfully completing these courses are granted degree applicable cross-campus transfer credit**. The university ~~will~~ **shall** use these funds to ~~enable~~ **make** these courses ~~to be~~ available to all university undergraduate students systemwide, regardless of the campus where they are enrolled. The university ~~should~~ **shall** charge UC-matriculated students the same tuition for these courses that it charges **them** for regular academic year state-subsidized courses. **Prior to the expenditures of these funds, the University shall submit a detailed expenditure plan for approval by the Department of Finance. The Director of Finance shall provide notification in writing of any approval granted under this section, not less than 30 days prior to the effective date of that approval, to the chairperson of the Joint Legislative Budget Committee, or not later than whatever lesser amount of time prior to that effective date the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine. By March 1, 2014, the University shall submit a report detailing the use of these funds and any outcomes that may be attributed to their use. The report shall include the university's proposal for use of these funds in 2014-15.**

6610-001-0001:

5. Of the funds appropriated in Schedule (1), $10,000,000 is provided to increase the number of courses available to undergraduate students enrolled at the California State University **(CSU)** through the use of technology, specifically those courses that have the highest demand, fill quickly, and are prerequisites for many different degrees. Priority will be given to developing courses that can serve greater numbers of students while

providing equal or better learning experiences. **<u>The university shall ensure that the courses selected for this purpose are articulated across all CSU campuses offering undergraduate degree programs and shall additionally ensure that students enrolling and successfully completing these courses are granted degree applicable cross-campus transfer credit</u>**.

<u>The university shall use these funds to make these courses available to all university undergraduate students systemwide, regardless of the campus where they are enrolled.</u> The university **~~should~~** **<u>shall</u>** charge CSU-matriculated students the same tuition for these courses that it charges **<u>them</u>** for regular academic year state-subsidized courses. **<u>Prior to the expenditures of these funds, the University shall submit a detailed expenditure plan for approval by the Department of Finance. The Director of Finance shall provide notification in writing of any approval granted under this section, not less than 30 days prior to the effective date of that approval, to the chairperson of the Joint Legislative Budget Committee, or not later than whatever lesser amount of time prior to that effective date the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine. By March 1, 2014, the University shall submit a report detailing the use of these funds and any outcomes that may be attributed to their use. The report shall include the university's proposal for use of these funds in 2014-15.</u>**

6870-101-0001

42. The amount appropriated in Schedule (26) for Expanding the Delivery of Courses through Technology shall be allocated to the Chancellor of the California Community Colleges and used to increase the number of courses available to matriculated undergraduates through the use of technology **<u>and to provide alternative methods for students to earn college credit</u>**. **<u>The Chancellor shall ensure that the courses selected for this purpose are articulated across all community college districts and shall additionally ensure that students enrolling and successfully completing these courses are granted degree applicable cross-campus transfer credit. The Chancellor shall also ensure that these courses are made available to students systemwide, regardless of the campus where they are enrolled.</u>**

~~Prior to the expenditure of these funds, the Chancellor of the California Community Colleges shall submit a proposed expenditure plan and the rationale therefor, to the Department of Finance by July 1, 2013 for approval.~~ These funds shall be used for those courses that have the highest demand, fill quickly, and are prerequisites for many different degrees. **<u>Prior to the expenditures of these funds, the</u>**

Chancellor shall submit a detailed expenditure plan for approval by the Department of Finance. The Director of Finance shall provide notification in writing of any approval granted under this section, not less than 30 days prior to the effective date of that approval, to the chairperson of the Joint Legislative Budget Committee, or not later than whatever lesser amount of time prior to that effective date the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine. By March 1, 2014, the Chancellor shall submit a report detailing the use of these funds and any outcomes that may be attributed to their use. The report shall include the proposed use of these funds in 2014-15.

University of California – Legislative Earmarks BBL
California State University

See Issue 6 on UC Vote Only Agenda and Issue 14 on CSU Vote Only Agenda.

UC Provisional Language

- Charles Drew University of Medicine and Science, $8.3 M
- Acquired Immune Deficiency Syndrome (AIDS) research, $8.8 M
- Student Academic Preparation and Education Programs, $31.3 million
- Nursing Programs, $1.7 M
- Program in Medical Education (PRIME) at Irvine, Davis, San Diego, San Francisco, and Los Angeles, $2 M
- Continued support regardless of whether provisions specify certain expenditure levels for Subject Matter Projects, California State summer School for Mathematics and Science (COSMOS), Student Financial Aid, Science and Math Teacher Initiative, and Labor Centers.
- Retiree Health and Dental Benefits, $5.2 M

UC Scheduled Appropriations

- UC Merced, $15 M

CSU Provisional Language

- Nursing Programs, $6.3 M
- Student Academic Preparation and Education Programs, $52 million
- Continued support regardless of whether provisions specify certain expenditure levels for Student Financial Aid, Science and Math Teacher Initiative.

See Item 4 on Agenda.

1. (a) Funds shall be available for planning and startup costs associated with academic programs to be offered by the School of Medicine at the University of California Riverside, including all of the following:

(1) Academic planning activities, support of academic program offerings, and faculty recruitment.

(2) The acquisition of instructional materials and equipment.

(3) Ongoing operating support for faculty, staff, and other annual operating expenses for the School of Medicine at the University of California, Riverside.

(b) No later than April 1 of each year, the University of California shall provide progress reports to the relevant policy and fiscal committees of the Legislature pertaining to funding, recruitment, hiring, and outcomes for the UCR School of Medicine. Specifically, the report shall include, but not be limited to, information consistent with the published mission and vision for the UCR School of Medicine in the following areas:

(1) The number of students who have applied, been admitted, or been enrolled, broken out by race, ethnicity, and gender.

(2) The number of full-time faculty, parttime faculty, and administration, broken out by race, ethnicity, and gender.

(3) Funding and progress of ongoing medical education pipeline programs, including the UCR/UCLA Thomas Haider Program in Biomedical Sciences.

(4) Operating and capital budgets, including detail by fund source. The operating budget shall include a breakdown of research activities, instruction costs, administration, and executive management.

(5) Efforts to meet the health care delivery needs of California and the inland empire region of the state, including, but not limited to, the percentage of clinical placements, graduate medical education slots, and medical school graduates in primary care specialties who are providing service within California's medically underserved areas and populations.

(6) A description of faculty research activities, including information regarding the diversity of doctoral candidates, and identifying activities that focus on high priority research needs with respect to addressing California's medically underserved areas and populations.

(c) The Regents of the University of California shall use the moneys appropriated in this item for the sole purpose of funding the School of Medicine at the University of California, Riverside, and shall not redirect or otherwise expend these moneys for any other purpose. The funding authorized in this provision shall not be used to supplant other funding of the Regents of the University of California for the School of Medicine at the University of California, Riverside.

Hastings College of Law - UC Retirement Plan BBL

See item #2 on Hastings College of Law vote only spreadsheet.

6600-001-0001

X. Of the funds appropriated in Schedule (1), $1,320,000 is intended to address a portion of Hastings College of the Law's (HCL) employer pension contribution costs for the University of California Retirement Plan (UCRP). This amount is only intended to help address the HCL's employer pension costs attributable to state General Fund and tuition-funded employees. The use of this funding for this purpose in 2013-14 does not constitute an obligation on behalf of the state to provide funding after the 2013-14 fiscal year for any UCRP costs. The amount of state funding for UCRP provided by the state in future budget years, if any, shall be determined annually by the Legislature.

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
VOTE ONLY							
	CALIFORNIA STATE LIBRARY						
1	6120-011-0001	*May Revision:* Library and Courts Building Relocation (Issue 102)	The May Revision requests $1.6 million GF. This includes $1.5 million one-time for short term costs related to delays in the renovation of the Library and Courts building that require the retention of additional warehouse space. The request also includes $104,000 in ongoing GF for security services and to increase the network bandwidth at the new library and courts building.	Approve.	Yes, BBL.	1,565	Vote 3-0
2	6120-011-0020	*May Revision:* California State Law Library (Issue 107)	The May Revision proposes to reduce expenditure authority from the California State Law Library Special Account to reflect a trend of lower revenues in this account.	Approve.	No.	-35	Vote 3-0
3	6120-490	*May Revision*: Reappropriation of Relocation Funds	The May Revision proposes to reappropriate up to $2 million GF to continue to support relocation of the library staff and materials to the newly renovated Library and Courts Building.	Approve.	Yes, BBL.		Vote 3-0

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	UNIVERSITY OF CALIFORNIA						
4	6440-001-0001	*January Budget* : Support, University of California	Augment base budget by $125.1 million and designate $10 million of that total to expand the availability the high-demand courses through the use of technology.	Approve	Yes, BBL (for technology funds)		Vote 3-0
5	6440-001-0001	*Legislative Analyst's Office Recommendation:* UC Retirement Plan Funding	Designate $67 million of the $125.1 million UC base budget augmentation for UCRP and, consistent with the approach in 2012-13, add budget bill language reiterating that the state is not obligated to provide any additional funding for this purpose moving forward. Such language is intended to reinforce that the state is not liable for these costs.	Approve	Yes, BBL.		Vote 3-0
6	6440-001-0001	*January Budget* : Support, University of California	Insert earmarks for various legislative expenditure priorities historically included in the budget bill.	Approve	Yes, BBL.		Vote 2-1 (Wyland)
7	6440-001-0001	*January Budget:* Support, University of California	Technical adjustment to provide $6.414 million GF for retired annuitant dental benefit costs.	Approve	No		Vote 3-0
8	6440-001-0001	*May Revise* Support, University of California (Issue 410)	Decrease UC's GO bond debt service payments by $1.35 million, now included in UC's main General Fund item in 2013-14.	Approve	No	-1,352	Vote 3-0
9	6440-001-0001	Legislative Request.	There is a request to earmark $4.8 million for increased costs related to an MOU with Service Unit (SX) if the university reaches a memorandum of understanding with Service Unit (SX).	Approve	Yes, BBL.	0	Vote 2-1 (Wyland)

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	HASTINGS COLLEGE OF THE LAW						
10	6600-001-0001	*January Budget* : Support, Hastings College of the Law	Augment base budget by $392,000.	Approve.			Vote 3-0
11	6600-001-0001	*Legislative Analyst's Office Recommendation* : UC Retirement Plan Funding	Increase Hasting's base budget augmentation by $63,000 GF, to a total of $455,000, and designate all the funding for UCRP and, consistent with the approach in 2012-13, add budget bill language reiterating that the state is not obligated to provide any additional funding for this purpose moving forward. Such language is intended to reinforce that the state is not liable for these costs.	Approve.			Vote 3-0
12	6600-001-0001	*January Budget* : Support, Hastings College of the Law	Technical adjustment to provide $56,000 GF for retired annuitant dental benefit costs.	Approve	No		Vote 3-0

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA STATE UNIVERSITY						
13	6610-001-0001	*January Budget* : Support, California State University	Augment base budget by $125.1 million and designate $10 million of that total to expand the availability of the high-demand courses through the use of technology.	Approve	Yes, BBL (for technology funds)		Vote 3-0
14	6610-001-0001	*January Budget* : Support, California State University	Insert earmarks for various legislative expenditure priorities historically included in the budget bill.	Approve	Yes, BBL.		Vote 2-1 (Wyland)
15	6610-001-0001	*January Budget* : Support, California State University	Technical adjustment of (-) $473,000 GF for retired annuitant dental.	Approve	No		Vote 3-0
16	6610-001-0001	*January Budget* : Support, California State University	CSU will continue to receive annual GF adjustments based on the 2012-13 payroll level for its required CalPERS contribution; however, if CSU chooses to increase payroll expenditures above that level, CSU would be responsible for the associated pension costs.	Approve per legislative modification to make 2013-14 the base year.	Yes, BBL and TBL.		Vote 3-0
17	6645-001-0001, 6645-001-0950	*May Revise:* CSU retired annuitants	DOF indicates that the dollar amounts will change in late June. Need to revise to conform to actions taken in statewide 9650-001-0001.	Approve.	Yes, BBL.		Vote 3-0
18	6610-001-0001	*May Revise:* Support, California State University (Issue 460)	Decrease CSU's G.O. bond debt service payments by $1.29 million, now included in G.F. item in 2013-14.	Approve.	No	-1,290	Vote 3-0

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA COMMUNITY COLLEGES						
19	6870-	Budget Trailer Bill Language	Technical and conforming change to Budget Act of 2012 reforms to the CalWORKs program, which included the creation of a 24-month time limit with more flexible welfare-to-work activities including education, to adopt budget trailer bill language providing enrollment priority to students receiving CalWORKs to ensure access to community college classes during the new and narrower 24-month time clock.	Approve	Yes, TBL.		Vote 3-0
20	6870-101-001and 6870-101-0986	*May Revise:* Local Assistance, California Community Colleges (Issue 130)	Decrease by $70.8 million Proposition 98 General Fund to reflect an increase in estimated local property tax revenues. Increase 6870-101-0986 to conform.	Approve	No.	-70,793	Vote 3-0
21	6870-101-0001 and 6870-601-0992	*May Revise:* Local Assistance, California Community Colleges (Issue 131)	Decrease by $38.9 million Proposition 98 General Fund to reflect an increase in estimated student fee revenue. Increase Item 6870-601-0992 to conform.	Approve	No	-38,910	Vote 3-0
22	6870-101-0001	*May Revise:* Local Assistance, California Community Colleges (Issues 132 and 133)	Decrease by $598,000 Proposition 98 General Fund due to a decrease in the number of students eligible for the fee waiver program. Decrease the Student Financial Aid Administration Program by $297,000 and decrease the Board Financial Assistance Program by $301,000.	Reject	Yes, BBL	0	Vote 2-1 (Wyland)

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA COMMUNITY COLLEGES						
23	6870-101-000; 6870-601-3207; 6870-610-0001; 6870-698-3207	*May Revise:* Local Assistance, California Community Colleges (Issue 171)	Decrease apportionment by $20.4 million to reflect an increase in estimated revenue from the Education Protection Account; increase by like amount to reflect an increase in estimated revenue from the Education Protection Account with additional conforming language.	Approve	No	20,460	Vote 3-0
24	6870-101-0001	*May Revise:* Local Assistance, California Community Colleges (Issue 181)	Add Desert Community College District Repayment Plan Reporting Provisional Language	Approve	Yes, BBL		Vote 3-0
25	Add 6870-490	*May Revise:* Capital Outlay, California Community Colleges	To reappropriate the balances of the appropriations for the following projects: Item 6870-303-6049 Budget Act of 2007, Los Angeles Community College District, Mission College, Mediate Arts Center Equipment; Item 6870-301-6049, Budget Act of 2007, Barstow Community College District, Barstow College Performing Arts Center; Item 6870-301-6049, Budget Act of 2008, Barstow Community College, Barstow College Wellness Center.	Approve	No.		Vote 3-0

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
			CURRENT YEAR CCC				
26	6870-101-0001; 6870-601-3207; 6870-610-0001; 6870-698-3207	*May Revise:* Local Assistance, California Community Colleges (Issue 170)	Decrease Education Protection Account Revenue Estimate and Increase Proposition 98 General Fund Backfill.	Approve.		23,430	Vote 3-0
27	6870-616-0001	*May Revise:* Local Assistance, California Community Colleges (Issue 175)	Decrease Redevelopment Agency Backfill based on revised increased redevelopment agency revenue estimates.	Approve		-41,209	Vote 3-0
28	6870-681-0001	*May Revise:* Local Assistance, California Community Colleges (Issue 185)	Restore over-appropriation by $17.9 million Proposition 98 GF to eliminate this item and reflect an increased Proposition 98 Guarantee.	Approve		17,911	Vote 3-0
29		*May Revision:* Budget Trailer Bill Language, amend Government Code 17581.7	MR would change date by which Community College districts submit letters to participate in the mandates block grant to Aug. 30 (currently Sept. 30); would change the date the Chancellor's Office is required to submit a report about block grant participation to Nov. 1 of the fiscal year in which funding is apportioned.	Approve	TBL		Vote 3-0

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
	CALIFORNIA STUDENT AID COMMISSION						
30	6980-101-0001 6980-601-0001	*January Budget and May Revision:* Local Assistance, California Student Aid Commission (Issue 018)	Governor's Budget proposed a shift of $942.9 million of Cal Grant Program costs from GF to federal Temporary Assistance for Needy Families (TANF) program funds available due to proposed reductions in the CalWORKs program. The May Revision increased by $18.7 million the amount of TANF available as offset for Cal Grant Program costs.	Conforming.	Yes, BBL.	18,696	Vote 3-0
31	6980-101-0001; 6980-101-0784	*January Budget and May Revision:* Local Assistance, California Student Aid Commission (Issue 016)	The May Revision proposes to decrease GF Cal Grant costs to reflect increased offsetting funding from the Student Loan Operating Fund (SLOF) by $38.1 million and increase by the same amount additional SLOF to offset Cal Grant GF programs costs. Combined the January budget and May Revision provide $98.1 SLOF for a GF savings.	Approve.	No	-38,149	Vote 3-0

#	Item	Issue	Description	Staff Recommendation	Language	(000's) above January Budget	Comments
32	6980-101-0001	*January Budget and May Revision:* Local Assistance, Cal Grant Program Caseload (Issue 014)	Technical adjustments to increase the 2012-13 budget by $61 million GF to account for revised caseload estimates for the Cal Grant program and increase the 2013-14 program budget by $161 million GF for the same purpose. The May Revision revises caseload in the current year down by $23.6 million for a net increase of $37.4 million in 2012-13. The May Revision further reduces the budget year caseload by $42 million for a net increase of $119.1 million in the budget year.	Approve.	No		Vote 3-0
	CALIFORNIA STUDENT AID COMMISSION						
33	6980-101-0001	*May Revision*: Local Assistance, Loan Assumption Programs Caseload (Issue 015)	The May Revision reduces funding in the current year by $4 million for the loan assumption programs. Overall, the loan assumption programs are proposed to decrease by $7.6 million for 2012-13. The May Revision further proposes reducing funding for this program in the budget year by $3.3 million. Overall, the budget year estimates for program costs for the loan assumption programs are $8.5 million lower than the current year.	Approve.	No		Vote 3-0

6610 California State University (CSU)

Background. The CSU is requesting an augmentation of $54 million for enrollment growth above what the Governor has proposed. They indicate that they could serve an additional 15,000 students beyond what the Governor has proposed. The CSU has indicated that they can serve an additional 6,000 students with the funding proposed in the Governor's budget. The LAO has estimated that the funding in the Governor's budget allows CSU to increase their enrollment by approximately 9,600. The LAO's enrollment target is recommended for adoption in the agenda today.

Staff Comments. Resource constraints have forced the CSU to turn away more than 20,000 eligible applicants in each of the last several Fall terms. Additional thousands of applicants have been turned away for admission in the Spring term. Enrollment and access continues to be a high priority for the Senate.

Staff Recommendation. Staff recommends that the Subcommittee approve $1 million for CSU enrollment so we can continue to discuss the possibility of targeting additional funds above the Governor's budget specifically for CSU enrollment.

7980 California Student Aid Commission

Background. In 2009-10 we set a maximum cohort default rate for higher education institutions to qualify for Cal Grants. Last year we tightened institutional eligibility criteria by requiring institutions to maintain a maximum cohort default rate (CDR) of 15.5 percent and a minimum graduation rate of 30 percent to participate in Cal Grant programs. Also institutions with CDR's below 10 percent and graduation rates above 20 percent retain eligibility until the 2016-17 academic year. Also, students with fewer than 40 percent of undergraduates borrowing federal loans are not subject to the CDR and graduation rate tests. Starting in 2013-14, renewal awards will be eliminated at ineligible institutions.

Staff Comments. Concerns have been raised about certain institutions that have very high graduation rates, but still are disqualified because of the cohort default rate.

Staff Recommendation. Staff recommends that the Subcommittee adopt *placeholder* trailer bill language as follows:

X. Notwithstanding subparagraph (G), an otherwise qualifying institution that maintains a three-year cohort default rate that is less than 20 percent and a graduation rate above 80 percent for students taking 150 percent or less of the expected time to complete degree requirements, as certified by the commission pursuant to subparagraph (A), shall remain eligible for initial and renewal Cal Grant awards at the institution through the 2016-17 academic year.

6870 California Community Colleges

Background. The CalWORKs categorical specifically assists CalWORKs students to transition from public assistance to economic self-sufficiency through the provision of services that include, counseling, child care and job placement.

The Cooperative Agencies Resources for Education (CARE) categorical promotes the academic retention and transfer of CARE eligible students. CARE eligible students include single-parent head of households that are CalWORKs recipients or have been CalWORKs recipients. Services provided with funding for this categorical include counseling, child care and other support services like book vouchers.

Staff Recommendations. Additional Staff Recommendations for page 11.

- Approve $12 million one-time Propostiion 98 for maintenance.
- Approve $12 million one-time Proposition 98 for instructional equipment.
- Approve $6 million one-time Proposition 98 for professional development.
- Approve $7.844 million for CalWORKs categorical.
- Approve $2.418 million for part-time faculty office hours.
- Approve $333,000 for part-time faculty health insurance.
- Approve $1.3 million for the CARE categorical.
- Approve $97,000 for the Academic Senate.

6120 California State Library

Background. Public libraries continue to be key access points for individuals that do not have access to internet and/or computer hardware in their home. The California Library Association reports that local libraries are experiencing record levels of patron attendance, and the pressures on their broadband infrastructure are at an all-time high. As our world continues to be more and more oriented toward on-line interfaces whether it is applying for jobs or a license with the DMV, this leaves low-income households that do not have access to affordable internet service or the hardware necessary to access the internet at a deficit.

The California Library Association is asking for a one-time infusion of $2.25 million to start the process of linking to the Corporation for Education Network Initiatives in California (CENIC) network. The CENIC network currently allows California's education and research communities to leverage their networking resources in order to obtain cost-effective, high-bandwidth networking to support their missions and respond to the needs of their faculty, staff, and students.

The California Library Association is also requesting $2 million for equipment upgrades at local libraries and $750,000 for literacy programs.

Staff notes that there is much work to secure connection to the CENIC network. Once that connection is made, additional monies for equipment upgrades may be warranted. Furthermore, staff notes that $2.8 million was provided for literacy programs in the current fiscal year and this request would be ongoing.

Staff Recommendation. Staff recommends that the Subcommittee approve $2.5 million one-time to start connecting libraries to the CENIC system. The Subcommittee further would adopt budget bill language to require that the State Library also pursue GF offsetting or additional funding from the CPUC Teleconnect Fund to support this effort.

SUBCOMMITTEE NO. 1 Agenda

Senator Marty Block, Chair
Senator Mark Wyland
Senator Roderick Wright

Thursday, May 23, 2013
11:00 a.m.
ACTIONS

PART C: HIGHER EDUCATION: 2013-14 BUDGET MAY REVISION AND OPEN ISSUES

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) 651-1505. Requests should be made one week in advance whenever possible.

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ITEM 1: Multi-Year Budget Plan and Performance Metrics

Action.

1. Approve placeholder trailer bill language to establish basic performance measures for annual reporting purposes starting with 2012-13 data to be reported to the Legislature by March 2014. The performance measures shall include, but are not limited to the following metrics:
    1. Number/Proportion of Transfers
    2. Number/Proportion of Low-Income Students
    3. 4 year Graduation Rates for both UC and CSU and 6 year Graduation Rates for CSU (disaggregated by freshman entrants, transfers, graduate students, and low-income status)
    4. Degree Completions (disaggregated by freshman entrants, transfers, graduate students, and low-income status)
    5. First-Years On Track to Degree (i.e. what percent of first years earned a specified number of units)
    6. Spending Per Degree (Core Funds)
    7. Units Per Degree
    8. Degrees Per 100 FTE (Undergraduate)

Vote. 3-0

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY
6870 CALIFORNIA COMMUNITY COLLEGES

ITEM 2: Governor's Online Technology Earmarks

Action.

- Adopt modified BBL to earmark $10 million each for CSU and UC for Online Education and a $16.9 million base augmentation for the CCCs. The modified BBL (see attachment) will do the following:
    1. Ensure the courses mean something in terms of credit and transferability when fully online courses.
    2. Ensure cross-campus enrollment opportunities when fully online courses.
    3. Ensure Legislative reporting on what was accomplished.

Vote. 3-0

6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY

ITEM 3: Enrollment Targets

Action. Approve enrollment levels at current FTES, which is 342,000 for CSU and 211,499 for UC.
Vote. 3-0

6440 UNIVERSITY OF CALIFORNIA

ITEM 4: University of California, Riverside – Medical School

Action.

- Approve $15 million augmentation for the UC, Riverside medical school in a separate budget item.
- Approve Budget Bill Language guiding expenditures (see attached)

Vote. 3-0

6870 CALIFORNIA COMMUNITY COLLEGES

ITEM 5: Apportionment of New Revenues

Action

- Approved Governor's May Revision apportionment of Proposition 98 GF revenues for CCCs for COLA ($87.5 million), Growth ($89.4 million) and the student success taskforce categorical ($50 million).
- Approved $50 million in additional Proposition 98 funding in the budget year and allocate as follows: $25 million for the Disabled Student Programs and Services and $25 million for the Extended Opportunity Programs and Services categorical funding.
- Approve modified BBL to include common assessment along with E-Transcript and E-Planning.

Vote. 3-0

6870 CALIFORNIA COMMUNITY COLLEGES

ITEM 6: Financial Aid: Board of Governors Fee Waiver Program Reform

Action

1. Reject Administration's proposal – no TBL.

Vote. 2-0 (Wyland)

6980 CALIFORNIA STUDENT AID COMMISSION

ITEM 7: Reestablish Support Services Previously Provided by Educational Credit Management Corporation

Action. Approve the Governor's May Revision proposal related to CSAC assuming support services previously funded by ECMC as modified by the LAO recommendations above adding $466,000 to the budget.

Vote. 2-0 (Wyland)

6980 CALIFORNIA STUDENT AID COMMISSION

ITEM 8: Federal Sequester Implementation

Action. Approve the May Revision proposal – allocating reductions among the two outreach program and not the APLE program.

Vote. 3-0

6610 California State University (CSU)

Action. Approved $1 million for CSU enrollment so we can continue to discuss the possibility of targeting additional funds above the Governor's budget specifically for CSU enrollment.

Vote. 3-0

7980 California Student Aid Commission

Action. Adopt *placeholder* trailer bill language as follows:

X. Notwithstanding subparagraph (G), an otherwise qualifying institution that maintains a three-year cohort default rate that is less than 20 percent and a graduation rate above 80 percent for students taking 150 percent or less of the expected time to complete degree requirements, as certified by the commission pursuant to subparagraph (A), shall remain eligible for initial and renewal Cal Grant awards at the institution through the 2016-17 academic year.

6870 California Community Colleges

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- Approved $333,000 for part-time faculty health insurance.
- Approved $1.3 million for the CARE categorical.
- Approved $97,000 for the Academic Senate.

Vote 3-0

6120 California State Library

Action. Approved $2.5 million one-time to start connecting libraries to the CENIC system, including BBL to also pursue CPUC Teleconnect Funds for this purpose.

Vote. 3-0